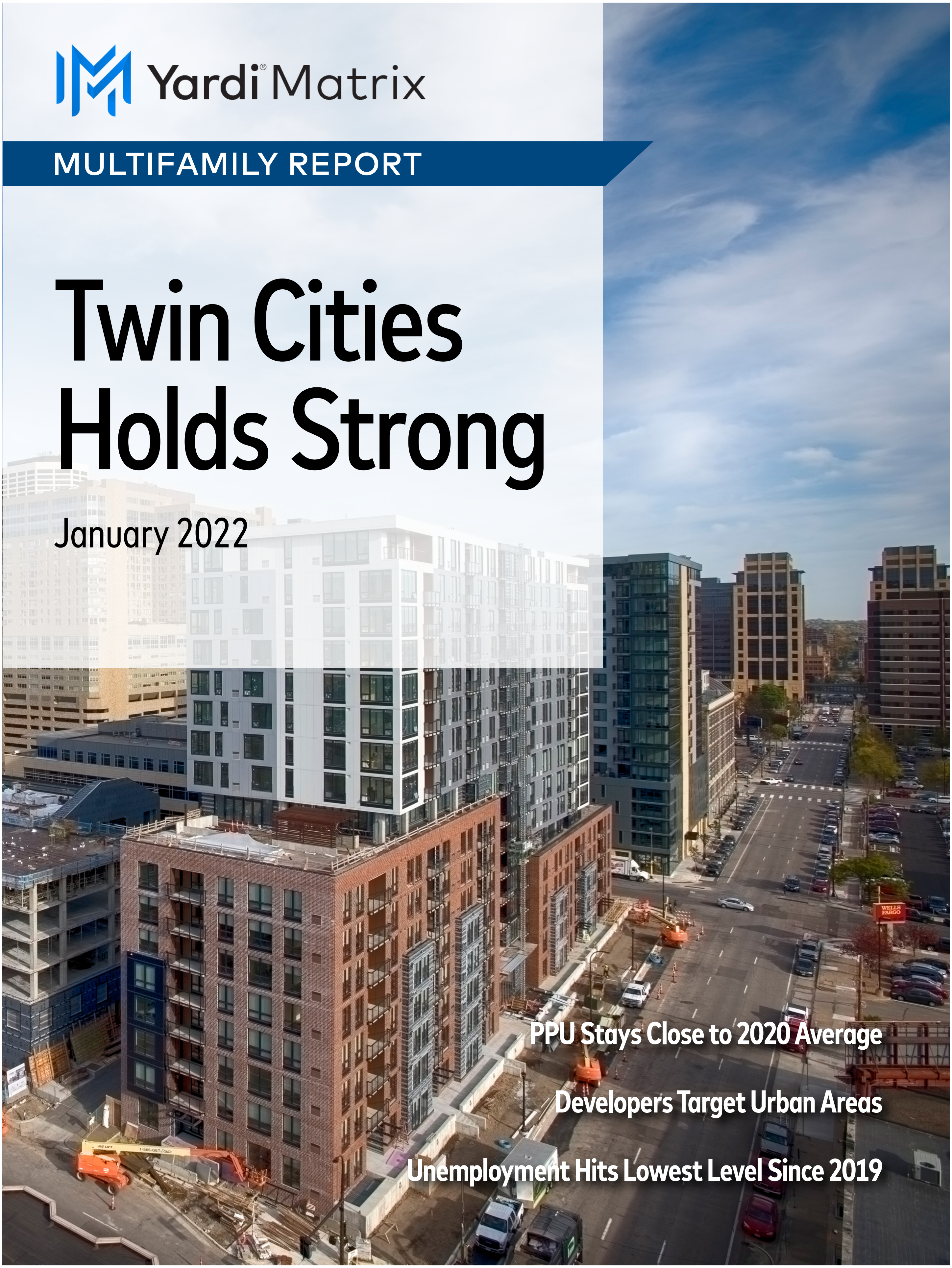
Yardi Matrix

MULTIFAMILY REPORT

Twin Cities Holds Strong

January 2022



PPU Stays Close to 2020 Average

Developers Target Urban Areas

Unemployment Hits Lowest Level Since 2019

TWIN CITIES MULTIFAMILY

Yardi Matrix

Investment Bounces Back, Development Explodes

Showing a great deal of resilience, the Twin Cities multifamily market is making strides toward full recovery as health-crisis-induced difficulties fade away. Mirroring pre-pandemic trends, rent growth is slow, but steady. On a trailing three-month basis through November, rates inched up 0.5% to an average of $1,425. Meanwhile, U.S. rents increased by 1.0% to $1,590.

Employment improved by 5.7% in the 12 months ending in September, with leisure and hospitality leading growth with 23,500 jobs. Preliminary Bureau of Labor Statistics data shows that the unemployment rate in Minneapolis-St. Paul decreased to 2.6% in October, marking the lowest level reported since December 2019. This has put great pressure on employers, who are having a hard time finding and retaining talent, despite increased pay. Four employment sectors contracted by a combined 7,200 jobs, including government, financial activities and information. Several newspapers and publications closed or moved to a digital structure, resulting in hundreds of employees being furloughed.

Investors' appetite for Twin Cities multifamily assets picked up in 2021, hitting $1.2 billion through November. This was a significant improvement from 2020's $883 million total investment volume. Developers delivered 7,382 units in the first 11 months of 2021 and had another 18,028 apartments under construction.

Market Analysis | January 2022

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Laura Calugar
Senior Editor

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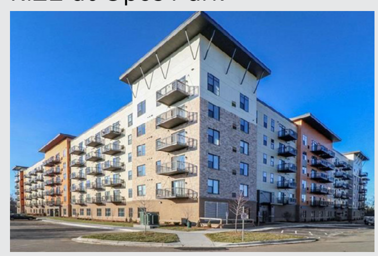
Recent Twin Cities Transactions

Equinox

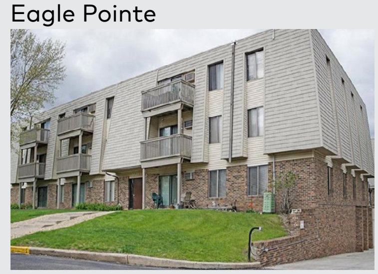
City: St. Anthony, Minn.
Buyer: DRA Advisors
Purchase Price: $44 MM
Price per Unit: $164,474

RiZE at Opus Park



City: Minnetonka, Minn.
Buyer: Virtus Real Estate Capital
Purchase Price: $42 MM
Price per Unit: $130,016

Eagle Pointe



City: West St. Paul, Minn.
Buyer: Monument Capital Management
Purchase Price: $30 MM
Price per Unit: $140,046

Frost English Silver

City: Maplewood, Minn.
Buyer: Axial Real Estate Advisors
Purchase Price: $27 MM
Price per Unit: $251,916

RENT TRENDS

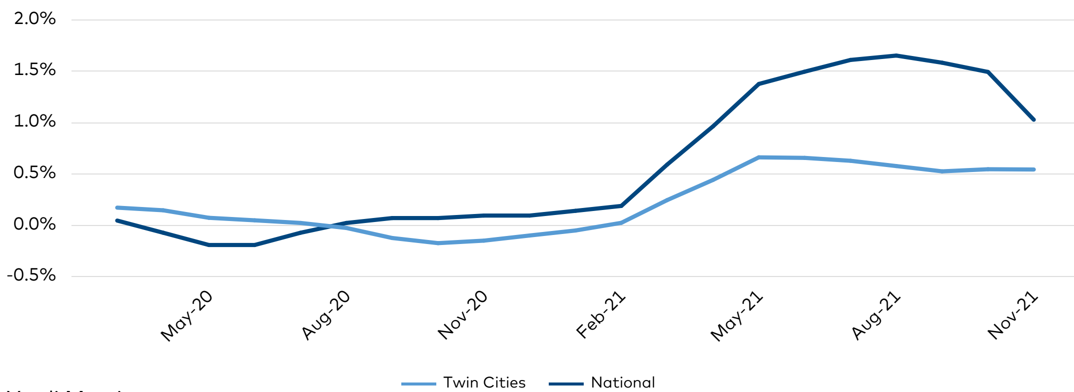
- Rents increased by 0.5% on a trailing three-month (T3) basis through November, registering just half the U.S. rate. The average rent clocked in at $1,425, below the $1,590 national figure. Of the top 30 metros monitored by Yardi Matrix, 25 had double-digit gains on a year-over-year basis, but Twin Cities was not among them. With rents up 5.6%, the metro outperformed only San Francisco (5.4%).

- Across the quality spectrum, rent evolution was almost even on a T3 basis through November. Rents in the working-class Renter-by-Necessity segment grew by 0.5% to $1,213, while rates in the upscale Lifestyle segment were up 0.6% to $1,776. Occupancy in stabilized Lifestyle assets was up 170 basis points year-over-year through October, to 94.9%, while RBN assets recorded a 90-basis-point or 96.8% increase.

- In the single-family rental sector, Minneapolis-St. Paul rents were up 7.1% year-over-year through November, significantly below the 14.3% national rate. The average SFR rent in the metro was $1,874, slightly behind the $1,937 U.S. figure.

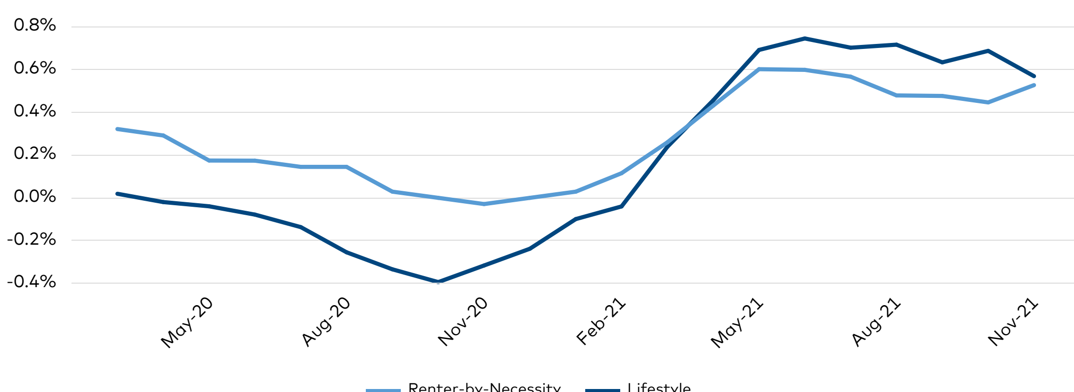
- In November, rent stabilization initiatives passed in both of the metro's major cities. In Minneapolis, the local council now has the authority to consider and enact rent control, while in St. Paul, residential rent increases are set to be capped at 3% annually, starting in May 2022. The measure has already prompted some developers to hit the brakes on their projects.

Twin Cities vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Twin Cities Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Unemployment in Minneapolis-St. Paul decreased to 2.6% in October, according to preliminary BLS data. The aging, shrinking labor force has played a key role in the metro's tight labor market.

- In the 12 months ending in September, Twin Cities gained 63,700 jobs, marking a 5.7% yearly employment expansion. Consistent with nationwide trends, leisure and hospitality led growth, adding 23,500 jobs. Professional and business services gained 16,700 positions and trade, transportation and utilities rounded out the podium with 11,700 jobs. During the 2021 construction season, the Minnesota Department of Transportation advanced or completed 261 bridge and road projects, including five major ones in the Twin Cities area. In addition, Minnesota is already planning how to spend its share of the federal infrastructure bill. The state is projected to receive $4.5 billion for highways, $302 million for bridges and roughly $818 million for public transportation over the next five years.

- The financial activities, government and information sectors lost a combined total of 6,900 positions. U.S. Bancorp restructured its branches—a move that impacted its Minnesota employees—while several newspapers and publications closed or moved to a digital structure, resulting in hundreds of employees being furloughed.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	170	8.3%
60	Professional and Business Services	330	16.1%
40	Trade, Transportation and Utilities	366	17.9%
30	Manufacturing	212	10.4%
15	Mining, Logging and Construction	103	5.0%
80	Other Services	76	3.7%
65	Education and Health Services	346	16.9%
50	Information	32	1.6%
90	Government	250	12.2%
55	Financial Activities	162	7.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Minneapolis-St. Paul added 17,284 residents in 2020, for a 0.5% improvement, surpassing the national rate by 10 basis points.

- In the decade ending in 2020, the metro's population expanded by 8.4%, above the 5.7% national growth rate.

Twin Cities vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Twin Cities	3,592,669	3,629,190	3,654,908	3,672,192

Sources: U.S. Census, Moody's Analytics

SUPPLY

- There were 18,028 units under construction in Minneapolis-St. Paul as of November, with roughly 70% of them in urban areas. An additional 50,000 apartments were in the planning and permitting stages.

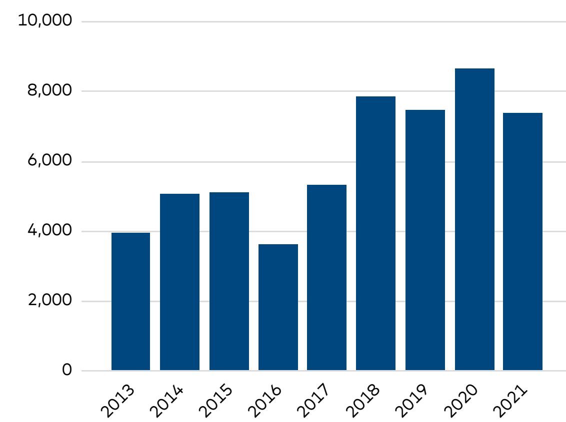
- Developers added 7,382 units to the metro's stock in 2021 through November, accounting for 3.2% of total inventory. Roughly two-thirds of the apartments delivered were across urban submarkets, despite the nationwide trend of people favoring more spacious units in less dense areas away from city cores.

- In 2021 through November, developers broke ground on 6,290 units across the metro, following the 9,867 units they started in 2020. In 2019, construction began on only 1,038 apartments. Development activity exploded after Minneapolis ended single-family zoning in 2019. The legislation now allows for more density and eliminates off-street minimum parking requirements.

- Construction is most concentrated in St. Paul-Highland, where 3,860 units are underway. Most of these (3,800) are part of a massive community that is set to include affordable and senior living units, as well as condos and row homes. Ryan Cos. is redeveloping the 133-acre former Ford Motor Co. manufacturing campus into a residential hub.

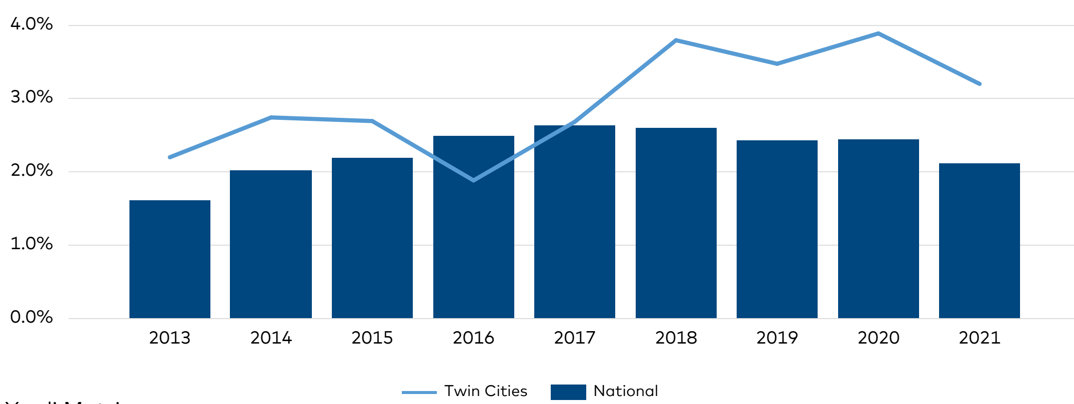
- The largest delivery of 2021 through November was Odin, a 335-unit community in Minneapolis-University. Lennar Multifamily Communities built the project using a $65.4 million construction loan funded by Capital One.

Twin Cities Completions (as of November 2021)



Source: Yardi Matrix

Twin Cities vs. National Completions as a Percentage of Total Stock (as of November 2021)



Source: Yardi Matrix

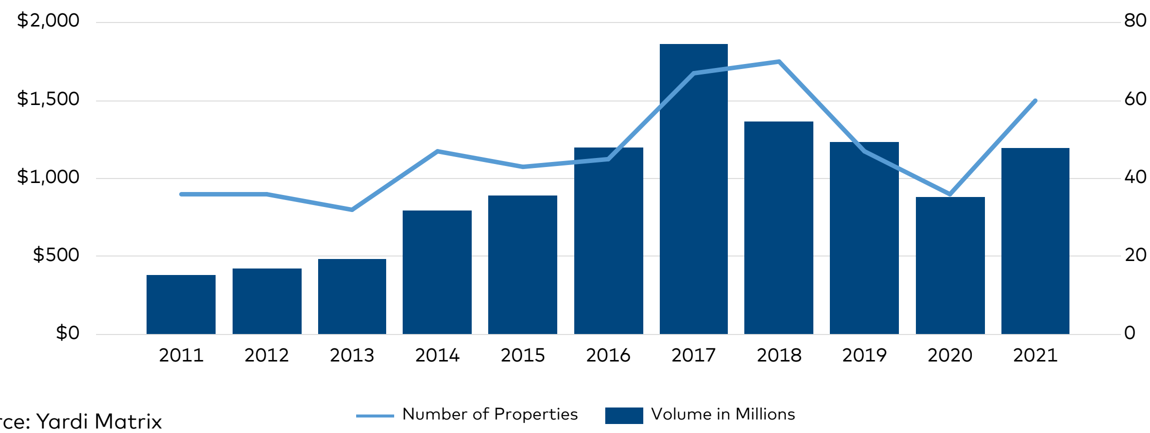
TRANSACTIONS

- Twin Cities' multifamily investment volume hit $1.2 billion year-to-date through November, a significant improvement from 2020's $883 million total, but below the $1.9 billion transacted in 2017. Investors heavily favored the upscale segment—42 out of the 60 properties that changed hands were RBN assets.

- The average per-unit price was $174,293, below the $185,466 national figure. However, home prices were in line with the 2020 average.

- Buyers mostly set their sights on urban and suburban assets in the metro's western submarkets. Year-over-year through November, St. Louis Park, Plymouth and Golden Valley accounted for almost a quarter of the $1.4 billion total transaction volume. Centerspace was among the most active buyers. The company nearly doubled its multifamily presence in the Minneapolis area with the acquisition of a 2,696-unit portfolio for $324 million, from KMS Management Inc.

Twin Cities Sales Volume and Number of Properties Sold (as of November 2021)



Source: Yardi Matrix

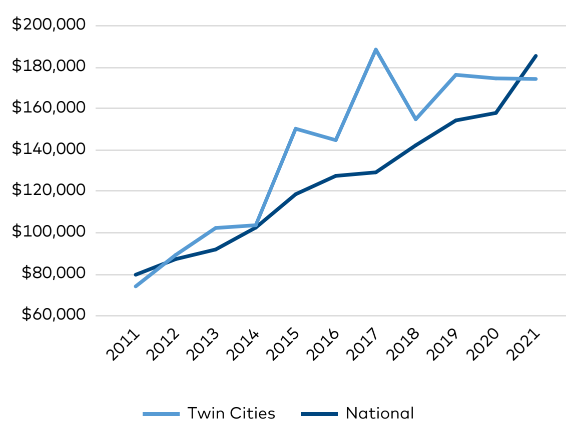
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
St. Louis Park	142
Plymouth	98
Minneapolis–University	93
Golden Valley	88
Minneapolis–Calhoun Isle	85
New Hope–Crystal	85
Minnetonka	75

Source: Yardi Matrix

[1] From December 2020 to November 2021

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

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Twin Cities: On the Right Track to Recovery

By Beata Lorincz

The work-from-home movement and hybrid scenarios have lingered on for longer than anyone first anticipated, dictating a shift in living preferences. In Minneapolis-St. Paul, first-ring suburban submarkets became the most sought-after. The Opus Group Senior Director of Real Estate Development Nick Murnane and Real Estate Representative Anna Bode provided their insights into how the pandemic impacted the Twin Cities' multifamily market.

How is the Twin Cities multifamily market faring in the wake of the pandemic?

Murnane: We are seeing signs of the market coming back to pre-pandemic conditions. An example of this is the reduction in concessions. Early in the pandemic, we saw buildings offering anywhere from six to 12 weeks of free rent, coupled with free parking and other incentives. Now it's closer to four to six weeks free.

Additionally, we are seeing more demand and activity for multifamily developments, however this is submarket-specific and can vary between locations. For example, the first-ring suburbs are garnering a lot of attention.

What are the greatest challenges in developing multifamily assets in the metro?

Bode: An overall challenge is the unknowns related to returning to the office. The vibrancy in the downtown central business district is not what it was when offices were at full capacity, so the draw to live downtown is a little less prominent. However, the North Loop area in Minneapolis continues to fare very well and first-ring suburbs are also seeing positive traction with regard to multifamily development.

Anna Bode *(left)* and Nick Murnane *(right)*

Please name the hottest areas for multifamily development in the metro.

Bode: The North Loop continues to be the strongest neighborhood within Minneapolis. First-ring western suburbs have become very attractive as well. Edina, St. Louis Park and Minnetonka are all seeing a significant amount of multifamily development activity.

Which are your biggest multifamily projects within the Twin Cities market?

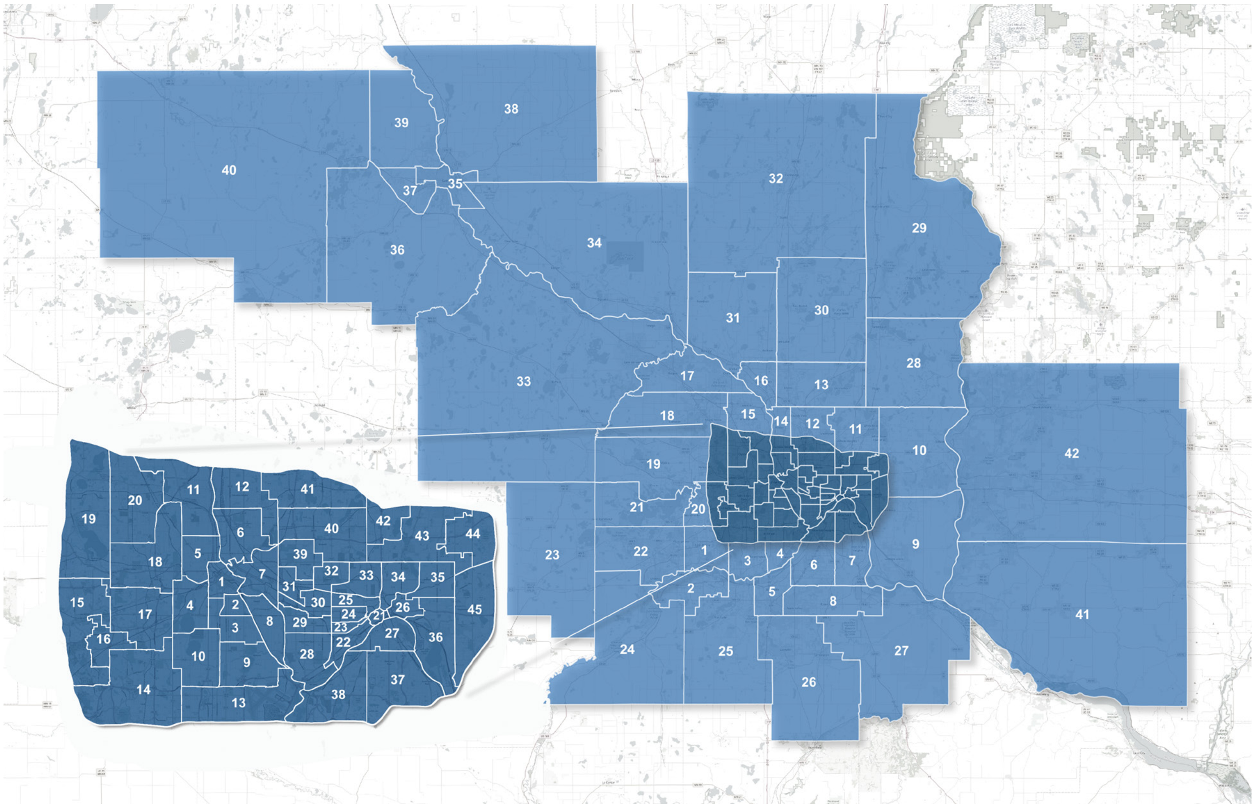
Murnane: We have two projects in Minneapolis that are open and operating, 365 Nicollet and Vesi North Loop. Our largest development under construction at this time is a 250-unit, market-rate apartment project in St. Louis Park along Beltline Boulevard.

What are you predicting for the metro's multifamily market for the year to come?

Murnane: I think the Twin Cities market will continue to recover from the COVID-19 pandemic as well as the civil unrest. We expect to see positive leasing momentum, increasing traffic as the workforce returns to the urban core, and increasing demand for first-ring suburban multifamily projects.

(Read the complete interview on multihousingnews.com.)

TWIN CITIES SUBMARKETS



Area No.	Submarket
1	Minneapolis–Central
2	Minneapolis–Phillips
3	Minneapolis–Powderhorn
4	Minneapolis–Calhoun Isle
5	Minneapolis–Near North
6	Minneapolis–Northeast
7	Minneapolis–University
8	Minneapolis–Longfellow
9	Minneapolis–Nokomis
10	Minneapolis–Southwest
11	Brooklyn Center/Camden
12	Columbia Heights
13	Richfield
14	Edina/Eden Prairie
15	Minnetonka

Area No.	Submarket
16	Hopkins
17	St. Louis Park
18	Golden Valley
19	Plymouth
20	New Hope/Crystal
21	St. Paul–Downtown
22	St. Paul–West Seventh
23	St. Paul–Summit Hill
24	St. Paul–Summit-University
25	St. Paul–Thomas-Dale
26	St. Paul–Dayton's Bluff
27	St. Paul–West Side
28	St. Paul–Highland
29	St. Paul–Macalester-Groveland
30	St. Paul–Lexington Hamline

Area No.	Submarket
31	St. Paul–St.Anthony
32	St. Paul–Como
33	St. Paul–North End
34	St. Paul–Payne-Phalen
35	St. Paul–Greater East Side
36	St. Paul–Sunray-Battlecreek
37	West St. Paul
38	Mendota
39	Falcon Heights
40	Roseville
41	New Brighton
42	Little Canada
43	Maplewood
44	Oakdale–North
45	Oakdale–South

Area No.	Submarket
1	Eden Prairie
2	Shakopee
3	Bloomington–West
4	Bloomington–East
5	Burnsville
6	Eagan
7	Inver Grove Heights
8	Apple Valley
9	Woodbury/Cottage Grove
10	Stillwater
11	White Bear Lake
12	Mounds View
13	Blaine
14	Fridley

Area No.	Submarket
15	Brooklyn Park
16	Coon Rapids
17	Champlin–Rogers
18	Maple Grove
19	Plymouth
20	Minnetonka
21	Spring Park
22	Chaska
23	Wacoma
24	Jordan
25	Savage
26	Lakeville
27	Hastings
28	Forest Lake

Area No.	Submarket
29	Chisago City
30	Andover
31	Anoka
32	Cambridge
33	Buffalo
34	Elk River
35	St. Cloud–North
36	St. Cloud–South
37	Waite Park
38	Sauk Rapids
39	Sartell
40	Melrose
41	River Falls
42	Hudson

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also December span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which December barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, December extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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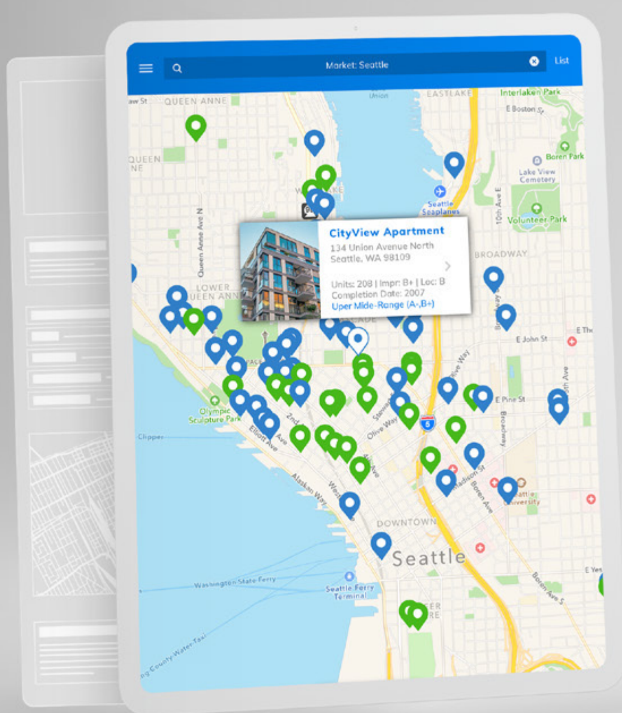

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