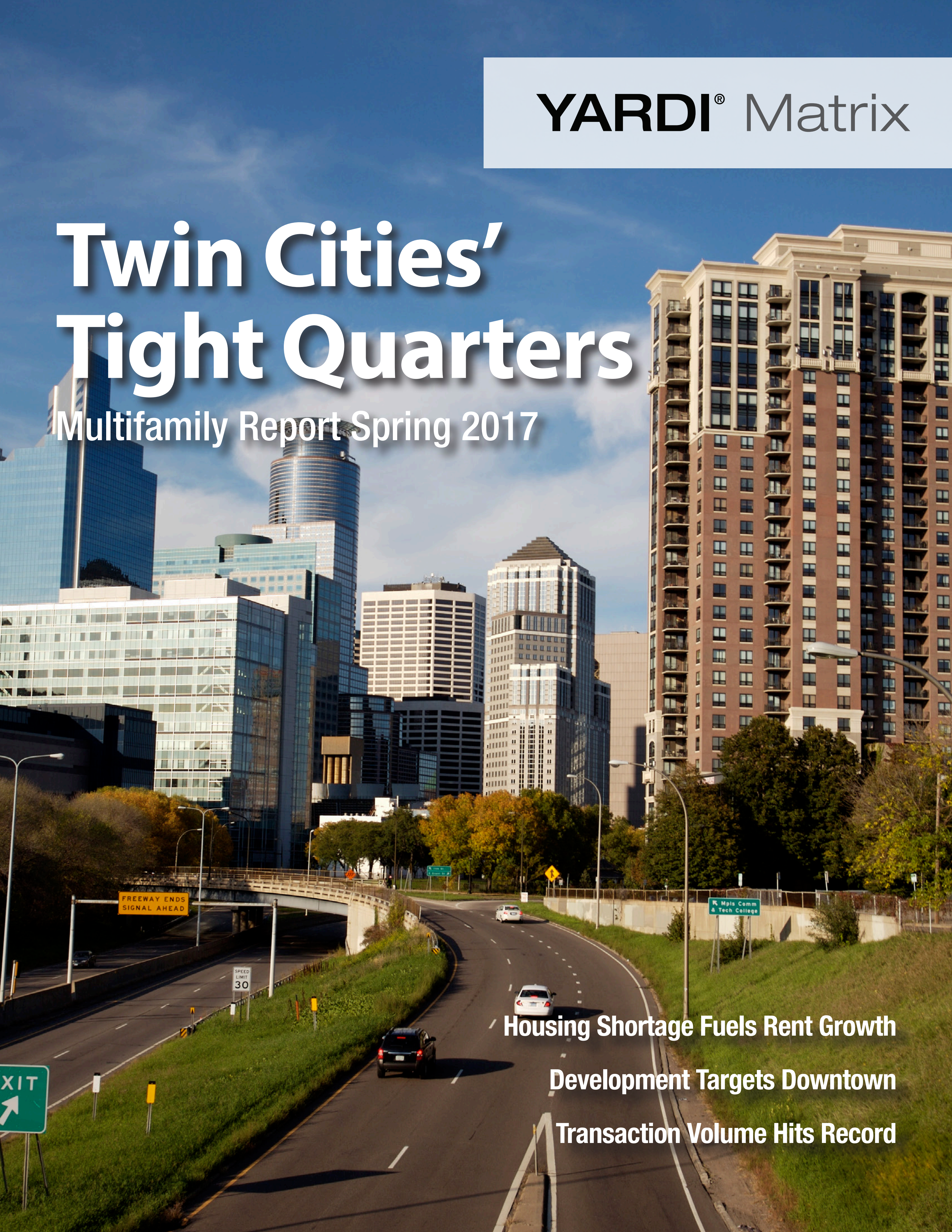
YARDI® Matrix

Twin Cities' Tight Quarters

Multifamily Report Spring 2017



Housing Shortage Fuels Rent Growth

Development Targets Downtown

Transaction Volume Hits Record

Market Analysis

Spring 2017

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Supply Shortage Pushes Rents High

The Twin Cities multifamily market remains one of the strongest in the Midwest, leading in rent growth and featuring high occupancy rates and healthy population gains. The metro boasts a diverse and steady economy, with opportunity for continued growth.

Although total job growth in the metro trails the national average, sectors such as education and health services, as well as professional and business services, outperformed with the addition of more than 27,000 jobs last year. Local universities provide skilled workers to a variety of employers, including consumer product giants Target and Best Buy, and the world-renowned medical research institute Mayo Clinic. The leisure and hospitality sector suffered significant employment losses in 2016, despite the fact that the metro is preparing to host some major events, such as the 2018 Super Bowl.

Rent growth exceeded the national average over the last year, due to steady employment gains, an increasing population and limited housing supply, as apartment completions slowed in 2016. Occupancy for stabilized properties was 97.2% as of January, the highest rate among major metros. However, a well-stocked pipeline—with more than 5,000 units expected to come online this year—should provide some relief to the tight housing market. Yardi Matrix expects rent growth to stay above trend at 4.2% in 2017.

Recent Twin Cities Transactions

Excelsior & Grand

City: St. Louis Park, Minn.
Buyer: The Connor Group
Purchase Price: $100 MM
Price per Unit: $298,084

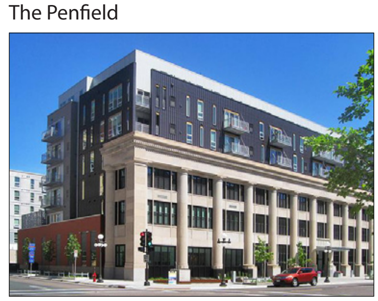
The Mark at Eden Prairie

City: Eden Prairie, Minn.
Buyer: FPA Multifamily
Purchase Price: $85 MM
Price per Unit: $167,322

Fountain Place

City: Eden Prairie, Minn.
Buyer: New York Life Real Estate Investors
Purchase Price: $80 MM
Price per Unit: $162,857

The Penfield



City: St. Paul - Downtown, Minn.
Buyer: LaSalle Investment Management
Purchase Price: $66 MM
Price per Unit: $257,874

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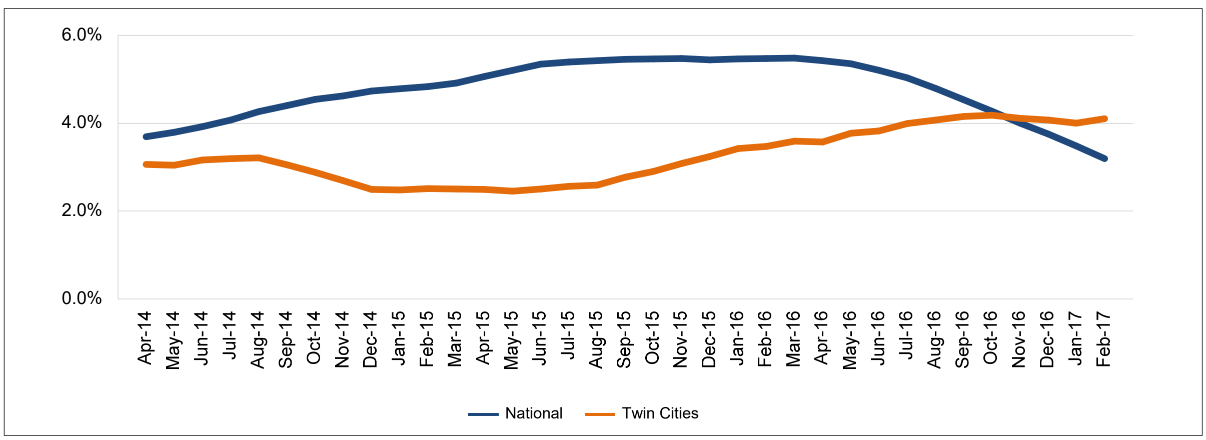
Rent Trends

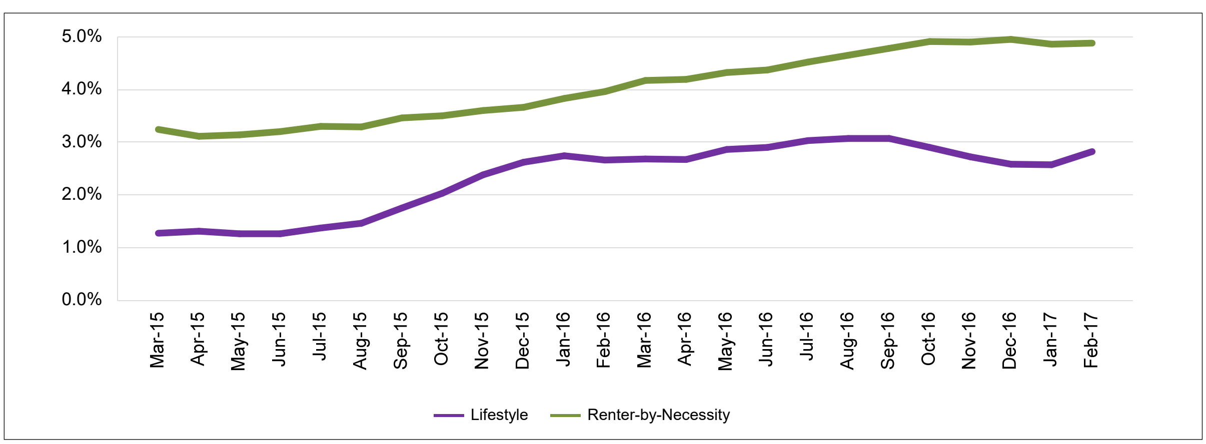
- Rents in the Twin Cities rose 4.3% year-over-year through February, above the 2.8% national growth rate, according to Yardi Matrix. At $1,164, the average rent is $145 shy of the national average. Limited housing supply is a primary driver of rent growth. A drop in new multifamily inventory in 2016, coupled with a steady population growth, has kept occupancy in stabilized properties above the 97% mark. Demand remains solid, and there are a growing number of residents with high-paying jobs who prefer renting to owning.
- Rent growth in the lower-end segment has consistently outperformed over the last two years. Renter-by-Necessity rents rose 4.6% year-over-year to $1,021, while Lifestyle rents increased 2.8% to $1,516.
- The submarkets with the largest rent increases were Lakeville (10.0%), Savage (9.9%) and Cambridge (9.3%). The St. Paul – St. Anthony ($1,889), St. Paul – West Seventh ($1,646) and Minneapolis – Calhoun Isle ($1,623) submarkets had the highest average rents.
- The lack of market-rate units in the urban core will continue to promote rent growth, as the increase in new supply will not meet demand. Yardi Matrix expects demand to remain elevated in the near future, and rents are forecast to grow by 4.2% in 2017.

Twin Cities vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Twin Cities Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

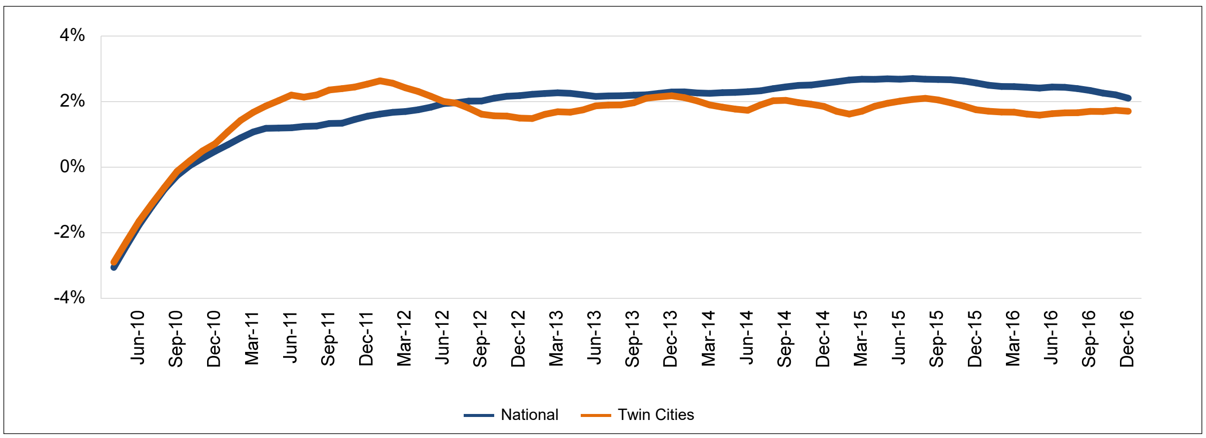


Source: YardiMatrix

Economic Snapshot

- The Twin Cities added 29,700 jobs last year. Although the metro's 1.7% job growth in 2016 was below the 2.4% national average, the metro boasts one of the lowest unemployment rates in the U.S. Education and health services (14,700) and professional and business services (12,600) led job growth.
- Employers benefit from the influx of graduates from area universities, including the University of Minnesota and the University of St. Thomas. The medical industry is attracting young professionals, in part due to Mayo Clinic's 20-year, $6.5 billion plan to establish Rochester as a global biotech hub. Employees are also needed in the transportation and construction sectors, as Minneapolis prepares to host the Super Bowl in February 2018 and the ESPN X Games in 2017 and 2018.
- Demand for Class A office is rising, especially in downtown Minneapolis, as a growing number of businesses move into the city from suburban office parks and commit to longer leases. Available inventory is being reduced as higher-yield-seeking investors have begun converting old office buildings such as Sibley Square at Mears Park in St. Paul to apartments. Office vacancy is expected to tighten and reach its lowest level in a decade. Shorenstein Properties LLC sold the City Center office tower for a record $315 million, which signals a growing interest from institutional investors.

Twin Cities vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Twin Cities Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	357	17.1%	14,700	4.3%
60	Professional and Business Services	327	15.7%	12,600	4.0%
15	Mining, Logging and Construction	80	3.8%	2,500	3.2%
80	Other Services	87	4.2%	2,300	2.7%
40	Trade, Transportation and Utilities	380	18.2%	1,900	0.5%
55	Financial Activities	156	7.5%	1,700	1.1%
90	Government	272	13.0%	1,300	0.5%
50	Information	41	2.0%	-500	-1.2%
30	Manufacturing	209	10.0%	-1,200	-0.6%
70	Leisure and Hospitality	178	8.5%	-5,600	-3.1%

Sources: YardiMatrix, Bureau of Labor Statistics

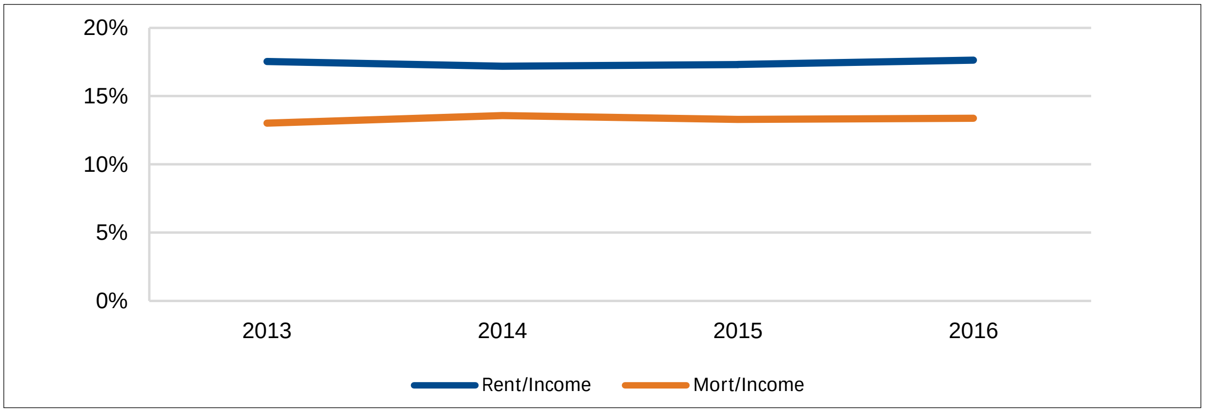
Demographics

Affordability

- Home prices have steadily risen during the current expansion as a result of a limited supply of single-family homes. The median home value hit $222,253 last year, its highest level since 2011. Despite rising home prices, the average mortgage comprises just 13% of the area's median income.

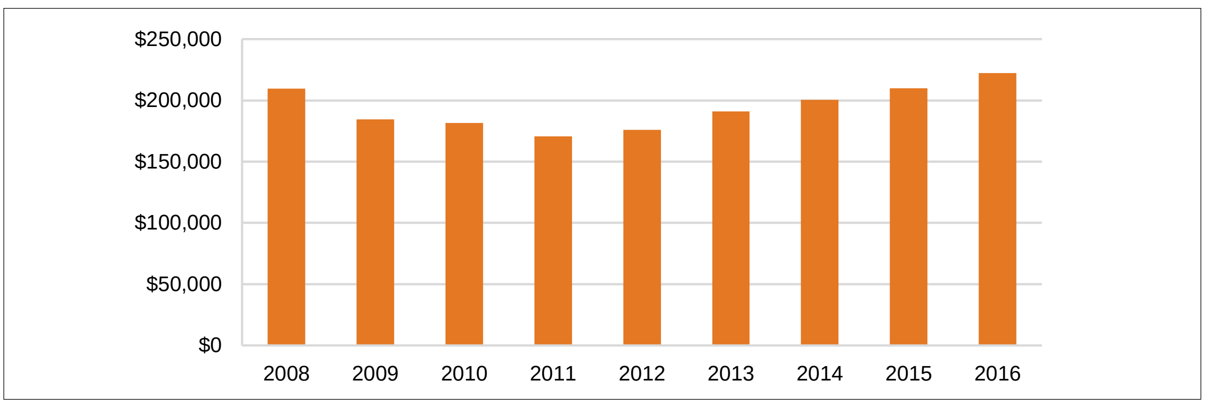
- Renting—which accounts for 18% of the metro's median income—remains less affordable than owning. The city of Minneapolis has launched an Affordable Housing Initiative, which is meant to generate affordable units through new construction or conversions to residents that earn 30% to 60% of the area's median income.

Twin Cities Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Twin Cities Median Home Price



Source: Moody's Analytics

Population

- The Twin Cities population increased by 0.8% in 2015, in line with the national average.

- Over the past five years, the metro's population grew by roughly 135,000.

Twin Cities vs. National Population

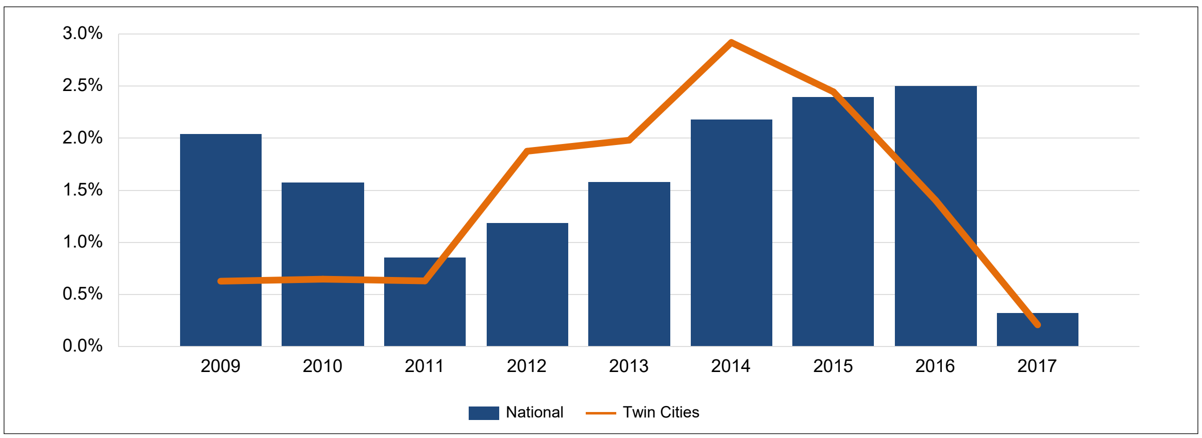
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Minneapolis-Wis. Metropolitan Statistical Area	3,389,626	3,423,250	3,460,826	3,495,656	3,524,583

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

Supply

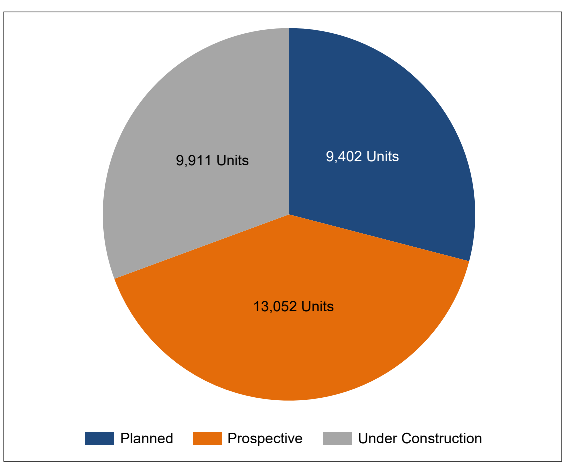
- Some 2,600 units were completed in 2016, increasing supply by 1.4%, well below the 2.5% national average. New deliveries have declined sharply since peaking in 2014; however, completions are expected to rebound, with more than 5,000 units scheduled to come online in 2017.
- Significant development will continue for the next few years, as roughly 10,000 units were under construction as of February, out of a total pipeline of more than 30,000 units. Absorption is likely to remain strong, as the metro has consistently maintained among the highest occupancy rates in the U.S. As of January 2017, the occupancy rate for stabilized properties was 97.2%.
- Development is concentrated in downtown submarkets such as Minneapolis – University (1,480 units) and Minneapolis – Central (1,147 units). Other submarkets with substantial pipelines include St. Louis Park, Brooklyn Park, Edina/Eden Prairie and St. Paul – Lexington Hamline, each with more than 470 units under construction. The largest project underway is 610 West, a 484-unit community in Brooklyn Park, developed by Doran Cos. and slated for completion in May 2017.

Twin Cities vs. National Completions as a Percentage of Total Stock (as of February 2017)



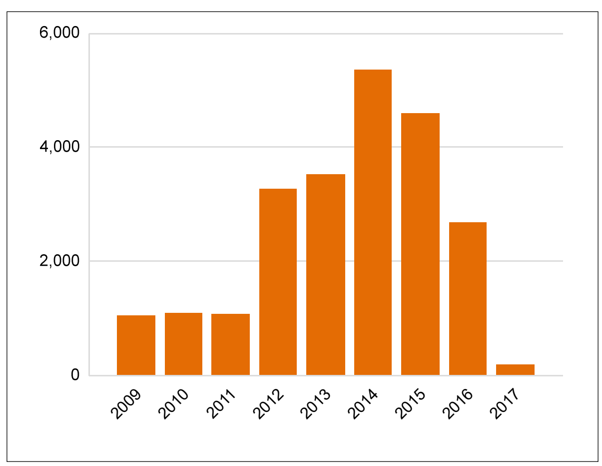
Source: YardiMatrix

Development Pipeline (as of February 2017)



Source: YardiMatrix

Twin Cities Completions (as of February 2017)

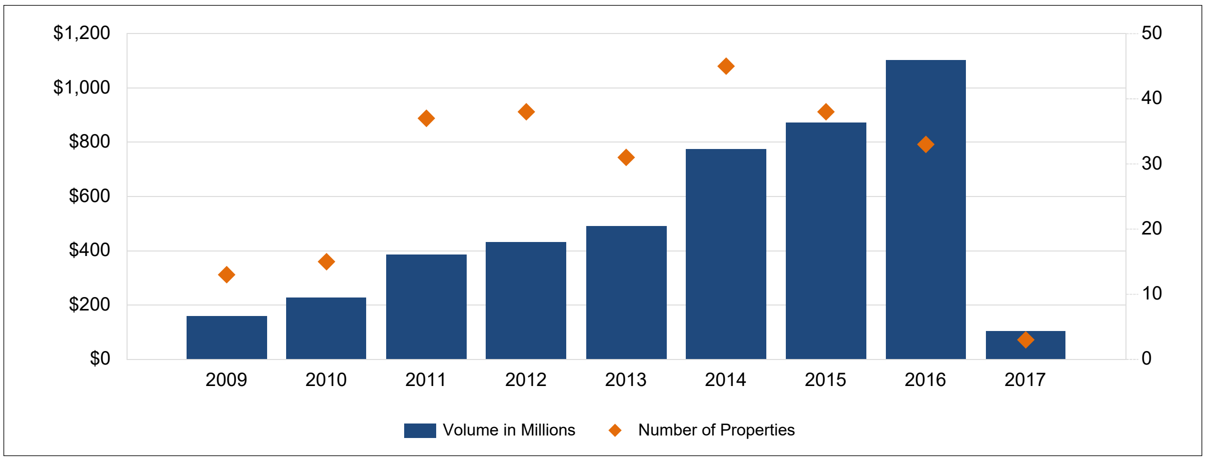


Source: YardiMatrix

Transactions

- Transaction volume reached $1.1 billion in the Twin Cities in 2016, marking a new cycle high. Although it remains small for some institutional investors, other buyers have increased their interest in the metro due to strong fundamentals and stable growth.
- The average price per unit rose to $152,672 in 2016, well above the $133,902 national average. Assets trading in the southern submarkets of Eden Prairie, Burnsville and St. Louis Park were among the most coveted, totaling $389 million in sales.
- The largest transaction over the past year was The Connor Group's $100 million purchase of the 337-unit Excelsior & Grand in eastern St. Louis Park. The mixed-use, amenity-rich, TOD development traded for $298,084 per unit, nearly doubling the metro's average.

Twin Cities Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

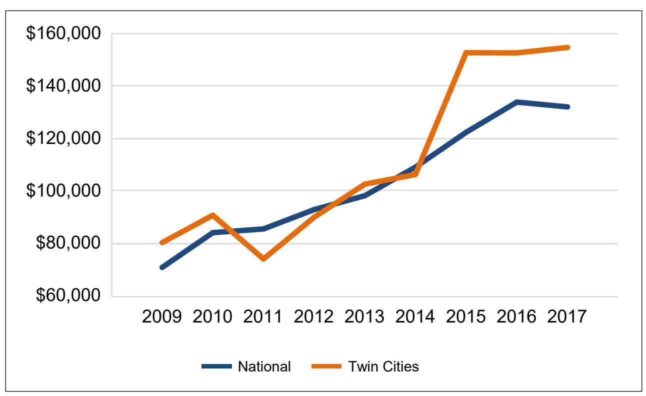
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Eden Prairie	165
Burnsville	124
St. Louis Park	100
St. Paul - Downtown	66
St. Paul - Como	64
Plymouth	54
Shakopee	48
Minneapolis - University	48

Source: YardiMatrix

[1] From March 2016 to February 2017

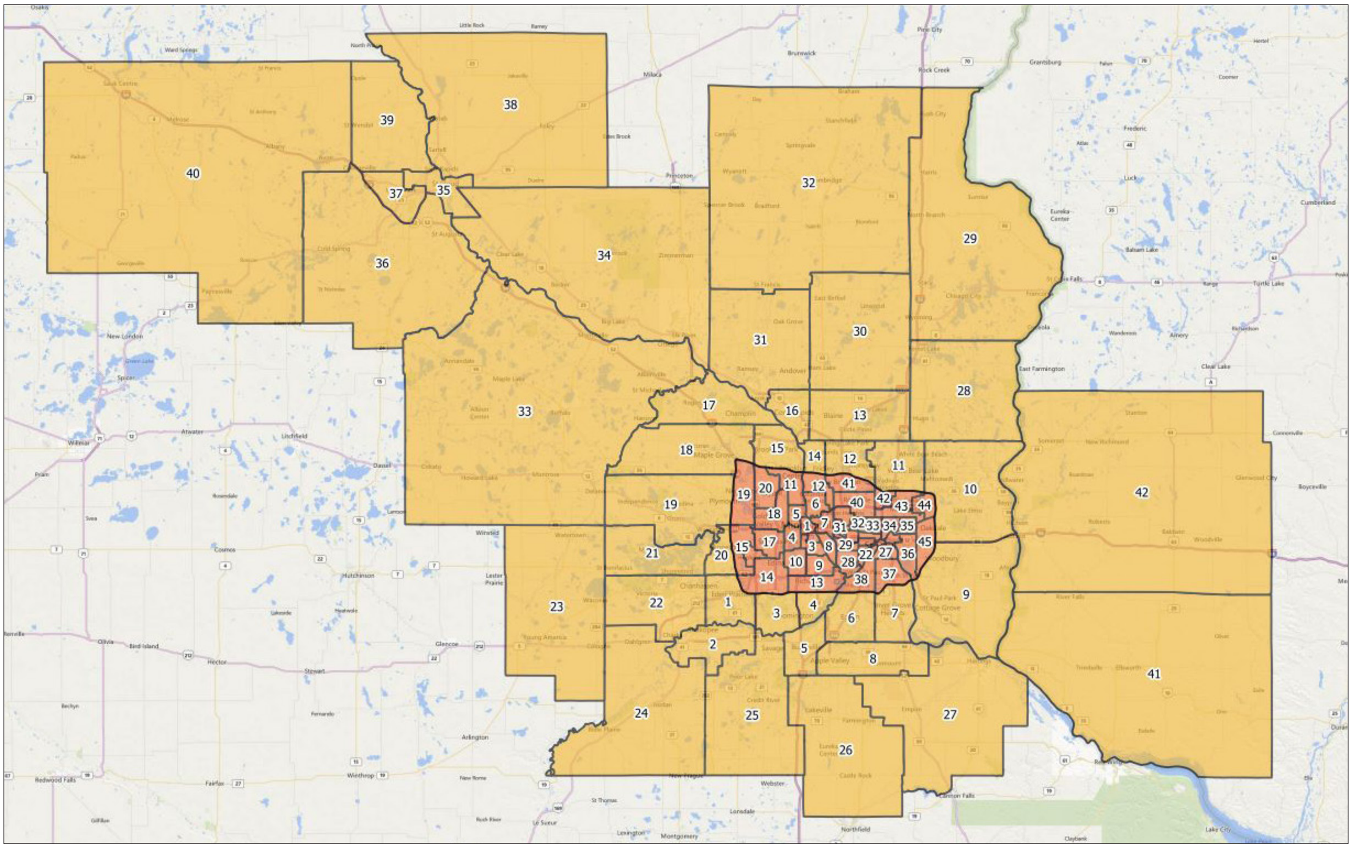
Twin Cities vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Davel5957/iStockphoto.com

Suburban Twin Cities Submarket Map

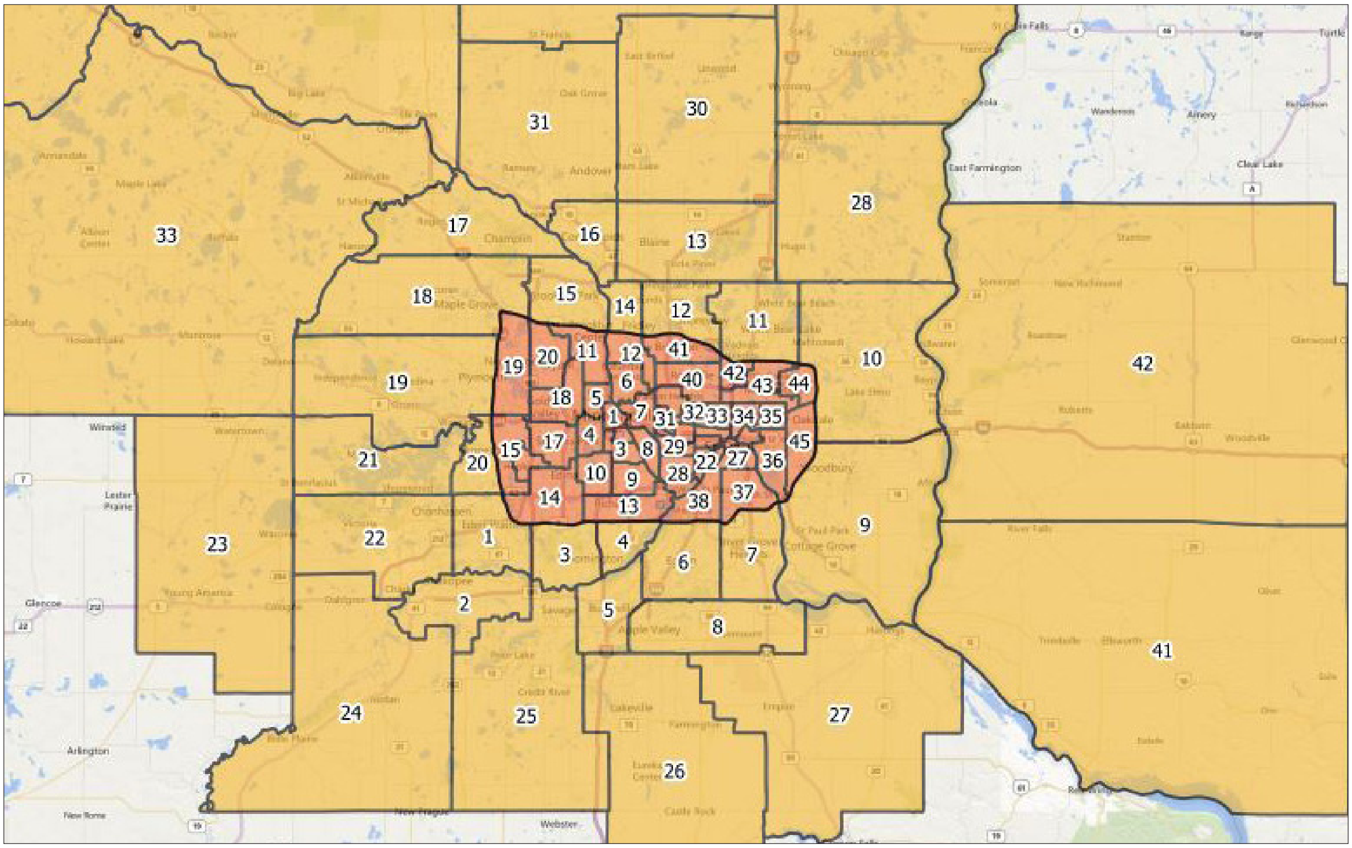


Area #	Submarket
1	Minneapolis - Central
2	Minneapolis - Phillips
3	Minneapolis -Powderhorn
4	Minneapolis - Calhoun Isle
5	Minneapolis - Near North
6	Minneapolis - Northeast
7	Minneapolis - University
8	Minneapolis - Longfellow
9	Minneapolis - Nokomis
10	Minneapolis - Southwest
11	Brooklyn Center/Camden
12	Columbia Heights
13	Richfield
14	Edina/Eden Prairie
15	Minnetonka

Area #	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 - Macaleste Groveland
30	St. Paul - Lexington Hamline

Area #	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

Urban Twin Cities Submarket Map



Area #	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 #	Submarket
15	Brooklyn Park
16	Coon Rapids
17	Champlin
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 #	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
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 may 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 may 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, may 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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