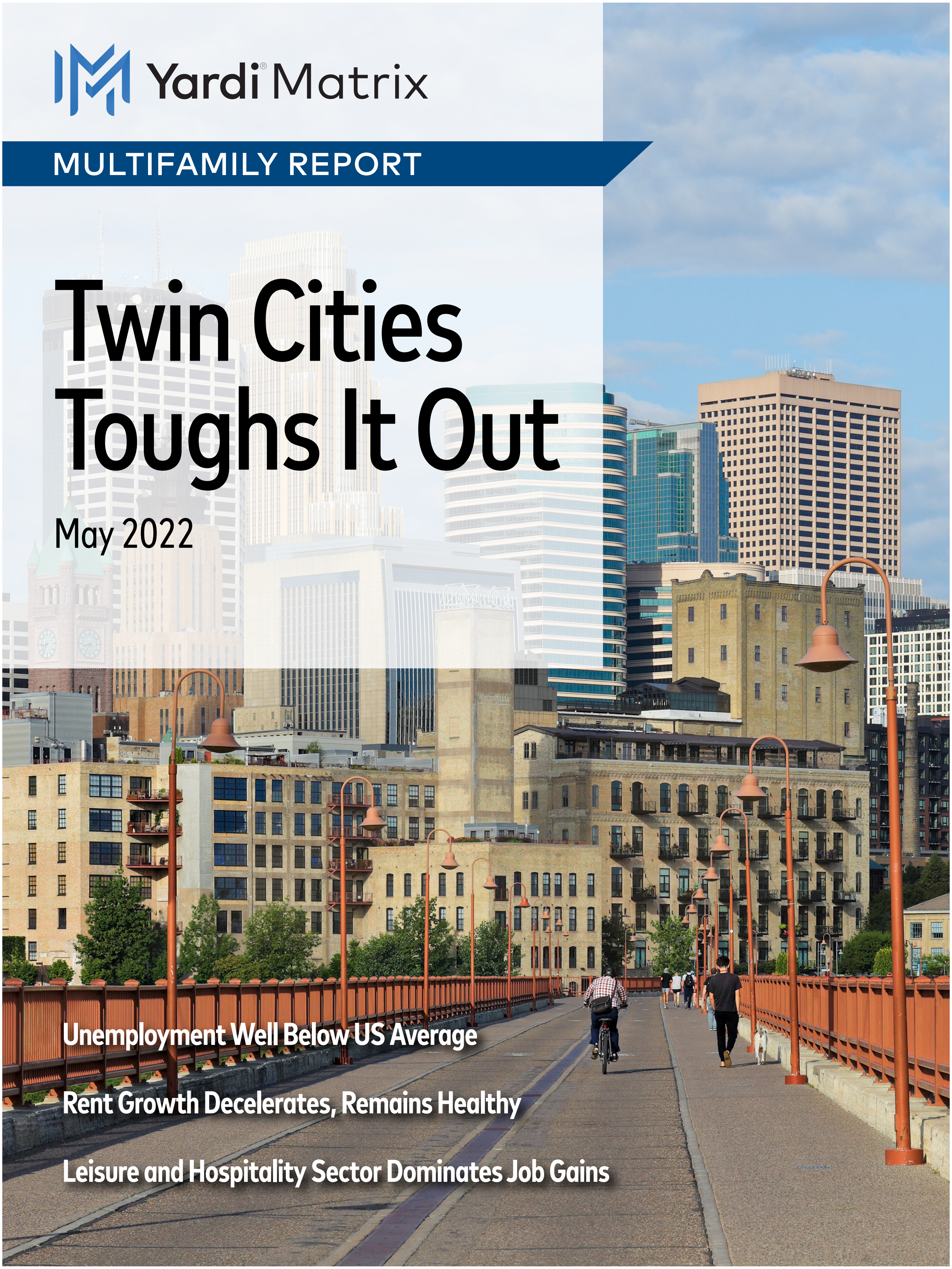
Yardi Matrix

MULTIFAMILY REPORT

Twin Cities Toughs It Out

May 2022



Unemployment Well Below US Average

Rent Growth Decelerates, Remains Healthy

Leisure and Hospitality Sector Dominates Job Gains

TWIN CITIES MULTIFAMILY

Investment Stays Strong, Deliveries Moderate

Although rent growth is decelerating, the Twin Cities multifamily market is steadily recovering. In the first quarter of 2022, rates inched up 0.2%. Year-over-year through March, rates were up 5.1%. While this trails nearly all top metros around the country, which continue to record double-digit gains, rent growth across Minneapolis-St. Paul remains healthy compared to pre-pandemic levels.

The Minneapolis-St. Paul unemployment rate dropped to a tight 2.8% in February—190 basis points below the national rate—according to preliminary Bureau of Labor Statistics data. Nearly half of the 48,700 jobs that the metro gained in the 12 months ending in February were in the leisure and hospitality sector, but manufacturing and construction also posted solid additions.

Transactions hit $452 million in the first quarter, already exceeding the $434 million closed during the same period of 2021. Meanwhile, development activity is beginning to moderate. Only 1,018 units came online, significantly below the 2,738 apartments that developers completed in the first quarter of last year. Persistent supply chain issues and rising inflation, coupled with the recent local rent stabilization ordinance, are generating obstacles for developers. However, Yardi Matrix expects sustained demand to keep rent growth positive this year, at 3.7% for all of 2022.

Market Analysis | May 2022

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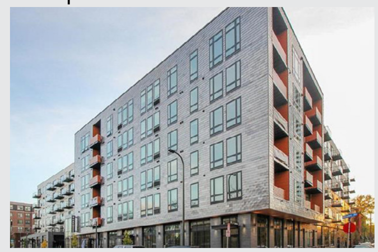
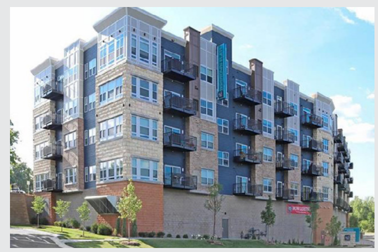
Recent Twin Cities Transactions

Marquee



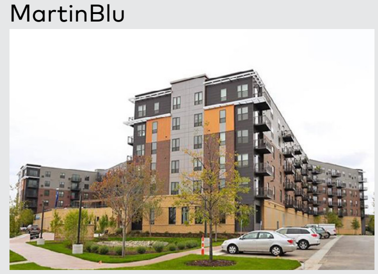
City: Minneapolis
Buyer: KC Venture Group
Purchase Price: $62 MM
Price per Unit: $266,667

Birdtown Flats



City: Robbinsdale, Minn.
Buyer: The Shelard Group
Purchase Price: $40 MM
Price per Unit: $263,816

MartinBlu



City: Eden Prarie, Minn.
Buyer: Centerspace
Purchase Price: $20 MM
Price per Unit: $103,837

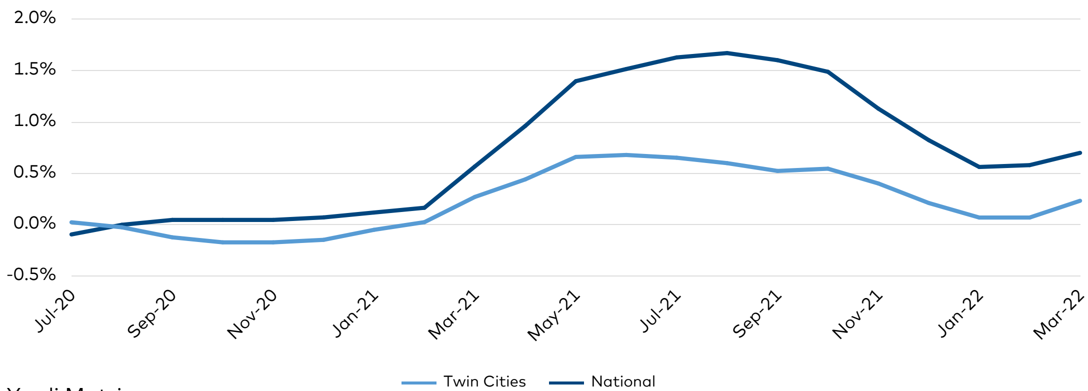
Cherry Lux

City: Fridley, Minn.
Buyer: Monument Capital Management
Purchase Price: $10 MM
Price per Unit: $136,944

RENT TRENDS

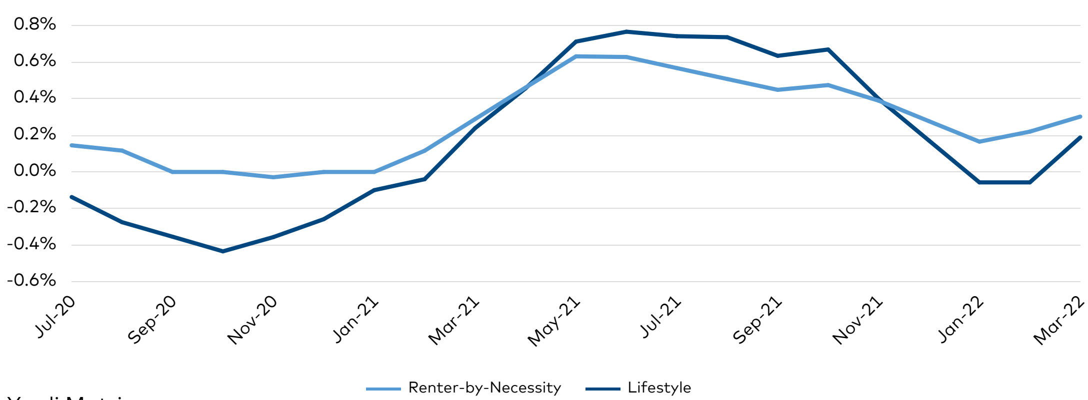
- Minneapolis-St. Paul rates were up 0.2% in the first quarter of 2022, significantly below the 0.7% U.S. rate. In line with national trends, rent expansion has been steadily decelerating since the end of 2021. However, the slowdown was expected, considering that last year's steep rent increases were unsustainable in the long term. The average Twin Cities rate clocked in at $1,433 in March, while the U.S. figure was $1,642.
- Year-over-year through March, rent growth in the metro was 5.1%, the lowest among the top 30 metros that Yardi Matrix monitors. Kansas City (8.1%) and San Francisco (8.7%) were also at the bottom of the list. At the opposite end, Miami led the way with a 26.3% increase in rates.
- Rents across the quality spectrum progressed almost at the same pace in Minneapolis-St. Paul. Rates in the working-class Renter-by-Necessity segment grew by 0.3% on a T3 basis through March to $1,221, while Lifestyle figures advanced 0.2% to an average of $1,777.
- The single-family rental sector continued to prosper. In urban Twin Cities, the average rent hit $2,205 in March, while in suburban areas, prices averaged $1,808. Meanwhile, the national SFR rate was only $1 short of the $2,000 mark.
- Suburban submarkets Waite Park (14.5%) and Apple Valley (11.0%) led rent expansion year-over-year through March. Maple Grove ($1,882)—a northwest Minneapolis suburb that attracts white-collar professionals working remotely—was among the metro's most expensive areas.

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

- The Twin Cities unemployment rate has been steadily improving, reaching 2.4% in February, according to preliminary data from the Bureau of Labor Statistics. The metro added 48,700 jobs. However, job expansion seems to have hit the brakes in the second half of 2021, with the employment rate clocking in at only 2.8% in February, 190 basis points below the national rate.

- All but two sectors expanded, with leisure and hospitality accounting for half of the gains. Education and health services, along with financial activities, shed a combined 5,900 positions. The metro's aging population is not only leading to a tightening labor market but also generating declining enrollment across public schools which, in return, is causing layoffs and school closures. Additionally, Wells Fargo—one of the largest employers in downtown Minneapolis—announced plans to cut expenses by $8 billion, impacting payrolls across the metro.

- Away from the urban core, the industrial sector continues to expand. E-commerce-induced demand is prompting developers to fight for each buildable parcel. On 86 acres in Rosemount, Scannell Properties is developing two warehouses that will total almost 1 million square feet. In Cottage Grove, NorthPoint Development is set to break ground on a 3.4 million-square-foot, $310 million project that is expected to create more than 1,800 jobs.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	160	7.9%
30	Manufacturing	215	10.6%
15	Mining, Logging and Construction	84	4.1%
60	Professional and Business Services	326	16.0%
40	Trade, Transportation and Utilities	364	17.9%
80	Other Services	77	3.8%
90	Government	256	12.6%
50	Information	34	1.7%
65	Education and Health Services	361	17.7%
55	Financial Activities	159	7.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro added 17,284 residents in 2020, for a 0.5% expansion.

- Census estimates show that both Hennepin and Ramsey counties saw population declines in the year ending in July 2021. To some extent, the drop can be attributed to the pandemic and the relocations it spurred.

Twin Cities vs. National Population

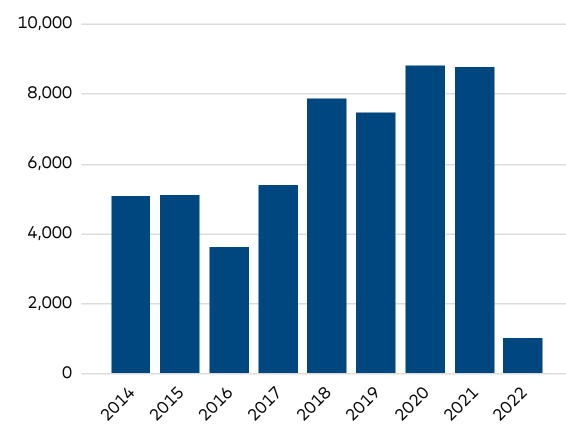
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Twin Cities	3,592,669	3,629,190	3,654,908	3,672,192

Source: U.S. Census

SUPPLY

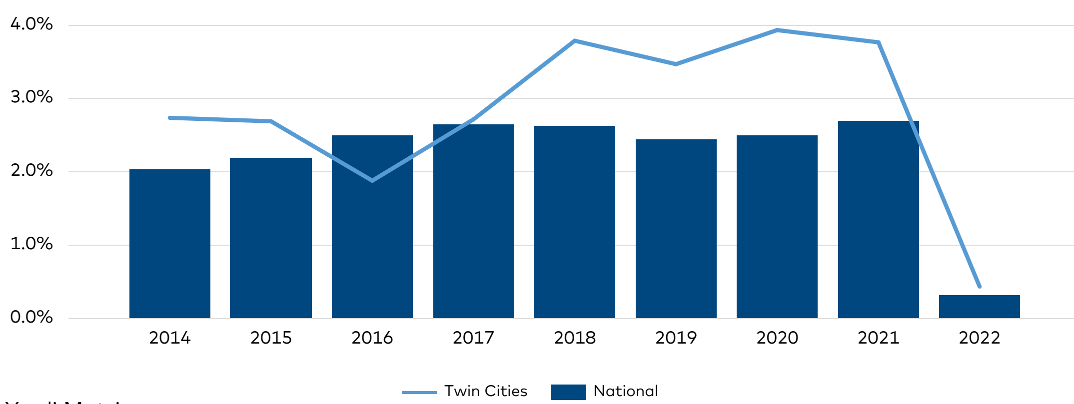
- There were 17,928 units under construction in Minneapolis-St. Paul at the end of the first quarter, with an additional 51,000 apartments in the planning and permitting stages.
- Coming on the heels of four very strong years for completions—with an average of 8,220 units coming online each year—developers brought to the market another 1,018 apartments in 2022 through March, with the bulk of them in suburban areas.
- Despite the abundance of new supply added to the metro's inventory in the past few years, occupancy has largely remained in line with the national average. As of February, the occupancy rate in stabilized properties was 94.9% in urban areas and 96.7% in suburban areas. The U.S. occupancy rate was 96.0%.
- The pace of deliveries is bound to decelerate going forward considering that developers didn't break ground on any new project with 50 or more units this year through March. During the same period last year, developers had already begun construction on 2,001 units. Lingering supply chain issues, as well as rising inflation, construction costs and the recent rent stabilization ordinance passed in St. Paul that caps rent growth at 3.0% per year, are all creating headwinds for developers.
- Besides the massive 3,800-unit project that Ryan Cos. is developing on 133 acres at the former Ford Motor manufacturing campus in St. Paul-Highland, construction activity is also intense in Minneapolis-Central, where 1,231 units were under construction as of March.

Twin Cities Completions (as of March 2022)



Source: Yardi Matrix

Twin Cities vs. National Completions as a Percentage of Total Stock (as of March 2022)

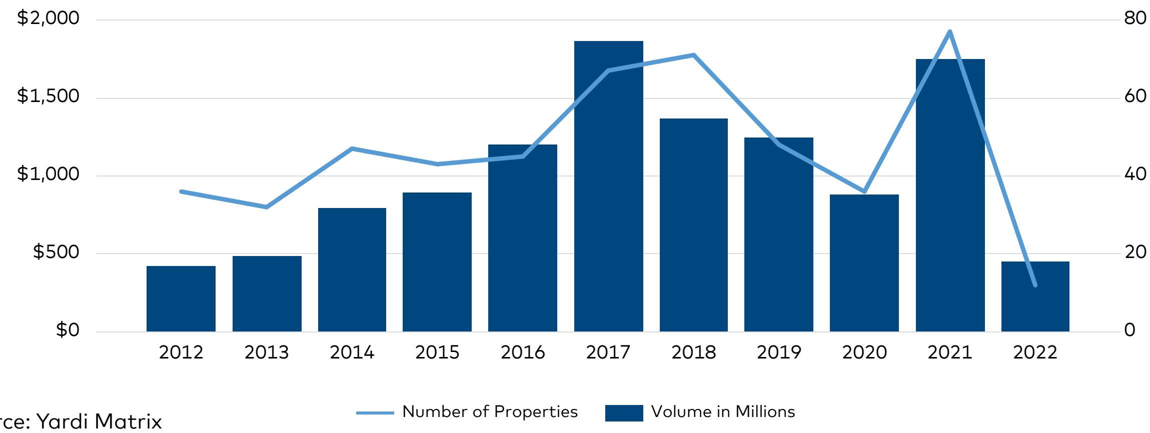


Source: Yardi Matrix

TRANSACTIONS

- Investment volume in Twin Cities totaled $452 million in the first quarter, exceeding the $434 million closed during the same period of 2021. With almost $1.8 billion in multifamily assets changing hands, last year marked an all-time high for the metro in terms of deal volume, but 2022 is on track to match or surpass that record, should interest from out-of-state and institutional investors remain high.
- In the first three months of the year, investors had a slight preference toward workforce assets—seven of the 12 communities that traded were RBN properties. However, the per-unit price rose from $177,261 in 2021 to $204,966. Meanwhile, the U.S. average was $213,402.
- Urban Twin Cities accounted for two-thirds of the total investment volume in the 12 months ending in March, with buyers most interested in assets across Minneapolis-Central ($183 million). Among suburban areas, Bloomington-West ($156 million) was the most sought-after.

Twin Cities Sales Volume and Number of Properties Sold (as of March 2022)



Source: Yardi Matrix

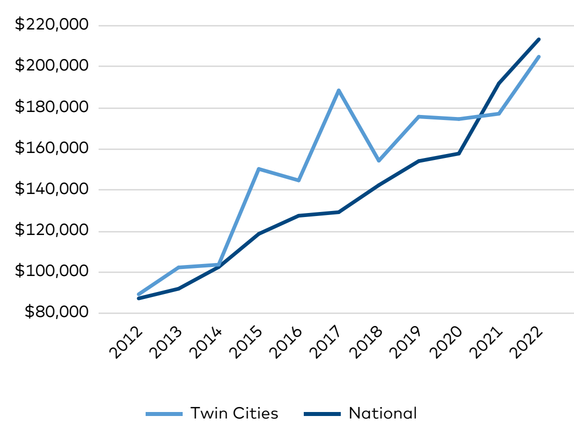
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis-Central	183
Bloomington-West	157
Golden Valley	128
Minneapolis-University	126
Plymouth	98
Burnsville	97
St. Louis Park	97

Source: Yardi Matrix

[1] From April 2021 to March 2022

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Is Building More the Only Way Out of the Housing Crisis?

By Evelyn Jozsa

Thanks to relocating businesses and residents from coastal metros, the Twin Cities housing market has recorded healthy fundamentals in recent months. However, the growing activity also put more pressure on the metro's affordable housing stock. Dr. Eric Anthony Johnson, president & CEO of Aeon talks about the challenges of building affordable housing across Twin Cities, but also touches on ways to protect the metro's existing affordable housing stock.

What policy changes could spur affordable housing development the most?

We need access to lower-cost capital, aligned financing, zoning that supports the creation of affordable housing, and development tools and regulatory relief from cities.

Do you expect to see positive changes in terms of new housing policies in the near term?

I believe we are at the beginning of understanding that what we have been doing in terms of housing policy is not matching the reality of the housing needs across American communities. Once we get greater clarity related to how huge the disconnect between incomes and housing costs is, and how it impacts our communities from an economic perspective, I believe we will start to see a shift in housing policy.

How has the pandemic influenced the way you approach affordable housing development?

This unprecedented time made it clear that housing is part of our public health system, an extension of our schools, and critical to allowing a large swath of our workforce to continue to work. More people and organizations are engaging in the conversation about needing to solve our housing crisis.

How do you think supply chain and construction challenges will impact affordable housing development in the year ahead?

We will need to keep innovating, which could include the affordable housing industry increasing programs for shared inventory purchasing and warehousing.

Moreover, the biggest impact we can make is to increase our focus on preserving the naturally occurring affordable housing that is being lost faster than we can build new properties.

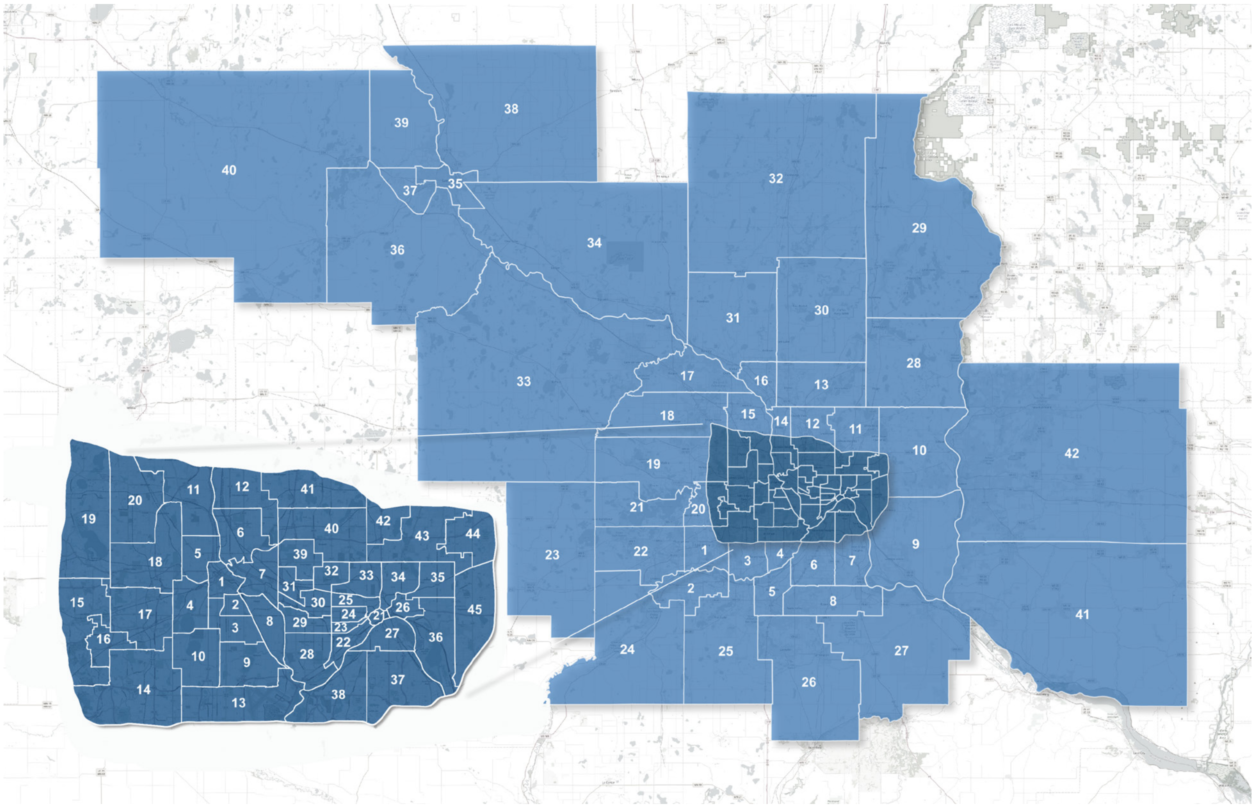
Statewide, we only have enough funding for about 2,000 units of new affordable housing per year. Historically, it has been twice as expensive to build new as to preserve NOAH—a premium that will only increase with construction pricing volatility. Simply put, the best way we can buffer ourselves from pricing and supply volatility is to not look solely to building our way out of the housing crisis.

What trends will shape the Twin Cities housing market in 2022?

The ongoing pandemic and its impact on residents, the disconnect between incomes and housing cost, and limited capital at the correct price point to support affordable housing preservation and production.

(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 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 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, 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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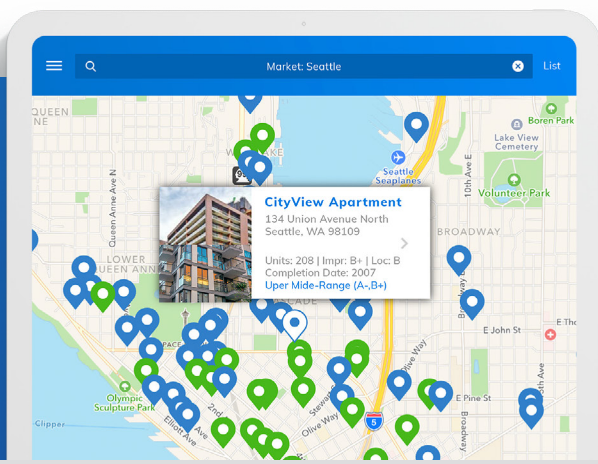
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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