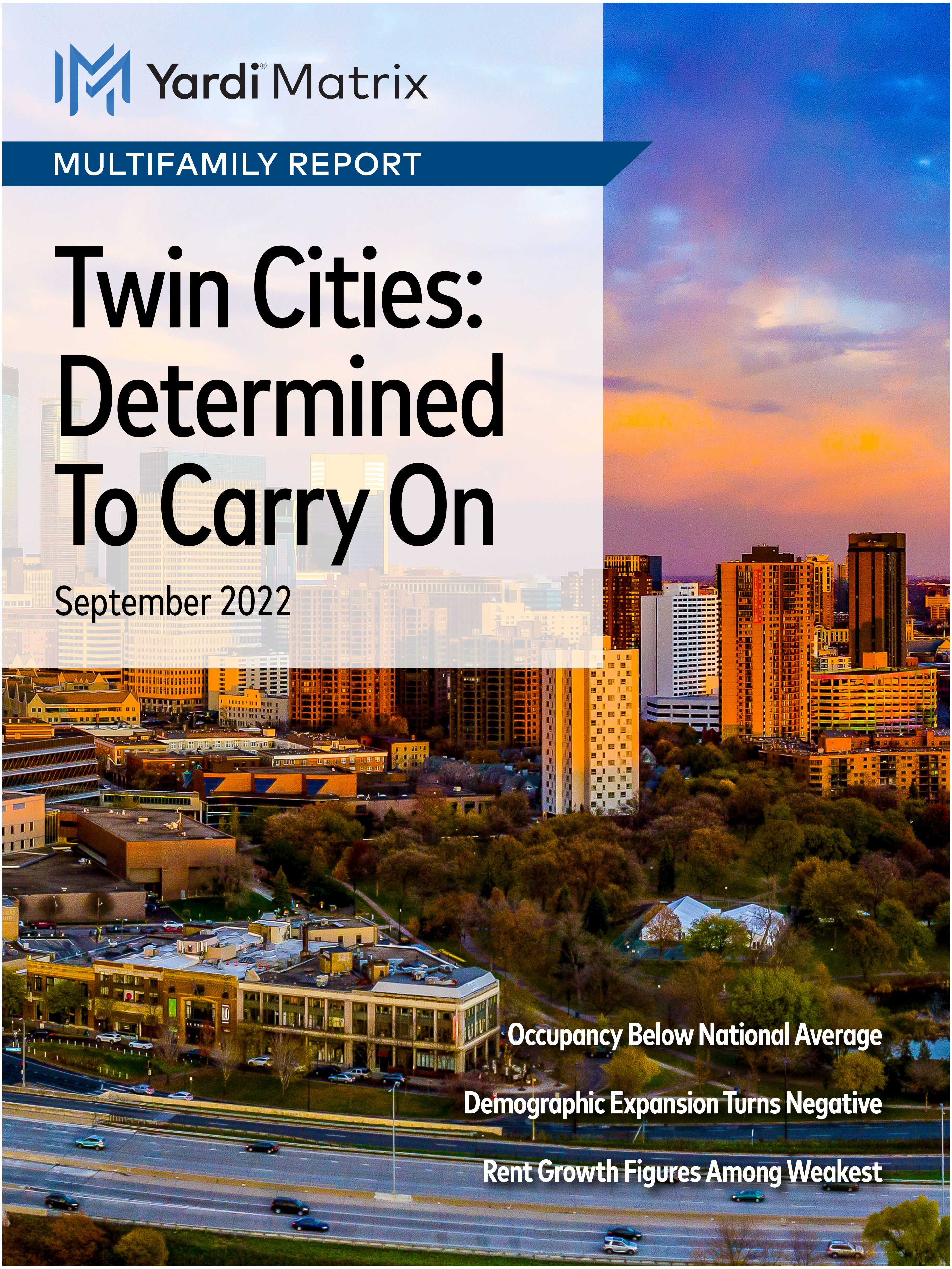
Yardi Matrix

MULTIFAMILY REPORT

Twin Cities: Determined To Carry On

September 2022



Occupancy Below National Average

Demographic Expansion Turns Negative

Rent Growth Figures Among Weakest

TWIN CITIES MULTIFAMILY

Yardi Matrix

Deals Forge Ahead, New Construction Stalls

The Twin Cities multifamily market remains an attractive option for investors, even though rent performance is moderating. Rates increased only 0.3% on a trailing three-month basis through July, to $1,461, below the national average, which grew by 1.0% and hit $1,717. Following record growth in 2021, rents are decelerating as economic uncertainty sets in further.

As of June, Minneapolis-St. Paul's unemployment rate stood at 2.2%, significantly below the 3.5% national figure. Expanding by 2.9% in the 12 months ending in May, employment growth was led by leisure and hospitality, followed by manufacturing. The two sectors accounted for more than half of the 58,900 positions added. The public sector was the only one that lost jobs, contracting by 200 positions. With the metro's stagnant population growth, employers are scrambling to fill openings, a trend impacting the great majority of U.S. metro areas.

Deliveries started to soften this year, with only 4,188 units coming online in the first seven months. St. Paul passed the most stringent rent control law in late 2021, which almost generated a standstill in new development. Developers broke ground on only 257 units, compared to 5,207 last year through July. Meanwhile, transaction activity continued unabated, with sales volume hitting $923 million. Yardi Matrix expects rents to improve by 4.6% this year, which would be the slowest rate of improvement among major metros.

Market Analysis | September 2022

Contacts

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

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

Avana Minnetonka

City: Minnetonka, Minn.
Buyer: Greystar
Purchase Price: $126 MM
Price per Unit: $276,316

The Quinn at Plymouth

City: Plymouth, Minn.
Buyer: The Connor Group
Purchase Price: $85 MM
Price per Unit: $283,223

SpringBrook

City: Fridley, Minn.
Buyer: MLG Capital
Purchase Price: $74 MM
Price per Unit: $203,601

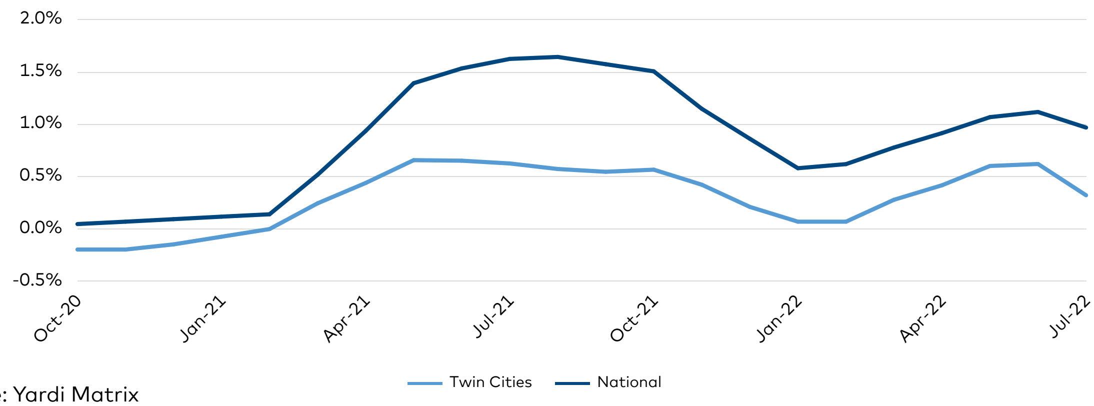
The Shores

City: Shoreview, Minn.
Buyer: Kelly Brothers
Purchase Price: $14 MM
Price per Unit: $205,882

RENT TRENDS

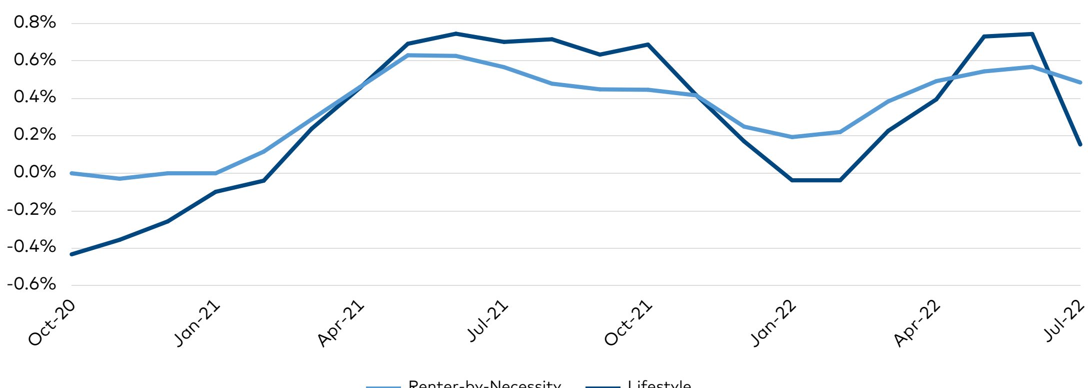
- On a trailing three-month (T3) basis through July, Twin Cities rents rose 0.3% to $1,461—70 basis points below the U.S. rate. Year-over-year, the metro had the weakest rent development among the metros tracked by Yardi Matrix—4.2%. However, gains are still healthy compared to historical standards.
- Across the quality spectrum, the working-class Renter-by-Necessity segment led rent gains on a T3 basis—0.5% to an average of $1,249. Meanwhile, rates in the upscale Lifestyle segment improved only 0.2%, to $1,797.
- Only four of the metro's 84 submarkets recorded rent losses year-over-year through July, including St. Paul-Downtown, where rents contracted by 2.7% to $1,501. Meanwhile, suburban submarkets Waite Park (13.0% to $1,069), Savage (12.8% to $1,613) and Sartell (12.0% to $1,195) recorded the largest rent jumps. However, Maple Grove ($1,951) in Hennepin County remained the most expensive area. The northeastern submarket attracts remote workers and provides easy access to the metro's urban core areas through major thoroughfares like interstates 94 and 494.
- In the single-family rental sector, the average Twin Cities rate rose by 3.4% year-over-year, a 160-basis-point decrease from June. Despite the abrupt month-over-month drop, demand should remain firm going forward as rising mortgage rates continue to slow the for-sale housing market and, in turn, help demand for SFR assets. As of July, the average SFR rent in the metro was $1,951, below the $2,092 U.S. figure.

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

- Minneapolis-St. Paul had a 2.2% unemployment rate in June—according to preliminary Bureau of Labor Statistics data—which accounted for an 80-basis-point improvement since the start of the year. The rate is not only significantly below the 3.5% national figure but also outpaced other Midwestern metros such as St. Louis (2.8%), Chicago (4.9%) and Detroit (5.9%).
- In the 12 months ending in May, the metro added 58,900 jobs. That represented a 2.9% expansion, 180 basis points below the U.S. rate. Leisure and hospitality led growth with 17,500 jobs, followed by manufacturing with 12,800 jobs. Mirroring nationwide trends, demand for warehouse space in the metro is unabated. In June, NorthPoint Development started work on a 3.4 million-square-foot logistics center in Cottage Grove. The $375 million project will be among Minnesota's largest industrial parks. Meanwhile, Ryan Cos. is nearing completion on Amazon's 517,000-square-foot distribution facility in Woodbury.
- As in other secondary metropolitan areas in the Midwest, the shift to more flexible work models is impacting the post-COVID-19 resurgence of the two cities' core areas. Target Corp., one of Minneapolis' largest employers, announced to its 8,500 downtown employees that work at its corporate offices will stay hybrid. Earlier this year, U.S. Bancorp and Wells Fargo also adopted greater flexibility for certain roles.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	178	8.4%
30	Manufacturing	220	10.4%
60	Professional and Business Services	342	16.2%
40	Trade, Transportation and Utilities	372	17.6%
80	Other Services	80	3.8%
65	Education and Health Services	364	17.2%
50	Information	35	1.7%
15	Mining, Logging and Construction	100	4.7%
55	Financial Activities	164	7.8%
90	Government	256	12.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- After a decade of sustained growth, the metro's population contracted by 1,794 residents or 0.1% in 2021.
- Although the U.S. demographic growth rate was positive—0.1%—it was the slowest since the Census Bureau began collecting this type of data.

Twin Cities vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Twin Cities	3,626,672	3,654,760	3,707,223	3,705,429

Source: U.S. Census

SUPPLY

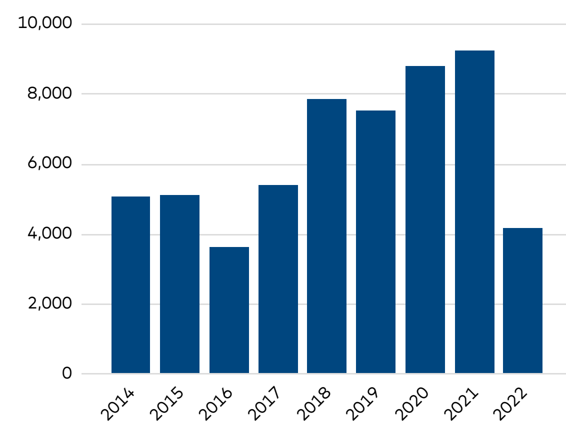
- Minneapolis-St. Paul had 12,324 units under construction as of July, with roughly a fifth of them in fully affordable developments. An additional 27,300 units were in the planning and permitting stages, but with overall economic growth slowing and considering the rent stabilization ordinance in effect in St. Paul, some of these projects will likely be delayed, put on hold or even canceled.

- Developers added only 4,188 units to the metro's stock in the first seven months of 2022, below the 5,355 they completed during the same interval of last year. Deliveries slowed after the metro witnessed four of its strongest years for completions: between 2018 and 2021, 33,425 units came online, with roughly two-thirds of them in urban submarkets. This above-average inventory expansion had an immediate impact on occupancy, which contracted 20 basis points year-over-year through June to 95.7%.

- Following the passage late last year of one of the strictest rent control laws in the country, construction starts plummeted in Twin Cities. Developers broke ground on only two projects totaling 257 units this year through July, compared to 5,207 units across 33 projects in the first seven months of 2021.

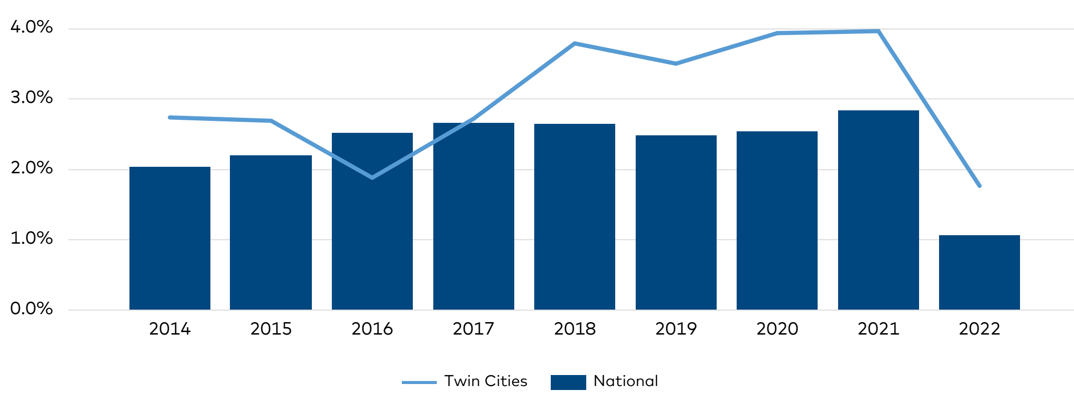
- As of July, the largest project under construction was Shady Oak, recently rebranded as The Townline. Wellington Management is working on the 435-unit redevelopment project in the Minnetonka submarket using a $40.6 million construction loan originated by American National Bank. The two-phase project is rising on the site of the former Shady Oak Office Center in Hopkins, Minn.

Twin Cities Completions (as of July 2022)



Source: Yardi Matrix

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



Source: Yardi Matrix

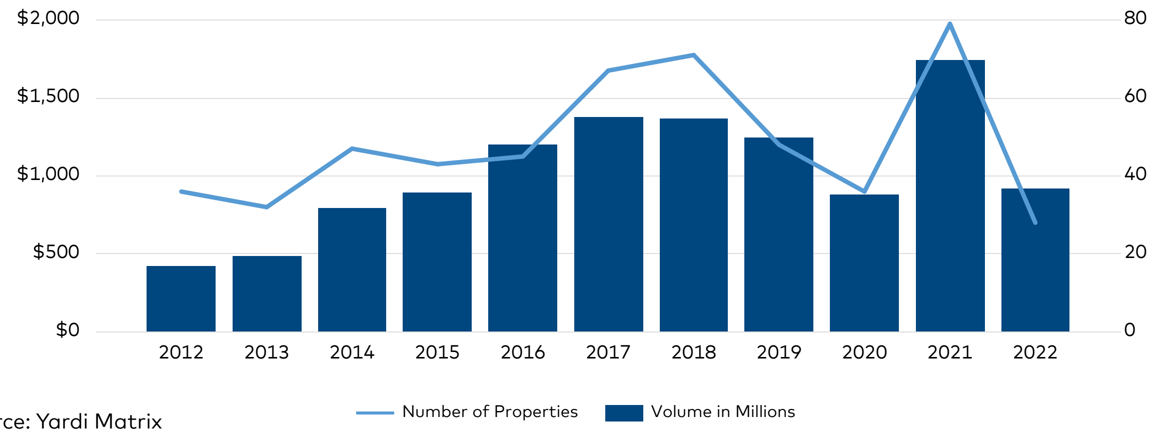
TRANSACTIONS

- Almost $923 million in multifamily assets changed hands in the first seven months of the year, significantly above the $698 million transaction volume recorded over the same interval last year. Although investment is on track to surpass 2021's peak of $1.7 billion, rising interest rates and a slowing economy might temper investor appetite.

- This year through July, buyers had a slight preference for suburban assets. Although averages tend to be lower in outlying areas, the overall per-unit price in Twin Cities increased to $189,686, nearly 8.0% higher than the 2021 figure. Meanwhile, the U.S. average hit $216,893.

- Greystar's $126 million purchase of Avana Minnetonka was the largest transaction recorded in 2022 through July in the metro. The sale was subject to an $83.4 million loan originated by JPMorgan Chase. Along with Minneapolis-Central, Minnetonka was among the most sought-after submarkets in the metro.

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



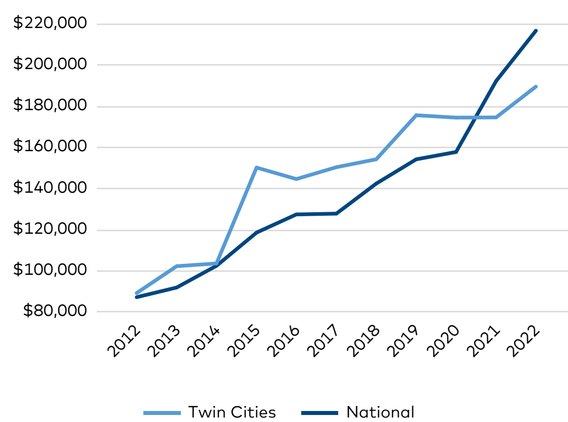
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis–Central	193
Minnetonka	168
Bloomington–West	139
Minneapolis–University	126
Eden Prairie	107
Plymouth	98
Burnsville	97

Source: Yardi Matrix
[1] From August 2021 to July 2022

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

The Midwest Is Attracting Record-High Capital. Here's Why

By Beata Lorincz

The U.S. multifamily market has seen record-breaking rent growth so far this year, backed by correspondingly high demand. But the Midwest multifamily market poses some distinct advantages compared to other U.S. regions. Jeff Lamott, managing director at Northmarq, explains what is fueling the Midwest multifamily market's performance and shares his predictions for the remainder of the year.

How did the Midwest multifamily market fare in the first half of 2022?

New deliveries got off to a slow start in the first half of the year in the Midwest, due to prolonged challenges in supply chains and shortage of skilled trades to complete projects. Year-over-year, rent growth reached about 12 percent in the Midwest, with an average of 2.5 percent growth in the first quarter.

Which are currently the hottest markets for multifamily development in the region and why?

The Midwest has not been subject to overbuilding the past several years, which has kept vacancy rates stable. While early 2022 got off to a slow start, Kansas City, Mo.; Indianapolis; St. Louis; Cincinnati, Ohio, and Chicago are some of the leading markets for new deliveries.

Many developers still find acquiring land in the Midwest easier

than in gateway markets, with the permit process for a building to go vertical done in a timelier manner.

How is the Midwest performing in terms of rent growth?

Rents in the Midwest have trended higher in the past several quarters. Rent growth in the first quarter averaged 2.5 percent, although a handful of markets posted gains ranging from 3 percent to nearly 4.5 percent. Year-over-year, rent growth reached 12.9 percent, on average, throughout the Midwest.

Is now the right time for investors to buy into the region?

With the Federal Reserve signaling the continued increase in rates, it is still an excellent time to secure long-term financing at a favorable Midwest basis.

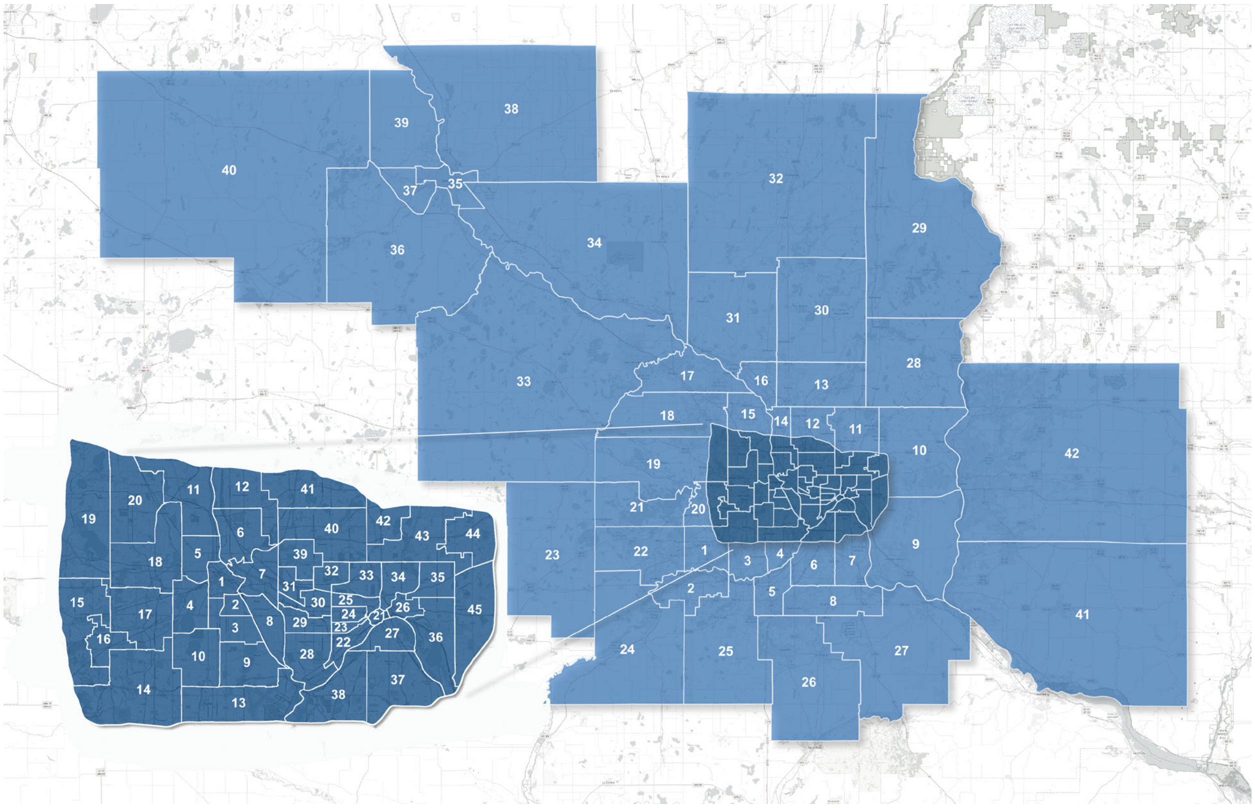
While we might not see the continued record-high year-over-year accelerated appreciation driven by unsustainable double-digit rent growth, Midwest markets offer investors consistent appreciation, a favorable cost of living for renters and steady job growth.

What are your predictions for the market going forward this year?

Nationally, we still have a shortage of new inventory, compared to the 12-14 months prior to the Great Recession. Low vacancies and continued demand are allowing for further rent increases in much needed development in undersupplied Midwest markets.

(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.

Yardi Matrix

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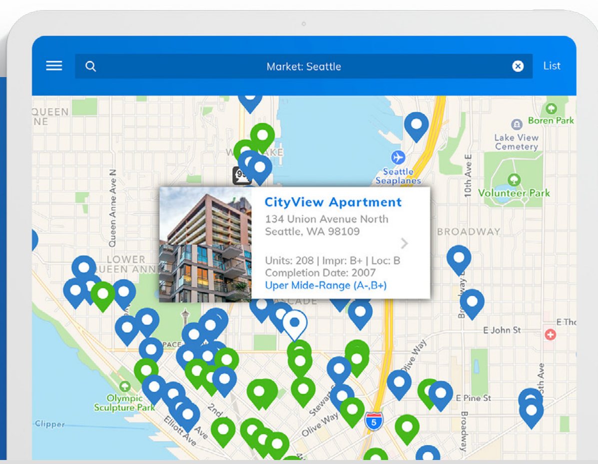
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- 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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