



MULTIFAMILY REPORT

Stabilizing Twin Cities

January 2023

Construction Starts Pick Up

Unemployment Near Record Lows

Investment Activity Keeps Momentum



TWIN CITIES MULTIFAMILY



Market Fundamentals Stay Healthy

The Twin Cities multifamily market is stable, despite decelerating rent growth, which is visible in most major U.S. metros. On a trailing three-month basis through November, rents were flat, with the average rate clocking in at \$1,469. Year-over-year, rate gains fell to 2.9% in Minneapolis-St. Paul, with only Phoenix (2.5%) and Las Vegas (2.0%) posting lower rent increases among major U.S. metros.

Employment growth steadily improved last year, hitting 3.2% year-over-year through September, but still trailing the national rate by 100 basis points. All sectors added jobs, with professional and business services (19,300 positions) leading the way, followed by education and health services (14,900 jobs). Twin Cities employers are having a hard time filling open roles. The metro's 1.7% unemployment rate as of October was near record lows, as labor force participation is still down significantly from before the pandemic.

Last year through November, both completions and transactions posted solid performances. Developers brought online 9,781 units, which was above the 8,888-unit average for the previous three years. Investment activity was also intense, with \$1.4 billion in multifamily assets trading across the metro. Although investor interest was almost equally split between quality segments, the average per-unit price surpassed the \$200,000 mark for the first time, up 21.4% from 2021.

Market Analysis | January 2023

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Recent Twin Cities Transactions

EDITION



City: Minneapolis
Buyer: Weidner Investment
Services
Purchase Price: \$55 MM
Price per Unit: \$282,051

Millennium at West End



City: St. Louis Park, Minn.
Buyer: West Freeman Properties
Purchase Price: \$51 MM
Price per Unit: \$320,886

Summit Townhomes



City: Burnsville, Minn.
Buyer: Oak Residential Partners
Purchase Price: \$40 MM
Price per Unit: \$346,491

Talus

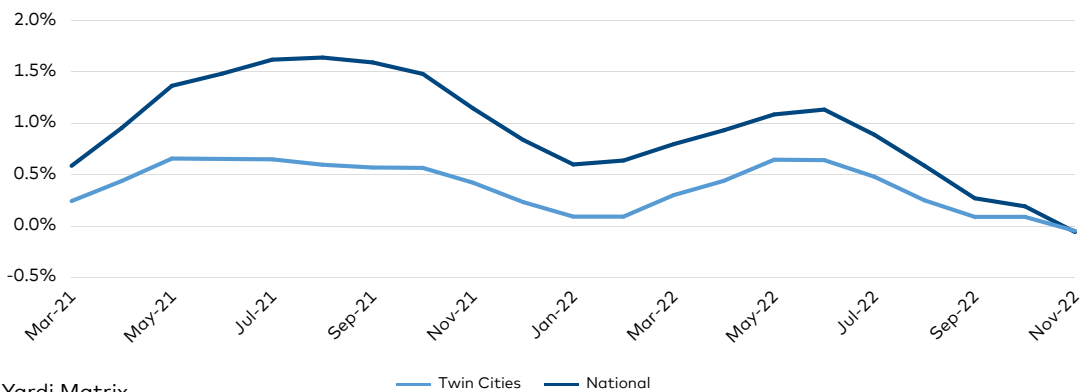


City: Plymouth, Minn.
Buyer: Monument Capital
Management
Purchase Price: \$35 MM
Price per Unit: \$179,688

RENT TRENDS

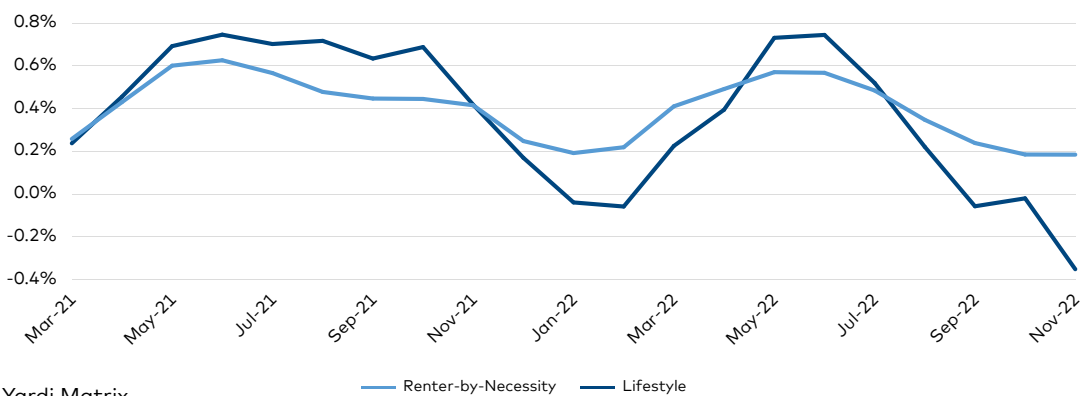
- ▶ On a trailing three-month (T3) basis through November, rent growth in Minneapolis-St. Paul was flat, while the U.S. rate contracted by 0.1%. Year-over-year, rents rose 2.9%, well below the 7.0% national rate. Twin Cities remained among the least expensive larger metros in the country, with the average clocking in at \$1,469, lagging the \$1,719 U.S. figure.
- ▶ The gap between quality segments widened in the metro. While rents in working-class Renter-by-Necessity assets improved by 0.2% on a T3 basis to \$1,259, rates in Lifestyle properties contracted by 0.3% to an average of \$1,796.
- ▶ After more than 44,000 units were added to the metro's stock in the five years ending in 2022, the occupancy rate in stabilized assets took a downward path, hitting 95.6% in October. That was on par with the national rate, but 30 basis points below the October 2021 figure.
- ▶ In the 12 months ending in November, rent growth was strongest in suburban areas such as Sartell (10.5%) and St. Cloud-South (8.5%). In urban areas, rates grew fastest in West St. Paul (8.1%) and New Brighton (6.4%). Maple Grove (\$1,919) and St. Paul-West Seventh (\$1,906) were the only markets that posted average rents above the \$1,900 mark.
- ▶ Mirroring nationwide trends, rate growth in the Twin Cities single-family rental sector decelerated. The average grew by only 2.2% in the 12 months ending in November to \$1,929, while the U.S. rate improved by 5.9%, to \$2,091.

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

- At 1.7% as of October, the metro's unemployment rate was near all-time lows, preliminary BLS data shows. Minnesota lagged by 60 basis points, but the state still had among the lowest unemployment rates in the country. The metro's labor pool is shrinking; one reason for this is the accelerated pace of retirement among its aging population.
- Minneapolis-St. Paul added 76,700 jobs in the 12 months ending in September, a 3.2% year-over-year increase. Professional and business services led employment growth with 19,300 jobs, followed by education and health services with 14,900 positions. Several large projects that have been in the works for years are still spurring

economic and development activity across the metro. Near the Opus Station in Minnetonka—which is part of the \$2 billion light rail extension that is expected to begin service in 2027—multiple residential developments are in the works. A Linden Street Investments joint venture is building a 275-unit project in Opus Business Park, with Greystar reportedly considering a similar-size development in the area.

- In St. Paul, redevelopment work at the 122-acre former Ford site continues. M Health Fairview is set to occupy a new medical office building within the Highland Bridge development, which also calls for 3,800 units, commercial space and four new public parks.

Twin Cities Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	346	16.3%
65	Education and Health Services	372	17.5%
30	Manufacturing	224	10.6%
70	Leisure and Hospitality	181	8.5%
40	Trade, Transportation and Utilities	367	17.3%
80	Other Services	79	3.7%
15	Mining, Logging and Construction	105	4.9%
55	Financial Activities	163	7.7%
90	Government	253	11.9%
50	Information	34	1.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- In the decade ending in 2021, the metro's population grew by 8.3%, 260 basis points above the U.S. rate.
- The Minnesota Demographic Center expects the state's population to grow moderately by 2070, due to natural decrease and declining rates of international migration.

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

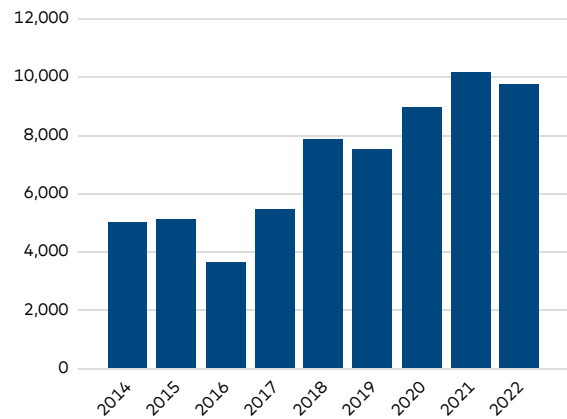
SUPPLY

- ▶ As of November, Minneapolis-St. Paul had 11,835 units under construction, with a fifth of them in fully affordable developments. An additional 62,500 units were in the planning and permitting stages.
- ▶ During the first 11 months of 2022, developers brought online 9,781 units, which accounted for 4.0% of existing stock, double the U.S. rate. In the previous year, 10,161 apartments were delivered, the first time on record that completions broke into five-figure territory.
- ▶ After some developers pulled out of the market when one of the strictest rent stabilization laws in the country passed in St. Paul in 2021, construction activity picked up in 2022, with developers breaking ground on 6,215 units across the metro, significantly above the 4,412 units they started work on in 2021 through November. The St. Paul City Council changed the rent control ordinance last fall. Starting this year, landlords who own rent-controlled apartments can raise rents by 8.0% plus inflation when a resident moves out.
- ▶ Urban core submarkets Minneapolis-University (1,006 units under construction) and Minneapolis-Central (935 units) are two of the

metro's most sought-after areas. In suburban Twin Cities, construction activity is most intense in Maple Grove (697 units underway).

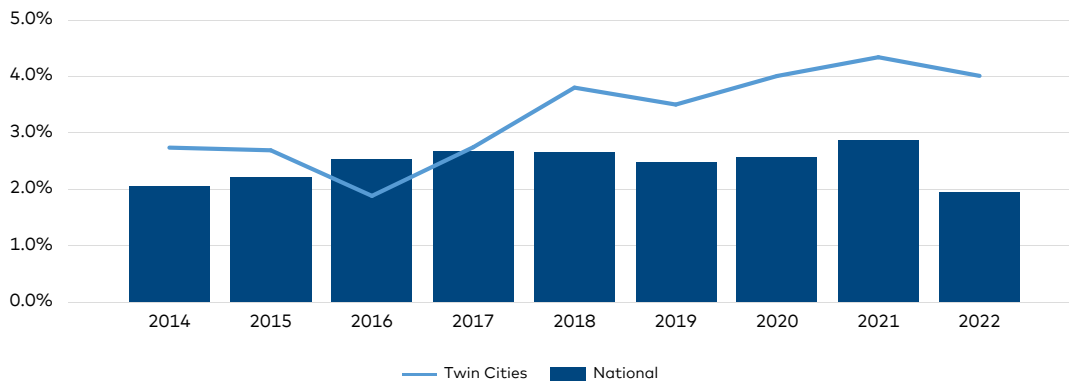
- ▶ As of November, the largest project underway was The Fred, a 408-unit development in Edina. Solhem Cos. began work on the project in May 2022, using a \$79.6 million construction loan from Associated Bank. Completion is scheduled for May 2025.

Twin Cities Completions (as of November 2022)



Source: Yardi Matrix

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

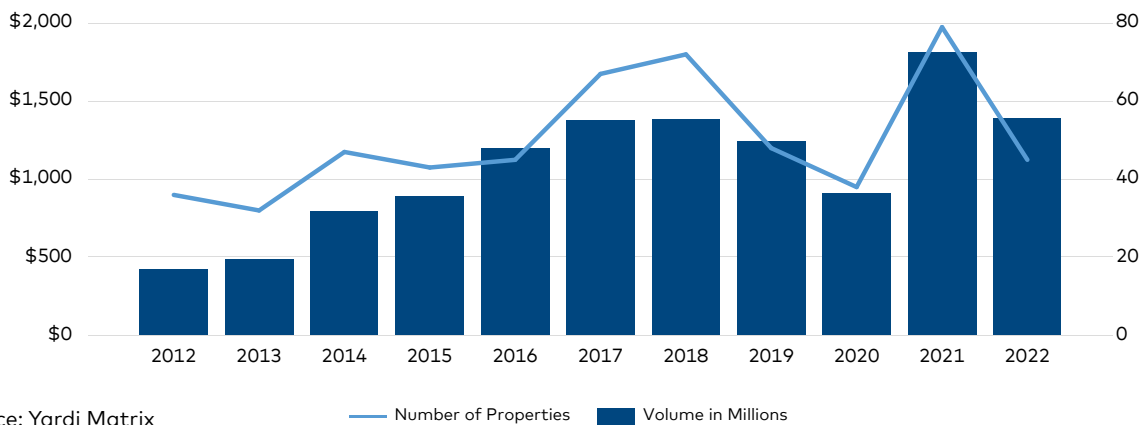


Source: Yardi Matrix

TRANSACTIONS

- ▶ Following the 2021 peak of \$1.8 billion, transaction volume in Minneapolis-St. Paul held steady last year. Some \$1.4 billion in multifamily assets changed hands in the first 11 months of 2022, with investor interest almost fairly split between quality segments.
- ▶ The per-unit price topped \$200,000 for the first time, clocking in at \$206,936, up 21.4% from 2021. Meanwhile, the U.S. average hit \$215,443, accounting for a 12.0% increase.
- ▶ Buyers were equally drawn by urban and suburban assets in the 12 months ending in November, with investment totaling \$1.8 billion for the time frame. The Connor Group and MLG Capital were among the most-active investors, each spending more than \$150 million across the metro. There were also two \$100 million-plus deals—Greystar’s \$126 million acquisition of the 456-unit Avana Minnetonka and Bader Development’s \$107 million purchase of the 534-unit Audenn in Bloomington-West.

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



Source: Yardi Matrix

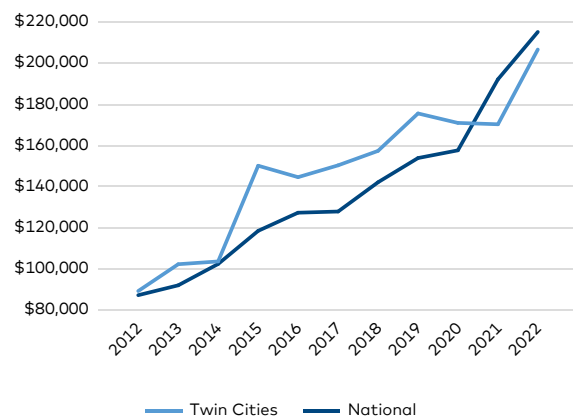
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Minneapolis-Central	235
Burnsville	166
Bloomington-West	139
Minnetonka	126
Plymouth	120
Eden Prairie	107
St. Louis Park	89

Source: Yardi Matrix

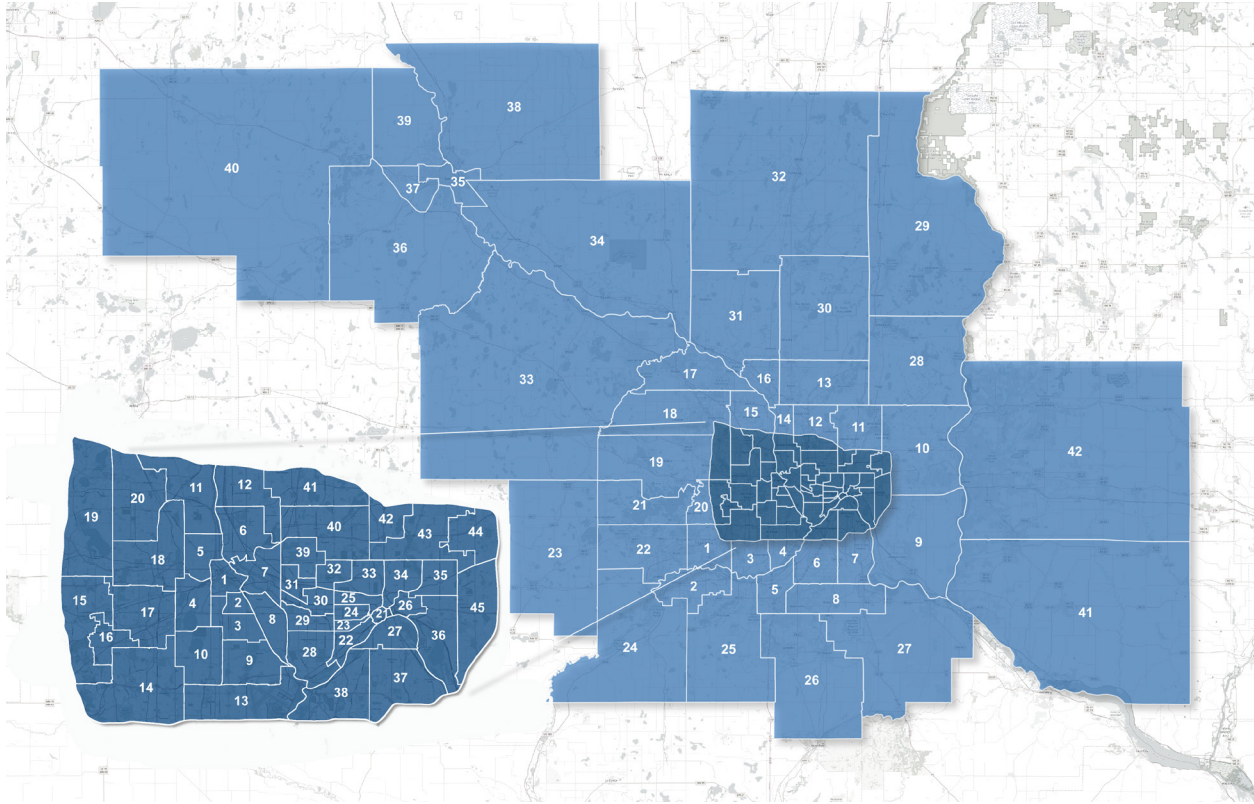
¹ From December 2021 to November 2022

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

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.

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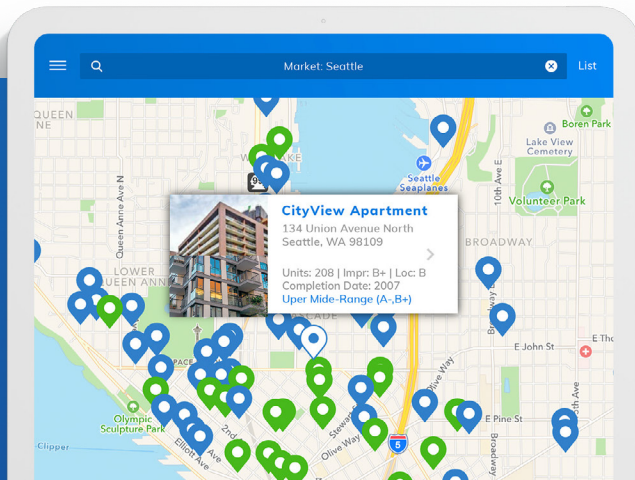
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with the industry's
leading data provider



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



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