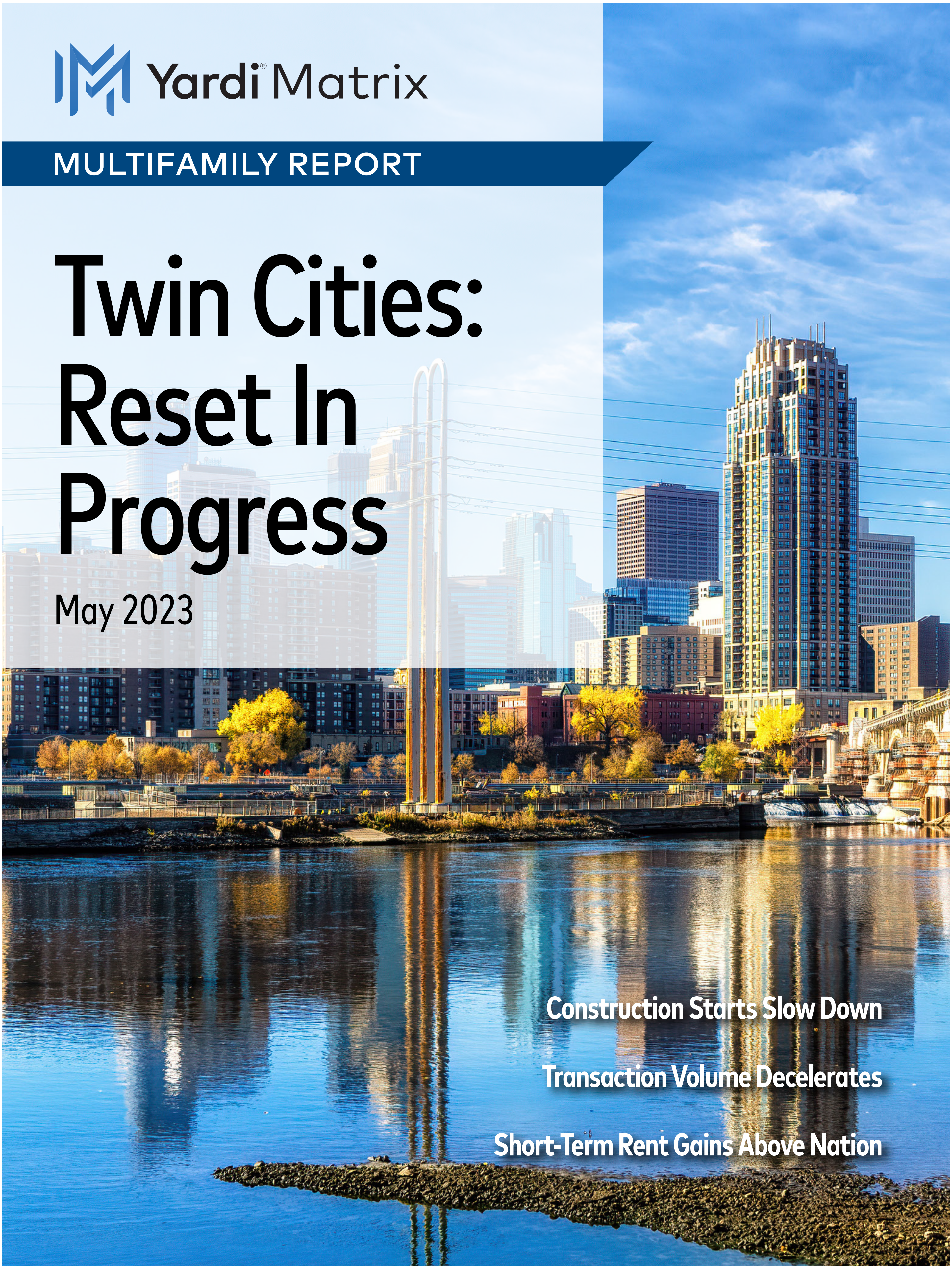
Yardi® Matrix

MULTIFAMILY REPORT

Twin Cities: Reset In Progress

May 2023



Construction Starts Slow Down

Transaction Volume Decelerates

Short-Term Rent Gains Above Nation

TWIN CITIES MULTIFAMILY

Yardi Matrix

A Return to Sustainable Growth

Twin Cities' record run during the past two years began to weaken at the beginning of 2023. Development slowed, transaction activity took a dive and occupancy slid more than a full percentage point in 12 months. However, this correction will likely spur a more sustainable pace of growth in the long term, especially when economic uncertainty subsides. While U.S. rent growth plateaued in the first quarter—clocking in at $1,706—Minneapolis-St. Paul rates improved by 0.2%, to $1,465.

The metro's job market remained on a positive track, with employment expanding by 3.5%, or 70,600 positions, in 2022. Two sectors—education and health services and leisure and hospitality—accounted for half of the job gains, while mining, logging and construction was the only sector to contract, losing 3,400 positions. As of February, the Twin Cities unemployment rate was 40 basis points below the 3.6% national figure. One of the largest investments announced in the metro was Xcel Energy's $575 million solar power plant in Becker, Minn., which will replace three coal-fired facilities that will be closed by 2030.

In the first quarter, developers brought online only 475 units, following two of the metro's best years for deliveries, when a combined 22,311 apartments were added to stock. The past two years also saw unprecedented investment, with sales surpassing $3.2 billion in 24 months.

Market Analysis | May 2023

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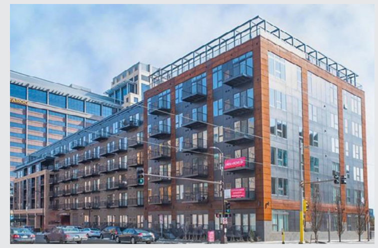
Recent Twin Cities Transactions
EDITION



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

Park Glen

City: St. Louis Park, Minn.
Buyer: EQT Exeter
Purchase Price: $54 MM
Price per Unit: $187,655

Dock Street Flats

City: Minneapolis
Buyer: The Connor Group
Purchase Price: $47 MM
Price per Unit: $254,054

ReNew West Bloomington

City: Bloomington, Minn.
Buyer: FPA Multifamily
Purchase Price: $33 MM
Price per Unit: $154,061

RENT TRENDS

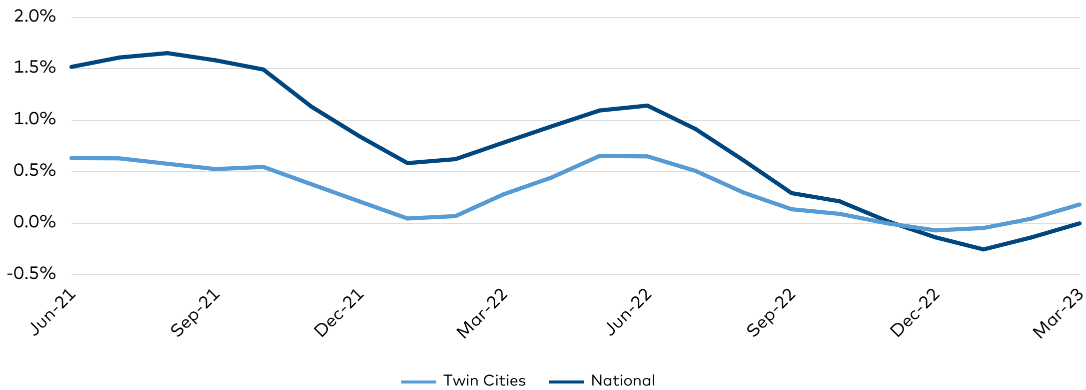
- Twin Cities rents rose 0.2% in the first quarter of the year, while the U.S. average plateaued, at $1,706. Year-over-year through March, rents in the metro advanced 2.7%, to $1,465, 130 basis points below the U.S. figure and the lowest rate of growth since July 2021. Although demand is expected to linger, moderating rent growth will likely endure, at least throughout the first half of the year, due to overall economic uncertainty. Yardi Matrix expects rates in Minneapolis-St. Paul to increase by 2.1% in 2023.

- In the first quarter, rent expansion was led by the working-class Renter-by-Necessity segment, which improved by 0.2%, to $1,256. Meanwhile, after two months of stagnation and four consecutive months of contractions, rates in Lifestyle properties grew by 0.1%, to $1,795.

- Suburban areas, such as Forest Lake and Hudson, were the most sought after in the 12 months ending in March. Rents in these submarkets increased by 11.4% and 10.2%, respectively. However, the most expensive area in the suburbs was Maple Grove, where figures clocked in at $1,852, for a 0.1% uptick. In urban Twin Cities, the Edina/Eden Prairie ($1,924) submarket posted the highest average rent.

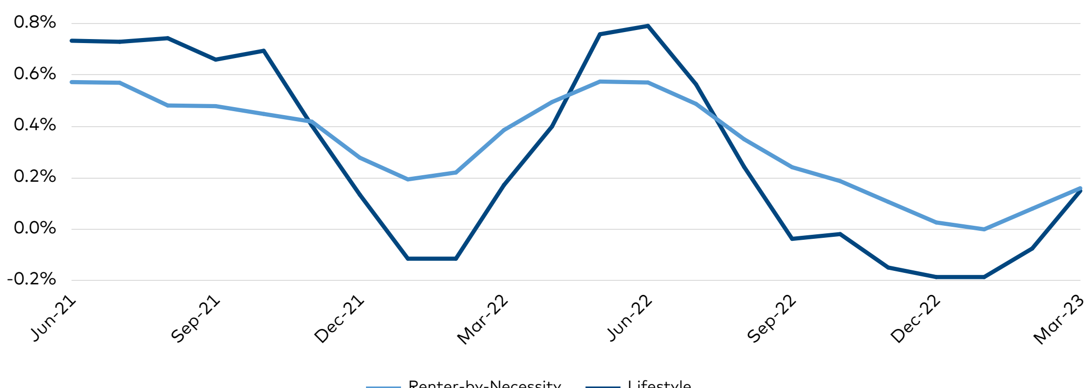
- In the single-family rental segment, the average rate improved by 3.1% year-over-year through March, a 360-basis-point decrease from the same month of the previous year. SFR rents in the metro averaged $1,966, only $113 below the national figure.

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

- Twin Cities unemployment stood at 3.2% in February, according to preliminary BLS data, marking an 80-basis-point year-over-year increase. However, the rate remained 40 basis points below the national figure.

- In 2022, employment expanded by 70,600 jobs, with education and health services, along with leisure and hospitality, accounting for more than half of new positions. Overall growth marked a 3.5% expansion, 20 basis points below the U.S. rate of growth. Mining, logging and construction was the only sector that contracted (-3,400 jobs).

- The Minnesota Department of Transportation is planning for a busy summer. Work is slated to begin on 171 road and bridge projects across the state, while airports, ports and railroad crossings are also set to undergo improvements. The agency intends to spend some $1.3 billion this year, while another $850 million from the federal Infrastructure Investment and Jobs Act will be invested in the metro's infrastructure over the next five years. Meanwhile, one of the largest Minneapolis public works projects is underway: A new $60 million tunnel is being built under Washington Avenue between Nicollet Mall and Chicago Avenue to increase the amount of stormwater the old central city tunnels can handle. In March, the project reached 88.0% completion.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	382	17.9%
70	Leisure and Hospitality	178	8.3%
30	Manufacturing	226	10.6%
60	Professional and Business Services	341	16.0%
40	Trade, Transportation and Utilities	384	18.0%
55	Financial Activities	165	7.7%
90	Government	257	12.0%
80	Other Services	78	3.7%
50	Information	34	1.6%
15	Mining, Logging and Construction	88	4.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Twin Cities' population grew by 8.3% in the decade ending in 2021, 260 basis points above the U.S. rate.

- The number of residents in Minneapolis' urban core rose by 1.2% in 2022—the narrowest growth rate of the past five years—according to the Minneapolis Downtown Council.

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

- Only two properties totaling 475 units came online in the first quarter of 2023, following the metro's strongest two years for deliveries, when a combined 22,311 units were delivered. Completions through March represented a 0.2% expansion of existing stock—10 basis points below the U.S. rate—and were all in Minneapolis. In St. Paul, construction initiatives continue to slow despite the City Council's overhaul last year of the strict rent control legislation enacted in 2021.

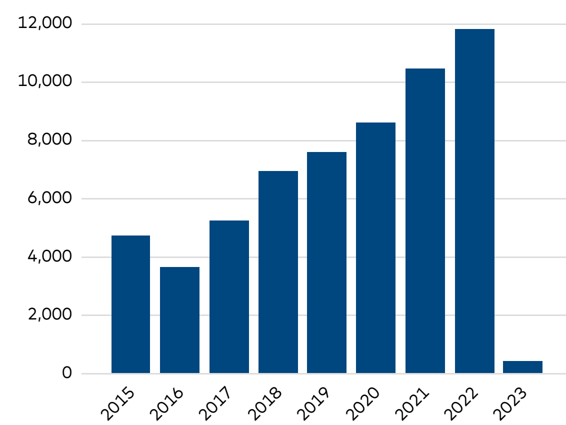
- Twin Cities had 10,481 units under construction as of March, almost equally split between the urban and suburban areas of the two cities. Another 64,500 apartments were in the planning and permitting stages, but some of them will likely be delayed or canceled due to market uncertainty. Construction starts have already softened significantly, with developers breaking ground on only 300 units in the first quarter of this year, down from 1,817 units in the same period of 2022.

- The occupancy rate in stabilized Twin Cities properties clocked in at 94.6% in February, marking a 120-basis-point year-over-year drop. Meanwhile, the U.S. rate stood at 95.1%.

- Development activity was concentrated in Minneapolis-Central, an urban core submarket where 1,330 units were underway, all in upscale projects. In suburban Twin Cities, the most sought-after areas were Buffalo (577 units under construction) and Maple Grove (573 units).

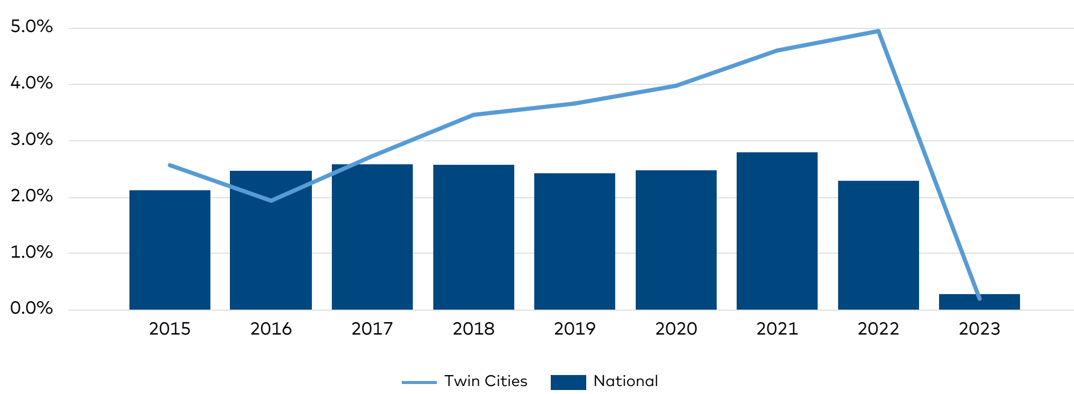
- As of March, the largest project underway was North Loop Green, a two-building, 450-unit development within a live-work-play Hines project that also includes retail and office.

Twin Cities Completions (as of March 2023)



Source: Yardi Matrix

Twin Cities vs. National Completions as a Percentage of Total Stock (as of March 2023)

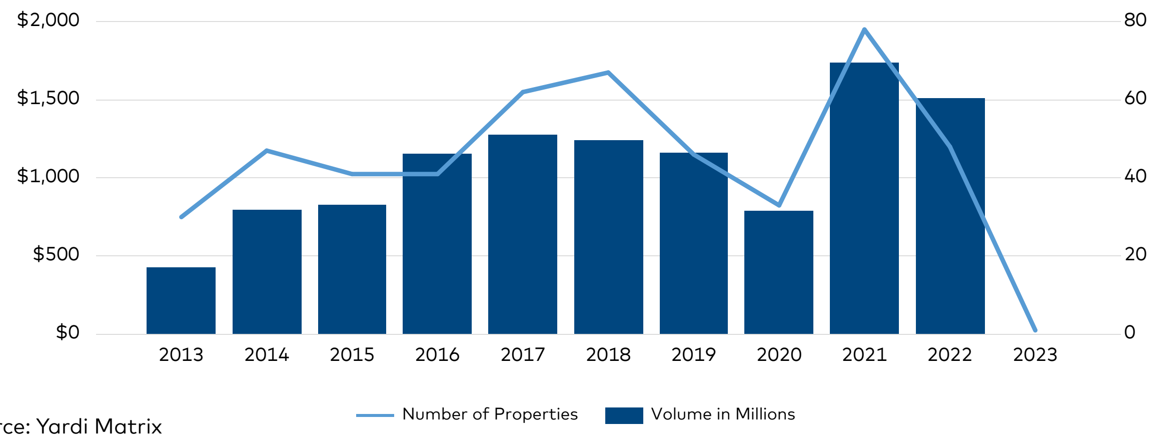


Source: Yardi Matrix

TRANSACTIONS

- Following two record years totaling $3.2 billion in transactions, sales plummeted in 2023. With financial institutions becoming even more cautious amid bank collapses and market volatility, many investors are still weighing the new climate and waiting on the sidelines for a more favorable environment.
- Last year, the average price per unit in the metro hit a peak of $200,740, for a 20.4% year-over-year increase. The U.S. average stood at $211,072.
- In the 12 months ending in March, four urban areas—Minnetonka, Plymouth, Minneapolis-Central and St. Louis Park—were the most coveted, accounting for roughly half of the $871 million total transaction volume. The Connor Group was among the most active investors, purchasing three communities totaling 761 units, for a combined $208.8 million. However, Greystar's $126 million acquisition of the 456-unit Avana Minnetonka marked the largest transaction.

Twin Cities Sales Volume and Number of Properties Sold (as of March 2023)



Source: Yardi Matrix

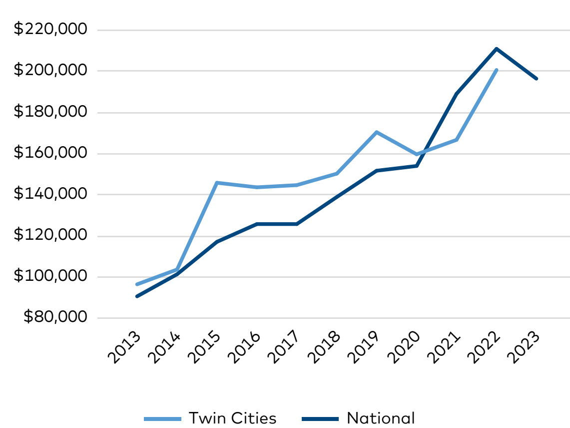
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minnetonka	126
Plymouth	120
Minneapolis-Central	109
St. Louis Park	105
Burnsville	77
Fridley	74
Maple Grove	70

Source: Yardi Matrix

[1] From April 2022 to March 2023

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

MULTI-HOUSING NEWS
data by Yardi Matrix

Top Markets for Multifamily Deliveries 2022

By Anca Gagiuc

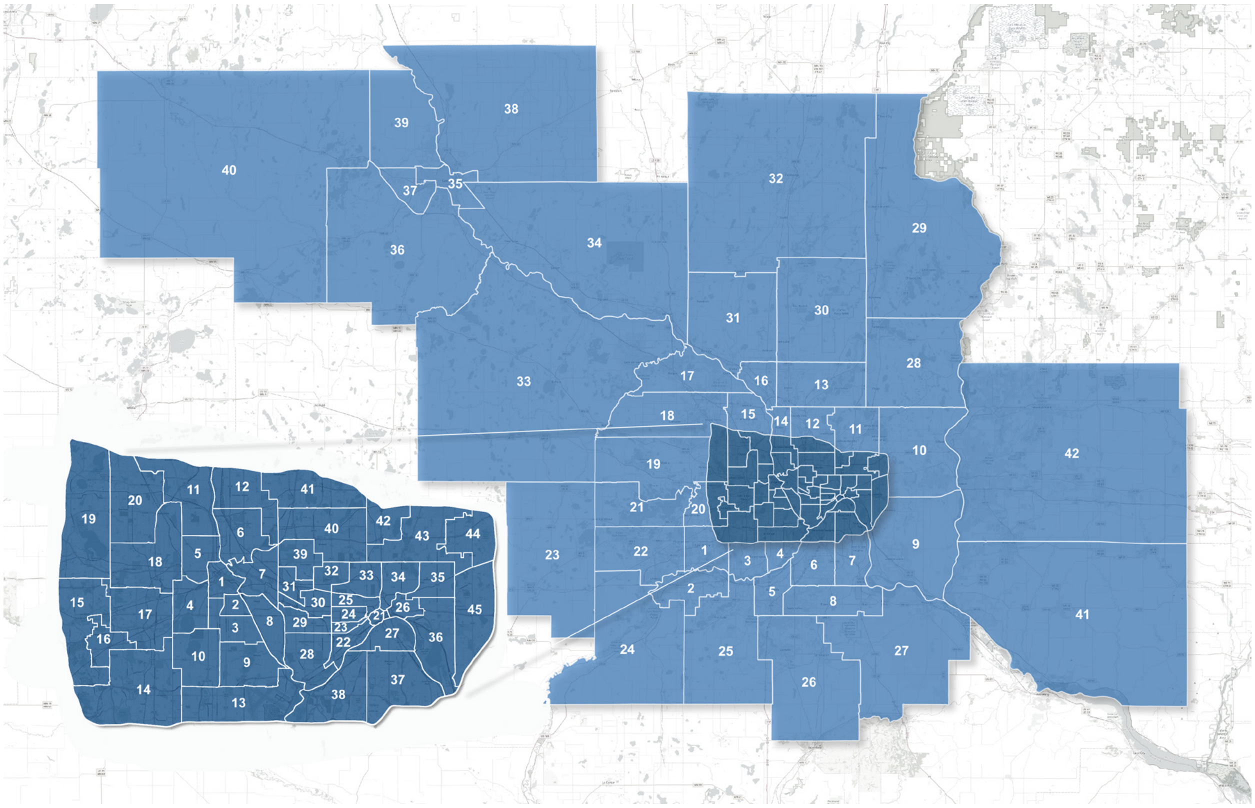
Rising inflation and interest rates softened the amount of multifamily stock in 2022. The record amount delivered in 2021—when 433,838 units were brought online—was always going to be tough to outdo, but few expected the drop-off to be as significant in 2022, which ended with 348,714 units delivered nationally, Yardi Matrix data shows.

Rank	Metro	Units Delivered 2022	Properties Delivered 2022	2022 Unit Deliveries as % of Inventory
1	Dallas	23,137	89	2.7%
2	Houston	18,450	71	2.6%
3	Austin	15,002	58	5.3%
4	Miami	13,325	56	3.9%
5	Seattle	13,301	58	4.6%
6	Washington, D.C.	12,357	48	2.1%
7	Phoenix	12,355	52	3.6%
8	Atlanta	11,808	56	2.3%
9	Denver	11,726	55	3.7%
10	Twin Cities	11,439	77	4.7%

Twin Cities

Developers added 11,439 units to Twin Cities' multifamily inventory in 2022—the equivalent of 4.7 percent of the existing stock—which places it second in the country, behind Austin. Similar to Phoenix and Seattle, the metro's delivery volume increased gradually from 2020 onward: in 2020, 8,976 units came online, and in 2021, 10,404 units. However, the number of construction starts dropped to 6,829 units in 40 properties last year, from 10,378 units in 71 properties in 2021.

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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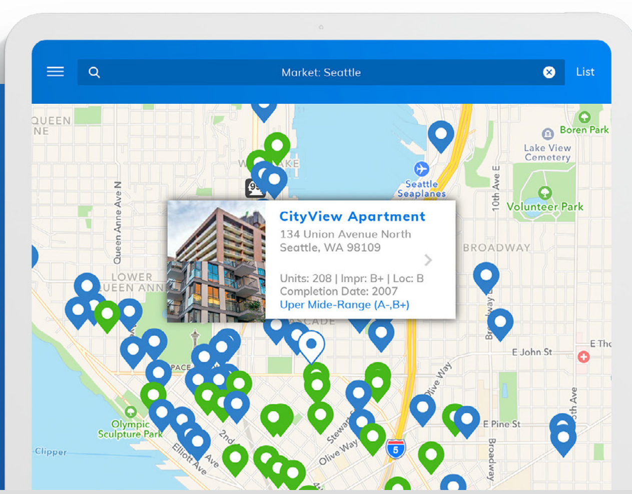
MULTIFAMILY KEY FEATURES

- 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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