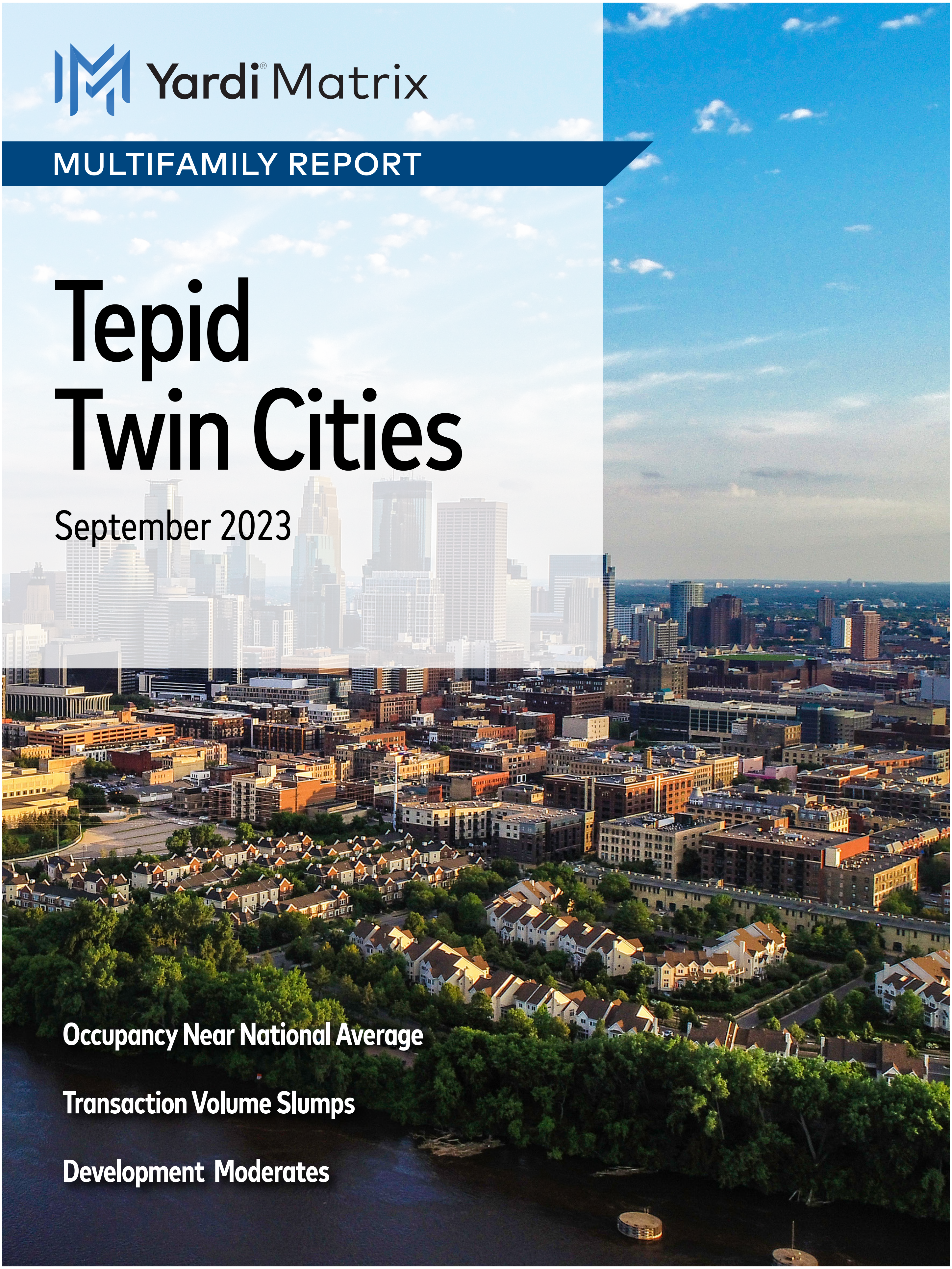
Yardi Matrix

MULTIFAMILY REPORT

Tepid Twin Cities

September 2023



Occupancy Near National Average

Transaction Volume Slumps

Development Moderates

TWIN CITIES MULTIFAMILY

Yardi Matrix

Market Not Immune To National Trends

Market fundamentals were modest in the Minneapolis-St. Paul market, with rents up 0.2% on a trailing three-month basis through July, to $1,483. The figure remained below the national average of $1,729, which advanced 0.3%. Year-over-year, rent growth in Twin Cities hit 1.7%, just above the U.S. figure, which clocked in at 1.6%.

Twin Cities employment growth (1.8%) trailed the national average (2.8%) as of May. Despite only two sectors recording losses, the rate was 100 basis points below the U.S. figure. Sectors recording significant gains included leisure and hospitality (17,700 jobs, up 9.6%), education and health services (12.900 jobs, up 3.5%) and government (7,200 jobs, up 2.8%). Meanwhile, the metro's 3.3% unemployment rate as of June was below the already low national figure, which sat at 3.6%.

Transactions slumped after two years of record volumes. In the first seven months of 2023, investors mainly targeted Renter-by-Necessity properties, with the total year-to-date through July at just $186.9 million. Developers brought 1,494 units online, with an additional 16,679 units underway as of July. Yardi Matrix expects 6,841 units to come online during 2023, marking a clear change of pace from the previous two years, when nearly 23,000 units came online in 24 months.

Market Analysis | September 2023

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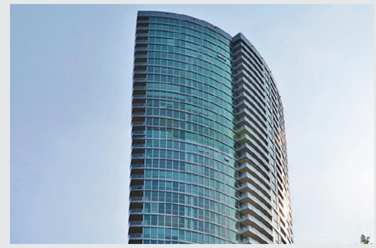
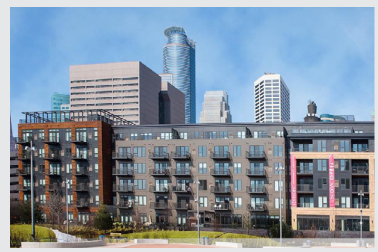
Recent Twin Cities Transactions

LPM



City: Minneapolis
Buyer: Weidner Investment Services
Purchase Price: $74 MM
Price per Unit: $209,040

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

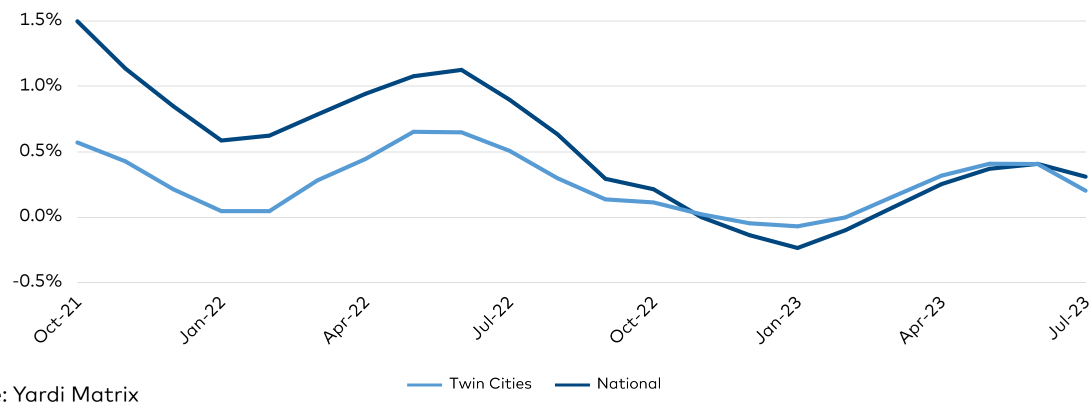
ReNew West Bloomington

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

RENT TRENDS

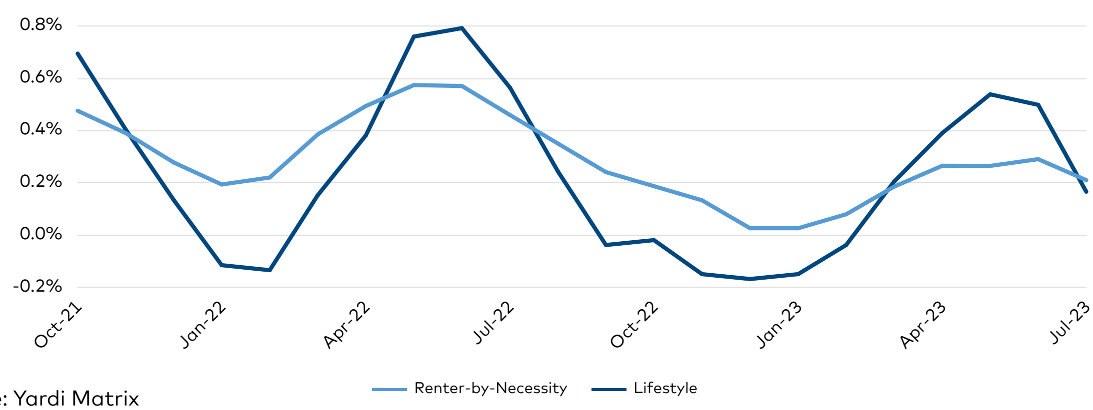
- Minneapolis-St. Paul rates were up 0.2% on a trailing three-month (T3) basis through July, 10 basis points behind the national average. Year-over-year, the picture remains comparable. The national figure rose 1.6%, to $1,729, while Twin Cities rents increased 1.7%, to $1,483.
- Rents in both quality segments increased 0.2% on a T3 basis. Rates in working-class Renter-by-Necessity properties grew to $1,269, while for Lifestyle assets the average reached $1,815. Throughout 2023, the Lifestyle segment performed better, improving by 0.5% on a T3 basis in both May and June. Meanwhile, RBN rent growth peaked, at 0.3%.
- As of June, the national occupancy rate reached 95.0%, falling 80 basis points in 12 months. The rate in stabilized assets was slightly lower in Minneapolis-St. Paul, at 94.7%, after decreasing 110 basis points in one year. Looking at quality segments, RBN outperformed Lifestyle properties. RBN occupancy was 95.1%, while Lifestyle occupancy slid to 94.2%.
- In the 12 months ending in July, rent growth was strongest in the urban submarket of St. Paul-St. Anthony, where rates increased 14.3%, to $1,592. Suburban areas followed, including Minnetonka (9.8% to $1,911) and Buffalo (7.8% to $1,395). Minnetonka was also the most expensive suburban area as of July. However, the highest-priced area overall was Edina/Eden Prairie, where rents averaged $1,948.

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

- As of June, Minneapolis-St. Paul unemployment clocked in at 3.3%, according to preliminary BLS data. While the figure increased 60 basis points in two months, it still outperformed the national average, which stood at 3.6% in June.
- Twin Cities added 41,800 jobs in the 12 months ending in May. At 1.8%, the employment growth rate was 100 basis points below the national average. Leisure and hospitality led the list with 17,700 jobs added, while financial activities and construction lost 6,000 positions combined.
- After half a decade of planning, The Saint Paul Port Authority and the City of Saint Paul kicked off construction on the $550 million redevelopment project known as The Heights. Site remediation and demolition work are the first steps of reimagining the former Hillcrest Golf Course, which closed in 2017. The residential portion of the project is set to include more than 1,000 units. Sherman Associates will serve as lead housing developer and will partner with JO Cos. and Twin Cities Habitat for Humanity. The project will include 20 acres of green space along with a light industrial component. The anchor tenant for the latter, Xcel Energy, expects to break ground on the service center within The Heights in the spring of 2024. Developers expect to complete the 112-acre master-planned project by 2030.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	203	9.7%
65	Education and Health Services	377	17.9%
90	Government	265	12.6%
40	Trade, Transportation and Utilities	366	17.4%
30	Manufacturing	220	10.5%
80	Other Services	77	3.7%
60	Professional and Business Services	317	15.1%
50	Information	31	1.5%
15	Mining, Logging and Construction	97	4.6%
55	Financial Activities	151	7.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Twin Cities' population grew 8.3% during the decade ending in 2021.
- According to the Minnesota State Demographic Center, Minneapolis remained the most populous city in the state with 434,346 residents, followed by St. Paul (312,040) and Rochester (122,065).

Twin Cities vs. National Population

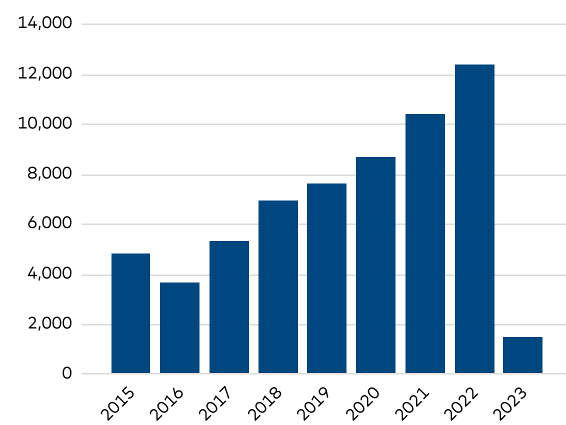
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Twin Cities	3,626,672	3,654,760	3,707,223	3,705,429

Source: U.S. Census

SUPPLY

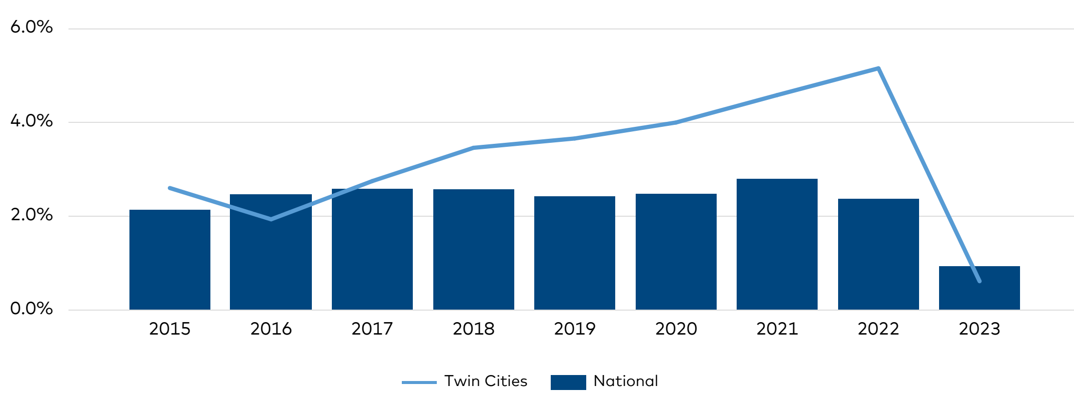
- In the first seven months of 2023, developers completed 1,494 units across Twin Cities. Completions amounted to 0.6% of existing stock, 30 basis points below the national rate. Yardi Matrix expects 6,841 apartments to come online in 2023, just roughly half of the 12,364-unit decade high of 2022.
- As of July, Minneapolis-St. Paul had 16,679 units under construction. Fully affordable projects accounted for nearly 17%, while 22% of projects underway had an affordable component. The pipeline also included some 58,000 units in the planning and permitting stages.
- Two urban core submarkets led the way in multifamily development, with more than 1,000 units underway each. Minneapolis-Central had 2,221 units under construction and St. Louis Park had 1,424. In suburban Twin Cities, the most in-demand area was Woodbury/Cottage Grove, with 704 units under construction.
- Minneapolis-Central was also home to the second-largest property delivered in the first seven months of 2023. Sherman Associates completed the 222-unit Moment in January. The developer financed the construction with a $47.5 million loan funded by Huntington National Bank.
- The largest project underway as of July was the 469-unit The Hallon in Hopkins. Trilogy Real Estate Group kicked off the multiphase property in May 2022. First National Bank of Omaha and Bank OZK provided a combined $92 million financing package for the first two phases, while an expected third phase would add an additional 301 units.

Twin Cities Completions (as of July 2023)



Source: Yardi Matrix

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

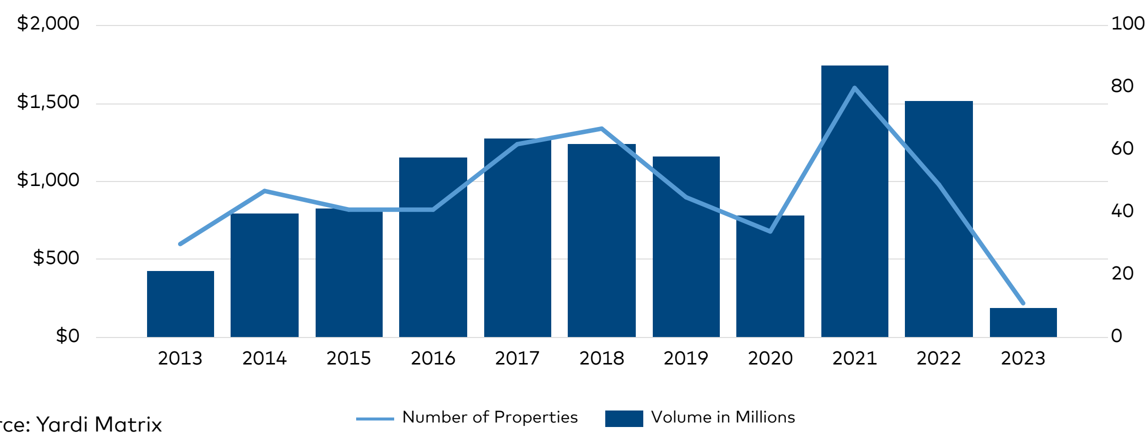


Source: Yardi Matrix

TRANSACTIONS

- As of July, transaction volume in Minneapolis-St. Paul amounted to $187 million, falling 82.7% year-over-year. Investors preferred RBN properties, as only one Lifestyle asset changed hands.
- Twin Cities per-unit prices were well below the national average of $184,996. The figure settled at $115,096, down 41.7% year-over-year. A year ago, the preponderance for Lifestyle properties boosted the average to $197,267.
- In the 12 months ending in July, transaction volume totaled $623 million. Core urban submarkets, Minneapolis-Central and St. Louis Park, led the way with a combined $281 million. Weidner Investment Services picked up two properties totaling 549 units in the Minneapolis-Central submarket for a total of $129 million. Nonetheless, a suburban area was the home of the largest transaction. The Connor Group acquired the 275-unit NEON Burnsville in the Burnsville submarket for $76.5 million.

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



Source: Yardi Matrix

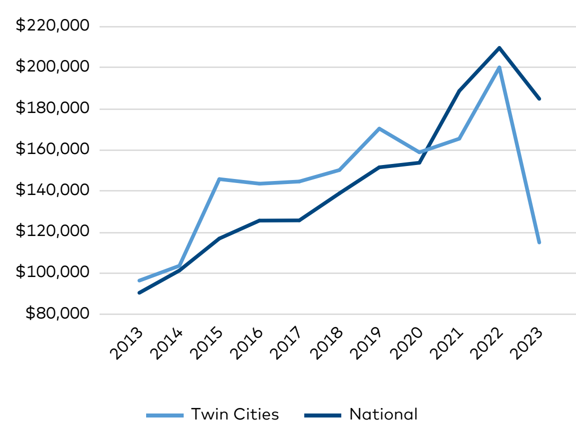
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis-Central	$176
St. Louis Park	$105
Burnsville	$77
Waite Park	$52
Plymouth	$35
Bloomington-West	$33
Anoka	$27

Source: Yardi Matrix

[1] From August 2022 to July 2023

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

Meeting Affordable Housing's Challenges: Twin Cities Spotlight

By Diana Firtea

The strict rent control policy enacted in St. Paul, coupled with the eviction moratorium and the overall economic volatility, have all made it harder for Twin Cities multifamily operators to manage their properties, particularly for those active in the affordable housing arena. Laura Russ, chief real estate officer with Aeon—a nonprofit developer that owns and manages 6,000 affordable units in the Minneapolis-St. Paul area—expands on what operators face today.

What do you think Twin Cities lacks when it comes to easing the affordable housing crisis?

Although new development is obviously important, poor operations result in poorly created policies that then contribute to making housing harder and more expensive to run. For example, security issues are a big topic at many of our properties right now. Essentially this adds a 'tax' onto our properties because of the increased spending required.

Expand on the problems that Twin Cities affordable housing developers deal with today.

Finding balance in the region so that affordable housing is not overly concentrated but provided in sufficient demand across the region to meet workforce needs, and also finding renters that can be successful in our housing, are the most difficult issues right now.

What do you think is the best approach to meeting the high affordable housing demand?

There are several strange phenomena happening in the market right now. One is a high number of vacancies in affordable units. There are many reasons for this and some have to do with the mismatch between the barriers to housing and the market supply.

In general, creating the conditions for new housing supply is the most important and costless policy change policymakers can make. These include changes such as reducing zoning and regulatory barriers and not adding new operational constraints through poorly constructed policies.

An amended version of St. Paul's rent control policy went into effect at the beginning of this year. What does this mean for landlords?

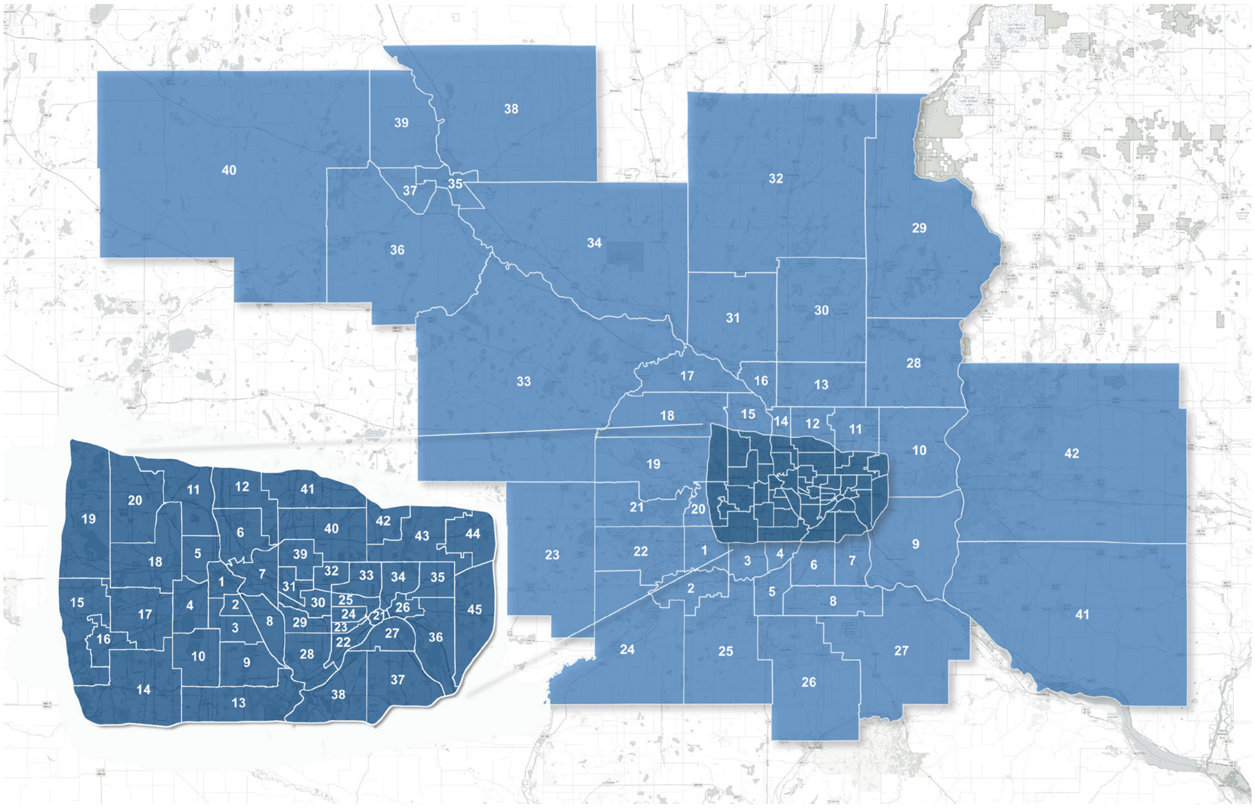
These types of policies have a lot of unintended impacts. The main one is that it is taking a lot of time and money for lawyers and accountants to understand and interpret the rules that are not well understood often even by the cities themselves. This takes away from what we would rather be doing which is producing and running housing.

Demand for affordable housing units usually increases when economic threats arise. What are your expectations going forward?

Many neighborhoods and the downtown areas of Minneapolis and St. Paul are distressed right now, and I'm concerned about an overconcentration of low-income housing. It's important that areas retain economic diversity and that lower-income residents have mobility and options to live in higher opportunity neighborhoods.

Read the full interview at www.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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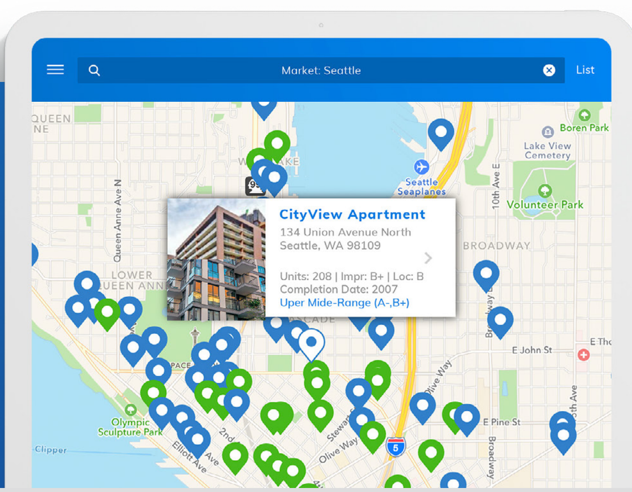
- Access aggregated and anonymized residential revenue and expense comps



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