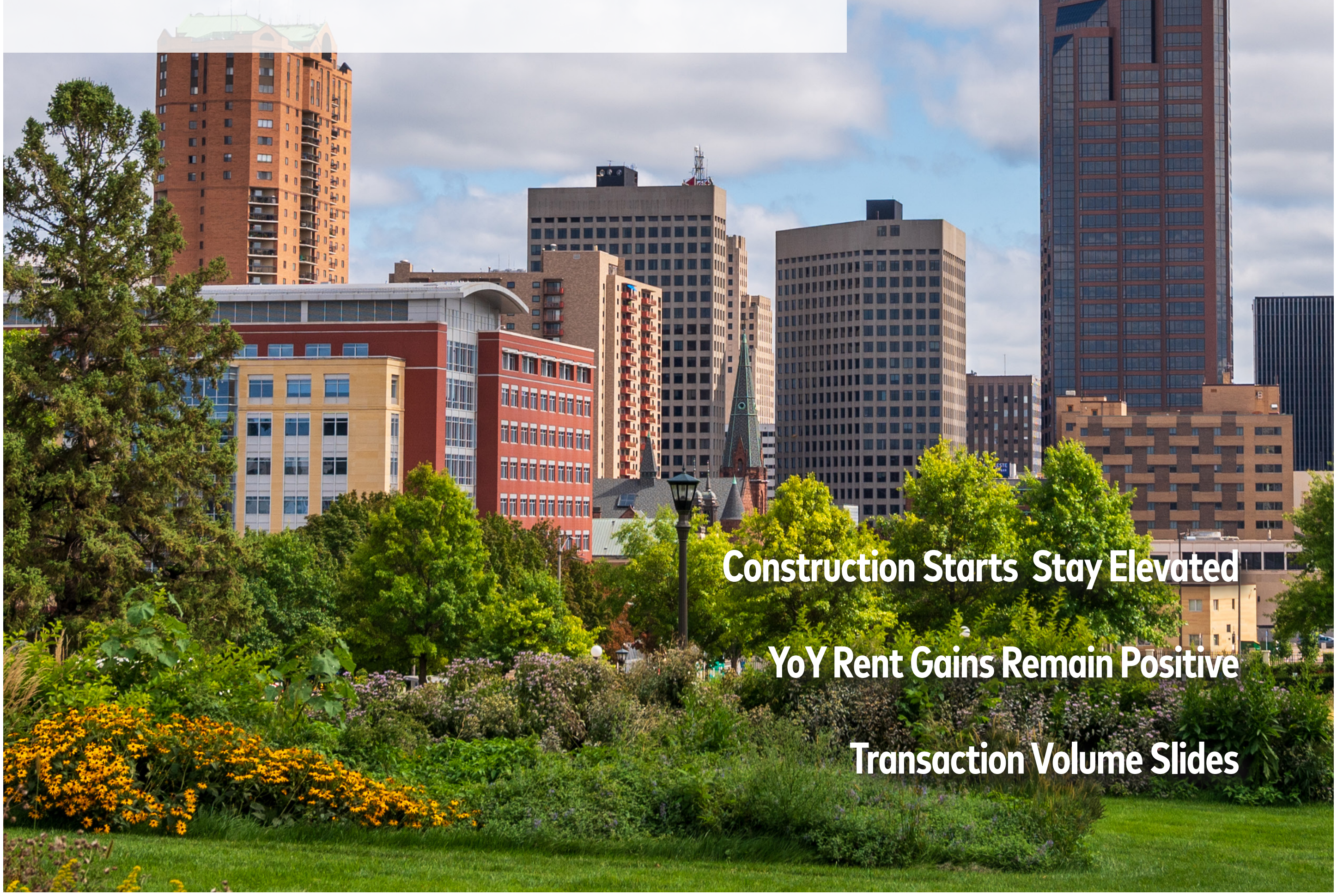
Yardi Matrix

MULTIFAMILY REPORT

Twin Cities Hang On Tight

January 2024



Construction Starts Stay Elevated

YoY Rent Gains Remain Positive

Transaction Volume Slides

TWIN CITIES MULTIFAMILY

Yardi Matrix

Performance Stays Moderate Metrowide

The Minneapolis-St. Paul market showed moderate results toward the end of 2023, with rents down 0.3% on a trailing three-month basis, to $1,473. That was similar to the slide in the national average, which was down 0.2% to $1,713 as of November. Both were affected by seasonal trends. In a rare feat for this year, the average overall occupancy rate in stabilized properties was flat over 12 months in the Twin Cities, at 95.1% in October.

The metro added 32,800 net jobs in the 12 months ending in September 2023, up 1.8%, 60 basis points below the national rate. The unemployment rate clocked in at a very tight 2.9% as of October, 100 basis points lower than the U.S. figure, according to preliminary data from the Bureau of Labor Statistics. A survey conducted by the Minneapolis branch of the Federal Reserve found that high interest rates had a less significant impact on the infrastructure and industrial sectors than on the residential market.

Developers had 18,416 units under construction as of November 2023. Of the apartments underway, more than 8,000 units broke ground in 2023 through November, keeping the pipeline's pace close to figures recorded in 2022. Investment, on the other hand, saw a major slowdown, with only $631 million in multifamily transactions in the first 11 months of the year. That fell significantly short of the $1.5 billion recorded during the same time frame of 2022.

Market Analysis | January 2024

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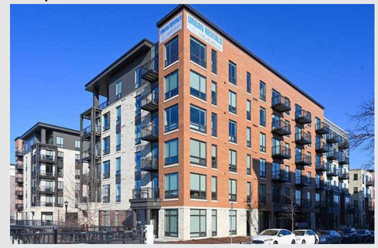
Recent Twin Cities Transactions

Inspire



City: Minneapolis
Buyer: Weidner Investment Services
Purchase Price: $113 MM
Price per Unit: $191,875

Arrive Minnetonka

City: Minnetonka, Minn.
Buyer: FPA Multifamily
Purchase Price: $89 MM
Price per Unit: $204,598

The Portage

City: Minneapolis
Buyer: Classic City Apartments
Purchase Price: $7 MM
Price per Unit: $116,129

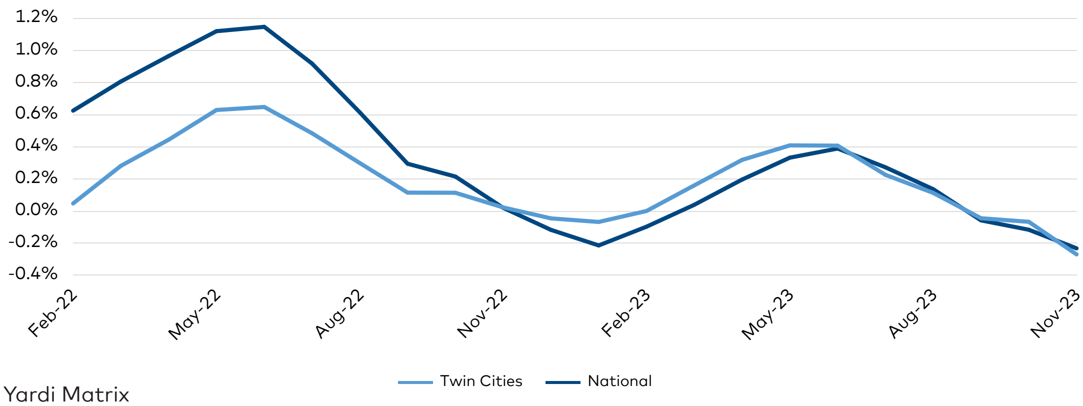
Phalen Shores

City: St. Paul. Minn.
Buyer: Global Health Link
Purchase Price: $5 MM
Price per Unit: $94,528

RENT TRENDS

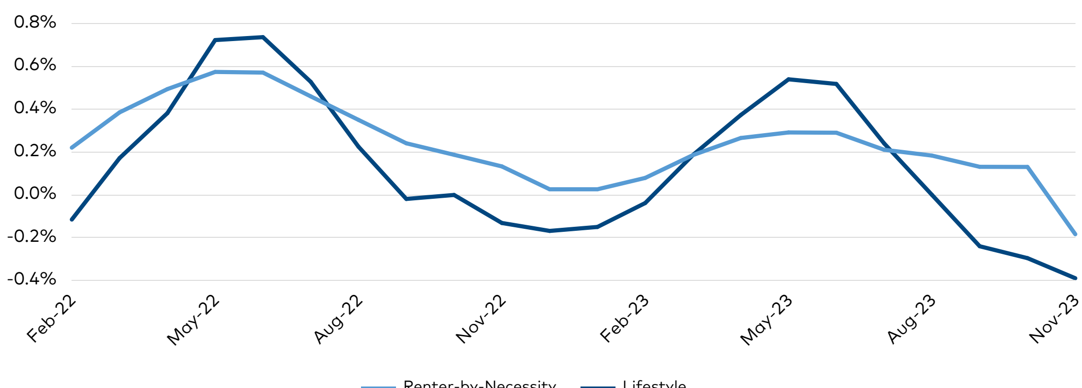
- The average asking rent in Minneapolis-St. Paul was down 0.3% on a trailing three-month (T3) basis through November, to $1,473, while the U.S. rate contracted 0.2% during the same time frame. Twin Cities rent movement last year was best going into the summer, when it reached 0.4% in May and June on a T3 basis, only to slowly revert to the current pace. Year-over-year, rents in the metro were up 0.8% through November, double the 0.4% U.S. average. That is in line with other Midwestern metros that outperformed in 2023.
- Performance based on quality segment showed some nuance. Working-class Renter-by-Necessity rates were down 0.2% on a T3 basis, to $1,265. Lifestyle rents registered a more significant decline, down 0.4% to $1,789.
- The metro's average overall occupancy rate in stabilized properties stood at 95.1% in October 2023, the same as 12 months prior. This became quite the performance: While few U.S. metros recorded dramatic drops, a lot fewer registered occupancy stagnation or improvement in 2023.
- Growth was uneven in the 12 months ending in November. Out of the 87 submarkets tracked by Yardi Matrix, only three had year-over-year growth in the double digits, while 24 recorded contractions.
- Several suburbs continued to outperform. Of the top 10 submarkets for rent growth, nine of them were suburban. The exception was St. Paul–St. Anthony, where rents were up 7.4%, to $1,528.

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

- Employment in Minneapolis–St. Paul grew 1.8% as of September, 60 basis points slower than the national pace. The metro added 32,800 net jobs in the 12 months ending in September. This also accounted for 15,600 positions that were lost across three sectors: professional and business services, financial activities and information.
- Meanwhile, the leisure and hospitality sector registered the largest growth rate, a 7.9% increase, with 14.700 positions added. Education and health services led when it came to absolute numbers, growing by 16,800 positions. Government (9,300 jobs) and trade, transportation and utilities (4,400) also recorded healthy gains.
- The metro's unemployment rate stood at a tight 2.9% as of October 2023, where it was last January but now 100 basis points lower than the U.S. figure, according to the Bureau of Labor Statistics. Minneapolis–St. Paul reached its 12-month unemployment peak in June, at a very healthy 3.3%.
- A survey by the Minneapolis branch of the Federal Reserve came to the conclusion that high interest rates had a less significant impact on the infrastructure and industrial sectors than on the residential market. This kept the employment market fairly healthy, even as some sectors, mainly those using offices, were contracting.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	383	18.3%
70	Leisure and Hospitality	201	9.6%
90	Government	263	12.6%
40	Trade, Transportation and Utilities	362	17.3%
30	Manufacturing	220	10.5%
80	Other Services	76	3.6%
15	Mining, Logging and Construction	103	4.9%
50	Information	30	1.4%
55	Financial Activities	149	7.1%
60	Professional and Business Services	305	14.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Minneapolis-St. Paul lost a marginal 1,794 residents in 2021, while the national growth rate was 0.1%.
- Long term, however, the metro shows promising demographic trends, having added 350,000 people since 2010, for a 10.4% expansion.

Twin Cities vs. National Population

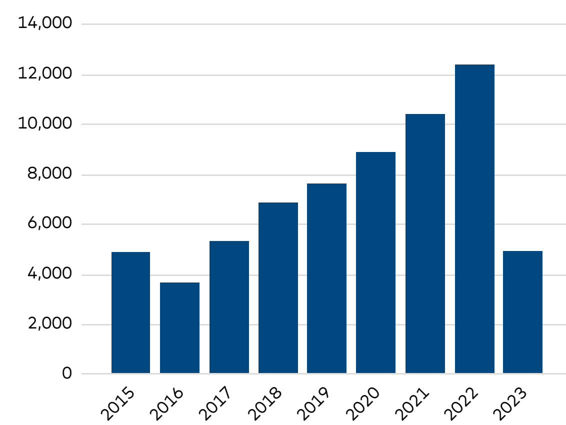
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Twin Cities	3,626,672	3,654,760	3,707,223	3,705,429

Source: U.S. Census

SUPPLY

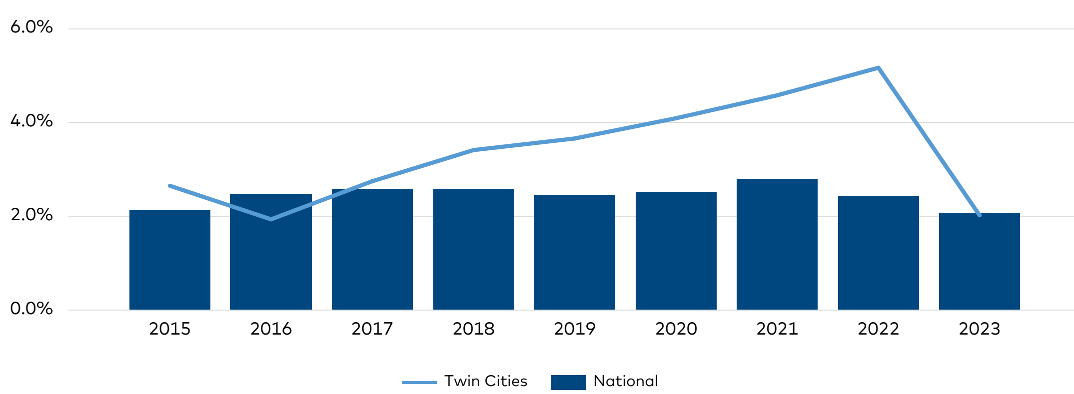
- Minneapolis-St. Paul had 18,416 units under construction as of November, with an additional 53,000 apartments in the planning and permitting stages. New development remained fairly steady, with 8,276 units breaking ground in the first 11 months of 2023, close to the 8,697 units recorded during the same time in 2022.
- Developers brought online 4,954 units in 2023 through November. The deliveries accounted for 2.0% of stock, 10 basis points lower than the 2.1% national rate. The total marked a significant decrease from the 11,721 apartments delivered during the same period of 2022, the year the metro reached its decade high after six straight years of pipeline growth.
- Urban submarkets continued to lead the pipeline in Minneapolis–St. Paul, with three submarkets each having more than 1,000 units underway. St. Louis Park had the most with 1,327 units, followed by Minneapolis–Central (1,121 units) and Minneapolis–Near North (1,102). On the suburban side, Shakopee led with 1,000 apartments under construction, followed by Bloomington–East (987) and Buffalo (551).
- The metro's largest development as of November 2023 was in the Hopkins submarket. Trilogy Real Estate Group is building The Hallon, a 469-unit property. The two-building urban project, slated for completion in late 2024, is subject to two construction loans, from First National Bank of Omaha and Bank OZK, totaling $92.4 million. The developer already has a second phase of the community in the prospective stage.

Twin Cities Completions (as of November 2023)



Source: Yardi Matrix

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

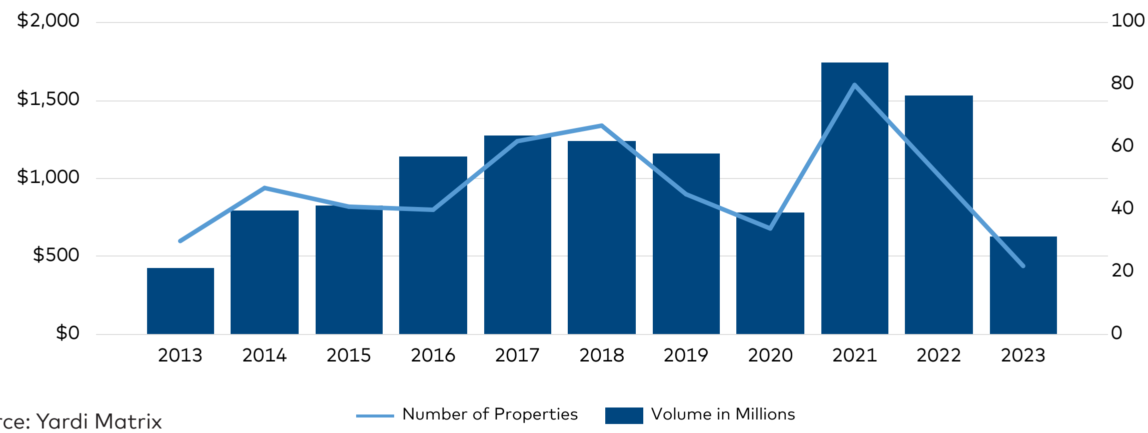


Source: Yardi Matrix

TRANSACTIONS

- Multifamily investment in the Twin Cities totaled $631.3 million across 22 transactions in 2023 through November. The number is significantly lower than the previous two years, with assets worth $1.5 billion changing hands in 2022 and an all-time high for at least the last decade registered in 2021 ($1.7 billion).
- The average price per unit in Minneapolis–St. Paul was $156,736 in the first 11 months of 2023, behind the $186,300 U.S. figure. The metro maintained the per-unit average above the $100,000 threshold it has held since 2014, reaching a high of $198,595 in 2022.
- Only two submarkets surpassed the $100 million mark for transactions during the 12 months ending in November 2023. Minneapolis–Central registered $143.8 million in properties changing hands, followed by Minneapolis–Calhoun Isle with $127.3 million.

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



Source: Yardi Matrix

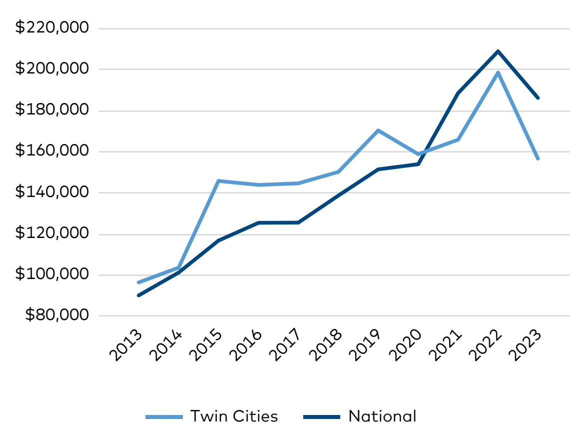
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis – Central	144
Minneapolis – Calhoun Isle	127
Minnetonka	89
Edina/Eden Prairie	71
Brooklyn Park	63
St. Louis Park	54
Waite Park	52

Source: Yardi Matrix

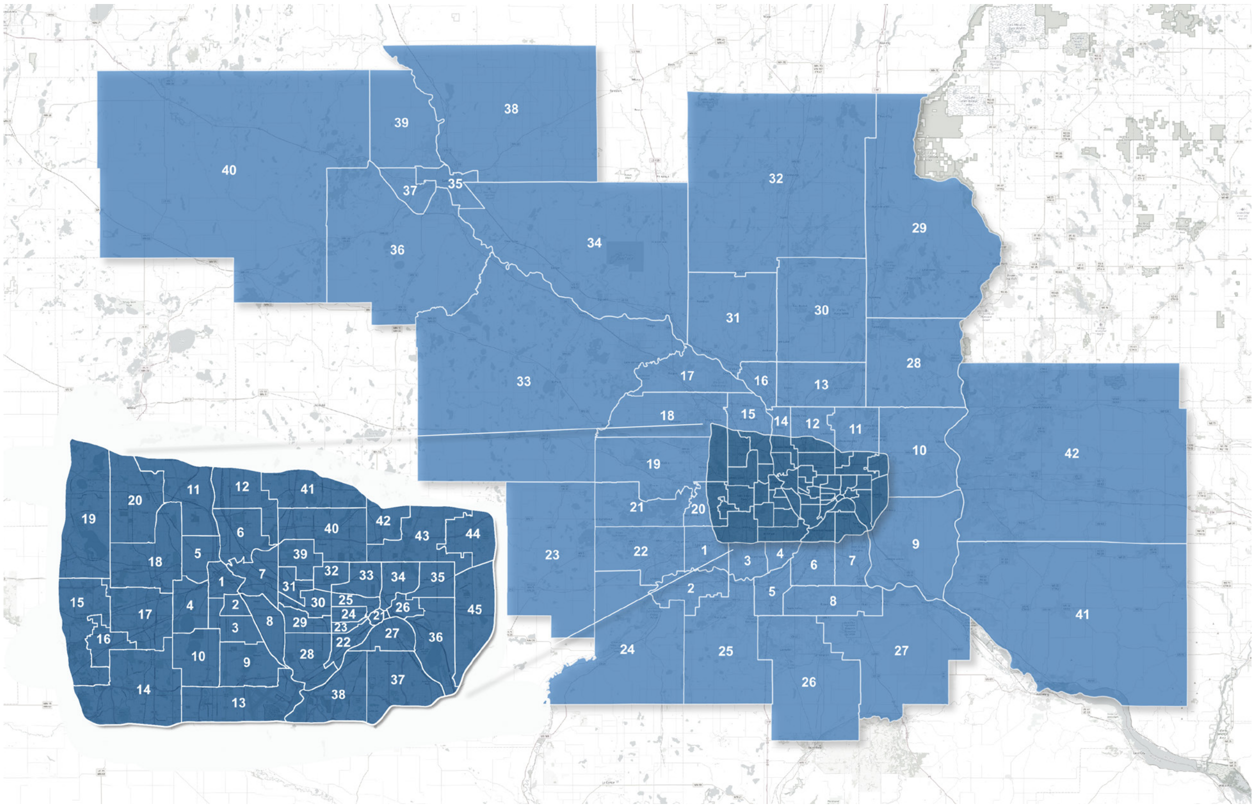
[1] From December 2022 to November 2023

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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Yardi Matrix

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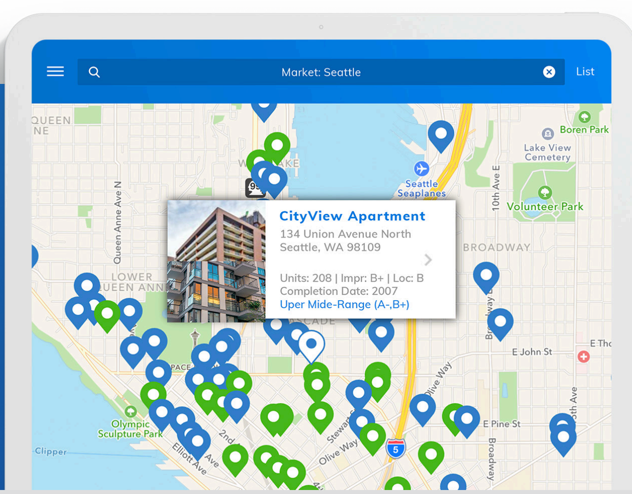
- Access aggregated and anonymized residential revenue and expense comps



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

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