Yardi® Matrix

# Twin Cities' Fast Pace

## Multifamily Report Fall 2018

Rent Growth Outperforms US Average

Leisure, Hospitality Services Lead Job Gains

Surging Home Prices Boost Rental Demand

## Market Analysis

Fall 2018

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# Occupancy Rates Remain Sky-High

Underpinned by strong population growth and solid demand, the Twin Cities multifamily market remains healthy. Rent growth continues to outperform the national average, clocking in at 3.6% year-over-year as of August, 50 basis points above the U.S. figure.

Fueled by the hosting of the Super Bowl, the metro's leisure and hospitality sector led job gains, adding 9,500 positions in the 12 months ending in June. Additionally, of the total 42,400 jobs gained, more than one-third were in the manufacturing and trade, transportation and utilities sectors. The latter is likely to get a noteworthy boost from the planned $2 billion Light Rail Transit project. Construction is also creating new jobs, with several large projects in the works, including the $200 million Major League Soccer stadium and the $500 million Minnesota Vikings project.

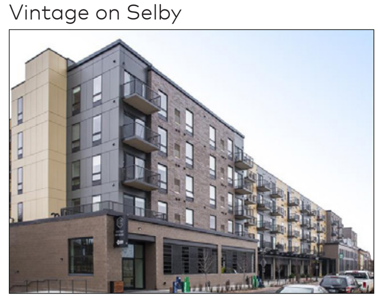
Roughly 8,300 units were underway as of August, the vast majority being in upscale developments. That's on par with last year despite the ongoing labor shortage, high land prices and regulatory hurdles, with working-class renters being hit the most. The occupancy rate, although down 60 basis points over 12 months, remains one of the highest in the U.S.—97.3% as of July, second only to New York City. Yardi Matrix expects the average Twin Cities rent to rise 4.0% in 2018.

### Recent Twin Cities Transactions

Park Place

City: Plymouth, Minn.
Buyer: Investors Real Estate Trust
Purchase Price: $92 MM
Price per Unit: $184,600

Vintage on Selby



City: St. Paul, Minn.
Buyer: Zurich Alternative Asset Management
Purchase Price: $87 MM
Price per Unit: $414,286

Stadium View

City: Minneapolis
Buyer: University Partners
Purchase Price: $69 MM
Price per Unit: $250,542

Parkway

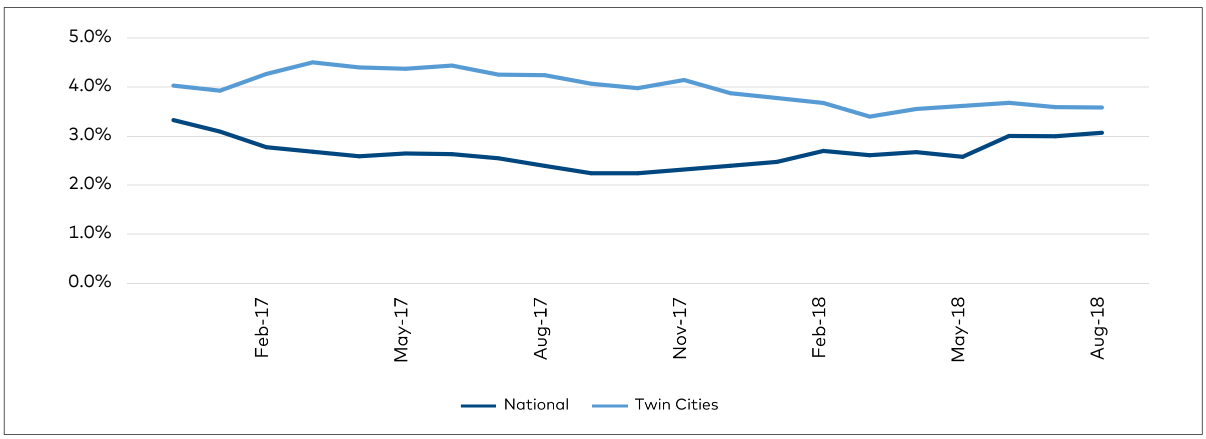
City: Eden Prairie
Buyer: FPA Multifamily
Purchase Price: $61 MM
Price per Unit: $162,667

On the cover: Photo by jferrer/iStockphoto.com

## Rent Trends

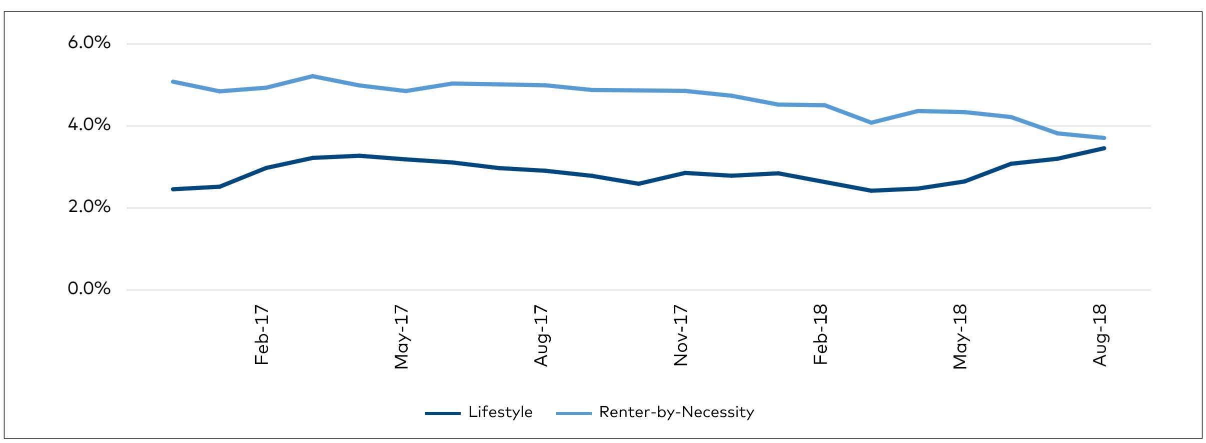
- Rents in Minneapolis–St. Paul rose 3.6% year-over-year through August, 50 basis points above the national rate. Although rents continue to grow, the pace has slowly decelerated. The $1,273 average rent in the Twin Cities remains below the $1,412 U.S. figure.
- Working-class Renter-by-Necessity rates continued to lead gains, up 3.7% to $1,090, but the spread between asset classes is contracting. Lifestyle rents advanced 3.5%, to $1,646. With little new stock for low- and middle-income renters, affordability issues are likely to become more stringent. St. Paul is still the less expensive urban alternative to Minneapolis.
- Large employers in downtown areas of the Twin Cities—such as Target, Hennepin County Medical Center and Wells Fargo—continue to fuel demand for well-located apartments. Rents in St. Paul–Summit–University (up 11.8% to $1,044) and Columbia Heights (11.7% to $1,200) recorded the largest hikes. Meanwhile, St. Paul–St. Anthony ($1,939), St. Paul–West Seventh ($1,725) and Minneapolis–Calhoun Isle ($1,716) were the area's most expensive submarkets as of August.
- Strong demographic expansion and a lagging pipeline should keep demand up in the foreseeable future. Yardi Matrix expects rents to advance 4.0% this year.

**Twin Cities vs. National Rent Growth** (Sequential 3 Month, Year-Over-Year)




Source: YardiMatrix

**Twin Cities Rent Growth by Asset Class** (Sequential 3 Month, Year-Over-Year)



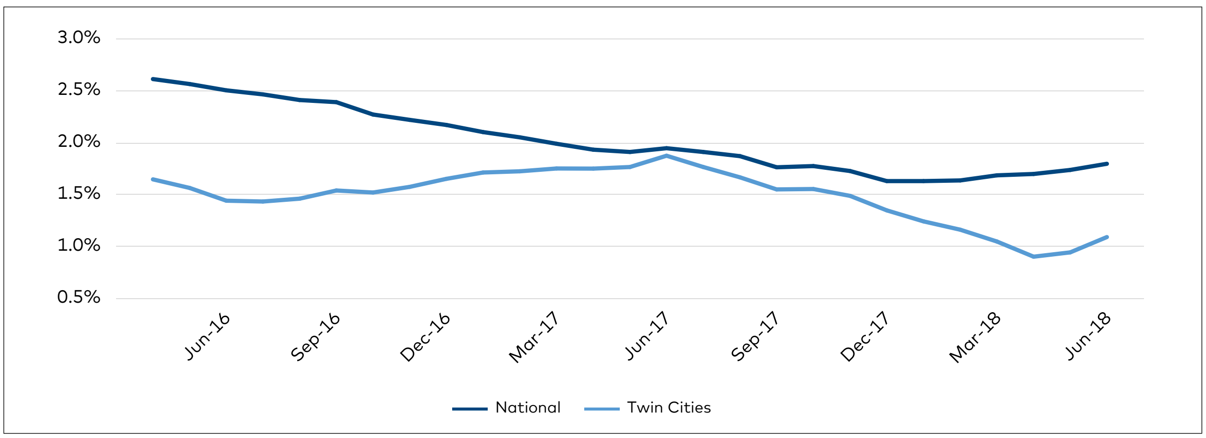

Source: YardiMatrix

## Economic Snapshot

- The Twin Cities added 42,400 jobs in the 12 months ending in June, for a 1.1% uptick, 70 basis points below the national rate. Gains were led by leisure and hospitality, which added 9,500 positions. In February, the metro hosted the Super Bowl, which attracted 125,000 tourists and had a $400 million economic impact, according to a Rockport Analytics report.

- Manufacturing and trade, transportation and utilities added more than 15,000 jobs. Construction expanded by 3,400 positions, with the Minnesota Vikings headquarters and mixed-use development being one of the largest projects in the works. The sector is likely to remain a source of employment growth, with several other major developments underway. Construction on the Major League Soccer stadium exceeded the 50% completion milestone, as the $200 million public-private project is slated for a February 2019 completion. Moreover, if approved, the Southwest Light Rail Transit development, running from Eden Prairie to downtown Minneapolis, is expected to inject $2 billion in the metro's infrastructure.

**Twin Cities vs. National Employment Growth** (Year-Over-Year)




Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

**Twin Cities Employment Growth by Sector** (Year-Over-Year)

| | | Current Employment | | Year Change | |
|---|---|---|---|---|---|
| Code | Employment Sector | (000) | % Share | Employment | % |
| 70 | Leisure and Hospitality | 216 | 10.0% | 9,500 | 4.6% |
| 40 | Trade, Transportation and Utilities | 394 | 18.2% | 8,000 | 2.1% |
| 30 | Manufacturing | 220 | 10.2% | 7,200 | 3.4% |
| 60 | Professional and Business Services | 337 | 15.6% | 5,500 | 1.7% |
| 90 | Government | 265 | 12.3% | 5,100 | 2.0% |
| 15 | Mining, Logging and Construction | 97 | 4.5% | 3,400 | 3.6% |
| 65 | Education and Health Services | 352 | 16.3% | 2,300 | 0.7% |
| 55 | Financial Activities | 154 | 7.1% | 1,900 | 1.2% |
| 80 | Other Services | 86 | 4.0% | 200 | 0.2% |
| 50 | Information | 39 | 1.8% | -700 | -1.8% |

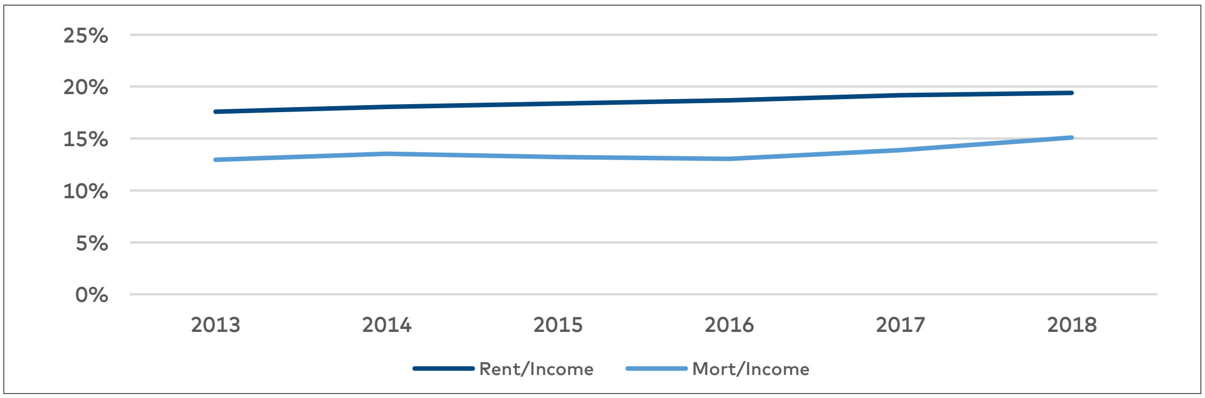
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

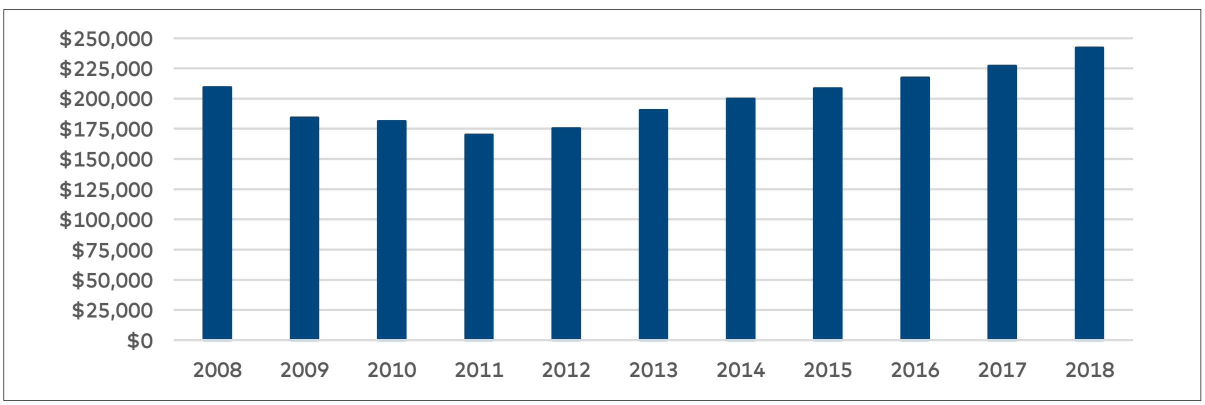
- Home prices in the Twin Cities continued to grow, with the average value peaking at $242,098 during 2018's first half. Although owning is more affordable than renting, first-time buyers are finding it increasingly harder to purchase a home. The average mortgage payment accounts for 15% of the area median income, while the average rent equates to 19%.
- According to the Metropolitan Council, some suburbs now require a certain number of new units to be affordable to those earning below 60% of AMI. However, out of the 52,000 affordable housing units needed by the end of 2020 to meet demand, only 7,000 had been built as of December 2017.

**Twin Cities Rent vs. Own Affordability as a Percentage of Income**




Sources: YardiMatrix, Moody's Analytics

**Twin Cities Median Home Price**




Source: Moody's Analytics

### Population

- The Twin Cities added 43,342 residents in 2017 for a 1.2% expansion, 50 basis points above the national rate.
- Over the past eight years, the metro gained nearly 250,000 residents, a 7.3% increase.

**Twin Cities vs. National Population**

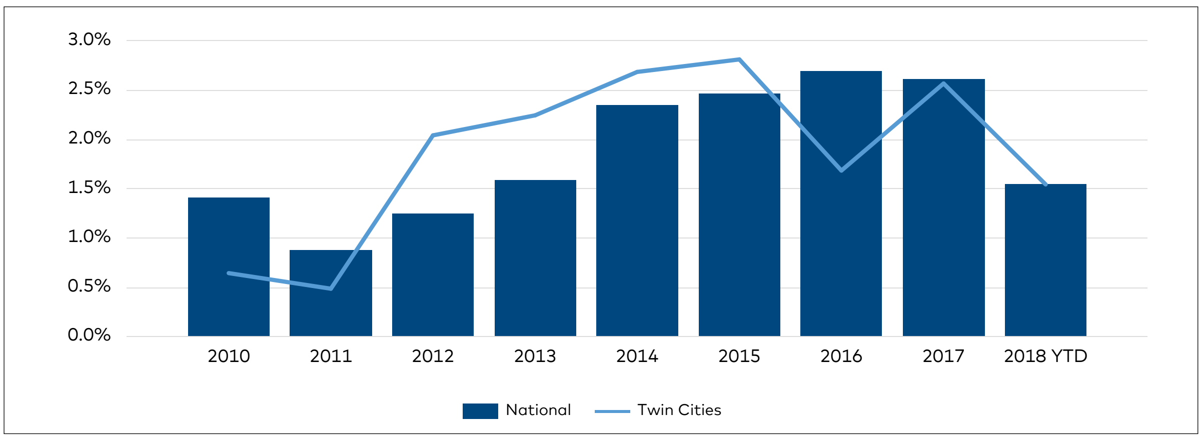
| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| National | 316,234,505 | 318,622,525 | 321,039,839 | 323,405,935 | 325,719,178 |
| Twin Cities Metro | 3,458,299 | 3,493,226 | 3,521,325 | 3,557,276 | 3,600,618 |

Sources: U.S. Census, Moody's Analytics

## Supply

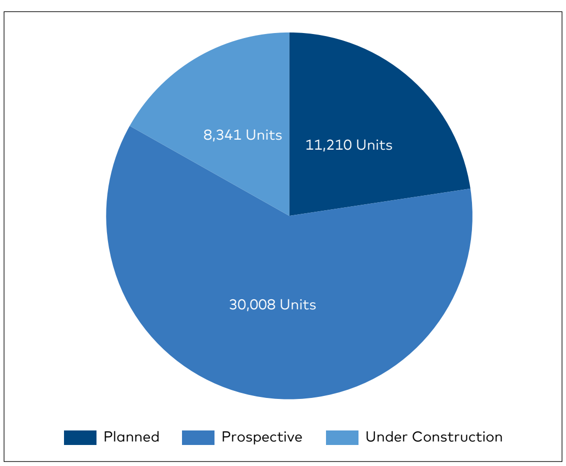
- Roughly 3,100 units were delivered in Minneapolis–St. Paul this year through August, roughly on par with 2017's pace, when 5,077 apartments came online. More than two-thirds of the units delivered this year are in upscale urban communities.
- More than 8,300 units were under construction as of August, with another 41,000 in the planning and permitting stages. As the vast majority of projects underway are geared toward Lifestyle renters, urban submarkets such as Minneapolis–University (1,268 units), Minneapolis–Central (1,153 units) and Golden Valley (903 units) are leading development. Although down 60 basis points in a year, the occupancy rate in stabilized properties remains one of the highest in the country—97.3% as of July, second only to New York among major metros.
- Doran Cos.' 610 West in suburban Brooklyn Park ranked as the largest property under construction as of August (484 units). Developers are also building sizable properties in core areas: EdR's The Hub on Campus will include 407 student housing units in a 26-story building, while The Opus Group's 365 Nicollet is set to encompass 370 apartments and 9,500 square feet of retail space.

**Twin Cities vs. National Completions as a Percentage of Total Stock** (as of August 2018)



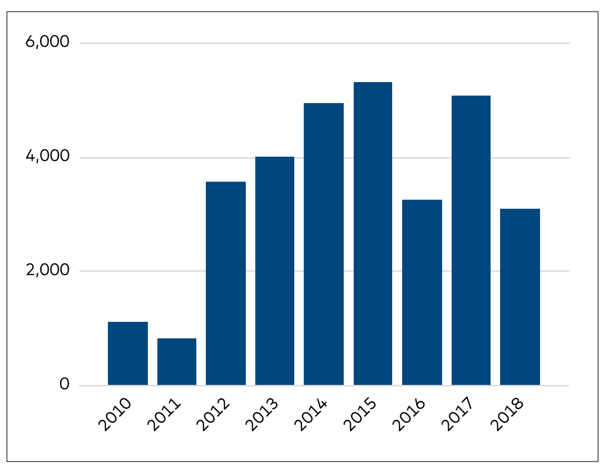

Source: YardiMatrix

**Development Pipeline** (as of August 2018)




Source: YardiMatrix

**Twin Cities Completions** (as of August 2018)

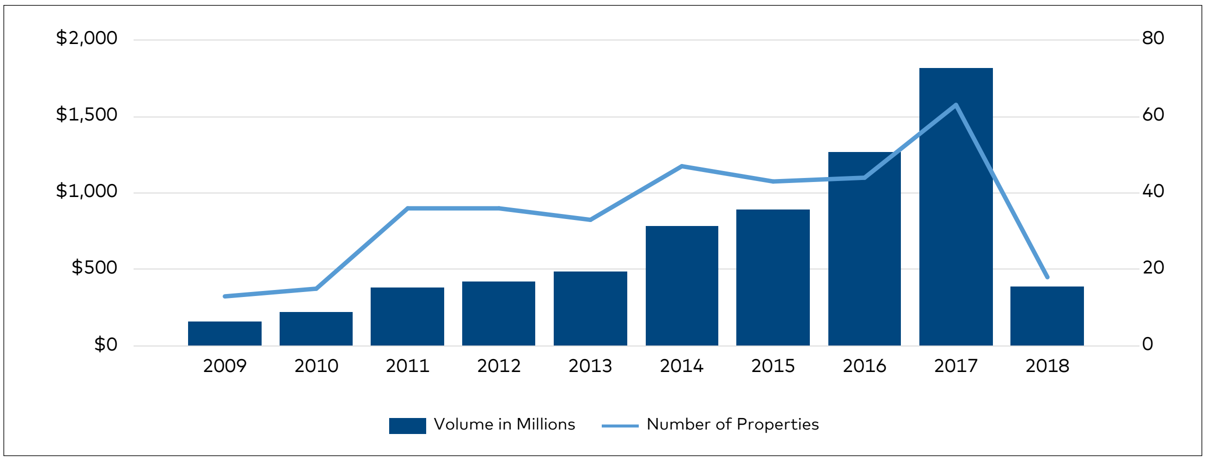



Source: YardiMatrix

## Transactions

- Some $390 million in multifamily assets changed hands in the metro this year through July, marking a slowdown after last year's $1.8 billion cycle peak. The average per-unit price of $154,108 during the first eight months of 2018 slightly exceeded the national figure, but stayed well below last year's cycle high of $190,131. The price drop is mainly due to an investor focus shift: Although value-add units took the lion's share for the better part of this cycle, this trend was more prevalent in the first half of 2018.
- Assets trading in suburban Eden Prairie and Plymouth drew the most capital in the 12 months ending in July, with transaction volumes totaling $233 million. The largest transaction in the metro during this time was, by far, the sale of the 500-unit Park Place in Plymouth. Investors Real Estate Trust purchased the 1985-built community from Raith Capital Partners for $92.3 million, or $184,600 per unit. The asset previously changed hands just one year prior, when LivCor sold it for $77 million.

**Twin Cities Sales Volume and Number of Properties Sold** (as of July 2018)




Source: YardiMatrix

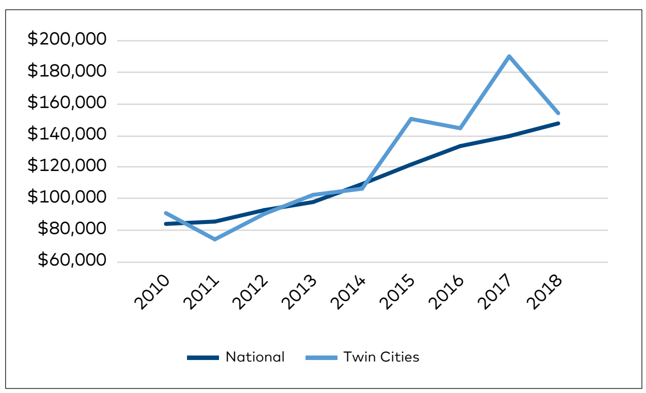
**Top Submarkets for Transaction Volume**[1]

| Submarket | Volume ($MM) |
|---|---|
| Eden Prairie | 141 |
| St. Louis Park | 113 |
| Minneapolis–University | 97 |
| Plymouth | 92 |
| St. Paul–Lexington Hamline | 87 |
| Burnsville | 67 |
| Minneapolis–Central | 53 |
| Richfield | 36 |

Source: YardiMatrix

[1] From August 2017 to July 2018

**Twin Cities vs. National Sales Price per Unit**




Source: YardiMatrix

# News in The Metro

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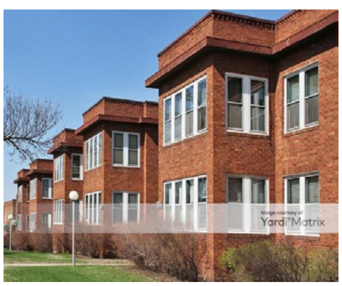
MULTI-HOUSING NEWS

## Grandbridge Real Estate Closes $31M Financing For MN Property

The company's wholly owned subsidiary funded the non-recourse loan for Borealis, a 124-unit Class A property in Minneapolis' North Loop.

## Nonprofit Breaks Ground on MN Affordable Housing

Developed by Aeon, The Louis will add 70 units near the Prospect Park neighborhood. A quarter of the apartments will serve residents earning 30 percent of the area's median income.



## Marcus & Millichap Brokers 53-Unit Community Sale

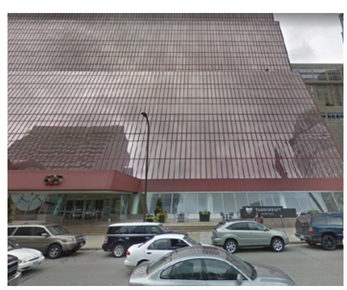
Evan Miller of the company's Minneapolis office and the firm's national group sold The Hillcrest Apartments in South St. Paul for $4.5 million. The broker also procured the buyer, a private investor.

## MN 55+ Community Sells Above Listing Price

Lynn Court Apartments in Savage received offers from investors from seven different states, which is believed to be representative for the state of the area's multifamily market.

## Dougherty Closes Acquisition Loan For Minneapolis Asset

The company worked on behalf of the borrower to secure the 35-year term HID 223(f) acquisition and rehabilitation loan. The borrower will invest $34,000 per unit in upgrades.



## Minneapolis CBD Asset Lands $31M Financing

625 Development will consist of 122 apartments, two parking ramps and a 3,000-square-foot retail space. Reuter Walton Development serves as the general contractor.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

# Top 10 Twin Cities Multifamily Transactions

MHN MULTI-HOUSING NEWS

data by Yardi® Matrix

By Roxana Baiceanu

The market's strength has attracted a number of out-of-state investors such as TIAA, FPA Multifamily and Mapletree US Management that paid significant prices for top communities in the area.

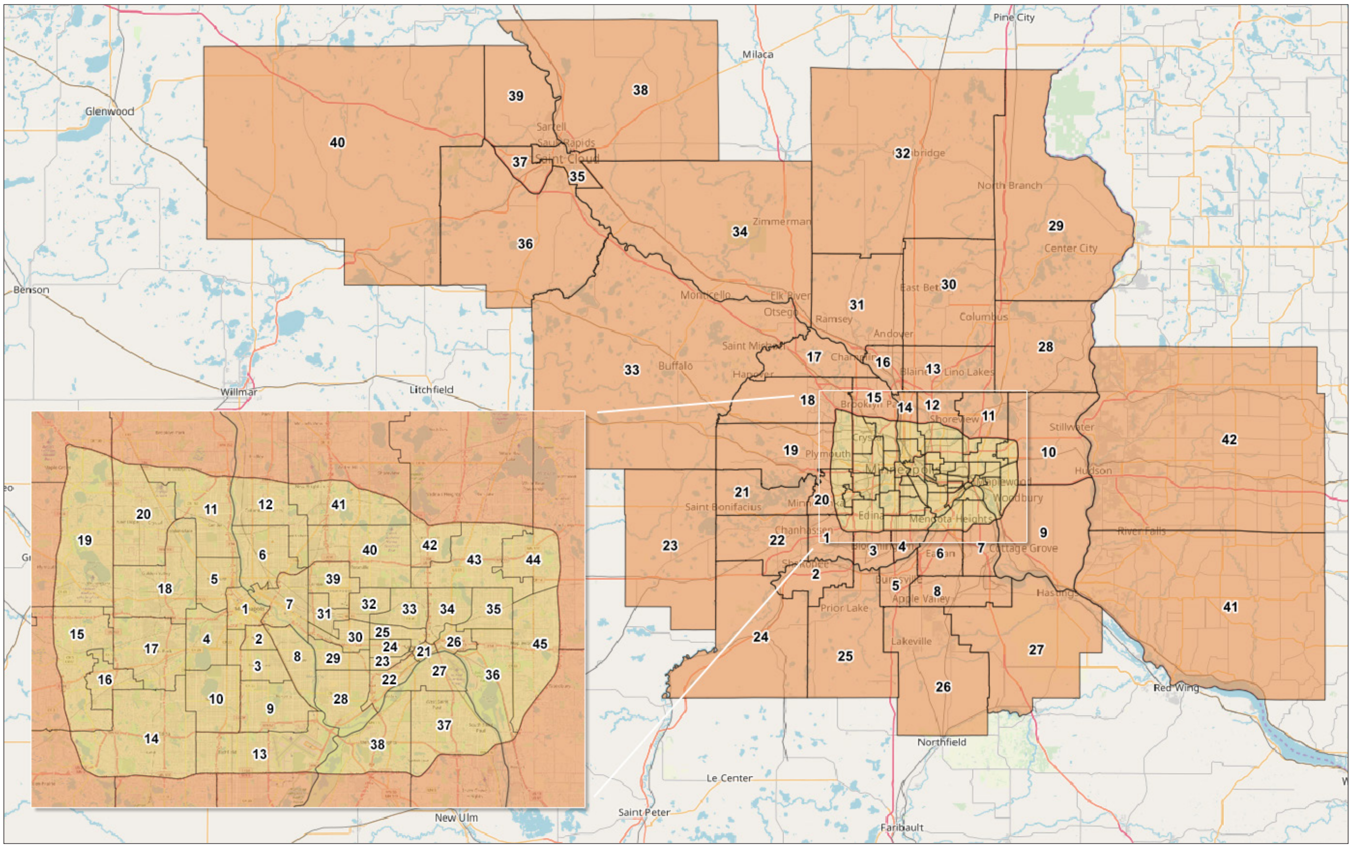
The Minneapolis-St. Paul multifamily market has one of the highest occupancy rates among major U.S. metros, according to the latest Yardi Matrix report. Deliveries are hardly keeping up with demand, resulting in rental growth well above the national average.

| Property Name | City | Seller | Buyer | Unit Count | Total Sale Price |
|---|---|---|---|---|---|
| WaHu | Minneapolis | Kayne Anderson Capital Advisors | Mapletree US Management | 329 | $222,040,000 |
| Latitude 45 | Minneapolis | Kayne Anderson Capital Advisors | Mapletree US Management | 320 | $217,320,000 |
| The Grand Reserve at Eagle Valley | Woodbury | Invesco Real Estate | Goldman Sachs & Co. | 394 | $96,780,000 |
| Park Place | Plymouth | Raith Capital Partners | Investors Real Estate Trust | 500 | $92,300,000 |
| Vintage on Selby | St. Paul | Ryan Cos. | Zurich Alternative Asset Management | 210 | $87,000,000 |
| Stadium View | Minneapolis | Place Properties | Investors Real Estate Trust | 277 | $69,400,000 |
| Oxbo | St. Paul | The Opus Group | FPA Multifamily | 191 | $61,500,000 |
| Parkway | Eden Prairie | Trilogy Real Estate Group | TIAA | 375 | $61,000,000 |
| The Bridges | Minneapolis | Doran Cos. | Mesirow Financial | 210 | $60,720,000 |
| The Ellipse on Excelsior | St. Louis Park | Steven-Scott Management | Mesirow Financial | 190 | $56,850,000 |

## WAHU

The most expensive transaction closed during the last 12 months in Minneapolis-St. Paul involves WaHu, a 329-unit student housing community. The asset cost Mapletree US Management $222 million. Built in 2015 at 1000 Washington Ave. S.E., WaHu consists of studio, one-, two-, three- and four-bedroom apartments, which can be rented for a monthly average of $2,300. Amenities include a fitness center, business center, clubhouse, swimming pool, spa media room and covered parking. In addition to the residential units, the property includes almost 25,000 square feet of retail space.

## Twin Cities Submarkets




| Area # | 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 |
| 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–Macaleste–Groveland |
| 30 | St. Paul–Lexington Hamline |

| Area # | 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 # | 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 |

| Area # | Submarket |
|---|---|
| 14 | Fridley |
| 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 |
| 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 may 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 may 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, may 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.