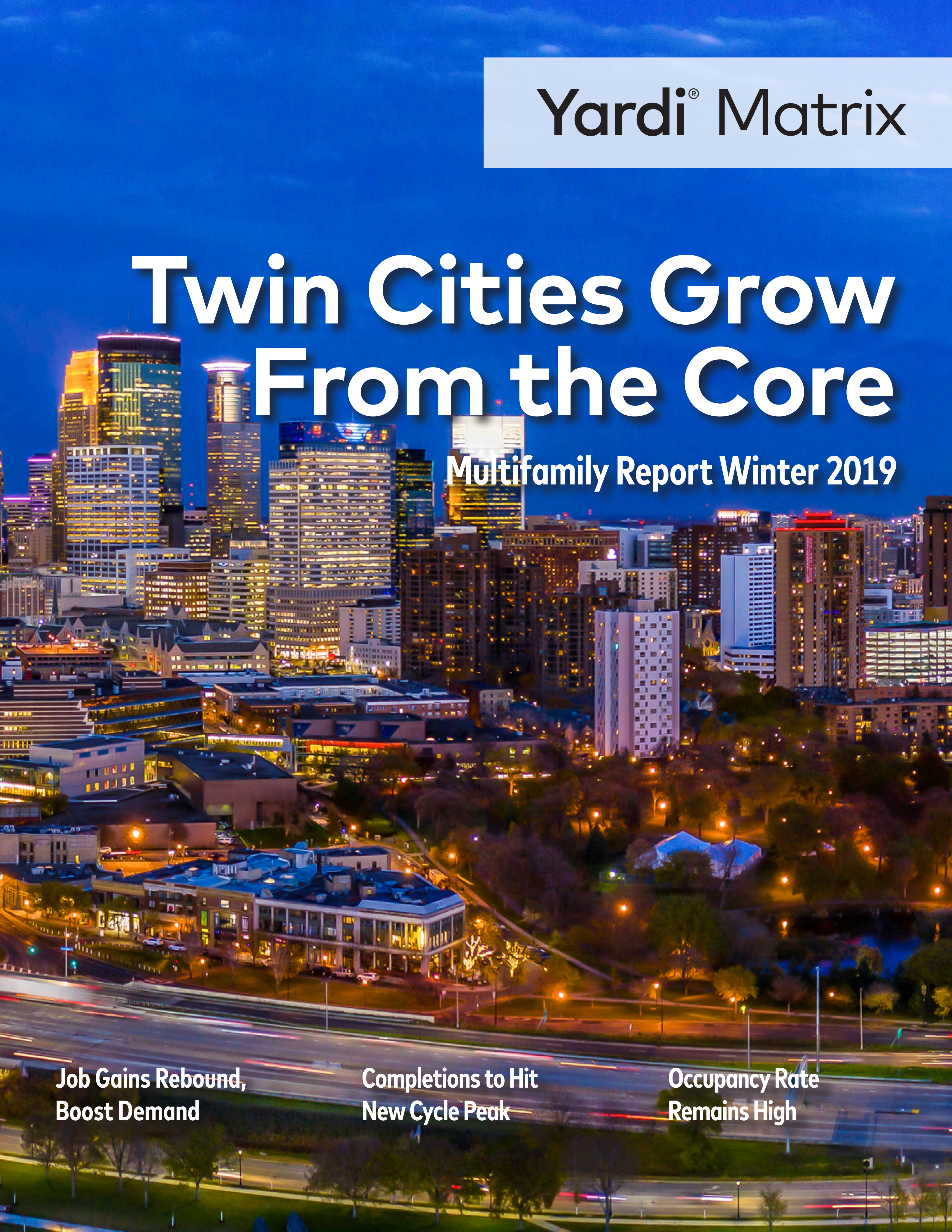
Yardi® Matrix

Twin Cities Grow From the Core

Multifamily Report Winter 2019



Job Gains Rebound, Boost Demand

Completions to Hit New Cycle Peak

Occupancy Rate Remains High

Market Analysis

Winter 2019

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Laura Calugar
Associate Editor

Strong Demand Keeps Occupancy Up

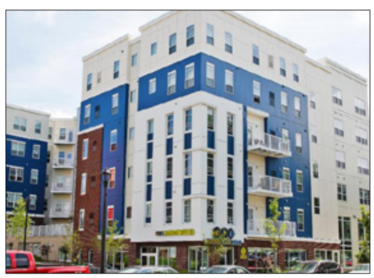
Backed by rebounding job gains and a strong demographic expansion, the Twin Cities' multifamily markets maintain their dynamism. Despite a new cycle peak for deliveries, last year's 3.3% rent growth stayed above the U.S. average. Meanwhile, occupancy remained one of the country's highest—at 97.1% as of November, second only to New York among major metros.

Employment gains were led by trade, transportation and utilities, which added 10,100 jobs in the 12 months ending in October. Large infrastructure projects—such as the $2 billion light-rail line between downtown Minneapolis and Eden Prairie—are already stimulating development along the way. The Minnesota Vikings moved their practice facility from Mankato to Eagan in 2018, but the team owners are planning to build 1.2 million square feet of office space, as well as hotel, residential and retail space. Work on a 320-key hospitality project has already begun.

Some 9,000 units were under construction in the metro as of December, with downtown Minneapolis—which attracts upscale projects—leading the pipeline. Workforce housing demand is increasing, but with mounting land and materials costs, the segment could face increasing headwinds going forward. Yardi Matrix expects the average Twin Cities rent to advance 3.6% in 2019.

Recent Twin Cities Transactions

44 North



City: Minneapolis
Buyer: Harrison Street
Purchase Price: $53 MM
Price per Unit: $270,928

Variant

City: Minneapolis
Buyer: TH Real Estate
Purchase Price: $49 MM
Price per Unit: $343,392

VELO

City: Minneapolis
Buyer: LaSalle Investment Management
Purchase Price: $30 MM
Price per Unit: $300,990

Soltva

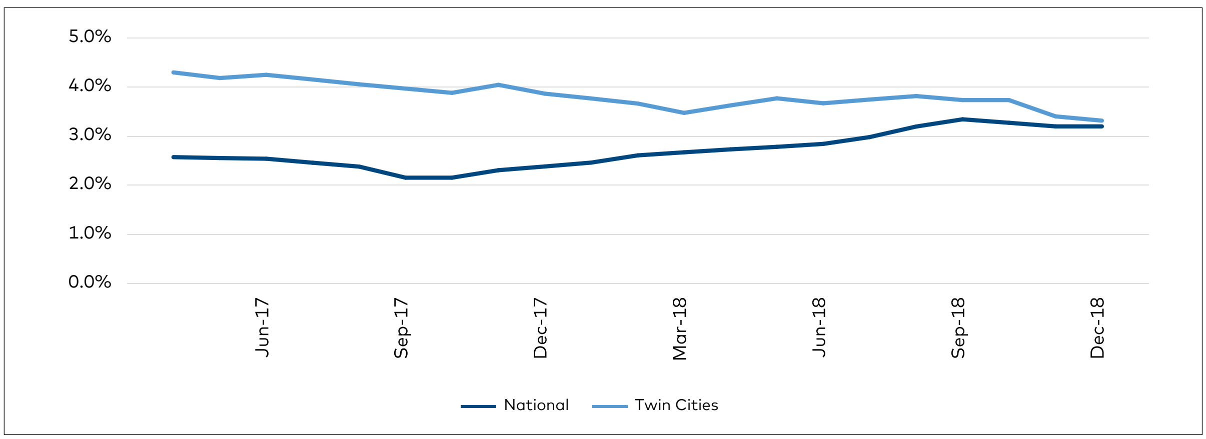
City: Minneapolis
Buyer: LaSalle Investment Management
Purchase Price: $29 MM
Price per Unit: $292,500

On the cover: Photo by Vito Palmisano/iStockphoto.com

Rent Trends

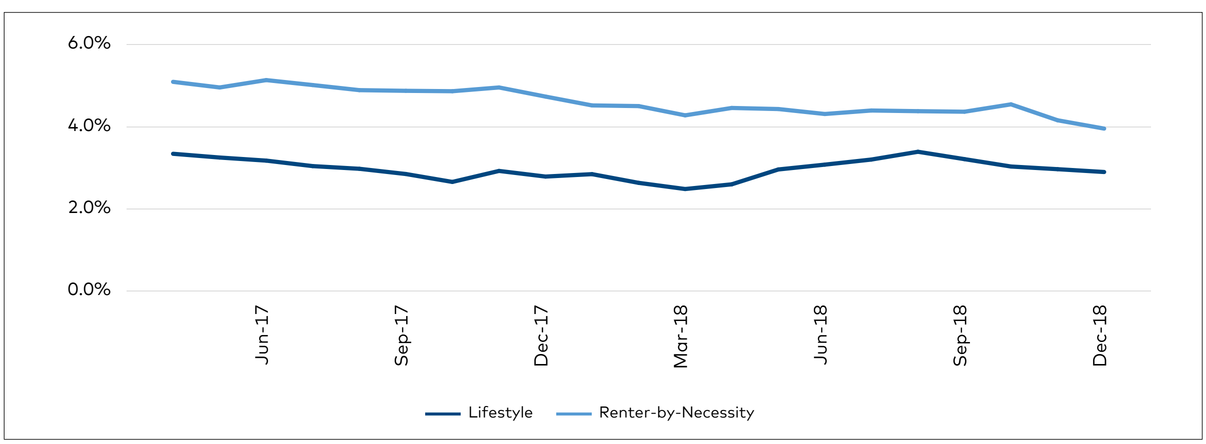
- Rents in the Twin Cities were up 3.3% in 2018, just above the 3.2% U.S. figure. The $1,277 average rent as of December was still below the $1,419 U.S. average. Sustained development over the past five years has not caused recent occupancy drops. On the contrary, at 97.1% as of November, occupancy in stabilized properties was one of the highest in the U.S., second only to New York among larger metros.
- Rates in the Renter-by-Necessity segment rose 4.0% to $1,103, while Lifestyle rents were up 2.9% to $1,632. Despite the metro's employment growth being led by transportation and manufacturing, two sectors that sustain demand for workforce housing, developers continue to focus on upscale projects. This supply–demand disparity is adding an upward pressure on RBN rents—hence the spread.
- Urban submarkets such as St. Paul–St. Anthony ($1,861), St. Paul–West Seventh ($1,741) and Minneapolis–Calhoun Isle ($1,715) commanded the highest rents. However, rents grew fastest in St. Paul–Summit Hill (11.3% to $952) and St. Paul–Summit-University (9.3% to $1,072). Meanwhile, core submarkets benefit from a growing demographic base interested in living near public transit.
- Despite growing concerns regarding demand in some submarkets, population and job gains are bound to maintain healthy overall absorption. Yardi Matrix expects Twin Cities rents to grow 3.6% 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)

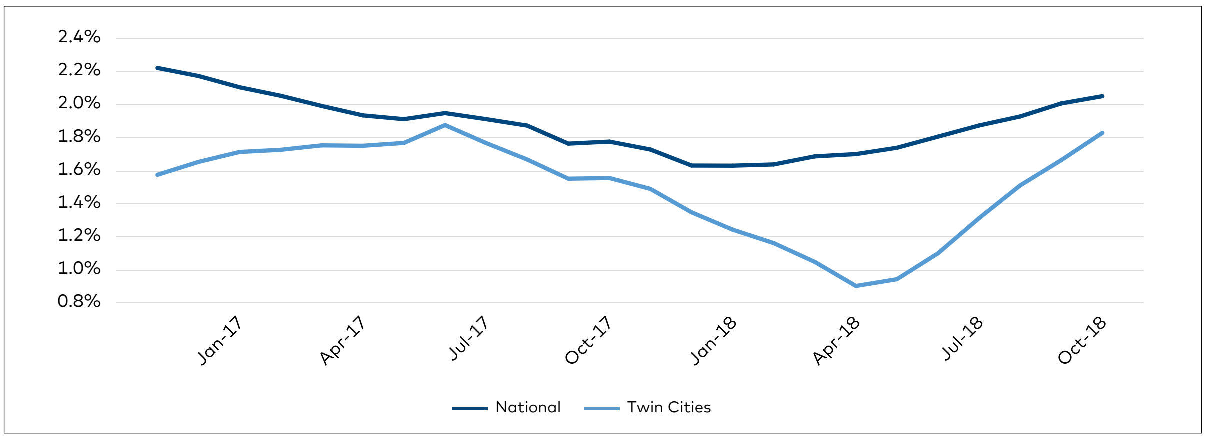


Source: YardiMatrix

Economic Snapshot

- Minneapolis–St. Paul added 35,400 jobs in the 12 months ending in October 2018, a 1.8% increase, 30 basis points below the U.S. growth rate.
- The trade, transportation and utilities sector led employment gains by far, adding 10,100 jobs. Manufacturing (6,900 jobs), professional and business services (5,200 jobs) and construction (4,800 jobs) followed. In December, ground officially broke on the $2 billion light-rail line between downtown Minneapolis and Eden Prairie, with the project already prompting new developments along the upcoming 15-mile extension. The Metropolitan Council awarded an $800 million contract to local joint venture Lunda-CS McCrossan, which built the line running from Mall of America to the airport and to downtown Minneapolis. Additional projects are expected near the nation's largest shopping center, since the eastern corner of Bloomington County has become one of Minnesota's 128 opportunity zones, a status likely to also help already-existing developments in the area.
- The construction and transportation sectors are expected to receive another boost when Ryan Cos. begins infrastructure work for their redevelopment project at Ford's Assembly Plant in St. Paul this fall. Plans for the 122-acre site overlooking the Mississippi River call for a dense mixed-use neighborhood encompassing 3,800 residential units, as well as office and retail space.

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	%
40	Trade, Transportation and Utilities	395	18.3%	10,100	2.6%
30	Manufacturing	220	10.2%	6,900	3.2%
60	Professional and Business Services	341	15.8%	5,200	1.6%
15	Mining, Logging and Construction	96	4.4%	4,800	5.2%
90	Government	276	12.8%	3,200	1.2%
55	Financial Activities	153	7.1%	2,800	1.9%
65	Education and Health Services	358	16.6%	1,900	0.5%
70	Leisure and Hospitality	198	9.2%	1,500	0.8%
50	Information	39	1.8%	-400	-1.0%
80	Other Services	85	3.9%	-600	-0.7%

Sources: YardiMatrix, Bureau of Labor Statistics

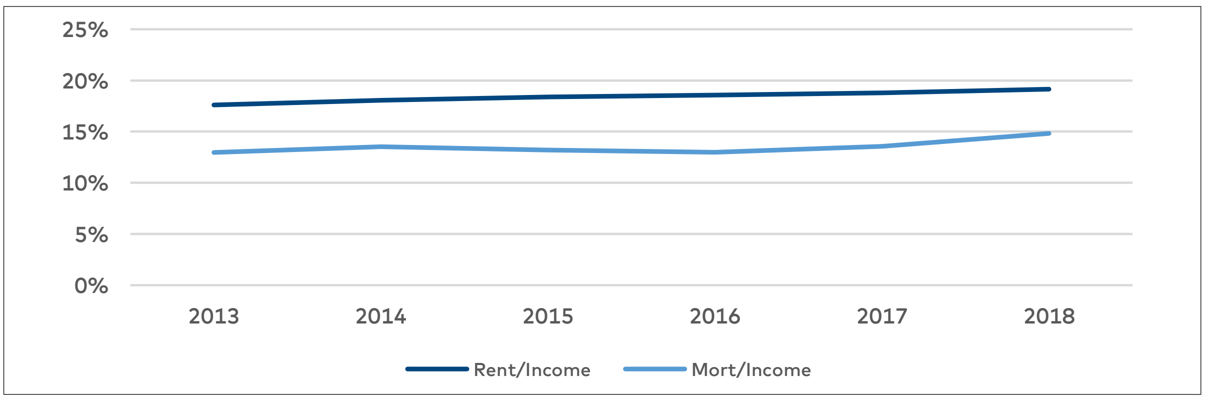
Demographics

Affordability

- The median home price in Minneapolis–St. Paul reached a $242,598 cycle peak last year. Renting was the least affordable option, with the average monthly rate accounting for 19% of the area's median income. Meanwhile, the average mortgage payment equated only to 15%. The low unemployment rate leads many employers to recruit from other regions, boosting workforce rental demand.

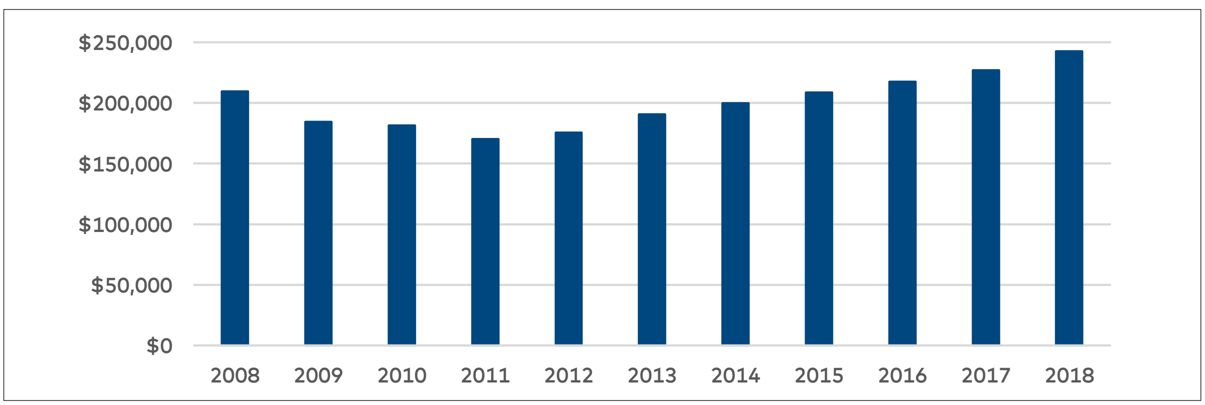
- In December, the city of Minneapolis eliminated single-family zoning in an effort to address the metro's affordable housing issue. The ordinance allows three units to be built on residential lots, up from just one. This will likely boost multifamily development across price ranges.

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

- In 2017, the metro added more than 43,000 people for a 1.2% uptick, 50 basis points above the U.S. rate.
- Between 2013 and 2017, the Twin Cities gained more than 142,000 residents, a 4.1% demographic expansion.

Twin Cities vs. National Population

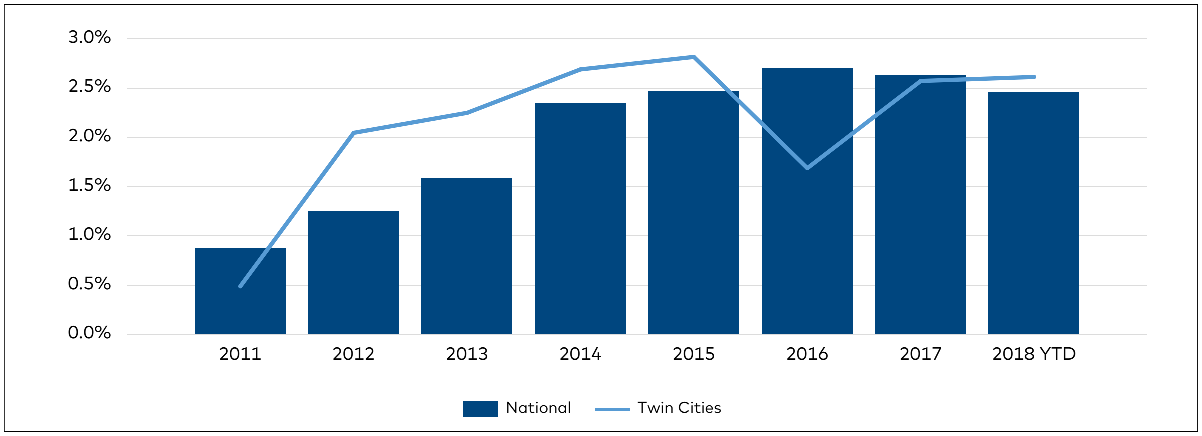
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Twin Cities Metro	3,458,299	3,493,226	3,521,325	3,557,276	3,600,618

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

Supply

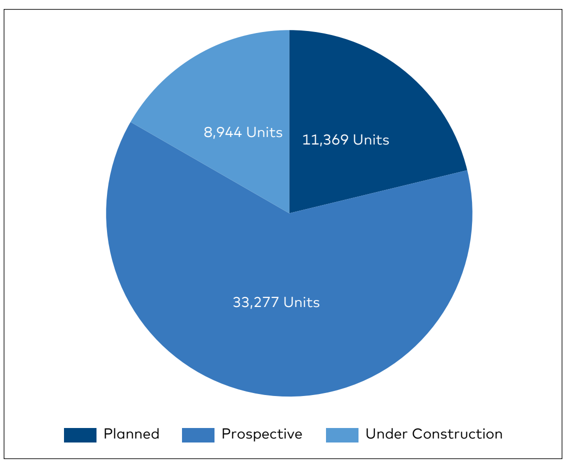
- Some 5,300 units came online in the Twin Cities in 2018, with nearly all new properties targeting Lifestyle renters. Last year, deliveries almost matched the 5,326-unit cycle peak recorded in 2015.
- The metro had 8,944 units underway as of December, more than two-thirds of which are geared toward high-income renters. Development is mostly concentrated in urban submarkets such as Minneapolis–Central (962 units), Golden Valley (752) and Minneapolis–University (525), with developers betting on young employees' preference for transit-oriented communities providing easy access to large employment hubs. The largest project underway in the metro as of December was Dominium's 700 Emerald St., a two-phase community in St. Paul–Lexington Hamline. The first 362 units—which include an affordable component—are slated for delivery by mid-2020.
- Population growth and employment gains are likely to continue supporting housing demand. Yardi Matrix expects more than 6,500 units to come online in the metro by year-end, which would mark a new cycle peak.

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



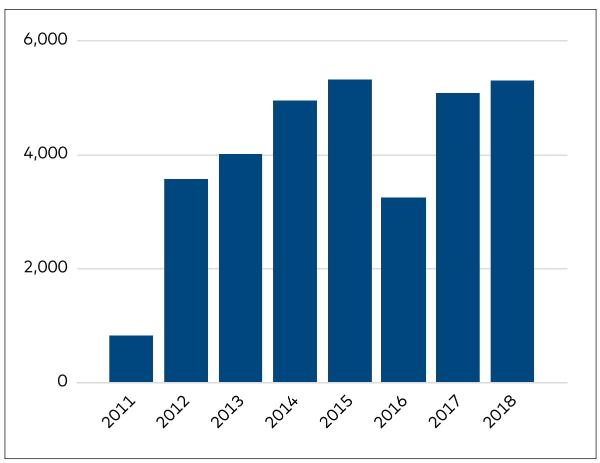
Source: YardiMatrix

Development Pipeline (as of December 2018)



Source: YardiMatrix

Twin Cities Completions (as of December 2018)

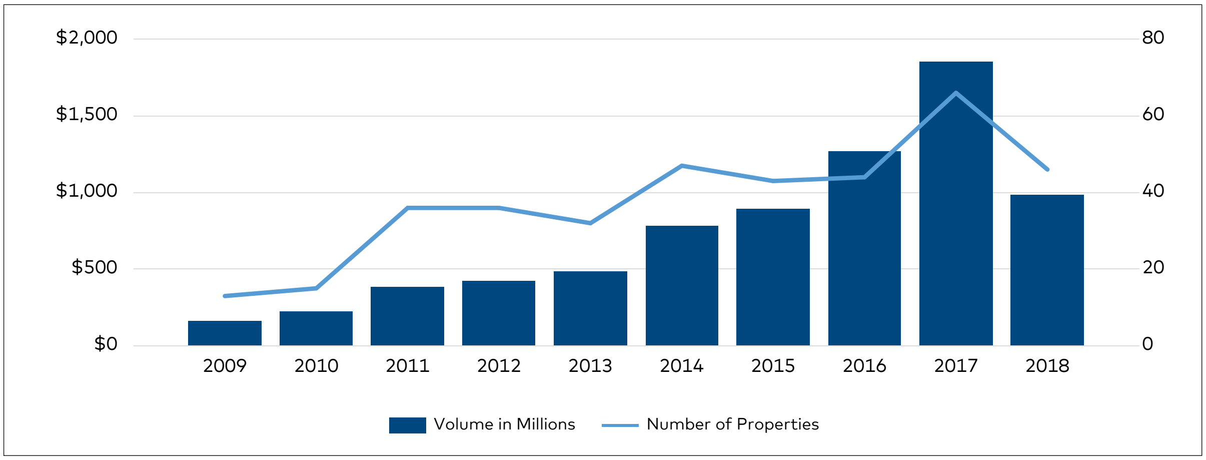


Source: YardiMatrix

Transactions

- More than $980 million in multifamily assets traded in the Twin Cities last year, marking a sharp drop after nearly a decade of steadily rising transaction volumes. Last year's average price per unit was $167,166, above the $153,765 U.S. figure but below the metro's $189,083 cycle peak, recorded in 2017. Despite the slowdown, investment activity remained relatively dynamic in 2018, with investors focusing primarily on value-add communities.
- Urban submarkets such as Minneapolis–Central ($213 million), Minneapolis–University ($122 million) and St. Louis Park ($113 million) attracted the most capital last year. LaSalle Investment Management was one of the market's most active buyers in 2018, investing more than $157 million in five Minneapolis multifamily assets. Another active player was Investment Property Group, which paid more than $90 million for six communities, at an average per-unit price of roughly $122,000.

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



Source: YardiMatrix

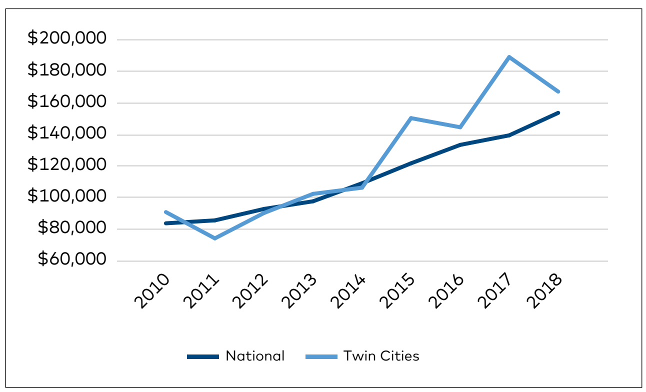
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis–Central	213
Minneapolis–University	122
St. Louis Park	113
Plymouth	83
Hopkins	74
Eden Prairie	63
Brooklyn Park	40
Fridley	39

Source: YardiMatrix

[1] From January 2018 to December 2018

Twin Cities vs. National Sales Price per Unit

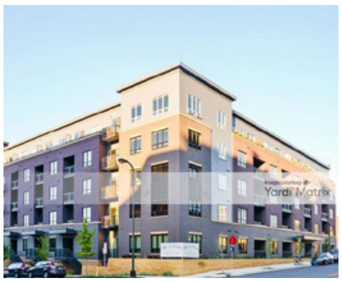


Source: YardiMatrix

News in The Metro

Brought to you by:

Get the latest in local real estate news by going to Multi-HousingNews.com



LaSalle Buys Twin Cities Communities

Clarion Partners earned approximately $68 million from the sale of the 241-unit portfolio, taking a loss over its acquisition cost for the assets in 2015.

Minnesota Affordable Housing Secures Freddie Mac Loan

Merchants Capital arranged financing on behalf of Real Estate Equities for the $20 million Technology Park Apartments in Rochester.

CBRE Arranges Sale of 413-Unit MN Community

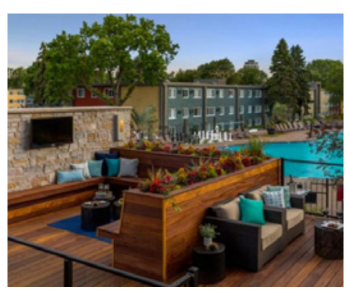
The company's Keith Collins, Abe Appert, Ted Abramson and Ike Hoffman facilitated the sale on behalf of Rochester Village Investors LLC.

Opus Breaks Ground In Downtown Minneapolis

The six-story building is the company's third residential development in the submarket. Completion is expected in 2020.

JV Begins Work On Minneapolis Community

The 200-unit LakeHaus project is being converted from a 1950s office building into a luxury community near Lake Calhoun.



MN Apartments Change Hands In $95M Deal

MLG Capital and SAS sold a 698-unit community in suburban Minneapolis, three years after acquiring the property for $41 million.

Top 10 Multifamily Completions In the Midwest in 2018

MULTI-HOUSING NEWS
data by Yardi Matrix

By Roxana Baiceanu

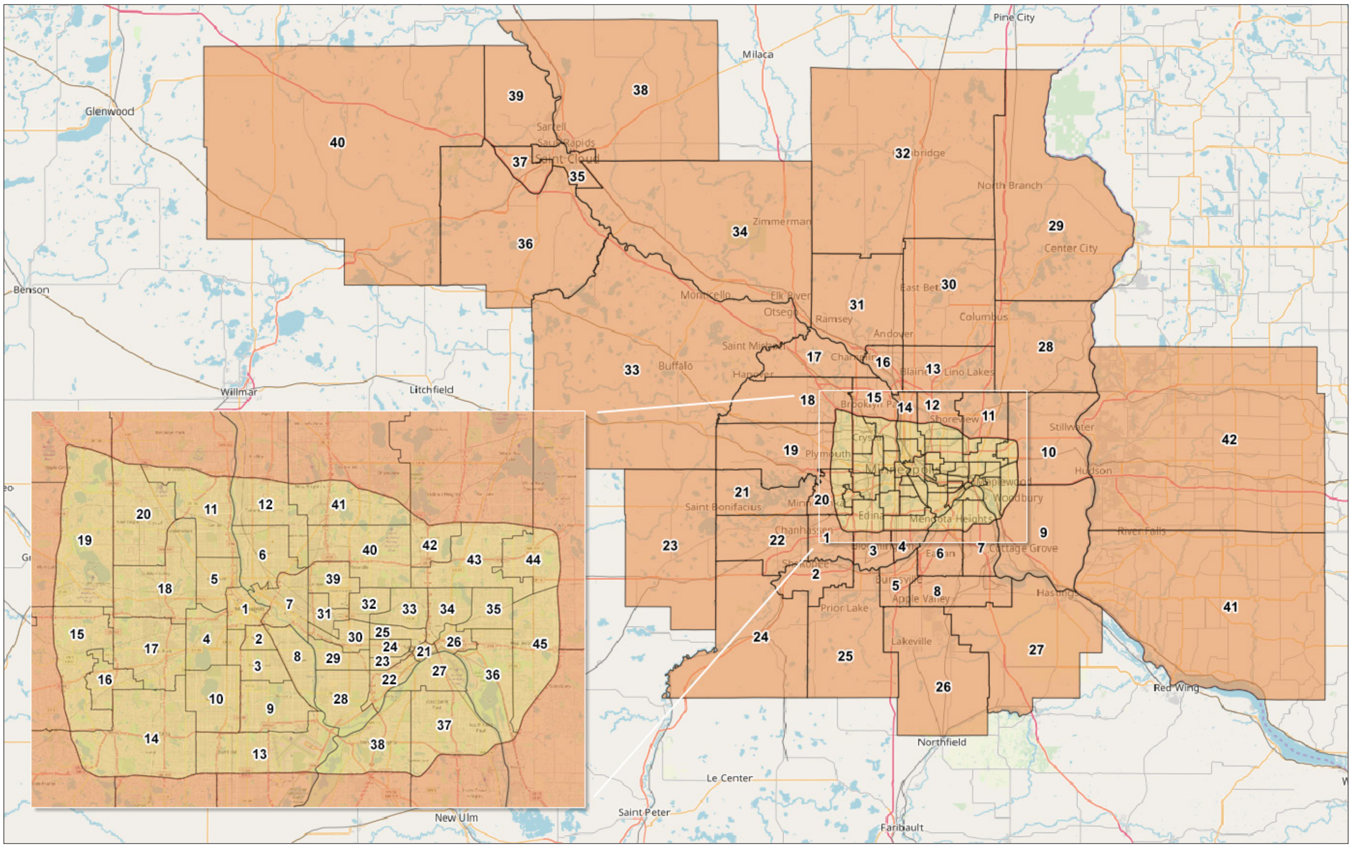
The Midwest wrapped a very busy 2018 for multifamily completions, with more than 35,000 units delivered last year. Several high-profile projects were added to the market's inventory, especially in cities like Chicago and Minneapolis. Also on the list were Kansas City and Columbus, which grew both demographically and economically in 2018.

Property Name	City	Owner	Units	Submarket
Alta Roosevelt	Chicago	Wood Partners	496	Loop
The Greyson	Hilliard	Champion Real Estate Services	492	Hillard
Optima Signature	Chicago	Optima	490	Near North Side
WaterSide Residences on Quivira	Lenexa	Block Real Estate Services	481	Lenexa
465 North Park	Chicago	Jupiter Realty	444	Near North Side
Tuller Flats	Dublin	Casto	420	Dublin
500 Station Blvd.	Aurora	JVM Realty	417	Naperville–West
The Hub on Campus	Minneapolis	Greystar	407	Minneapolis–University
Union Berkley Riverfront Park	Kansas City	Buckingham Cos.	407	Downtown Kansas City
365 Nicollet	Minneapolis	The Opus Group	370	Minneapolis–Central

THE HUB ON CAMPUS

The 407-unit student housing community is located at 313 Harvard St. S.E. within the University of Minnesota campus. Greystar owns and manages the property, having secured a $68.5 million construction loan to deliver it. The Hub offers studio to four-bedroom apartments, which range from 340 to 1,133 square feet. In addition to the residential component, the 26-story community includes office and retail space, as well as a fitness center, a business center, a clubhouse, a swimming pool, a spa and parking accommodating as many as 355 vehicles.

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

Area #	Submarket
30	St. Paul–Lexington Hamline
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
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.