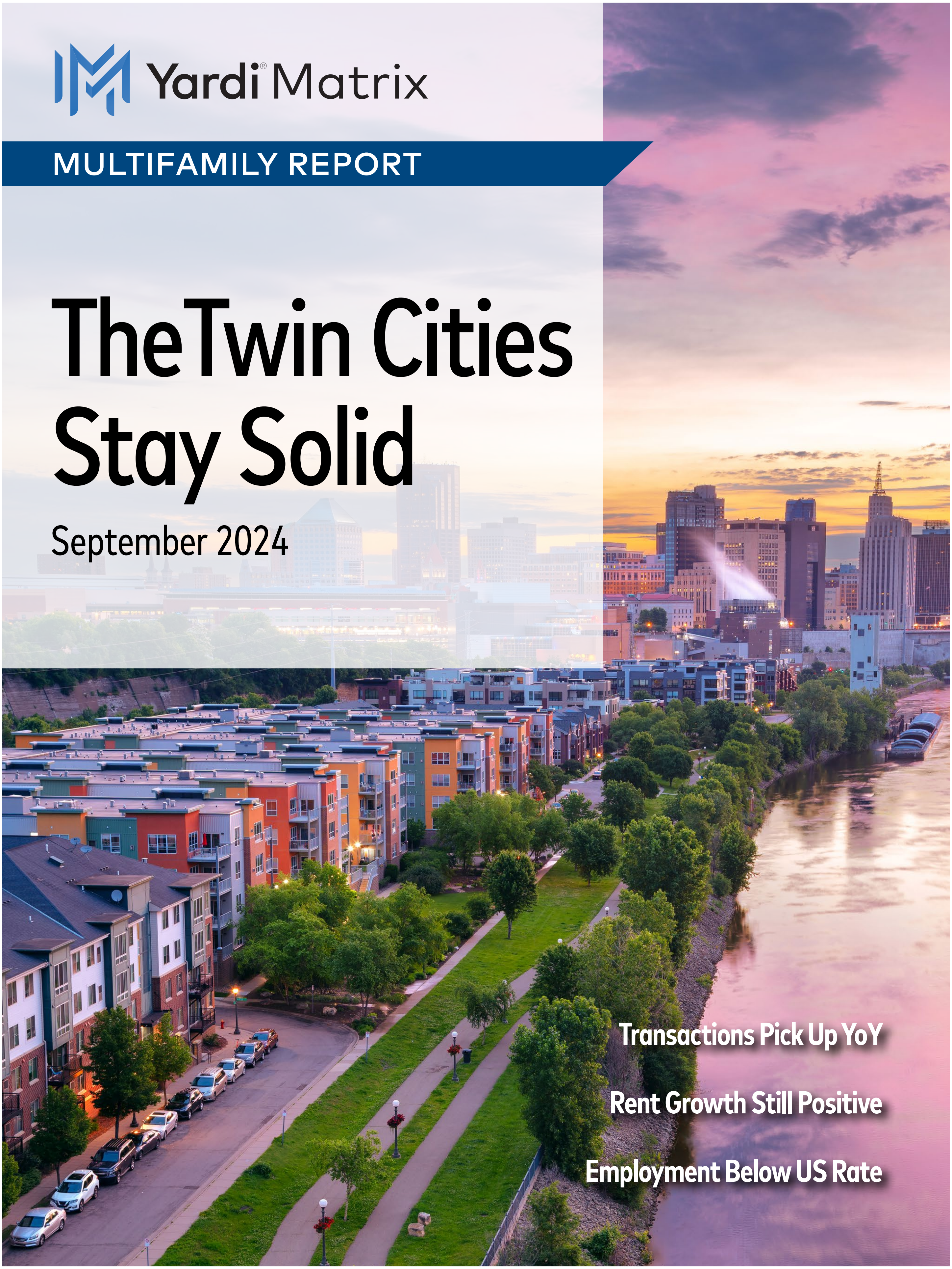
Yardi Matrix

MULTIFAMILY REPORT

The Twin Cities Stay Solid

September 2024



Transactions Pick Up YoY

Rent Growth Still Positive

Employment Below US Rate

TWIN CITIES MULTIFAMILY

Yardi Matrix

Balanced Market Performance

The Minneapolis-St. Paul multifamily market showed signs of stability in the face of an overall national slowdown. Advertised asking rents were up 0.1% on a T3 basis, to $1,512, 20 basis points lower than the U.S. average growth rate. Meanwhile, the occupancy rate in stabilized properties increased by 20 basis points year-over-year, to 95.2%.

Employment in Minneapolis-St. Paul was up 0.9% in the 12 months ending in May. The metro's growth rate was 40 basis points below the national average. Education and health services led gains, accounting for 20,000 new positions. The area's unemployment rate stood at 3.7% as of June, 40 basis points below the U.S. figure, according to the Bureau of Labor Statistics. In terms of new development, Heliene partnered with Premier Energies to build a solar cell facility in the greater Minneapolis-St. Paul area. The $145 million project is expected to generate 200 jobs and will begin production in the second quarter of 2026.

A total of 4,231 units, or 1.7% of existing stock, came online this year through July, 30 basis points higher than the national rate of completions. Five of the 22 delivered projects were Lifestyle communities located evenly across urban and suburban submarkets. With $624 million in assets changing hands through July, transaction volume is picking up, as the total investment volume last year amounted to $655 million.

Market Analysis | September 2024

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x14006

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Madalina Pojoga
Associate Editor

Recent Twin Cities Transactions

Nordhaus

City: Minneapolis, Minn.
Buyer: FPA Multifamily
Purchase Price: $74 MM
Price per Unit: $265,179

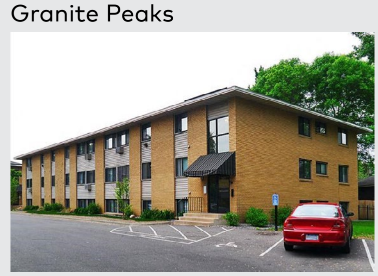
Creekside

City: Plymouth, Minn.
Buyer: Heartland Realty Investors
Purchase Price: $46 MM
Price per Unit: $225,490

Rivertown Commons

City: Stillwater, Minn.
Buyer: Standard Communities
Purchase Price: $14 MM
Price per Unit: $145,833

Granite Peaks

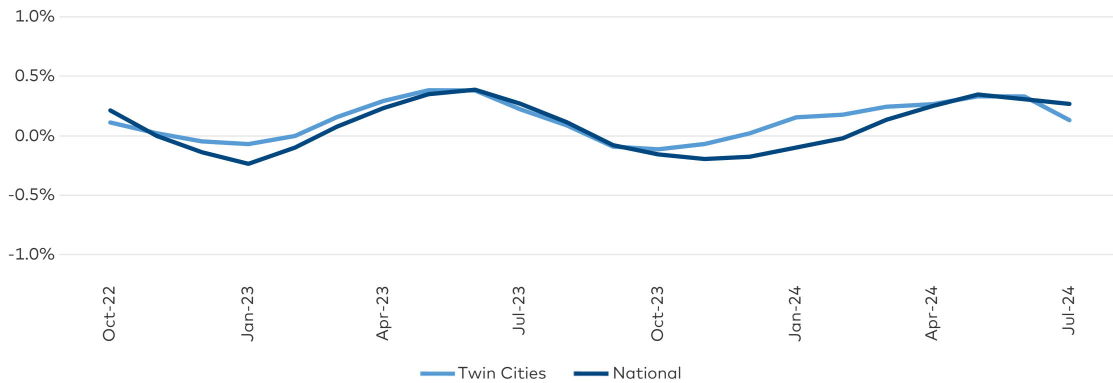


City: Brooklyn Center, Minn.
Buyer: Huber Equity Group
Purchase Price: $5 MM
Price per Unit: $99,915

RENT TRENDS

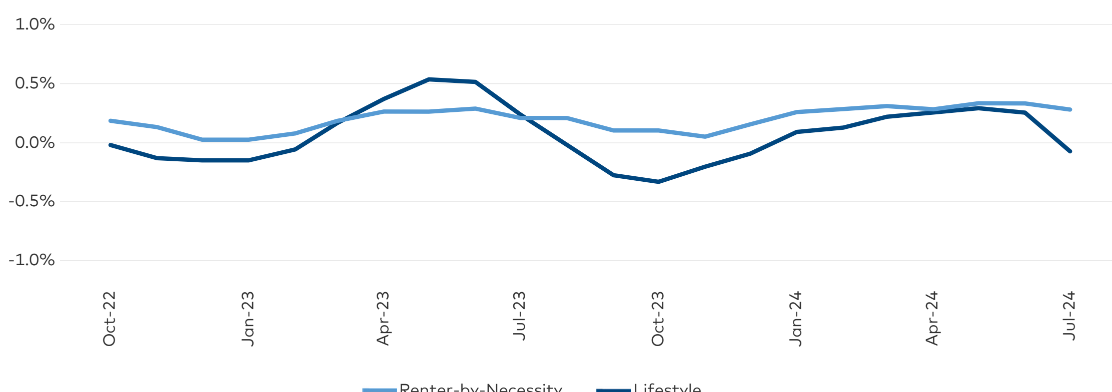
- Minneapolis-St. Paul's advertised asking rents saw a modest 0.1% uptick on a trailing three-month (T3) basis as of July, to $1,512, 20 basis points lower than the U.S. average rate during the same time frame. The metro had been mirroring the national trend since April, clocking in at 0.3% until June.
- Year-over-year advertised asking rents were up 1.3%, placing the metro just two positions below the top 10 metros for growth. Yardi Matrix expects 1.7% rent growth for the Twin Cities by year-end.
- Working-class, Renter-by-Necessity advertised asking rents were up 0.3%, on a T3 basis, to $1,306. Meanwhile, the average rent in the Lifestyle segment was down 0.1%, to $1,816. Since January, both quality segments moved in lockstep and progressed positively.
- The metro's average overall occupancy rate in stabilized properties stood at 95.2% as of June, a 20-basis-point increase year-over-year. The RBN figure saw a 30-basis-point uptick, to 95.8%. Meanwhile, Lifestyle rates recorded a drop in occupancy, down 10 basis points, to 94.4%.
- Of the 87 submarkets tracked by Yardi Matrix, 19 recorded contractions year-over-year as of July. Edina/Eden Prairie remains the most expensive area, were rents averaged $1,927, despite a 1.0% contraction in growth. Maple Grove ($1,902) and Woodbury/Cottage Grove ($1,901) rounded out the top three.

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 expanded by 0.9% year-over-year as of May, 40 basis points below the U.S. rate. The public sector led growth, accounting for 20,000 new positions, and registered the biggest improvement with a 7.6% uptick year-over-year. Education and health services also contributed to the metro's employment growth, with 19,100 jobs. Nevertheless, Minneapolis-St. Paul lost 27,000 positions in six sectors, with professional and business services registering the largest loss (-15,000).

- The metro's unemployment rate stood at 3.7% as of June, 40 basis points below the U.S. rate, according to BLS data. Over the previous 12 months, unemployment in the Twin Cities reached its lowest point in November 2023, at 1.9%. The unemployment rate in the metro was 80 basis points higher than in Minnesota, which rested at 2.9% as of June.

- Heliene, together with Premier Energies, is planning to develop a solar cell facility in the greater Minneapolis-St. Paul area. The plant is expected to generate 200 jobs and will produce 1 gigawatt of N-type cells annually.

- The $145 million project is set to begin production in the second quarter of 2026. Heliene also partnered with NorSun, which will deliver 5-gigawatt wafers to the upcoming plant.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
90	Government	283.7	13.5%
65	Education and Health Services	394.6	18.7%
70	Leisure and Hospitality	195.9	9.3%
80	Other Services	79.7	3.8%
40	Trade, Transportation and Utilities	365.7	17.4%
50	Information	28.5	1.4%
30	Manufacturing	216	10.3%
15	Mining, Logging and Construction	97.4	4.6%
55	Financial Activities	147.1	7.0%
60	Professional and Business Services	297.1	14.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Twin Cities gained 19,172 residents between 2021 and 2022, a 0.5% increase and 10 basis points higher than the U.S. rate of growth.

- In the 10 years ending in 2022, the metro's population expanded by almost 400,000 residents.

Twin Cities vs. National Population

	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Twin Cities	3,573,609	3,605,450	3,659,156	3,678,328

Source: U.S. Census

SUPPLY

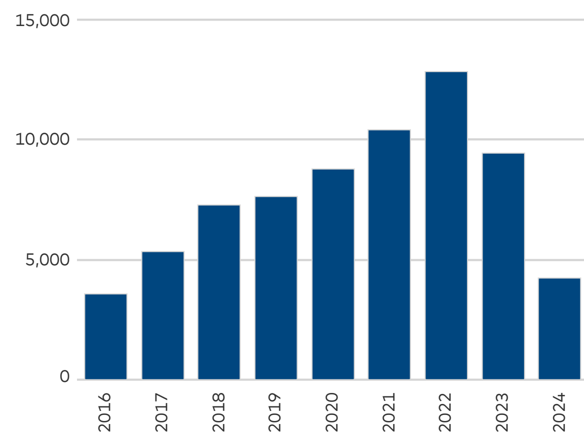
- Developers brought 4,231 units online this year through July, accounting for 1.7% of stock, 30 basis points higher than the national rate. All but five of the 22 that came online in the first seven months were Lifestyle assets, spread evenly across urban and suburban submarkets. The growth pace in Minneapolis-St. Paul slowed significantly in 2023, compared to the previous two years, with 9,451 new units coming online. Meanwhile, the annual average between 2021 and 2022 was 11,600 units.

- Minneapolis-St. Paul had 15,029 units under construction as of July. Another 50,500 units were in the planning and permitting stages. The metro has been impacted by the national economic slowdown and tighter lending standards have made it harder to get projects off the ground. Only 2,197 units across 16 projects broke ground in the first seven months of 2024, less than half compared to the 4,980 units across 27 projects on which developers began work on during the same period in 2023.

- Urban areas led the pipeline in the Twin Cities, with two submarkets having more than 1,000 units underway each. Minneapolis–Central led with 1,172 units, followed by Edina/Eden Prairie, at 1,123 units. On the suburban side, Shakopee led with 944 apartments under construction.

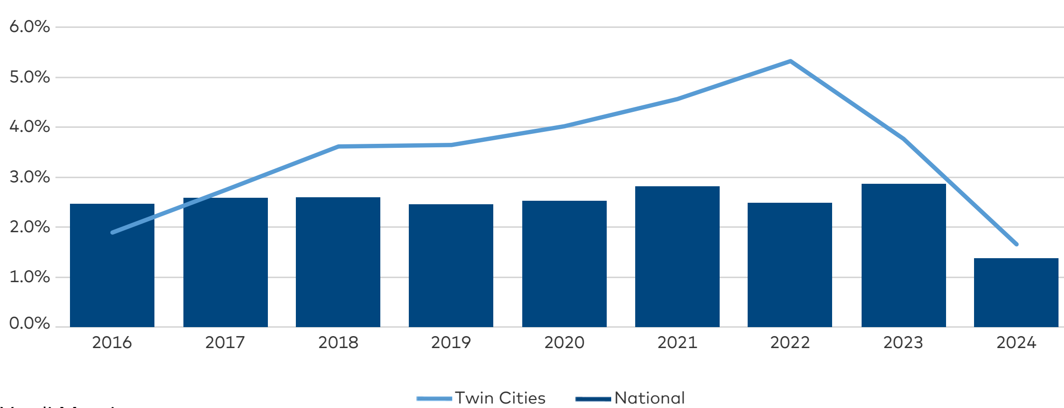
- Among completed properties, the 403-unit community Carbon31 remains the largest project completed in the metro in the first seven months of this year. Built by McGough, the property is in the Bloomington–East submarket. The community is partially affordable and includes 14,500 square feet of retail space.

Twin Cities Completions (as of July 2024)



Source: Yardi Matrix

Twin Cities vs. National Completions as a Percentage of Total Stock (as of July 2024)

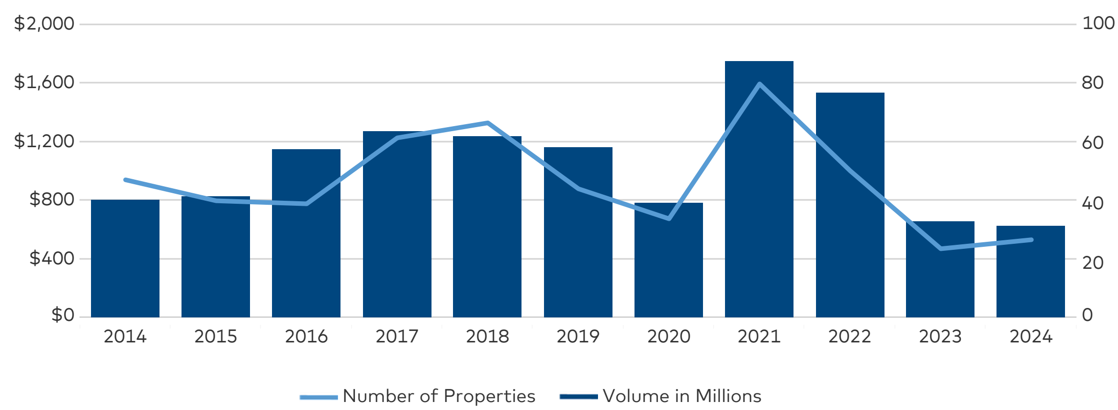


Source: Yardi Matrix

TRANSACTIONS

- Multifamily investment in the Twin Cities amounted to $624 million through the first seven months of 2024. Despite the slower pace earlier this year, transaction volume has picked up significantly, approaching the $655 million recorded in 2023. However, the annual average for sales over the last decade was $1.1 billion.
- Investors favored RBN assets, which represented 18 of the 20 properties that changed hands this year. The metro's overall price per unit of $168,512 was lower than the $182,423 U.S. figure.
- Transaction activity was concentrated in core urban submarkets. Minneapolis–University led the investment volume, at $194 million. Only two other submarkets surpassed the $100 million mark: Minneapolis–Central ($123 million) and Minneapolis–Calhoun Isle ($120 million).

Twin Cities Sales Volume and Number of Properties Sold (as of July 2024)



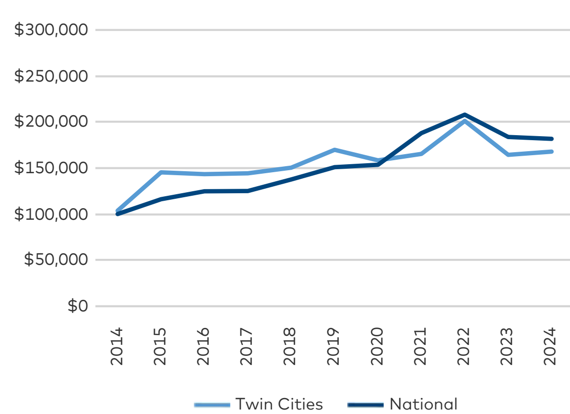
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis–University	194
Minneapolis–Central	123
Minneapolis–Calhoun Isle	120
Minnetonka	89
Plymouth	71
Edina/Eden Prairie	71
Blaine	60

Source: Yardi Matrix
[1] From August 2023 to July 2024

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

Building in the Twin Cities: A Developer's View

By Diana Firtea

The Twin Cities stand out as a stable and attractive area for both investors and developers, mainly due to the two cities' steady economic growth and robust employment landscape. Most multifamily fundamentals continued to improve this year, despite the ongoing economic uncertainty. Development was the only area that slowed down, but Roers Cos. Executive Vice President Shane LaFave believes the metro is still appealing.

What makes the Minneapolis-St. Paul market unique and attractive for multifamily developers?

Minneapolis and St. Paul are attractive because of the area's steady growth. The Twin Cities doesn't experience the steeper highs and lows like some other markets, which is attractive to some investors. The Minneapolis-St. Paul metro area is also home to a number of large employers, has excellent employment data and the rent-to-income ratio is highly appealing compared to other major markets in the U.S.

How has the introduction of rent control affected your projects and the overall housing supply in the area?

The rent control laws were not enacted in all cities in the metro area, so far it has just been in Minneapolis and St. Paul proper. What we have seen is that more developers seem to be carrying out their projects in the surrounding suburbs. The laws did not have a direct impact on our projects because we don't have projects

in those municipalities, but it has had an indirect impact in that it has created more competition amongst developers in the surrounding suburbs.

Recent data shows the number of multifamily permits in Minneapolis and St. Paul has dropped since rent control measures were introduced, with both cities falling behind the permitting activity in the suburbs.

What's your perspective on creating a healthy housing market?

My perspective is generally to let the market balance itself out with supply and demand. Developers will naturally provide more of what is in demand, and when they supply too much of it, rents will level off on their own. If a city wants to encourage a certain type of housing, such as affordable housing, the best way to do it is by incentivizing developers with tax increment financing or other forms of incentive, as opposed to trying to control and limit the supply of the type of housing they want to discourage.

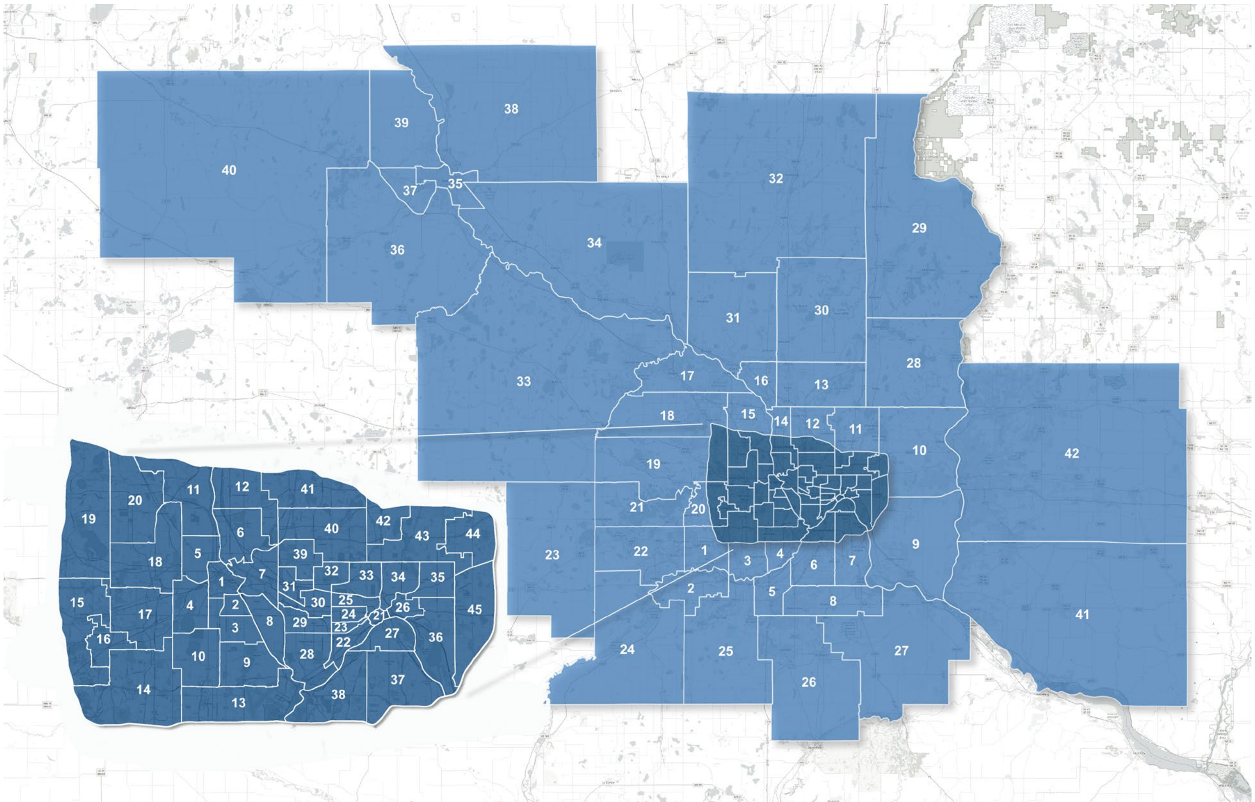
How do you expect the Twin Cities multifamily market to perform for the rest of the year and beyond?

I think the second half will continue much like the first half. We'll continue to see a tighter lending market leading to fewer deals happening than in previous years.

Hopefully, toward the end of the year, we'll start to see some interest rate relief, which would build momentum for 2025 and beyond.

(Read the complete interview on 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

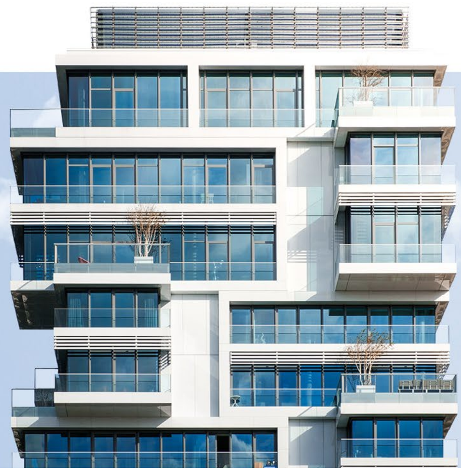
The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

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 x14006.

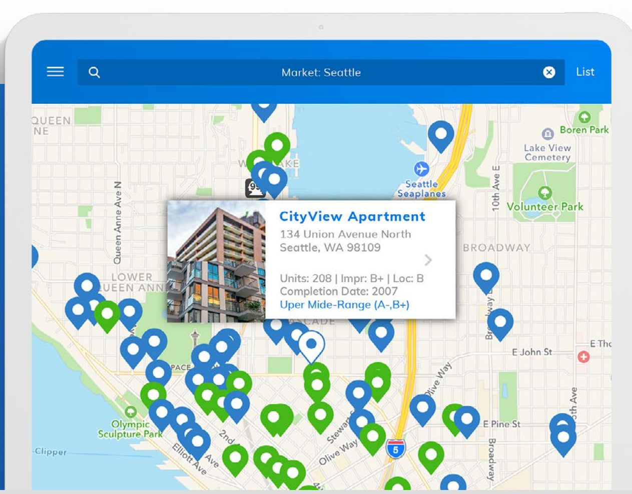
Yardi Matrix

Power your business with the industry's leading data provider



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 **22.3+ million units**, covering over **92% of the U.S. population.**

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