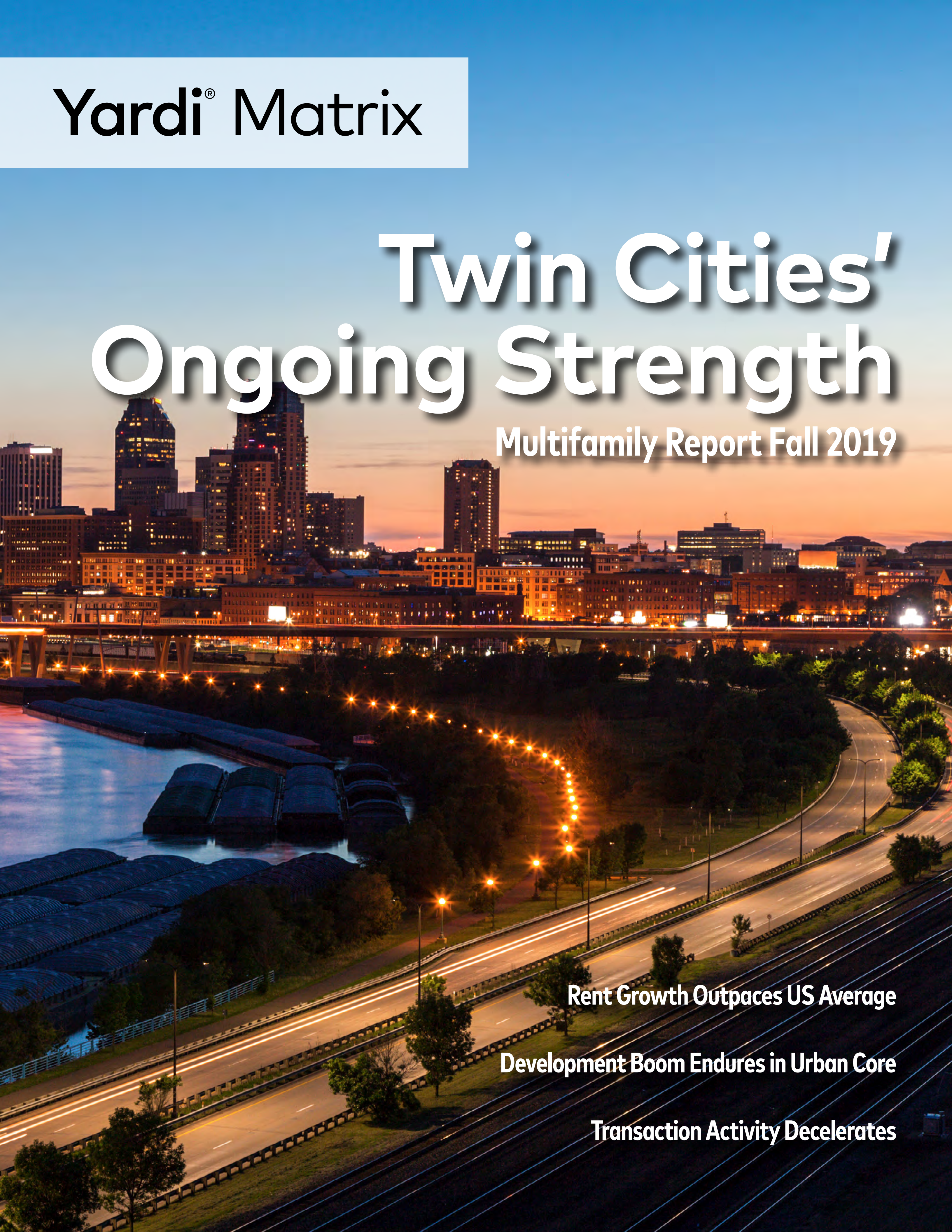
Yardi® Matrix

Twin Cities' Ongoing Strength

Multifamily Report Fall 2019



Rent Growth Outpaces US Average

Development Boom Endures in Urban Core

Transaction Activity Decelerates

Market Analysis
Fall 2019

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Strong Demand Supports Rent Growth

The Twin Cities' multifamily market remains healthy, backed by strong population gains and solid demand. At 3.8% year-over-year through September, rent growth has outperformed the U.S. average for the past three years.

Employment growth was led by mining, logging and construction, which gained 4,900 jobs. This sector, along with leisure and hospitality, and manufacturing and financial activities, offset the losses recorded by all the other industries. Several construction projects along Interstates 35 and 35W are underway: The Minnesota Department of Transportation is adding MnPass Express Lanes from Roseville to Blaine—as part of a $208 million project—rebuilding the freeway in Minneapolis and repairing the bridge over the Minnesota River in Bloomington. The education and health sector is at the other end of the spectrum. This year, the Minnesota Legislature voted to improve education spending by $543 million, but that number isn't enough to avoid cutting teaching positions.

Despite a slow deceleration, the metro's development pipeline is still solid, with 11,740 units under construction as of September. In the meantime, the multifamily transaction volume slightly dropped across the city. Yardi Matrix expects rents to advance 4.7% this year.

Recent Twin Cities Transactions

City Walk at Woodbury

City: Woodbury, Minn.
Buyer: The Connor Group
Purchase Price: $108 MM
Price per Unit: $238,411

Lake Calhoun Flats

City: Minneapolis, Minn.
Buyer: Weidner Investment Services
Purchase Price: $33 MM
Price per Unit: $208,861

The Buckingham

City: Minneapolis, Minn.
Buyer: Sentinel Real Estate
Purchase Price: $17 MM
Price per Unit: $135,738

Blaisdell Housing

City: Minneapolis, Minn.
Buyer: Investment Property Group
Purchase Price: $15 MM
Price per Unit: $96,026

On the cover: Photo by benkrut/iStockphoto.com

Rent Trends

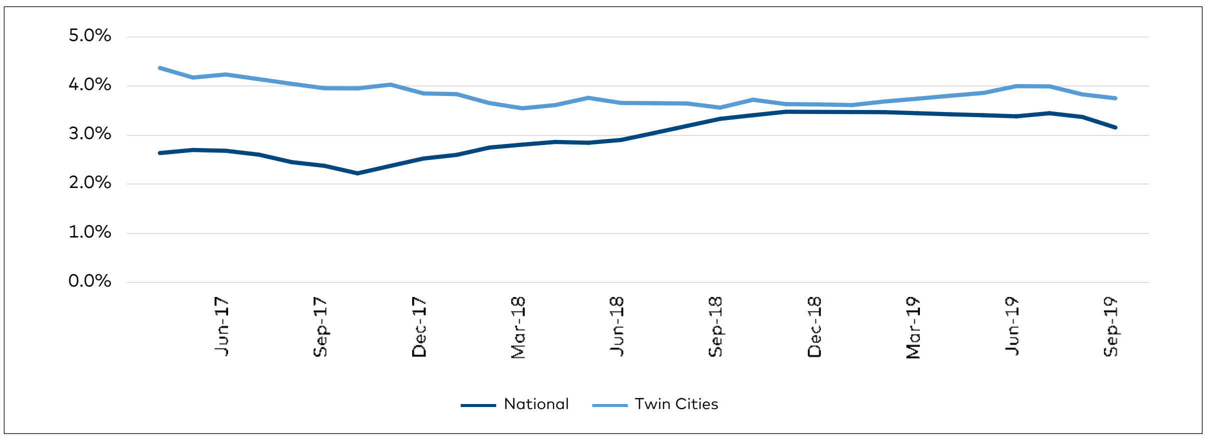
- Rents in Minneapolis–St. Paul rose 3.8% year-over-year through September, 60 basis points above the national rate. Rents continue to climb, despite significant supply additions over the past six years. However, a $1,327 average is still below the $1,471 national figure.

- The metro's affordability advantage, coupled with an above-trend demographic expansion, is supporting rent gains and keeping the average occupancy rate among the highest in the country. At 96.9% as of August, the occupancy rate in stabilized properties in the Twin Cities outpaced Midwestern cities such as Detroit (96.2%) and Chicago (94.6%).

- High demand across all asset classes has resulted in equal rent growth between segments—at 3.7% in the year ending in September. Rents in the upscale Lifestyle segment rose to $1,705, while average rates for working-class Renter-by-Necessity assets reached $1,125.

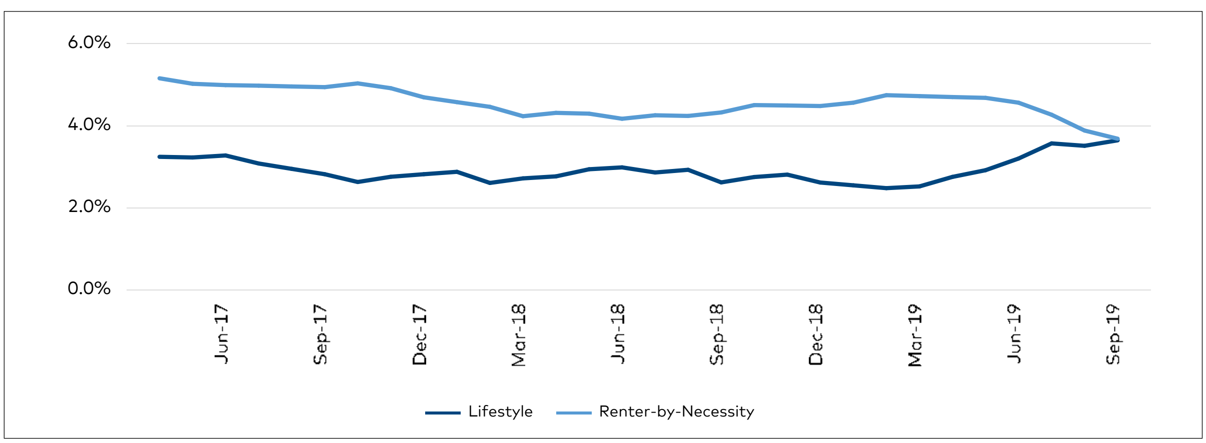
- Urban core submarkets remained the most expensive, with St. Paul–St. Anthony ($1,844 as of September) leading the way, despite a 3.4% year-over-year rent drop. St. Paul–West Seventh ($1,806) and Minneapolis–Calhoun Isle ($1,766) followed. The list of submarkets driving rent growth included New Hope-Crystal (7.0%) and Oakdale–South (6.8%). We expect rents to rise 4.7% in 2019.

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)

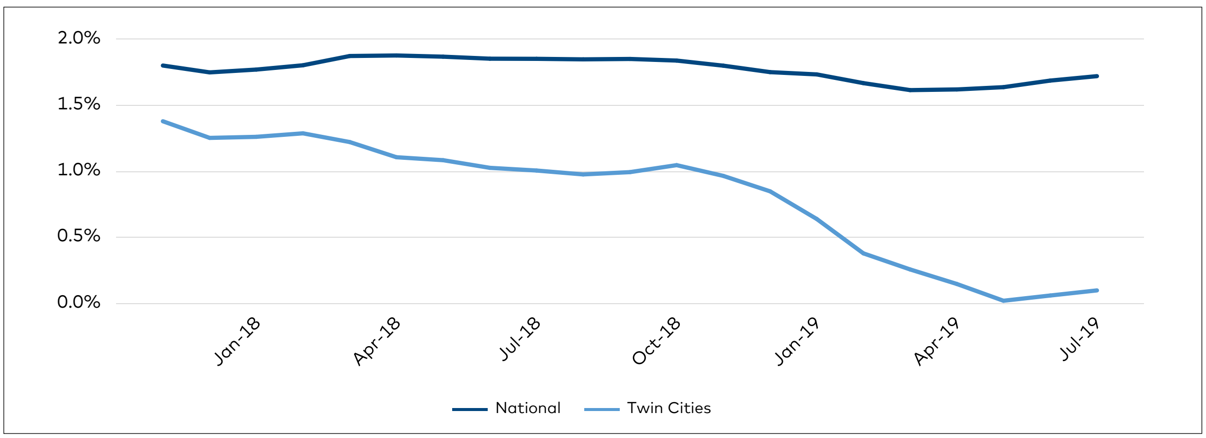


Source: YardiMatrix

Economic Snapshot

- In the 12 months ending in July, Minneapolis–St. Paul only gained 4,900 jobs. This marked a 0.1% increase, which severely lagged the 1.7% national average. However, the unemployment rate for Minneapolis–St. Paul–Bloomington was 3.1% for the same month, 60 basis points below the U.S. figure.
- The mining, logging and construction sector gained 4,900 jobs, which compensated for the significant number of losses in sectors such as education and health services—down 2,500 positions—and government, which contracted by 1,400 jobs. Information, trade, and transportation and utilities, along with professional and business services, lost a combined 2,400 jobs. The biggest hit to Minnesota workers was felt this spring, when Shopko liquidated dozens of stores. Several entities with a sizable presence in the state have also announced layoffs in 2019: Thrivent Financial will shed 430 jobs, Wells Fargo & Co. will cut 400 jobs at its operations center in Shoreview, and Thomson Reuters will slash 12 percent of its workforce.
- Hundreds of workers are on site each day at the former Ford factory in St. Paul, where Ryan Cos. is developing a 122-acre mixed-use project. Further, MV Eagan Ventures plans to build 1.2 million square feet of offices, 950 units, a hotel and retail space on a 200-acre site dubbed Viking Lakes.

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	%
15	Mining, Logging and Construction	103	4.8%	4,900	5.0%
70	Leisure and Hospitality	212	9.9%	3,900	1.9%
30	Manufacturing	220	10.3%	2,300	1.1%
55	Financial Activities	158	7.4%	200	0.1%
80	Other Services	84	3.9%	-100	-0.1%
60	Professional and Business Services	338	15.8%	-600	-0.2%
40	Trade, Transportation and Utilities	385	18.0%	-800	-0.2%
50	Information	39	1.8%	-1,000	-2.5%
90	Government	248	11.6%	-1,400	-0.6%
65	Education and Health Services	353	16.5%	-2,500	-0.7%

Sources: YardiMatrix, Bureau of Labor Statistics

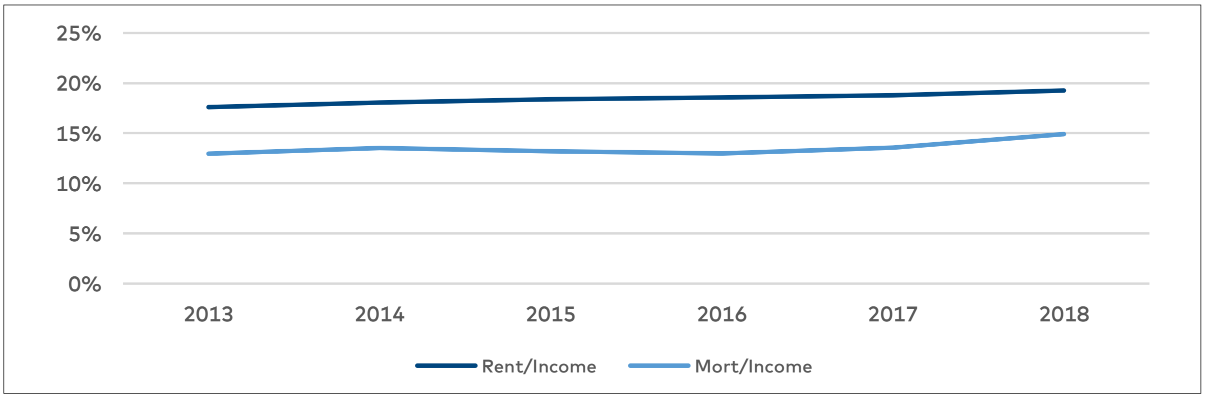
Demographics

Affordability

- The median home value in Minneapolis–St. Paul reached $242,578 in 2018, a new cycle peak. Homeownership was the most affordable option, with the average mortgage payment accounting for 15% of the area's median income, while the $1,327 average rent equated to as much as 19%.

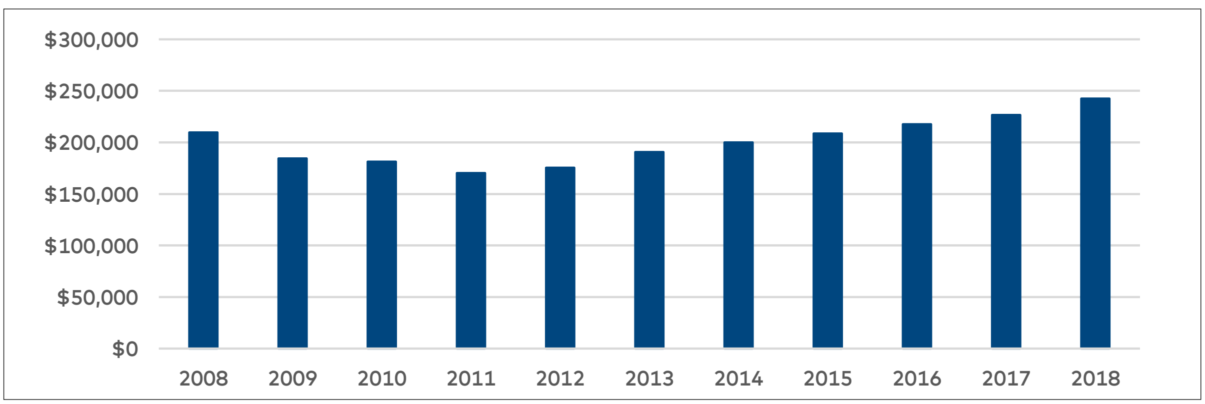
- The nationwide affordable housing shortage is making upzoning regulations more popular. Minneapolis 2040, a comprehensive plan for denser development, made Minneapolis the first major U.S. city to eliminate single-family zoning altogether. The Metropolitan Council forecasts that between 2020 and 2030, the Twin Cities region will add 37,400 low- and moderate-income households.

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 36,521 residents last year, up 1.0%, and well above the 0.6% national rate.

- The metro gained 137,606 residents between 2014 and 2018, which marked a 3.9% demographic expansion.

Twin Cities vs. National Population

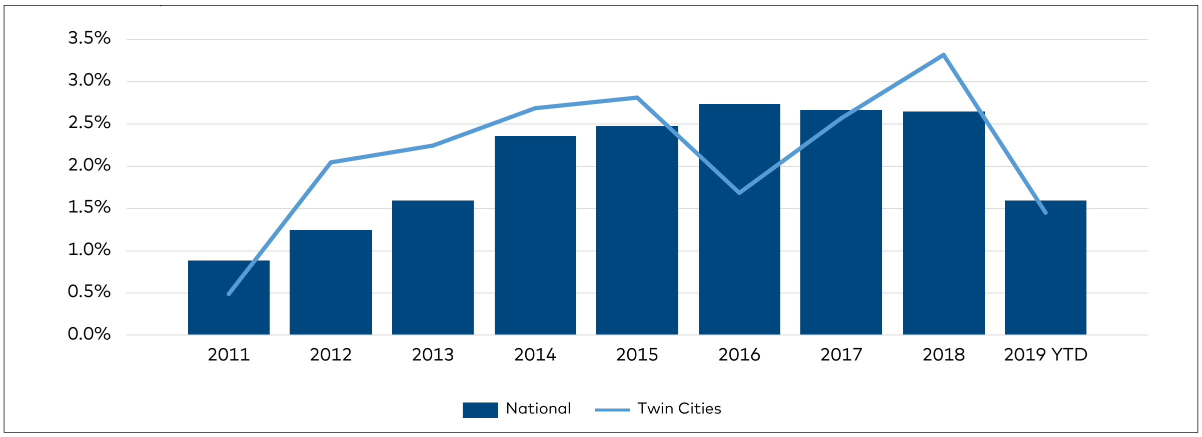
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Twin Cities Metro	3,491,584	3,519,501	3,554,690	3,592,669	3,629,190

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

Supply

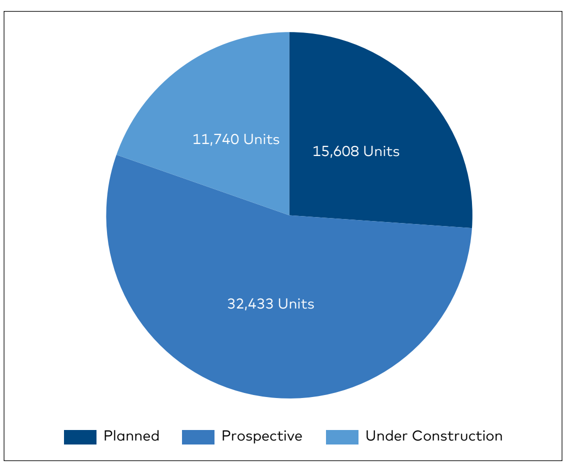
- Minneapolis–St. Paul had 11,740 units underway across 75 developments as of September. By far, core urban areas led development, with Minneapolis–Central (2,063 units under construction) dominating the pipeline, followed by Minneapolis–University (733) and Minneapolis–Calhoun Isle (699).
- The Twin Cities' inventory increased by 2,705 units this year, through September. This comes on the heels of 2018's cycle peak of 6,783 units delivered , and follows five consecutive years of accelerated supply that totaled almost 23,000 apartments. Wading carefully into the metro's 50 Opportunity Zones, developers have several projects in low-income neighborhoods. There are a few others in areas where investment is already occurring, such as near the 5.6 million-square-foot Mall of America or along the Green Line light rail route. We expect developers to add 4,754 units to the metro's stock this year, testing the Minneapolis–St. Paul multifamily market's appetite.
- Although 70% of the projects underway are geared toward the Lifestyle segment, the metro's largest property under construction is a fully affordable community in the St. Paul–Lexington Hamline neighborhood. Dominium is building 700 Emerald Street, a 362-unit asset, using a $51 million HUD loan.

Twin Cities vs. National Completions as a Percentage of Total Stock (as of September 2019)



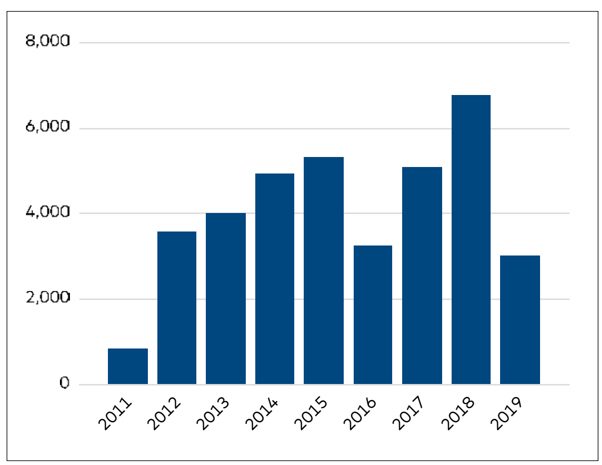
Source: YardiMatrix

Development Pipeline (as of September 2019)



Source: YardiMatrix

Twin Cities Completions (as of September 2019)

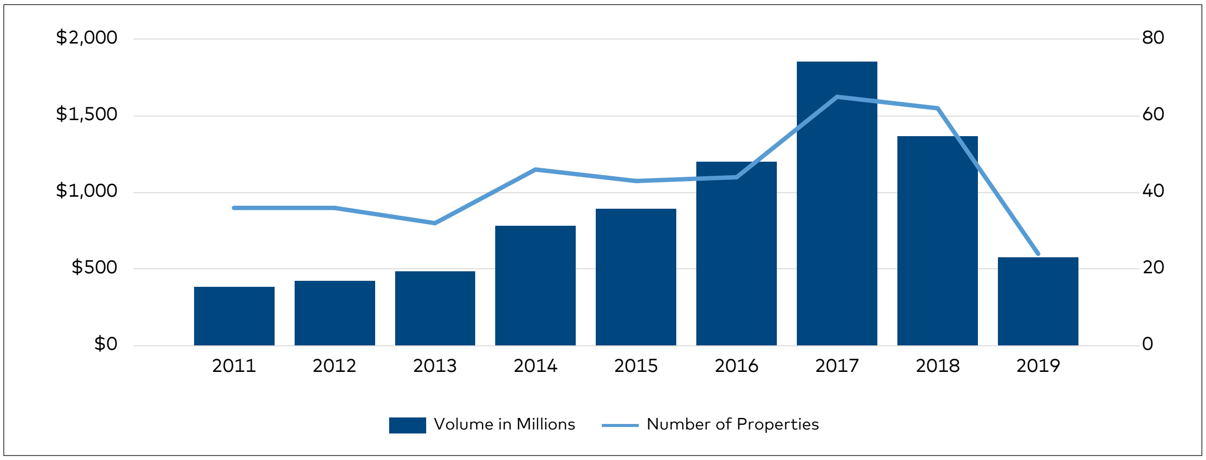


Source: YardiMatrix

Transactions

- Some $578 million in multifamily assets traded in the Twin Cities this year through September, marking a deceleration following last year's $1.4 billion total investment volume and 2017's cycle peak of $1.9 billion. During the first three quarters of 2019, most of the 24 multifamily assets that traded were in the Renter-by-Necessity segment, which pushed the $148,822 average price per unit below the national figure for the first time this decade.
- In the 12 months ending in September, the transaction volume totaled $1.1 billion, with LaSalle Investment Management among the most active players. The company paid $157 million for five assets in Minneapolis–Central, the submarket that attracted the most capital. In suburban Twin Cities, The Connor Group spent $108 million on the 453-unit City Walk at Woodbury. This deal ranked as the metro's largest transaction year-over-year through September.

Twin Cities Sales Volume and Number of Properties Sold (as of September 2019)



Source: YardiMatrix

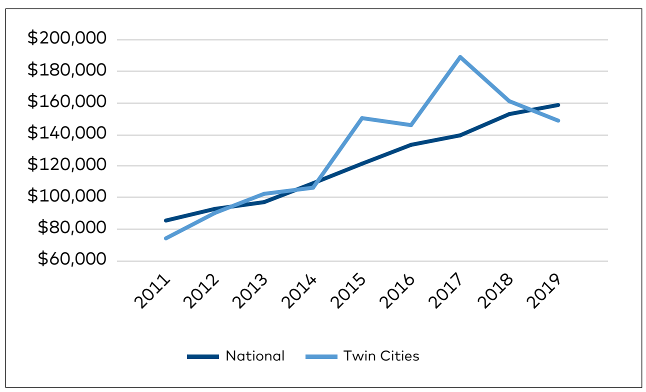
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis–Central	224
Woodbury/Cottage Grove	108
Minneapolis–University	105
Richfield	104
West St. Paul	70
Oakdale–South	68
New Hope/Crystal	61
Minneapolis–Powderhorn	52

Source: YardiMatrix

[1] From October 2018 to September 2019

Twin Cities vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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IRET Expands Denver, Minneapolis Portfolios

The company acquired two multifamily communities: Lugano Cherry Creek in Denver and FreightYard Townhomes & Flats in Minneapolis. IRET also sold its entire Topeka, Kan., portfolio for $82.8 million.

Aeon Opens Affordable Community

Situated in Minneapolis' growing Towerside district, The Louis responds to the neighborhood's lack of affordable housing. Ten of the 70 units are set aside for residents with project-based Section 8 vouchers.

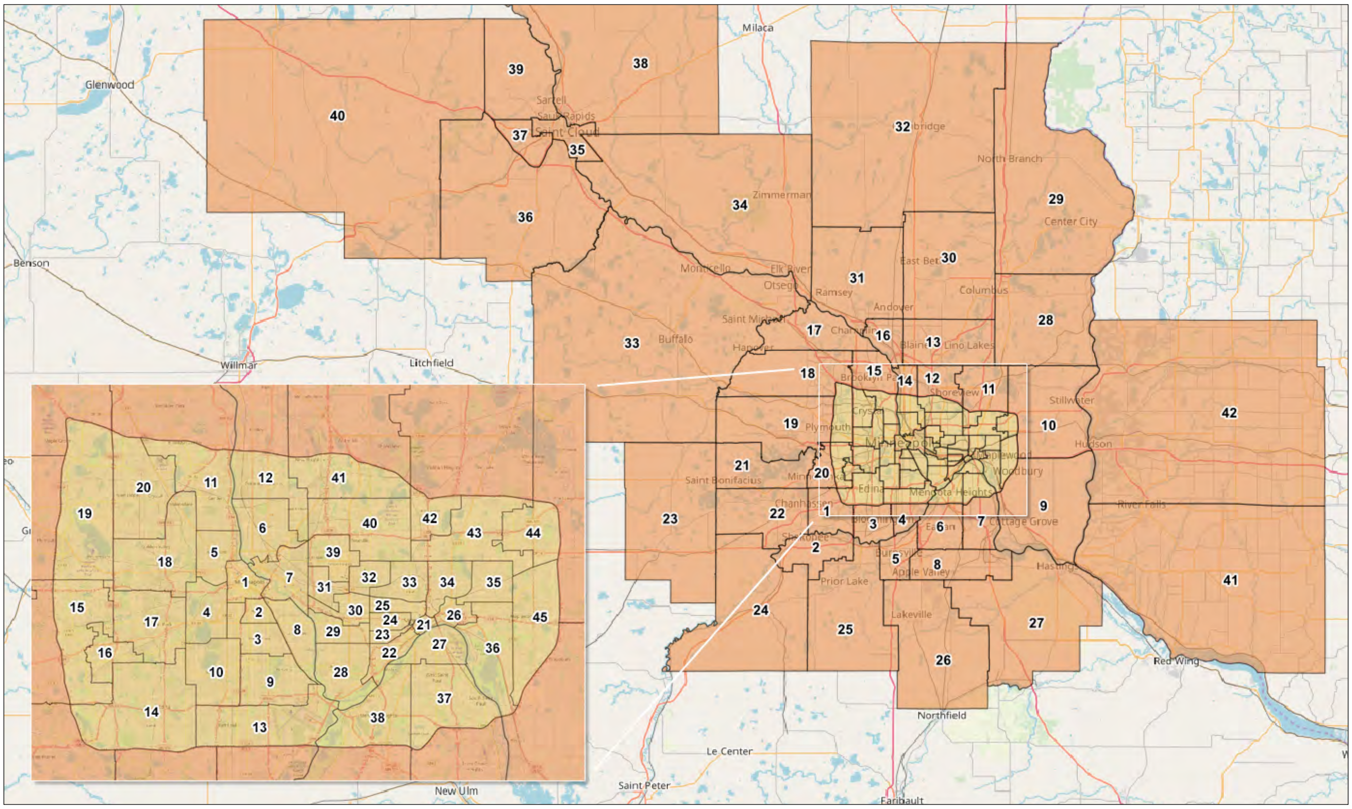
Minneapolis-Area Community Secures $18M Refi

Working on behalf of TE Miller Development, NorthMarq arranged the Freddie Mac loan for a 114-unit property in Edina, Minn. The loan will be used to refinance existing debt.

Timberland Partners JV Opens 243-Unit Community

The development is part of the company's Green Fourth project, which aims to reduce pollution. G4 includes 66 affordable multifamily units.

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

Area #	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–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
14	Fridley
15	Brooklyn Park

Area #	Submarket
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

Area #	Submarket
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.