

YARDI[®] Matrix

Fueling the Twin Cities Economy

Multifamily Summer Report 2016

**New Stadium, Mall Expansion
Highlight Retail Growth**

Large Employers Add Jobs

Investment Volume on the Rise

Market Analysis

Summer 2016

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Hungry for Multifamily

As a regional hotspot with strong employment gains, high wages and a relatively low cost of living, the Minneapolis-St. Paul area's multifamily market is bustling with activity. Though Twin Cities job growth trails the nation, sectors such as health care, education, hospitality and financial services are adding jobs and have pushed unemployment to one of the lowest rates in the country.

Leisure and hospitality play a big part in fueling the Twin Cities economy, as Minneapolis will host the 2018 Super Bowl and the National Football League's Minnesota Vikings will kick off this season at their new, \$1 billion U.S. Bank Stadium. The team has also purchased the former Northwest Airlines headquarters in Eagan and plans to relocate its headquarters and training facility from Eden Prairie. Retail is another major factor driving development in the area, with several large projects currently in the works, including the Mall of America's \$500 million expansion, scheduled for completion in late 2018.

Multifamily demand is high, especially as large employers such as UnitedHealthcare, Mayo Clinic and Target add young workers. Occupancy was a robust 96.6% as of April. Investor demand is strong, as deal flow and prices have been on the upswing. We expect that demand is likely to remain elevated in the near future, although a wave of new completions will dampen rent growth in the metro. As a result, we forecast a moderate 1.5% increase in rents in 2016.

Recent Twin Cities Transactions

Park Place



City: Plymouth, Minn.
Buyer: The Blackstone Group
Purchase Price: \$78 MM
Price per Unit: \$155,314

Hampshire Hill



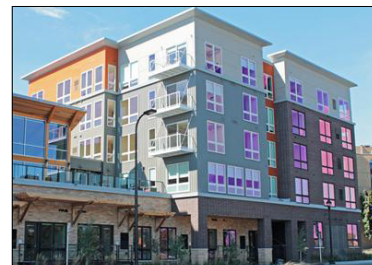
City: Bloomington, Minn.
Buyer: Investcorp
Purchase Price: \$66 MM
Price per Unit: \$123,738

The Burlington



City: St. Paul, Minn.
Buyer: Abacus Capital Group
Purchase Price: \$64 MM
Price per Unit: \$149,883

7West

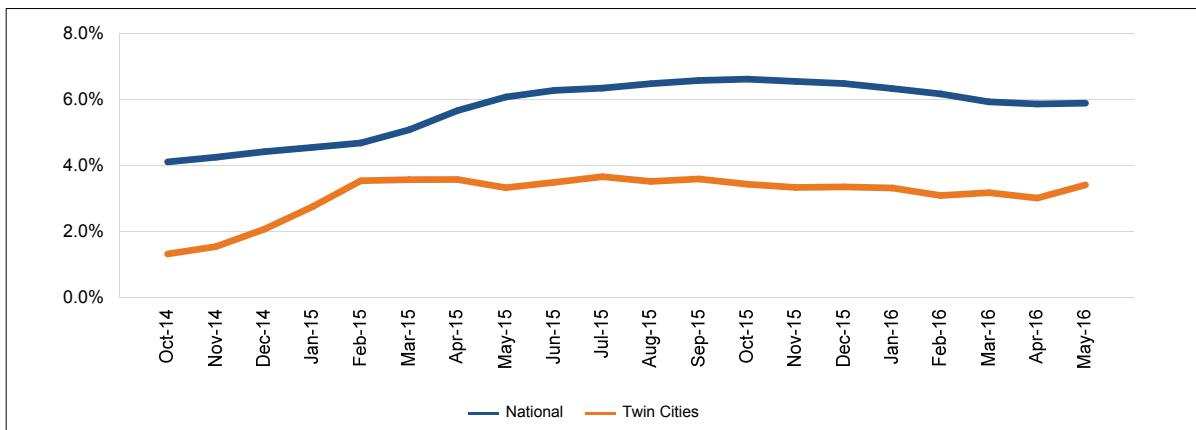


City: Minneapolis
Buyer: Weidner Investment Services
Purchase Price: \$55 MM
Price per Unit: \$254,673

Rent Trends

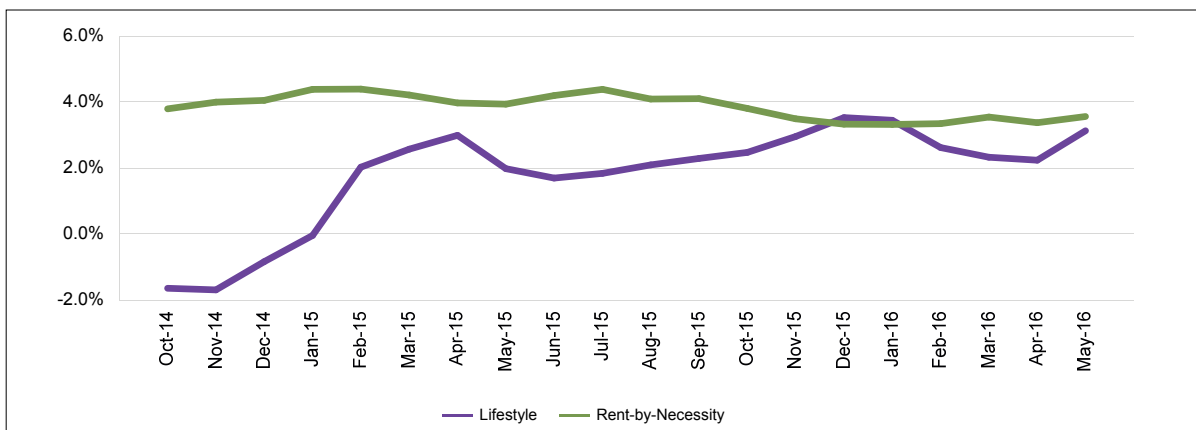
- Rents in the Twin Cities rose 3.5% year-over-year through May, below the 6% national growth rate, according to Yardi Matrix. The metro’s average rent of \$1,062 is \$142 below the national average. Rent growth is fueled by steady job formation and fast-paced household creation.
- Rent growth was roughly the same in the lower-end and upscale segments. Rates in the Renter-by-Necessity segment advanced 3.6% year-over-year to \$979, while Lifestyle rents were up 3.1% year-over-year to \$1,370.
- The submarkets with the highest rent gains were Thomas-Dale (11.3%), Maplewood (9.3%), Downtown St. Paul (5.9%), Oakdale-South (5.7%) and New Brighton (4.2%). Rent growth in these areas is driven by Millennials, who are attracted by large employers such as 3M or Imation, as well as a plethora of shopping, dining and entertainment options. Many households headed by young adults are choosing to stay close to the vibrant urban core, and are mainly drawn to higher-end, amenity-rich dwellings.
- While we expect demand for units to remain high, the increase in new supply and tepid growth in wages will limit rent gains to a moderate 1.5% in 2016.

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)

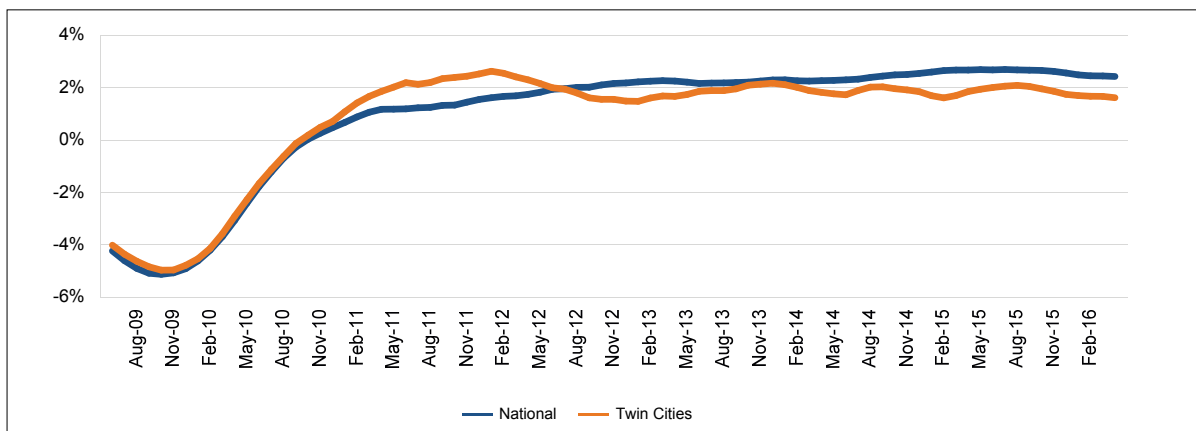


Source: YardiMatrix

Economic Snapshot

- The Twin Cities area added 35,900 jobs over the 12 months ending in April, thanks largely to hiring at Fortune 500 companies. Though the metro's 1.7% year-over-year job growth has fallen below the 2.4% national average, it boasts one of the lowest unemployment rates in the country (3.4%). Education and health services (12,100) and leisure and hospitality (5,900) led in job growth.
- The metro is a hub for healthcare and medical research, due in part to the impact of major universities including the University of Minnesota and the University of St. Thomas. The health care sector will continue to expand, fueled by projects such as Mayo Clinic's \$6 billion Destination Medical Center in Rochester—the largest economic development initiative in Minnesota and one of the largest in the U.S.—which is expected to create as many as 45,000 jobs over the next two decades.
- The region's hospitality market is also in full bloom. Three new hotels have sprouted up near the Mall of America in Bloomington in the past year, with several other hotels planned across the metro, including the conversion of the historic Plymouth Building in downtown Minneapolis into a 290-key Embassy Suites hotel. Development in this sector is likely to continue, as Minneapolis prepares for its role as host to the NFL's Super Bowl in February 2018.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	346	17.1%	12,100	3.6%
70	Leisure and Hospitality	184	9.1%	5,900	3.3%
55	Financial Activities	155	7.6%	4,100	2.7%
40	Trade, Transportation and Utilities	366	18.0%	4,000	1.1%
90	Government	268	13.2%	2,500	0.9%
15	Mining, Logging and Construction	73	3.6%	2,400	3.4%
60	Professional and Business Services	306	15.1%	2,100	0.7%
80	Other Services	83	4.1%	1,700	2.1%
30	Manufacturing	208	10.3%	1,100	0.5%
50	Information	40	2.0%	-200	-0.5%

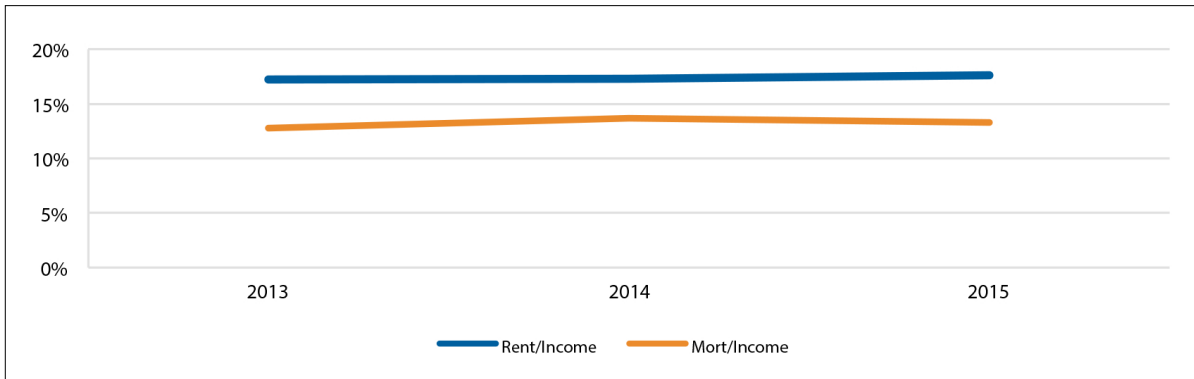
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

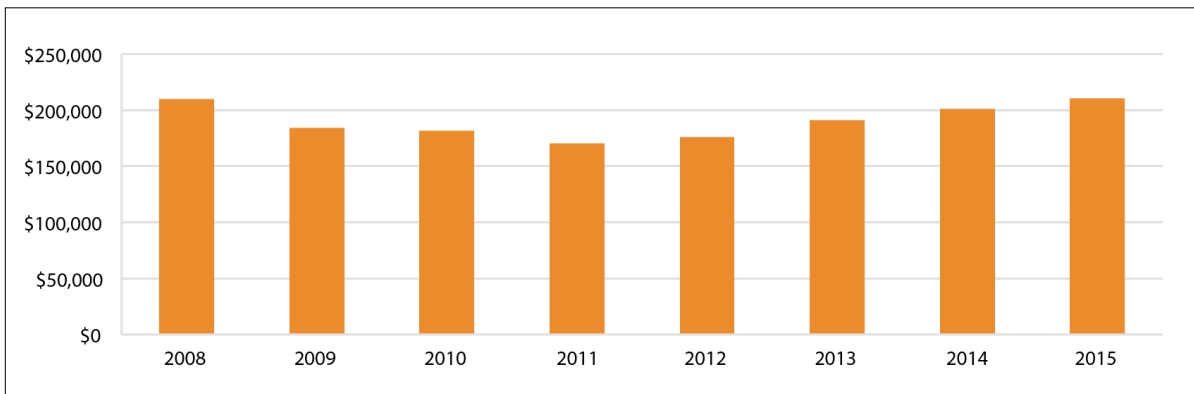
- Although home prices in the Twin Cities have been rising steadily over the past few years, the average mortgage accounts for only 13% of the area's median income of \$70,473. The median home price climbed to \$210,740 in 2015, surpassing the high point of 2008.
- Renting—which accounts for 18% of the area's median income—continues to be less affordable than owning in the metro. The region is a haven for young professionals, who prefer renting amenity-rich apartments in urban areas.

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 have recorded steady population growth in recent years, adding more than 140,000 new residents since 2010.
- In 2014, the metro's population grew by more than 33,700.

Twin Cities vs. National Population

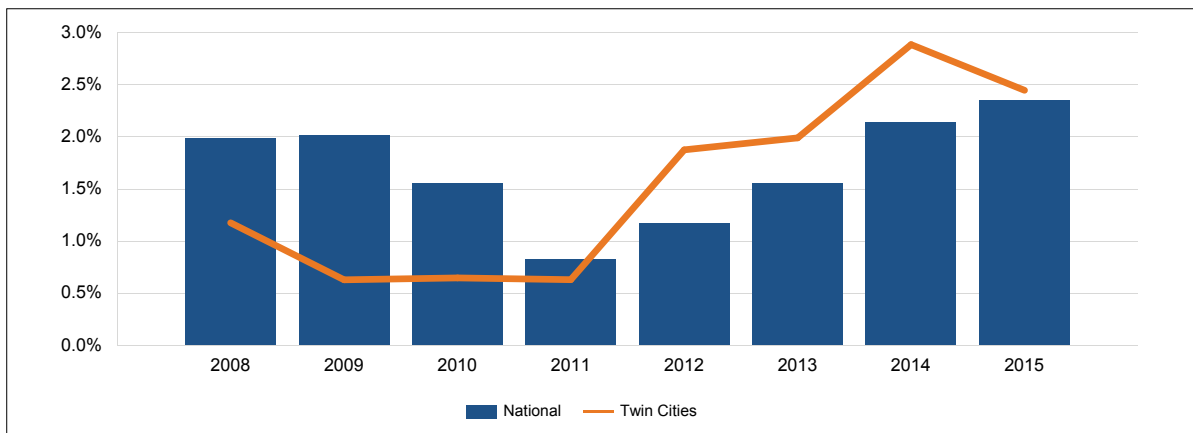
	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Minneapolis-St. Paul-Bloomington, MN-WI Metro	3,355,105	3,389,149	3,423,070	3,461,434	3,495,176

Source: U.S. Census

Supply

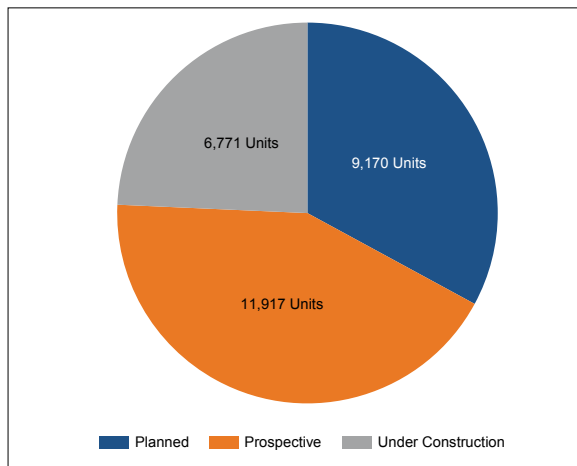
- Some 4,200 units came online in 2015, adding 2.2% to multifamily stock, on a par with the 2.3% national growth rate. However, the amount of supply was nearly 20% less than 2014, the peak of the current cycle.
- The level of new multifamily supply is expected to remain relatively high in upcoming years, with nearly 28,000 units in various stages of development. A healthy job market, coupled with a growing population and rise in renter demand, has kept vacancy rates low. Occupancy rates were 96.6% as of April and have been 96% or above for six consecutive years.
- Many Millennials that land high-paying jobs in the metro opt to rent in the urban core, creating high demand for upscale, transit-oriented residential options. As a result, development is mostly concentrated in core submarkets such as Central Minneapolis (616 units) and Downtown St. Paul (529). Other active submarkets include Brooklyn Park (484), Bloomington - East (394) and West Seventh (388).
- The largest project currently underway is the 484-unit 610 West in Brooklyn Park, which is scheduled for delivery in 2018.

Twin Cities vs. National Completions as a Percentage of Total Stock (as of May 2016)



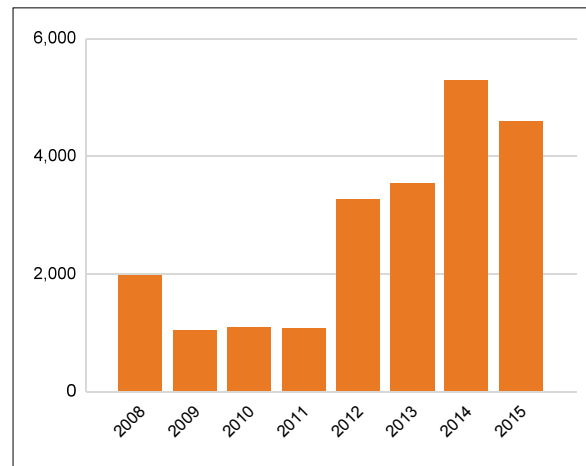
Source: YardiMatrix

Development Pipeline (as of May 2016)



Source: YardiMatrix

Twin Cities Completions (as of May 2016)

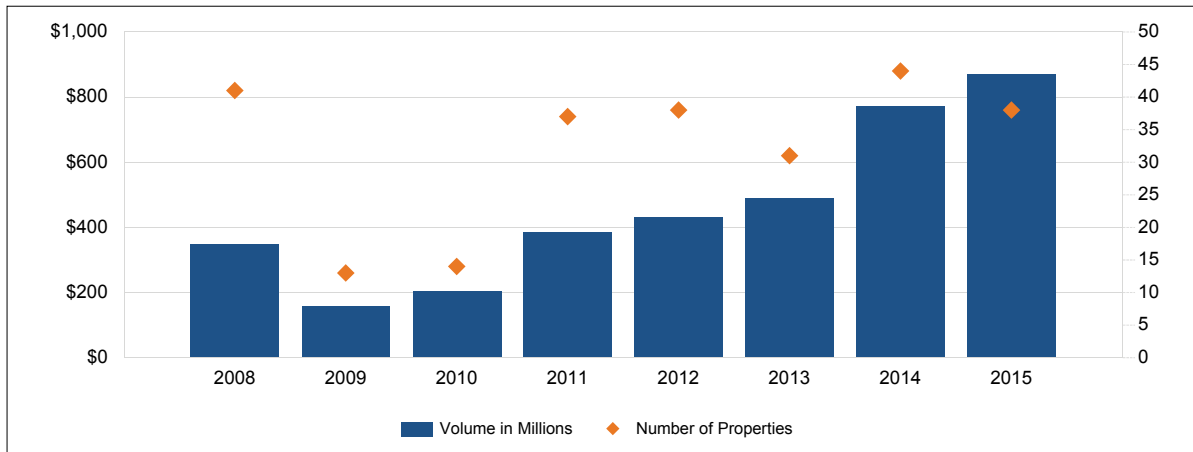


Source: YardiMatrix

Transactions

- Some \$870 million worth of properties changed hands in the Twin Cities in 2015, the highest number in the current cycle. Institutional and private investors alike are increasingly drawn to the metro, both for the higher yields compared to core markets and for its growth potential, as the metro has become a lifestyle and business hub in the Midwest.
- The average price per unit reached \$143,900 in 2015, well above the national average of nearly \$118,000. Strong buyer interest has helped property yields constrict into the 5% range for stabilized properties. In December 2015, Blackstone paid \$78 million (about \$155,000 per unit) to buy Park Place, a 500-unit apartment community in suburban Plymouth. The price was 38% higher than the last time the asset traded, in 2011, although rents grew by less than 10% during that time. Likewise, in February, Investcorp paid \$66 million (\$123,000 per unit) for Hampshire Hill in Bloomington, up 42% from its last trade, in February 2011.

Twin Cities Sales Volume and Number of Properties Sold (as of May 2016)



Source: YardiMatrix

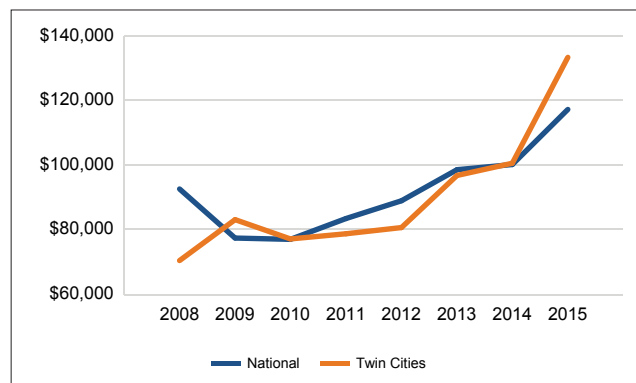
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Minneapolis - University	102
Minneapolis - Calhoun Isle	86
Plymouth	77
St. Paul - Como	72
Bloomington - West	66
Burnsville	64
Richfield	41
Minneapolis - Central	36

Source: YardiMatrix

¹ From June 2015 to May 2016

Twin Cities vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Berkadia Closes Sale of Two Minnesota Multifamily Properties



Amazon to Open Logistics Tech Center in Minneapolis



Minneapolis Warehouse Reborn As The Cameron Apartments

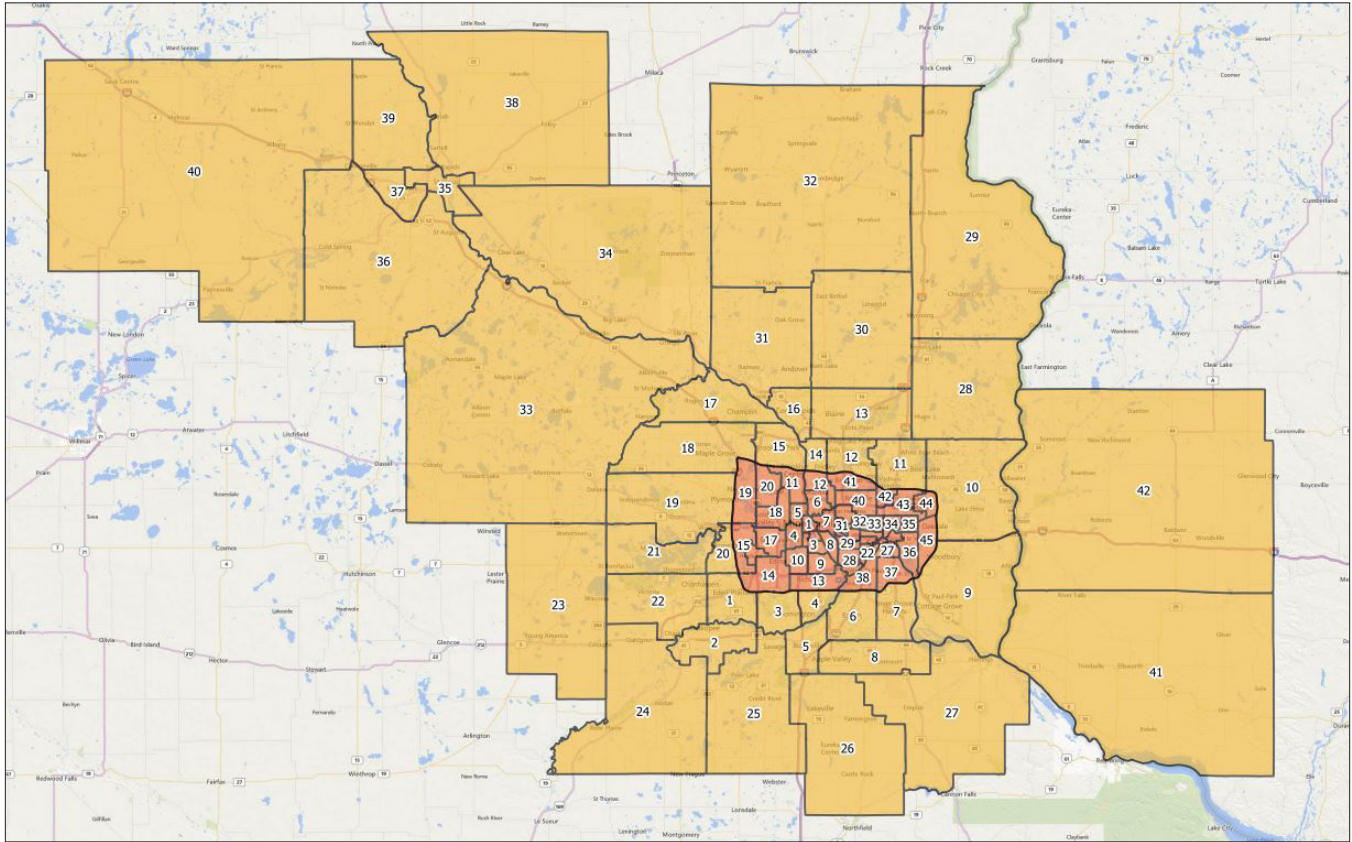


Hilton Worldwide Opens Adjacent Properties In Suburban Minneapolis

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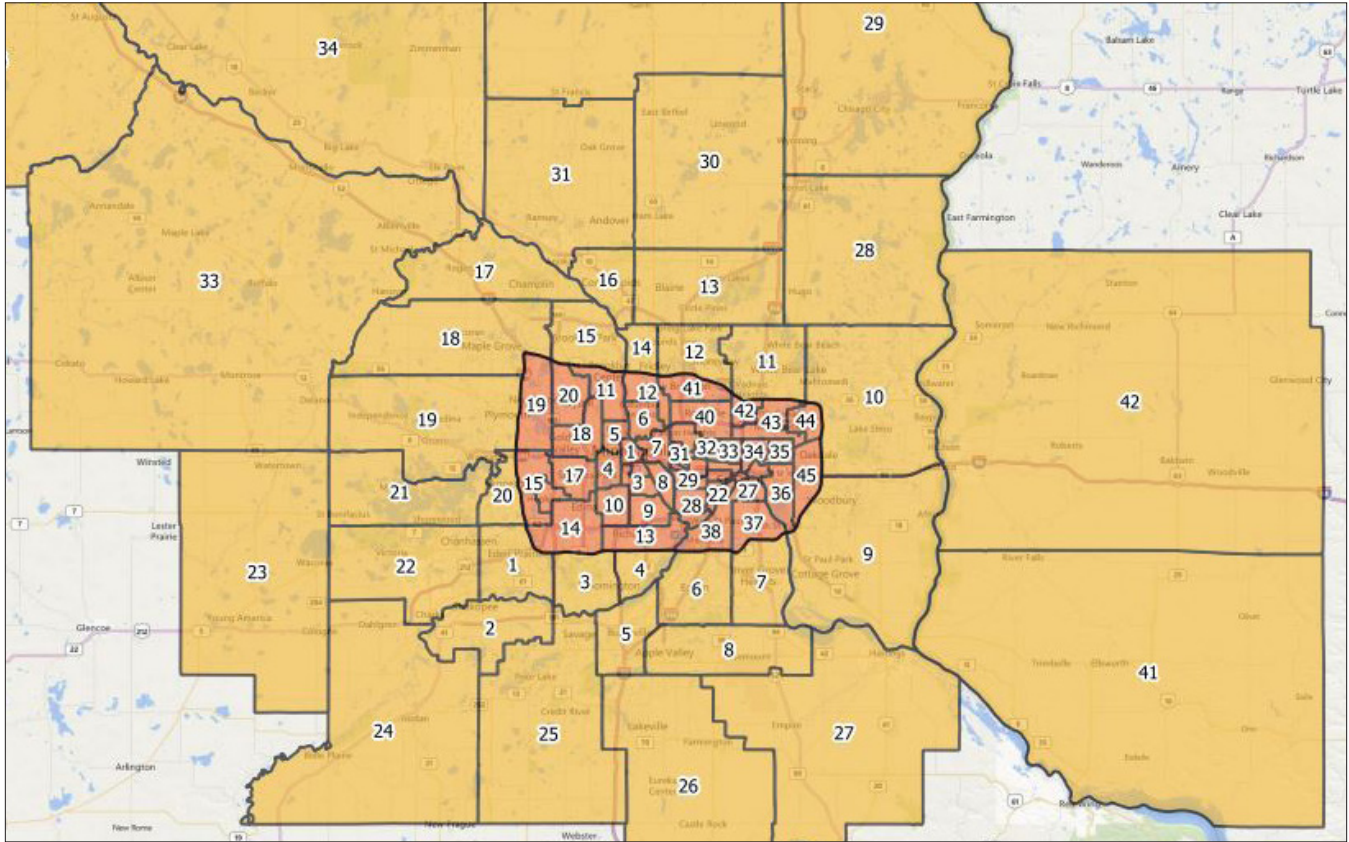
Suburban Twin Cities Submarket Map



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

Area #	Submarket
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
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

Urban Twin Cities Submarket Map



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
16	Coon Rapids
17	Champlin
18	Maple Grove
19	Plymouth
20	Minnetonka
21	Spring Park

Area #	Submarket
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
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.

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