



Mortgage

Twin Cities Multifamily Market 2020-21

Research and Forecast Report

2021 Trends Seminar:
Northstar Appraisal Institute

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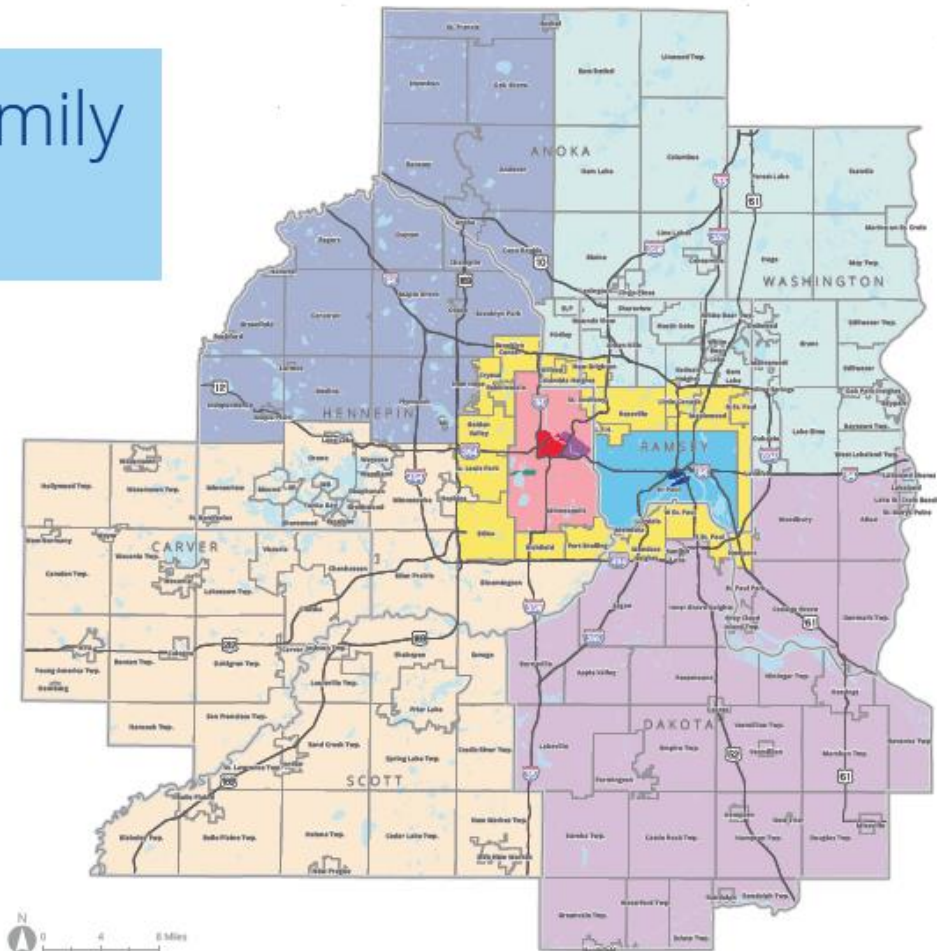
Presentation Outline

- Definition: Twin Cities Multifamily Submarkets
- Overview: Twin Cities 2020 Production and Market Challenges
- Market Indications:
 - Economic Measures
 - Multifamily Performance Measures
 - Lending and Valuation Measures
- Multifamily Development Patterns in the Twin Cities
- Affordable Multifamily Development
- Valuation Metrics: Rent Structure by Submarket & Unit Type
- Economic Incentives for Renters
- Market Outlook 2021

Twin Cities Multifamily Submarkets

This report divides the Twin Cities into 11 multifamily submarkets that cover the broad outer suburbs, the first-ring suburbs (as a group), concentrated rental districts such as Downtown Minneapolis and Uptown, and the broader central city neighborhoods in Minneapolis and St. Paul.

Concentrated submarkets



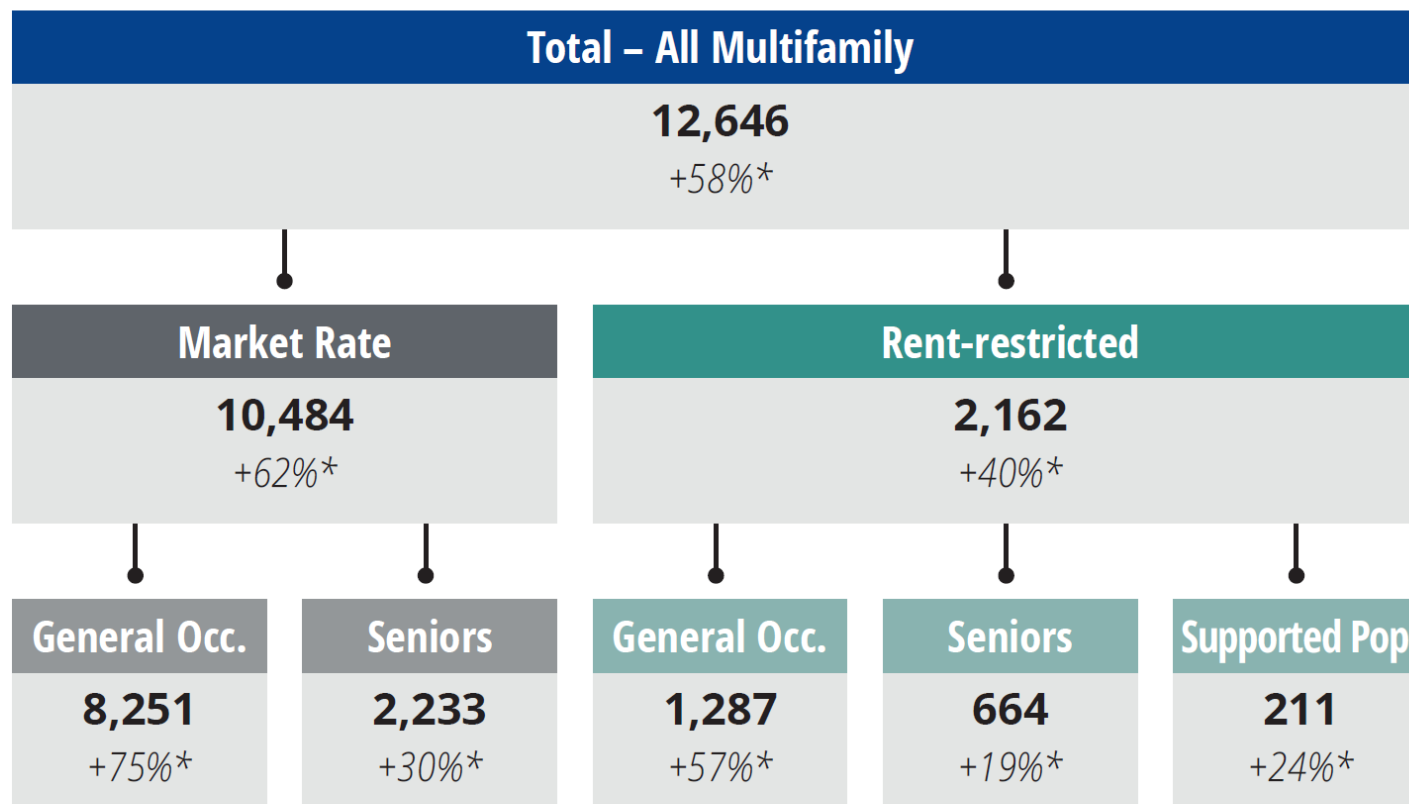
Overview

Exceptional Market Challenges in 2020

- An exceedingly rare worldwide pandemic and social unrest in 2020 challenged the Twin Cities multifamily market as never before.
- The TCs multifamily sector started 2020 strong, with low vacancy, strong rent growth, and production spreading across the metro area.
- By April, economic shutdown produced record unemployment and broad work-from-home status; 40%+ of workers lost wages, and many delayed rent payments as eviction moratoria took effect.
- Building owners absorbed higher costs for security, maintenance, and health/sanitation as units became work and home alike for many renters.
- Changing perceptions of security spurred many inner-city renters to move to the suburbs, with particularly bad effects on B- and C-Class buildings. Many other households chose to delay a move, cutting unit absorption by 50%.
- The rush by developers to beat the deadline for new inclusionary zoning rules in Minneapolis helped produce a doubling of market-rate units delivered.

Overview

2020 Multifamily Deliveries – 7 County Metro Area



*versus the average of the past 5 years (2015-2019)

Source: Colliers Mortgage

Overview

Broader Production Trends in 2020

Remarkably, the exceptional market challenges in 2020 did not stifle new multifamily production in the Twin Cities.

- The 12,600+ new rental units delivered in the Twin cities last year was a record total for at least 30 years, if not historically.
- Market-rate deliveries – 83% of new supply – peaked at ~10,500 new units.
 - A flood of supply in DT Minneapolis produced tough market conditions, but slow absorption due to the pandemic affected many TCs submarkets.
- Affordable deliveries grew by 40% over the five-year average, adding almost 2,200 units last year.
 - While great news, the new supply still satisfied only half of the growth in demand, estimated at 4,000-4,500 units per year.
 - Long-term pent-up demand for affordable housing still remains a vast problem in the Twin Cities.

Market Indications

Economic Measures

	Measure	Source	Notes	Full Year or End of Year					
				2015	2016	2017	2018	2019	2020
Economic Measures: Twin Cities and U.S.	Unemployment Rate¹	U.S Bureau of Labor Statistics	Twin Cities MSA	3.3%	3.5%	2.8%	2.9%	3.0%	4.5%
			U.S.	5.0%	4.7%	4.1%	3.9%	3.6%	6.7%
	Median HH Income	U.S Census Bureau	Twin Cities MSA	\$ 76,625	\$ 78,018	\$ 80,156	\$ 81,020	\$ 83,698	—
			U.S.	\$ 56,516	\$ 59,039	\$ 61,372	\$ 63,179	\$ 68,703	—
	Inflation: Urban Consumers²	U.S Bureau of Labor Statistics	U.S. – All Items	0.7%	2.1%	2.1%	1.9%	2.3%	1.4%
			U.S. – Shelter Costs	3.2%	3.6%	3.2%	3.2%	3.2%	1.8%

Notes:

- 1) Seasonally-adjusted figure.
- 2) U.S. city average, all urban consumers, not seasonally adjusted.
- 3) Based on a metro area universe of 205,831 units in the 4th quarter 2020 in market-rate complexes (10+ units), excluding subsidized apartments and senior housing.
- 4) Based on a metro area universe of 293,500 units (5+ unit buildings) across all price ranges and building types in service at the end of 2020.
- 5) Rate for the last trading day of each year, typically December 31st.
- 6) Does not include multifamily sales with a price below \$2.5 million.

Market Indications

Multifamily Performance Measures

	Measure	Source	Notes	Full Year or End of Year					
				2015	2016	2017	2018	2019	2020
Multifamily Performance Measures: Twin Cities	Housing Deliveries	Colliers Mortgage	G-O, Market-rate Rental	4,461	3,112	4,752	6,293	5,023	8,251
		Witten Advisors	All Housing Units	11,488	10,378	12,281	15,771	14,163	17,707
			G-O Rental/All Units	39%	30%	39%	40%	35%	47%
	Rental Unit Absorption	Marquette Advisors ³	Gen. Occ. Market-rate	3,928	2,732	3,656	3,922	5,566	2,628
		Witten Advisors ⁴	Full Rental Universe	4,007	3,476	3,382	5,269	3,753	4,099
	Rental Vacancy Rate	Marquette Advisors ³	M-R Stabilized	2.3%	2.7%	2.6%	3.0%	3.1%	4.4%
		Marquette Advisors ³	M-R w/Lease-up Units	3.0%	3.2%	3.1%	3.5%	3.2%	5.4%
		Witten Advisors ⁴	All Unit Types	3.0%	2.8%	2.6%	2.8%	3.0%	3.9%
	Average Rent Growth	Marquette Advisors ³	Quoted/Asking Rent	3.1%	4.0%	5.4%	5.6%	5.8%	2.7%
		Witten Advisors ⁴	Effective Street Rent	3.0%	3.7%	4.3%	3.4%	3.1%	-0.2%

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Market Indications

Lending and Valuation Measures

	Measure	Source	Notes	Full Year or End of Year					
				2015	2016	2017	2018	2019	2020
Multifamily Lending and Valuation Measures: Twin Cities and U.S.	10-year Treasury ⁵	U.S. Dept. of the Treasury	U.S.	2.27%	2.45%	2.40%	2.69%	1.92%	0.93%
	Cap Rate Average	Real Capital Analytics ⁶	Twin Cities MSA	5.50%	5.60%	5.40%	5.50%	5.30%	5.00%
	Average Sale Price/Unit	Real Capital Analytics ⁶	Twin Cities MSA	\$149,252	\$139,092	\$148,664	\$158,785	\$174,622	\$172,411

Notes:

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TCs Multifamily Development Patterns

An Expanding Footprint

- While typical hot spots continued to show strong production, the formerly low-activity southeast and northeast suburbs broke out with big gains.
- Development spread further into the suburbs, with 55% of new multifamily units added there in 2020. While one of the highest such totals since 2010, it still falls far short of the share of population and jobs held by the suburbs (76% and 71%, respectively).
- In coming years, the suburbs will offer ample multifamily opportunities, as the land area is vast and many areas have yet to see new rental units in this era. Also, each suburb should offer new units to keep pace with changing demographics and lifestyles.

2020 Multifamily Deliveries by Submarket

All Product Categories

Twin Cities Metro Area (7 Counties)

Submarket	Market-Rate		Rent-Restricted		Supported Populations	All
	General Occupancy	Seniors	General Occupancy	Seniors		
Southwest Suburbs	1,140	685	532	59	0	2,416
Southeast Suburbs	1,185	562	49	0	40	1,836
Minneapolis – Downtown	1,370	0	278	0	61	1,709
Minneapolis – Neighborhoods	983	283	161	0	110	1,537
First-Ring Suburbs	646	266	3	172	0	1,087
Northeast Suburbs	449	165	261	192	0	1,067
St. Paul – Neighborhoods	540	155	3	241	0	939
Minneapolis – Uptown	809	0	0	0	0	809
Northwest Suburbs	493	117	0	0	0	610
Minneapolis – U of M Districts	465	0	0	0	0	465
St. Paul – Downtown	171	0	0	0	0	171
TWIN CITIES TOTALS	8,251	2,233	1,287	664	211	12,646

category leader

Source: Colliers Mortgage

TCs Multifamily Development Patterns

2020 Highlights

- Multifamily deliveries peaked in the southern suburbs. The southwest and southeast submarkets added more than 4,200 new units of all types, 1/3rd of the metro total.
 - This large band of cities led with market-rate senior (1,247 units), general-occupancy affordable (581 units), and 2,300+ general-occupancy market-rate units.
- DT Minneapolis is under intense pressure to absorb twice the typical level of general-occupancy market-rate construction. Nearly 1,400 such units opened in 2020 versus about 750 on average per year over the past five years.
- Development was strong in the Minneapolis neighborhoods (1,537 units), the first-ring suburbs (1,087), the northeast suburbs (1,067), and the St. Paul neighborhoods (939).
 - Market conditions are holding steady in these submarkets because they each had a good balance of deliveries among the various product categories, with senior housing (market-rate and/or affordable) and general-occupancy affordable housing comprising significant totals in each area.
- In what will hopefully be a future trend, the suburbs delivered more than 60% of all new affordable rental units, totaling more than 1,300 units. While excellent news, the need for affordable housing in the suburbs is likely double or triple this amount each year.

Affordable Multifamily Development

Too Much Need and Never Enough Production

The need for affordable rental housing in the Twin Cities far outstrips the local funding and production systems. The continual production shortfall not only causes harm in a given year, but the injury compounds and rolls forward into the next year, as more need emerges.

Over the last decade the gap between demand and supply grew by an estimated 31,000 units as demand grew by roughly 42,000 households, but the supply only edged forward by about 11,000 units.

Affordable Rental Production Deficit 2010s Carryover to the 2020s

All Types of Affordable Housing
Twin Cities (7 Counties)

2010s Decade – 10 Year Totals				
	New Affordable Rental Deliveries ¹	New Demand for Affordable Rental Units ²	Percent of Demand Satisfied by Production	New Demand Not Served by New Production
TWIN CITIES TOTALS	11,070	42,056	26%	30,986

1) Colliers Mortgage

2) Metropolitan Council: 2011-2020 Allocation of Affordable Housing Need (10/4/17). Affordable rental (<60% AMI) need is calculated at 80% of the total affordable demand estimate for the Twin Cities, equating to 42,056 new affordable rental units needed in the 2010s.

Affordable Multifamily Development

Ongoing Challenges

- **Not Enough Production in the Suburbs** – Ideally, the suburbs collectively would step up affordable housing production to account for 80% of all new affordable units in metro area (equivalent to about 3,400 units), while the central cities would maintain production of 800-1,000 new units per year.
- **Insufficient Funding** – Last year, requests for new affordable project funding far surpassed – by more than two times – state funds available for the production of new units.
- **NIMBYism** – “Not in my backyard” opposition often kills affordable proposals in the suburbs. Even if unsuccessful in eliminating a project, opposition often succeeds in slashing the project size and unit count, rendering projects more costly on a per unit basis, eroding economies of scale, and wasting valuable public funds.

New Affordable Rental Deliveries by City		
Twin Cities (7 Counties)		
2020		
Minneapolis	610	} 40%
St. Paul	244	
Minnetonka	229	} 60%
Blaine	192	
Lexington	180	
West St. Paul	172	
Shakopee	108	
Bloomington	82	
Jordan	59	
Eden Prairie	52	
Waconia	51	
Rosemount	49	
Forest Lake	45	
Inver Grove Heights	40	
Vadnais Heights	36	
Remaining Cities	13	
TWIN CITIES TOTALS	2,162	100%

Source: Colliers Mortgage

New Multifamily Deliveries in the Twin Cities: 2020

Core Minneapolis Inset

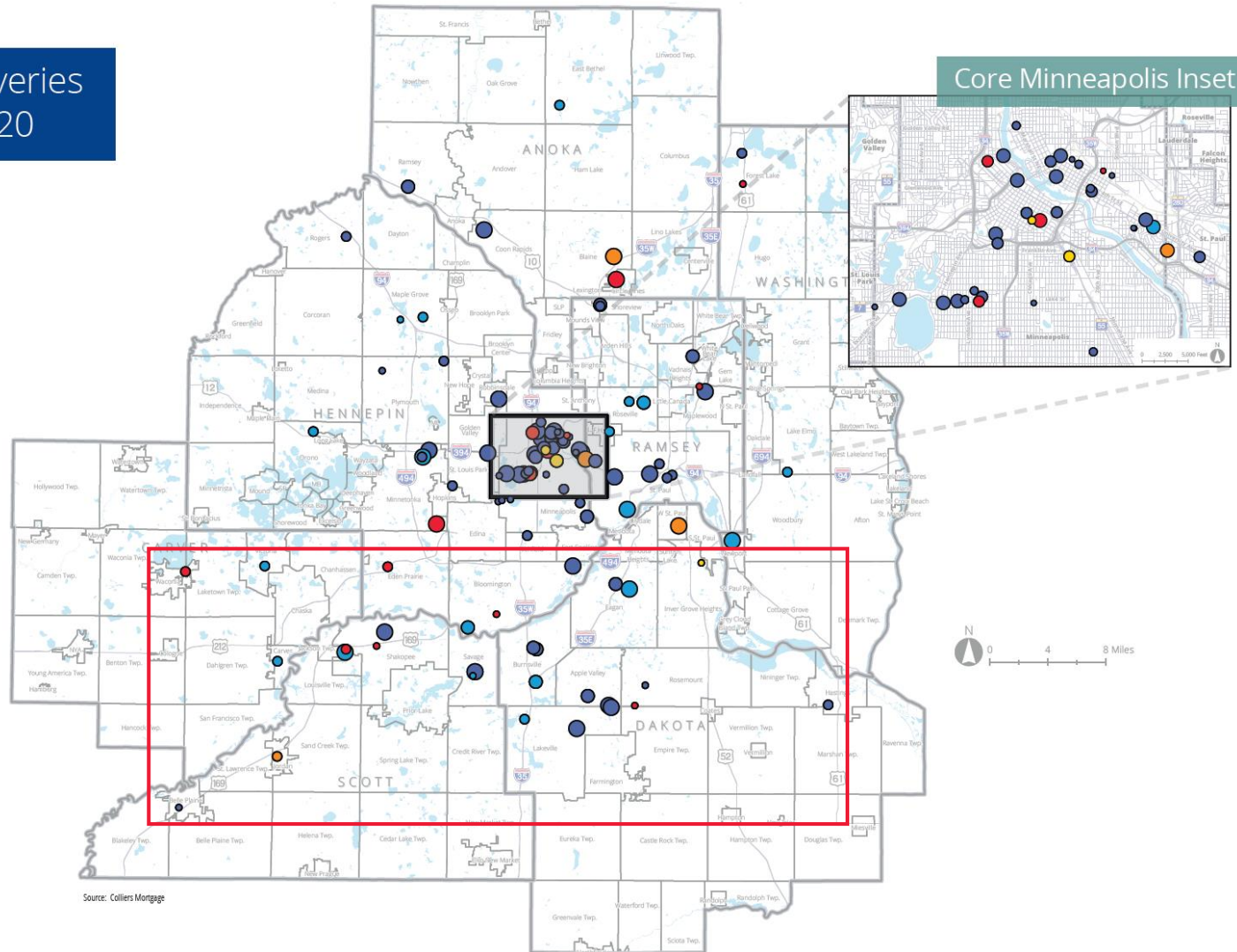
Type of Occupancy

- Market-Rate, General-Occupancy
- Market-Rate, Senior
- Affordable, General-Occupancy
- Affordable, Senior
- Affordable, Supported Populations

Number of Units

- Up to 50 Units
- 51-100 Units
- 101-150 Units
- More than 150 Units

Note: Includes developments where the initial units, if not all, were available for occupancy during the year. Product categories include market-rate (general occupancy and senior/age-restricted), and rent-restricted/affordable (general occupancy, senior, and supported populations). Examples of populations supported in rent-restricted properties include homeless veterans, persons with developmental disabilities, youth leaving foster care, etc.



Valuation Metric: Asking Rents by Submarket

Holding Steady on Asking Rents While Effective Rents Fall

The upheaval in the job market during the pandemic shutdown in 2020 sent a jolt through rent collections, with moderate- and low-wage workers having the hardest time paying rent. While rent collections for A- and B- Class properties fell by 2% to 3% on average at year's end, collections at Class-C properties declined by nearly 10% (Minnesota Multi Housing Association).

Developers who delivered new units in 2020 kept asking rents in-line with trends of the past several years. Among roughly 8,000 new units surveyed, the overall Twin Cities average asking rent hit \$2.30 psf last year, up from \$2.24 at YE 2019. The challenge for owners in 2021 will be to narrow the gap between asking and effective rents in a market with ample competition and common concessions of one to four months of free rent.

New Unit Pricing: Asking Rent Per Square Foot General-Occupancy, Market-Rate, Opened in 2020 Twin Cities (7 Counties) | Year End 2020

	Overall Rent/SF*	Survey Representation	
		Units	Projects
Minneapolis – U of M Districts	\$2.92	+11% - 12%	+62%
Minneapolis – Uptown	\$2.64	+6% - 9%	
Minneapolis – Downtown	\$2.60		
St. Paul – Neighborhoods	\$2.45	+6% - 12%	
Minneapolis – Neighborhoods	\$2.42		
St. Paul – Downtown	\$2.42		
First-Ring Suburbs	\$2.29	+18% -27%	
Southwest Suburbs	\$2.18		
Northwest Suburbs	\$1.85	Base level	
Northeast Suburbs	\$1.86		
Southeast Suburbs	\$1.80		
TOTAL: TWIN CITIES	\$2.30	7,962	63

* Weighted Average

Source: Colliers Mortgage

- Notes: 1) Pricing not included for market-rate units at mixed-income buildings.
2) Three properties lacked sufficient pricing data.

Valuation Metric: Asking Rents by Unit Type

Studios and 1BR Units (G-O, M-R, Opened in 2020)

	\$1,303 Grand Average			\$1,663 Grand Average		
	Low	Average	High	Low	Average	High
Mpls. – U of M Districts	\$ 995	\$ 1,177	\$ 1,469	\$1,160	\$ 1,382	\$ 1,719
Minneapolis – Uptown	\$ 977	\$ 1,277	\$ 1,525	\$1,170	\$1,936	\$ 3,750
Minneapolis – Downtown	\$ 1,200	\$1,486	\$ 1,925	\$1,196	\$ 1,746	\$ 3,440
St. Paul – Neighborhoods	\$ 973	\$ 1,194	\$ 1,690	\$1,287	\$ 1,665	\$ 2,075
St. Paul – Downtown	\$ 899	\$1,475	\$ 1,680	\$1,099	\$ 1,571	\$ 1,995
Mpls. – Neighborhoods	\$ 940	\$ 1,331	\$ 2,015	\$ 965	\$ 1,545	\$ 2,595
First-Ring Suburbs	\$ 1,150	\$ 1,353	\$ 1,695	\$1,335	\$2,019	\$ 5,500
Southwest Suburbs	\$ 1,195	\$ 1,213	\$ 1,525	\$1,320	\$ 1,675	\$ 3,850
Northeast Suburbs	\$ 1,100	\$ 1,201	\$ 1,284	\$1,305	\$ 1,647	\$ 2,143
Northwest Suburbs	\$ 1,175	\$ 1,238	\$ 1,358	\$1,280	\$ 1,476	\$ 1,700
Southeast Suburbs	\$ 1,228	\$ 1,389	\$ 1,650	\$ 995	\$ 1,451	\$ 2,090

 Highest average figure for all submarkets.

 Second-highest average figure for all submarkets.

Valuation Metric: Asking Rents by Unit Type

2BR and 3BR Units (G-O, M-R, Opened in 2020)

	Two-Bedroom			Three-Bedroom		
	Low	Average	High	Low	Average	High
Mpls. – U of M Districts	\$ 1,595	\$ 2,625	\$ 3,717	\$ 2,516	\$3,346	\$ 4,156
Minneapolis – Uptown	\$ 1,705	\$3,169	\$11,075	Insufficient Data*		
Minneapolis – Downtown	\$ 1,677	\$ 2,818	\$ 5,445	Insufficient Data*		
St. Paul – Neighborhoods	\$ 1,789	\$ 2,278	\$ 3,145	Insufficient Data*		
St. Paul – Downtown	\$ 1,599	\$ 2,261	\$ 2,875	Insufficient Data*		
Mpls. – Neighborhoods	\$ 1,500	\$ 1,997	\$ 3,475	\$ 2,140	\$ 2,503	\$ 2,870
First-Ring Suburbs	\$ 1,945	\$3,529	\$ 7,500	\$ 2,370	\$3,181	\$ 3,595
Southwest Suburbs	\$ 1,745	\$ 2,468	\$ 6,500	\$ 2,285	\$ 2,633	\$ 3,824
Northeast Suburbs	\$ 1,618	\$ 2,025	\$ 2,500	\$ 2,057	\$ 2,086	\$ 2,114
Northwest Suburbs	\$ 1,500	\$ 1,664	\$ 1,959	\$ 1,900	\$ 2,074	\$ 2,189
Southeast Suburbs	\$ 1,270	\$ 1,907	\$ 3,560	\$ 1,615	\$ 2,389	\$ 3,041

\$2,517
Grand
Average

\$2,708
Grand
Average

 Highest average figure for all submarkets. Second-highest average figure for all submarkets.

*Too few (or no) units to generate reliable market rent figures.

Economic Incentives for Renters

Concessions Formally Offered at New (2020) Multifamily Properties

Twin Cities Submarkets – Market-Rate, General-Occupancy Developments

November 2020 Through January 2021

Submarket	Survey Information			Type of Concession / Number of Properties Offering									
	Properties surveyed	Properties with concessions	Percentage with concessions	Less Aggressive → More Aggressive									
				Little or no security deposit	1/2 month free rent	One month free rent	One month free rent + add'l*	Two months free rent	Two months free rent + add'l*	Three months free rent	Three months free rent + add'l*	Four months free rent	
Minneapolis – Downtown	7	7	100%			2		1	1	1	1	1	
Minneapolis – Uptown	5	5	100%					3	2				
Southwest Suburbs	5	5	100%			3	1				1		
Northwest Suburbs	5	4	80%	1	1	1	1						
St. Paul – Neighborhoods	4	3	75%				1	1	1				
Minneapolis – Neighborhoods	12	8	67%	1		1	3	2	1				
Minneapolis – U of M Districts	7	4	57%			4							
First-Ring Suburbs	6	3	50%			1	1		1				
Southeast Suburbs	9	4	44%			3	1						
Northeast Suburbs	4	0	0%										
St. Paul – Downtown	2	0	0%										
TOTALS	66	43	65%	2 5%	1 2%	15 35%	8 19%	7 16%	6 14%	1 2%	2 5%	1 2%	

*Additional concessions may include moving allowances, one- or two-year price guarantees, reduced deposits and/or admin fees, one-year health club memberships, reduced or free parking stalls, free storage unit, free bike storage, and \$300-\$500 cash gift cards.

Source: Colliers Mortgage

Economic Incentives for Renters

2020 Highlights

- Nine of eleven TCs submarkets had three or more new M-R, G-O buildings offering an economic concession on selected units at YE 2020, typically between one- and two-months of free rent on a one-year lease.
 - 43 of 66 new M-R, G-O buildings in the Twin Cities (65%) offered some economic incentive to new renters at the end of last year.
- DT Minneapolis was the most competitive submarket market by far, with all seven new market-rate buildings offering incentives at YE 2020.
 - Five DT buildings offered between two and four months of free rent, representing a discount of ~16% to 33% PUPY, for a one-year lease.
- Uptown and the southwest suburbs also had concessions at 100% of new M-R buildings last year, with one+ month of free rent on at least some units.

Economic Incentives for Renters

2020 Highlights (cont.)

- Economic incentives were common in the northwest suburbs (80% of new buildings), St. Paul neighborhoods (75%), Minneapolis neighborhoods (67%), and U of M neighborhoods (57%).
 - Among these areas, the Minneapolis and St. Paul neighborhoods offered the strongest incentives, typically one month or more of free rent, and often up to three months of free rent PUPY.
- Markets with lower levels of rent incentives included the first-ring suburbs (50% of new buildings), and the southeast suburbs (44%).
- No new buildings in the northeast suburbs or Downtown St. Paul offered rent incentives at the end of 2020.

Market Outlook 2021

National Trends

- The US economy should rebound in 2021 given the rollout of the Covid-19 vaccine, the \$1.9 trillion support package passed by congress, and pent-up desire by Americans to regain a sense of normalcy in daily life.
- Bond rates continue to stay at historically low levels, providing low-cost debt for acquisitions, refinances, and new construction.
- Among the major real estate categories, multifamily ranks second behind industrial in investment outlook, and substantial investment capital is “waiting on the sidelines.”
- By the end of 2021, the multifamily sector should show strengthening operational and financial performance, with subsequent years promising to show performance more typical to the pre-Covid era.
- However, rising prices for raw materials and upward pressure on inflation will have a dampening effect on new construction and rehabilitation projects. Interest rates are expected to rise.

Market Outlook 2021

Twin Cities Trends

- A large volume of new market-rate, general-occupancy units will continue to challenge the Twin Cities multifamily sector.
- More than 66% of the new supply over the next two years (~14,900 of 22,454 units) will likely be market-rate, general-occupancy units.
- As many as 9,000 to 10,000 such units could open this year, driving the vacancy rate to 6%-7% for this market segment.

Multifamily Pipeline: Under Construction for 2021 Delivery or After*

All Types of Units | Twin Cities (7 Counties)

Submarket	Market Rate	Affordable	Total	% of Total
First-Ring Suburbs	3,318	1,768	5,086	22.7%
Southwest Suburbs	1,987	1,113	3,100	13.8%
Northwest Suburbs	1,899	900	2,799	12.5%
Minneapolis – Downtown	2,599	167	2,766	12.3%
Mpls. – Neighborhoods	1,529	870	2,399	10.7%
Southeast Suburbs	2,076	50	2,126	9.5%
St. Paul – Neighborhoods	1,325	720	2,045	9.1%
Northeast Suburbs	877	403	1,280	5.7%
St. Paul – Downtown	447	82	529	2.4%
Minneapolis – Uptown	195	0	195	0.9%
Mpls. – U of M Districts	125	4	129	0.6%
TOTAL	16,377	6,077	22,454	100.0%
Product Category	Market Rate	Affordable	Total	% of Total
General Occupancy	14,914	3,576	18,490	82.3%
Senior	1,463	1,885	3,348	14.9%
Supported Populations	-	616	616	2.7%
TOTAL	16,377	6,077	22,454	100.0%

*Includes units already delivered in 2021.

Source: Colliers Mortgage



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Questions and Answers

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