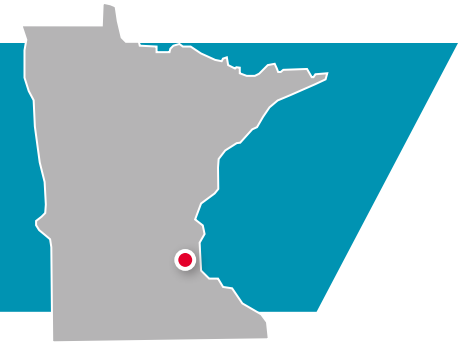
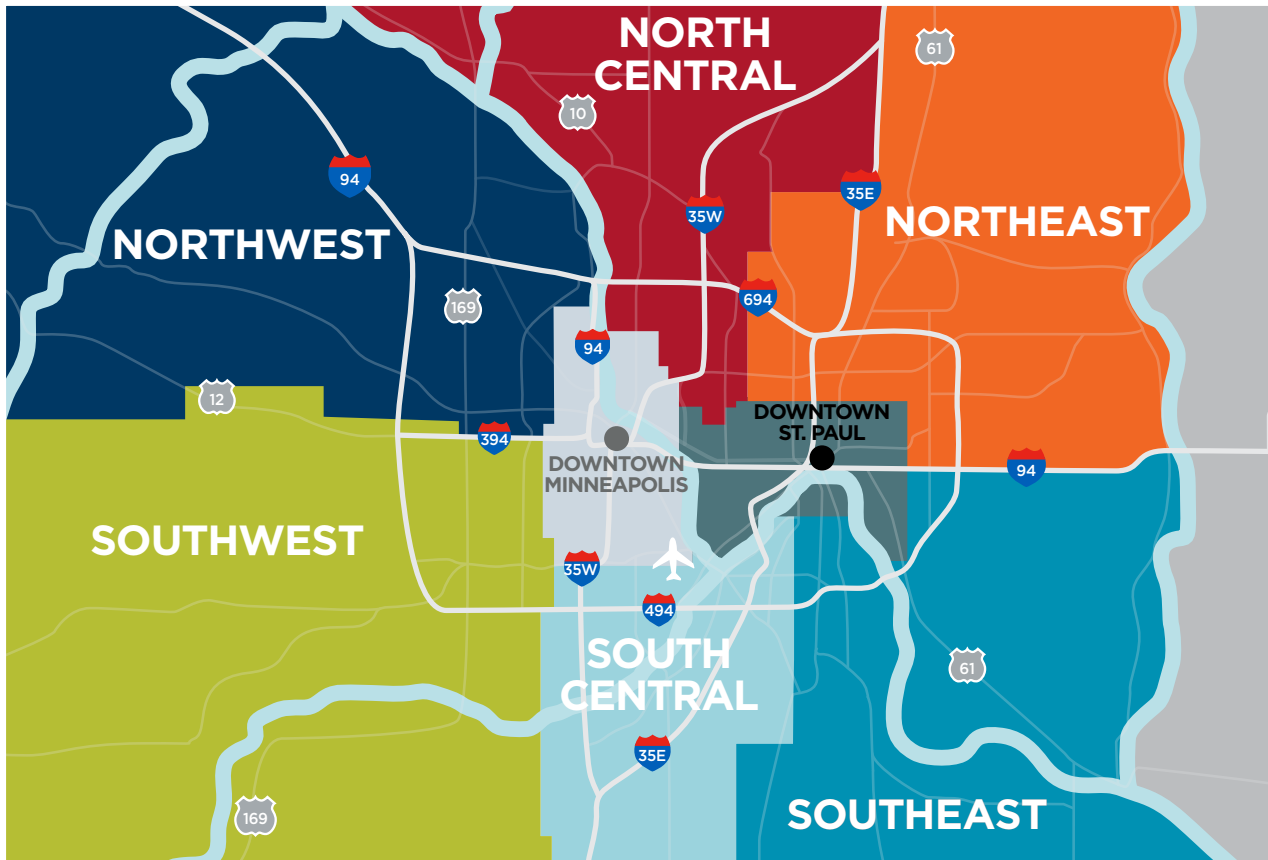


MARKET INSIGHT

MINNEAPOLIS MULTIFAMILY REPORT | SECOND QUARTER 2019



The Cushman & Wakefield Multifamily Research Team provides in-depth coverage of the Minneapolis, MN Metropolitan Statistical Area. In addition to analyzing multifamily rent and sale trends, these reports examine employment data, key economic announcements, and development pipeline news.



IN THIS EDITION

- ▶ Minneapolis
- ▶ Minneapolis - Downtown
- ▶ St. Paul
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- ▶ Southeast Metro

MARKET TEAM

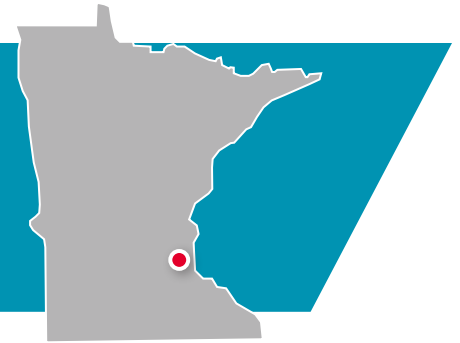
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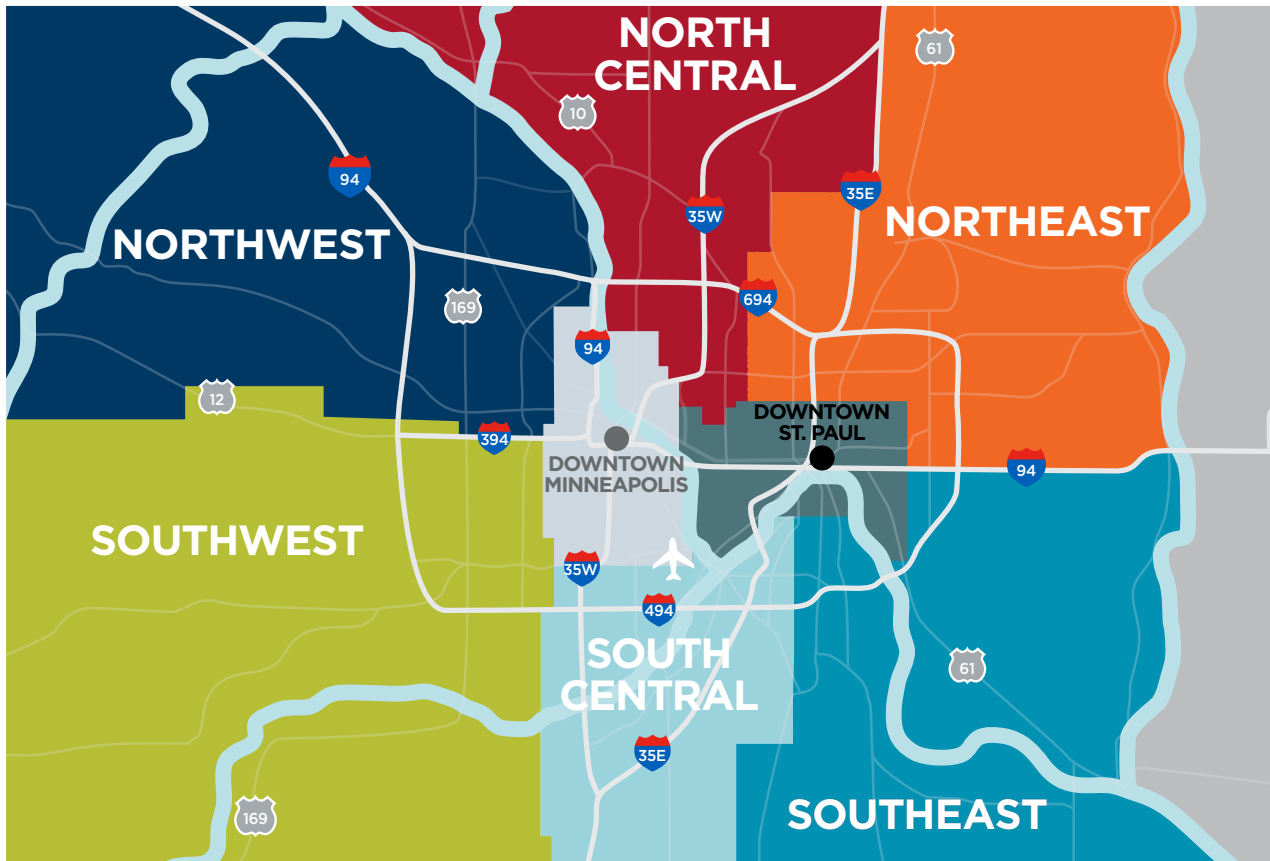
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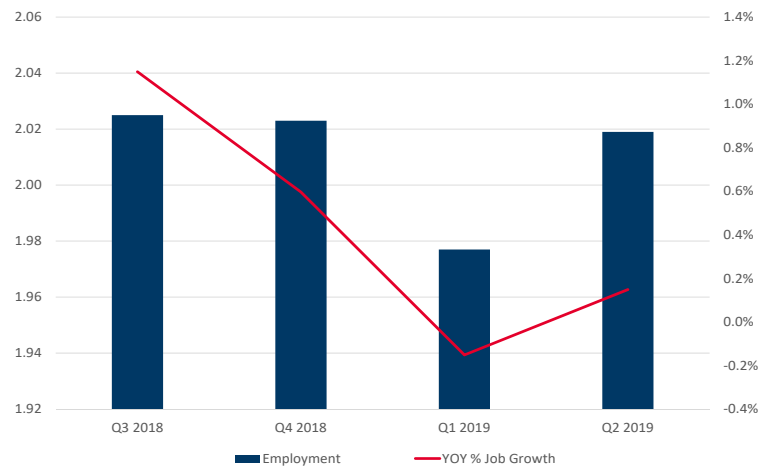
MINNEAPOLIS, MN

EMPLOYMENT & UNEMPLOYMENT TRENDS

The unemployment rate in the Twin Cities increased 40 basis points year over year (YOY) to 3.0% in second quarter 2019. According to the Minnesota Department of Employment and Economic Development, the continued steady unemployment and tight labor markets indicate a challenging environment for large job growth.

MINNEAPOLIS JOB GROWTH TRENDS

EMPLOYMENT IN MILLIONS & JOB GROWTH (%)



Source: U.S. Bureau of Labor Statistics

JOB GROWTH & UNEMPLOYMENT RATE

-0.7
% YOY

Average Q2 **employment** decreased by 13,275 jobs.

+40
BPS YOY

Average Q2 **unemployment** increased to 3.0%.

ECONOMIC EXPANSION

The following are select announcements from second quarter 2019:

- ✓ **Alula** relocated its headquarters and production center to St. Paul's Midway Innovation Center. The move to the 68,000-square-foot (sf) space will **create 135 jobs** over the next three years.
- ✓ **Northrop Grumman** announced plans to expand its Twin Cities operations with a \$2 million build out of its Plymouth facility. The project will convert 7,000 sf of office space into labs and testing facilities, creating **60 jobs** when complete.
- ✓ **Sick AG** proposed a multi-phase expansion of its North American headquarters in Bloomington. The first phase, which would be completed in 2020, includes a production facility of more than 150,000 sf and 20,000 sf of office space, **adding 136 jobs**.

	Q2 2017	Q2 2018	Q2 2019	FORECAST
US UNEMPLOYMENT RATE (%)	4.2%	3.8%	3.5%	↑
MSA EMPLOYMENT (% Change)	2.8%	2.5%	-0.6%	↑
MSA UNEMPLOYMENT RATE (%)	3.3%	2.6%	3.0%	↓

Forecast is 12-month outlook

OUTLOOK

- Though job numbers for the first half of 2019 remained flat, the rental market continues to impress thanks to a stable workforce anchored by white-collar industries and healthcare.
- Low unemployment is forcing employers, particularly in high-wage professions, to hire from out of state, supporting continued in-migration.
- The challenged inventory of affordable starter homes is delaying younger renters from transitioning into home ownership.



MULTIFAMILY TRENDS

Multifamily's positive momentum continued into 2019 as the Twin Cities saw 2,050 units of absorption in the first quarter. Vacancy continues to trend down at 2.6% in Q1 compared to 3.0% in Q4 2018, and even accounting for new properties undergoing lease-up, the vacancy rate notches only slightly higher to 2.8%.

+5.1

% YOY

Average market rent
increased to \$1,324.

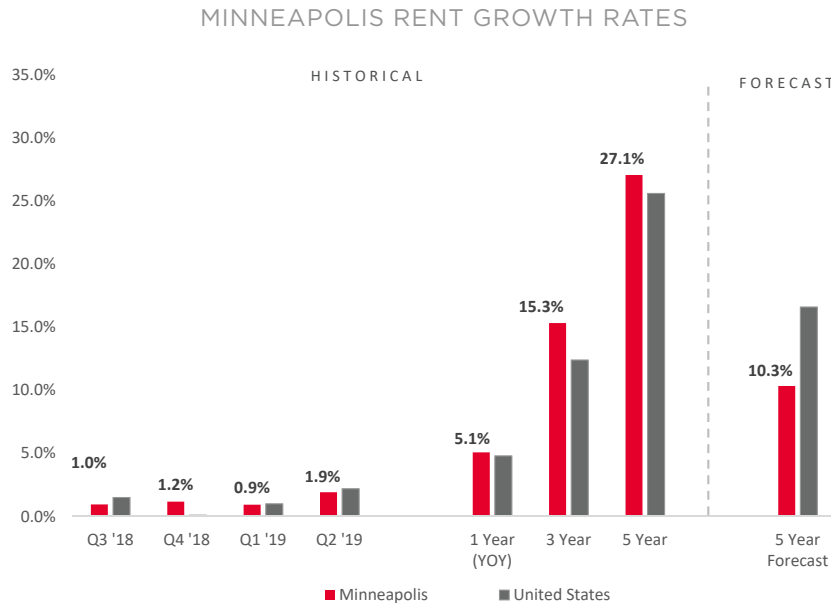
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BPS YOY

Vacancy remained flat
year over year at 2.6%.

HISTORICAL & FORECASTED METRO RENT GROWTH RATES

Strong underlying fundamentals have supported steady rent growth in the Twin Cities, which has consistently outpaced the historical national average. The growth has generally flattened over the last 12 months.



Source: Marquette Advisors, AXIOMetrics

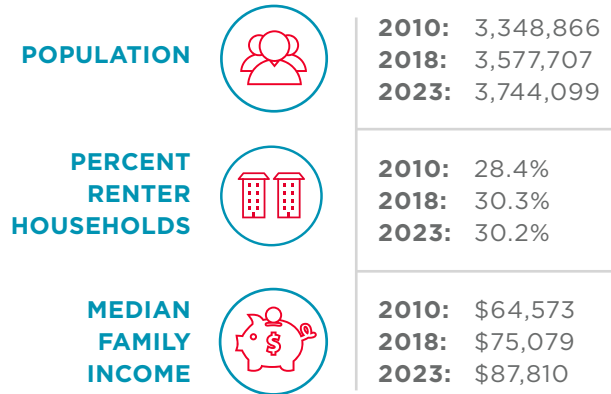
DEVELOPMENT / INVENTORY

New supply has kept pace with healthy demand across the Twin Cities market, with 5,500 units added in 2018 and another 5,500 on track to deliver by year-end 2019.

Vacancy ticked up in Minneapolis - Downtown to 5.2%, the highest rate for the competitive submarket in three years, as an active construction pipeline delivered 1,400 units in 2018. With more than 3,100 additional units underway, developers will continue to offer concessions to accelerate lease-up.

DEMOGRAPHIC FUNDAMENTALS

Positive net migration into the Twin Cities, with strong in-migration from neighboring MSAs like Chicago and St. Cloud, continues to feed a stable renter base. Millennials and the younger Generation Z enjoying a high-paying job market will continue to push steady rent growth, particularly in the downtown submarkets.

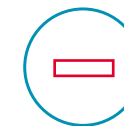


MULTIFAMILY FORECAST

The following are Cushman & Wakefield's projections over the near term:



RENTS



VACANCY



PIPELINE % GROWTH

Forecast is 12-month outlook

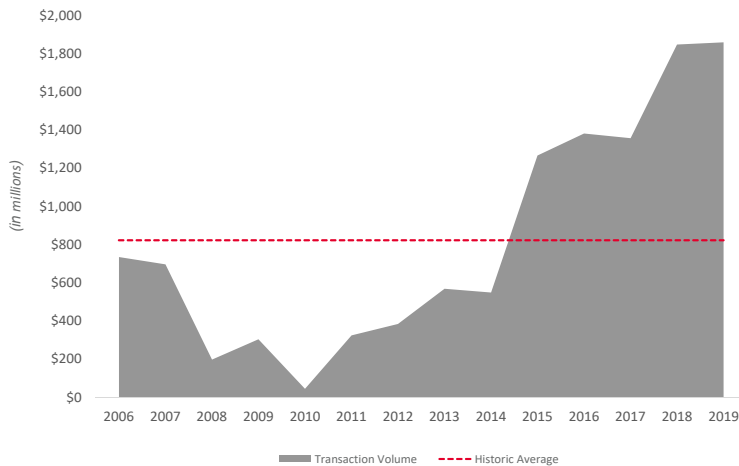


INVESTMENT ACTIVITY

Investors have taken notice of the Twin Cities as one of the top performing apartment markets in the country. Strong risk-adjusted returns are spurring record sales prices across all classes, and for the second consecutive year, sales volume is on track for nearly \$2 billion.

Value-add opportunities in particular are attracting out-of-state buyers, who continue to outbid local investors. Some value-add properties are trading for a second or even third time this cycle as buyers are finding assets that have been upgraded, but still have “a little meat on the bone” for additional improvements.

HISTORICAL SALES VOLUME



Source: Real Capital Analytics

NOTABLE SALES - FIRST HALF

PROPERTY	YEAR	UNITS	SELLER	BUYER	PPU
CLASS B					
Buckingham/Commodore	1920	167	Family Partnership	Sentinel Real Estate Corp.	\$126,347
CLASS C					
Crystal Village	1968	462	BT&A Construction	The Wall Companies	\$110,931

MOST ACTIVE MARKET PLAYERS

TOP THREE MINNEAPOLIS BUYERS - SECOND QUARTER 2019

RANK	BUYER	TOTAL VOLUME	NO. PROPERTIES
1	Makado/ DH Gustafson Company	\$24,550,000	1
2	Sentinel Real Estate	\$21,100,000	2
3	Sage Apartment Communities	\$14,500,000	4

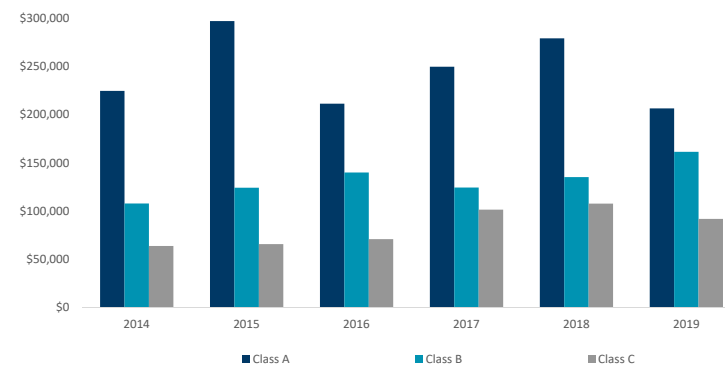
TOP THREE MINNEAPOLIS SELLERS - SECOND QUARTER 2019

RANK	SELLER	TOTAL VOLUME	NO. PROPERTIES
1	Investcorp	\$83,600,000	1
2	Roers Investments/CPM Dev.	\$24,550,000	1
3	Todd B Urness	\$14,500,000	4

Source: Real Capital Analytics

PRICING & CAP RATES

Cap rates remain in a narrow band with Class A at 4.5-5.0%, Class B at 5.0-5.5%, and Class C at 5.0-6.0%. With out-of-state buyers paying record prices across the board, long-time local owners are taking advantage by selling out of apartment assets and shift into assets where they can achieve higher yields.



Source: Real Capital Analytics, Cushman & Wakefield Research

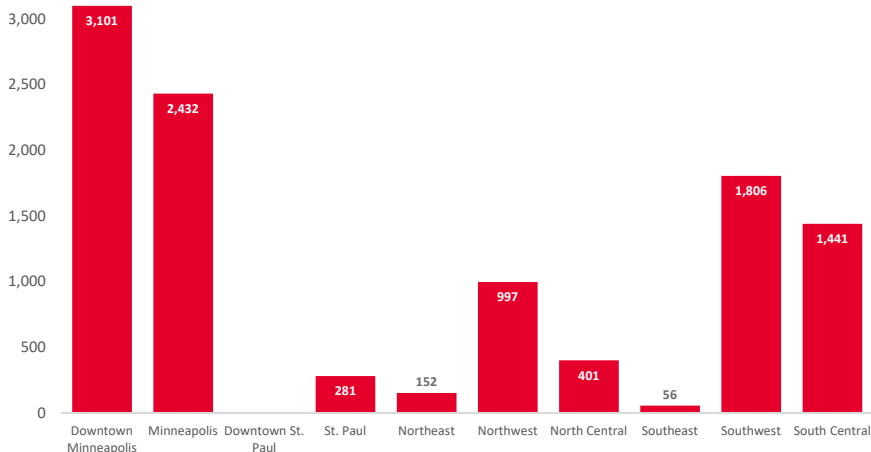


SUBMARKET OVERVIEW

RENTS & VACANCY BY SUBMARKET



UNDER CONSTRUCTION BY SUBMARKET



Source: Marquette Advisors, AXIOMetrics, Cushman & Wakefield Research
Note: Submarkets are defined by Marquette Advisors

SELECT SUBMARKET NEWS

Minneapolis - Downtown

- New Jersey-based **Garden Communities**, owned by the Wilf family, broke ground on its first Twin Cities residential project, located near the Vikings' U.S. Bank Stadium. The unnamed mixed-use project includes 205 apartment units and 4,800 sf retail space.

Minneapolis - Northeast

- Lennar Multifamily Communities** broke ground on phase two of **Nordhaus** in Northeast Minneapolis. The mixed-use project will add 333 apartment units and 8,000 sf retail space to phase one of the development, which was completed in 2018.

Northwest Metro

- Dominium** and **Pulte Homes of Minnesota** received preliminary approval to develop a 13-acre city-owned site in New Brighton into a housing mix totaling more than 400 units. The proposed **Midtown Village** development could break ground as soon as third quarter 2019 and includes a 204-unit senior apartment building, 154 units of affordable apartments and 53 townhome units.

South Central Metro

- Luxe Residential** and **Dakota Pacific** broke ground on **Millennium Sixty-Six** in Edina. The development consists of 375 market-rate apartment units to be built in two phases. The site, which was previously office buildings, is located across the street from Southdale Center.

Southwest Metro

- McGough** broke ground on **The Fenley**, the company's third multifamily development on its 50-acre site at Bloomington Central Station. The 402-unit apartment project falls in an Opportunity Zone.