Research & Forecast Report ›

Colliers INTERNATIONAL

Accelerating success.

MULTIFAMILY MARKET REPORT

MINNEAPOLIS-ST. PAUL | YEAR END 2018

MULTIFAMILY INVESTMENT TEAM

The Colliers MSP Multifamily Investment Team provides acquisition and disposition services for the Twin Cities and nationally.

OUR MULTIFAMILY EXPERTS

TED BICKEL, J.D.
Senior Vice President
952 837 3097
ted.bickel@colliers.com

JEFF BUDISH
Vice President
952 897 7755
jeff.budish@colliers.com

BRADY DEVORE
Associate
952 372 5825
brady.devore@colliers.com

LAUREN PANZER
Real Estate Analyst
952 837 3018
lauren.panzer@colliers.com

TATIANE AMARAL
Client Services Coordinator
952 374 5810
tatiane.amaral@colliers.com

$169M 2018 MULTIFAMILY SALES VOLUME

$361.9M 2018 INVESTMENT SALES VOLUME TOTAL

BEST-IN-CLASS PLATFORM

Our team of institutional and private capital investment sales specialists see beyond the bricks and mortar to analyze how property acquisition, ownership and disposition can accelerate the success of your financial portfolio.

We work with local, national and global investors to identify, evaluate and select assets that best complement their portfolio, income goals and risk profile. This often requires complex analysis and innovative thinking to provide a defensible, well-researched strategy for asset acquisition.

When the time is right for disposition, we provide a clear competitive analysis and transaction history of comparable assets to maximize the property's momentum in the market. Through our best-in-class marketing technology and our creative approach, we drive strong investor interest in properties. At the same time, we work with you to preserve confidentiality, minimize disruption to tenants and prevent surprises in the due diligence process.

BEST-IN-CLASS SERVICES

- Property valuation and operations advisory
- Up to the minute local and national market knowledge
- Connection to local and national investors through our database and proprietary national Multifamily Advisory Group Network
- Capital market information and advisory
- A long-term, wholesale approach to buy, hold and sell decisions, including:
  - Refinance options
  - Capital market trends
  - 1031 Exchanges
  - Off-market opportunities
  - Market timing considerations to help clients make a well-informed decision

Colliers INTERNATIONAL

Accelerating•success.

MULTIFAMILY MARKET REPORT

MINNEAPOLIS-ST. PAUL | YEAR END 2018

RAPID GROWTH SHOWS SIGNS OF STABILIZATION

Overview

Continuing a theme witnessed over recent years, total sales volume reached another record in 2018. During the current investment cycle, transaction volume has increased year-over-year at a rapid pace. After breaking the $1B mark in 2015, sales volume has been close to $2B annually, placing the Twin Cities among the nation's leaders in year-over-year multifamily sales growth.

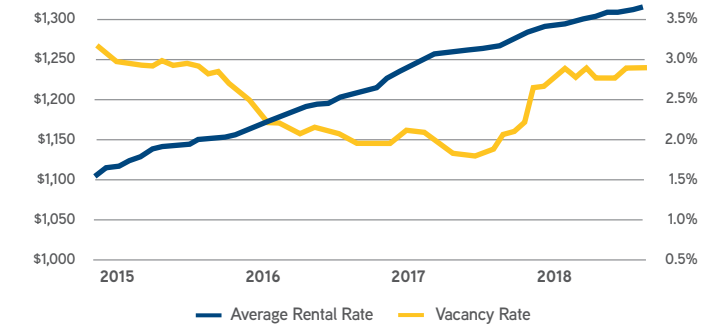
While the investment sales market shows little sign of weakening, new construction counts are expected to gradually decline over the next 12-18 months. After delivering a record number 8,658 units in 2018, 2019 will see roughly 1,000 fewer units developed, moderating closer to the supply lines of 2016 and 2017.

Notable Market Statistics

The Minneapolis-St. Paul economy continues to boast one of the lowest unemployment rates in the country, currently hovering around 2.0%. With over 28,000 jobs added in the last 12 months, the wider metro area benefits from the headquarters of 18 Fortune 500 companies as well as large local employers like the University of Minnesota. The local workforce ranks eleventh in the country in terms of education, with 41% achieving a bachelor's degree or higher and an average annual household income of $69,000, topping the national average by 29%.

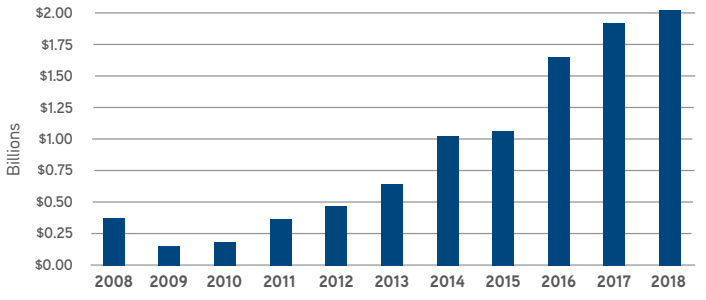
Great employment opportunities paired with a healthy population growth rate, averaging around 1% per annum over the last 5 years, has led to a strong rental market. This strength is best exemplified by the 97.6% occupancy rate, which is just 0.6% below its 2-year high. Surprisingly, the metro has also experienced the highest rental rate growth in the Midwest at 3.6%, contrary to its history as a slow-growth market.

Vacancy & Rental Rates



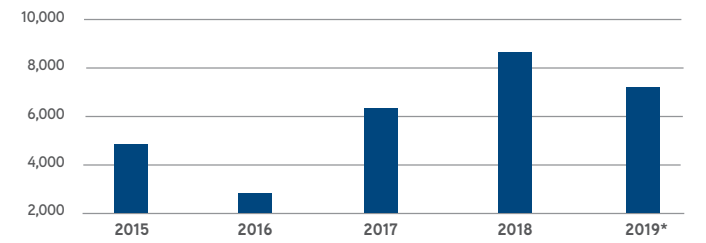
source: MPF Research

Total Sales Volume



source: CoStar

Total Metro Units Completed



* Estimated completions based on units currently under construction.

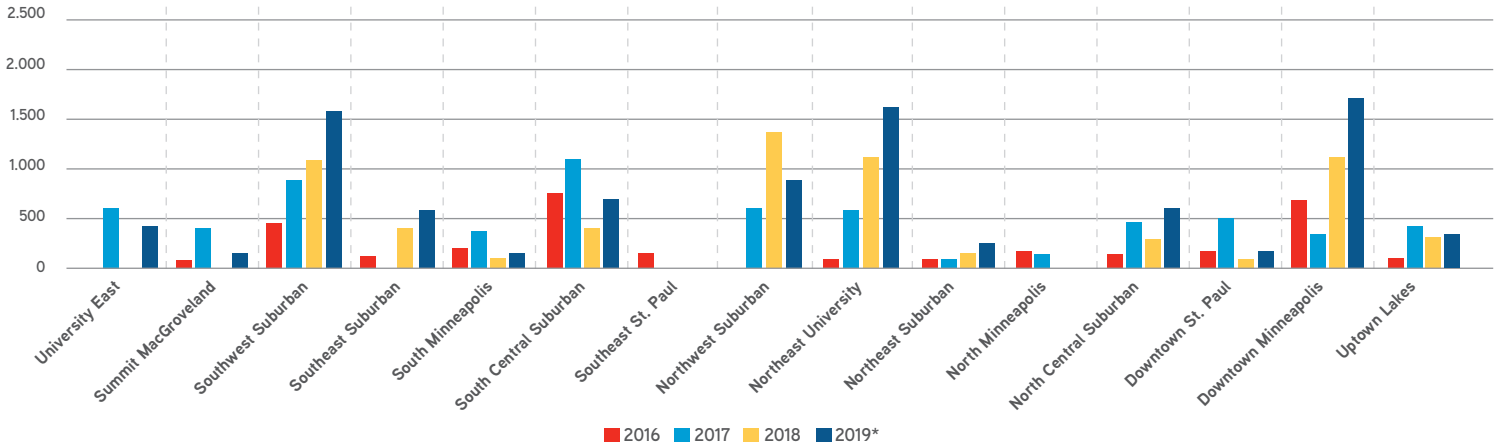
source: CoStar

NEW CONSTRUCTION

As we reached the likely pinnacle in new construction deliveries in 2018, many developers agree that a gradual decline in new deliveries is a welcome change from the torrid pace we have witnessed over the past four years. A total of 15,100 units have hit the market during that time period.

With absorption showing signs of weakening, particularly in delivery-heavy submarkets such as Downtown Minneapolis and Uptown, a change of pace should lead to healthy rebalancing for the market. Even as overall vacancy rates stand below the 5% equilibrium, Class A concessions have

Units Completed

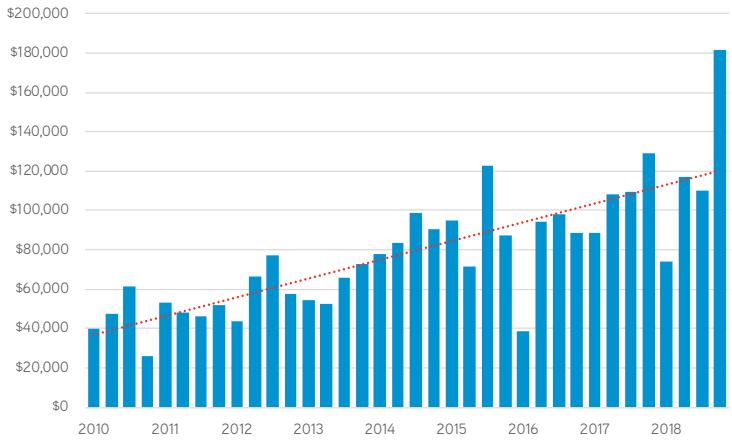


* Estimated completions based on units currently under construction.

source: CoStar

By the Numbers: Noteworthy Multifamily Trends

MINNEAPOLIS BROWNSTONES - AVERAGE SALE PRICE PER UNIT



BANK DEBT QUOTES*	Q3 2015	Q3 2018
TYPE	7-year fixed	7-year fixed
INTEREST RATE	4.60%	5.20%
AMORITIZATION	25 years	20 years
LOAN TO VALUE	75%	70%
DEBT CONSTANT	6.75%	8.05%

**actual quotes from local bank for similar multifamily property built 1960-1980, not representative of current quotes, only used as a comparison*

INCOME LEVELS NEEDED FOR RENT

Assuming 1/3 income rule, income levels for a 1-bedroom:

$54,000
New ($1,500 rent)

$37,800
Existing ($1,050 rent)

Based on MSP per capita median of $37,000 and $15 minimum wage of $31,200. Rent based on 1-bedroom averages under new and existing properties, as defined above.

NEW PRODUCT PUSHING RENTS HIGHER

How much higher is rent in new versus existing properties:

42%+
Studio/Efficiency

43%+
1 Bedroom

48%+
2 Bedroom

New construction defined as built since 2005. Existing defined as built prior to 2005. All numbers are from Minneapolis-St. Paul inventory over 50 units.

New Construction, cont'd

risen in an increasingly competitive lease-up environment. The expected slowdown in new development should reduce the risk of sudden, significant softening.

Minneapolis, St. Paul, Edina, St. Louis Park, Maple Grove and Bloomington have been staple markets for developers during this cycle. As land sites become increasingly difficult to find in these markets and supply concerns become more notable, a shift to other suburban areas is becoming more evident. Woodbury, Eagan, Eden Prairie, Golden Valley and Minnetonka are seeing an influx of new projects.

Investors should be tracking new projects in markets like Chanhassen, Chaska, Shakopee, Lakeville, Mendota Heights and Blaine to see if it spurs further efforts to deliver new product. Most of the aforementioned submarkets have seen little multifamily development over the past 20+ years.

TRANSACTION ACTIVITY

Hitting its fifth consecutive year above $1B in annual multifamily sales, the Twin Cities are seen as a leading secondary market. 2018 saw annual volume just above $2B, matching or slightly exceeding 2017. This stands in contrast to historical sales volume figures, which typically hovered in the $300-$500M range.

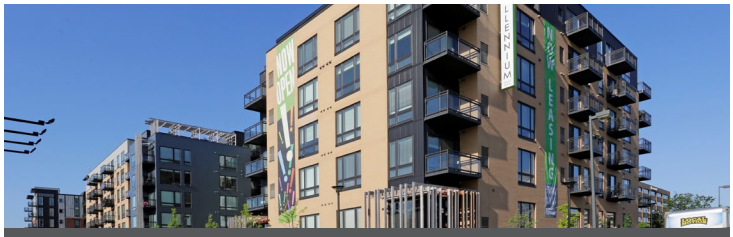
Changing buyer profiles have played a large part in the recent uptick in sales volume. While still a privately-held, local ownership market, private equity and institutional investors from outside of Minnesota have left a large imprint on the ownership landscape. These investors target larger properties, which make their relative impact on sales volume more apparent.

While regional and national investors continue to account for the majority of total sales volume, it is clear that local owners continue to have a strong presence in the marketplace. As legacy owners continue to liquidate in a strong seller's market, many local investors have consolidated holdings and grown their portfolios significantly during this cycle.

Our discussions with investors in the second half of 2018 continued to focus on interest rates and new construction supply. For private capital buyers, significant movement in interest rates in 2019 would constrict debt options and challenge cap rates for buyers relying on higher leverage debt. On the institutional and private equity side, buyers may rely less on leverage, however any vacancy upticks or slower rent growth would hinder future returns.

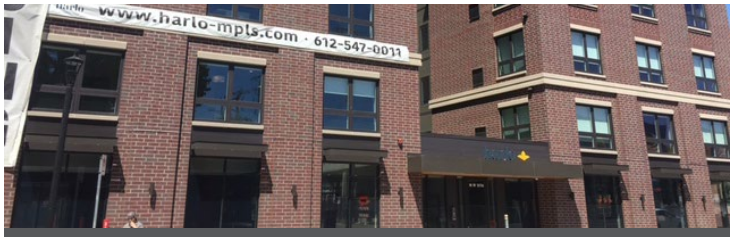
While there are concerns about macro and micro market factors, most investors remain bullish on the Twin Cities apartment market, especially relative to comparable secondary markets and other product types.

TOP MULTIFAMILY TEAM TRANSACTIONS IN 2018

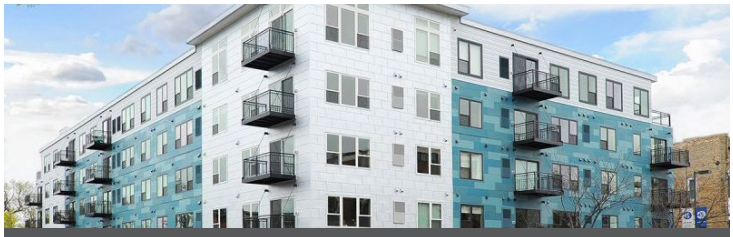


Millennium at West End, St. Louis Park | Built 2015 | 158 Units | $40.9M

Summit Townhomes, Burnsville | Built 1998 | 114 Units | $26.9M



Harlo, Minneapolis | Built 2018 | 75 Units | $17.9M



Chroma, Minneapolis | Built 2016 | 70 Units | $15.1M

Crescent Trace Condos, Minneapolis | Built 2007 | 55 Units | $12.4M

Normandale Lake Estates, Bloomington | Built 1964 | 105 Units | $10.5M

SPOTLIGHT TREND: Micro Units Growing in Appeal for Residents and Developers

Out of the 6,221 units that have been added to the Twin Cities housing stock in 2018, 1,635 fall into the micro unit category. The micro trend also shows no sign of slowing down with 813 micro units already slated for development in 2019. For the purposes of this article, we will define a micro unit as any studio below 500 SF and any 1-bedroom unit below 600 SF.

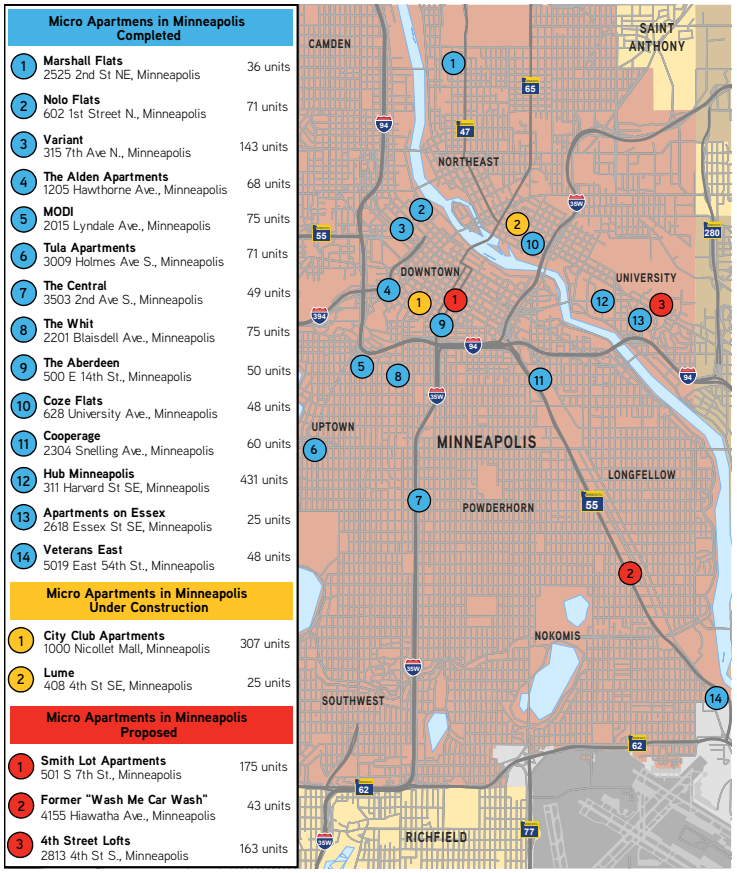
The micro unit movement originated in the most expensive, coastal rental markets, such as: San Francisco, Seattle and New York City. In these markets, it is not uncommon for micro units to be well below 400 SF and cost upwards of $3,000 per month.

Micro units are designed to service the growing number of young professionals who want to live in downtown neighborhoods, but find themselves priced out of the luxury, new construction apartment buildings that populate many central business districts. From a rental rate perspective, micro units can be seen as an alternative to older construction apartments, which often lack the modern finishes and amenities that millennial residents desire.

A large demographic factor contributing to the viability of micro units and elevated demand for studio apartments in general, is millennials propensity to delay marriage and thus household formation. Since 2000, the average age of marriage for an American man has risen by 2.4 years to 29.2. The same can be said for women, whose average age of marriage has risen from 25.1 to 27.1 over the same period. The result is a glut of individuals that are looking for a cost effective, temporary housing solution that will hold them over until they are ready to form a household and commit to a permanent living situation.

For developers, the boom in micro unit development is as much about millennial demographic trends as it is about where we are in the economic and development cycles. With 2019 marking the 10th year of one of the longest bull real estate markets on record, Twin Cities developers have been hard at work adding 35,407 units to the apartment market.

At the beginning of a real estate development cycle, opportunistic builders have a large selection of sites to choose from. These sites may become available for many reasons, including rezoning that was implemented during the recession or as a result of defunct businesses that did not survive the economic downturn. As the stock of large parcels are developed, late cycle builders are left



with an inventory of smaller, more challenging sites. To draw value out of these sites, builders must either go vertical to add more units than would be allowable under current zoning or draw more rental income out of every square foot of the development – thus, micro units. In the case of the former, the Twin Cities have seen a significant increase in tower style apartment proposals in 2018, with with 5 apartment towers currently under construction in downtown Minneapolis. As for the latter, micro apartments have been a viable way for developers to draw over $3.00 per square foot rents, from units with standard finishes, on less than ideal sites.

Building micro units can be seen as a calculated risk, as no one knows how demographic trends may affect demand from renters in the future. Perhaps micro apartments will become the new standard of urban living, maybe some projects will be converted into hotels. The only certainty is that they have arrived in the Twin Cities and are actively filling a void in demand that was previously unaddressed.

Significant Multifamily Sale Activity

DATE	PROPERTY	CITY	YEAR BUILT	SIZE (UNITS)	BUYER	SELLER	SALE PRICE ($)	PRICE PER UNIT ($)
Dec-18	BT&A Construction Portfolio	31 properties	-	1,865	separate buyers	BT&A Construction	250,000,000	-
Dec-18	The Concierge	Richfield	1968	698	JRK Investors Group	Soderberg Apartment Specialists	95,100,000	136,246
Oct-18	TE Miller Solhem MN Apartments	3 properties	-	308	LaSalle Investment Management	Solhem Company, TE Miller Development	88,850,000	-
Jul-18	Radius at 15th	Minneapolis	2015	200	Timberline Real Estate Ventures	North Bay Companies	76,300,000	381,500
Oct-18	Ginkel Properties MN Apartments	5 properties	-	636	Sage Apartment Communities	Ginkel Properties	73,913,000	-
Nov-18	LaSalle Minneapolis Apartment Purchase	2 properties	-	241	LaSalle Investment Management	Clarion Partners	68,475,000	-
Aug-18	Vicksburg Village Apartments	Plymouth	1990	334	TH Real Estate (TIAA)	Pinnacle Property Management	66,175,000	198,129
Nov-18	Villages on McKnight	St. Paul	1969	540	Bigos Management	Kleinman Realty	66,000,000	122,222
Nov-18	44 North	Minneapolis	2014	194	Harrison Street Real Estate Capital	DRA Advisors	58,400,000	301,031
Jan-18	Bader MN Apartments	2 properties	-	190	Mesirow Financial	Bader Development	57,300,000	-
Nov-18	Variant	Minneapolis	2017	143	TH Real Estate (TIAA)	The OPUS Group	50,000,000	349,650
Oct-18	Solhavn	Minneapolis	2013	137	LaSalle Investment Management	TE Miller Development	42,100,000	307,299
Jan-18	Millennium West End	St. Louis Park	2015	158	Abacus Capital Group	Luxe/DLC Residential	40,875,000	258,703
Mar-18	Ellipse on Excelsior	St. Louis Park	2010	134	Mesirow Financial	Bader Development	39,500,000	294,776
Mar-18	River South	Burnsville	1971	304	Priderock Capital Partners	Redwood Capital Partners Llc	37,300,000	122,697
Oct-18	The Walkway	Minneapolis	2014	91	Friedkin Realty Group	JP Morgan Chase	33,600,000	369,231
Oct-18	Soltva	Minneapolis	2012	100	Lasalle Investment Management	TE Miller Development	29,300,000	293,000
Apr-18	The Pointe at Cedar Grove	Eagan	1972	188	Curtis Capital Group	Abacus Capital Group	29,100,000	154,787
Sep-18	5 Central Apartments	Osseo	2015	140	Magellan Partners	Twin City Development	28,000,000	200,000
Apr-18	The Paragon	Bloomington	1972	216	TE Miller Development	FPA	27,000,000	125,000
Nov-18	The Summit Townhomes	Burnsville	1998	114	Peak Capital Partners	DH Gustafson Company	26,900,000	235,965
Oct-18	Village Green Apartments	Fridley	1982	196	Dominium	Wall Companies	25,000,000	127,551
Oct-18	Knollwood Towers West	Hopkins	1970	181	Sage Apartment Communities / Investment Property Group	Ginkel Properties	22,500,000	124,309
Feb-18	Grand River Estates	St. Cloud	2008	177	Weidner Apartment Homes	K & D Management	21,000,000	118,644
Aug-18	The Whit	Minneapolis	2018	74	Scott Weber Company	Yellow Tree	18,000,000	243,243
Aug-18	Harlo Apartments	Minneapolis	2018	75	Sidal Realty	Reuter Walton Development	17,850,000	238,000
Mar-18	Minneapolis Grand	Minneapolis	2004	112	Trillium Investors	CAPREIT	17,800,000	158,929
Dec-18	Victoria Flats	Victoria	2017	81	Bader Development	Beard Group Inc	17,600,000	217,284
Oct-18	Nolo Flats	Minneapolis	2016	71	Lasalle Investment Management	TE Miller Development	17,500,000	246,479
Mar-18	E2 Apartments	St. Louis Park	2013	58	Mesirow Financial	Bader Development	17,400,000	300,000
Jun-18	Remington Cove Apartments Phase II	Apple Valley	2018	96	CAPREIT	Trident Development	16,500,000	171,875
Oct-18	Wayzata Woods	Wayzata	1965	107	Sage Apartment Communities / Investment Property Group	Asset Management Group (AMG)	16,500,000	154,206
Jan-18	Tamarind Apartments	St. Louis Park	1986	102	Main Street Companies	Tamarind Ltd Partnership	15,650,000	153,431
Nov-18	Chroma	Minneapolis	2016	70	Randolph Street Capital	Reuter Walton Development	15,075,000	215,357
Oct-18	Knollwood Towers East	Hopkins	1969	128	Sage Apartment Communities / Investment Property Group	Ginkel Properties	14,200,000	110,938

Local Expertise

Comprised of
84
Licensed CRE Agents

Leased in Metro Area
10M
(square feet)

Sold in Metro Area
15M
(square feet)

Years in Business
42

Sale Transactions
200

Total Transactions
1,100

Global Reach

Comprised of
15,400
professionals

Revenue
$2.7B
(US$)

Managing
2B
(square feet)

Established in
69
countries

Lease/sale transactions
68,000

Transaction value
$116B
(US$)

FOR MORE INFORMATION CONTACT:

TED BICKEL, J.D.
Senior Vice President
952 837 3097
ted.bickel@colliers.com

Colliers International | Minneapolis-St. Paul
4350 Baker Road, Suite 400
Minnetonka, MN 55343

colliersinvestmentservices.com

SUBSCRIBE TO OUR BLOG

Colliers INTERNATIONAL

Accelerating success.

Copyright © 2019, Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.