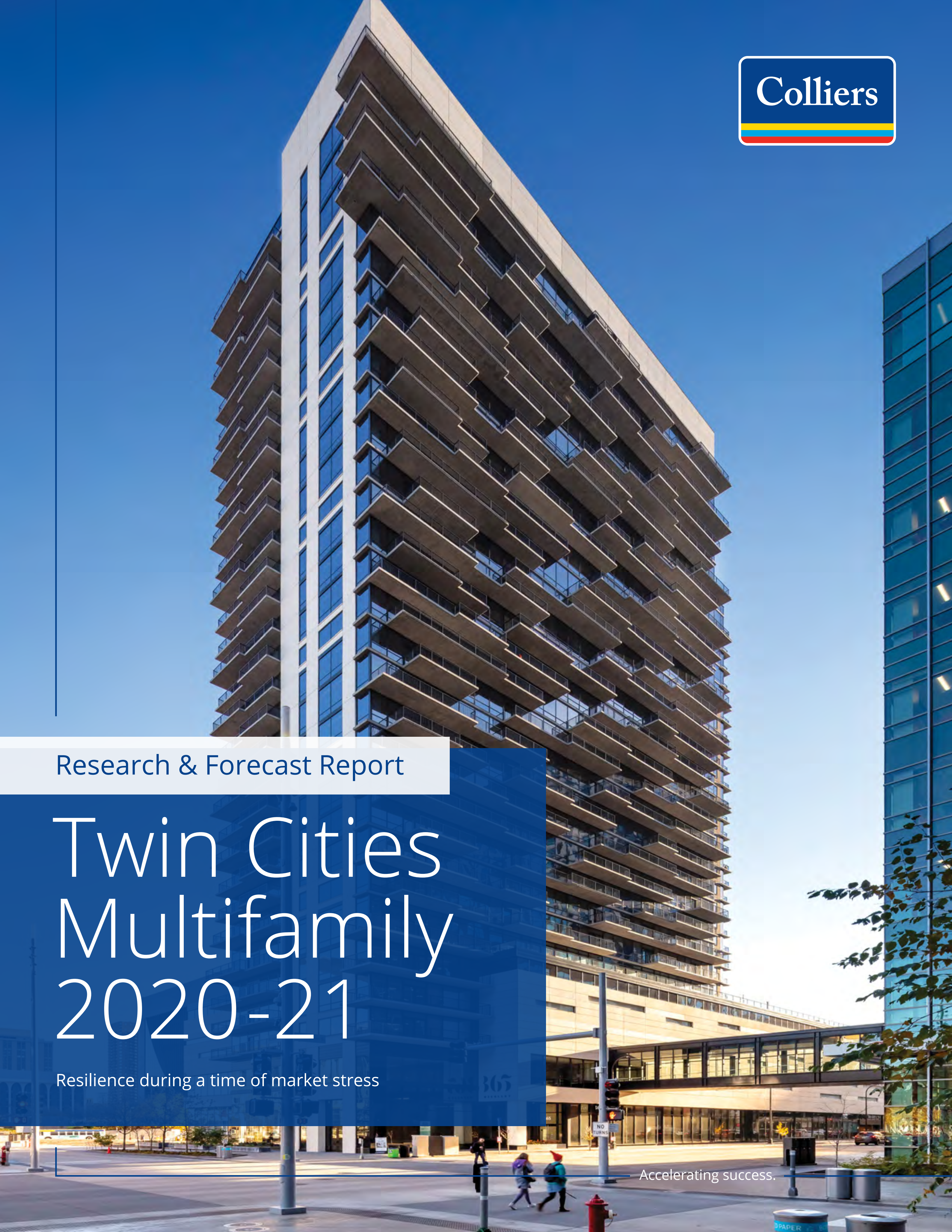

Research & Forecast Report

Twin Cities Multifamily 2020-21

Resilience during a time of market stress

Accelerating success.

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Twin Cities Multifamily 2020-21

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Tom has pursued an extensive career in Twin Cities commercial real estate since 1987, focusing on multifamily lending, market feasibility consulting, and affordable housing advocacy / public policy support. He has dealt with all major categories of real estate over his career, but has a particular passion for affordable housing. Tom frequently presents at industry conferences and provides regular market insight about Twin Cities multifamily development through white papers and focused writings.

Tom earned a B.A. degree from the University of Minnesota and an MBA degree from the University of Washington. He is a licensed Minnesota Real Estate Broker, HUD-approved multifamily underwriter, and honorary member of Lambda Alpha International (LAI), a global land economics society. Tom serves on the Investment Committee of the NOAH Impact Fund, and provides regular assistance to Minnesota Housing Partnership and the Greater Minnesota Housing Fund.

Cover Photo Credit: The Excelsior Group

Introduction

Exceptional Challenges in 2020

An exceedingly rare worldwide pandemic and social changes in 2020 challenged the Twin Cities multifamily market as never before. Worsening project economics cut across all project types, lasting through the year.

The Twin Cities multifamily sector started 2020 in strong shape, with low vacancy, strong rent growth, and production spreading across the metro area. However, by April, broad shutdown of the economy due to Covid-19 produced record unemployment and forced many people into a work-from-home arrangement, with over 40% experiencing wage loss, and many delaying rent payments as eviction moratoria took effect. Building owners absorbed higher costs for security 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. The pandemic-induced shutdown of neighborhood amenities in the central cities exacerbated the suburban-move trend. As the year progressed, many other households chose to delay a planned move, cutting by 50% the number of new rental units leased in the Twin Cities. Finally, the rush by some developers to beat the deadline for new inclusionary zoning rules in Minneapolis helped produce a doubling of new market-rate units delivered, driving higher vacancies and furthering widespread concessions throughout Minneapolis.

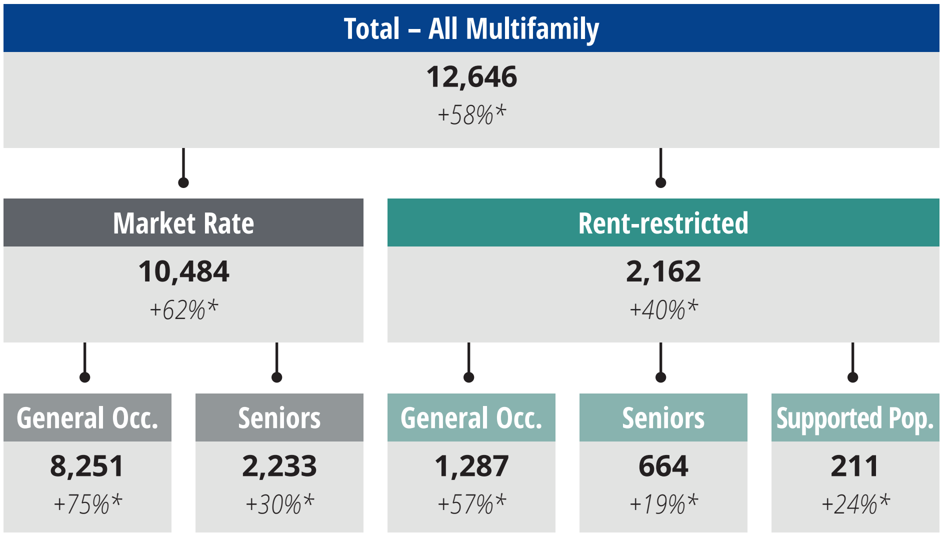
The implementation of a national vaccine program and stepped-up economic stimulus from the Federal government have created optimism for the multifamily market in 2021.

Brief Highlights: 2020

- Remarkably, the exceptional market challenges in 2020 did not stifle new production. More than 12,600 new rental units of all types were delivered in the Twin cities last year, a record (see chart).
- Market-rate deliveries – 83% of new supply – peaked at roughly 10,500 new units. A flood of supply in Downtown Minneapolis in particular produced tough market conditions, but slow absorption due to the pandemic affected many Twin Cities 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.

2020 Multifamily Deliveries-All Products

Twin Cities Metro Area (7 Counties)

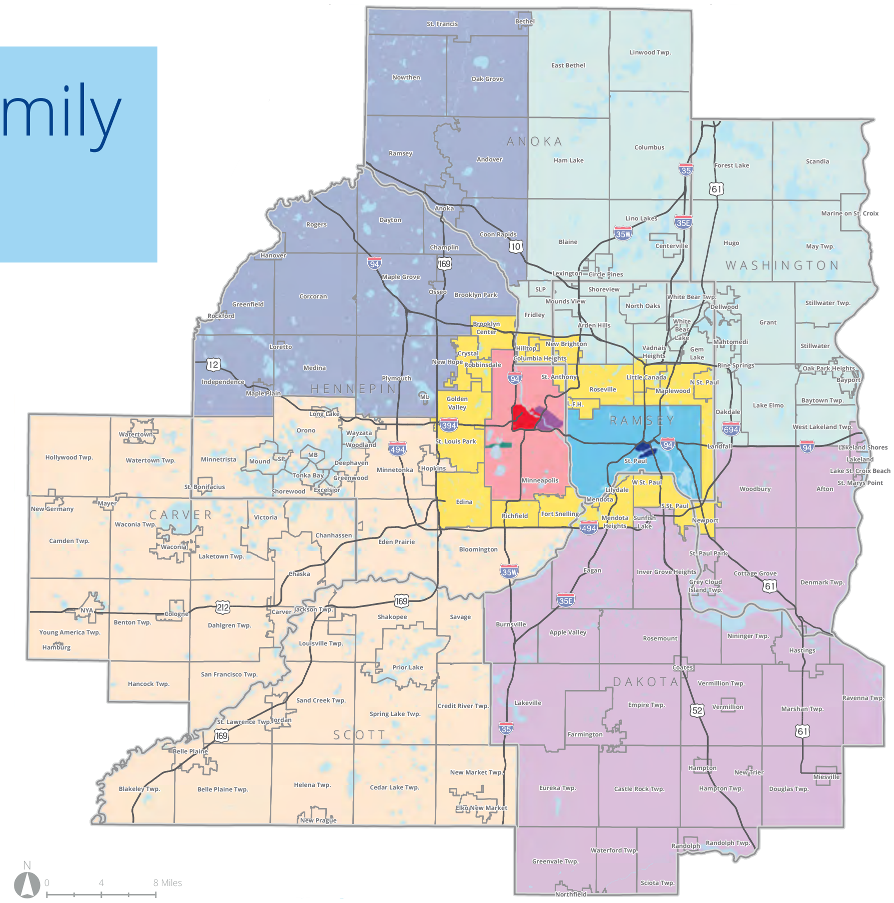


*versus the average of the past 5 years (2015-2019)

Source: Colliers Mortgage

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.



🟥 Downtown Minneapolis
🟦 Downtown St. Paul
🟩 Minneapolis Uptown
🟪 U of M Neighborhoods
🟥 Minneapolis Neighborhoods
🟦 St. Paul Neighborhoods
🟨 First-Ring Suburbs
🟩 Northeast Suburbs
🟦 Northwest Suburbs
🟪 Southeast Suburbs
🟧 Southwest Suburbs

1 Downtown Minneapolis – within the I-94/I-35W freeway ring, plus the St. Anthony/East Bank Riverfront area, as it has an orientation to Downtown Minneapolis.

2 Minneapolis Uptown – roughly ¼-mile north or south of Lake Street, stretching from the St. Louis Park border on the west to roughly Lyndale Avenue on the east.

3 U of M Districts – surrounding both banks of the Minneapolis campus, comprising the student-oriented neighborhoods of Marcy-Holmes, University, Prospect Park, and Cedar-Riverside.

4 Minneapolis Neighborhoods – the remainder of the city outside of Downtown, Uptown, and the University of Minnesota neighborhoods.

5 Downtown St. Paul – bounded by the I-94/I-35E freeway loop between roughly Kellogg Boulevard/ Chestnut Street on the west and Lafayette Road/Highway 52 on the east. Includes the West Side Neighborhood south of the Mississippi River.

6 St. Paul Neighborhoods – the remainder of the city outside of Downtown.

7 First-Ring Suburbs – 23 inner-ring suburbs surrounding Minneapolis and St. Paul, plus the portions of Fridley and New Brighton located south of I-694.

8 Southwest Suburbs – all suburbs south of I-394/US 12 and west of I-35W/I-35. Includes Bloomington and all of Scott and Carver Counties.

9 Northwest Suburbs – all suburbs north of I-394/US 12 and west of the Mississippi River, plus the western half of Anoka County (Coon Rapids, Andover, Ramsey, Anoka, etc.).

10 Southeast Suburbs – the suburbs south of I-94 and St. Paul, east of I-35W/I-35 and southeast of the Minnesota River. Includes all of Burnsville and Lakeville.

11 Northeast Suburbs – generally covers the suburbs east of the Mississippi River and north of I-94, including the eastern half of Anoka County.

Economic and Multifamily Indicators

				Full Year or End of Year					
	Measure	**Source**	**Notes**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Economic Measures: Twin Cities and U.S.	**Unemployment Rate**[1]	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 Consumers[2]	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%
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%
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:

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.

Multifamily Development Patterns

Ever-expanding Footprint

Multifamily developers forged a new pattern in the Twin Cities in 2020. While many of the traditional hot spots continued to add large numbers of units – Downtown Minneapolis and Uptown most notably – former low-activity areas like the southeast and northeast suburbs broke out with large gains. Overall, development spread further into the suburbs, with 55% of new multifamily units added there last year. While this is one of the highest such totals since 2010, it still falls far short of the share of population and jobs residing in the suburbs (76% and 71%, respectively). In the coming years, the suburbs will continue to offer ample multifamily opportunities, as the land area is vast and many areas have yet to see new rental units in this development era. As well, each suburb should offer new rental units to keep pace with changing demographics and lifestyles.

2020 Multifamily Deliveries by Submarket

All Product Categories
Twin Cities Metro Area (7 Counties)

	Market-Rate		Rent-Restricted			All
Submarket	General Occupancy	Seniors	General Occupancy	Seniors	Supported Populations	Total
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

Highlights:

- Multifamily deliveries peaked in the southern suburbs of the Twin Cities last year. The southwest and southeast submarkets together added more than 4,200 new units of all types, one-third of the metro total. This large band of cities led the way with market-rate senior development (1,247 units), general-occupancy affordable rentals (581 units), and more than 2,300 general-occupancy market-rate units.
- Downtown Minneapolis is under intense pressure to absorb twice the typical level of general-occupancy market-rate construction. Nearly 1,400 such units opened last year downtown versus about 750 on average per year over the past five years.
- Development was strong in the Minneapolis neighborhoods (1,537 units delivered), 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, 60% of all affordable rental deliveries in the Twin Cities last year occurred in the suburbs, totaling more than 1,300 units. This is excellent news, but the need for affordable housing in the suburbs is likely double or triple this amount each year.

Affordable Multifamily Summary

Too Much (Need) and Never Enough (Production)

As is the case in every market of significant size in the country, the need for affordable rental housing in the Twin Cities far outstrips the local funding and production systems. The continual annual 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 alone – as shown in the chart at right – the gap between demand and supply grew by an estimated 31,000 units in Twin Cities as the need grew by roughly 42,000 households, but the supply only edged forward by about 11,000 new 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.

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

Ongoing Challenges:

- **Not Enough Production in the Suburbs** – Minneapolis and St. Paul typically produce far more affordable rental housing than their share of metro area population or jobs (see chart). 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** – While the Minnesota Legislature approved a significant sum – $100 million – for housing infrastructure bonds 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 to affordable housing often kills project proposals in the suburbs. Even if opposition is unsuccessful in eliminating a project, it 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 Multifamily Deliveries in the Twin Cities: 2020

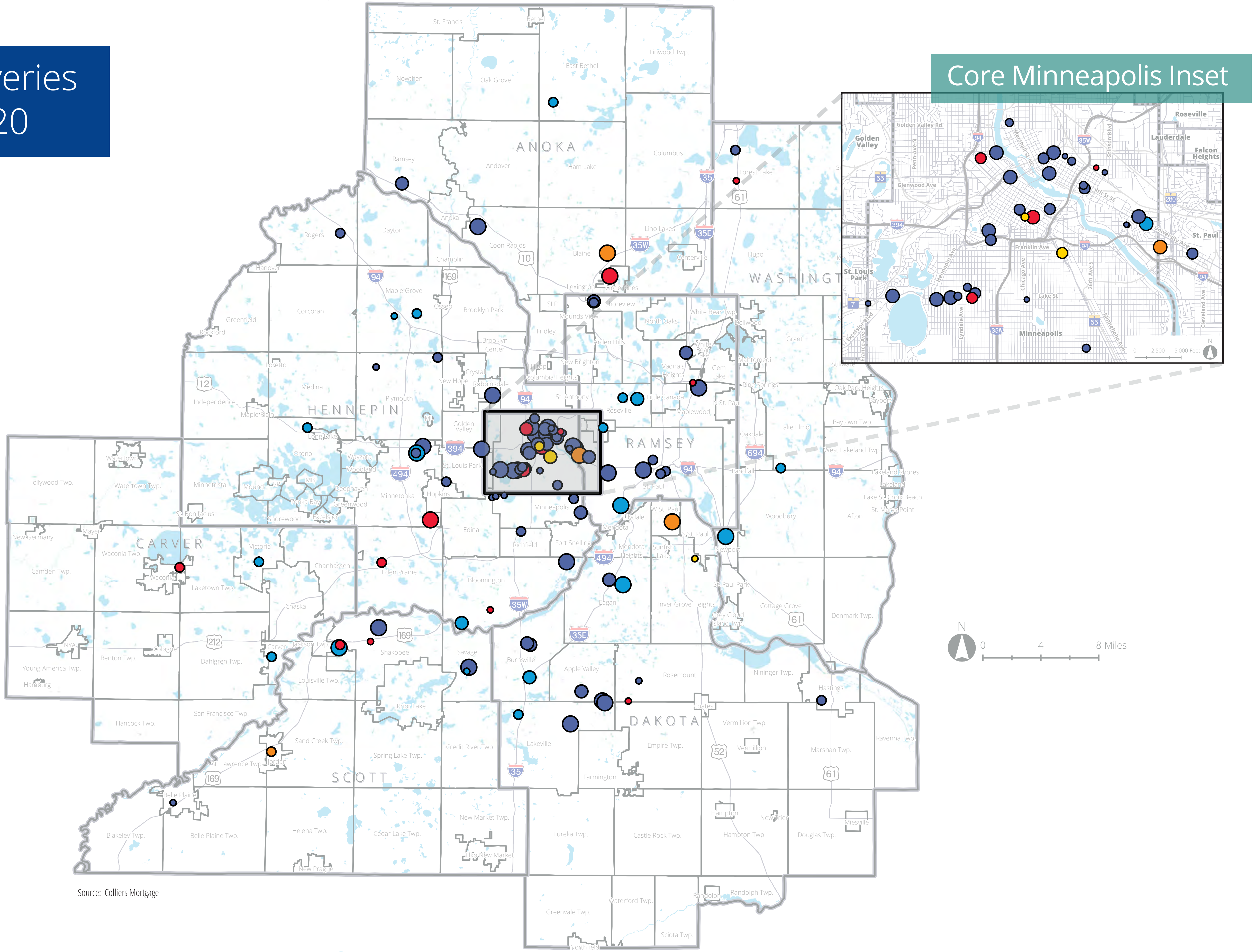
Type of Occupancy

- 🟣 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.



Source: Colliers Mortgage

Rent Structure by Submarket

Holding Steady on Asking Rents While Effective Rents Struggle

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 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	457	7
Minneapolis – Uptown	$2.64	809	5
Minneapolis – Downtown	$2.60	1,360	7
St. Paul – Neighborhoods	$2.45	540	4
Minneapolis – Neighborhoods	$2.42	781	9
St. Paul – Downtown	$2.42	171	2
First-Ring Suburbs	$2.29	646	7
Southwest Suburbs	$2.18	1,108	5
Northwest Suburbs	$1.85	456	4
Northeast Suburbs	$1.86	449	4
Southeast Suburbs	$1.80	1,185	9
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.

Pricing by Submarket

- The geographic pattern didn't change in 2020, with units priced highest in the urban core markets, declining in price by $0.50 to $1.00 psf as one moved further out through the suburbs.
- Developers are bullish on the first-ring suburbs, with rents at new properties hitting $2.29 psf, slightly below the central city neighborhoods. Regarding gross rents, first-ring suburban projects are asking the highest or second-highest average rent for one-, two-, and three-bedroom units.
- The U of M districts produced the highest overall rent at $2.92 psf entirely through small unit sizes. Average gross rents for studios and one-bedroom units near the U of M were actually the lowest in the Twin Cities.
- Uptown and Downtown Minneapolis continue to be the price leaders outside of the U of M districts, with a combination of relatively smaller unit sizes and relatively high gross rents driving up the psf cost.

Asking Rents by Unit Type – Twin Cities Submarkets

General-Occupancy, Market-Rate Units, Opened in 2020 | Year End 2020

	Studio			One-Bedroom			Two-Bedroom			Three-Bedroom		
	Low	Average	High	Low	Average	High	Low	Average	High	Low	Average	High
Mpls. – U of M Districts	$ 995	$ 1,177	$ 1,469	$1,160	$ 1,382	$ 1,719	$ 1,595	$ 2,625	$ 3,717	$ 2,516	**$3,346**	$ 4,156
Minneapolis – Uptown	$ 977	$ 1,277	$ 1,525	$1,170	**$1,936**	$ 3,750	$ 1,705	**$3,169**	$11,075	Insufficient Data*		
Minneapolis – Downtown	$ 1,200	**$1,486**	$ 1,925	$1,196	$ 1,746	$ 3,440	$ 1,677	$ 2,818	$ 5,445	Insufficient Data*		
St. Paul – Neighborhoods	$ 973	$ 1,194	$ 1,690	$1,287	$ 1,665	$ 2,075	$ 1,789	$ 2,278	$ 3,145	Insufficient Data*		
St. Paul – Downtown	$ 899	**$1,475**	$ 1,680	$1,099	$ 1,571	$ 1,995	$ 1,599	$ 2,261	$ 2,875	Insufficient Data*		
Mpls. – Neighborhoods	$ 940	$ 1,331	$ 2,015	$ 965	$ 1,545	$ 2,595	$ 1,500	$ 1,997	$ 3,475	$ 2,140	$ 2,503	$ 2,870
First-Ring Suburbs	$ 1,150	$ 1,353	$ 1,695	$1,335	**$2,019**	$ 5,500	$ 1,945	**$3,529**	$ 7,500	$ 2,370	**$3,181**	$ 3,595
Southwest Suburbs	$ 1,195	$ 1,213	$ 1,525	$1,320	$ 1,675	$ 3,850	$ 1,745	$ 2,468	$ 6,500	$ 2,285	$ 2,633	$ 3,824
Northeast Suburbs	$ 1,100	$ 1,201	$ 1,284	$1,305	$ 1,647	$ 2,143	$ 1,618	$ 2,025	$ 2,500	$ 2,057	$ 2,086	$ 2,114
Northwest Suburbs	$ 1,175	$ 1,238	$ 1,358	$1,280	$ 1,476	$ 1,700	$ 1,500	$ 1,664	$ 1,959	$ 1,900	$ 2,074	$ 2,189
Southeast Suburbs	$ 1,228	$ 1,389	$ 1,650	$ 995	$ 1,451	$ 2,090	$ 1,270	$ 1,907	$ 3,560	$ 1,615	$ 2,389	$ 3,041

Source: Colliers Mortgage

🟦 **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

Extreme Conditions Call for Extreme Measures

Record unit production coupled with economic disruption from Covid-19 produced very challenging conditions for multifamily operators in the Twin Cities last year. Across the spectrum of categories – but more so among newly-opened, market-rate buildings – owners have turned to a variety of incentives to attract renters, including rent-free months, multiple years of flat rent, free parking or storage, cash cards, and lower deposits. At stabilized buildings, rent discounts of 5% or more have been common to encourage lease renewals. Economic incentives will be typical in many Twin Cities submarkets through 2021 at least.

Concessions Formally Offered at New (2020) Multifamily Properties

Twin Cities Submarkets – Market-Rate, General-Occupancy Developments
November 2020 Through January 2021

				Type of Concession / Number of Properties Offering								
	Survey Information			*Less Aggressive* →								*More Aggressive*
Submarket	**Properties surveyed**	**Properties with concessions**	**Percentage with concessions**	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

Highlights:

- Nine of eleven Twin Cities submarkets had three or more new market-rate, general-occupancy buildings offering some form of economic concession on selected units at the end of 2020, typically between one and two months of free rent on a one-year lease. In total, 43 of 66 new market-rate, general-occupancy buildings in the Twin Cities (65%) offered some economic incentive to new renters at the end of last year.
- Downtown Minneapolis emerged as the most competitive submarket market by far, with all seven new market-rate buildings offering incentives at the end of 2020. Five Downtown buildings offered between two and four months of free rent, representing a discount of ~16% to 33% per unit, based a one-year lease.
- Uptown and the southwest suburbs also had concessions at 100% of their new market-rate buildings last year, with one or more months of free rent offered on at least some units.
- 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+ free rent and often up to three months of free rent.
- 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.

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 segment of the market.

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	1768	5,086	22.7%
Southwest Suburbs	1,987	1113	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

Other Highlights:

- Multifamily development in the suburbs will finally reach a level that comes close to the proportion of people and jobs located there. The suburbs will likely deliver more than 64% of all new units over the next two years, including 10,200 market-rate units and 4,200 affordable units.
- Affordable deliveries could hit a new high for a two-year period in the Twin Cities – 6,100 units – if all current projects stay on track.
- The first ring suburbs – 23 cities surrounding Minneapolis and St. Paul – have great advantages of location ("halfway to everywhere") for multifamily housing. Collectively, they should add about 5,100 new units over the next two years in 15 different cities.
- Downtown Minneapolis will continue to have the most intense market competition over the next two years, with 2,600 market-rate units expected to open. Double-digit vacancy and wide-spread concessions will rule.
- Market pressure from new supply should begin to ease in Uptown by the end of 2021 as fewer than 200 new units could open. Downtown St. Paul and the U of M neighborhoods should similarly see improving market conditions later this year.

Colliers Mortgage

Colliers Mortgage offers a comprehensive and wide range of financial vehicles through its Commercial Finance and Agency Lending platforms, providing clients with creative, flexible solutions tailored to their unique needs.

Commercial Finance

Colliers Mortgage uniquely structures commercial financing packages for borrowers and lenders alike:

- **For borrowers**, we create comprehensive, flexible debt facilities that often incorporate a variety of capital sources and financing alternatives. We customize the solution to the borrower's needs across all major development categories: health care, multifamily, hospitality, office, retail, industrial, special purpose, and land development.
- **For lending institutions**, we provide a complete underwriting package that allows banks to analyze and independently assess each asset opportunity.
- For all clients, we offer a **full-service, back-office operations team** that manages the various stages of the project's lifecycle – from closing, funding and title to construction draw management, insurance coverage, reserve accounts, payment administration, and pay-off.

While other lenders often are restricted by deal size, geography, lending limits or a specific asset class, we provide national lending capabilities across all types of commercial transactions. We offer an array of resources among our numerous affiliates to bring together the latest structuring alternatives to each project. For example, Colliers Securities, can provide financing options throughout the capital stack, including tax-exempt financing, TIF bonds, historic and new market tax credits and mezzanine finance, to name a few. The agency finance side of Colliers Mortgage can provide access to federal agency loan programs for the acquisition, refinance, construction, or rehabilitation for numerous property types, including multifamily, affordable housing, senior and assisted-living, hospitals and health care, student housing, and manufactured housing.

Agency Finance

As a full-service, nationwide mortgage banking firm, approved FHA MAP and LEAN lender, and Fannie Mae Delegated Underwriting and Servicing (DUS®) lender, Colliers Mortgage specializes in providing access to federal agency loan programs for the acquisition, refinance, construction or rehabilitation for a multitude of property types. These include conventional/market rate multifamily properties, affordable housing, senior independent and assisted living facilities, hospitals and healthcare facilities, and student housing.

We have also been awarded designation as a lender/partner with the USDA under the Community Facilities Guaranteed Loan Program. In addition, as an approved Ginnie Mae seller/servicer, we provide loan servicing on our mortgages, with a current portfolio balance in excess of $7.1 billion in loans. Colliers Mortgage is recognized as a leading national lender for the FHA/HUD and Fannie Mae (DUS®) lending platforms, as well as the country's top HUD Section 213 Cooperative Housing lender.

Photo credit: The Henley (Richfield, MN), from Apartment Search

Representative Transactions

Fannie Mae: Market-Rate, Affordable

Cottonwood Portfolio

Market Rate | 340 Total Units
$33M
Fannie Mae
Cottonwood, AZ
December 2020

Henley

Market Rate | 74 Units
$13.5M
Fannie Mae
Richfield, MN
December 2020

The Lexington Apt. Homes

Market Rate | 190 Units
$13.3M
Fannie Mae
Biloxi, MS
December 2020

Bent Tree Apartments

Market Rate | 90 Units
$6M
Fannie Mae
Big Spring, TX
December 2020

Good Dwelling

Market Rate | 80 Units
$12.9M
Fannie Mae
Minneapolis, MN
October 2020

Lake Shore Club Apts.

Affordable | 80 Units
$5M
Fannie Mae
Camden, NJ
October 2020

Wheatgrass Village

Market Rate | 81 Units
$5.5M
Fannie Mae
Huron, SD
March 2020

Oxford Point

Market Rate | 201 Units
$13.5M
Fannie Mae
Gulfport, MS
February 2020

Red44

Market Rate | 159 Units
$23.8M
Fannie Mae
Rochester, MN
February 2020

Representative Transactions

HUD/FHA: Market-Rate, Affordable, Cooperatives

Aster House Apartments

Affordable | 204 Units
$38.5M
HUD 221(d)(4)
Eagan, MN
December 2020

Realife of Bloomington

Senior Cooperative | 96 Units
$11M
HUD 223(a)(7)
Bloomington, MN
December 2020

Sycamore Ridge

Affordable | 220 Units
$20.5M
HUD 221(d)(4)
Gainesville, GA
November 2020

Beckley Townhomes

Affordable | 100 Units
$14.6M
HUD 223(f)
Dallas, TX
November 2020

Wellington Ridge

Affordable | 220 Units
$12.6M
HUD 223(a)(7)
Covington, GA
October 2020

Fairway Ridge Cooperative

Senior Cooperative | 52 Units
$5.9M
HUD 223(a)(7)
Rochester, MN
July 2020

The Grassdale at Manor

Market Rate | 320 Units
$40.7M
HUD 221(d)(4)
Manor, TX
June 2020

Old Walnut Apartments

Affordable | 89 Units
$3.2M
HUD 223(f)
Grand Island, NE
June 2020

Roseville Seniors

Senior Affordable | 89 Units
$6.7M
HUD 223(a)(7)
Roseville, MN
April 2020

396 offices in 68 countries on 6 continents

United States: 153
Canada: 29
Latin America: 24
Asia Pacific: 79
EMEA: 111

$3.3B
in revenue

2B
square feet under management

17,000 +
professionals and staff

About Colliers International

Colliers (NASDAQ, TSX: CIGI) is a leading diversified professional services and investment management company. With operations in 67 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice to real estate occupiers, owners and investors. For more than 25 years, our experienced leadership with significant insider ownership has delivered compound annual investment returns of almost 20% for shareholders. With annualized revenues of $3.0 billion ($3.3 billion including affiliates) and $40 billion of assets under management, we maximize the potential of property and accelerate the success of our clients and our people. Learn more at corporate.colliers.com, Twitter @Colliers or LinkedIn.

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