



Twin Cities Apartment Housing Market Snapshot

Spring 2021

APARTMENT SECTOR PIVOTS AFTER HISTORIC BOOM

After a 10-year bull run in the Twin Cities apartment sector, The COVID-19 pandemic has disrupted multifamily fundamentals over the past year. Unlike the Great Recession last decade, the pandemic-led slowdown is not real estate driven but resulted from stay-at-home orders, occupancy limitations and ensuing social unrest in Minneapolis. Prior to the pandemic, the economy and market fundamentals were strong and another record-setting construction boom year was on the horizon.

Despite the economic downturn, the multifamily market performed better than expected and the pandemic impacts have been submarket specific. Accelerated mobility trends from urban to suburban and tertiary markets drove tenants out of the core as residents sought affordability, more space, and were no longer impacted by commute times. As such, suburban vacancies remained sub-5% whereas core city vacancies were double digit.

RECORD DELIVERY CONTINUES...

Construction was at an all-time high heading into the pandemic as projects were planned, permitted, and in the ground 18+ months prior to the pandemic recession. For the 4th year in a row, deliveries hit a new peak with over 10,000 units; up over 38% from the previous peak in 2019. About 45% of all new deliveries were in Minneapolis and Hennepin County made-up 62% of all new units. Looking ahead to 2021, another strong year is projected with over 9,800 units slated to be completed. However, construction has largely moved to the suburbs. Although some projects have experienced construction delays during the pandemic, delays have been predominantly minor and most buildings are expected to be completed on or near the projected occupancy date.

LACK OF FOR-SALE HOMES ADDING RENTAL DEMAND

The median sales price appreciated nearly 10% YOY; establishing a new high of \$310,000. Rising home prices and lack of supply – just 1.6 months – are keeping potential buyers in the rental pool. Entry-level buyers seeking homes less than \$350,000 face fierce competition where demand is the highest and supply is lowest. Although for-sale demand is the strongest in a decade; home builders are hampered by high lumber costs, material shortages, supply chain issues and shortages of land and labor. As such, many home builders are capping sales and are turning away future buyers. All these factors will contribute to longer rental tenure rates as potential homebuyers will rent.

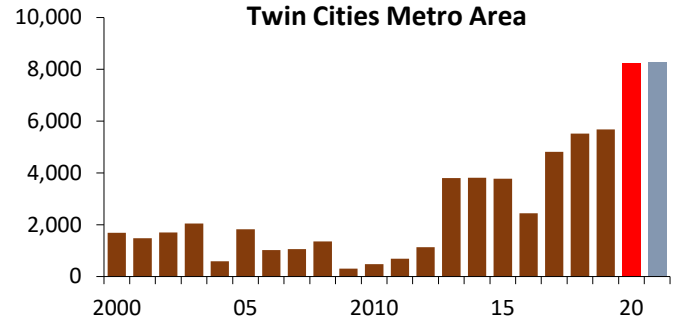
OUTLOOK

Although the pandemic weakened multifamily demand in the short-term, long-term fundamentals are expected to remain strong over the next decade. The pandemic weakened economy has disrupted key performance indicators in the multifamily industry. Increased supply, together with the slowdown in the economy, increased vacancy rates, slowed absorption and kept rent growth at bay. Concessions have been prevalent and newer deliveries offer move-in specials and free rent. Some tenants been offered incentives to renew leases to keep turnover down.

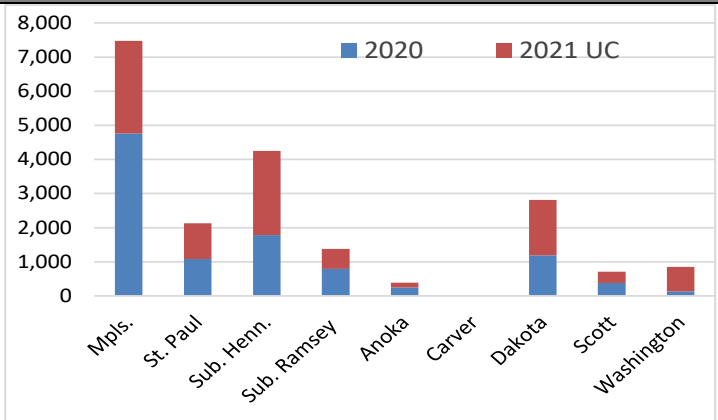
Due to the record-breaking supply in Minneapolis and remote working policies, vacancies and concessions in Minneapolis will be affected the most. Market performance will be submarket specific; however most suburban communities should weather the slowdown as renters seek out more affordable rental options.

HISTORIC DELIVERIES

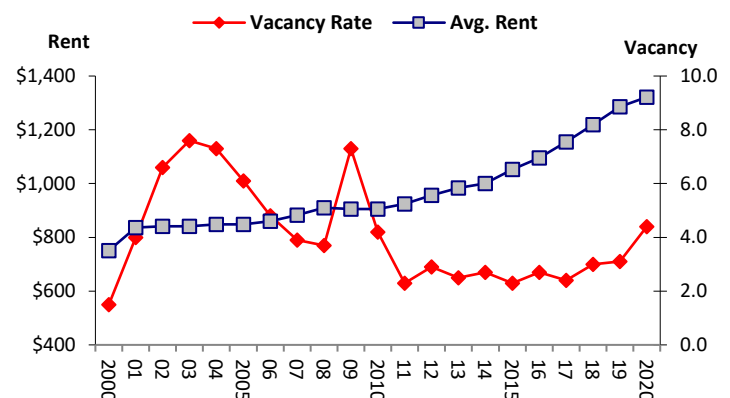
Market Rate Apartment Completions Twin Cities Metro Area



2020 DELIVERIES & 2021 UNDER CONSTRUCTION



APARTMENT VACANCY & RENT (STABILIZED)



2021 SPRING MARKET FORECAST

- DEMAND** for apartments remains strong long-term; however, near-term look for concessions and a softening market
- DEVELOPMENT** peaked in 2020 and 2021; however, some projects may be delayed/stalled due to the pandemic & supply
- VACANCY** rates are anticipated to rise overall with the addition of new product deliveries; vacancies will be submarket specific.

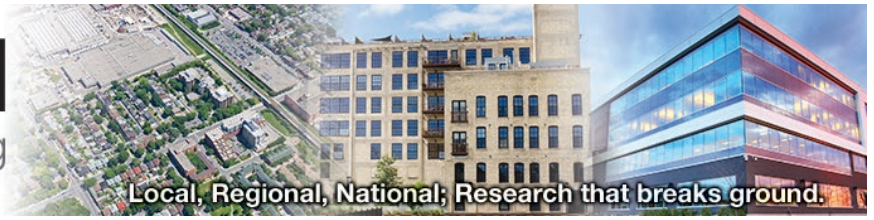




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STATEMENT OF QUALIFICATIONS

Our comprehensive studies detail the economic, demographic, and competitive factors that can make or break your development project.

- **Market Feasibility Analysis** for all types of developments, with expertise in multifamily rentals, for-sale, multifamily, and senior housing. Market feasibility studies provide our clients with the information they need to determine the likelihood of successful implementation of the project they are evaluating.
- **Market Assessments** provide clients with relevant information to make site selection decisions, gain additional knowledge about current and evolving markets, or reposition existing properties to take advantage of changing markets or competitive conditions.
- **Comprehensive Housing Analysis** helps cities and/or counties anticipate housing needs, direct housing policies, and understand key issues/conditions in the housing market.
- **Senior Housing Analysis** provides developers with an analysis of the factors involved in senior housing feasibility. We maintain a proprietary database tracking all of the determinants of senior housing's success.
- **Affordable Housing Analysis** determines need that cities and counties can evaluate to determine development issues and allocation of funds.
- **Commercial Analysis** determines the market potential for the development of office and retail space, banks, recreational facilities, hospitality projects, and industrial space.
- **Land Use Planning** enables clients to redefine and reposition downtown areas, redevelop older neighborhoods, explore the highest and best uses of land and evaluates the capabilities of diverse land uses.
- **Consulting Services** are customized to meet individual client needs and may include a variety of services tailored to the individual project.
- **Financial Analysis** determines need for additional financial institutions in a market area by evaluating current financial/deposit data of a given market.
- **Student Housing Analysis** identifies current market conditions for student rental housing and determines the market for reallocating on-campus student housing.
- **Rental Housing Analysis** determines the need for general occupancy in a multi-family housing concept.
- **Condominium Analysis** provides developers with an analysis of potential feasibility and marketability of condominium projects in an area.
- **Economic Impact Analysis** provides developers with an analysis of the local economy and the impact that local businesses have on the community.
- **Retail Analysis** identifies the competitive retail environment and estimates the demand potential for new retail space in the trade area.
- **Hospitality Analysis** analyzes demographic and market data assessing market conditions that impact the feasibility of developing a limited-service or full-service hotel.