

First Quarter
2013

Twin Cities Multifamily Market Report





Twin Cities Multifamily Market: A Top Performer

The Twin Cities metro area is experiencing the lowest rental housing vacancy rate in a decade. Strong demand and low vacancy continues to drive rent growth.

Fundamentals in the Twin Cities Metro Area (TCMA) remain strong as demand continues to outpace the supply. Factors such as: job creation, population growth due to in-migration, the growth of younger households and lifestyle choices including a shift from homeownership are combining to create robust apartment fundamentals. The TCMA's first quarter 2013 vacancy rate was 2.8%. According to Marquette Advisors, a multifamily research firm, this is the eighth consecutive quarter the TCMA posted a vacancy rate below 3.0%.

Builders have been unable to keep up with demand as evidenced by The Flats at West End, which was 85% leased on the date they received their Certificate of Occupancy. In the first quarter of 2013, 855 units came online, with 774 units absorbed. An additional 3,626 multifamily and 421 student housing units are projected to come online before the year-end 2013.

Rental rates and pre-leasing activity are surpassing pro forma projections, indicating robust demand. The TCMA's population continues to grow as its 2.4% job growth outpaces the national rate of 1.5%. The Metropolitan Council (Met Council) estimates that 71% of the people moving to the TCMA each year are moving due to a new job or transfer. Those moving for a new job are more likely to look for apartments within the core and first-ring suburbs rather than single family homes. According to the National Multi Housing Council (NMHC), homeownership will continue to decline due to Generation Y and the Net Generation valuing flexibility, mobility and adaptability.

Multifamily Overview

- 71% of the people moving to the Twin Cities move because of a new job or transfer, driving population growth
- 7,100 jobs were added in 1Q
- Eight straight quarters of vacancy rates below 3%
- 855 units came online in 1Q 2013
- Absorption for 1Q was 774 units
- Minneapolis (non-downtown) had lowest submarket vacancy at 1.8% for the quarter
- Highest average rents were in Downtown Minneapolis at \$1,303
- Minneapolis and first-ring suburban shadow markets (condos, homes for rent, etc) have been virtually eliminated

1Q '13 vs. 1Q'12

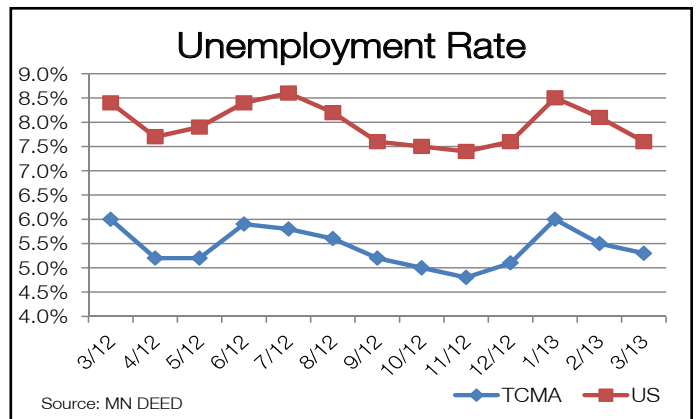
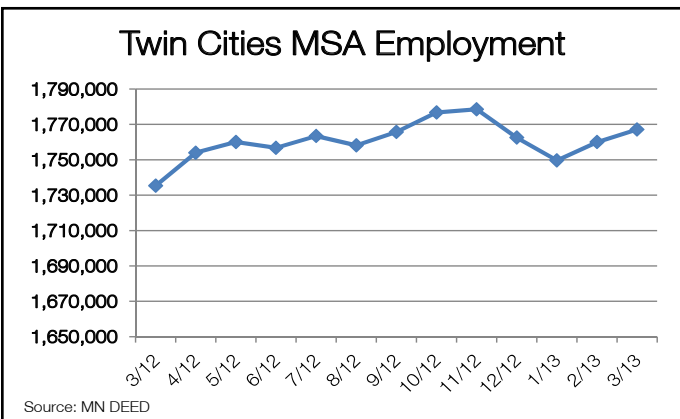
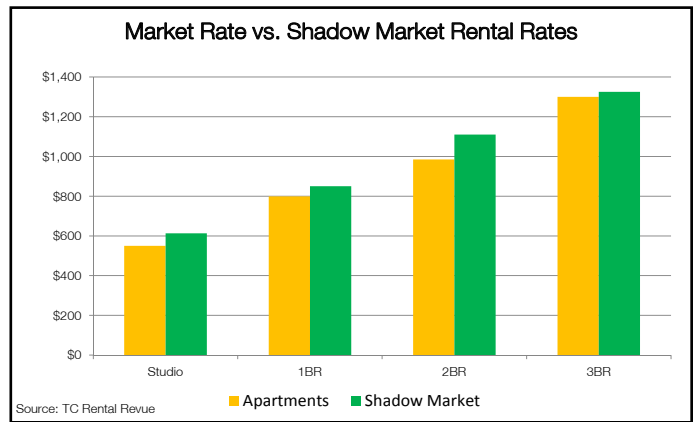
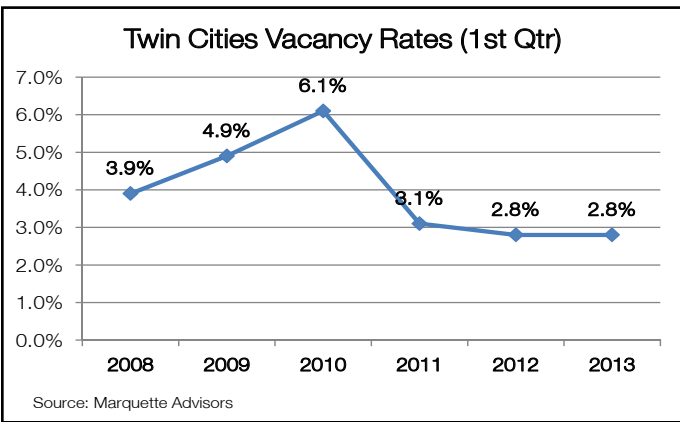
Vacancy
2.8% ← 0.0% → 2.8%

Rents
\$966 ↑ 3.3% ↓ \$935

1Q '13 vs. 4Q'12

Vacancy
2.8% ↓ 0.1% ↓ 2.9%

Rents
\$966 ↑ 1.0% ↓ \$957



Submarket Conditions

Downtown Minneapolis

Avg Rent: \$1,303

Vacancy: 2.2%

Downtown St. Paul

Avg Rent: \$1,186

Vacancy: 3.9%

Minneapolis (Non-Downtown)

Avg Rent: \$896

Vacancy: 1.8%

North Central Suburban

Avg Rent: \$871

Vacancy: 2.3%

Northeast Suburban

Avg Rent: \$867

Vacancy: 2.9%

Northwest Suburban

Avg Rent: \$907

Vacancy: 2.9%

South Central Suburban

Avg Rent: \$943

Vacancy: 2.7%

Southeast Suburban

Avg Rent: \$1,016

Vacancy: 3.4%

Southwest Suburban

Avg Rent: \$1,062

Vacancy: 3.0%

St. Paul (Non-Downtown)

Avg Rent: \$891

Vacancy: 3.4%

Twin Cities Metro Area

Avg Rent: \$966

Vacancy: 2.8%

Source: Marquette Advisors

Current Market Conditions

Absorption continues to outpace new construction. According to Marquette Advisors, vacancy rates in the TCMA dropped 10 basis points between this quarter and last (Q4 2012) despite 855 units coming online this year compared to the 1,428 new units added in all of 2012. The low vacancy rates continue to drive rent growth throughout the TCMA. The average market rent for the first quarter of 2013 was \$966 per month, up from \$957 last quarter (+1.0%) and \$935 a year ago (+3.3%). The City of Minneapolis experienced the highest rent growth and the lowest vacancy rates. This is especially evident in South Minneapolis where average rents increased 5.7% and the vacancy rate decreased by over half. Southwest Minneapolis increased average rents by 7.8 % and had a vacancy rate of 2.1%. Currently the market absorbs more than builders can produce resulting in steady rent growth, low vacancy rates, and a dwindling shadow market.

Sales Activity

Transaction volume in the Twin Cities continues to increase, with a quarterly volume of approximately \$190 million. Ten notable transactions from the first quarter 2013 are highlighted below. The largest transaction was Watertower Apartments in Eden Prairie. The 228 unit asset sold for \$37.6 million. Strong capital demand for multifamily assets (especially well-located Class A assets) historically low interest rates, and outstanding fundamentals have contributed to a low cap rate environment. In order to place capital, investors have broadened their acquisition criteria to include value-added assets and suburban locations. This trend will keep cap rates for Class A assets in the low 5% range, well located Class B in a low 6% range and suburban Class B and Class C assets trading in a low 6% to mid-7% range depending on the location and condition of the asset.

Notable Sales Transactions, January - March 2013

Property	City	Units	Age	\$/Unit
Watertower	Eden Prairie	228	2002	\$164,827
Creekside in Edina	Edina	70	2007	\$160,000
Woodlane Place Townhomes I	Woodbury	26	1989	\$143,885
Woodlane Place Townhomes II	Woodbury	216	1988	\$139,545
Classic at the Preserve I & II	Woodbury	282	1998	\$124,557
Southwind Village	Burnsville	320	1989	\$ 97,813
303 W 15th Street	Minneapolis	30	1903	\$ 97,059
Powers Ridge	Chanhassen	56	2002	\$ 90,446
Cleveland Terrace	St. Paul	50	1948	\$ 72,912
Silver Pines	Eagan	51	1989	\$ 71,569

Source: Real Capital Analytics

Construction Trends

Developers are responding to the tight rental market. In the first quarter 2013, eight projects totaling 855 units came online. Additionally, there are 34 developments with a total of 6,247 units under construction to be delivered between 2013-2015. Approximately 3,626 multifamily and 410 student housing units are projected to come online before year-end 2013. Ninety-five percent of the developments are located in Minneapolis, St. Paul and first-ring suburbs, thus highlighting the strength of job centers in high amenity urban core areas. The demand continues to outpace the market, as evidenced by The Flats at West End, which was 85% leased on the date they received their Certificate of Occupancy.

Approximately 58 additional developments are planned or proposed to be delivered (between 2013 - 2017) in the Twin Cities totaling approximately 8,150 market rate and 1,863 student housing units. Proposed developments that begin construction in 2014 will largely depend on access to capital, strength of individual location/sites and the ability to complete the entitlement process.

The areas seeing the highest number of developments under construction are Downtown Minneapolis (6 projects, 1,371 units), Uptown Minneapolis (5 projects, 1,237 units) and the University of Minnesota (5 projects, 631 units). Additionally, the areas seeing the most planned/proposed developments are the University of Minnesota (9 projects, 1,863 units), Northeast Minneapolis (7 projects, 1,160 units), North Loop (5 projects, 514 units) and Downtown Minneapolis (5 projects, 871 units).

For more information or a copy of the complete pipeline and maps, contact Gina Dingman at gdingman@naieverest.com

Multifamily Developments Under Construction		
Property Name	City	# of Units
<u>Downtown Minneapolis</u>		
LPM Apartments	Minneapolis	354
222 Hennepin	Minneapolis	286
Abbott Apartments	Minneapolis	123
Nic on Fifth	Minneapolis	253
Soo Line Building City Apts	Minneapolis	254
Velo	Minneapolis	101
<u>Northeast Minneapolis</u>		
Mill & Main	Minneapolis	359
The Elysian	Minneapolis	57
<u>North Loop</u>		
Brunsfeld	Minneapolis	50
Dock Street Apartments	Minneapolis	185
Solhavn	Minneapolis	137
Third North	Minneapolis	204
<u>South Minneapolis</u>		
East River Apartments	St. Paul	45
Longfellow Station	Minneapolis	180
<u>University of Minnesota</u>		
525 Tenth	Minneapolis	10
7 West	Minneapolis	213
The Bridges	Minneapolis	210
Station at Washington	Minneapolis	97
The Knoll	Minneapolis	101
<u>Uptown Minneapolis</u>		
Be@Calhoun	Minneapolis	185
City Walk Uptown	Minneapolis	92
Elan Uptown	Minneapolis	591
LIME Apartments	Minneapolis	171
Track 29	Minneapolis	198
<u>St. Paul</u>		
Pioneer-Endicott	St. Paul	234
The Penfield	St. Paul	254
West Side Flats	St. Paul	178
<u>West Metro</u>		
Adagio	St. Louis Park	122
e2	St. Louis Park	58
Flats at West End	St. Louis Park	119
Sunset Ridge Apartments	Minnetonka	64
<u>North Metro</u>		
The Residence at COR	Ramsey	230
<u>South Metro</u>		
Covington	Bloomington	250
Luxembourg	Bloomington	282

About NAI Everest

NAI Everest brings industry-leading resources to its disposition and acquisition services. Speed, agility, and keen insight are hallmarks of our services. The result is connecting properties with our exclusive list of investors and institutions. NAI Everest disposition services rely upon the skills and insight of our experienced team of brokerage, marketing and data resource management professionals. Our process begins with an internal launch meeting that unifies clients' objectives with marketing and sales strategies. This launch is the beginning of a process that involves the following phases:

Comprehensive Property Profile - market analysis, competitive review, capital market summary

Marketing Promotional Strategy Development - advertising, direct mail, e-mail, web listings, and public relations tactical outline

Sales Planning & Execution - database profile analysis, identification of network connections, direct contact with exclusive list of buyers

Client Communication - communication of progress through activity reports and updates

Maximum Price - the result is the capitalization of market dynamics in achieving a competitive bid environment and the maximum sales price



Gina Dingman, CCIM
President
P. 612.424.7541
M. 612.801.1855
F. 612.333.1744
gdingman@naieverest.com



Jessica Burton
Associate
P. 612.206.3351
F. 612.333.1744
jburton@naieverest.com



Caryn McVey
Associate
P. 612.424.7542
F. 612.333.1744
cmcvey@naieverest.com

NAI Everest
Multifamily Market Report

1Q 2013



4150 Olson Memorial Highway, Suite 110
Minneapolis, MN 55422
612.424.7542
naieverest.com