CUSHMAN & WAKEFIELD

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COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market

MULTIFAMILY MARKET

Multifamily Bull Run Continues

Despite a surge in new construction, the Twin Cities is holding on to its top ranking as one of the strongest apartment markets in the country. Metro-wide vacancies as of the third quarter declined 20 basis points year-over-year to average 2.3%. Even accounting for new properties undergoing lease-up, vacancies remain well below the national average at 3.3%. Low unemployment and healthy job growth coupled with barriers to entry in the homeownership market have contributed to a strong renter pool.

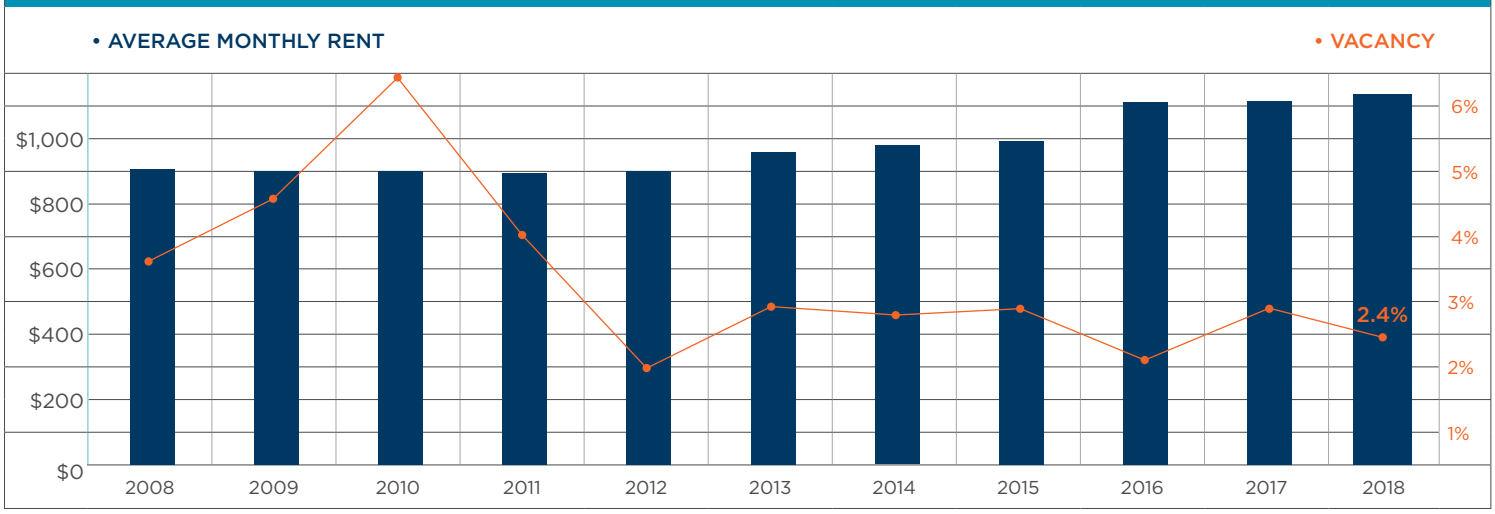
The Minneapolis-St. Paul MSA added 33,700 new jobs over the past year as of October, while unemployment dipped to 2.1%, according to the Bureau of Labor Statistics. Although the primary focus has been on Millennials, property owners are now beginning to see the leading edge of Gen Z stepping into the rental market. This cohort is similar in size to the Millennials, and they are coming out of college and landing good-paying jobs in the tight labor market. Many Gen Z'ers also grew up in a "Class A" lifestyle where granite counter tops and stainless steel appliances were the norm, which bodes well for high-end apartment properties.

Healthy occupancy levels continue to support rent growth, although there are some signs that the pace of rent growth is slowing, with the Twin Cities on pace to deliver 3.6% rent growth for the year.

DEVELOPERS PICK UP THE PACE

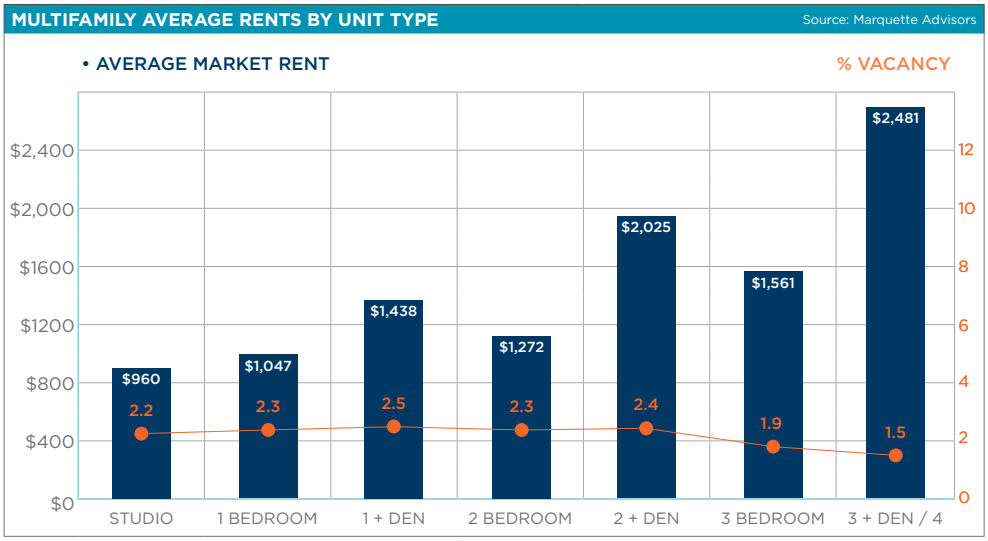
New supply has remained in balance with market demand, even in the face of an active construction pipeline now going back several years. Approximately 3,500 units were built in 2017, 5,500 were added in 2018 and another 5,500 units are

MULTIFAMILY TWIN CITIES METRO RENT & VACANCY Source: Marquette Advisors



expected to be delivered in 2019. Absorption has remained strong in 2018, with about 3,400 units absorbed through September.

All eyes are on Downtown Minneapolis to see how the submarket absorbs a hefty dose of new supply. Developers delivered 1,400 units in 2018, which is more than the prior two years combined. The majority of those openings occurred in third quarter, which pushed vacancies to 10% with more projects in the pipeline that could drive vacancies even higher. That will create some short-term pain for Class A owners, but it's too early to tell whether that spike will trigger alarm bells.



If history is any indication, the market could prove to be resilient with renters stepping in to absorb that new supply. In 2014, new development also caused vacancies to jump to 10%, but within two years properties had stabilized and vacancies had dropped back to 2%.

NOTABLE DEVELOPMENTS

- Opus completed its 365 Nicollet project in Downtown Minneapolis, with 370 units delivered in August.
- Mortenson is under construction on The Rafter at 333 East Hennepin Avenue in Northeast Minneapolis. The 282-unit project is set to deliver in summer 2019.
- Solhem Cos. and TE Miller Development are planning to break ground on The Archive in spring 2019. The 196-unit project is located at 102-120 First Street North in the North Loop.

OUTLOOK

The Twin Cities is bracing for a surge in openings with 11,000 units possible in 2018 and 2019 combined. That volume amounts to more than half of the 20,000 units built in the prior six years.

Class A lease-up will likely slow under the weight of the new supply ahead, and concessions will be used to speed lease-up in hot zones. However, some of the new properties are being built in suburban markets where there is strong demand for rental housing.

One wild card to watch in 2019 will be whether all of the projects currently proposed move forward, or if some of those developments get put on hold. A second is whether the metro continues to follow its steady pace of job growth, which has been a big driver for renter demand.

ABOUT THE AUTHOR

THE COMPASS REPORT

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Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of $6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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CUSHMAN & WAKEFIELD

3500 American Blvd W Suite 200
Minneapolis, MN 55431
952 831 1000 | cushmanwakefield.com