MULTIFAMILY MARKET

JANUARY 2021

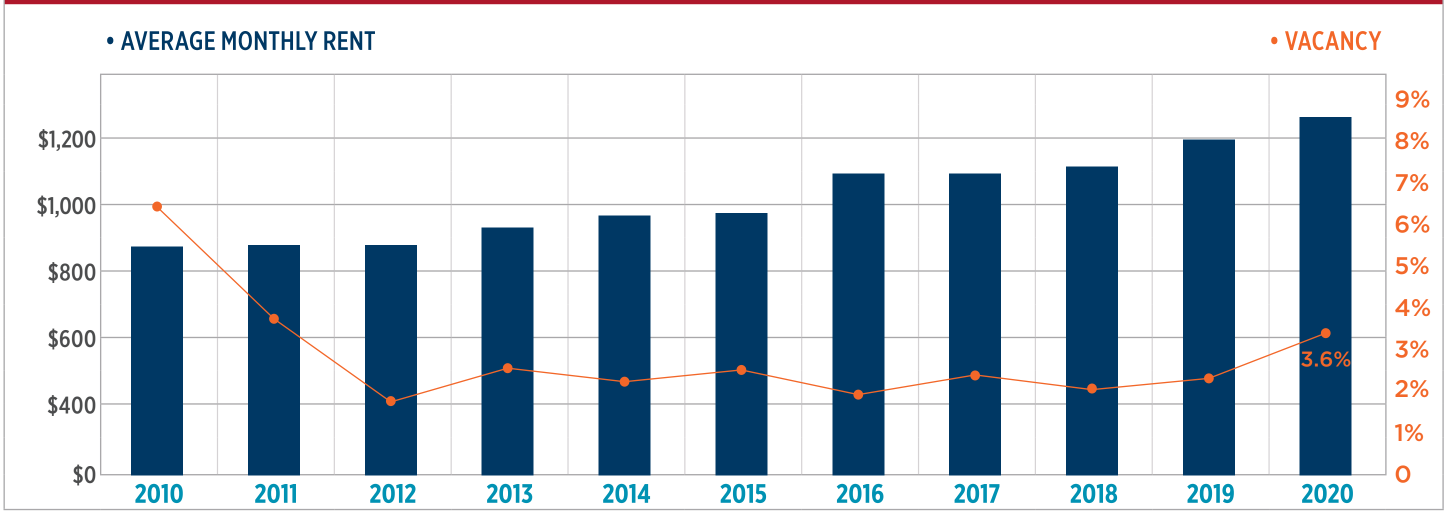
Investment Sales Streak Continues in Twin Cities as Activity Shifts to Suburban Markets

Multifamily investment sales volume in the Minneapolis-St. Paul market rebounded in the second half of 2020 after a significant slowdown in deal velocity during the second quarter. For the seventh consecutive year in the Twin Cities, total sales exceeded $1 billion at year-end, though 2020 volume was down approximately 21% compared to 2019. Most deals that came to the market in the second half of the year progressed, albeit at a slower pace, and the year-to-date decrease in sales volume reflected the initial pause in the market brought on by the pandemic in the first half of the year.

2020 represented a banner year for certain segments of the for-sale housing market. According to the Minneapolis Area Association of Realtors, pending sales in the Twin Cities increased 9.2% during the 12-month period through November 2020. This uptick included significant gains in the $250,000 to $500,000 price range. First-time home buyers in this price range that exited the multifamily rental market were one of the contributing factors to rising vacancy in the Twin Cities, with the sharpest increases in apartment vacancy occurring in the Downtown Minneapolis and St. Paul markets.

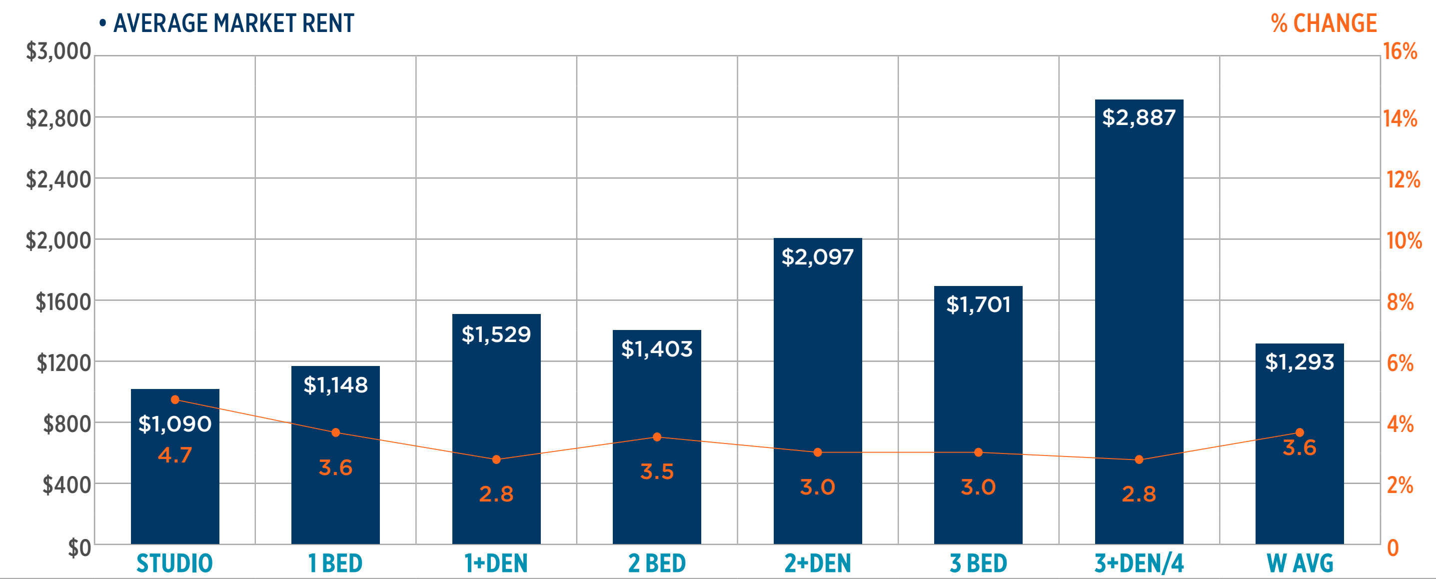
A confluence of negative factors contributed to a temporary slowdown in activity in Downtown Minneapolis. The market had experienced some softening prior to the pandemic due to an increase of new supply coming online. Following the arrival of COVID-19, the corresponding economic downturn, and subsequent shifts in renter preference in the work-from-home environment, the vacancy rate downtown reached 7.1% in the second half of 2020, according to Marquette Advisors. This figure is higher at 11.1% when adjusted for new projects still undergoing lease-up. Owners have responded by offering more aggressive concessions to attract renters in the short term. Investors and developers, however, expect a snap back in activity particularly with office users returning to in-person work as the vaccine is distributed.

MULTIFAMILY TWIN CITIES METRO RENT & VACANCY Source: Marquette Advisors



Demand from investors and developers alike has focused on suburban markets, especially the first ring. The depth and diversity of the Twin Cities labor market, anchored by a collection of Fortune 500 employers, contributed to the relative stability of employment levels through the economic downturn of 2020. Consequently, the overall vacancy rate in the suburbs remained tight through the third quarter at 3.2%, and average rents were up 2.5% year-over-year. Buyers have taken notice as notable deals closed in the second half with strong pricing. For example, Central Park West in Golden Valley traded for $276,000 per unit; the buyer, Bigos Investments, also purchased The Whit in South Minneapolis during the second half.

MULTIFAMILY AVERAGE RENTS BY UNIT TYPE Source: Marquette Advisors



OUTLOOK

The statewide eviction moratorium has been extended each month with the governor's declaration of a peacetime emergency due to COVID-19. It is politically unlikely that the eviction moratorium would be lifted before the summer of 2021.

The second federal stimulus package that passed in December included direct payments and extended unemployment benefits, which is expected to help stabilize collection rates. Delinquency rates among Class B assets in particular had gradually increased following the August expiration of certain CARES Act benefits.

A shift in the balance between the urban core and suburban markets is expected to occur in the future development pipeline. Following the robust development momentum in the Downtown Minneapolis market coming into 2020, developers will assess the more recent concessions and lease-up trends, and some proposed projects may stall. Recent deliveries in suburban markets, by contrast, have experienced accelerated lease-ups in 2020, and these markets are expected to hold a larger share of new supply coming online in 2021 and beyond.

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