The Twin Cities Metro Area (TCMA) continues to experience a flourishing economy and robust multifamily fundamentals including low vacancy, rapid absorption and steady rent growth. As a result, a growing number of investors and developers from around the country are being drawn to the TCMA. More than 13,000 multifamily units have been delivered since 2013, and there is still a remarkable demand for well-located, highly amenitized multifamily product throughout the majority Metropolitan Statistical Area (MSA).

Overall vacancy rates in the TCMA averaged 3.1% in Q4 2015, with the lowest vacancy rates being 2.3% in the North Suburban submarket. Downtown Minneapolis vacancy rates averaged 6.3% and Downtown Saint Paul rates averaged 4.1%. Institutionally owned assets averaged a vacancy rate of 5.1%. The higher than average vacancy rates in the downtown areas are skewed by the new units delivered that are still in lease-up. Current occupancy statistics combined with increasing demand for urban/walkable multifamily product indicate the market will extend its five year run of sub 4% vacancy levels.

Overall rental rates increased an average of 5.4% year-over-year, with the largest increases in the Southwest Metro (7.8%) and Downtown Saint Paul (7.4%); institutionally owned assets achieved 6.8% year-over-year effective rental-rate increases. Absorption totaled 2,769 units for 2015 while an additional 4,622 units were delivered last year. Above average rental rate increases while absorbing more than 13,000 units across the TCMA indicates continued market strength and signals investor demand. Multifamily sales in the Twin Cities reached a new high of $964.8 million exceeding sales volume in 2015. This exceeds the record sales volume in 2014 of $937.2 million. The aggressive sales market in the TCMA has been fueled by historically low interest rates, a surplus of capital, investors seeking yield and five years of outstanding fundamentals. The average price per unit in Q3 2015 was $148,920, a 46% increase from the previous year. Competition and lack of product have compressed cap rates to the mid-to-low 4% range for new product in recent years. Class A cap rates are expected to level off in 2016, however, well-located Class B and C value-add assets will continue to see some compression.

Demand for multifamily product has been driven by the dramatic growth in the renter pool from three primary sources: Baby Boomers, Millennials and immigrants. The growth of renters in the TCMA parallels national trends. The renter pool in the TCMA has increased from 25.6% in 2005 to 30.1% in 2014, and this trend is expected to continue due to changing demographic trends and employment growth.

According to the Urban Land Institute, rental households will reach 13 million nationwide by 2030, exceeding homeownership by four million. Historically, 18-34 year olds made up the largest pool of renters. Today, the age group of renters has expanded due to Baby Boomers, now empty nesters, downsizing. The National Multifamily Housing Council (NMHC) predicts Baby Boomers will make up more than 65% of the renter pool in the next three to five years.
Combined with increased population due to immigration, renter household formation will continue fueling the need for additional units. The renter pool is projected to continue its rapid growth for the next five to seven years, which will drive development demand for exceptionally located and well-designed product.

Harvard University’s Joint Center for Housing Studies found that Baby Boomers accounted for 42% of the growth in renters over the past decade. Baby Boomers, those ages 50-69, account for 24.2% of the population in the Twin Cities, or 847,161 people.

The majority of Baby Boomers entering the renter pool are seeking the type of active, urban living that typically has been associated with Millennials; Boomers are renting apartments and buying condos at more than twice the rate of their millennial children. However, little new product has been built with Boomers in mind such as larger units, more storage and closet space as well as different layouts than have been built recently for Millennials.

More jobs will be created for Millennials over the next few years due to more Boomers leaving long-term corporate careers for new business ventures, beginning non-profits, and other alternatives that draw them to the urban core. It is estimated that by 2020, Millennials will make up more than 50% of the work force. As more jobs become available, many Millennials are moving out of their parents’ homes; most choose the flexibility renting provides for upward mobility. Recent graduates are expected to remain renters beyond historical norms due in part to student loan debt – nationally the average student graduates with $30,000 in debt. Local apartment owners report that one in four of their units are rented to Millennials moving to the TCMA for employment.

The U.S. Census Bureau reported that the Millennial population was 74.8 million in 2014 and increased to 75.3 million in 2015, becoming the largest population group nationwide - the Twin Cities Millennial population, those between ages 18-34, was 823,780. With immigration adding more numbers to this group than any other, the Millennial population is projected to peak in 2036 at 81.1 million.

Immigration is the second contributing factor in the increasing demand for multifamily housing. The Census Bureau estimates the future size of the foreign-born population will account for more than one in seven U.S. residents (51 million) by 2023, the largest share ever recorded in American history. Between 2010 and 2020, Research Institute for Housing America projects immigrants to account for 32.2% of the growth in all households and 26.4% of the increase in the renter pool.

(Immigration Trends Chart follows on next page)
The increased number of people choosing to move to multifamily housing continues to fuel demand for new product to fit the desires of all groups. Baby Boomers, Millennials and immigrants are seeking properties in walkable neighborhoods with convenient access to retail, restaurants and entertainment. Additionally, they are looking for a sense of community. A variety of indoor and outdoor common area spaces and planned activities build a stronger sense of community contributes to tenant retention.

One of the trends architects and designers at the NMHC conferences recommend for developers to consider is diversification of unit types to attract and retain residents through their life stages. In recent years, developers have focused on Millennials rather than integrating the needs of the entire renter pool. Millennial-focused developments contain mostly studio and one-bedroom units. Providing two-bedroom units or larger will allow the Baby Boomer renter pool to continue to occupy new and existing developments and will keep them in the property rather than losing them to a competitor who has unit types to meet their demands.

In addition to diversifying unit types in new developments, there is strong demand for urban multifamily units that are economically accessible to the middle class. As additional new luxury towers are delivered, absorption will slow on new Class A product as there are a limited number of renters who can afford to live in these developments. There is a strong desire by both Minneapolis and Saint Paul to draw renters of all economic classes into the urban core, however, many cannot afford to live in luxury apartments, creating a strong need for new, Class B product.

While some developers/owners are concerned about oversaturation, there is a need for more multifamily units which will continue to thrive for the next several years based on the large number of Millennials, Baby Boomers and immigrants entering the rental market. As developers begin designing and delivering product blending the needs of the broader rental pool, rental rates will continue to increase, occupancy will continue to thrive, and land prices will continue to increase for well-located urban and first-ring suburban sites as well as for well-located/walkable suburban sites.
- 3,041 market rate multifamily, 872 affordable multifamily and 601 student housing units were delivered in 2015
- 5,179 market rate multifamily and 350 affordable multifamily units are under construction to be delivered in 2016/2017
- Apartment absorption was 2,819 units in 2015
- TCMA Population projected to grow 9.7% from 2010-2020, 8.3% from 2020-2030, 7.3% from 2030-2040
- 32,130 jobs were added in past 12 months
- Unemployment rate in TCMA as of November 2015 was 2.7%, 2% below the US unemployment rate of 4.8%
- Average rent growth for the TCMA was 5.0% in 2015
- Vacancy has been below 3.5% for 30 straight quarters in the TCMA
2015 Rankings

Twin Cities

• #2 Lowest Unemployment Rate for Large Metropolitan Areas (Bureau of Labor Statistics)
• #2 Best Cities for Recent Grads (Realtor Magazine)
• #2 Greenest Cities in America (Travel + Leisure)
• #2 Most Playful Cities for Families (Travel Pulse)
• #3 Friendliest Cities in America (Time Magazine)
• #3 Top Midwest Cities for Jobs (ZipRecruiter.com)
• #9 Most Educated Cities (wallethub.com)
• #25 World’s Friendliest Cities (Travel + Leisure)

Minneapolis

• #1 Top 10 Healthiest Cities (Livability.com)
• #1 Most Bikeable Cities (grindtv.com)
• #3 Best Cities for 20-Somethings (greatist.com)
• #5 Best Destination for Culturephiles (USA Today)
• #7 Most Recession- Recovered Cities (wallethub.com)
• #28 Top 50 Meeting Destinations in the United States (cvent.com)

Saint Paul

• #9 Top 10 Best Places to Live (Mens Journal)
• #19 Best Cities for 20-Somethings (greatist.com)
• #24 Most Recession-Recovered Cities (wallethub.com)
Downtown Minneapolis is leading the economic growth for the TCMA. The Downtown Minneapolis Council’s strategic plan to expand the downtown residential population to 70,000 by 2025 (currently 44,961), includes adding 15,000 housing units, three million square feet of Class A multi-tenant office space, 1,100 new hotel rooms and 200,000 square feet of retail.

Construction on the $50 million redesign of Nicollet Mall in Downtown Minneapolis began in 2015 and is expected to be completed by 2017. The redesign plans call for a facelift that will prioritize the space for pedestrians including additional trees, enhanced sidewalk spaces, improved lighting and more gathering places. These improvements are designed to attract and retain employers and employees, make downtown a more inviting place for families, workers and tourists, and create a connection between the newly revitalized Downtown East and Downtown West neighborhoods.

Construction continues on the new $1.091 billion US Bank Stadium. As of January 1, 2016, the project was 85% complete and remains on track for a completion date of July 2016. US Bank Stadium, the home to the Minnesota Vikings, will be host to Super Bowl LII in 2018 and the 2019 NCAA basketball men’s Final Four tournament.

Adjacent to the new stadium, Ryan Companies is redeveloping five downtown blocks that include 1.2 million square feet of office space for Wells Fargo, 195 residential apartments in three buildings, 26,000 SF of retail space, a Radisson Red hotel, and a six-level parking ramp. Two of the five blocks, totaling 4.2 acres, will be converted into a multi-use park for downtown residents and visitors to enjoy. The more than $500 million project promises to transform the previously under-developed east side of downtown. The office towers and residential units are scheduled to open in 2016. In addition, Ryan Companies will be adding a four-story, 172,000 SF office building that will become their new corporate headquarters. Construction on the new building will begin in 2016 and be completed spring 2017.

A total of 551 market rate units and 140 affordable units are under construction in Downtown Minneapolis neighborhoods. Four of the five of the projects are expected to deliver in 2016. Additionally, there are 1,941 market rate units and 65 affordable units proposed in Downtown; 527 market rate units and 116 affordable units proposed in the North Loop neighborhood, and 1,134 market rate units proposed in the Northeast neighborhood.

Rental rates in Downtown Minneapolis increased 6.4% year-over-year in the fourth quarter of 2015. Average rental rates were $1,373, as compared to an average of $1,077 for the non-downtown portion of Minneapolis. New apartments have achieved rents between $2.25 psf and $2.75 psf and have exceeded lease–up projections. The vacancy rate in Downtown Minneapolis was 6.3% in the fourth quarter, not withstanding 581 units being delivered between September and December 2015. The TCMA vacancy was 3.1% during this same period. This trend suggests that Downtown demand is being fueled by in-migration for job growth as well as changes in lifestyle.
As a business hub for the Upper Midwest, Saint Paul boasts a strong economic presence. The city has a large contingent of city, county and state jobs, as well as corporate employers including the headquarters for 3M, Ecolab, Boston Scientific and HealthEast Care. The unemployment rate in Saint Paul was 2.9% in November 2015, which is well below the average national unemployment rate of 4.8%.

In 2015, the city of Saint Paul was chosen as the site for the new stadium for Major League Soccer team Minnesota United. The 20,000 seat stadium will be located along University Avenue between Snelling Avenue N and Pascal Street N. Construction is projected to begin in 2016 and will be completed by 2018.

The city of Saint Paul has been spearheading the future redevelopment on the former site of the Ford Motor Company assembly plant in the Highland neighborhood. The site is 122 acres, located along the Mississippi River between the two downtowns, with direct access to the airport. The vacant Ford buildings on the site have been demolished and there is currently a search for a Master Developer for the site. In 2016, it is expected that an Alternative Urban Area-wide Review, which is similar to an Environmental Assessment Worksheet for multiple development scenarios on the same property, will be conducted.

In 2015, the Saint Paul office market saw the lowest office vacancy rate since 2001. The addition of many new residential buildings in downtown Saint Paul has drawn several new employers to the area, as they see many employees are interested in working and living in downtown Saint Paul.

Population in the downtown area grew from 4,862 in 2010 to 8,271 in 2015. Growth is expected to continue as more multifamily developments come online.

There are currently four market rate and one affordable multifamily projects under construction in Saint Paul. The Custom House, a redevelopment of the former downtown Post Office into 202 market rate apartments and 150 hotel rooms, is projected to open in spring 2016. The Seven Corners Hardware Site is a mixture of residential units and hotel rooms within walking distance from the Xcel Energy Center, which is the home to the Minnesota Wild hockey team. 2700 University and Hamline Station are developments along the Green Line light rail. There are currently 973 units proposed for Saint Paul.

Rental rates in Downtown Saint Paul increased 7.4% year-over-year in the fourth quarter of 2015. Average rental rates in Downtown are $1,316 as compared with an average of $971 for non-downtown Saint Paul. New apartments have achieved rents between $2.00 psf and $2.25 psf.

The vacancy rate in Downtown Saint Paul was 4.1% at year-end 2015.
The Twin Cities suburbs are vital to the TCMA’s overall economic health. Ten of the eighteen Fortune 500 companies and four of the six Forbes’ Largest Private Companies are headquartered in the TCMA suburbs. These companies include General Mills, Cargill, Carlson Companies, UnitedHealth Group, Best Buy Company, and Super Valu.

The Mall of America has plans for a one million square foot expansion called the Collections at MOA. This includes a 580,000 SF retail addition to the Mall of America, a 180 room luxury hotel, 120 residential units above the hotel, a 168,000 SF multi-story office building and a new parking structure. This is Phase II of their expansion plans, with construction projected to start in early 2016 and open in October 2018. Phase I included the Offices at MOA, a 170,000 SF office building, and a 342 room JW Marriot Hotel.

Amazon.com is currently building an 820,000 SF distribution center in Shakopee, MN and plans to employ at least 1,000 workers. The distribution center is projected to change the state of retail and grocery shopping in the Twin Cities as Amazon.com is expected to provide same-day delivery of 200 million consumer products. The distribution center is expected to open in the summer of 2016.

In addition to retail and industrial developers, the Twin Cities suburbs are also becoming more attractive to multifamily developers. There is a large resident population who enjoy the suburban environment, but would like the luxuries found in the urban core. A majority of the suburban multifamily product in the TCMA is over 30 years old and lacks the amenities found in today’s developments. While new suburban developments typically offer larger unit sizes than their urban counterparts, they strive to offer the same sense of community and convenience that the urban core offers. This includes walkable locations on or near public transportation and near a community focal point, such as a retail center, to lessen the need for a vehicle in the suburbs.

From 2008 – 2012, there were six market-rate developments added in the Twin Cities suburbs. There were 27 developments, or 4,191 units, added from 2013-2015, indicating the strong demand for new product in the suburbs. Currently, there are 3,102 suburban market rate units under construction in the TCMA, with a strong concentration in the South and West suburbs. There are an additional 5,496 units proposed for the suburbs.

Demand has been strong in the suburban markets for several years as vacancies have remained below 4.0% in nearly all submarkets since 2011. Rent growth in 2015 began to see large increases, ranging from 3.7% - 7.8% in Q4 2015, compared to 1.5% in 2014. Owners are starting to see that they can raise rents annually and while maintaining high occupancy levels as there is still a large demand for multifamily projects. Rental rates in the suburbs ranged from $938 per month in the North Metro to $1,184 per month in the southwest metro.
The demand for new developments, both urban and suburban, is evident as new projects are leasing up well ahead of pro forma projections. There were five projects that delivered in Q4 2015 and four that have delivered in 2016 so far. Vintage on Selby, a 206 unit development in Saint Paul, was 56% leased within the two months. The Parkside, a 196 unit project in Apple Valley was 71% leased within the first two months of opening. The Overlook on the Creek, a 100 unit project in Minnetonka, was 36% pre-leased.

Since 2010, there have been nearly 15,000 units added to the Twin Cities market. The majority of new product is primarily studio and one-bedroom units. Studio and one-bedroom units make up 64% of the product delivered since 2010, compared to 52% of product built prior to 2010. The percentage of two-bedroom units declined from 42% in product built prior to 2010 to 33% in product built after 2010. These newer developments are achieving rents approximately 55 – 65% higher than those built prior to 2010. New studio units throughout the metro area are averaging $2.25 per square foot, compared to $1.63 for older studio units; new one-bedroom units are averaging $1.97 per square foot, compared to $1.26 per square foot for older one-bedroom units; and new two-bedroom units are averaging $1.75 per square foot, compared to $1.11 per square foot for older two-bedroom units. In the urban core, new product is averaging $0.25 per square foot higher than the metro average for each unit type.

Vacancy rates in the TCMA averaged 3.1% in Q4 2015 (this reflects market rate, affordable, and mixed income units). Average vacancy rates have remained at or below 3.5% in the TCMA for the past five years. Rental rates across the TCMA in Q4 2015 averaged $1,077/month, which is an increase of 5.4% year-over-year. Both Downtown Minneapolis and Downtown Saint Paul exceeded the TCMA average, experiencing rental rate increases of 6.4% at $1,373/month and 7.4% at $1,316/month, respectively.
<table>
<thead>
<tr>
<th>Submarket</th>
<th>Avg Rent</th>
<th>Vacancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown Minneapolis</td>
<td>$1,373</td>
<td>6.3%</td>
</tr>
<tr>
<td>Non-Downtown Minneapolis</td>
<td>$1,077</td>
<td>2.7%</td>
</tr>
<tr>
<td>Downtown Saint Paul</td>
<td>$1,316</td>
<td>4.1%</td>
</tr>
<tr>
<td>Non-Downtown Saint Paul</td>
<td>$971</td>
<td>2.8%</td>
</tr>
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<td>East Suburbs</td>
<td>$993</td>
<td>2.6%</td>
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<td>West Suburbs</td>
<td>$1,122</td>
<td>3.2%</td>
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<tr>
<td>Southeast Suburbs</td>
<td>$1,025</td>
<td>2.6%</td>
</tr>
<tr>
<td>Southwest Suburbs</td>
<td>$1,184</td>
<td>3.6%</td>
</tr>
<tr>
<td>North Suburbs</td>
<td>$938</td>
<td>2.3%</td>
</tr>
<tr>
<td>Twin Cities Metro Area</td>
<td>$1,077</td>
<td>3.1%</td>
</tr>
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</table>

Map: Submarket Conditions

- Downtown Minneapolis
- Non-Downtown Minneapolis
- Downtown Saint Paul
- Non-Downtown Saint Paul
- East Suburbs
- West Suburbs
- Southeast Suburbs
- Southwest Suburbs
- North Suburbs
- Southeast Suburbs
- Twin Cities Metro Area
Twin Cities Metro Area

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units

Q4 '15 vs. Q4 '14

Vacancy: 0.6%
Rents: 5.4%

Q4 '15 vs. Q3 '15

Vacancy: 0.4%
Rents: 0.5%

Rental Type | Total Number of Units Surveyed* | Average Vacancy | Average Rent Per Unit | Average Unit Size (SF) | Average Rent Per SF | Number of Units Delivered | Number of Units Absorbed
---|---|---|---|---|---|---|---
Market Rate | 147,607 | 3.3% | $1,098 | 882 | $1.24 | 1,100 | 479
Affordable | 26,216 | 2.4% | $858 | 797 | $1.08 | 185 | 57
Mixed Income | 14,110 | 2.7% | $1,161 | 943 | $1.24 | 259 | 242
Overall | 188,033 | 3.1% | $1,077 | 877 | $1.23 | 1,544 | 778

Average Rental Rates

Average Vacancy Rates

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units
Downtown Minneapolis

Cities Included:
Minneapolis

Q4 '15 vs. Q4 '14

Vacancy
0.2%

Rents
6.4%

Submarket Conditions

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units

<table>
<thead>
<tr>
<th>Rental Type</th>
<th>Total Number of Units Surveyed*</th>
<th>Average Vacancy</th>
<th>Average Rent Per Unit</th>
<th>Average Unit Size (SF)</th>
<th>Average Rent Per SF</th>
<th>Number of Units Delivered</th>
<th>Number of Units Absorbed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Rate</td>
<td>10,434</td>
<td>6.8%</td>
<td>$1,466</td>
<td>756</td>
<td>$1.92</td>
<td>262</td>
<td>446</td>
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<tr>
<td>Affordable</td>
<td>2,696</td>
<td>4.9%</td>
<td>$767</td>
<td>586</td>
<td>$1.32</td>
<td>138</td>
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<tr>
<td>Mixed Income</td>
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<td>4.5%</td>
<td>$1,683</td>
<td>951</td>
<td>$1.77</td>
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<tr>
<td><strong>Overall</strong></td>
<td><strong>14,577</strong></td>
<td><strong>6.3%</strong></td>
<td><strong>$1,373</strong></td>
<td><strong>750</strong></td>
<td><strong>$1.83</strong></td>
<td><strong>400</strong></td>
<td><strong>559</strong></td>
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Average Rental Rates

Average Vacancy Rates

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units
### Cities Included:

Minneapolis

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#### Submarket Conditions

**Q4 ’15 vs. Q4 ’14**

- **Vacancy**: 0.4%
- **Rents**: 4.5%

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#### Rental Type

<table>
<thead>
<tr>
<th>Rental Type</th>
<th>Total Number of Units Surveyed*</th>
<th>Average Vacancy</th>
<th>Average Rent Per Unit</th>
<th>Average Unit Size (SF)</th>
<th>Average Rent Per SF</th>
<th>Number of Units Delivered</th>
<th>Number of Units Absorbed</th>
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<tbody>
<tr>
<td>Market Rate</td>
<td>15,076</td>
<td>2.9%</td>
<td>$1,151</td>
<td>755</td>
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<td>$901</td>
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<tr>
<td>Mixed Income</td>
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<td>$1,000</td>
<td>801</td>
<td>$1.29</td>
<td>259</td>
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<tr>
<td><strong>Overall</strong></td>
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<td><strong>2.7%</strong></td>
<td><strong>$1,077</strong></td>
<td><strong>756</strong></td>
<td><strong>$1.44</strong></td>
<td><strong>306</strong></td>
<td><strong>183</strong></td>
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</tbody>
</table>

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*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units.

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#### Average Rental Rates

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#### Average Vacancy Rates
Downtown Saint Paul

Cities Included:
Saint Paul

Q4 '15 vs. Q4 '14

Vacancy
- 0.3%

Rents
- 7.4%

Rental Type | Total Number of Units Surveyed* | Average Vacancy | Average Rent Per Unit | Average Unit Size (SF) | Average Rent Per SF | Number of Units Delivered | Number of Units Absorbed
---|---|---|---|---|---|---|---
Market Rate | 2,200 | 4.3% | $1,437 | 823 | $1.75 | 0 | (35)
Affordable | 808 | 3.7% | $995 | 730 | $1.36 | 0 | 0
Mixed Income | 342 | 2.9% | $1,158 | 785 | $1.49 | 0 | (1)
Overall | 3,350 | 4.1% | $1,316 | 800 | $1.65 | 0 | (36)

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units
NonDowntown
Saint Paul

Cities Included:
- Saint Paul
- Falcon Heights
- Lauderdale

Q4 '15 vs. Q4 '14

Vacancy
- 0.6%

Rents
- 4.8%

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units
West Suburbs

Cities Included:

- Corcoran
- Crystal
- Excelsior
- Golden Valley
- Greenfield
- Hopkins
- Long Lake
- Loretto
- Maple Grove
- Minnetonka
- Mound
- New Hope
- Plymouth
- Robbinsdale
- Rogers
- Saint Louis Park
- Spring Park
- Wayzata

<table>
<thead>
<tr>
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<th>Number of Units Absorbed</th>
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<tbody>
<tr>
<td>Market Rate</td>
<td>30,091</td>
<td>3.4%</td>
<td>$1,141</td>
<td>930</td>
<td>$1.22</td>
<td>331</td>
<td>44</td>
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<tr>
<td>Affordable</td>
<td>2,053</td>
<td>1.6%</td>
<td>$833</td>
<td>863</td>
<td>$0.96</td>
<td>0</td>
<td>6</td>
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<tr>
<td>Mixed Income</td>
<td>1,801</td>
<td>3.0%</td>
<td>$1,073</td>
<td>953</td>
<td>$1.13</td>
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<td>(21)</td>
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<tr>
<td>Overall</td>
<td>33,945</td>
<td>3.2%</td>
<td>$1,122</td>
<td>928</td>
<td>$1.21</td>
<td>331</td>
<td>31</td>
</tr>
</tbody>
</table>

Average Rental Rates

Average Vacancy Rates

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units
North Suburbs

Cities Included:
- Anoka
- Arden Hills
- Blaine
- Brooklyn Center
- Brooklyn Park
- Champlin
- Circle Pines
- Columbia Heights
- Coon Rapids
- Fridley
- Ham Lake
- Lexington
- Lino Lakes
- Mounds View
- New Brighton
- Osseo
- Ramsey
- Saint Anthony
- Saint Francis
- Shoreview
- Spring Lake Park

Q4 ’15 vs. Q4 ’14
- Vacancy: 0.3%
- Rents: 4.6%

<table>
<thead>
<tr>
<th>Rental Type</th>
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<th>Average Vacancy</th>
<th>Average Rent Per Unit</th>
<th>Average Unit Size (SF)</th>
<th>Average Rent Per SF</th>
<th>Number of Units Delivered</th>
<th>Number of Units Absorbed</th>
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<tbody>
<tr>
<td>Market Rate</td>
<td>19,470</td>
<td>2.1%</td>
<td>$932</td>
<td>891</td>
<td>$1.04</td>
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<td>Affordable</td>
<td>2,141</td>
<td>2.7%</td>
<td>$878</td>
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<td>Mixed Income</td>
<td>723</td>
<td>5.0%</td>
<td>$1,261</td>
<td>979</td>
<td>$1.29</td>
<td>0</td>
<td>(20)</td>
</tr>
<tr>
<td>Overall</td>
<td>22,334</td>
<td>2.3%</td>
<td>$938</td>
<td>891</td>
<td>$1.05</td>
<td>0</td>
<td>(42)</td>
</tr>
</tbody>
</table>

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units.
East Suburbs

Cities Included:
- Cottage Grove
- Forest Lake
- Little Canada
- Mahtomedi
- Maplewood
- Newport
- North Saint Paul
- Oak Park Heights
- Oakdale
- Roseville
- Saint Paul Park
- Stillwater
- Vadnais Heights
- White Bear Lake
- Woodbury

Vacancy Rates
- Q4 '15 vs. Q4 '14
  - Vacancy: 0.6%
  - Rents: 3.7%

Average Rental Rates

Average Vacancy Rates

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units
Southeast Suburbs

Cities Included:

Apple Valley
Burnsville
Eagan
East Bloomington
Farmington
Hastings
Inver Grove Heights
Lakeville
Mendota Heights
Northfield
Richfield
Rosemount
South Saint Paul
West Saint Paul

**Q4 ’15 vs. Q4 ’14**

**Vacancy**

0.7%

**Rents**

6.4%

**Average Rental Rates**

**Average Vacancy Rates**

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units*
Southwest Suburbs

Cities Included:
Belle Plaine  New Prague
Chanhassen  Prior Lake
Chaska  Shakopee
Eden Prairie  Waconia
Edina  Watertown
Jordan  West Bloomington

Vacancy
Q4 '15 vs. Q4 '14
0.4%
7.8%

Rents

*Properties included in survey exclude Senior Housing units, Student Housing units, and properties under 25 units
How Apartments and Their Residents Strengthen the TCMA Economy

Living In Apartments

<table>
<thead>
<tr>
<th>Apartment Residents</th>
<th>437,850</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending Power</td>
<td>$3,567,744,058</td>
</tr>
<tr>
<td>Direct Jobs Supported</td>
<td>32,429</td>
</tr>
<tr>
<td>Total Economic Contribution</td>
<td>$7,192,572,020</td>
</tr>
<tr>
<td>Total Jobs Supported</td>
<td>83,720</td>
</tr>
</tbody>
</table>

Managing Apartments

<table>
<thead>
<tr>
<th>Total Apartment Homes</th>
<th>261,820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation Dollars Spent</td>
<td>$993,028,089</td>
</tr>
<tr>
<td>Direct On-site Jobs</td>
<td>6,634</td>
</tr>
<tr>
<td>Total Economic Contribution</td>
<td>$1,970,245,186</td>
</tr>
<tr>
<td>Total Jobs Supported</td>
<td>16,451</td>
</tr>
</tbody>
</table>

Building Apartments

| Construction Dollars Spent | $605,001,542 |
| Direct Jobs                | 3,491 |
| Total Economic Contribution | $1,361,192,970 |
| Total Jobs Supported       | 11,543 |

Source: www.weareapartments.org
This website offers this information for states, metro areas and congressional districts throughout the United States.
Multifamily development in the TCMA remains very active with an approximate 10,000 units added between 2013 and 2014, and another 4,600 units added to the market in 2015. This year will be just as prolific. As of February 1, there have been nearly 700 units delivered with another 4,950 units under construction which are expected to deliver between 2016 and 2017. Additionally, there are another 12,800 proposed units in the pipeline.

Currently, there are 27 market rate developments under construction in the TCMA, with a total of 4,688 units expected for delivery between 2016 and 2017. Approximately 53% of the units under construction are located in suburban markets, primarily in the South and West Metro areas. In addition to the projects currently under construction, there are 57 developments in planning or proposed stages across the TCMA, which together total 10,792 market rate units. Areas with the greatest concentration of planned/proposed market rate developments are the West Metro (nine projects, 2,090 units), Downtown Minneapolis (seven projects, 1,814 units), and the Southeast Metro (six projects, 1,139 units).

For affordable housing projects, there are two developments under construction in the TCMA, totaling 242 units projected for delivery in 2016. In addition to the projects currently under construction, there are 13 developments in the planning or proposed stages across the TCMA, which equate to another 963 units.

Student housing construction near the University of Minnesota campus has slowed. Since 2010, there have been 2,734 units added to the area. Currently there are no projects under construction, but there are four student housing projects that are planned or proposed, totaling approximately 1,072 units.

Development trends in the TCMA will continue to reflect the changing demands of the residents, from Millennials to Baby Boomers. Success in developments will come from integrating Millennials and Baby Boomers, not from building for one group of renters or the other. While Millennials prefer smaller unit sizes, Baby Boomers are seeking two-bedroom and three-bedroom units with larger kitchens and more closet space.

Minneapolis and Saint Paul CBDs are looking to add, and more importantly, retain, residents throughout various life stages. Ideally, urban area developments should incorporate a mix of small to large unit types which will attract and retain all renter types, while keeping Millennials in the property throughout their life stages. For unmarried Millennials, small one-bedroom or studio units are still ideal. However, if and when these renters marry and start families, there is a need and demand for units that allow them to move within the building rather than move away from the CBDs to meet their growing space requirements. Both downtown areas are adding schools, public parks and entertainment options for all ages to attract and keep people in the cities.

In addition to diversifying unit types in new developments, there is heavy demand for urban multifamily units that are economically accessible to the middle class. There have been numerous luxury apartments delivered in the downtown Minneapolis and Saint Paul neighborhoods, however, to draw residents of all economic classes, there is a strong need for new, Class B product. In the downtown submarkets, absorption has slowed on new Class A product as there are a limited number of renters who can afford to live in these developments. There is a strong desire by cities to draw renters into urban locales, however, many cannot afford to live in the luxury apartments, so they end up moving out of the CBDs and into the suburbs. The suburban markets have experienced a lack of Class A product for the past decade, so there is still a demand for these units.
Developers should focus on incorporating the right amenities when building new product to ensure rapid lease up and tenant retention. According to a survey put together by NMHC, the most important amenity (94% of 119,000 respondents) to residents across all generations and economic classes is parking. Despite city governments' belief that Transit Oriented Developments (TODs) will reduce the amount of parking needed, the truth is that people are still car-dependent. While residents want walkability to run day-to-day errands and for access to parks, restaurants and entertainment venues, a majority still want to have a personal vehicle to access parts of the city that are not on mass transit, or in many cases, to get to and from work. The other top amenities that residents are looking for, ranked by interest level, include soundproof walls (88%), patios or balconies (87%), microwaves (87%), garbage disposals (83%), ceiling fans (81%), non-smoking buildings (76%), washer/dryer hookups (73%) and alarm systems (60%).

In addition to the above amenities, there are five major trends developers should consider when constructing new projects – building location, package delivery, mobile connectivity, swimming pools and pet amenities. One of the most important things to residents when choosing a place to live is location. Walkability and convenient access to community amenities are ranked as one of the top attributes a resident looks for during an apartment search. Tenants want to be able to walk to the grocery store, restaurants, and entertainment venues. Millennials, Gen Xers and Baby Boomers alike prefer a more active lifestyle that walkable neighborhoods provide.

Companies such as Amazon and other retailers that offer same day or next day delivery services have created a large demand for package delivery logistics. Package lockers, which provide ease of use for delivery carrier drop-off and resident pick-up have become a more cost-effective, efficient way for multifamily developments to manage the significant increase in packages received. Package lockers provide 24/7 accessibility and monitoring, package security and notification of delivery to tenants, which frees up management staff from having to check in packages and notify residents, which can become a full-time job.

Mobile connectivity is a key factor for residents. Approximately 91% of apartment renters only use a mobile phone and over 50% test connectivity during their tour of the property to determine if they will consider renting at the property. According to the survey, 98% report good reception is important, but only 68% say coverage at their current rental community is great.

Swimming pools are another top amenity in the TCMA and around the county. More than 80% of residents surveyed said they are willing to pay extra to have a swimming pool. Swimming pools offer residents of all ages another area to socialize with other residents, as well as added fitness benefits. Additionally, it is a place for parents and grandparents to bring their children to swim while they relax. With Minnesota's longer winters, outdoor pools can only be used for a few months out of the year, while indoor swimming pools offer year round opportunities for use.

In the Twin Cities, as in the rest of the country, residents love their pets. Nationally, Americans will spend an estimated $60 billion on their pets this year. Over two-thirds of apartment residents own a pet and find amenities such as community dog parks and pet grooming stations a deciding factor. Services such as dog walkers and on-site dog groomers also attract some residents.
## Market Rate Developments
### Under Construction

<table>
<thead>
<tr>
<th>Project Name</th>
<th>City</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Downtown Minneapolis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edition</td>
<td>Minneapolis</td>
<td>195</td>
</tr>
<tr>
<td>Encore</td>
<td>Minneapolis</td>
<td>122</td>
</tr>
<tr>
<td><strong>Northeast Minneapolis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>700 Central</td>
<td>Minneapolis</td>
<td>156</td>
</tr>
<tr>
<td><strong>North Loop Minneapolis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>District 600</td>
<td>Minneapolis</td>
<td>78</td>
</tr>
<tr>
<td>Nolo Flats</td>
<td>Minneapolis</td>
<td>71</td>
</tr>
<tr>
<td><strong>University of Minnesota</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22 on the River</td>
<td>Minneapolis</td>
<td>125</td>
</tr>
<tr>
<td>Brickhouse Lofts</td>
<td>Minneapolis</td>
<td>315</td>
</tr>
<tr>
<td><strong>Uptown Minneapolis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Lakes</td>
<td>Minneapolis</td>
<td>90</td>
</tr>
<tr>
<td>1300 W Lake Street</td>
<td>Minneapolis</td>
<td>125</td>
</tr>
<tr>
<td>3118 W Lake Street</td>
<td>Minneapolis</td>
<td>155</td>
</tr>
<tr>
<td>Lagoon Apartments</td>
<td>Minneapolis</td>
<td>45</td>
</tr>
<tr>
<td>Girard Avenue Apartments</td>
<td>Minneapolis</td>
<td>40</td>
</tr>
<tr>
<td>Motiv Apartments</td>
<td>Minneapolis</td>
<td>45</td>
</tr>
<tr>
<td><strong>Saint Paul</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom House</td>
<td>Saint Paul</td>
<td>202</td>
</tr>
<tr>
<td>Seven Corners Hardware Site</td>
<td>Saint Paul</td>
<td>191</td>
</tr>
<tr>
<td>2700 University</td>
<td>Saint Paul</td>
<td>248</td>
</tr>
<tr>
<td>Park 24</td>
<td>Saint Paul</td>
<td>25</td>
</tr>
<tr>
<td><strong>West Metro</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5709 Rowland Road</td>
<td>Minnetonka</td>
<td>106</td>
</tr>
<tr>
<td>Central Park West</td>
<td>Saint Louis Park</td>
<td>363</td>
</tr>
<tr>
<td>Plymouth City Flats</td>
<td>Plymouth</td>
<td>157</td>
</tr>
<tr>
<td>hello</td>
<td>Golden Valley</td>
<td>172</td>
</tr>
<tr>
<td>The Shoreham</td>
<td>Saint Louis Park</td>
<td>150</td>
</tr>
<tr>
<td><strong>North Metro</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>610 West</td>
<td>Brooklyn Park</td>
<td>484</td>
</tr>
<tr>
<td>12612 Central Avenue N</td>
<td>Blaine</td>
<td>112</td>
</tr>
<tr>
<td><strong>Southeast Metro</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Springs</td>
<td>Apple Valley</td>
<td>280</td>
</tr>
<tr>
<td>The IndiGo</td>
<td>Bloomington</td>
<td>394</td>
</tr>
<tr>
<td><strong>Southwest Metro</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6725 York Avenue</td>
<td>Edina</td>
<td>242</td>
</tr>
</tbody>
</table>
## Affordable Housing Developments Under Construction

<table>
<thead>
<tr>
<th>Project Name</th>
<th>City</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Downtown Minneapolis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mill City Quarter</td>
<td>Minneapolis</td>
<td>140</td>
</tr>
<tr>
<td><strong>North Minneapolis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broadway Flats</td>
<td>Minneapolis</td>
<td>102</td>
</tr>
</tbody>
</table>

**Images:**
- Motiv Apartments
- Encore
- Edition
- Mill City Quarter
## Most Active Developers in the TCMA

<table>
<thead>
<tr>
<th>Developer</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doran Companies</td>
<td>1,172</td>
</tr>
<tr>
<td>Lennar</td>
<td>914</td>
</tr>
<tr>
<td>DLC Residential</td>
<td>738</td>
</tr>
<tr>
<td>Sherman Associates</td>
<td>728</td>
</tr>
<tr>
<td>Opus</td>
<td>702</td>
</tr>
<tr>
<td>Commercial Investment Properties</td>
<td>484</td>
</tr>
<tr>
<td>Dominium</td>
<td>437</td>
</tr>
<tr>
<td>Cornerstone Group</td>
<td>401</td>
</tr>
<tr>
<td>Slosburg</td>
<td>372</td>
</tr>
<tr>
<td>Oppidan</td>
<td>367</td>
</tr>
</tbody>
</table>
There were ten sale transactions in the fourth quarter of 2015 totaling $240.2 million, bringing the year to date total to $978.4 million. The average price per unit in the TCMA in Q4 2015 was $148,920 a 46% increase from the previous year.

The largest transaction by sales price in Q4 2015 was for Park Place Apartments in Plymouth, MN. This 500-unit, Class B suburban project sold for $77,700,000, or $155,400 per unit. The largest transaction by price per unit in Q4 2015 was for the sale of 3021 Holmes Avenue South, in Minneapolis. This Class A, 60 unit property was constructed in 2009 in the Uptown Minneapolis neighborhood and sold for $15,675,000, or $261,250 per unit.

Ten notable transactions 2015 are detailed on the left. These projects are the highest price per unit sales of 2015, and range from new, Class A urban developments to hundred year-old, Class C projects. The Walkway, a Class A, 92-unit project that was delivered in 2013, reported the highest price per unit sale in 2015. The Walkway set records with a sale of $437,000 per unit. The entire sale was for $53,750,000, which includes the 92-unit apartment building as well as nearly 20,000 SF of retail space.

The largest suburban transaction was for Marketplace & Main, a Class B, 53-unit project that was constructed in 2012. This deal closed in July 2015 for $12,800,000, or $241,509 per unit. Second Street Lofts is a Class C, 39-unit project in the North Loop neighborhood of Minneapolis. The property is a renovated historic warehouse that was built in 1915 and sold in August 2015 for $9,150,000, or $234,615 per unit.

Capital demand for multifamily assets is at an all-time high in the TCMA. Historically low interest rates, a surplus of capital, outstanding fundamentals and a lack of available product have contributed to a record low cap rate environment. Institutional, private and foreign investors are drawn to the stability of the Twin Cities multifamily market. This competition has driven cap rates down to the mid-to-high 4% range for well-located, urban Class A assets. Class B urban, as well as Class A suburban assets will trade in the mid-to-low 5% range. Suburban Class B and C assets are experiencing cap rate compression as well. In 2016, Class A cap rates will begin to level off, but cap rates for Class B and C value-add assets will continue to see some compression.
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