MARKET VIEWPOINT
TWIN CITIES MULTIFAMILY MARKET | 2014-15

Dougherty Mortgage LLC
Mortgage banking for multifamily housing, senior housing, student housing, and healthcare facilities
AT THE DEPTHS of the U.S. housing crisis in 2008-2009, few were looking ahead to the point when developers would again provide a consistent supply of new units and consumers would widely embrace them. Precipitously-falling home values loomed over the country, and by 2009, foreclosures hit a record yearly peak of 3.96 million. The crisis became broad-based across all housing types, and lenders turned off the flow of capital to virtually all markets. The Twin Cities was no exception. At the low point in 2009, multi-unit construction – whether apartments, townhomes or condominiums – hit a historic low with just 932 new units built, while only 3,000 single-family homes were added (see chart). This in a metro area of over 3 million people.

Today, we are well past those low points and the housing sector has much more strength and resiliency. In the Twin Cities, a significant amount of new multifamily product has been delivered and numerous areas have been transformed into vibrant residential districts. Since the start of 2010, more than 110 rental projects offering roughly 13,300 units have been built in the Twin Cities. Twenty-two new developments will add another 3,800+ rental units in 2015 and up to 11,400 units are in the proposal stage for 2016 and after. Rental units have comprised between roughly 20% and 50% of all new housing units in the Twin Cities in each of the past three years, and about 33% of all new units from 2010 through 2014.

What has driven all of the recent multifamily construction? First and foremost, the Twin Cities hit a point of severely pent-up demand. Extremely low construction volume from 2008 through 2011 meant that the Twin Cities simply had too few housing units for its steadily-growing population. While the number of households continued to expand by roughly 14,000 to 15,000 per year (Met Council), housing production hit no more than 5,000 units in any given year during this four-year stretch. Once the capital markets stabilized after 2010, low interest rates allowed developers to construct new units to start meeting this pent-up demand.

Second, the Twin Cities began to hit its stride as a dynamic, interesting, and very desirable place to work and live – and not just for locals. One of the country’s most diverse job bases has led the Twin Cities to achieve the country’s lowest 2014 unemployment rate (3.8%) among the 49 U.S. metro areas with 1 million people or more. As well, a growing array of cultural and recreational amenities – including a vast biking infrastructure – has made the Twin Cities one of the nation’s top areas for vibrant young “creatives,” cited by Forbes Magazine as the 10th-best metro area out of the nation’s top 100 for college graduates age 24 to 34.

Third, lifestyle preferences and investment views of many householders – especially younger ones – have elevated rental housing to the preferred choice. Highly-mobile younger professionals, active empty-nesters, and households seeking low-maintenance living all see rental housing as a better option than ownership. And there are no risks to losing valuable home equity in an apartment.

Going forward, many questions remain. Most notably, multifamily stakeholders want to know how long this market expansion can and will continue. This report provides a detailed look at key market dynamics that ultimately hold the answers to essential questions. We at Dougherty Mortgage hope you find value in this report and gain a new perspective for this important part of the Twin Cities housing economy.
**High-rise Construction** (8+ Stories Above Ground)
Consists of concrete and/or steel construction, and typically 150 to 350 units. This product type is found only in Downtown Minneapolis, neighborhoods near the U of M, and select suburban locations in Edina, Bloomington, and St. Louis Park. High-rise construction has accounted for 8% of all new apartment units completed since 2010 in the Twin Cities.

**Mid-rise Construction** (4 to 7 Stories)
This style makes up the vast majority of new apartment supply in the Twin Cities, comprising roughly 59% of new units (10,000+) since 2010. This style generally consists of concrete construction on the lower 1-2 floors with 4-5 wood-frame floors above. Seventy-four mid-rise buildings have been built across all areas of the Twin Cities since 2010.

**Low-rise Construction** (< 4 Stories)
This style consists of wood-frame buildings that are typically located in suburban locations or more moderately-priced central-city neighborhoods. Most newer affordable buildings are of low-rise construction. This product type is relatively uncommon, accounting for just 6% of new units (968) since 2010 in the Twin Cities.

**Warehouse and Historic Conversions**
This product type is found almost exclusively in Downtown St. Paul and the North Loop Neighborhood in Downtown Minneapolis. Specific buildings in Midway and Uptown have also been converted. Thirteen conversions have provided about 10% of all new units delivered in the Twin Cities since 2010.

**Private, Student-targeted Housing**
Since 2010, twenty-five new buildings with more than 2,800 units have been built by private developers in the four neighborhoods surrounding the Minneapolis campus of the University of Minnesota. Three smaller projects have also added units near St. Thomas and Bethel Universities. While not technically classified as “student housing” in the traditional sense, these buildings are geared for students. This product type has accounted for 17% of new units in the Twin Cities since 2010.
THIS REPORT DIVIDES THE TWIN CITIES into 11 apartment submarkets, each with unique characteristics. Concentrated, upscale development in the downtowns of Minneapolis and St. Paul, and in the Uptown area of Minneapolis, has helped transform key cultural and employment districts into desirable housing locations. Similarly, key nodes in select first-ring suburbs, particularly St. Louis Park and Edina, have seen strong amounts of multifamily investment in recent years as the market acknowledges the wide array of attractions and short commutes offered in the ‘50s and ‘60s development ring. In addition, a historic level of private investment in student-oriented buildings has created a unique rental submarket in the immediate neighborhoods surrounding the University of Minnesota campus.

1 Downtown Minneapolis – the area within the I-94/I-35W freeway ring, plus areas immediately adjacent that have a Downtown orientation, such as St. Anthony/East Bank Riverfront (centered on East Hennepin Avenue and University Avenue SE).

2 Minneapolis Uptown – the area in the broader Lake Street corridor, stretching from the West Lake Calhoun district near Chown Avenue, east to roughly Lyndale Avenue. Includes development within roughly ½-mile north or south of Lake Street. The 29th Street Greenway is a key feature of this submarket.

3 U of M Neighborhoods – the area surrounding both banks of the Minneapolis campus, generally bounded by I-35W to the west, the Burlington Northern rail yards (north of TCF Bank Stadium) on the north, Malcom Ave SE on the east, and I-94 on the south. Includes all or most of the student-oriented neighborhoods of Marcy-Holmes (includes Dinkytown), University, Prospect Park (includes Stadium Village), and Cedar-Riverside.

4 Minneapolis Neighborhoods – the remainder of the City outside of Downtown, Uptown, and the University of Minnesota neighborhoods.

5 Downtown St. Paul – the area bounded by the I-94/I-35E freeway loop between roughly Kellogg Boulevard/Chestnut Street on the west and Lafayette Road/Highway 52 on the east. Includes the Upper Landing housing district and the West Side Neighborhood (north of Plato Boulevard) south of the Mississippi River.

6 St. Paul Neighborhoods – the remainder of the City outside of Downtown.

7 First-ring Suburbs – includes roughly 20 inner-ring suburbs surrounding Minneapolis and St. Paul. These areas were mostly developed in the 1950s and 1960s and have been the focus of significant redevelopment activity in recent years.

8 Northwest Suburbs – includes all suburbs north of I-394/US 12 and west of the Mississippi River, plus the western ½ of Anoka County (Coon Rapids, Andover, Ramsey, Anoka, etc.)

9 Southwest Suburbs – includes all suburbs south of I-394/US 12 and west of I-35W/I-35. Includes Bloomington and all of Scott and Carver Counties.

10 Northeast Suburbs – generally covers the suburbs east of the Mississippi River and north of I-94, excluding the western ½ of Anoka County.

Downtown Minneapolis – Downtown Minneapolis has emerged as the urban residential hot spot in the Twin Cities over the past 10-15 years, and apartments have been fueling the latest development push. From the start of 2010 through 2015, more than 4,400 new apartment units across 29 projects will have been added Downtown, an annual average of 733 units. Product delivery began to rise dramatically in 2012, with the peak years of 2013 and 2014 seeing 1,200 to 1,400 new units each year. Downtown Minneapolis development since 2010 has been scattered among six residential districts, but the North Loop has garnered the lion’s share of new units.

Downtown Minneapolis is also offering the widest variety of new product of any Twin Cities submarket, with nearly 19 new mid-rise buildings (2,627 units), seven warehouse/historic conversions (901 units), and three high-rise buildings (926 units) added to the market since 2010. More than 1,500 units could hit the market in 2016 or after, with at least one project – the 30-story 4Marq tower – under construction.

Minneapolis Uptown – Uptown has been another notable apartment construction story in the Twin Cities in recent years. The long-time apartment district has been transformed into a luxury market second only to Downtown Minneapolis in overall pricing. More than 1,700 units have been built in Uptown since 2010, stretching from the West Calhoun area near Chowen Avenue to Lyndale Avenue at Uptown’s east end. The Midtown Greenway between Girard and Lyndale Avenues has been the main focal point for development, with seven buildings totaling 1,400+ units recently constructed in this 7-8 block stretch. All new buildings in Uptown have been mid-rises with the exception of the historic Buzza Building, which was converted to affordable housing in 2012. The pace of development in Uptown is forecast to slow, with five projects totaling 480 units proposed for 2016 on.

U of M Neighborhoods – Increasingly, traditional dorm-style living is becoming a thing of the past for students of the U of M Minneapolis campus. Private developers have built nearly 2,200 units in 21 buildings in the four neighborhoods surrounding the campus since 2010, and another 873 units are slated for delivery in 2015. This level of development is unprecedented in the history of the University, and across the country only Louisiana State University and the University of Alabama have seen more recent development (Finance and Commerce). All but one recent project near the U of M are proximate to the East Bank campus, with only the 7West development lying adjacent to the West Bank. Two near-term projects – The Bridges and WaHu – are high-rise buildings with a skyline presence. The development boom near the U of M is clearly waning, as just one project totaling 250 units is proposed. This is the lowest proposed total of all eleven Twin Cities submarkets.
Downtown St. Paul – Downtown St. Paul has seen seven new buildings with just over 1,000 units delivered since 2010. Development peaked this year with the opening of 498 units in three developments: West Side Flats (178 units), The Pioneer Endicott Building (234) and Rayette Lofts (86). More than 51% of the new supply of units Downtown since 2010 has been in the form of historic or warehouse conversions. This is the highest percentage for this product type of any submarket in the Twin Cities. Newer buildings Downtown have been built in Lowertown, the North Quadrant, and along the southern edge near Kellogg Boulevard.

Downtown St. Paul has three proposed projects totaling 632 units in the pipeline for 2016 delivery or after. Two of them – The Sibley Square Building and the former main post office building on Kellogg Boulevard (to be called Custom House) – would be conversions of notable, historic structures.

First-ring Suburbs – New multifamily development in the 1950s-60s ring has come on strong with nearly 1,700 units delivered between 2010 and 2015. Construction has been focused overwhelmingly on the Minneapolis side of the Metro Area, where 97% of new units have been added in Edina, Golden Valley, Richfield, and St. Louis Park. This last community has captured the majority of new construction with seven new projects (781 units) in three areas: Hoigaard Village/West 36th Street (3 projects), along Excelsior Boulevard (2), or in the West End district at Highways 100 and I-394 (2). Richfield, Edina, Roseville, and Golden Valley each saw development of one project since 2010.

First-ring development promises to stay very strong in coming years, and will continue to be focused on the Minneapolis side. Key districts that have seen prior development will continue to intensify. Notable areas with proposed multifamily product include the Southdale area (up to 500 new units), the broader West End district (Highways 100/394) in St. Louis Park/Golden Valley (1,050+), and the Lyndale Corridor in Richfield (150+). All told, the first-ring suburbs of Minneapolis could see 2,500+ new units from 2016 on.

Southwest Suburbs – The pace of multifamily development in the Southwest Suburbs has been relatively light until this year. Three projects totaling 352 units were built in 2012-2013, but four projects with 887 units will be delivered in 2014-2015, and eight projects with roughly 1,230 units are proposed for 2016 and beyond.

Development in the Southwest has been scattered over a variety of sites, and is far less “nodal” than the development pattern in the first-ring suburbs. Bloomington has seen more new units than any other area (766 units built, 415 proposed), followed by Hopkins (217 units built, 51 proposed), and Minnetonka (64 units built, 629 proposed). The 1,230 proposed units in the Southwest are the fourth-highest such total among the 11 Twin Cities submarkets, signaling a development push outward from the core cities and first-ring suburbs.
Minneapolis Neighborhoods – Fourteen projects with 1,100 total units have been constructed in the neighborhoods of Minneapolis since 2010. Most have been smaller, in-fill projects of 30 to 65 units. Minneapolis neighborhoods are especially attractive to affordable housing developers, who have built 300 units in seven buildings since 2010. Beacon Interfaith Housing Collaborative, CommonBond Communities, Alliance Housing, and Artspace are among the organizations to open new projects.

Smaller-scale development will continue in 2016 and after, but the unit count should increase. Fourteen projects with more than 1,600 units are proposed on sites in a variety of areas, mostly in southside neighborhoods, and many being affordable. However, development is beginning to emerge in North Minneapolis as four projects offering 420+ units are expected to open between December 2014 and 2017.

St. Paul Neighborhoods – St. Paul’s neighborhoods saw seven projects with 859 units added between 2010 and 2014. Projects were scattered throughout the western half of the city in the University Avenue Corridor, West 7th Neighborhood, and on Grand and Marshall Avenues. Three more projects – one targeted at St. Thomas students, one affordable in the Midway Corridor, and one market-rate project in the Snelling-Hamline neighborhood – are expected in 2015.

Going forward, the development focus will shift almost exclusively to the University Avenue Corridor, where the new Green Line LRT opened in 2014. Five of the seven proposals (548 units) for 2016 delivery or after are within two blocks of the line. Three of these are expected to be affordable properties of 44 to 60 units, including a building for homeless youth developed by Beacon Interfaith Housing Collaborative.

Northwest Suburbs – The Northwest Suburbs have had relatively light development activity with just five projects (679 units) since 2010. Notable among these is the initial 263-unit phase of Skye at Arbor Lakes, a large, multi-phase development just northeast of The Shoppes at Arbor Lakes shopping district in Maple Grove.

Smaller affordable projects have been built in Plymouth and Maple Grove, while market-rate communities were added in Maple Grove, Osseo and Ramsey. Roughly 875 units in six projects – including three affordable projects – are proposed for 2016+ in Maple Grove, Ramsey, Rogers, and Plymouth. The pace of future development in the Northwest Suburbs will place it right in the middle of the pack compared to the other ten submarkets in the Twin Cities.
Northeast Suburbs – This region of the Twin Cities has seen the third-lowest multifamily development total in recent years. Just over 600 units in five projects have been built since 2010 on sites in Woodbury, Arden Hills, New Brighton, and Shoreview. One of the five was a privately-developed, student-oriented project called E Street Flats in a converted Holiday Inn hotel in Arden Hills. The remaining four developments were market-rate communities spread among Woodbury, Arden Hills, Shoreview, and New Brighton. An additional project under construction in White Bear Lake, Boat Works Commons, will add another 85 units in 2015.

Proposals in Blaine and Oakdale could add 289 units in 2016 or after, but the Northeast Suburbs should continue to show only limited, sporadic activity in the coming years.

Southeast Suburbs – The Southeast Suburbs have been very slow to produce new multifamily units in recent years, with just five projects totaling 338 units added since 2010. The most notable recent project is the 190-unit Flats at Cedar Grove in Eagan. Under construction with a 2015 delivery expected, this project is part of the Cedar Grove Redevelopment District at Highway 13/Cedar Avenue. The new, $100-million Twin Cities Premium Outlets mall anchors the district, bringing development momentum to this important node in Eagan.

Development in the Southeast Suburbs should escalate in 2016 and after as five projects (two in Eagan, three in Apple Valley) are proposed, potentially adding 1,155 new units. Two of the three Apple Valley projects are along Galaxie Avenue, south of 150th Street West in the city’s core commercial district. One of the Eagan proposals involves the conversion of the vacant 10-story office building once owned by Blue Cross and Blue Shield of Minnesota near Yankee Doodle Road, north of Town Centre Drive. If pursued, it would be one of the most pioneering reuse projects in the suburbs of the Twin Cities.
1800 Lake | 57 Units
Be @ The Calhoun Greenway | 103 Units
Lake Calhoun City Apartments | 157 Units
Flux Apartments | 216 Units
Elan Deux (U/C) | 388 Units
Elan Uptown | 293 Units
Greendot Apartments | 63 Units
The Murals of Lynlake | 109 Units
Line Apartments | 171 Units

MINNEAPOLIS UPTOWN

NEW MULTIFAMILY 2003-15

Lake Street North
Chowen Avenue S.
<table>
<thead>
<tr>
<th>Building Name</th>
<th>Units</th>
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<tbody>
<tr>
<td>Case Flats</td>
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<tr>
<td>The Elsian</td>
<td>57</td>
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<tr>
<td>325 Tenth</td>
<td>10</td>
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<tr>
<td>The Bridge</td>
<td>210</td>
</tr>
<tr>
<td>FlatCo Fusion</td>
<td>84</td>
</tr>
<tr>
<td>The Knoll</td>
<td>101</td>
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<tr>
<td>412 Lofts</td>
<td>102</td>
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<tr>
<td>4th Street Housing Co-op (U/C)</td>
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<tr>
<td>Gould Apartments</td>
<td>13</td>
</tr>
<tr>
<td>Metro Park East</td>
<td>156</td>
</tr>
<tr>
<td>ENL House Apartments</td>
<td>17</td>
</tr>
<tr>
<td>Solhaus</td>
<td>75</td>
</tr>
<tr>
<td>Solhaus Tower</td>
<td>75</td>
</tr>
<tr>
<td>Stadium Village Flats</td>
<td>120</td>
</tr>
<tr>
<td>Mallis (U/C)</td>
<td>133</td>
</tr>
<tr>
<td>700 on Washington</td>
<td>96</td>
</tr>
<tr>
<td>The Edge on Oak</td>
<td>65</td>
</tr>
<tr>
<td>Kentor Apartments</td>
<td>44</td>
</tr>
<tr>
<td>The Station on Washington</td>
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<tr>
<td>Metro Park East</td>
<td>156</td>
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<td>700 on Washington</td>
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<td>The Edge on Oak</td>
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</tr>
<tr>
<td>Kentor Apartments</td>
<td>44</td>
</tr>
<tr>
<td>The Station on Washington</td>
<td>97</td>
</tr>
</tbody>
</table>
**FIRST RING/ST. LOUIS PARK**
**NEW MULTIFAMILY 2003-15**

- **Arcata (U/C)** | 151 Units
- **Eliot Park Apartments (U/C)** | 138 Units
- **The Camerata** | 220 Units
- **Medley Row** | 22 Units
- **The Adagio** | 100 Units
- **Harmony Vista** | 78 Units
- **Excelsior & Grand** | 337 Units
- **e2** | 58 Units
- **The Ellipse on Excelsior** | 132 Units
- **The Flats at West End** | 119 Units
- **Millennium at West End (U/C)** | 158 Units
- **36 Park** | 192 Units

Hwy. 100 / Excelsior Blvd.
DOWNTOWN ST. PAUL
NEW MULTIFAMILY 2003-15

1. The Penfield | 254 Units
2. Renaissance Box | 70 Units
3. Sibley Park Apartments | 114 Units
4. Rayette Lofts | 86 Units
5. Lofts at Farmers Market | 58 Units
6. Lowertown Lofts | 106 Units
7. West Side Flats | 178 Units
8. Riverview at Upper Landing | 344 Units
9. Joseph’s Pointe at Upper Landing | 90 Units
10. The Commerce Building | 100 Units
11. Minnesota Place & Minnesota Vistas | 137 Units
12. Pioneer Endicott | 234 Units
Overall New Product Rents in the Twin Cities

In the 3rd quarter of 2014, Dougherty Mortgage gathered information on current asking rents at 67 “newer” market-rate projects across the 7-county Twin Cities Metro Area (see chart). The survey represents 9,900+ units in buildings that initially opened in 2012 or after. The survey covers roughly 86% of the new market-rate buildings delivered during this period, and about 91% of the units. Rent data represents asking rents before concessions.

The overall asking rent in the Twin Cities for newer market-rate apartments hit $2.05 in 3rd quarter 2014, per available data. Average, newer-product rents ranged considerably across submarkets, from $1.41 to $1.52 per square foot in the Northwest and Northeast Suburbs to more than $2.20 in the three urban submarkets in Minneapolis. Including the First-ring Suburbs, four of the ten submarkets with available pricing data averaged well over $2.00 per square foot for newer units, while the remaining submarkets averaged between $1.41 and $1.85. The Southeast Suburban submarket did not offer sufficient data to determine an overall rental market average.

Factors Driving Asking Prices for New Units

Dynamic Urban Settings – Not surprisingly, Downtown Minneapolis and Minneapolis Uptown are the most-expensive rental markets in the Twin Cities, each at about $2.25 per square foot overall market average for newer product. With exception of the U of M Neighborhoods in Minneapolis, these two submarkets garner price premiums of 7% to 60% above all other areas in the Twin Cities. Downtown Minneapolis and Uptown have been two of the three strongest rental markets in recent years, owing to their wide array of cultural and recreational amenities, nearness to thousands of professional and "creative-class" jobs, and unique urban settings. Downtown Minneapolis also offers many units in high-rise towers, a product type that often captures rent premiums over other product styles.

Captive University Population – Newer product in neighborhoods near the U of M-Minneapolis campus has also been near the top of the market in terms of rent per square foot, averaging $2.21. Many privately-developed buildings in this submarket are de facto student housing, with units often furnished, leases often structured on a per-bedroom basis, high-occupancy (2 persons per bedroom) allowed and in some cases encouraged, and rent guarantees required by parents. Amenities and management services are also geared toward a student population. And because unit sizes tend to be smaller than comparable layouts in other submarkets, the rent per square foot among newer U of M-oriented buildings tends to be higher, often at the top-end in the Twin Cities.

First-ring Location Advantages – Projects in notable first-ring locations to the west of Minneapolis such as Southdale in Edina, and the West End District or the Excelsior Boulevard Corridor in St. Louis Park, also garner price premiums. Overall, newer first-ring projects averaged $2.09 in the most-recent quarter. Locations near restaurants, theaters, and shopping have been a strong factor for about three-quarters of the units built since 2010.

Decreasing Prices for Markets Farther Out – Downtown St. Paul – with more than a third of its newer supply in the form of historic building conversions – had an average price of $1.85 per square foot, just above newer units in Minneapolis neighborhoods ($1.78). Slightly less were the Southwest Suburbs ($1.69) and the neighborhoods of St. Paul ($1.66). The Northeast and Northwest Suburbs represent the least-expensive submarkets in the Twin Cities, with asking rents between about $1.40 and $1.50 per square foot. Moderately-priced housing overall in communities such as New Brighton, Arden Hills, Osseo, and Ramsey keep prices at newer rental communities moderate in the Northeast and Northwest.

**NEW PRODUCT PRICING TRENDS**

**OVERALL NEW PRODUCT RENTS | FACTORS DRIVING NEW PRODUCT RENTS**

**Submarket Pricing: Overall Asking Rent Per Square Foot**

<table>
<thead>
<tr>
<th>Newer Market-rate Units (Opened 2012 and After)</th>
<th>Twin Cities (7 Counties)</th>
<th>3rd Quarter 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Downtown Minneapolis</strong></td>
<td>$2.25</td>
<td>3,061</td>
</tr>
<tr>
<td><strong>Minneapolis Uptown</strong></td>
<td>$2.23</td>
<td>1,361</td>
</tr>
<tr>
<td><strong>U of M Neighborhoods</strong></td>
<td>$2.21</td>
<td>1,486</td>
</tr>
<tr>
<td><strong>First-ring Suburbs</strong></td>
<td>$2.09</td>
<td>874</td>
</tr>
<tr>
<td><strong>Downtown St. Paul</strong></td>
<td>$1.85</td>
<td>810</td>
</tr>
<tr>
<td><strong>Minneapolis Neighborhoods</strong></td>
<td>$1.78</td>
<td>490</td>
</tr>
<tr>
<td><strong>Southwest Suburbs</strong></td>
<td>$1.69</td>
<td>701</td>
</tr>
<tr>
<td><strong>St. Paul Neighborhoods</strong></td>
<td>$1.66</td>
<td>274</td>
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<tr>
<td><strong>Northeast Suburbs</strong></td>
<td>$1.52</td>
<td>288</td>
</tr>
<tr>
<td><strong>Northwest Suburbs</strong></td>
<td>$1.41</td>
<td>564</td>
</tr>
<tr>
<td><strong>Southeast Suburbs</strong></td>
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<td>--</td>
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<tr>
<td><strong>Total: Twin Cities</strong></td>
<td>$2.05</td>
<td>9,909</td>
</tr>
</tbody>
</table>

*Too few projects available to survey.*

Source: Dougherty Mortgage LLC
The following sections accompany the submarket pricing charts on pages 18-19.

**Studio Units**

Studio pricing in the 3rd quarter of 2014 showed considerable variation across the Twin Cities, with Uptown leading at $1,424 average rent for a typical unit of just under 600 square feet. Studio units are very popular among the young, urban professionals who dominate this submarket. The First-ring Suburbs and Downtown Minneapolis came second in pricing, with average studio rents between $1,230 and $1,280 for units of roughly 530 to 550 square feet. Most of the remaining submarkets were clustered between about $1,000 and $1,100 average rent for units of about 540 to 580 average square feet. The U of M Neighborhoods offer relatively few newer studio units, and such units are generally small (480 square feet, average) and relatively expensive ($2.51 per square foot, average).

**One-bedroom Units**

Pricing for newer one-bedroom units in the Twin Cities showed a similar pattern to studio pricing with Uptown being the clear leader ($1,768 average), followed by the First-ring Suburbs ($1,651), and Downtown Minneapolis ($1,610). Most other submarkets fell between $1,300 and $1,450. Again, units near the U of M are small (about 640 square feet on average) and relatively expensive (just under $1,440 average rent). The Northwest Suburbs offer renters the best value in the Twin Cities, with 833 square-foot units averaging just $1,229 per month. One-bedrooms are typically the most common unit type in newer buildings in the Twin Cities, although some submarkets have slightly more two-bedroom units.

**Two-bedroom Units**

Two-bedroom units vie with one-bedrooms as the most prevalent type among newer properties in the Twin Cities. In general, the more “suburban” the market, the more likely that it will have a majority of two-bedroom units. High land costs in the urban core demand higher rents per square foot, which usually comes from studios and one-bedroom units. High land costs are reflected in newer two-bedroom pricing as well, with the most-costly units being in the First-ring Suburbs ($2,412 average rent), followed by Downtown Minneapolis ($2,353), and Uptown ($2,317). Four submarkets – Southwest Suburbs, Northeast Suburbs, Minneapolis Neighborhoods and St. Paul Neighborhoods – are clustered between $1,778 and $1,837 average rent. Most submarkets offer two-bedroom units between about 1,100 and 1,200 square feet in size, however those near the U of M are much smaller (906).

**Three-bedroom Units**

Three-bedroom units are far less common than all other types. Most submarkets have three-bedroom units at just one or two of the newer properties. Surprisingly, this unit type is offered at eight or more newer projects in Downtown Minneapolis, and average rents are high ($3,190) for the largest average units in the Twin Cities (1,576 square feet). The overall pricing pattern in the Twin Cities for newer three-bedroom units is similar to that for two-bedrooms, with the First-ring Suburbs hitting a high average rent ($3,263) for a typical-sized unit of 1,443 square feet. Most submarkets fall in the $2,000-$2,500 range for a unit between 1,400 and 1,500 square feet. Downtown St. Paul and the U of M area (where three-bedrooms are fairly popular) each offer smaller units overall, while the Northwest Metro again presents the best renter value by far, with an average unit of 1,406 square feet renting for just $1,809 on average.
### Pricing Structure by Twin Cities Submarket | 3rd Quarter 2014

#### Legend:
- **Low Asking Rent**
- **Average Asking Rent**
- **High Asking Rent**

### Downtown Minneapolis ($2.25 / sq. ft. submarket average)

<table>
<thead>
<tr>
<th>Type</th>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
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<tbody>
<tr>
<td>2BR</td>
<td>$975</td>
<td>$1,233</td>
<td>$1,635</td>
</tr>
<tr>
<td>1BR</td>
<td>$1,100</td>
<td>$1,610</td>
<td>$2,495</td>
</tr>
<tr>
<td>Studio</td>
<td>$1,620</td>
<td>$3,190</td>
<td>$3,824</td>
</tr>
<tr>
<td>3BR</td>
<td>$2,350</td>
<td>$3,845</td>
<td>$4,852</td>
</tr>
</tbody>
</table>

### Minneapolis Uptown ($2.23 / sq. ft. submarket average)

<table>
<thead>
<tr>
<th>Type</th>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2BR</td>
<td>$1,230</td>
<td>$1,424</td>
<td>$2,000</td>
</tr>
<tr>
<td>1BR</td>
<td>$1,420</td>
<td>$2,000</td>
<td>$2,805</td>
</tr>
<tr>
<td>Studio</td>
<td>$1,760</td>
<td>$2,830</td>
<td>$3,391</td>
</tr>
</tbody>
</table>

### U of M Neighborhoods ($2.21 / sq. ft. submarket average)

<table>
<thead>
<tr>
<th>Type</th>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2BR</td>
<td>$1,050</td>
<td>$1,350</td>
<td>$1,980</td>
</tr>
<tr>
<td>1BR</td>
<td>$1,187</td>
<td>$1,800</td>
<td>$2,500</td>
</tr>
<tr>
<td>Studio</td>
<td>$1,500</td>
<td>$2,247</td>
<td>$3,600</td>
</tr>
</tbody>
</table>

### First-ring Suburbs ($2.09 / sq. ft. submarket average)

<table>
<thead>
<tr>
<th>Type</th>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2BR</td>
<td>$1,058</td>
<td>$1,225</td>
<td>$1,651</td>
</tr>
<tr>
<td>1BR</td>
<td>$1,279</td>
<td>$2,225</td>
<td>$2,675</td>
</tr>
<tr>
<td>Studio</td>
<td>$1,510</td>
<td>$3,263</td>
<td>$3,995</td>
</tr>
<tr>
<td>3BR</td>
<td>$1,800</td>
<td>$4,675</td>
<td></td>
</tr>
</tbody>
</table>

### Downtown St. Paul ($1.85 / sq. ft. submarket average)

<table>
<thead>
<tr>
<th>Type</th>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2BR</td>
<td>$860</td>
<td>$1,133</td>
<td>$1,440</td>
</tr>
<tr>
<td>1BR</td>
<td>$1,097</td>
<td>$2,030</td>
<td>$2,400</td>
</tr>
<tr>
<td>Studio</td>
<td>$1,448</td>
<td>$2,490</td>
<td>$2,944</td>
</tr>
<tr>
<td>3BR</td>
<td>$1,524</td>
<td>$2,550</td>
<td>$2,944</td>
</tr>
</tbody>
</table>
### Minneapolis Neighborhoods ($1.78 / sq. ft. submarket average)

- **Studio**: $875, $925
- **1BR**: $1,001, $1,123
- **2BR**: $1,310, $1,600
- **3BR**: $1,778, $2,138
- **Average Asking Rent**: $1,690
- **High Asking Rent**: $2,418

### Southwest Suburbs ($1.69 / sq. ft. submarket average)

- **Studio**: $960, $930
- **1BR**: $1,063, $1,138
- **2BR**: $1,331, $1,690
- **3BR**: $1,837, $2,190
- **Average Asking Rent**: $1,935
- **High Asking Rent**: $2,600

### St. Paul Neighborhoods ($1.66 / sq. ft. submarket average)

- **Studio**: $945, $933
- **1BR**: $1,075, $1,050
- **2BR**: $1,301, $1,195
- **3BR**: $1,778, $2,018
- **Average Asking Rent**: $1,950
- **High Asking Rent**: $2,605

### Northeast Suburbs ($1.52 / sq. ft. submarket average)

- **Studio**: $1,025
- **1BR**: $1,125, $1,455
- **2BR**: $1,455, $1,633
- **3BR**: $1,764, $2,255
- **Average Asking Rent**: $1,695
- **High Asking Rent**: $2,415

### Northwest Suburbs ($1.41 / sq. ft. submarket average)

- **Studio**: $825, $933
- **1BR**: $933, $1,229
- **2BR**: $1,066, $1,598
- **3BR**: $1,631, $1,809
- **Average Asking Rent**: $1,025
- **High Asking Rent**: $1,995
WITH ROUGHLY 3,800 NEW UNITS to be delivered next year across nearly all submarkets, we will learn much more about the depth of the Twin Cities apartment market and what hurdles may lie ahead. However, there are many reasons to believe that the market will continue to be very dynamic and not a development bubble that bursts and quickly fades. Below are important factors that will be in play in 2015 in the Twin Cities multifamily market:

Decreasing Supply but Steady Demand – There are good indications that demand will stay strong in 2015. Despite nearly 5,400 new units delivered throughout the Twin Cities in 2014, the overall Twin Cities vacancy rate (all product classes) stayed below 3% and overall rents grew in excess of 2.5% through the 3rd quarter, according to Marquette Advisors. Production volume should drop metro-wide to roughly 3,800 units delivered in 2015. Given very low overall housing production in the Twin Cities between 2008 and 2011, there is still pent-up demand that would support the development of new apartments.

Broader demographic trends also favor apartments. An increasing number of households are choosing to rent instead of owning their housing for lifestyle reasons, and to ensure maximum financial flexibility. This is especially true in Downtown Minneapolis and Uptown, where many renters are mobile, young and climbing in their careers, and for whom a mortgage and home upkeep represent undue burdens. A solid economy that attracts workers from outside the region and continued growth of 14,000+ households annually will also help spur rental housing demand in the Twin Cities in 2015 and beyond.

Stable Lending Environment – If interest rates continue to stay low through 2015, strong construction volume will continue throughout the Twin Cities and additional projects will stay on track for delivery in 2016 and beyond. If rates rise significantly, projects in more moderately-priced areas will be the first to be postponed or abandoned as increasing debt service costs eat up valuable cash flow.

Increasing Development Outside the Urban Core – Construction costs have been high enough in recent years to dampen development in the second- and third-tier suburbs. Achievable rents in many locations have simply not been strong enough to overcome labor and materials costs. As the overall Twin Cities rental market has strengthened and ongoing demand has been proven in the central cities and first-ring suburbs, developers are moving forward with projects farther out. While fewer than 500 units are expected in the outer suburbs in 2015, no fewer than 3,500 units are proposed for 2016 delivery or after. Surely, not all proposals will go forward, but developer interest in the second- and third-tier suburbs is clearly strong. Well-located sites in established commercial districts with lifestyle amenities will lead the way.

Light Rail Transit’s Continued Influence – New apartments near either the Green or Blue Line LRT corridors have accounted for 4,355 units or 25% of all new units in the Twin Cities from 2010 through 2015. An additional 2,300 units are in the proposal stage for 2016 or after, with at least five proposals slated for the Green Line corridor in St. Paul. Transit-proximate development will be a factor for many years to come as all five cities on the future Southwest line are in the process of designing station-area plans, many of which include zoning changes to encourage higher-density housing.

Ending of the U of M Development Boom – Five projects with 873 units will be delivered in 2015 in the neighborhoods surrounding the U of M Minneapolis campus, but only one additional project with 250 units is proposed for 2016 and beyond. Additional proposals could come forward, but it appears as though 2015 will be the last year with large amounts of new units delivered in neighborhoods surrounding the Minneapolis campus of the U of M.
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