Diversifying Products in a Maturing Market

Dougherty Mortgage LLC
Mortgage banking for multifamily housing, senior housing, student housing, and healthcare facilities
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**Market Viewpoint**  
Twin Cities Multifamily Market 2018-19

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**Disclaimer**  
This report assesses the seven-county Twin Cities multifamily market as of fourth quarter 2018 using data from numerous sources. Projects analyzed generally contain 20 units or more. Market pricing calculations reflect quoted/asking rents before concessions and exclude rents that are restricted per recorded covenants. The information contained herein has been obtained from sources deemed but not guaranteed to be reliable. Accuracy and completeness are not guaranteed. Past performance does not guarantee future results. Dougherty Mortgage LLC warns against the making of site-specific development decisions using this report's information without a separate and full review of all available information by professional analysts.

For this report, affordable rental housing includes new, permanent units with rent restrictions at 60% AMI or below, built by private or public entities for general-occupancy/families and targeted populations (e.g. long-term homeless, at-risk youth, persons with mental health or chemical dependency challenges, persons with disabilities and other supportive housing populations). Senior/age restricted units are not included in this report. This report does not tally shelter beds or other short-term accommodations or affordable preservation units.

**Data Sources**  
Market data in this report comes from a variety of widely-available sources including project web sites, rental clearinghouse sites, industry reports, accounts from newspapers and other media outlets, leasing personnel, building managers, and other real estate professionals. Economic data was provided by the Bureau of Labor Statistics. Minnesota Geospatial Commons provided base-level GIS files for analysis. Marquette Advisors and CBRE provided vacancy and rent growth data. The Twin Cities Metro Area map was provided by the Met Council.

**Photo Credits**  
Photos in this report are original from Dougherty Mortgage LLC unless otherwise noted. Cover images, clockwise from upper right: 365 Nicollet (Finance & Commerce staff photo-Matt M. Johnson), DARTS Senior Apartments (Kaas Wilson Architects), EcoVillage Apartments (UrbanWorks Architecture), Hub Minneapolis (Greystar), Residences at 1700 (rentcafe.com). Photos on page above, top to bottom: Green on 4th (Timberland Partners Inc.), Aberdeen (rent.com), Downtown View (UrbanWorks Architecture).
2019 MARKS THE LAST YEAR OF THE DECADE AND IT IS POISED TO GO OUT WITH A BANG. After hitting peak production in 2018 with over 6,500 new rental units delivered in 56 developments, the Twin Cities is on track to deliver nearly 7,700 multifamily units in 67 developments this year. This remarkable total excludes any form of senior housing. The 18% production jump this year will undoubtedly test the ongoing strength of the Twin Cities rental market. But it also reflects a mature phase of the market cycle, with broadening types of products spread out over a wider number of cities and neighborhood settings.

Roughly 6,200 new market-rate units came on line in 2018, while just 300 new affordable units were delivered. The market-rate total was the highest of the decade, while the affordable figure was the second-lowest behind 2010’s 263 new units. Again, these totals do not include senior housing. For 2019, market-rate production will fall slightly to about 5,900 units, while affordable production will surge to a decade high of 1,800 units, nearly triple the average annual production over the previous nine years. This is great news, but the total will be still less than half of what is needed to satisfy one year of growth in the number of new low- and moderate-income households in the seven counties.

For the decade, developers should deliver about 43,300 new non-senior rental units in the Twin Cities. This equals about 30% of forecasted household growth of nearly 142,000 households (Met Council, January 2018). Downtown Minneapolis is the undisputed leader with just over 8,400 new non-senior units added, 19% of the Twin Cities total. This is enough for perhaps 12,000 to 14,000 new residents at typical unit-occupancy. The first-ring suburbs will sit at about 5,560 new rental units when the decade ends, with the vast bulk – about 75% – opening on the Minneapolis side in St. Louis Park, Edina and Golden Valley.

The southwest suburbs will stand out among the suburban submarkets with about 4,820 units delivered (11% of the metro total), while the U of M will show its incredible drawing power through the addition of just under 4,750 new units in the neighborhoods surrounding it. The rest of the suburbs, Uptown, Downtown St. Paul and the neighborhoods of Minneapolis and St. Paul will round out the metro production totals for the decade with between roughly 2,400 and 3,600 new units each.

As has been the case for several years, the Twin Cities multifamily market moves into a new year with very strong underlying fundamentals. Despite the 23% jump in production in 2018, the rental vacancy rate for stabilized properties increased only slightly during the year, from 2.3% to 3.0% (Marquette Advisors; 4th quarter figures). The unemployment rate also continued to drop, ending December 2018 at 2.8% (Bureau of Labor Statistics; 16-County MSA). These two factors helped maintain strong pressure on rental prices, which increased between 4.7% (CBRE; 3rd quarter) and 5.5% (Marquette Advisors; 4th quarter) last year. Perhaps the unprecedented delivery of 7,700 new units in 2019 will finally begin to lead to softening market fundamentals, as so many market watchers have expected.

We at Dougherty Mortgage hope you find this year’s Market Viewpoint report to be a helpful resource. We look forward to working with you in 2019.
This report divides the Twin Cities into 11 multifamily submarkets, each with unique characteristics. Concentrated 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 and inner-city neighborhoods 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, private investment in student-oriented housing has created a unique rental submarket in the immediate neighborhoods surrounding the University of Minnesota campus in Minneapolis.

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 Bde Maka Ska (formerly Lake Calhoun) district near Chown Avenue, east to roughly Lyndale Avenue. Includes development within roughly ¼-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 on the west, the Burlington Northern rail yards (north of TCF Bank Stadium) on the north, Malcom Avenue 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 23 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 **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.

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

10 **Southeast Suburbs** – the suburbs south of I-94 and St. Paul, east of I-35W/I-35 and southeast of the Mississippi River. Includes all of Burnsville and Lakeville.

11 **Northeast Suburbs** – generally covers the suburbs east of the Mississippi River and north of I-94, excluding the western half of Anoka County.
Downtown Minneapolis – New non-senior rental housing production in Downtown Minneapolis jumped back up to near peak levels in 2018 with nine projects delivering roughly 1,370 units, the second-highest total since 2010. Three high-rise towers led the way, delivering 871 units: 30-story 365 Nicollet (369 units) in the skyway core, 20-story Nordhaus (196 units) in St. Anthony/East Bank and 17-story HQ Apartments (306 units) in Elliot Park. Downtown also saw the opening of two micro-unit projects, the 75-unit Harlo Apartments and the 50-unit Aberdeen, both on infill sites in lower-density residential blocks at the edge of Downtown. Affordable production was limited to 46 units at Downtown View, a project adjacent to the I-394 corridor serving homeless youth, developed by Project for Pride in Living (PPL).

Downtown Minneapolis is poised in 2019 to achieve its highest rental housing production total this decade, perhaps ever. Nine buildings totaling 1,469 units are under construction with expected opening by year’s end. Four high-rises are among the group: 28-story Rafter (282 units) in St. Anthony/East Bank, 17-story City Club Apartments (307 units) at 10th and Marquette in the skyway core, 14-story Ironclad (166 units) at 8th and South Washington Avenue, and The Nordic, a 10-story, 57-unit project with seven levels of parking, retail, and office space in the North Loop. More than 250 new affordable rental units will open in two buildings this year between the 183-unit 1500 Nicollet complex and the 72-unit Great River Landing. This latter project will be unique in its provision of support services for people who were formerly incarcerated. All five neighborhoods that comprise Downtown Minneapolis will deliver at least 180 new rental units in 2019, with three supplying 280-290 units and the skyway core providing 429 new units.

Minneapolis Uptown – After three projects delivered roughly 400 units in 2017, Uptown dropped to a minimal level of non-senior rental production in 2018. Solhem Companies opened the 71-unit Tula market-rate project in the 3000 block of Holmes Avenue South, adjacent to a previous development by the firm in 2009 (Solhem Apartments). No other project opened last year in Uptown.

Uptown will tally just one small project this year. Lander Group recently opened Zeo, a 25-unit boutique apartment building at 32nd and Hennepin. Two projects are under construction for 2020 delivery. LakeHaus, an 8-story project at 3100 West Lake Street, will offer 200 units on a site sandwiched between apartments and condo buildings on three sides just north of Lake Bde Maka Ska. Ryan Companies and Weidner Apartment Homes of Seattle are constructing a 317-unit, six-story development at the former Sons of Norway site in the heart of Uptown. Three proposals will ensure that Uptown sees at least 850 new units in 2021 and after.

U of M Neighboorhoods – The U of M submarket rebounded to a strong level of deliveries in 2018 with roughly 740 units in three properties. Production was fueled by Hub Minneapolis, a 26-story, 431-unit tower that is the largest privately-developed non-senior rental project over the past ten years in the U of M neighborhoods. Hub Minneapolis occupies the former Big 10 bar and restaurant site next to the East Bank LRT station in the heart of Stadium Village. Other projects included the second phase of The Arrow, a 215-unit, two-building complex squeezed in on a narrow site between 27th Avenue Southeast and Huron Boulevard, and the final 14-story tower phase of The Link, a 336-unit, two-phased project adjacent to the Prospect Park station of the Green Line LRT.

This year, the U of M submarket is expected to see 494 new units delivered in seven projects. Two of these are mixed-income properties. Green on 4th will bring 66 affordable units on top of 177 market-rate units, and The Lewis, from Aeon, will open 63 affordable and seven market-rate units.
Minneapolis Neighborhoods – Minneapolis neighborhoods hit a decade-high production level last year with 602 new non-senior rental units delivered in eight projects. All but 20 of these were market-rate units, which is unusual as solid affordable production has been a hallmark of the Minneapolis neighborhoods this decade. As a sign of diversifying product types throughout the city, three projects in Northeast and Powderhorn added 234 units in the “micro” category, where studio units typically offer 350 to 500 square feet and one-bedroom units fall under 600 square feet. Continuing the long-term pattern of smaller-scale infill development, last year’s projects averaged 75 units in size, ranging from 49 to 123 units.

This year promises a strong leap forward for new rental product in the neighborhoods of Minneapolis. Ten projects are on track to provide 729 new units, a 21% jump over last year’s record year. Six neighborhoods will see projects open, led by five projects with 384 units in Northeast. In keeping with the long-term pattern, the average new project will deliver 73 units, with the size ranging from 16 units at Minnehaha Townhomes, an affordable development from the Minneapolis Public Housing Authority, to 148 units at Lowa46, a market-rate development near the Blue Line LRT at 46th and Minnehaha.

Downtown St. Paul – Multifamily development in Downtown St. Paul has proceeded in fits and starts this decade. Last year’s pace was slow with just one project opening, the 70-unit Oaks Union Depot along the Green Line LRT in Lowertown. This year, the volume will jump nearly nine-fold, with 618 units expected to open in six projects. Roughly half of new units will rent at affordable levels of 60% AMI or below.

Downtown St. Paul has had only 243 new affordable rental units open prior to this year, but two 2019 projects will more than double the production total for the decade. The first is Press House, a 144-unit conversion of the former Pioneer Press building, which will provide units at 60% AMI rents. The second is phase two of the large Dorothy Day development project on the west side of Downtown. Called Saint Paul Opportunity Center and Dorothy Day Residence, it will offer 177 permanent housing units with supportive services focused on job training and health care. Rents will be assisted at 30% AMI levels.

Over the decade, Downtown St. Paul has been the undisputed leader in the conversion of historic warehouses and offices to rental apartments. Twelve projects have delivered (or will deliver this year) 1,286 units in buildings ranging from 26 units (Commission House; 2019) to 234 units (Pioneer Endicott; 2014).

St. Paul Neighborhoods – Last year showed a very low level of new rental unit deliveries in the St. Paul neighborhoods after four straight years of above-average production. Just three smaller projects opened in 2018 with 78 units between them. One of them, Villa Del Sol with 40 affordable units, opened in the West Side Neighborhood, an area that has not seen a lot of development this decade.

As with four other submarkets, the St. Paul neighborhoods will see peak production in 2019. Six projects will deliver 665 units in five neighborhoods including Battle Creek, an area that has seen no development in a long time. Four of the new projects will bring 431 affordable units to market. Dominion is building the largest of these at its 217-unit Union Flats site in the St. Anthony Midway area. By the end of 2019, more affordable production will have occurred in the St. Paul neighborhoods (1,233 units) this decade than all other submarkets except the Minneapolis neighborhoods (1,291 units).
MARKET VIEWPOINT: TWIN CITIES MULTIFAMILY MARKET 2018-19

First-Ring Suburbs – Since the start of 2017, the first-ring suburbs have seen the largest amount of non-senior rental construction among all 11 submarkets in the Twin Cities. During a three-year span running through the end of this year, twenty-two projects in the first ring will have delivered more than 3,400 units, including roughly 3,000 market-rate units and 450 affordable units. The development pattern has overwhelmingly favored the western side of the metro area, although projects have spread to first-ring suburbs on the north and south sides as well.

After a decade-topping 1,200 units in 2017, 2018 saw nearly 1,000 more units, all in market-rate buildings. Notable new projects included the 303-unit Talo Apartments in the Golden Valley part of the West End district, and The Loden, a 245-unit project along Lincoln Drive just south of Bren Road in Edina. Also, Mendota Heights added its first new rental development in many years with The Reserve at Mendota Village, a 139-unit development near Dodd Road and Highway 62.

This year promises to be the peak year of the decade in the first ring with 1,235 units on track to open in seven projects. During the decade, only one other submarket - Downtown Minneapolis in four different years - has experienced 1,200+ units delivered in one year. Much of the new product will open in such familiar cities as Golden Valley (372 units at Xenia Apartments) and Edina (295 units between the Southdale area and 50th and France). However, traditionally less active cities such as South St. Paul (67 units), Columbia Heights (148 units) and Mendota Heights (70 units) will also add units. And Richfield will contribute a very large project in The Chamberlain, a 316-unit project with 283 newly-constructed and 33 renovated units.

Strong multifamily expansion could happen for years to come in the first-ring suburbs as an enormous amount of non-senior rental units are planned, proposed or under construction. As of 4th quarter 2018, Dougherty Mortgage was tracking 27 developments in eight suburbs that could open over the next 2-3 years, accounting for roughly 4,300 units.

Southwest Suburbs – Last year, the southwest suburbs continued the stronger pace of development that began in 2015. Six projects delivered 514 units in four cities. Shakopee led the way with 233 units in two market-rate projects, The Sixton (133 units) and phase I of Trio @ Southbridge (100 units). Prior Lake added 168 units in two projects, one of which – Pike Lake Marsh from Ron Clark Construction – is 100% affordable. Victoria and Bloomington rounded out the 2018 total with 81- and 32-unit projects, respectively.

The southwest suburbs should hit peak production in 2019 with 1,040 new units, slightly higher than the previous high mark of 1,028 in 2015. This will continue a five-year stretch of nearly 790 units on average per year, third highest in the Twin Cities behind Downtown Minneapolis (975 units/year average) and the first-ring suburbs (904 units/year average). New projects will be spread out among seven cities and will include two large transit-oriented developments in the future Green Line LRT extension corridor: the 332-unit Rize at Opus complex adjacent to the future Opus station platform, and the 222-unit Elevate at Southwest Station at the last LRT stop on the line in Eden Prairie.

As with the first-ring suburbs, the southwest suburbs have a very large number of units that are planned, approved or under construction for delivery in 2020 or after. Dougherty Mortgage is tracking 119 projects with just under 3,500 units that could open over the next 2-3 years. Minnetonka, Shakopee, and Bloomington hold the most potential, each with between 730 and 790 units possible.
Northwest Suburbs – Historically a low producer of multifamily housing, the northwest suburbs has hit peak production since 2017. Developers in 2018 delivered 753 units – the highest of the decade – in seven projects across four suburbs. Two of the developments are phases of large-scale market-rate complexes from Doran Companies, including the last phase of the 473-unit 610 West development in Brooklyn Park and the first building of the 688-unit Reserve at Arbor Lakes complex in Maple Grove. Other new projects included Crossroads at Elm Creek (98 units) in Maple Grove, a complex of rental single-family homes in Maple Grove called Mills Creek (66 units), and affordable properties in Ramsey (Greenway Terrace; 54 units) and Anoka (Rum River Veterans Cottages buildings two and three; 67 units).

In 2019, production will remain strong for this submarket with five new projects delivering 515 units. Ironwood in New Hope (183 units) and phase I of Urbana Court in Brooklyn Park (123 units) will lead the way, followed by Vincent Woods in Rogers (88 units) and Bottineau Ridge phase II in Maple Grove (50 affordable units). An additional project is expected to open next to the Riverdale Northstar commuter rail station in Coon Rapids – the 71-unit initial phase of a much larger TOD project being developed by Sherman Associates.

Southeast Suburbs – The southeast suburbs saw a tripling of production last year over the historical average. It also was the highest annual total for the submarket in the decade. Nearly 830 units were delivered, all in the market-rate price category. The largest project to open was Ascend at Woodbury, a 305-unit complex along Bailey Road in the center of the city. Apple Valley had three projects open including Galante at Parkside (134 units), Remington Cove II (95 units) and Apple Villa Apartments II (26 units). Lakeville and Eagan rounded out the deliveries last year with 146 and 122 units, respectively.

Production in 2019 in the southeast suburbs will drop back to 584 units, still a large total for this submarket. Four projects will open in Rosemount (225 units), Eagan (151 units), Lakeville (120 units) and Hastings (88 units). No new affordable units will open in the southeast this year, following the trend from last year.

Deliveries in 2020 are expected to hit at least 660 units with five projects under construction now across Apple Valley, Burnsville and Rosemount. Another 516 units are proposed for possible 2021 opening.

Northeast Suburbs – The northeast suburban submarket has produced the lowest number of units this decade among the five suburban submarkets. The region has many smaller cities in the first and second rings of development around St. Paul, and most have contributed no more than one project over the decade. Last year, the northeast suburbs hit a peak with six new projects bringing 522 units to five cities. The largest of these was the first, 206-unit phase of Loden SV, a 410-unit complex in Shoreview that will be completed in 2020. Blaine, Mahtomedi, and Forest Lake each had a new market-rate project open, while Hugo had a 5-unit affordable project open under the sponsorship of a church.

For 2019, multifamily development in the northeast is expected to drop back to 311 new units. Four cities will see new projects including far-flung East Bethel with a 68-unit project. The new market-rate product offered in the northeast is among the lowest priced in the Twin Cities, with asking rents generally between $1.50 and $2.00 psf. Relatively low rent potential and rising development costs render the economics of market-rate development unworkable for many areas in the northeast.
Increasing Production, Evolving Product Options and a Growing Diversity of Development Sites

Many signs point to a maturing rental market in the Twin Cities as the decade comes to a close. As markets mature, products become more specialized with the aim of penetrating a deeper base of consumers. As well, products become more widely distributed. With new multifamily units in the Twin Cities, wider distribution is marked by an increasing number of cities with new projects, spread farther out among the suburbs and exurban cities.

Growing Number of Projects per Year

Over the decade, the number of non-senior rental projects opening each year in the Twin Cities steadily increased, from just ten in 2010 to 67 expected this year.

More Cities in the Mix

The number of cities adding new non-senior rental units has grown almost every year, from just five in 2010 to 29 expected in 2019.

Broader Geographical Extent

Over the decade, the share of production held by the suburbs (including the first-ring) has increased from roughly one-third of all units in the years prior to 2015 to 50% on average since then.

Product Specialization

- **Micro Units** – Before 2015, only one 48-unit micro unit building was built in the Twin Cities. In the last five years, at least 15 buildings with 900 units have opened or will open. Micro units bring cost-conscious renters to new buildings by trading lower gross rents for smaller unit sizes.

- **High-rise Towers** – Twenty-two newly-constructed high-rise buildings (8+ stories) will open this decade offering nearly 5,000 units. Three-quarters of this total has been produced since 2015, including four towers of 10-28 stories under construction now in Downtown Minneapolis.

- **Gated Communities and High Luxury** – Doran Companies opened one of the first gated rental communities in Maple Grove last year and has a second one under construction in Shakopee. Renters seeking amenity-rich projects in highly-secured communities represent a new niche market in the Twin Cities.

- **Narrowly-targeted Supportive Housing** – In the past few years, highly-specialized housing with services has opened for such populations as developmentally disabled adult children moving from their elderly parents’ homes, at-risk youth, homeless Native American teens, and formerly incarcerated adults. Sixty percent of new units for targeted populations have opened since 2016.

- **Affordable Senior Housing** – While not covered in this report, the affordable senior housing supply has taken off since 2016, with 2,150 new units opening between 2016 and 2019, a 65% increase over the prior six years. For the first time, new affordable assisted-living projects have started to open.

Industrial Sites Become Prime Housing Sites

Numerous well-located former industrial sites have been recently turned into large-scale housing developments, most successfully by Dominium with affordable projects in in Minneapolis, St. Paul, and Minnetonka. Often, older industrial buildings are large in size and relatively low in cost to acquire. Sites that are well-located in the central cities or along rail transit corridors offer the strongest opportunities. The conversion of industrial sites is starting to happen in the new Green Line LRT Extension through the southwest suburbs.

Rail Transit Intensification

As the decade has progressed, more development has focused in the Blue and Green line LRT corridors (existing and future spurrs), along the Northstar commuter rail line and in the emerging Red and Gold bus rapid transit (BRT) lines.
GEOGRAPHIC PATTERNS – The maps on pages 8-11 were designed to be simple with the intention of emphasizing the patterns of new multifamily development across the Twin Cities. One dot represents one project, regardless of project size.
INSET: PATTERNS OF MULTIFAMILY DEVELOPMENT (NON-SENIOR) IN MINNEAPOLIS AND ST. PAUL: 2010 – 2019

Concentrations of Development
300+ New Units (Non-Senior)

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Source: Dougherty Mortgage Multifamily Database

Map showing concentrations of multifamily development in Minneapolis and St. Paul, 2010-2019.
Overall New Product Asking Rents in the Twin Cities
Dougherty Mortgage analyzed 4th quarter 2018 pricing data at 116 “newer” market-rate projects (opened in 2016 or after) throughout the 7-county Twin Cities Metro Area (table at right). The survey gathered current asking rents before concessions or discounts, as quoted by building owners or representatives. The survey summarizes the rent structure for 14,403 market-rate units delivered since the start of 2016, including roughly 525 units scheduled for delivery in the first months of 2019. It is important to note that actual, achieved rents at projects could vary considerably from the asking rents included in this survey.

The overall asking rent for newer, market-rate apartments in the Twin Cities hit $2.15 per-square-foot (psf) in 4th quarter 2018, a significant jump over the $2.10 figure for 4th quarter 2017. Price gains were widespread across the Twin Cities, with the outer suburbs and all submarkets in Minneapolis showing very strong increases. Prices were unchanged only in the first-ring suburbs and the St. Paul neighborhoods, and down slightly in Downtown St. Paul. It is important to remember that price changes in any given submarket might be driven more by the opening of new projects than by price changes at existing projects.

Minneapolis Leads the Way
Higher asking prices in the four Minneapolis submarkets pulled the whole Twin Cities multifamily market up significantly. Asking rents in Downtown, Uptown, and the U of M submarkets jumped by 2.6% to 6.8% psf, driven up by higher-rent projects that opened last year. Projects such as 365 Nicollet in Downtown Minneapolis, Hub Minneapolis in Stadium Village and Tula in Uptown helped their respective submarkets achieve well over $2.50 psf in asking rent among newer developments. In the Minneapolis neighborhoods, a wave of new buildings with micro units in Powderhorn and Northeast underpinned very strong psf asking rent growth of 6.8% last year, highest of the eleven submarkets. We tallied 400+ units that opened last year which fell into the micro-unit category in the Minneapolis neighborhoods.

New Development in the Outer Suburbs Spurs Pricing Gains
The four outer suburban submarkets also showed robust price increases for newer product in 2018. Each area surged by 4.2% to 7.5%, or between $0.08 and $0.10 psf in overall average asking rent. By the end of 2018, the four outer suburban submarkets were priced between $1.74 (Northeast) and $1.89 (Southwest). As in the Minneapolis submarkets, new projects opening at higher rents drove much of the price increases. In the Northwest, for example, The Reserve at Arbor Lakes in Maple Grove set a new pricing standard through a large array of amenities and gated security. Projects such as CV2 in Eagan, Loden SV in Shoreview and Ascend at Woodbury also helped drive solid asking rent gains in other outer suburban areas.

The Trend of Smaller Units Continues
As we noted last year, developers have been trimming the average size of new units all throughout the Twin Cities, but especially in the urban core. In particular, nine of eleven Twin Cities submarkets showed decreases in the average size of studio units, the unit type that garners the highest rent psf overall. All else being equal, a smaller unit footprint brings in more rent on a per-square-foot basis, and in many cases, developers can even charge lower gross rents and still earn higher overall returns on the space.

In addition, more projects are skewing the mix toward smaller units (studios and one-bedrooms), which again boosts psf rents. Downtown Minneapolis, Uptown, and the Green Line LRT corridor in the St. Paul neighborhoods each show strong numbers of studio units in particular. Projects in mixed commercial districts in the first-ring suburbs of Edina, St. Louis Park and Golden Valley – especially the Southdale and West End districts – are also showing higher numbers of studio units. In general, the more urban and dense the setting, the more likely projects will offer studios and other smaller unit layouts. Access to transit (especially LRT) also correlates with higher numbers of studio units.
### NEW PRODUCT PRICING TRENDS

#### MARKET VIEWPOINT: TWIN CITIES MULTIFAMILY MARKET 2018-19

#### Pricing Structure by Twin Cities Submarket | 4th Quarter 2018

### SUBMARKETS IN THE CENTRAL CITIES

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Average Asking Rent / sq. ft. average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown Minneapolis</td>
<td>$2.67 / sq. ft. average</td>
</tr>
<tr>
<td>Minneapolis Uptown</td>
<td>$2.56 / sq. ft. average</td>
</tr>
<tr>
<td>U of M Neighborhoods</td>
<td>$2.54 / sq. ft. average</td>
</tr>
<tr>
<td>Minneapolis Neighborhoods</td>
<td>$2.37 / sq. ft. average</td>
</tr>
<tr>
<td>St. Paul Neighborhoods</td>
<td>$2.19 / sq. ft. average</td>
</tr>
<tr>
<td>Downtown St. Paul</td>
<td>$2.14 / sq. ft. average</td>
</tr>
</tbody>
</table>

#### Submarkets in the Central Cities

- **Legend:**
  - Studio
  - 1BR
  - 2BR
  - 3BR

- **Low Asking Rent**
- **Average Asking Rent**
- **High Asking Rent**

- **Denotes reduced scale due to space limitations**

- **St. Paul Neighborhoods**
  - Insufficient Data

### Examples:

- **Downtown Minneapolis**
  - Average Asking Rent: $2.67 / sq. ft. average
  - Low Asking Rent: $1,135
  - High Asking Rent: $5,334

- **Minneapolis Uptown**
  - Average Asking Rent: $2.56 / sq. ft. average
  - Low Asking Rent: $1,055
  - High Asking Rent: $14,173

- **U of M Neighborhoods**
  - Average Asking Rent: $2.54 / sq. ft. average
  - Low Asking Rent: $890
  - High Asking Rent: $14,173

- **Minneapolis Neighborhoods**
  - Average Asking Rent: $2.37 / sq. ft. average
  - Low Asking Rent: $782
  - High Asking Rent: $6,000

- **St. Paul Neighborhoods**
  - Average Asking Rent: $2.19 / sq. ft. average
  - Low Asking Rent: $1,020
  - High Asking Rent: Insufficient Data

- **Downtown St. Paul**
  - Average Asking Rent: $2.14 / sq. ft. average
  - Low Asking Rent: $1,050
  - High Asking Rent: $4,995
NEW PRODUCT PRICING TRENDS

Pricing Structure by Twin Cities Submarket | 4th Quarter 2018

SUBURBAN SUBMARKETS

Legend: Studio 1BR 2BR 3BR

First-Ring Suburbs $2.10 / sq. ft. average

Southwest Suburbs $1.89 / sq. ft. average

Northwest Suburbs $1.80 / sq. ft. average

Southeast Suburbs $1.78 / sq. ft. average

Northeast Suburbs $1.74 / sq. ft. average

<table>
<thead>
<tr>
<th>Low Asking Rent</th>
<th>Average Asking Rent</th>
<th>High Asking Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>1BR</td>
<td>2BR</td>
</tr>
</tbody>
</table>
LAST YEAR AT THIS TIME, we speculated that the record production of 6,300 new market-rate units expected in 2018 might begin to serve as a brake on the market, dampening rent increases and spurring higher overall vacancies. While the vacancy rate did increase slightly compared to 2017 (from 2.3% to 3.0% per Marquette Advisors), rental rates continued to grow at a strong 4.5% to 5.5% rate through the year, according to CBRE and Marquette Advisors. New product entering the market and stabilizing at high prices over the past one to two years drove a portion of the overall rent increase, but so did the upward movement of rents at existing class B and C complexes with monthly rents below $1,100, where overall vacancy rates are extremely low at 2% or less.

Given the strong performance of existing projects in the face of increasing production, rental demand clearly has been deep in the Twin Cities over the decade. Market-rate deliveries in 2019 are expected to drop only slightly to 5,900 units, still the second-highest total this decade. The spreading of new projects to nearly 30 cities throughout the metro area will help mitigate rental vacancies, however, Downtown Minneapolis and the West End in St. Louis Park and Golden Valley will be very competitive with high amounts of new product opening. If economic conditions in the Twin Cities continue to remain strong and apartment absorption stays at 4,000 units or above, the vacancy rate by the end of 2019 should stay below 3.5%.

Fortunately, a leading story in 2019 will be about the great rise in affordable production. Affordable project deliveries will shoot up to more than 1,800 new units this year, nearly double the next best year in the decade (1,017 units in 2016). All told, 19 different cities and/or central city neighborhoods will see badly-needed new affordable units opening in 2019. Certainly, demand for affordable housing has nowhere near been satisfied, with the production system only meeting 25% of demand this past decade, and no single year coming closer than satisfying 42% of the incremental demand increase for that year.

The core drivers of rental demand include Millennials forming their own households and downsizing Empty Nesters. Millennials are attracted to smaller apartments in exciting districts and are focused mostly on an affordable monthly payment. Micro-unit buildings – which have performed well - have come into the market to meet this demand. Also, many Millennials have substantial student loan debt and little savings to buy a home. Coupled with the small supply of available homes in the $250,000 and under price range, Millennials who may otherwise purchase homes are remaining in the rental market. Empty Nesters, conversely, are attracted to larger and more expensive apartments coming online in Downtown Minneapolis and in a variety of suburban locations near restaurants, services, and recreational amenities.

There still is room for new multifamily housing across the Twin Cities beyond 2019. Specifically, emerging opportunities are cropping up in close proximity to the Green Line LRT extension running southwest to Eden Prairie. Developers have been pursuing the redevelopment of industrial sites in Hopkins and Minnetonka near two station platforms in particular. As well, developers are continuing to pursue infill development in the central cities. These sites tend to have more environmental and soil issues that need to be resolved, but they present strong opportunities because of their location advantages. Finally, there are 15-20 suburbs that have had either no new non-senior rental production or just one new project in the past ten years, and demand still exists in these communities for additional housing.

### EXPECTED NEW MULTIFAMILY DELIVERIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown Minneapolis</td>
<td>1,469</td>
<td>1,005</td>
<td>46%</td>
</tr>
<tr>
<td>First-Ring Suburbs</td>
<td>1,235</td>
<td>691</td>
<td>79%</td>
</tr>
<tr>
<td>Southwest Suburbs</td>
<td>1,040</td>
<td>581</td>
<td>79%</td>
</tr>
<tr>
<td>Minneapolis Neighborhoods</td>
<td>729</td>
<td>431</td>
<td>69%</td>
</tr>
<tr>
<td>St. Paul Neighborhoods</td>
<td>665</td>
<td>338</td>
<td>97%</td>
</tr>
<tr>
<td>Downtown St. Paul</td>
<td>618</td>
<td>251</td>
<td>146%</td>
</tr>
<tr>
<td>Southeast Suburbs</td>
<td>584</td>
<td>337</td>
<td>73%</td>
</tr>
<tr>
<td>Northwest Suburbs</td>
<td>515</td>
<td>416</td>
<td>24%</td>
</tr>
<tr>
<td>U of M Neighborhoods</td>
<td>494</td>
<td>594</td>
<td>-17%</td>
</tr>
<tr>
<td>Northeast Suburbs</td>
<td>311</td>
<td>264</td>
<td>18%</td>
</tr>
<tr>
<td>Minneapolis Uptown</td>
<td>25</td>
<td>290</td>
<td>-91%</td>
</tr>
<tr>
<td>Twin Cities</td>
<td>7,685</td>
<td>5,198</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source: Dougherty Mortgage LLC
ABOUT DOUGHERTY MORTGAGE

Dougherty Mortgage LLC
90 South Seventh Street, Suite 4300
Minneapolis, MN 55402
612-317-2100
866-922-0786 Toll-free
www.doughertymarkets.com

For more information about this report, please contact Thomas G. O’Neil at Dougherty Mortgage LLC 612-317-2122, toneil@doughertymarkets.com

A LEADING LENDER WITH A NATIONWIDE PRESENCE

Dougherty Mortgage LLC is a top provider of conventional and affordable multifamily financing, with offices throughout the country. Dougherty Mortgage specializes in providing access to federal agency loan programs to customers interested in Fannie Mae DUS®, Freddie Mac Program Plus®, and FHA financing solutions. Dougherty Mortgage has also been awarded designation as a lender/partner with USDA under the Community Facilities guaranteed loan program. In addition to conventional multifamily financing, Dougherty Mortgage also provides financing solutions for affordable housing, senior independent and assisted-living residences, hospitals, healthcare facilities and student housing. Since 2011, Dougherty Mortgage has been a top-10 HUD/FHA lender in terms of the number of loans, dollar amount, or both. Dougherty Mortgage is also one of the country’s fastest-growing Fannie Mae DUS® lenders.

AFFORDABLE HOUSING FINANCE – A VARIETY OF SOLUTIONS

In addition to extensive conventional financing experience, Dougherty Mortgage offers comprehensive debt solutions for affordable rental housing projects in all types of settings. As a leading Fannie Mae and HUD/FHA lender, we recognize the challenges associated with affordable housing finance and guide our clients through the process at all stages. Some of the many solutions we help our clients with include Fannie Mae DUS® and FHA-insured mortgages, tax-exempt credit enhancement, low-income housing tax credits, historic and new markets tax credits and various government programs that offer subordinated loans or grants.

Our affordable housing clients include both non-profit and for-profit multifamily housing owners, developers and operators. Whether our clients are looking to refinance, acquire, build or rehabilitate, we offer compelling financial options and work diligently to develop a creative, tailored solution for each transaction.

INTEGRATED FINANCING SOLUTIONS – DOUGHERTY MORTGAGE AND DOUGHERTY & COMPANY

Dougherty Mortgage LLC partners with an affiliated entity, Dougherty & Company LLC, on many affordable transactions that involve 4% low-income housing tax credits coupled with tax-exempt bonds. On all types of housing transactions, Dougherty & Company may also serve as the underwriter for tax increment revenue bonds, subordinate bonds, housing and healthcare bonds, and other types of issuances.

THE COMPLETE GROUP OF DOUGHERTY COMPANIES
## REPRESENTATIVE TRANSACTIONS

### FANNIE MAE TRANSACTIONS

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Price</th>
<th>Agency</th>
<th>Location</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bowman Pointe Phase II</td>
<td>$22.8 million</td>
<td>Fannie Mae</td>
<td>Little Rock, AR</td>
<td>December 2018</td>
</tr>
<tr>
<td>Oates Creek Apartments</td>
<td>$16.7 million</td>
<td>Fannie Mae</td>
<td>Mesquite, TX</td>
<td>December 2018</td>
</tr>
<tr>
<td>Elements of Chattanooga</td>
<td>$27 million</td>
<td>Fannie Mae</td>
<td>Chattanooga, TN</td>
<td>October 2018</td>
</tr>
<tr>
<td>Urban Place Apartment Homes</td>
<td>$12.5 million</td>
<td>Fannie Mae</td>
<td>Tampa, FL</td>
<td>July 2018</td>
</tr>
<tr>
<td>Hawaiian Gardens Apartments</td>
<td>$12.4 million</td>
<td>Fannie Mae</td>
<td>Hawaiian Gardens</td>
<td>June 2018</td>
</tr>
<tr>
<td>Mill Creek Place Apartments</td>
<td>$9.4 million</td>
<td>Fannie Mae</td>
<td>Douglasville, GA</td>
<td>April 2018</td>
</tr>
<tr>
<td>Residences at 1700</td>
<td>$30.6 million</td>
<td>Fannie Mae</td>
<td>Minnetonka, MN</td>
<td>February 2018</td>
</tr>
<tr>
<td>The Rosemount Senior Living at Steeple Center</td>
<td>$13.7 million</td>
<td>Fannie Mae</td>
<td>Rosemont, MN</td>
<td>January 2018</td>
</tr>
<tr>
<td>Mill Creek Place Apartments</td>
<td>$9.4 million</td>
<td>Fannie Mae</td>
<td>Douglasville, GA</td>
<td>April 2018</td>
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</tbody>
</table>

### HUD/FHA TRANSACTIONS

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Price</th>
<th>Agency</th>
<th>Location</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>DARTS Senior Apartments</td>
<td>$20.9 million</td>
<td>HUD 221(d)(4) N-C</td>
<td>West St. Paul, MN</td>
<td>January 2019</td>
</tr>
<tr>
<td>The Legends at Berry Senior</td>
<td>$34 million</td>
<td>HUD 221(d)(4) N-C</td>
<td>St. Paul, MN</td>
<td>June 2018</td>
</tr>
<tr>
<td>The Chamberlain</td>
<td>$47.8 million</td>
<td>HUD 221(d)(4) N-C</td>
<td>Richfield, MN</td>
<td>July 2018</td>
</tr>
<tr>
<td>Village Cooperative of Clinton</td>
<td>$5.7 million</td>
<td>HUD 213/223(a)(7) Co-op</td>
<td>Clinton, IA</td>
<td>June 2018</td>
</tr>
<tr>
<td>Maple Pond Homes</td>
<td>$10.8 million</td>
<td>HUD 223(f) Refinance</td>
<td>Maplewood, MN</td>
<td>June 2018</td>
</tr>
<tr>
<td>Eastgate Apartments</td>
<td>$16.1 million</td>
<td>HUD 221(d)(4) N-C</td>
<td>Rochester, MN</td>
<td>May 2018</td>
</tr>
<tr>
<td>Seven Palms Apartments</td>
<td>$22.7 million</td>
<td>HUD 221(d)(4) N-C</td>
<td>Punta Gorda, FL</td>
<td>March 2018</td>
</tr>
<tr>
<td>Green on Fourth</td>
<td>$42.8 million</td>
<td>HUD 221(d)(4) N-C</td>
<td>Minneapolis, MN</td>
<td>January 2018</td>
</tr>
</tbody>
</table>
THE COMPLETE GROUP OF DOUGHERTY COMPANIES:

DOUGHERTY FINANCIAL GROUP LLC
DOUGHERTY & COMPANY LLC
DOUGHERTY MORTGAGE LLC
DOUGHERTY FUNDING LLC
DOUGHERTY EQUIPMENT FINANCE LLC
DOUGHERTY WEALTH ADVISERS LLC
DOUGHERTY INSURANCE AGENCY LLC
DOUGHERTY REAL ESTATE EQUITY ADVISORS LLC

DOUGHERTY MORTGAGE LLC
Mortgage banking for multifamily housing, senior housing, student housing, and healthcare facilities

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