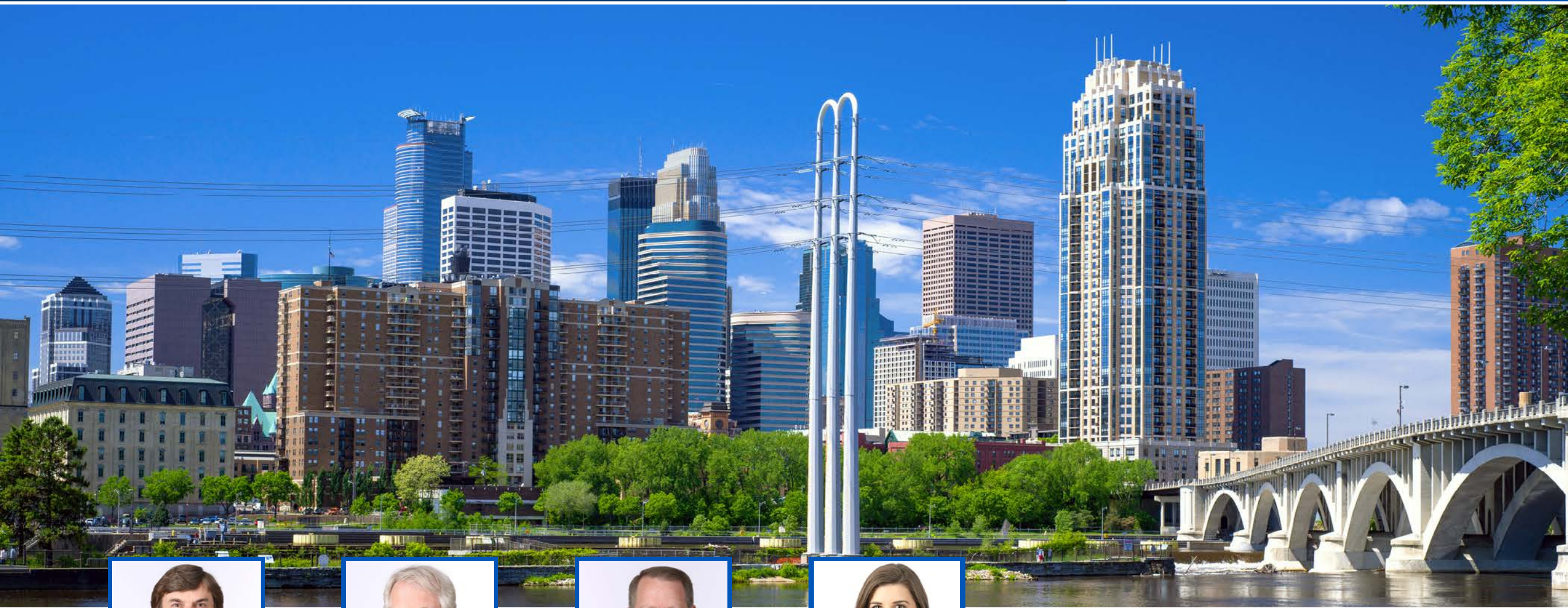


TWIN CITIES | MULTIFAMILY MARKET

Q2 2023 Review

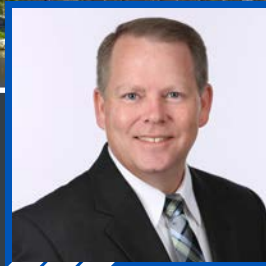
OVER **\$2.4B**
IN APARTMENT
PROPERTIES
SOLD!



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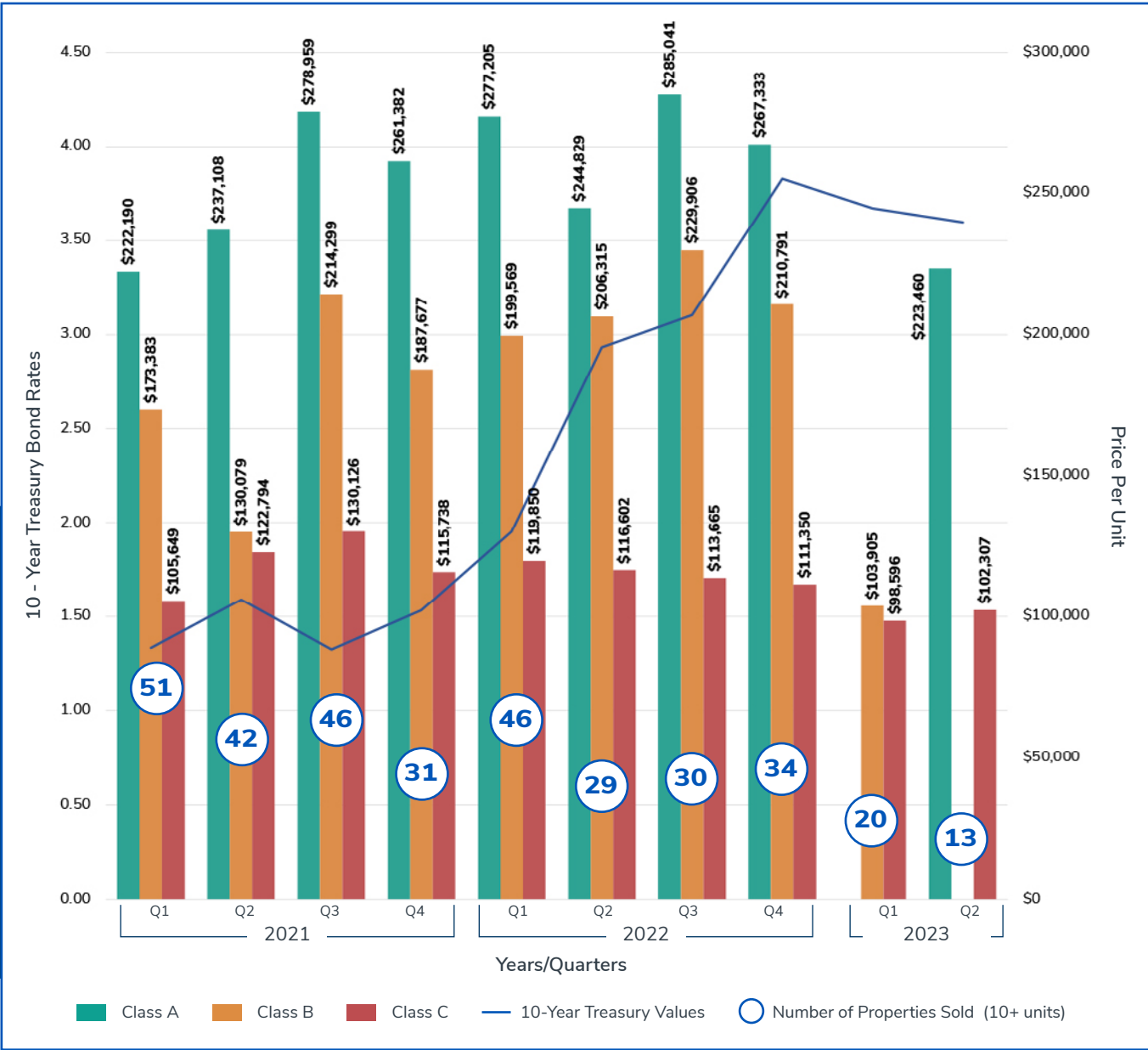
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A Sluggish Start

The local and national multifamily market in Q2 of 2023 has remained sluggish due to high interest rates, resulting in low transaction volume and market uncertainty. These conditions have presented a range of **challenges** and **opportunities** for industry participants.

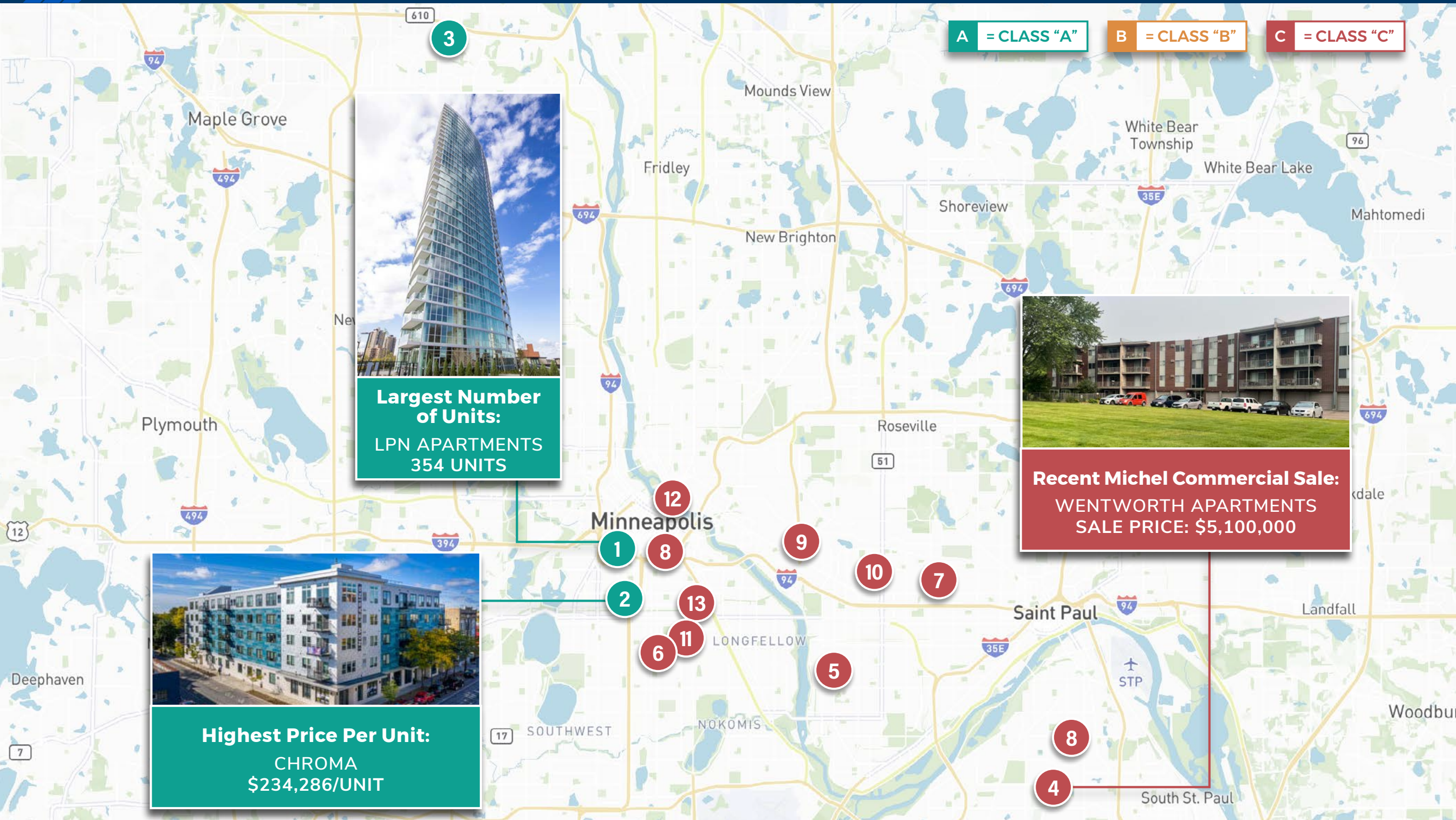
10-Year Treasury Rate and Price Per Unit Comparison



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	CHALLENGES	OPPORTUNITIES	OUR RECOMMENDATIONS
OWNERS	Owners face frustration as the rise of interest rates have impacted the values of properties. Moreover, they are grappling with the burden of rising operating costs, most notably, insurance, payroll, and property taxes.	Rents are on an upward trajectory, and the Twin Cities' low rent-to-income ratio (27%) indicates the potential for further rent growth. In addition, well-located properties continue to be in high demand, and the limited inventory can favor sellers.	We recommend that owners pay close attention to resident retention rates as they can provide valuable insights. A resident retention rate of over 60% suggests that there is room for rent increases, which can lead to a stronger property value.
BUYERS	Buyers are encountering challenges in underwriting deals and forecasting future returns due to the uncertainty surrounding interest rates and limited inventory. Lenders have become more risk-averse, prioritizing the actual property financials, which makes it challenging for buyers to secure favorable lending support aligned with their projected business plans.	Market conditions have led to a smaller buyer pool, with some potential buyers staying on the sidelines due to market unpredictability. In addition, sellers have adjusted their pricing expectations to align with the current interest rate environment, presenting an opportunity for buyers to acquire properties at lower 'price per unit' pricing.	We recommend that buyers continue to thoroughly analyze deals and make offers on properties that align with their investment criteria and that they have the capability to execute effectively.
LENDERS	Lenders have adjusted their risk appetite and are constrained by debt service coverage ratios, leading to the requirement of lower loan-to-value ratios. Furthermore, some smaller banks are encountering challenges due to fewer deposits, making it difficult for them to offer competitive rates.	Buyers are now more willing to seek financing options beyond their preferred lenders, when they cannot secure favorable interest rates or loan-to-value ratios. This dynamic creates an opportunity for lenders to cultivate new relationships.	We recommend that lenders concentrate on building and nurturing strong relationships with current and prospective clients by exploring ways to add value to them.
DEVELOPERS	Developers have encountered rising vacancy rates caused by the influx of thousands of new units throughout 2023. Additionally, the steep increase in interest rates and escalating operational costs have presented challenges in justifying the cost to construct new developments.	As new developments are absorbed into the market, the slowdown in development is expected to lead to a return to low vacancy rates. Additionally, cities that are prioritizing more housing and development are beginning to recognize the economic challenges faced by developers due to high interest rates and rising operational costs. These cities may be more inclined to collaborate with developers and provide incentives to attract new projects that meets the growing demand for housing.	We recommend that developers focus their efforts on cities that exhibit a strong demand for additional housing and demonstrate a willingness to provide support.

Q2 2023 TRANSACTIONS (10+ UNITS)



Q2 2023 TRANSACTIONS (10+ UNITS)

A = CLASS "A"

B = CLASS "B"

C = CLASS "C"

No.	Property Name	Property Address	Property City	Year Built	No. Of Units	Building Class	Price Per Unit	Sale Price	Sale Date
1	LPM Apartments	1369 Spruce Pl	Minneapolis	2014	354	A	\$209,040	\$74,000,000	6/21/2023
2	Chroma	113 E 26th St	Minneapolis	2016	70	A	\$234,286	\$16,400,000	6/1/2023
3	Urbana Court Apartments	5401 94th Ave N	Brooklyn Park	2021	207	A	\$227,053	\$47,000,000	4/26/2023
4	205 Wentworth	205 Wentworth Ave W	West Saint Paul	1968	46	C	\$110,870	\$5,100,000	6/14/2023
5		394 Cleveland Ave N	Saint Paul	1926	10	C	\$120,000	\$1,200,000	6/12/2023
6		3633 Chicago Ave	Minneapolis	1997	10	C	\$110,000	\$1,100,000	6/6/2023
7		1010 Lafond Ave	Saint Paul	1964	11	C	\$107,727	\$1,185,000	6/5/2023
8	Hall Ave Apartments	756 Hall Ave	Saint Paul	1968	17	C	\$91,191	\$1,550,247	5/12/2023
9	The Cromwell	1053 Cromwell Ave	Saint Paul	1989	11	C	\$116,364	\$1,280,000	5/12/2023
10		561 Van Buren Ave	Saint Paul	1909	12	C	\$82,917	\$995,000	5/10/2023
11		3411 15th Ave S	Minneapolis	1953	10	C	\$94,000	\$940,000	4/17/2023
12		3413-3417 Portland Ave S	Minneapolis	1929	10	C	\$90,000	\$900,000	4/14/2023
13		2720 Cedar Ave S	Minneapolis	1968	11	C	\$100,000	\$1,100,000	4/7/2023

Total Averages	1971	60		\$130,265	\$11,750,019
Total Class A Averages	2017	210	A	\$223,460	\$45,800,000
Total Class C Averages	1957	15	C	\$102,307	\$1,535,025

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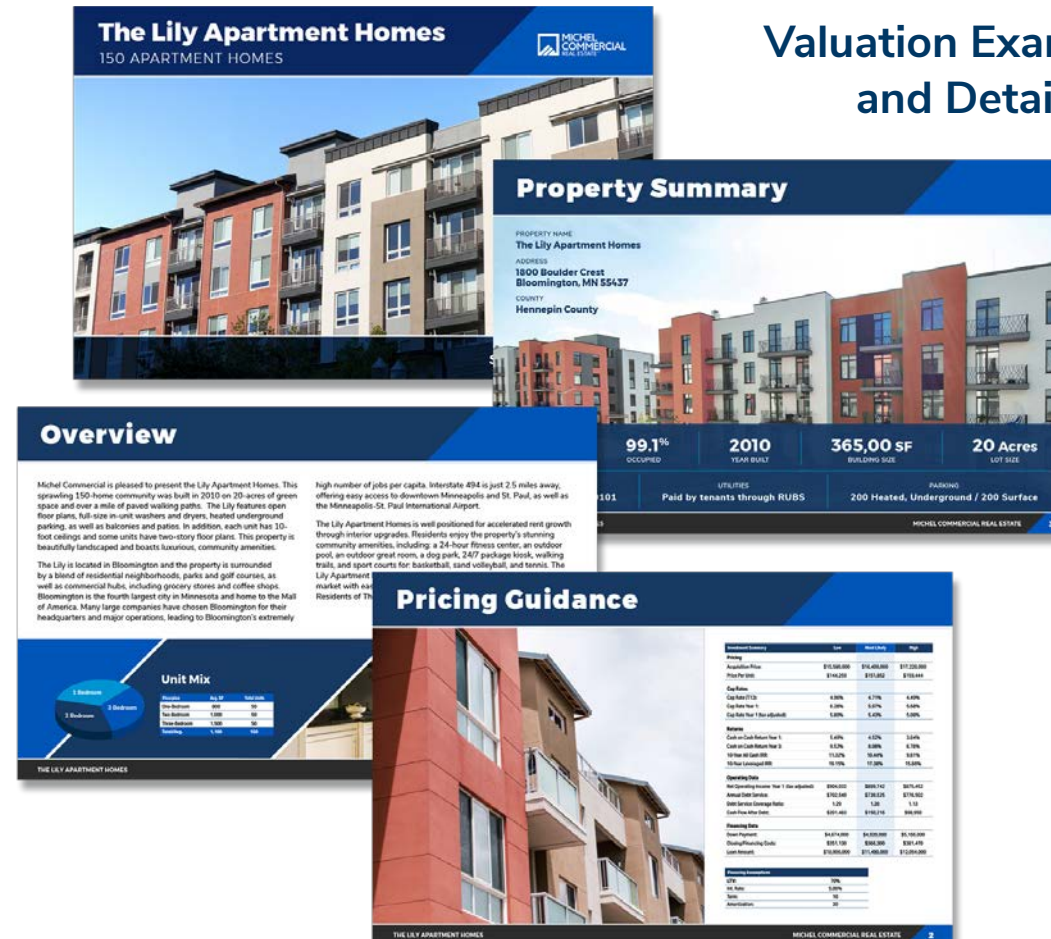
Contact us for a **COMPLIMENTARY VALUATION**
of your MULTIFAMILY PROPERTY

Q3 Outlook

The second half of the year brings potential for a favorable shift. We anticipate a higher number of properties coming to market in Q3 and Q4, and we remain optimistic about the stability of rates, which will contribute to increased predictability and a return of confidence.

Valuation Example with Pricing Guidance and Detailed Property Overview

Includes comprehensive market and financial analysis as well as recent like-kind rent and sale comparables.



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Q2 2023 MICHEL COMMERCIAL HIGHLIGHTS

SOLD



Linderhof Park Apartments
1100 N 16th Street, New Ulm

BUILT: 1977 UNITS: 56 SALE PRICE: \$2,600,000 SALE DATE: 6/9/23



205 Wentworth Apartments
205 Wentworth Ave W, West Saint Paul

BUILT: 1968 UNITS: 46 SALE PRICE: \$5,100,000 SALE DATE: 6/14/23



Gateway Place
721 Lake Susan Drive, Chanhassen

BUILT: 2008 UNITS: 48 CLASS: B



Etna Woods Townhomes
1216-1254 Clarence Street, Saint Paul

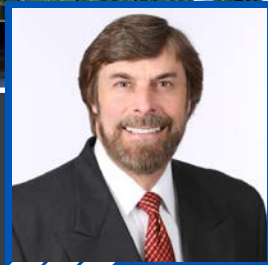
BUILT: 1981 UNITS: 20 CLASS: C

**UNDER
CONTRACT**

TWIN CITIES | MULTIFAMILY MARKET

Q2 2023 Review

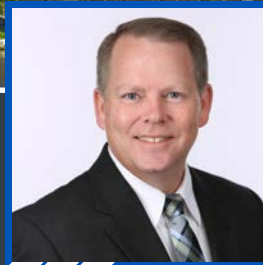
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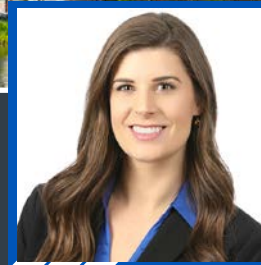
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