



Hillcrest Market Overview

January 2020

MULTIFAMILY (APTS) VACANCIES REMAIN LOW

Apartment vacancy rates in the Hillcrest Market Area remain exceptionally low as of 3rd Quarter 2019. Demand for new apartments remains strong and new rental properties continue to lease-up rapidly. A limited number of new rental properties have been developed and demand currently exceeds supply.

Over the past 12 mos, rents have increased in the Hillcrest Market Area by an average of 6%, just below the 6.5% for the Twin Cities overall.

Affordable rental housing is in very short supply and efforts to increase the supply have resulted in too few apartments added to the market.

OWNED HOUSING PRICES CONTINUE TO CLIMB

As of the end of 2019, the average time needed to sell a home is less than 30 days. Some homes are being sold under multiple bid situations. Home prices have increased nearly 8% over the past year in the Greater East Side neighborhood of St. Paul and up by 6.4% in Maplewood.

The median home price in the Greater East Side neighborhood rose from \$142,000 in 2016 to \$199,500 as of 2019, an increase of 40% over the past four years. The months of supply of new homes has dropped to less than two months. A balanced market is usually five to six months of supply.

BUSINESS CENTER/INDUSTRIAL MARKET TRENDS

Through June 2019, the industrial market segment sustained strong demand, on point to exceed absorption over 2018. The Twin Cities Metro absorbed 1.42 million square feet of industrial space during the first six months of 2019, led by the Northeast (Hillcrest area) and Northwest quadrants.

Vacancies continued to decrease from 2018 with a 1st half vacancy rate of only 7.8%, even lower than the average over the past five years of 8.7%. Pricing for all types of industrial space has increased, but the most significant increases have been for infill properties. Users such as retailers and e-commerce suppliers are seeking “last-mile” locations close to core urban markets which can provide space for fleet vehicles and trailers.

The very low Twin Cities unemployment rate (2.7%), signals labor shortages in many business sectors. Industrial businesses do not want to locate too far out, preferring instead to be near a strong labor pool with access to public transportation. Most new industrial land opportunities are on the fringes of the Metro Area.

MARKET FORECAST

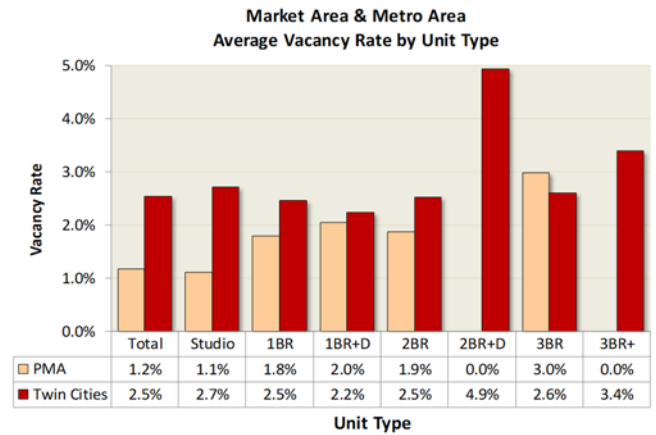
DEMAND for housing remains strong in the rental and for-sale markets, especially for affordable housing.

DEMAND for business park space is in high demand, urban core sites for support users sought after

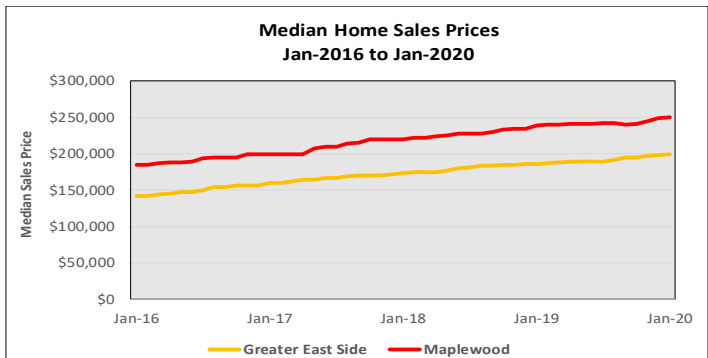
DEMAND for retail/office space is limited and is likely to decrease in the near-term.



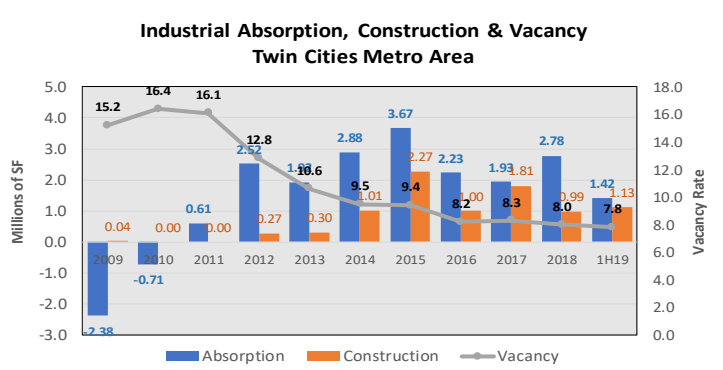
APARTMENT VACANCY RATES-HILLCREST MARKET AREA



MEDIAN PRICES-GREATER EAST SIDE/MAPLEWOOD



BUSINESS CENTER/INDUSTRIAL MARKET TRENDS





RETAIL TRENDS

The retail market segment is the one that typically experiences the greatest shifts as consumer preferences and shopping habits have been turned around by technology. Retailers are looking for new and innovative ways to capture their market base.

Internet-resistant, daily needs retailers are those that are currently seeking space such as service retailers, grocers, fitness concepts, medical providers, fast casual restaurants and value retailers.

Performance in this section will continue to be the most difficult in terms of growth, site selection and demand components. On-going competition and evolving technology will affect this market in the short- and long-term.

Grocery chains opening stores in in-fill areas and core urban neighborhoods has supported some retail growth in urban markets. Most of the larger grocers have tapped the brakes and are now stepping back to re-evaluate location strategies for the future.

Cooperative and discount grocery (i.e. Mississippi Market and Aldi's) are concepts likely to "fit" best for Hillcrest.

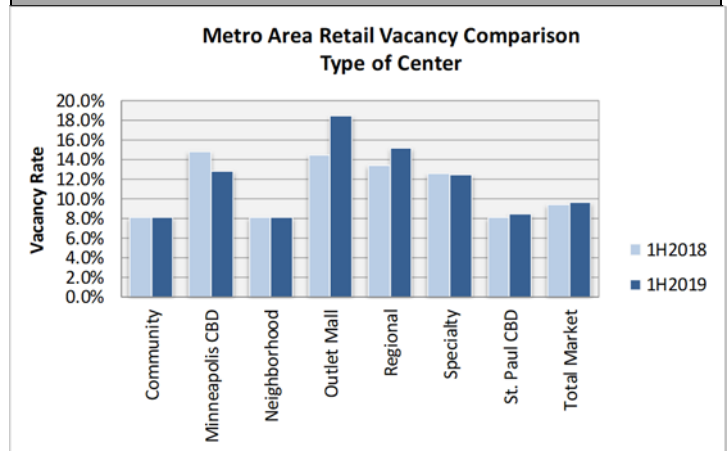
OFFICE TRENDS

The availability of labor remains the single most important factor in the demand for office space in the Twin Cities Metro. New office development has been concentrated in Downtown Minneapolis and Downtown St. Paul and the West Metro.

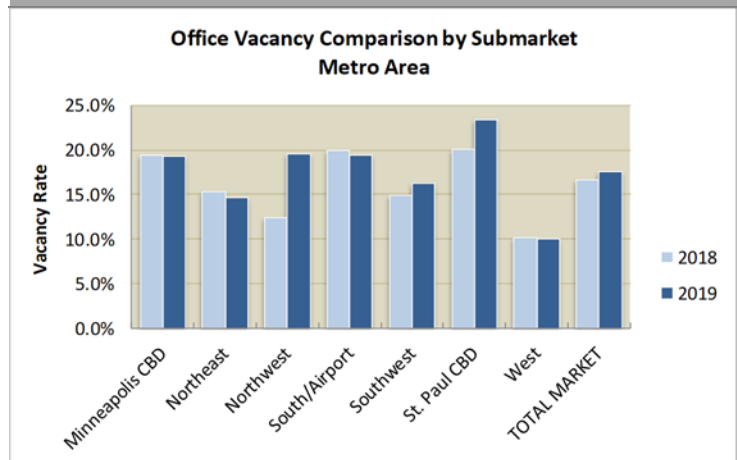
Lease rates for traditional office space remain flat. However, office lease rates in industrial space or when combined with warehouse space have increased, showing that many businesses that need office are electing to locate in non-traditional office space. Office space in industrial type buildings has been in the market for many years and a number of companies that need hybrid space or may prefer to pay less rent have elected to locate in these types of properties.

Companies that would have previously located in traditional office space are now considering sites zoned as industrial, business park or employment centers and concepts have shifted to more of a business park format. This is especially true of companies that need a greater amount of short-term parking such as medical providers.

RETAIL VACANCY COMPARISON BY CENTER TYPE



OFFICE MARKET TRENDS



HILLCREST MARKET DEMAND SUMMARY

PRELIMINARY DEMAND SUMMARY 2020-2030	
Housing (Five Years)	Units
Owned	
Single-Family	55
Multifamily	54
Rental	
Apartments/THs	313
Senior	
All Service Levels	513
Commercial (Ten Years)	Square Feet
Retail	13,700 - 20,600
Office	25,000
Business Park/Ind. (Ten Years)	Square Feet
Single-Tenant and/or Multi-Tenant	Up to 800,000

Source: Maxfield Research and Consulting LLC