

Residential & Commercial Market Update
Minnetonka, MN
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Brent Wittenberg
Vice President
612-392-2344

bwittenberg@marquetteadvisors.com

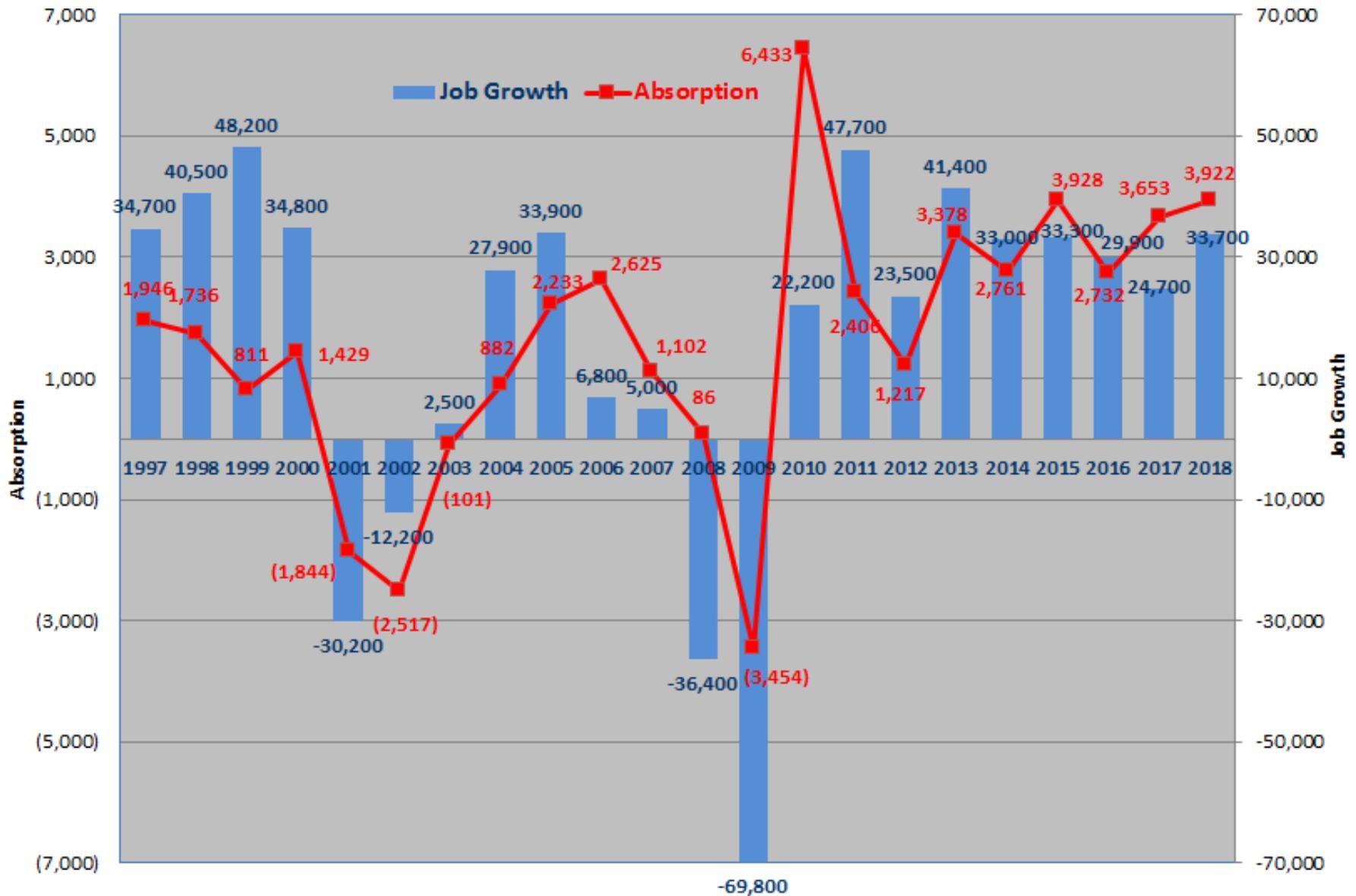
Discussion Outline

- Twin Cities Apartment Construction Boom
 - What's driving this? How much, and where? For whom?
 - What's happening in Minnetonka? Ramp-up in apartment & senior housing construction 2019-2021.
- Minnetonka Housing Needs
 - Projected demand (2017-18 Marquette analysis)
 - What's in the pipeline?
 - No concerns of overbuilding (yet). Why?
 - Are we building the right types of housing?
- Commercial Real Estate Market
 - Industrial
 - Office
 - Retail
- Opus area potential

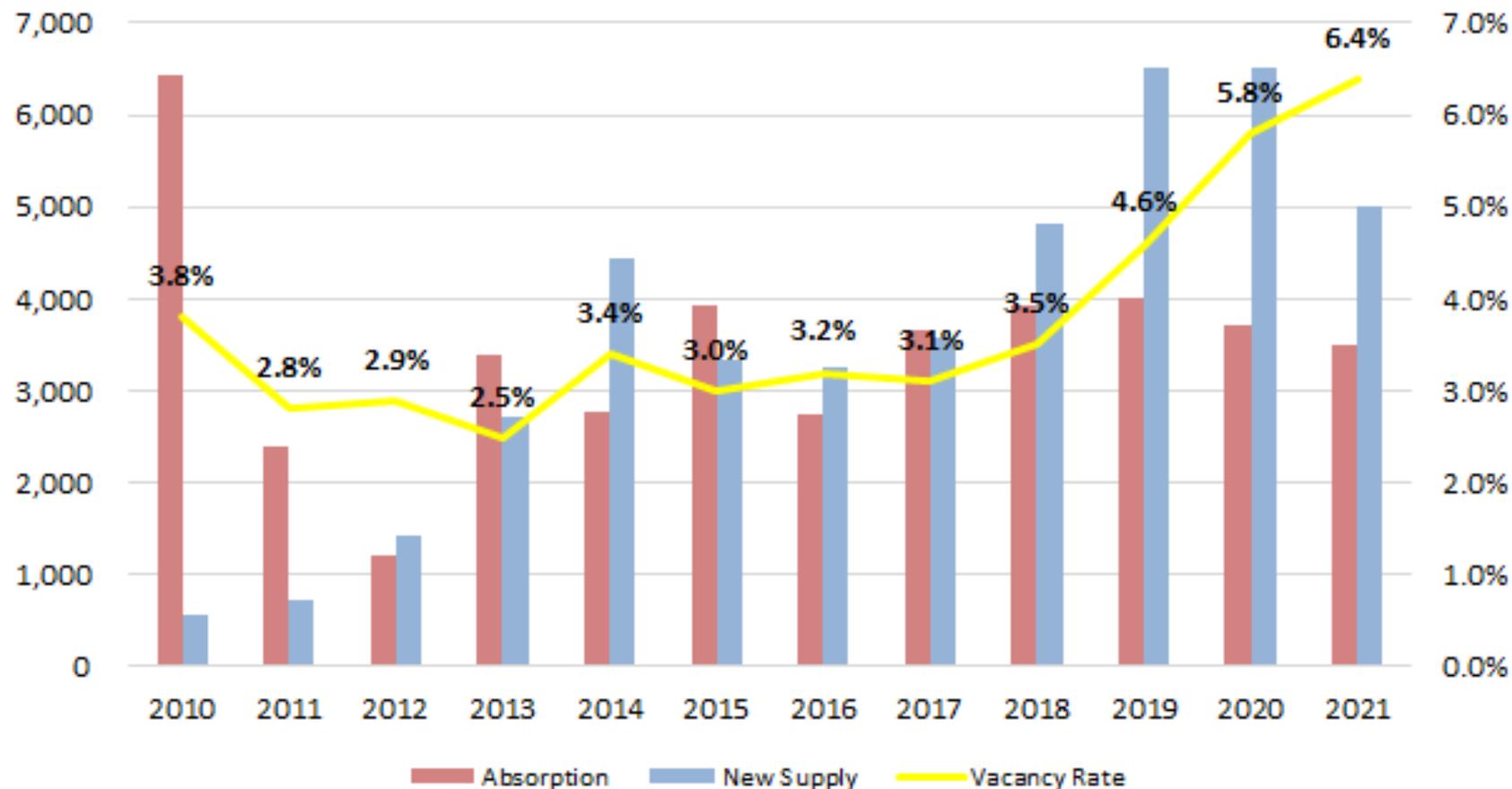
Apartment Demand Drivers

- Strong economy & job growth!
- Low unemployment in Twin Cities.
 - This means businesses must hire from other markets.
- High quality of life – people want to live in Twin Cities
- Strong in-migration pattern. People moving to Twin Cities are likely to rent initially.
- Smaller households (Millennials are key segment). Single. Few children. Renting fits their lifestyle and budget.
- Availability of capital. Twin Cities market metrics are strong. Apartment developments in Twin Cities are attracting capital from throughout U.S.

Twin Cities Apartment Unit Absorption & Job Growth Trends, 1997-2018



Supply/Demand & Vacancy Trend Twin Cities Metro Area



Twin Cities Supply/Demand Trends

- Starting to over-build: 2019-2021
 - Demand = 3,500 to 4,000 units per year
 - New Supply = 6,000+ units per year
 - Varies by submarket!! Not all submarkets over-built!
 - Competitive submarkets – Downtown Minneapolis example. 7.6% vacancy here now. Several new developments in lease-up. Performance will be varied.
- Suburban markets lagged behind in new construction. E.g. Minnetonka <500 apartments built over last 10 years. Now 1,000+ market-rate units in pipeline. Why?
 - Strong demand. Vacancy here just 2.9%
 - Average rent \$1,397. Rents up +16.2% over last 2 years!
 - New construction starting to “pencil out”

**Market Rate Apartment Construction
Last 5 Years and Current Planned/Proposed
Sample of West-Metro Communities**

						Total, Last 5 yrs	Current Pipeline
	2014	2015	2016	2017	2018		
Minnetonka	0	173	164	120	0	457	1,024
St. Louis Park	0	296	0	513	279	1,088	167
Golden Valley	173	0	0	229	490	892	372
Edina	232	109	379	0	220	940	1,200
Hopkins	163	0	0	274	0	437	0
Maple Grove	0	260	208	0	355	823	1,000
<i>Source: Marquette Advisors</i>							

City of Minnetonka Housing Supply / Demand

Marquette Demand Forecast (2017-2027) vs. Current Development Pipeline

	<i>Marquette Demand Forecast</i>	<i>Pipeline</i>
<u>Housing Type</u>	<u>2018-2027</u>	<u>2019-2021</u>
For-Sale	827	19
Rental - market rate	1,209	1,024
Rental - affordable (<80% AMI)	510	604
Senior	1,267	409
Total Units	3,813	2,056

Minnetonka Supply / Demand Discussion

- Are we over-building apartments? NO. NOT YET.
- Potential market-rate demand likely closer to 2,000 units through 2027. Why?
 - More households choosing to rent, and continue renting. Exodus to homeownership simply not materializing.
 - Simply aren't building much for-sale
 - Consider pent-up demand. 45,000 based workers. <4,000 of those workers also live in Minnetonka.
 - Connectivity: Freeways, easy commuting, SW-LRT helps
 - Community amenities, commercial base

Minnetonka Supply / Demand Discussion

- For-sale housing needed in community
 - What's next for “aging” Millennial renters?
 - Some would like to buy, but what's available?
 - Few new for-sale units being added, and most are \$700k to \$1.0m+
 - Think about townhomes, condos, higher-density single family housing at entry-level price points
- Increase in senior housing construction also helps
 - Demand from seniors aging in place. Can remain in community
 - Frees-up existing for-sale housing for younger home buyers

Commercial Market Conditions

Industrial

- 3.7 m square feet
- Vacancy 10.4% Minnetonka; 6.6% metro area
- Avg. Rents \$4.50 to \$5.00 warehouse; \$9 office
- Minnetonka not known as major industrial market
- Warehouse users prefer Interstate locations, better freeway access
- Development moving to exurban locations. More (and cheaper) land.
- Anticipate change in use. Opus examples. Redevelopment to mixed-use 3-5 years. Perhaps office 5-10 years.

Commercial Market Conditions

Office

- 6.9 m square feet
- Vacancy 13.0% Minnetonka; 14.7% metro area
- Avg. Rents \$18+ Class A
- Speculative development still doesn't pencil out.
- Current construction is single-user, build-to-suit (e.g. UHG)
- Demand is down, and more demand is flowing to downtown Minneapolis in short-term
- But, downtown office is becoming expensive, especially parking
- Possible increase in suburban office demand mid- to long-term. However, requires upgrades to existing office product, some of which is older/outdated.
- Possible repositioning of office sites to housing and mixed-use, at higher densities. Example – Doran project.

Commercial Market Conditions

Retail

- 3.2 m square feet. 60% of this is Ridgedale & 394 corridor
- Retail in Minnetonka performing well. Vacancy just 3.9%
 - Strong demographics, freeway exposure
- No large-scale development expected. Retail is changing – internet/Amazon impact.
- Big box challenged. e.g. Toys-R-Us; Sears and JCP at Ridgedale. Re-tenanting or repositioning of these spaces.
- Malls becoming more entertainment / experiential.
- Anticipate infill and repositioning at Ridgedale. City investment in infrastructure and public realm helps. Should be higher density. More vibrancy. More walkable. More residential. Potentially office long-term.
- Understand challenges of mixed-use (especially vertical mixed use).
 - Parking requirements and access can conflict with residential
 - Retail has to be feasible on its own.
 - Vacancy and turnover of retail space in mixed-use a major drag-down on building economics. Examples of this all over town.

Opus Potential

Best opportunities for infill and repositioning (change in use) in Minnetonka are: Opus Area and Ridgedale

Opus: large base of workers. Walkability. Trails. Green Space. Good freeway access. SWLRT improves connectivity. Under-used industrial, office/warehouse parcels, ripening for re-development at higher density/alternate uses.