



A Market Feasibility Study for
Market Rate Rental Housing in
West St. Paul, Minnesota



Maxfield

Research & Consulting

7575 Golden Valley Road

Suite 385

Golden Valley, MN 55427

612.338.0012

www.maxfieldresearch.com



Maxfield
Research & Consulting

August 16, 2016

Mr. Noah Tilsen
Assistant Manager
Westview Park Apartments
285 Westview Drive
West St. Paul, MN 55118

Dear Mr. Tilsen:

Attached is our study entitled "*A Market Feasibility Study for Market Rate Rental Housing in West St. Paul, Minnesota.*" The study considers the potential demand for a general occupancy market rate rental housing development to be located on a 2.6-acre property situated along Marie Avenue East at its intersection with Kathleen Drive at 260 Marie Avenue in West St. Paul, Minnesota.

This study assesses demographic and economic characteristics of the primary draw area, analyzes the competitive market situation for market rate rental housing, and quantifies demand for market rate rental units that could be captured on the subject Site. Our findings reveal that there is demand for the 58 units of market rate rental housing being considered for the Site.

We discuss the proposed project's ability to capture a share of the target market and project the rate of absorption for the subject development. A recommended development concept is also provided, including suggestions for an appropriate unit mix, pricing, features, and common area amenities.

We enjoyed completing this study and are available should you have any further questions or require additional information.

Sincerely,

MAXFIELD RESEARCH AND CONSULTING, LLC

Joe Hollman
Senior Analyst

Attachment

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
PURPOSE AND SCOPE	4
Study Purpose	4
Scope of Services.....	4
SITE EVALUATION	5
Introduction	5
Site Location and Characteristics	5
Surrounding Land Uses	11
Access and Visibility	11
Proximity to Shopping, Employment, Recreation, and Services.....	12
Development Concept	14
Appropriateness of Site for General Occupancy Rental Housing	15
DEMOGRAPHIC REVIEW	16
Introduction	16
Market Area Definition	16
Population and Household Growth Trends	18
Age Distribution	20
Household Income	22
Household Tenure.....	24
Household Type	26
Employment Trends.....	28
Commuting Patterns	34
Summary of Demographic Trends	36
RENTAL MARKET ANALYSIS	38
Introduction.....	38
Overview of Rental Market Conditions	38
Selected Market Rate Apartment Developments	42
Other New Suburban Rental Projects	48
Pending Rental Developments	50
Summary of Rental Market Conditions	52
CONCLUSIONS & RECOMMENDATIONS	53
Introduction.....	53
Market Rate General Occupancy Rental Demand Calculations	53
Conclusions.....	55
Recommended Development Concept	56
Projected Absorption.....	58

LIST OF TABLES

<u>List of Tables</u>	<u>Page</u>
1. Population and Household Growth Trends and Projections, Westview Park Apartments Market Area, 2000 - 2025.....	18
2. Age Distribution, Westview Park Apartments Market Area, 2000 - 2021.....	21
3. Household Income by Age of Householder, Primary Market Area, 2016 & 2021.....	23
4. Tenure by Age of Householder, Westview Park Apartments Market Area, 2010 & 2014	25
5. Household Type, Westview Park Apartments Market Area, 2010 & 2014	27
6. Employment Growth Trends and Projections, Westview Park Apartments Market Area, 200 to 2025.....	30
7. Local Area Unemployment Statistics, Westview Park Apartments Market Area.....	30
8. Quarterly Census of Employment and Wages, Westview Park Apartments Market Area	32
9. Commuting Patterns, City of West St. Paul, 2014	34
10. Commuting Inflow/Outflow Characteristics, City of West St. Paul, 2014	35
11. Average Rents/Vacancies Trends, Westview Park Apartments Market Area	41
12. Select Newer Market Rate Rental Projects, Westview Park Apartments Market Area	43
13. Unit Type Summary, Selected Market Rate Rental Developments.....	44
14. Unit Features and Common Area Amenities, Selected Market Rate Rental Projects..	46
15. Select new Market Rate Rental Projects, Twin Cities Metro Area Suburban Locations	49
16. Pending General Occupancy Rental Developments, Primary Market Area	50
17. Projected Demand for Market Rate Rental Housing, Primary Market Area	54
18. Preliminary Unit Size/Mix/Rent Recommendations, New Market Rate General Occupancy Rental Housing	56

Purpose and Scope

Maxfield Research and Consulting, LLC was engaged by Westview Park Apartments to assess the market feasibility for a general occupancy market rate rental housing development to be located on a site situated along Marie Avenue East at its intersection with Kathleen Drive at 260 Marie Avenue in West St. Paul, Minnesota. The subject property, referred to as the Westview Park Apartments Site throughout this report, is roughly 2.6 acres.

The scope of this study includes an evaluation of the subject property. The study also provides a review of the economic and demographic characteristics of the area determined to be the draw area for rental housing on the subject property. Maxfield Research and Consulting, LLC surveyed existing newer market rate rental developments in and near the primary draw area, and interviewed City staff to identify pending rental housing developments that are currently in the pipeline.

Based on our analysis, demand was calculated for market rate rental housing in the Market Area along with an estimate of the proportion of demand that could be captured by the subject development.

Site Evaluation

The 2.6-acre Site is comprised of two separate parcels. The 1.85-acre northern parcel is developed with a 27,000 square-foot vacant commercial building which was built in 1970 and was formerly used as a racquetball/fitness facility. The 0.77-acre southern parcel serves as a surface parking lot for the commercial building. The triangular-shaped Site is bounded by Marie Avenue on the northeast and Kathleen Drive on the south. We identified several key characteristics that favor the development of general occupancy rental housing on the subject property.

Adjacent and surrounding land uses are generally compatible with the proposed development, and the Site offers convenient access to the River to River Greenway. There are many recreational venues located in close proximity to the Site, and retail goods and services are readily available within walking distance of the Site along Robert Street.

The subject property is located a reasonably short distance from the numerous restaurants along the Robert Street corridor, and the many dining and entertainment options located in Downtown Saint Paul are only a five-mile drive from the Site. Residents will have convenient access to bus transportation and the local highway network and the Site is situated near several major employers in West St. Paul, the surrounding communities, and Downtown Saint Paul.

Demographic Review

Based on demographic factors influencing the area, notably an increasing rate of population and household growth, an aging population, income growth, and a shift in household types, it appears that there will be growing demand for rental housing units in the PMA. The percentage of renter households in the PMA increased for most age cohorts between 2010 and 2014 as the total number of renter households residing in the PMA grew by an estimated 701 households, an increase of 5.5%. By comparison, the number of owner-occupied households in the PMA increased 0.5% (+132 households) between 2010 and 2014.

Additionally, employment is projected to increase at a faster pace in the PMA than in the Metro Area over the next several years. Typically, households prefer to live near work for convenience. This preference is particularly true among renters. Young adults entering the work force, a primary target market for rental housing, often place great value on living near employment, education, shopping, and entertainment. With the Site's location near Highway 52 and Robert Street in West St. Paul, renters would have convenient access to jobs.

Rental Market Analysis

As of the first quarter of 2016, the vacancy rate was 3.1% in the Metro Area, 1.7% in West St. Paul/South St. Paul, and 2.0% in the Inver Grove Heights/Mendota Heights/Lilydale submarket. Additionally, the newest competitive market rate properties in and near the PMA are currently 1.8% vacant. The equilibrium vacancy rate for rental housing is considered to be 5.0% which allows for normal turnover and an adequate supply of alternatives for prospective renters. This information suggests that there is pent-up demand for market rate units in the PMA.

Average monthly rents increased 5.3% over the year to \$1,072 across the Metro Area, while the PMA submarkets experienced little rent growth, climbing 0.3%. At \$924, the average monthly rent in the PMA is -14% lower than the Twin Cities average.

We surveyed eight newer competitive properties in and near the PMA, containing a total of 1,118 units. Monthly rents in the competitive set of newer properties range from \$1,001 to \$2,676, with an average rent of \$1,488 per month, roughly 39% higher than the Metro Area average. On a per square foot basis, rents range from \$1.02 to \$2.41, with an average rent of \$1.63 per square foot.

The tight supply of rental units coupled with rising rental rates is stimulating development activity. We identified six pending general occupancy rental developments in the PMA, containing a total of 1,557 units. One 40-unit affordable project is expected to commence construction during summer 2016. Another 149-unit market rate development is close to final approval, and the developer expects to begin construction in 2016. Four other projects, totaling 1,368 units, have been proposed and are at various stages of the planning approval process in their respective cities.

Conclusions & Recommendations

The strongest sources of demand for new rental housing in the PMA will likely be young singles and couples without children in their late-20s to mid-30s who work in Saint Paul or nearby suburban communities. Mid-age households (never-nesters or empty-nesters) who want to sell their single-family homes and have more freedom for leisure pursuits could also account for a portion of demand for new rental housing in the area.

Based on our assessment of market rate rental housing in the Market Area, including the occupancy rates and overall performance of new product, we find sufficient market support for additional market rate general occupancy rental units in the PMA. The 58-unit apartment development being considered for the Site would capture 4.9% of the excess demand for rental housing in the PMA.

We estimate that a 58-unit development on the subject property coming on-line in early-summer 2018 would have approximately 20% of its units pre-leased with the remaining units leasing at a rate of five to seven units per month, on average. At this absorption rate, stabilized occupancy (95%) would be reached in roughly six to eight months.

Considering that the target market for an apartment development will likely be young to mid-aged households, demand will likely be strongest for one-bedroom and two-bedroom units. However, offering unit floor plans such as a one-bedroom plus den should be considered. These unit layouts are often popular with older adults, seniors, and those that frequently work from home as the den will generally be used as a home office or guest room.

We recommend base monthly rents averaging \$1.55 per square foot in 2016 dollars. We suggest that the landlord provide professional management, grounds/common area maintenance, trash removal, and common-area internet. Other utilities and optional fees (i.e. gas, water, electricity, telephone, cable/satellite television) should be the responsibility of the tenant.

We anticipate that the proposed development concept will be well-received by the target market. Household growth and turnover in the Market Area should lead to a successful lease up of the project; however, this will not be at the expense of existing facilities in the PMA as the current supply of market rate rental housing is well-below equilibrium.

Study Purpose

Maxfield Research and Consulting, LLC was engaged by Westview Park Apartments to assess the market feasibility for a general occupancy market rate rental housing development to be located on a site situated along Marie Avenue East at its intersection with Kathleen Drive at 260 Marie Avenue in West St. Paul, Minnesota. The subject property, referred to as the Westview Park Apartments Site throughout this report, is roughly 2.6 acres.

Scope of Services

The scope of this study includes an evaluation of the subject property. The study also provides a review of the economic and demographic characteristics of the area determined to be the draw area for rental housing on the subject property. Maxfield Research and Consulting, LLC surveyed existing newer market rate rental developments in and near the primary draw area, and we interviewed City staff to identify pending rental housing developments that are currently in the pipeline. Based on our analysis, we calculate the demand for market rate rental housing in the Market Area and estimate the proportion of that demand that could be captured by the subject development.

The report contains primary and secondary research. Primary research includes interviews with rental property managers/owners and city staffs. All of the information on competitive rental housing projects and pending rental housing developments was collected by Maxfield Research and Consulting, LLC and is accurate to the best of our knowledge. This study also utilizes secondary data. Secondary research is always used as a basis for analysis and is carefully reviewed in light of other factors that may impact projections.

Introduction

This section of the report presents an overview of the location and characteristics of the subject property in West St. Paul, Minnesota discussing the Site's regional location and the property's general characteristics. Adjacent land uses, accessibility to and visibility of the subject property, and the Site's proximity to employment, shopping, recreation, and services are also evaluated. Finally, this section assesses the appropriateness of the Site for the proposed use.

Site Location and Characteristics

Maxfield Research and Consulting, LLC completed a Site visit on August 10, 2016. The subject property, referred to as the Westview Park Apartments Site throughout this report, is situated along Marie Avenue East at its intersection with Kathleen Drive at 260 Marie Avenue in West St. Paul, Minnesota.

The 2.6-acre Site is comprised of two separate parcels. The 1.85-acre northern parcel is developed with a 27,000 square-foot vacant commercial building which was built in 1970 and was formerly used as a racquetball/fitness facility. The 0.77-acre southern parcel serves as a surface parking lot for the commercial building. The triangular-shaped Site is bounded by Marie Avenue on the northeast and Kathleen Drive on the south. The adjacent property to the west is an industrial facility owned and occupied by a light fixture manufacturer.

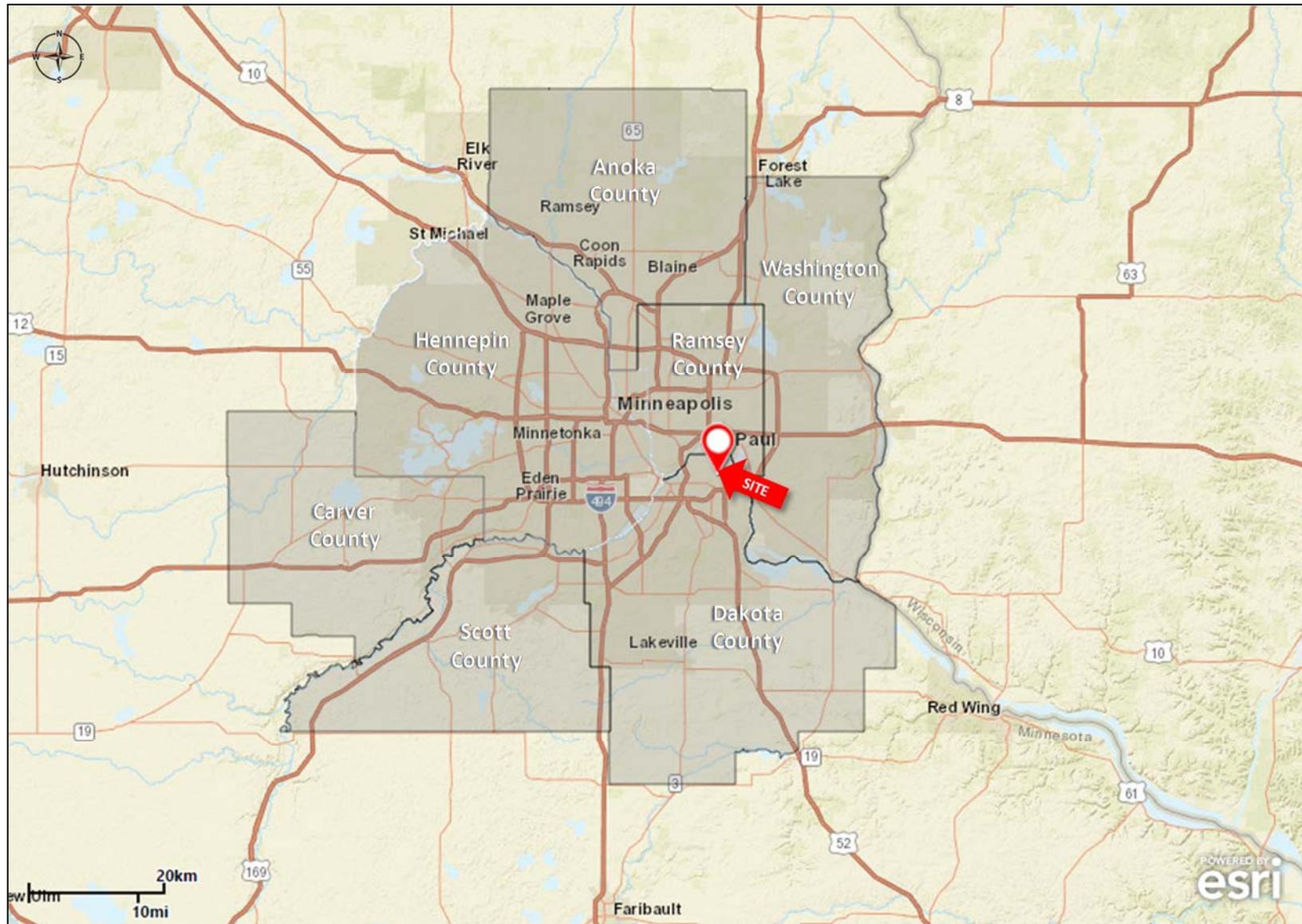
The subject property is relatively flat, with an elevation of about 990 feet in the southwest corner of the Site, sloping down to 980 feet along the northeast side of the Site, a decline of roughly ten feet over a distance of approximately 270 feet. The elevation of the Site declines about five feet, from 987 feet on the south side of the Site to 982 feet on the north.

West St. Paul is a community of 20,222 people (2015 estimate) located in the Twin Cities Metropolitan Area, which encompasses 13 counties and included about 3.5 million people in 2015. West St. Paul is located in the central portion of the Metro Area in Dakota County. Dakota County had an estimated population of 414,490 people in 2015.

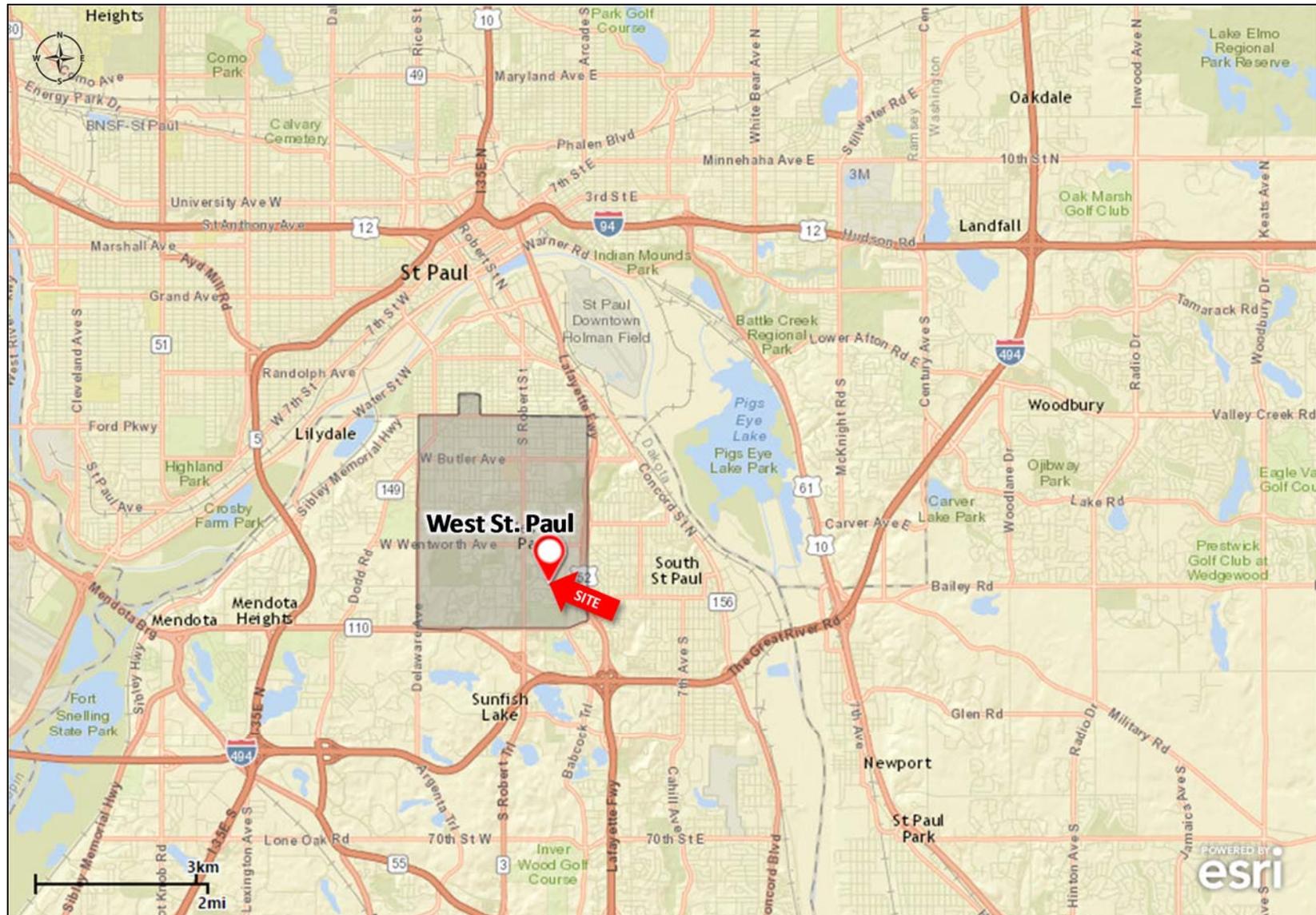
The map on the following page shows the location of the Site in the seven-county core of the Metro Area (estimated population of 3.0 million), which consists of the Counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington. The Cities of Sunfish Lake (2015 population of 507) and Inver Grove Heights (2015 population of 35,071) border West St. Paul on the south, while Mendota Heights (2015 population of 11,105) is situated west of West St. Paul. South St. Paul (2015 population of 20,146) borders West St. Paul on the east, and the City of Saint Paul (2015 population of 300,353) is located north of West St. Paul.

The maps and photos on the following pages display images of the Site and its location in the Metro Area.

Regional Location



Site Location



Aerial View of Development Site



**Site Photos
August 2016**



View of Site from Westview Park Apartments



Looking north across Site from Kathleen Drive



View of Site from the west



View of Site from Marie Avenue



On Site, looking south at Westview Park Apartments complex



Westview Park Apartments swimming pool and shared community space near the Site

**Photos of Surrounding Properties
August 2016**



Single-family neighborhood, west of Site



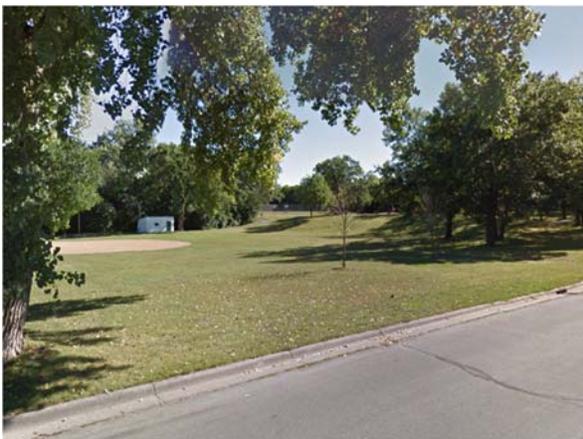
Industrial property, north of Site



Industrial building across Marie Avenue, east of Site



Industrial property adjacent to west side of subject property



Southview Park, south of Site along Westview Drive



SuperTarget located at the corner of Marie Avenue and Robert Street, west of Site

Surrounding Land Uses

The subject property is located off Marie Avenue, an east-west corridor connecting the Site to Robert Street on the west and Oakdale Avenue to the east. The Marie Avenue corridor is comprised of a mix of land uses, including multifamily residential, single-family residential, commercial, and industrial. Robert Street serves as the primary commercial corridor for the surrounding communities, and there are also several multifamily residential properties along the corridor west of the Site. Land uses along Oakdale Avenue are predominantly multifamily residential and industrial. Existing land uses directly adjacent to the Site are as follows:

- **North:** Industrial;
- **South:** Residential (Westview Park Apartments and single-family homes);
- **East:** Industrial;
- **West:** Industrial and single-family residential.

Access and Visibility

Access to the Site can be obtained off Marie Avenue and Kathleen Drive. Marie Avenue is considered a Major Collector, while Kathleen Drive is a local street. Collectors are designed to collect traffic from local roads and distribute that traffic onto higher order roadways (i.e. arterials). Robert Street is classified as a Minor Arterial. Minor Arterials offer connections between the metro center and regional business concentrations.

While the subject property is not located along a major highway, the Site's location facilitates convenient access to the Metro highway network utilizing Robert Street to connect to I-494 (roughly two miles to the south). Highway 52 can be accessed via either Thompson Avenue (approximately one mile northeast of the Site) or Mendota Road (one mile southeast of the Site). According to information provided by the Minnesota Department of Transportation, Marie Avenue receives roughly 5,200 vehicle trips per day while Robert Street experiences about 23,000 vehicle trips per day and Highway 52 receives approximately 53,000 vehicle trips per day. Due to the Site's location, the proposed development will be visible to traffic along Marie Avenue but not Robert Street or Highway 52.

The subject property has convenient access to public transportation as there is a bus stop located at the corner of Marie Avenue and Kathleen Drive which provides access to Metro Transit Routes 68 and 452. Route 452 is an express route extending from Mendota Heights to Downtown Minneapolis via Downtown Saint Paul. Route 68 extends from Inver Grove Heights to Roseville via Downtown Saint Paul. Additionally, Robert Street is served by Local Bus Route 75 which connects Inver Grove Heights and Mendota Heights to Downtown Saint Paul. The Robert Street corridor is also being considered for future light rail or bus rapid transit service, although plans are very preliminary and the timing, mode, and alignment are not known at this time.

Proximity to Shopping, Employment, Recreation and Services

Rental housing demand is influenced, in part, by proximity to other housing, employment, retail, entertainment, and other services. The Site is located near a mix of residential, commercial, and employment concentrations and is situated near entertainment and recreation uses.

Future residents of a general occupancy rental housing development on the subject property will have convenient access to retail goods and services from the Site via Marie Avenue and Robert Street. Major retailers in the area consist of SuperTarget, Lowe's, Cub Foods, The Home Depot, Aldi, Best Buy, Walmart Supercenter, Menards, and Kmart. There are also many dining options lining Robert Street, some of which include: Chipotle, Applebee's, Panera Bread, Culver's, Bakers Square, Pizza Hut, White Castle, Papa Murphy's, Panda Express, Rack Shack, Leann Chin, Dunhams' Food & Drink, Pho Saigon, Burger King, Arby's, Taco Bell, Subway, Jimmy John's, KFC, Granny Donuts, Carbone's Pizzeria, Pollo Campero, and Noodles & Company.

The Site is conveniently located near the River to River Greenway (formerly known as the North Urban Regional Trail), an east-west corridor extending from the Minnesota River Regional Greenway in Mendota Heights on the west to the Mississippi River Trail in South St. Paul on the east. Residents of the proposed apartment development could access the Greenway at the intersection of Oakdale Avenue and Wentworth Avenue, just two blocks north of the Site.

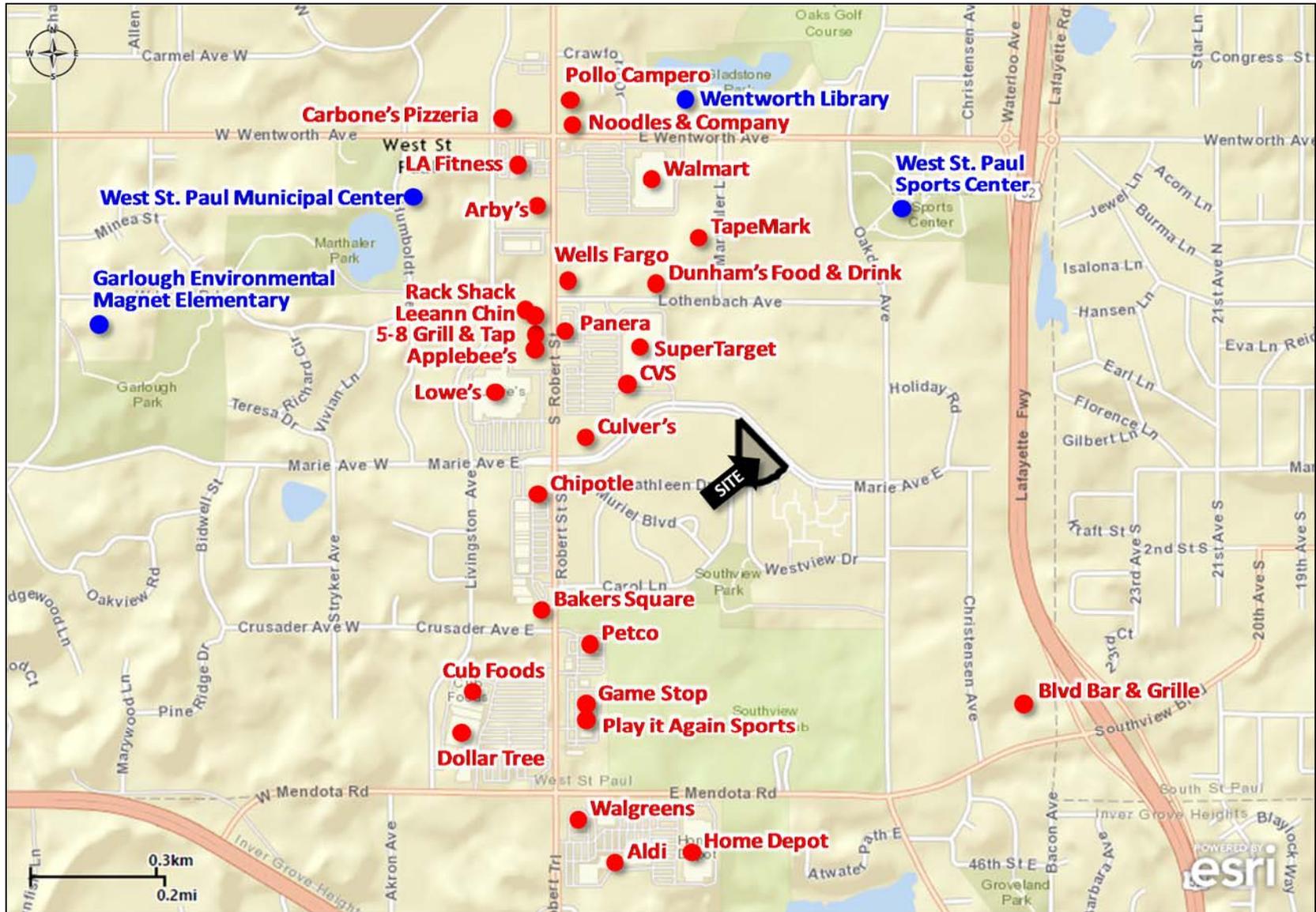
There are also several community parks and golf courses in the immediate area, including; Southview Country Club, Somerset Country Club, Thompson Oaks Golf Course, Mendakota Country Club, West St. Paul Sports Center, Southview Park, Garlough Park, Marthaler Park, Thompson County Park, and Kaposia Park. Additionally, Lilydale/Harriet Island Regional Park is located about five miles west of the Site.

Henry Sibley High School is located roughly two miles west of the subject property at the intersection of Marie Avenue and Delaware Avenue. Elementary schools in the area include Garlough Environmental Magnet school, Somerset Elementary, and Moreland Arts & Health Sciences Magnet school. Friendly Hills Middle School is situated roughly four miles southwest of the Site in Mendota Heights and the Heritage E-STEM Magnet Middle School is approximately three miles northwest of the Site in West St. Paul.

Several major employers are located in West St. Paul and the surrounding communities, including; 3M, Thomson Reuters, Blue Cross Blue Shield, United States Post Office, Ecolab, Prime Therapeutics, TapeMark, and the independent school districts in the area. Additionally, Downtown Saint Paul is less than a five-mile drive from the Site.

While not fully inclusive, the map on the following page highlights the location of neighborhood features and amenities including shopping, recreation, schools, and employers located in the area surrounding the subject property.

Major Services, Attractions, and Retail

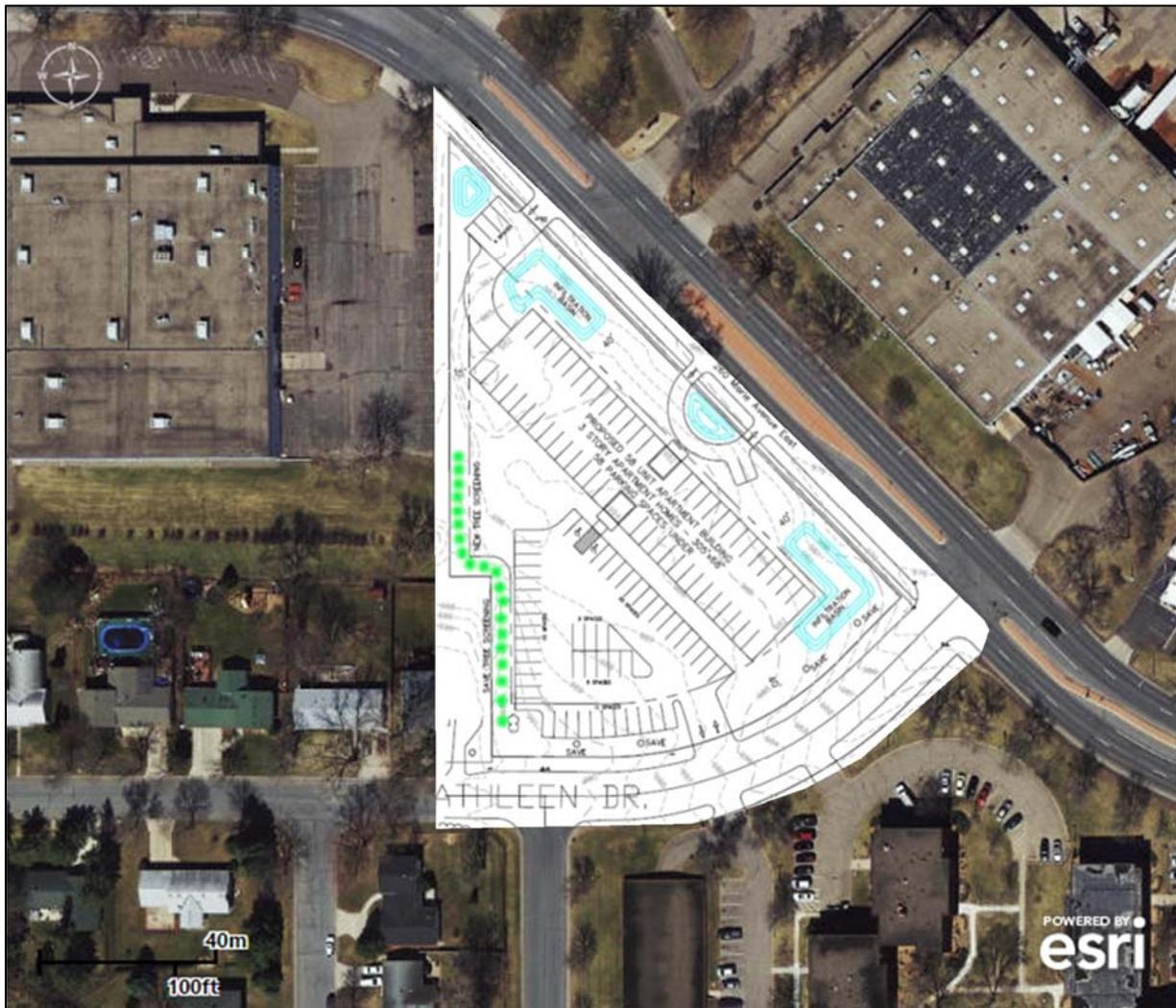


Development Concept

It is our understanding that the Client is considering a three-story building containing approximately 58 rental units. As depicted on the following site plan, the development will offer 58 underground parking spaces along with 54 surface stalls.

The existing Westview Park apartment complex contains a total of 298 rental units, all of which are currently occupied. Rental rates range from \$730 for a 690 square-foot one-bedroom unit to \$985 for a 992 square-foot two-bedroom unit. On a per square foot basis, the existing units have an average rent of \$1.04. Shared amenities at the existing complex, such as one of the swimming pools and the community room, will be made available to tenants at the new building.

Concept Site Plan



Appropriateness of Site for General Occupancy Rental Housing

Overall, it is our opinion that several factors support the Site as a quality location for a general occupancy rental housing development. Based on our analysis of the community orientation and layout of the Site, we identified several key characteristics that favor the development of general occupancy rental housing on the subject property.

- Adjacent and surrounding land uses are generally compatible with the proposed development, and the Site offers convenient access to the River to River Greenway.
- There are many recreational venues located in close proximity to the Site, notably Southview Park, Southview Country Club, Thompson Oaks Golf Course, and the West St. Paul Sports Center.
- Retail goods and services are readily available within walking distance of the Site along Robert Street.
- The subject property is located a reasonably short distance from the numerous restaurants along the Robert Street corridor, and the many dining and entertainment options located in Downtown Saint Paul are only a five-mile drive from the Site.
- Residents will have convenient access to bus transportation and the local highway network.
- The Site is situated near several major employers in West St. Paul, the surrounding communities, and Downtown Saint Paul.

Introduction

Demographic characteristics and trends are an important component in assessing housing needs in any given market area. This section of the report begins by delineating the draw area for rental housing on the subject property in West St. Paul, Minnesota, and examines the demographic and economic characteristics of this draw area as they relate to demand for rental housing. A review of these characteristics provides insight into demand for market rate general occupancy rental housing in the draw area.

Market Area Definition

The draw area or “Primary Market Area” for general occupancy rental housing on the subject property was determined based on geographic and man-made boundaries, commuting patterns, community orientation, places of employment, and our experience in housing feasibility.

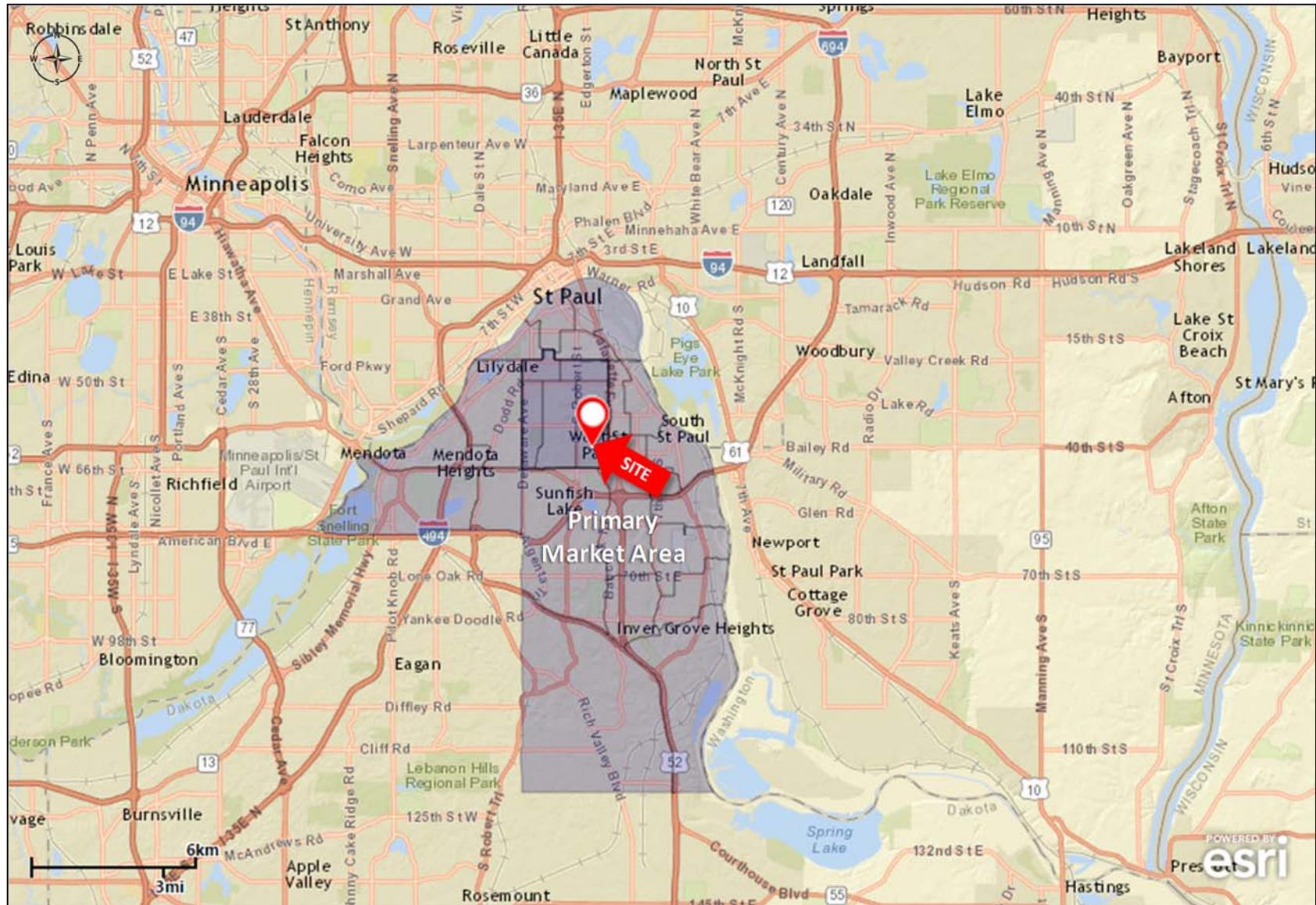
Considering these factors, we determined a Primary Market Area (PMA) composed of the following census tracts which comprise the Cities of West St. Paul, Inver Grove Heights, Lilydale, Mendota, Mendota Heights, South St. Paul, Sunfish Lake, and the West Side Neighborhood of Saint Paul.

2014 Census Tracts Primary Market Area			
601.01	603.01	605.06	606.06
601.02	603.02	605.07	361
601.03	604.01	605.08	370
601.04	604.02	605.09	371
601.05	605.02	606.03	372
602.01	605.03	606.04	
602.02	605.05	606.05	

We estimate that 80% of the demand for general occupancy rental housing on the Site will be generated from the PMA. The remaining portion of the demand (20%) will come from outside the defined PMA.

The map on the following page illustrates the Site’s location in the PMA.

Primary Market Area



Population and Household Growth Trends

Table 1 presents population and household growth trends in the Market Area from 2000 to 2025. The 2000 and 2010 population and household figures were obtained from the U.S. Census Bureau. The 2016 estimates and projections for 2020 and 2025 were based on estimates and forecasts made by the Metropolitan Council (the regional planning organization for the seven-county Metro Area) and ESRI (a nationally recognized demographics firm) and adjusted by Maxfield Research to reflect current year data.

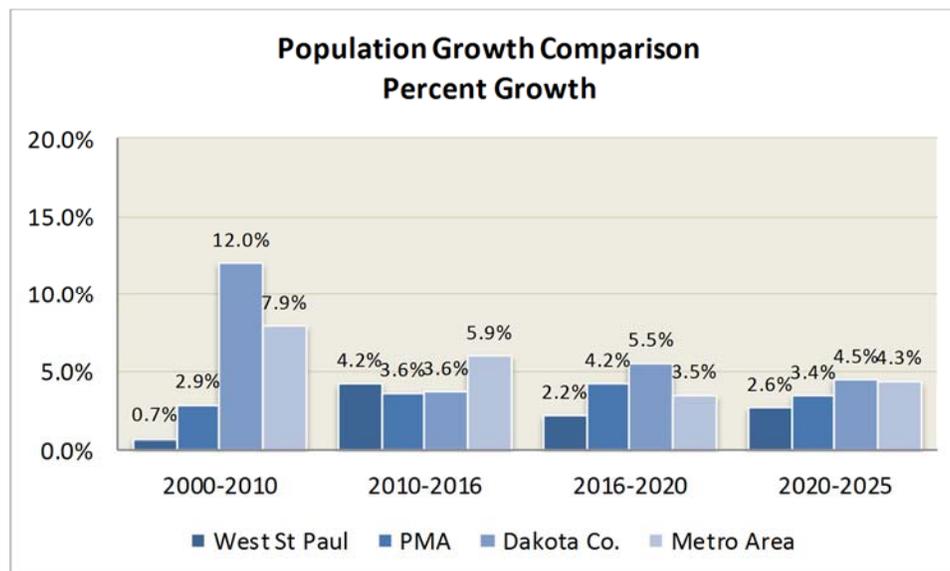
The following are key points from Table 1.

- As of 2010, the PMA contained 100,952 people and 40,481 households. Between 2000 and 2010, the population increased 2.9% (+2,809) while the number of households expanded 5.5% (+2,122). The proportional change in new households was high relative to population suggesting a trend toward shrinking household sizes in the PMA.
- In the PMA, the average household size decreased from 2.56 in 2000 to 2.49 in 2010, a decline of -2.7%. The trend toward declining household sizes indicates an aging household base and also reflects a general shift in demographic factors that favor smaller households, such as a declining proportion of married couple households with children.

TABLE 1 POPULATION AND HOUSEHOLD GROWTH TRENDS AND PROJECTIONS WESTVIEW PARK APARTMENTS MARKET AREA 2000 - 2025									
	Census		Estimate	Forecast		Change			
	2000	2010	2016	2020	2025	2000-2010		2010-2020	
						No.	Pct.	No.	Pct.
Population									
Primary Market Area	98,143	100,952	104,545	108,928	112,631	2,809	2.9%	7,976	7.9%
City of West St. Paul	19,405	19,540	20,362	20,800	21,350	135	0.7%	1,260	6.4%
<i>Rem. of PMA</i>	<i>78,738</i>	<i>81,412</i>	<i>84,183</i>	<i>88,128</i>	<i>91,281</i>	<i>2,674</i>	<i>3.4%</i>	<i>6,716</i>	<i>8.2%</i>
Dakota County	355,904	398,552	417,754	435,870	455,270	42,648	12.0%	37,318	9.4%
Twin Cities Metro Area*	2,642,062	2,849,567	3,037,606	3,123,430	3,259,245	207,505	7.9%	273,863	9.6%
Households									
Primary Market Area	38,359	40,481	42,244	44,765	46,581	2,122	5.5%	4,284	10.6%
City of West St. Paul	8,645	8,529	8,814	9,200	9,400	-116	-1.3%	671	7.9%
<i>Rem. of PMA</i>	<i>29,714</i>	<i>31,952</i>	<i>33,430</i>	<i>35,565</i>	<i>37,181</i>	<i>2,238</i>	<i>7.5%</i>	<i>3,613</i>	<i>11.3%</i>
Dakota County	131,151	152,060	160,655	170,940	179,460	20,909	15.9%	18,880	12.4%
Twin Cities Metro Area*	1,021,456	1,117,749	1,188,809	1,259,450	1,325,220	96,293	9.4%	141,701	12.7%
*Includes the 7-County Area (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties)									
Sources: US Census Bureau; Metropolitan Council; ESRI; Maxfield Research & Consulting, LLC									

DEMOGRAPHIC REVIEW

- From 2000 to 2010, West St. Paul's population increased 0.7% (+135 people) against household contraction of -1.3% (-116). Average household sizes increased slightly in West St. Paul in response to growth in the number of non-family roommate households, as many roommate households were formed in the second half of the decade in response to the economic recession.
- We estimate that the PMA's population increased 3.6% to 104,545 between 2010 and 2016, while the number of households increased 4.4% (+1,763). Between 2016 and 2025, the PMA is projected to add 8,086 people (+7.7%) and 4,337 households (+10.3%). The rate of growth in the PMA is expected to approximate the Twin Cities Metro Area (+7.3% population growth and +11.5% household growth by 2025).
- The pace of growth in the PMA has been escalating as rising transportation costs and shifting lifestyle preferences increase the desirability of living close to employment and entertainment.
- Growth in the City of West St. Paul is projected to be slightly slower than the remainder of the PMA, Dakota County, and the Metro Area, expanding by a total of 988 people (+4.9%) and 586 households (+6.6%) between 2016 and 2025.
- Much of the PMA is fully-developed. In order for the projected level of growth to be realized in West St. Paul and in the PMA, higher density residential buildings will need to be developed than what has historically occurred in the communities comprising the PMA.

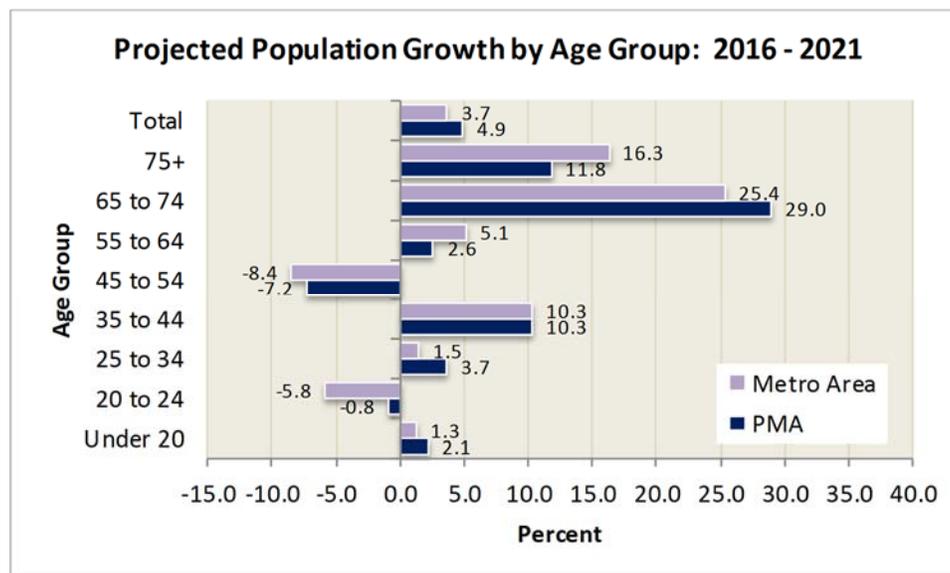


Age Distribution

The age distribution of a community’s population helps in assessing the type of housing needed. For example, younger and older people are more attracted to higher density housing located near urban services and entertainment while middle-aged people (particularly those with children) traditionally prefer lower-density single-family homes.

Table 2 presents the age distribution of the Market Area population from 2000 to 2021. Information from 2000 and 2010 is sourced from the U.S. Census. The 2016 estimates and projections for 2021 were calculated by Maxfield Research based on information from ESRI, a reputable national demographics firm. The following are key trends about the age distribution of the Market Area’s population.

- In 2010, the largest adult cohort by age in the PMA was 45 to 54, totaling 15,698 people (15.5% of the total population), followed by the 25 to 34 age group with 13,599 people (13.1%). We estimate that there are now 14,244 people in the 45 to 54 age group and 13,695 people in the 25 to 34 age group. The 45 to 54 cohort was also the largest age group in the Twin Cities Metro Area in 2010, representing 15.5% of the population.



- The most rapid growth is expected to occur among older adults in the Market Area. Aging of baby boomers led to an increase of 4,491 people (+57%) in the 55 to 64 population in the PMA between 2000 and 2010. As this group ages, all cohorts age 55 or greater are expected to experience increases in the next several years, particularly the 65 to 74 age group which is projected to grow 29% in the PMA.
- The Market Area is expected to see a decline in the middle age cohorts between 2016 and 2021. The 45 to 54 age group is projected to decline -7.2% in the PMA and -8.4% in the Metro Area.

DEMOGRAPHIC REVIEW

- The loss projected for the middle age population is a result of the comparatively small number of people who will move into this age group between 2016 and 2021, a phenomenon known as the “baby bust.” The “baby bust” is often referred to the generation of children born between 1965 and 1980, an era when the United States birthrate dropped sharply.
- Although younger age groups have traditionally been drawn to rental housing, older adults between the ages of 45 and 64 are exhibiting a greater preference for rental housing due to shifting lifestyles. While the 45 to 54 age group is projected to contract over the next five years, the 55 to 64 cohort is projected to grow 2.6% in the PMA, adding 370 people.

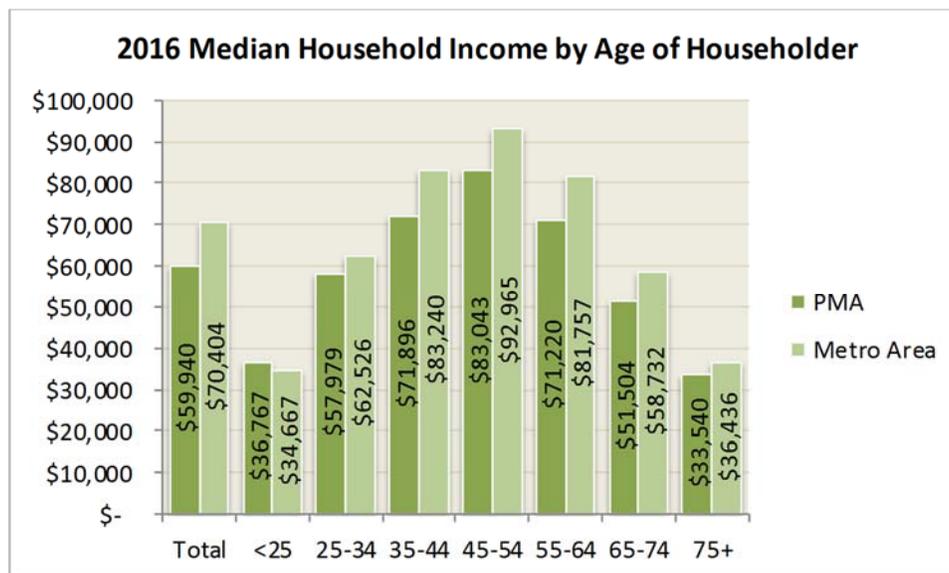
Age	Census		Estimate	Projection	Change			
	2000	2010	2016	2021	2000-2010		2016-2021	
					No.	Pct.	No.	Pct.
Primary Market Area								
Under-20	28,322	26,973	26,897	27,475	-1,349	-4.8	578	2.1
20 to 24	6,180	5,990	6,347	6,293	-190	-3.1	-53	-0.8
25 to 34	13,638	13,599	13,695	14,196	-39	-0.3	500	3.7
35 to 44	16,448	12,753	12,783	14,100	-3,695	-22.5	1,318	10.3
45 to 54	13,375	15,698	14,244	13,215	2,323	17.4	-1,028	-7.2
55 to 64	7,883	12,374	14,329	14,699	4,491	57.0	370	2.6
65 to 74	6,124	6,486	8,856	11,422	362	5.9	2,566	29.0
75+	6,173	7,079	7,394	8,268	906	14.7	874	11.8
Total	98,143	100,952	104,545	109,669	2,809	2.9	5,124	4.9
Twin Cities Metro Area								
Under-20	768,030	774,287	793,959	804,082	6,257	0.8	10,123	1.3
20 to 24	173,732	190,135	210,245	198,067	16,403	9.4	-12,178	-5.8
25 to 34	411,156	420,311	436,064	442,432	9,155	2.2	6,368	1.5
35 to 44	469,325	391,324	397,745	438,826	-78,001	-16.6	41,080	10.3
45 to 54	363,593	440,753	428,356	392,260	77,160	21.2	-36,097	-8.4
55 to 64	200,981	326,007	388,685	408,669	125,026	62.2	19,984	5.1
65 to 74	130,615	163,425	224,717	281,696	32,810	25.1	56,979	25.4
75+	124,630	143,325	157,833	183,553	18,695	15.0	25,720	16.3
Total	2,642,062	2,849,567	3,037,606	3,149,586	207,505	7.9	111,980	3.7
Sources: U.S. Census Bureau; ESRI; Maxfield Research & Consulting, LLC								

- The younger age groups have traditionally been drawn to rental housing and continue to exhibit the highest proportions of renters in the Twin Cities. In the PMA, the 25 to 34 age population is expected to increase 3.7% (+500) between 2016 and 2021. The 20 to 24 age group, however, is projected to contract slightly (-0.8%) by 2021. The PMA is expected to experience substantial growth in the age 35 to 44 cohort, adding 1,318 people (+10.3%) between 2016 and 2021, as the peak of the “echo boom” moves into age group.

Household Income

Household income data is important when considering the ability of households to pay different rent levels. In general, housing costs of up to 30% of income are considered affordable by the Department of Housing and Urban Development (HUD). Table 3 presents data on household income by age of householder for the Primary Market Area in 2016 and 2021. The data is estimated by ESRI and adjusted by Maxfield Research to reflect the most current local household estimates and projections. The following are key points.

- In 2016, the median household income was estimated to be \$59,940 in the PMA, lower than \$70,404 in the Twin Cities Metro Area. Median incomes are expected to increase 9.4% over the next five years to \$65,576 in the PMA compared to 13.6% growth in the Metro Area. The average annual increase between 2016 and 2021 in the PMA (+1.9%) will be slightly lower than the historical annual inflation rate of 2.3% over the past ten years.
- As households age through the lifecycle, household incomes tend to peak in their late 40s and early 50s. This trend is evident in the Market Area as the age 45 to 54 cohort has the highest estimated income at \$83,043 in the PMA and \$92,965 in the Metro Area.



- Rental housing often targets younger renter households. The median household income in the PMA is \$36,767 for the under-25 age group and \$57,979 for the 25 to 34 age group. Households earning the median income for these cohorts could afford monthly housing costs estimated at \$919 and \$1,449, respectively. Households in the 35 to 44 age group that may delay buying a home could afford a \$1,797 monthly rent, based on the median household income of \$71,896.
- Based on average pricing of \$1,311 for one-bedroom units in the competitive set of newer rental properties in and near the PMA, a household will need to have an annual income of

DEMOGRAPHIC REVIEW

roughly \$52,400 or greater to not exceed 30% of its monthly income on housing costs. In 2016, approximately 24,322 PMA households (58% of the total) are estimated to have had incomes of at least \$52,400. By 2021, total income-qualified households are projected to increase to 25,739 households (+5.8%) after accounting for inflation.

	Age of Householder							
	Total	<25	25-34	35-44	45-54	55-64	65 -74	75+
2016								
Less than \$15,000	3,851	215	533	467	473	827	502	835
\$15,000 to \$24,999	3,475	217	439	349	331	509	656	974
\$25,000 to \$34,999	3,945	233	597	557	525	585	644	804
\$35,000 to \$49,999	5,865	266	991	920	774	970	927	1,015
\$50,000 to \$74,999	8,049	266	1,500	1,305	1,476	1,610	1,146	746
\$75,000 to \$99,999	5,163	86	853	955	1,220	1,224	580	245
\$100,000 to \$199,999	9,154	118	1,324	1,953	2,474	2,135	838	311
\$200,000 or more	2,741	15	154	457	838	788	374	116
Total	42,244	1,416	6,392	6,962	8,112	8,648	5,667	5,047
Median Income	\$59,940	\$36,767	\$57,979	\$71,896	\$83,043	\$71,220	\$51,504	\$33,540
2021								
Less than \$15,000	4,346	264	604	519	471	812	702	975
\$15,000 to \$24,999	3,553	218	423	336	269	480	785	1,042
\$25,000 to \$34,999	3,711	212	552	499	404	515	724	804
\$35,000 to \$49,999	6,505	318	1,060	990	732	1,003	1,222	1,181
\$50,000 to \$74,999	6,373	217	1,151	1,062	974	1,214	1,110	645
\$75,000 to \$99,999	6,085	103	1,011	1,165	1,254	1,356	861	335
\$100,000 to \$199,999	11,248	141	1,623	2,518	2,620	2,576	1,300	469
\$200,000 or more	3,307	16	197	590	825	895	588	196
Total	45,128	1,490	6,621	7,679	7,550	8,850	7,292	5,646
Median Income	\$65,576	\$36,649	\$62,284	\$82,616	\$91,887	\$80,911	\$53,514	\$35,017
Change 2016 - 2021								
Less than \$15,000	495	49	71	53	-2	-16	200	140
\$15,000 to \$24,999	78	2	-16	-14	-62	-29	129	68
\$25,000 to \$34,999	-235	-21	-45	-58	-121	-70	80	0
\$35,000 to \$49,999	640	51	68	70	-42	33	295	166
\$50,000 to \$74,999	-1,676	-49	-349	-243	-502	-396	-36	-101
\$75,000 to \$99,999	922	17	158	210	34	132	281	90
\$100,000 to \$199,999	2,094	23	299	565	146	441	462	158
\$200,000 or more	566	1	43	133	-13	107	214	80
Total	2,884	74	229	717	-562	202	1,625	599
Median Income	\$5,636	-\$118	\$4,305	\$10,720	\$8,844	\$9,691	\$2,010	\$1,477

Sources: ESRI; US Census Bureau; Maxfield Research & Consulting, LLC

- Households under the age of 35 are most likely to rent their housing, although there is a growing group of households over age 35 that are choosing to rent for lifestyle reasons. In 2016, 33% of households age 24 and below and 58% of households age 25 to 34 in the PMA are estimated to have had incomes of at least \$52,400. Because younger householders are often willing to live with roommates, the percent income-qualified is likely slightly higher.

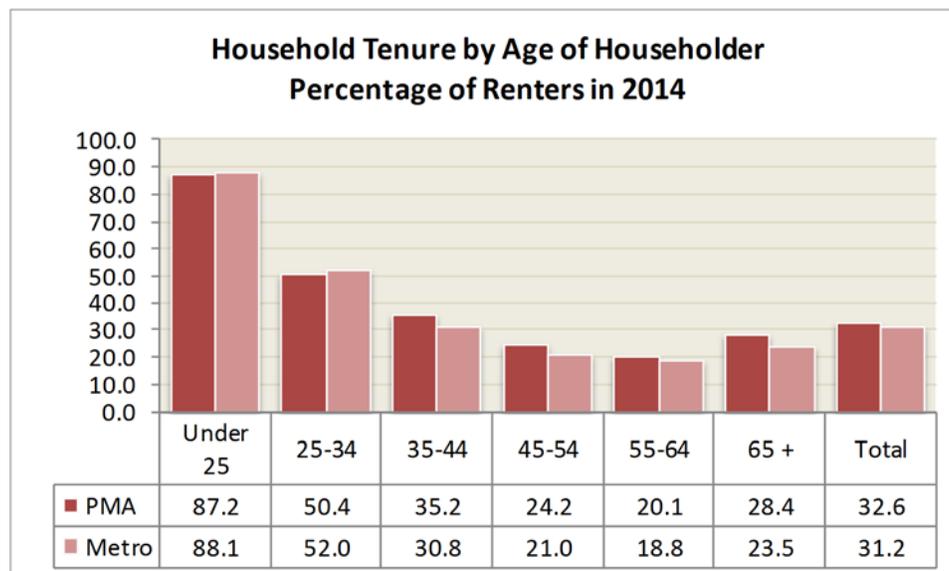
DEMOGRAPHIC REVIEW

- Between 2016 and 2021, the number of PMA households in the 25 to 34 age cohort is expected to increase by approximately 67 income-qualified households (+1.8%). The number of income-qualified households in the age 24 or younger cohort is projected to contract slightly during this time period.
- Income-qualified households in the age 35 to 44 cohort are projected to increase 13% (+581) while the 45 to 54 age cohort experiences a -7% decline (-386 households). The number of income-qualified households in the 55 to 64 age group is expected to grow 4% (+199) while a 29% jump (+811) in the 65 to 74 cohort is anticipated.

Household Tenure

Table 4 on the following page shows household tenure by age of householder for the PMA and the Metro Area in 2010 and 2014. Data for 2010 is obtained from the Decennial Census, while the 2014 data is an average estimate from the 2010-2014 American Community Survey. The table shows the number and percent of renter- and owner-occupied housing units in the Market Area. All data excludes unoccupied units and group quarters such as dormitories and nursing homes. Household tenure information is important in understanding households' preferences to rent or own their housing. In addition to preferences, factors that contribute to these proportions include mortgage interest rates, household age, and lifestyle considerations, among others.

- In the PMA, 32.6% of all households rented in 2014, giving it a rental rate that was slightly higher than the Metro Area (31.2% of households rented in 2014).



- Within the prime ownership years (35 to 64), 74% of households in the PMA owned in 2014, slightly lower than 77% in the Metro Area.

**TABLE 4
TENURE BY AGE OF HOUSEHOLDER
WESTVIEW PARK APARTMENTS MARKET AREA
2010 & 2014**

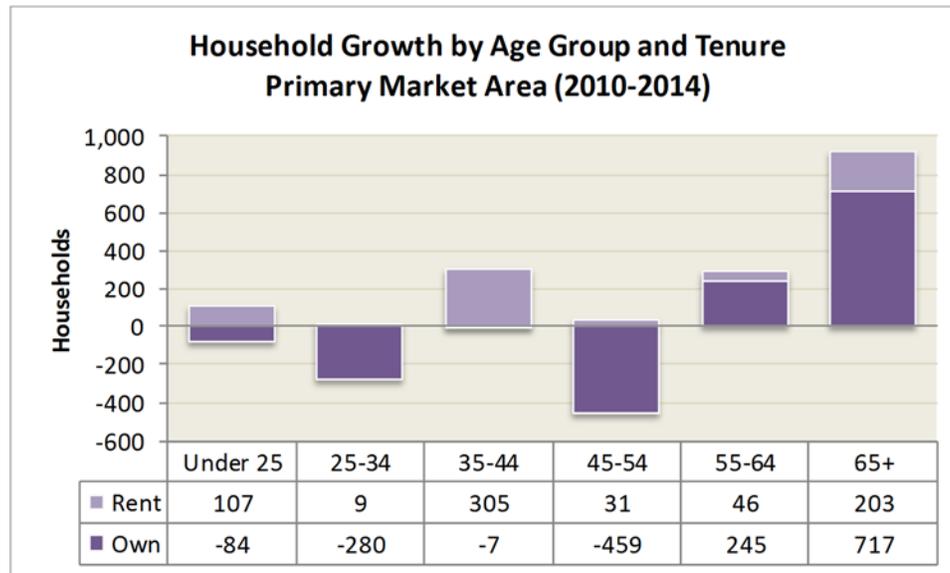
Age		Primary Market Area				Twin Cities Metro Area			
		2010		2014		2010		2014	
		No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under 25	Own	277	18.7	193	12.8	7,947	16.0	5,229	11.9
	Rent	1,205	81.3	1,312	87.2	41,789	84.0	38,781	88.1
	Total	1,482	100.0	1,505	100.0	49,736	100.0	44,010	100.0
25-34	Own	3,331	51.8	3,051	49.6	102,236	50.6	100,814	48.0
	Rent	3,095	48.2	3,104	50.4	99,716	49.4	109,250	52.0
	Total	6,426	100.0	6,155	100.0	201,952	100.0	210,064	100.0
35-44	Own	4,715	67.7	4,708	64.8	154,678	72.3	147,330	69.2
	Rent	2,253	32.3	2,558	35.2	59,303	27.7	65,508	30.8
	Total	6,968	100.0	7,266	100.0	213,981	100.0	212,838	100.0
45-54	Own	6,974	77.3	6,515	75.8	202,404	79.8	195,071	79.0
	Rent	2,053	22.7	2,084	24.2	51,379	20.2	51,966	21.0
	Total	9,027	100.0	8,599	100.0	253,783	100.0	247,037	100.0
55-64	Own	6,018	79.7	6,263	79.9	162,595	82.6	171,096	81.2
	Rent	1,534	20.3	1,580	20.1	34,355	17.4	39,538	18.8
	Total	7,552	100.0	7,843	100.0	196,950	100.0	210,634	100.0
65 +	Own	6,401	70.9	7,118	71.6	152,615	75.8	164,505	76.5
	Rent	2,625	29.1	2,828	28.4	48,732	24.2	50,527	23.5
	Total	9,026	100.0	9,946	100.0	201,347	100.0	215,032	100.0
TOTAL	Own	27,716	68.5	27,848	67.4	782,475	70.0	784,045	68.8
	Rent	12,765	31.5	13,466	32.6	335,274	30.0	355,570	31.2
	Total	40,481	100.0	41,314	100.0	1,117,749	100.0	1,139,615	100.0

Sources: U.S. Census Bureau; Maxfield Research & Consulting, LLC

- Typically, the youngest and oldest households rent their housing in greater proportions than middle-age households. This pattern is apparent among the younger Market Area households as 57.7% of the population under the age of 35 rents in the PMA while 58.3% of Metro Area householders under the age of 35 rent.
- Over 87% of households under age 25 rented in the PMA in 2014 while 50% of households age 25 to 34 rented. These percentages are comparable to the Metro Area which had 88% of households under age 25 and 52% of age 25 to 34 households renting in 2014.
- The percentage of PMA renter households increased for most age cohorts between 2010 and 2014 as the total number of renter households residing in the PMA grew by an estimated 701 households, an increase of 5.5%. By comparison, the number of owner-occupied households in the PMA increased 0.5% (+132 households) between 2010 and 2014.

DEMOGRAPHIC REVIEW

- As depicted in the following chart, the largest overall increase occurred in the 65 and older age group in the PMA, as 203 renter households were added (+8%) and the number of owner households expanded 11% (+717 households).



- Substantial renter household growth occurred in the 35 to 44 cohort with the addition of 305 renter households (+14%). Notable renter household growth also occurred in the under 25 age group, adding 107 renter households (+9%).

Household Type

Table 5 shows household type trends in the Primary Market Area compared to the Metro Area in 2010 and 2014. Data for 2010 is obtained from the Decennial Census, while the 2014 data is an average estimate from the 2010-2014 American Community Survey. Key points from Table 5 are summarized on the following pages.

Shifting household types can stimulate demand for a variety of housing products. Married couple families typically generate demand for single-family detached ownership housing, while married couples without children often desire multifamily housing for convenience reasons. Married couple families without children are generally made up of younger couples that have not had children (and may not have children) and older couples with adult children that have moved out of the home. Other family households, defined as a male or female householder with no spouse present (typically single-parent households), often require affordable housing. Changes in non-family households (households living alone and households composed of unrelated roommates) will drive demand for rental housing.

DEMOGRAPHIC REVIEW

- In 2014, non-family households comprised 44.0% of all households in West St. Paul and 36.1% of all households in the PMA compared to 36.5% of all Metro Area households. Between 2010 and 2014, non-family households expanded 1.1% (+163 households) in the PMA, compared to 1.3% growth in the Metro Area. An increase in non-family households indicates a shift in housing needs that favors rental development. However, households composed of unrelated roommates can also be unmarried couples that may choose to own and can often afford to own if they are double-income.
- The number of households with one resident increased 1.5% (+177 households) in the PMA between 2010 and 2014, while the number of roommate households held steady after expanding last decade due to the recession. In the Metro Area, single-person households climbed 3.5% and the number of roommate households declined -4.8%.

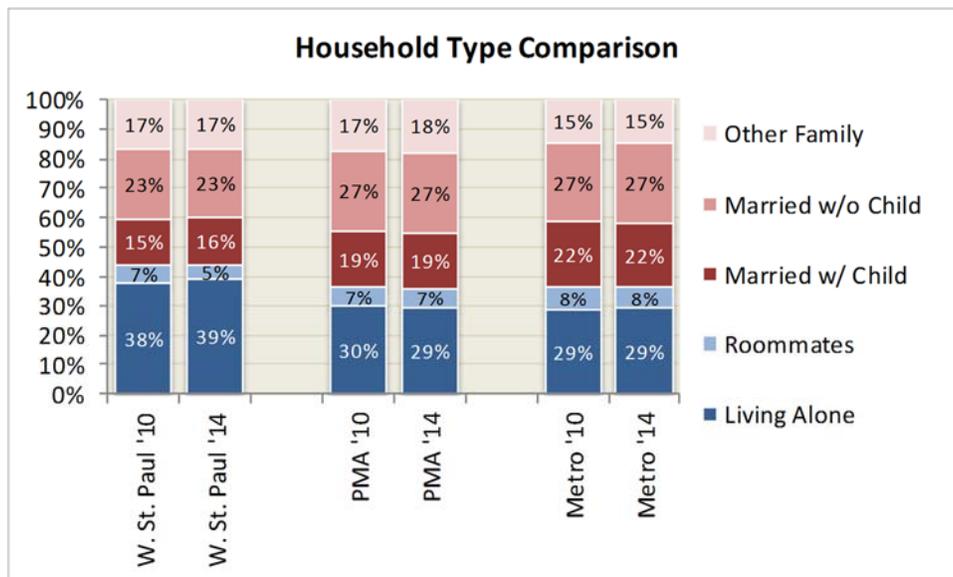
	West St. Paul		Primary Market Area		Twin Cities Metro Area	
	2010	2014	2010	2014	2010	2014
Total Households	8,529	8,508	40,481	41,314	1,117,749	1,139,615
Non-Family Households	3,778	3,741	14,770	14,933	410,253	415,662
Living Alone	3,208	3,344	11,998	12,175	319,030	328,830
Other (Roommates)	570	397	2,772	2,758	91,223	86,832
Family Households	4,751	4,767	25,711	26,381	707,496	723,953
Married w/ Children	1,312	1,403	7,745	7,720	244,687	247,025
Married w/o Children	1,993	1,937	10,969	11,221	298,723	310,565
Other Family	1,446	1,427	6,997	7,440	164,086	166,363
Change (2010 -2014)						
	No.	Pct.	No.	Pct.	No.	Pct.
Total Households	-21	-0.2%	833	2.1%	21,866	2.0%
Non-Family Households	-37	-1.0%	163	1.1%	5,409	1.3%
Living Alone	136	4.2%	177	1.5%	9,800	3.1%
Other (Roommates)	-173	-30.4%	-14	-0.5%	-4,391	-4.8%
Family Households	16	0.3%	670	2.6%	16,457	2.3%
Married w/ Children	91	6.9%	-25	-0.3%	2,338	1.0%
Married w/o Children	-56	-2.8%	252	2.3%	11,842	4.0%
Other Family	-19	-1.3%	443	6.3%	2277	1.4%

Sources: U.S. Census; ESRI; Maxfield Research & Consulting, LLC

- Family households also experienced modest expansion between 2010 and 2014 in the PMA, increasing 2.6% (+670 households), while the Metro Area experienced a 2.3% increase in family households between 2010 and 2014.

DEMOGRAPHIC REVIEW

- The PMA experienced a -0.3% decline in married couples with children, while the number of married couples without children expanded 2.3% (+252 households). In West St. Paul, married couples with children households increased 6.9% while married couple households without children contracted -2.8%. Other family households increased 2.9% (+322 households) between 2010 and 2014 in the PMA while declining -1.3% in West St. Paul.
- Single-person households were the most common household type in the PMA in 2014 (29.5% of all households), followed by married couples without children (27.2% of all households). Single-person households were also the most common household type in the Metro Area (28.9%).
- As depicted in the following chart, the composition of household types in West St. Paul and the PMA is similar to the Metro Area, although West St. Paul has a higher proportion of single-person households (39.3% in West St. Paul compared to 29.5% in the PMA and 28.9% in the Metro Area). The Metro Area has notably higher proportions of married couples (49% of all Metro Area households compared to 46% in the PMA and 39% in West St. Paul).



Employment Trends

Employment characteristics are an important component in assessing housing needs in any given market area. These trends are important to consider since employment growth often fuels household growth. Typically, households prefer to live near work for convenience, which is a primary factor in choosing a housing location. This preference is particularly true among renters. Young adults entering the workforce, a primary target market for rental housing, often place great value on living near employment, education, shopping, and entertainment.

Employment Growth

Table 6 on the following page shows employment growth trends and projections from 2000 to 2025 based on the most recent information available from the Minnesota Department of Employment and Economic Development (DEED) and the Metropolitan Council. Data for 2000, 2005, 2010, and 2015 represents the annual average employment for that year. Employment projections for 2020 and 2025 are based on data provided by the Metropolitan Council.

Although employment growth often parallels population growth, it is tied more strongly to transportation access. Cities with interstate access and intra- and inter-metro transportation connections attract more businesses and post higher employment gains. Employment growth can fuel household and population growth as people generally desire to live near their work.

- In 2000, there were 8,725 jobs in West St. Paul and 35,621 jobs in the Remainder of the PMA. Due, in large part, to the economic recession, employment in West St. Paul contracted -13.4% (-1,169 jobs) by 2010, while the number of jobs in the Remainder of the PMA expanded 13.0% (+4,622 jobs). By comparison, the Metro Area experienced a -4.0% decline in employment during the decade.
- Data from the Quarterly Census of Employment and Wages indicates that employment in West St. Paul expanded 3.2% (+245 jobs) between 2010 and 2015, while the Remainder of the PMA contracted by -381 jobs (-0.9%). During that time, the number of jobs increased 8.8% in the Metro Area.
- Solid job growth is expected throughout the Market Area between 2010 and 2020. The PMA is projected to experience a 13.2% gain during the decade (+6,304 jobs), while Metro Area employment grows 16.5%. Within the PMA, West St. Paul is expected to add 844 jobs (+11.2%), and 13.6% growth (+5,460 jobs) is projected in the Remainder of the PMA.
- Within the PMA, job growth will likely be focused along the major transportation corridors in the area; primarily I-494, I-35E, Highway 52, and South Robert Street where there are large concentrations of existing businesses and convenient freeway access.
- Typically, households prefer to live near work for convenience. This preference is particularly true among renters. Young adults entering the workforce, a primary target market for rental housing, often place great value on living near employment, education, shopping, and entertainment.

Annual Employment	City of West St. Paul	Primary Market Area*	Remainder of PMA	Twin Cities Metro Area				
2000	8,725	44,346	35,621	1,600,741				
2005	8,411	49,531	41,120	1,593,692				
2010	7,556	47,799	40,243	1,537,041				
2015	7,801	47,663	39,862	1,671,595				
2020 Forecast	8,400	54,103	45,703	1,791,080				
2025 Forecast	8,600	55,736	47,136	1,852,065				
Change	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
2000 - 2010	-1,169	-13.4%	3,453	7.8%	4,622	13.0%	-63,700	-4.0%
2010 - 2015	245	3.2%	-136	-0.3%	-381	-0.9%	134,554	8.8%
2015 - 2020	599	7.7%	6,440	13.5%	5,841	14.7%	119,485	7.1%

*PMA includes West St. Paul, Inver Grove Heights, Lilydale, Mendota, Mendota Heights, South St. Paul, Sunfish Lake, and the West Side Neighborhood of St. Paul (55107 ZIP Code)

Sources: MN DEED; Metropolitan Council; Maxfield Research & Consulting, LLC

Resident Employment

Table 7 shows information on the resident labor force and employment in Dakota County compared to the Twin Cities, Minnesota, and the United States. The data is sourced from the Minnesota Department of Employment and Economic Development (DEED). Resident employment data reveals the work force and number of employed people living in the area. It is important to note that not all of these individuals necessarily work in the area. The following points summarize key trends that will impact the demand potential for rental housing in the PMA.

- At 3.6%, the June 2016 unemployment rate in Dakota County is slightly lower than the Twin Cities (3.7%) and Minnesota (4.0%), but it is substantially lower than the 5.1% unemployment rate across the United States. The unemployment rate increased modestly between June 2015 and June 2016, climbing 0.1% in Dakota County as well as the Metro Area.

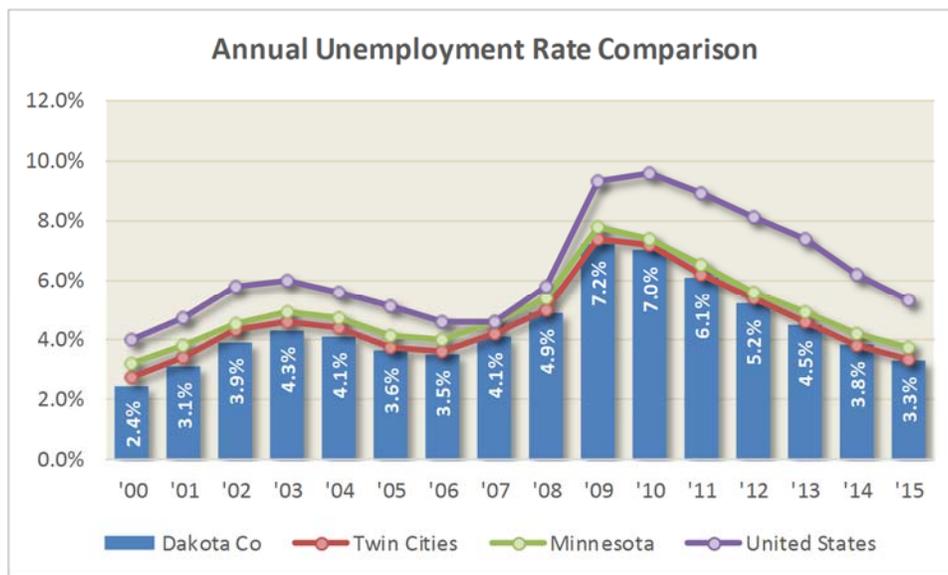
	June 2016			June 2015		
	Labor Force	Employment	UE Rate	Labor Force	Employment	UE Rate
Dakota County	237,839	229,231	3.6%	235,828	227,616	3.5%
Twin Cities	1,684,527	1,622,290	3.7%	1,669,868	1,610,148	3.6%
Minnesota	3,049,853	2,928,501	4.0%	3,037,344	2,921,799	3.8%
United States	160,135,000	151,990,000	5.1%	158,283,000	149,645,000	5.5%

Data not seasonally adjusted

Sources: MN DEED; Maxfield Research & Consulting, LLC

DEMOGRAPHIC REVIEW

- It appears that hiring is keeping pace with labor force growth throughout much of the Market Area, keeping the unemployment rate stable. Dakota County's labor force expanded 0.9% (+2,011) between June 2015 and June 2016, while the number of employed residents increased 07% (+1,615). Resident employment in the Twin Cities increased 0.8% against 0.9% labor force growth over the year. Because labor force growth outpaced resident employment growth, the unemployment rate increased slightly in the Market Area.
- The following chart illustrates how unemployment in the Market Area has mirrored national trends but has remained well below the national rate throughout much of the past decade. Dakota County's unemployment rate has consistently tracked slightly lower than unemployment trends in the Twin Cities and the State of Minnesota.



Industry Employment and Wage Data

Table 8 displays information on the employment and wage situation in West St. Paul compared to the PMA and the Twin Cities Metro Area. The Quarterly Census of Employment and Wages (QCEW) data is sourced from DEED for 2014 and 2015, the most recent data available. Employment data for the PMA includes the Cities of West St. Paul, Inver Grove Heights, Lilydale, Mendota, Mendota heights, South St. Paul, Sunfish Lake, and the West Side Neighborhood of Saint Paul.

All establishments covered under the Unemployment Insurance (UI) Program are required to report wage and employment statistics to DEED quarterly. Certain industries in the table may not display any information which means that there is either no reported economic activity for that industry or the data has been suppressed to protect the confidentiality of cooperating employers. This generally occurs when there are too few employers or one employer comprises too much of the employment in that geography.

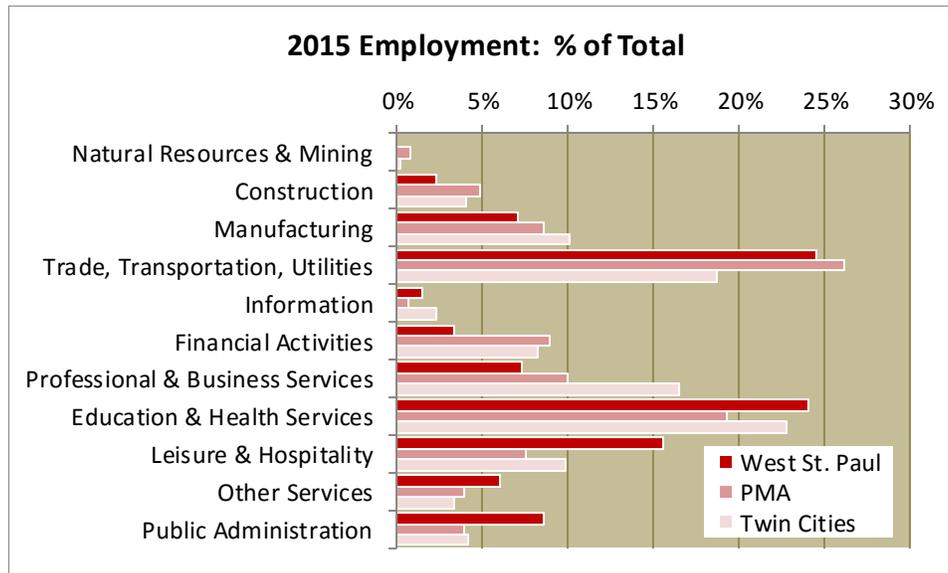
DEMOGRAPHIC REVIEW

Industry	2014			2015			Change 2014 - 2015			
	Establish- ments	Employ- ment	Weekly Wage	Establish- ments	Employ- ment	Weekly Wage	Employment		Wage	
							#	%	#	%
WEST ST. PAUL										
Total, All Industries	519	7,822	\$613	506	7,801	\$650	-21	-0.3%	\$37	6.0%
Natural Resources & Mining	--	--	--	--	--	--	--	--	--	--
Construction	23	177	\$921	26	174	\$1,007	-3	-1.7%	\$86	9.3%
Manufacturing	23	516	\$926	21	545	\$978	29	5.6%	\$52	5.6%
Trade, Transportation, Utilities	130	2,006	\$523	121	1,911	\$554	-95	-4.7%	\$31	5.9%
Information	12	122	\$1,026	12	117	\$1,126	-5	-4.1%	\$100	9.7%
Financial Activities	60	275	\$757	55	258	\$848	-17	-6.2%	\$91	12.0%
Professional & Business Services	67	574	\$534	70	568	\$590	-6	-1.0%	\$56	10.5%
Education & Health Services	78	1,834	\$643	77	1,875	\$671	41	2.2%	\$28	4.4%
Leisure & Hospitality	61	1,178	\$291	59	1,212	\$311	34	2.9%	\$20	6.9%
Other Services	63	476	\$454	64	470	\$452	-6	-1.3%	(\$2)	-0.4%
Public Administration	3	662	\$1,106	3	670	\$1,153	8	1.2%	\$47	4.2%
PRIMARY MARKET AREA*										
Total, All Industries	2,364	46,711	\$960	2,327	47,663	\$1,005	952	2.0%	\$45	4.7%
Natural Resources & Mining	6	408	\$455	6	344	\$519	-64	-15.7%	\$64	14.1%
Construction	174	2,143	\$1,319	175	2,281	\$1,379	138	6.4%	\$59	4.5%
Manufacturing	135	4,107	\$1,083	134	4,096	\$1,105	-11	-0.3%	\$22	2.0%
Trade, Transportation, Utilities	526	11,832	\$1,041	511	12,426	\$1,103	594	5.0%	\$62	6.0%
Information	26	349	\$965	26	319	\$1,013	-30	-8.6%	\$47	4.9%
Financial Activities	235	4,352	\$1,118	229	4,239	\$1,182	-113	-2.6%	\$64	5.7%
Professional & Business Services	437	4,866	\$1,172	438	4,741	\$1,250	-125	-2.6%	\$78	6.7%
Education & Health Services	294	8,595	\$813	297	9,171	\$841	576	6.7%	\$28	3.5%
Leisure & Hospitality	177	3,238	\$311	186	3,586	\$330	348	10.7%	\$19	6.0%
Other Services	220	1,874	\$561	212	1,845	\$596	-29	-1.5%	\$35	6.2%
Public Administration	33	1,842	\$1,026	31	1,869	\$1,063	27	1.5%	\$36	3.5%
TWIN CITIES										
Total, All Industries	77,942	1,642,895	\$1,118	76,247	1,671,595	\$1,159	28,700	1.7%	\$41	3.7%
Natural Resources & Mining	304	3,477	\$830	297	3,436	\$873	-41	-1.2%	\$43	5.2%
Construction	6,405	61,566	\$1,260	6,184	66,571	\$1,304	5,005	8.1%	\$44	3.5%
Manufacturing	4,066	165,288	\$1,377	4,009	168,356	\$1,423	3,068	1.9%	\$46	3.3%
Trade, Transportation, Utilities	15,857	307,984	\$960	15,394	312,242	\$982	4,258	1.4%	\$22	2.3%
Information	1,380	39,780	\$1,445	1,323	38,656	\$1,507	-1,124	-2.8%	\$62	4.3%
Financial Activities	8,415	132,676	\$1,804	8,237	136,479	\$1,888	3,803	2.9%	\$84	4.7%
Professional & Business Services	15,100	274,332	\$1,499	14,732	275,989	\$1,558	1,657	0.6%	\$59	3.9%
Education & Health Services	9,819	372,009	\$930	9,755	380,314	\$958	8,305	2.2%	\$28	3.0%
Leisure & Hospitality	7,054	162,157	\$423	7,000	164,836	\$449	2,679	1.7%	\$26	6.1%
Other Services	8,686	55,458	\$636	8,460	55,878	\$660	420	0.8%	\$24	3.8%
Public Administration	857	68,166	\$1,103	858	68,836	\$1,151	670	1.0%	\$48	4.4%
*PMA includes West St. Paul, Inver Grove Heights, Lilydale, Mendota, Mendota Heights, South St. Paul, Sunfish Lake, and the West Side Neighborhood of St. Paul (55107 ZIP Code)										
Sources: Minnesota Department of Employment and Economic Development; Maxfield Research & Consulting, LLC										

- In West St. Paul, total employment declined -0.3% (-21 jobs) between 2014 and 2015, as the Trade, Transportation, and Utilities sector contracted -4.7% (-95 jobs). PMA employment increased 2.0% during that same time period, gaining 952 jobs as the Trade, Transportation, and Utilities sector added 594 jobs (+5.0%) and the Education and Health Services sector added 576 jobs (+6.7%).

DEMOGRAPHIC REVIEW

- The Trade, Transportation, and Utilities industry is the largest employment sector in West St. Paul as well as the PMA, providing 1,911 jobs (24.5% of total employment) in West St. Paul and over 12,400 jobs (26.1% of total employment) in the PMA. Education and Health Services is the largest employment sector in the Metro Area with over 380,000 jobs (22.8%), followed by the Trade, Transportation, and Utilities sector with 312,000 jobs (18.7%).



- The number of business establishments in West St. Paul declined -2.5% over the year (-13 businesses), with notable contraction occurring in the Trade, Transportation, and Utilities and Financial Activities sectors. The Professional and Business Services and Construction industry sectors experienced noteworthy expansion, adding three businesses apiece (+4.5% and +13.0%, respectively).
- Average weekly wages in the City of West St. Paul (\$650) are -35% lower than the PMA (\$1,005) and -44% lower than the Twin Cities (\$1,159). Wages in the Market Area experienced solid growth over the year, climbing 6.0% in West St. Paul and 4.7% in the PMA, compared to a 3.7% increase in the Metro Area.
- In West St. Paul, highest average wages are found in the Public Administration (\$1,153), Information (\$1,126), and Construction (\$1,007) sectors, while highest wages in the PMA are in Construction (\$1,379) and Professional and Business Services (\$1,250). The Financial Activities sector has the highest wages in the Twin Cities (\$1,888) followed by Professional and Business Services (\$1,558) and Information (\$1,507).
- A household earning the average weekly wage in the PMA (\$1,005) would be able to afford an apartment renting for approximately \$1,306 per month to not exceed 30% of its monthly income on housing costs, very similar to the average rent for one-bedroom apartment units in the competitive set of rental properties in and near the PMA (\$1,311).

Commuting Patterns

Proximity to employment is often a primary consideration when choosing where to live, particularly for younger and lower income households since transportation costs often account for a greater proportion of their budgets. Table 9 highlights the commuting patterns of workers in West St. Paul based on data from the U.S. Census Bureau Longitudinal Employer-Household Dynamics (LEHD) program for 2014, the most recent data available.

- As the table illustrates, about 89% of the workers employed in the City of West St. Paul reside outside the City. The largest proportion of workers in West St. Paul commutes from the adjacent communities which comprise the PMA, including; Saint Paul (16.6%), Inver Grove Heights (7.4%), and South St. Paul (7.1%).
- Approximately 63% of the workers in West St. Paul reside within ten miles of their place of employment while 28% travel from 10 to 24 miles. Roughly 6% of the workers commute from a distance of 25 to 50 miles while 4% come from more than 50 miles away.

TABLE 9 COMMUTING PATTERNS CITY OF WEST ST. PAUL 2014					
Home Destination			Work Destination		
<u>Place of Residence</u>	<u>Count</u>	<u>Share</u>	<u>Place of Employment</u>	<u>Count</u>	<u>Share</u>
St. Paul city, MN	1,149	16.6%	St. Paul city, MN	2,060	22.9%
West St. Paul city, MN	767	11.1%	Minneapolis city, MN	1,128	12.6%
Inver Grove Heights city, MN	508	7.4%	West St. Paul city, MN	767	8.5%
South St. Paul city, MN	489	7.1%	Eagan city, MN	518	5.8%
Minneapolis city, MN	403	5.8%	Bloomington city, MN	394	4.4%
Eagan city, MN	289	4.2%	Mendota Heights city, MN	270	3.0%
Cottage Grove city, MN	195	2.8%	Inver Grove Heights city, MN	232	2.6%
Woodbury city, MN	195	2.8%	South St. Paul city, MN	221	2.5%
Mendota Heights city, MN	155	2.2%	Roseville city, MN	175	1.9%
Maplewood city, MN	139	2.0%	Maplewood city, MN	164	1.8%
All Other Locations	2,613	37.9%	All Other Locations	3,049	34.0%
<u>Distance Traveled</u>			<u>Distance Traveled</u>		
Total Primary Jobs	6,902	100.0%	Total Primary Jobs	8,978	100.0%
Less than 10 miles	4,350	63.0%	Less than 10 miles	5,808	64.7%
10 to 24 miles	1,923	27.9%	10 to 24 miles	2,535	28.2%
25 to 50 miles	382	5.5%	25 to 50 miles	134	1.5%
Greater than 50 miles	247	3.6%	Greater than 50 miles	501	5.6%
Home Destination = Where workers live who are employed in the selection area					
Work Destination = Where workers are employed who live in the selection area					
Sources: US Census Bureau Local Employment Dynamics; Maxfield Research & Consulting, LLC					

DEMOGRAPHIC REVIEW

- Nearly 23% of the workers living in West St. Paul commute to Saint Paul for employment, while 13% commute to Minneapolis and 9% remain in West St. Paul. Roughly 6% of the resident workers in West St. Paul work in Eagan and 4% work in Bloomington.
- Roughly 65% of resident workers living in West St. Paul travel less than ten miles to their place of employment, while 28% have a commute distance from 10 to 24 miles. Approximately 2% commutes between 25 and 50 miles to their place of work while 6% commute more than 50 miles.

Table 10 provides a summary of the inflow and outflow characteristics of the workers in the City. Outflow reflects the number of workers living in the City but employed outside West St. Paul while inflow measures the workers that are employed in the City but live outside the City. Interior flow reflects the number of workers that both live and work in West St. Paul.

- As the table shows, West St. Paul is an exporter of workers as a higher number of resident workers leave the City for employment than nonresidents commute into the City. Roughly 6,100 workers come into the City for employment (inflow) while over 8,200 leave (outflow). Approximately 767 people both live and work in West St. Paul (interior flow).
- Roughly 89% of the jobs in West St. Paul are filled by workers commuting into the City. A portion of these workers may be drawn to new rental housing on the subject property. The highest proportion of the workers coming into the area are aged 30 to 54 and earn between \$1,251 and \$3,333 per month (\$15,000 to \$40,000 per year). The “All Other Services” sector brings in most of the employees (63%).

	Outflow		Inflow		Interior Flow	
City of West St. Paul, Minnesota	8,211	100.0%	6,135	100.0%	767	100.0%
<u>By Age</u>						
Workers Aged 29 or younger	1,934	23.6%	1,532	25.0%	259	33.8%
Workers Aged 30 to 54	4,318	52.6%	3,200	52.2%	285	37.2%
Workers Aged 55 or older	1,959	23.9%	1,403	22.9%	223	29.1%
<u>By Monthly Wage</u>						
Workers Earning \$1,250 per month or less	1,524	18.6%	1,679	27.4%	322	42.0%
Workers Earning \$1,251 to \$3,333 per month	2,640	32.2%	2,264	36.9%	293	38.2%
Workers Earning More than \$3,333 per month	4,047	49.3%	2,192	35.7%	152	19.8%
<u>By Industry</u>						
"Goods Producing"	1,050	12.8%	648	10.6%	31	4.0%
"Trade, Transportation, and Utilities"	1,432	17.4%	1,637	26.7%	221	28.8%
"All Other Services"*	5,729	69.8%	3,850	62.8%	515	67.1%
*includes the following sectors: Information, Financial Activities, Professional & Business Services, Education & Health Services, Leisure & Hospitality, Other Services, and Public Administration						
Sources: US Census Bureau Local Employment Dynamics; Maxfield Research & Consulting, LLC						

Summary of Demographic Trends

The following summary highlights key demographic trends that will impact demand for rental housing throughout the Primary Market Area.

Between 2000 and 2010, the PMA population increased 2.9% (+2,809) while the number of households expanded 5.5% (+2,122). We estimate that the PMA's population increased 3.6% to 104,545 between 2010 and 2016, while the number of households increased 4.4% (+1,763). Between 2016 and 2025, the PMA is projected to add 8,086 people (+7.7%) and 4,337 households (+10.3%). The rate of growth in the PMA is expected to approximate the Twin Cities Metro Area (+7.3% population growth and +11.5% household growth by 2025).

The most rapid growth is expected to occur among older adults in the Market Area as the baby boomer population ages, particularly the 65 to 74 age group which is projected to grow 29% in the PMA. The PMA is also expected to experience substantial growth in the age 35 to 44 cohort, adding 1,318 people (+10.3%) between 2016 and 2021, as the peak of the "echo boom" moves into age group.

Based on average pricing of \$1,311 for one-bedroom units in the competitive set of newer rental properties in and near the PMA, a household will need to have an annual income of roughly \$52,400 or greater to not exceed 30% of its monthly income on housing costs. In 2016, approximately 24,322 PMA households (58% of the total) are estimated to have had incomes of at least \$52,400. By 2021, total income-qualified households are projected to increase to 25,739 households (+5.8%) after accounting for inflation.

Households under the age of 35 are most likely to rent their housing, although there is a growing group of households over age 35 that are choosing to rent for lifestyle reasons. Between 2016 and 2021, the number of PMA households in the 25 to 34 age cohort is expected to increase by approximately 67 income-qualified households (+1.8%). The number of income-qualified households in the age 24 or younger cohort is projected to contract slightly during this time period, while income-qualified households in the age 35 to 44 cohort are projected to increase 13% (+581). The 55 to 64 age group is expected to experience 4% growth (+199) in income-qualified households.

The percentage of PMA renter households increased for most age cohorts between 2010 and 2014 as the total number of renter households residing in the PMA grew by an estimated 701 households, an increase of 5.5%. By comparison, the number of owner-occupied households in the PMA increased 0.5% (+132 households) between 2010 and 2014.

Between 2010 and 2014, non-family households expanded 1.1% (+163 households) in the PMA, compared to 1.3% growth in the Metro Area. The number of households with one resident increased 1.5% (+177 households) in the PMA, while the number of roommate households held steady after expanding last decade due to the recession. Family households also experienced modest expansion between 2010 and 2014 in the PMA, increasing 2.6% (+670 households).

DEMOGRAPHIC REVIEW

Due, in large part, to the economic recession, employment in West St. Paul contracted -13.4% (-1,169 jobs) by 2010, while the number of jobs in the Remainder of the PMA expanded 13.0% (+4,622 jobs). By comparison, the Metro Area experienced a -4.0% decline in employment during the decade. Employment in West St. Paul expanded 3.2% (+245 jobs) between 2010 and 2015, while the Remainder of the PMA contracted by -381 jobs (-0.9%). During that time, the number of jobs increased 8.8% in the Metro Area. The PMA is projected to experience a 13.2% gain (+6,304 jobs) between 2010 and 2020.

It appears that hiring is keeping pace with labor force growth throughout much of the Market Area, keeping the unemployment rate stable. Dakota County's labor force expanded 0.9% (+2,011) between June 2015 and June 2016, while the number of employed residents increased 07% (+1,615).

PMA employment increased 2.0% between 2014 and 2015, gaining 952 jobs as the Trade, Transportation, and Utilities sector added 594 jobs (+5.0%) and the Education and Health Services sector added 576 jobs (+6.7%). A household earning the average weekly wage in the PMA (\$1,005) would be able to afford an apartment renting for approximately \$1,306 per month to not exceed 30% of its monthly income on housing costs, very similar to the average rent for one-bedroom apartment units in the competitive set of rental properties in and near the PMA (\$1,311).

West St. Paul is an exporter of workers as a higher number of resident workers leave the City for employment than nonresidents commute into the City. Roughly 6,100 workers come into the City for employment (inflow) while over 8,200 leave (outflow). Approximately 767 people both live and work in West St. Paul (interior flow). Roughly 89% of the jobs in West St. Paul are filled by workers commuting into the City. A portion of these workers may be drawn to new rental housing on the subject property.

Typically, households prefer to live near work for convenience. This preference is particularly true among renters. Young adults entering the work force, a primary target market for rental housing, often place great value on living near employment, education, shopping, and entertainment. With the Site's location in West St. Paul, renters would have convenient access to jobs, shopping, and entertainment options.

Based on demographic factors influencing the area, notably population and household growth, an aging population, income growth, shifting household types, and job growth it appears that there will be growing demand for rental housing units in the PMA.

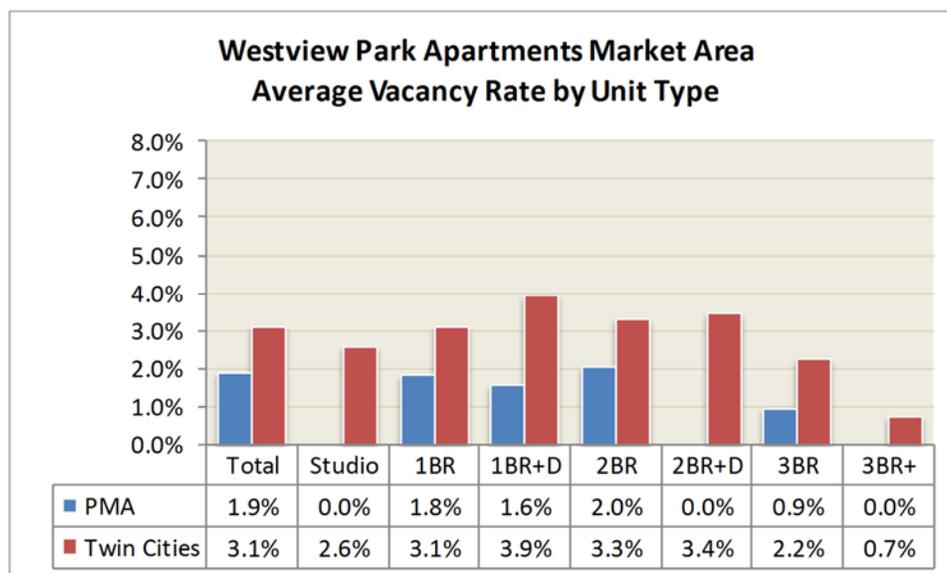
Introduction

The following section of the report analyzes current market conditions for general occupancy rental housing in the Market Area. Topics covered include an overview of rental housing market conditions in the Market Area, detailed information on individual market rate rental developments in and near the PMA, and information on new rental developments planned or under construction in the PMA.

Overview of Rental Market Conditions

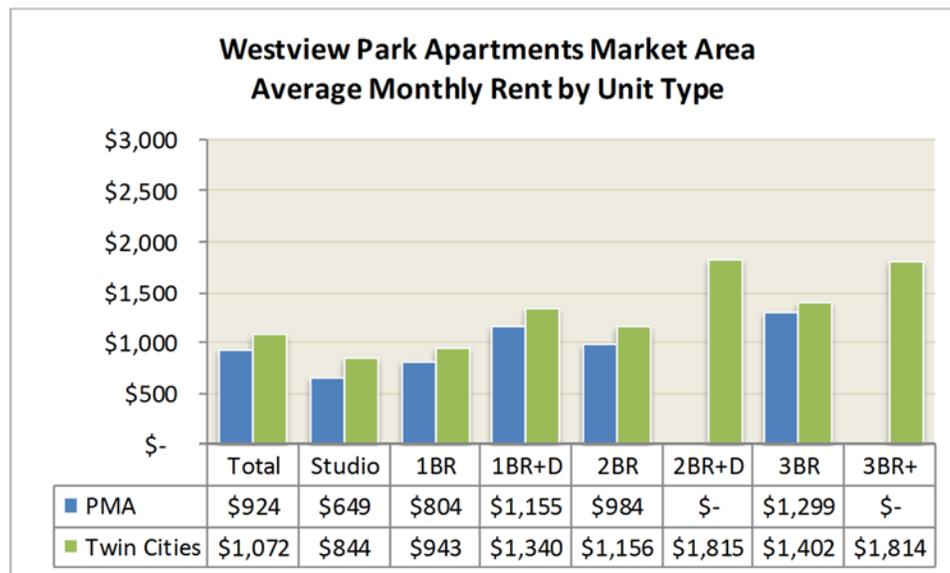
Table 11 displays average monthly rent and vacancy rate data from Marquette Advisors *Apartment Trends* report for the Twin Cities Metro Area along with the PMA submarkets surrounding the subject property. Information is provided for the West St. Paul/South St. Paul and Inver Grove Heights/Mendota Heights/Lilydale submarkets. The data is shown for the first quarter of 2015 compared to the first quarter of 2016, the most recent data available.

- The equilibrium vacancy rate for rental housing is considered to be 5.0%. This allows for normal turnover and an adequate supply of alternatives for prospective renters. During the first quarter of 2016, the vacancy rate was 3.1% in the Twin Cities Metro Area and 1.9% across the PMA submarkets. In effect, the overall supply of rental housing in the Market Area is slightly below the level considered adequate to meet demand.
- As illustrated in the following chart, vacancy rates were below equilibrium across all unit types in the PMA. There were no studio or two-bedroom plus den vacancies. Three-bedroom units were 0.9% vacancy, while one-bedroom plus den and one-bedroom units were 1.6% and 1.8% vacant, respectively. Two-bedroom units had the highest vacancy at 2.0%.



RENTAL MARKET ANALYSIS

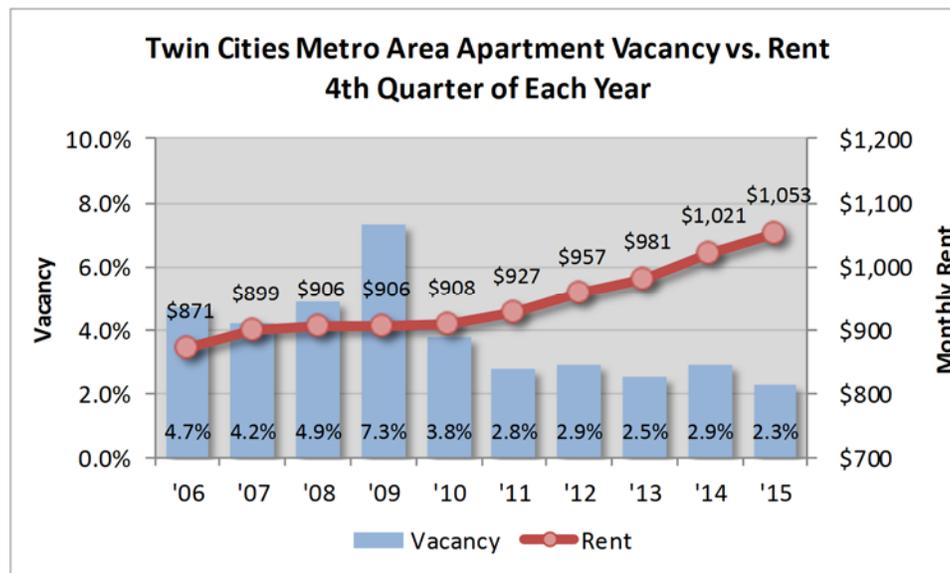
- Across the Metro Area, vacancies were lowest for units with more than three bedrooms (0.7%) and three-bedroom units (2.2%). Studio and one-bedroom units were 2.6% vacant and 3.1% vacant, respectively. One-bedroom plus den units had the highest vacancy rate, at 3.9%, while two-bedroom plus den and two-bedroom were 3.4% and 3.3% vacant, respectively.
- Within the PMA submarkets, West St. Paul/South St. Paul had the lowest vacancy rate at 1.7%, while Inver Grove Heights/Mendota Heights/Lilydale was 2.0% vacant. Total vacancy in the PMA declined -1.6% over the past year. Vacancy in West St. Paul/South St. Paul decreased -1.5% over the year, while Inver Grove Heights/Mendota Heights/Lilydale experienced a -1.8% decline in vacancy.
- Average monthly rents increased 5.3% over the year to \$1,072 across the Metro Area, while the PMA submarkets experienced little rent growth, climbing 0.3%. At \$924, the average monthly rent in the PMA is -14% lower than the Twin Cities average.
- Within the PMA, average rental rates range from \$799 in West St. Paul/South St. Paul to \$1,025 in Inver Grove Heights/Mendota Heights/Lilydale. Average rents in West St. Paul/South St. Paul declined -1.5% over the past year, while rents increased 1.8% in Inver Grove Heights/Mendota Heights/Lilydale.



- One- and two-bedroom units are the predominant unit types in the submarkets comprising the PMA, representing 40.2% (1,860 units) and 52.8% (2,442 units) of the inventory, respectively. Three-bedroom units (215 units) represent 4.6% of the inventory, while 1.4% of the inventory is comprised of one-bedroom plus den units (63 units). Studio units represent 1.0% of the inventory (48 units).

RENTAL MARKET ANALYSIS

- The Metro Area has a lower proportion of two-bedroom units (42% of the total). Over 44% of the Metro Area's units have one bedroom, and the Metro Area has a higher proportion of smaller units as over 5% of the units are studios. One-bedroom plus den units comprise 2.5% of the Metro Area's supply of apartment units. The Metro Area also has larger proportions of the larger unit types, as 1.2% have two-bedrooms and a den, 5.0% have three bedrooms, and 0.3% of the units have more than three bedrooms.
- The following chart illustrates how the general occupancy apartment market recovered after struggling with rapidly rising vacancy rates between the fourth quarter of 2007 and the fourth quarter of 2009. Since 2009, apartment rents in the Metro Area have increased at an average rate of roughly 2.5% per year.



- The tight rental market can be attributed primarily to a group of foreclosed homeowners that entered the rental market during the Great Recession and traditional renters, who are potential home-owners, staying in the rental market longer due to lifestyle preferences. Job growth is also contributing to demand for apartment units, as new people are relocating to the region for employment and moving into rental properties.
- According to Marquette Advisors 3,928 apartment units were absorbed in 2015, compared to 2,767 units in 2014 and 3,378 units in 2013. Absorption in recent years has more than doubled the amount of absorption in 2012 when 1,217 units were absorbed. This increase in absorption can be attributed, in large part, to a growing inventory of units, as the tight supply constrained absorption in 2012 and 2011.
- Numerous projects are either under construction or in the development pipeline in the Twin Cities. Maxfield Research is tracking over 5,000 units that are under construction or scheduled to move forward, and over 4,100 units came on-line in 2015.

RENTAL MARKET ANALYSIS

- Although new market rate rental construction is making its way into suburban locations, the majority of recent new units coming on-line has occurred in the central cities and close-in suburbs of Minneapolis, Saint Paul, St. Louis Park, and Edina. As identified in the next section of this report, there has been limited new rental construction in the communities comprising the PMA.

		Total	Studio	1 BR	1 BR w/ Den	2 BR	2 BR w/ Den	3 BR	3 BR/D or 4BR	Average Increase
WEST ST. PAUL - SOUTH ST. PAUL										
Q1/2015	Units	2,078	48	1,019	20	991	--	--	--	--
	No. Vacant	67	0	45	0	22	--	--	--	--
	Avg. Rent	\$811	\$635	\$699	\$842	\$933	--	--	--	3.2%
	Vacancy	3.2%	0.0%	4.4%	0.0%	2.2%	--	--	--	-0.1%
Q1/2016	Units	2,078	48	1,019	20	991	--	--	--	--
	No. Vacant	36	0	19	0	17	--	--	--	--
	Avg. Rent	\$799	\$649	\$719	\$842	\$888	--	--	--	-1.5%
	Vacancy	1.7%	0.0%	1.9%	0.0%	1.7%	--	--	--	-1.5%
INVER GROVE HEIGHTS - MENDOTA HEIGHTS - LILYDALE										
Q1/2015	Units	2,550	--	841	43	1,451	--	215	--	--
	No. Vacant	97	--	16	1	73	--	7	--	--
	Avg. Rent	\$1,011	--	\$888	\$1,224	\$1,034	--	\$1,295	--	-0.1%
	Vacancy	3.8%	--	1.9%	2.3%	5.0%	--	3.3%	--	1.2%
Q1/2016	Units	2,550	--	841	43	1,451	--	215	--	--
	No. Vacant	51	--	15	1	33	--	2	--	--
	Avg. Rent	\$1,025	--	\$908	\$1,300	\$1,049	--	\$1,299	--	1.7%
	Vacancy	2.0%	--	1.8%	2.3%	2.3%	--	0.9%	--	-1.8%
TWIN CITIES METRO AREA										
Q1/2015	Units	126,381	6,622	55,899	2,776	53,001	1,406	6,363	314	--
	No. Vacant	3,359	166	1,325	155	1,489	48	171	5	--
	Avg. Rent	\$1,018	\$796	\$892	\$1,261	\$1,103	\$1,752	\$1,352	\$1,352	1.8%
	Vacancy	2.7%	2.5%	2.4%	5.6%	2.8%	3.4%	2.7%	1.6%	-0.1%
Q1/2016	Units	130,428	6,778	57,723	3,197	54,225	1,597	6,498	410	--
	No. Vacant	4,048	175	1,769	126	1,774	55	146	3	--
	Avg. Rent	\$1,072	\$844	\$943	\$1,340	\$1,156	\$1,815	\$1,402	\$1,814	5.3%
	Vacancy	3.1%	2.6%	3.1%	3.9%	3.3%	3.4%	2.2%	0.7%	0.4%

Sources: GVA Marquette Advisors; Maxfield Research & Consulting, LLC

RENTAL MARKET ANALYSIS

<p align="center">TABLE 12 SELECT NEWER MARKET RATE RENTAL PROJECTS WESTVIEW PARK APARTMENTS MARKET AREA August 2016</p>											
Project Name/Location	Occp. Date	No. of Units	Total Vacant	Unit Description			Monthly Rent		Rent/sq. ft.		
				Type	No.	Vac.	Size	Min	Max	Min	Max
Blackberry Pointe 5470 & 5480 Blackberry Trl Inver Grove Heights, MN	2004	131	2	1BR	41	0	802 - 902	\$1,008 - \$1,079	\$1.20 - \$1.26		
				2BR	78	1	1,019 - 1,235	\$1,220 - \$1,436	\$1.16 - \$1.20		
				3BR	12	1	1,448 - 1,512	\$1,610 - \$1,617	\$1.07 - \$1.11		
<p>Notes: 3-story buildings. Amenities include swimming pool, playground, business center, parking garage, fitness center, clubhouse, in-unit full size W/D, club room, walk-in closets, patio or balcony. Rent includes sewer, water, and trash removal. 219 total units (88 tax credit units).</p>											
Monument Ridge 8851 & 8891 Broderick Blvd Inver Grove Heights, MN	2004	136	0	1BR	61	0	830 - 960	\$1,019 - \$1,179	\$1.23 - \$1.23		
				2BR	63	0	1,020 - 1,330	\$1,219 - \$1,399	\$1.05 - \$1.20		
				3BR	12	0	1,420 - 1,420	\$1,499 - \$1,499	\$1.06 - \$1.06		
<p>Notes: 3-story buildings. Units feature oversized closets, in-unit washer/dryer, full kitchen appliance package. Amenities include elevator, extra storage, fitness center, playground, swimming pool, and garage parking. Water and trash removal included in rent.</p>											
West Side Flats 84 Wabasha St Saint Paul, MN	2014	142	6	Studio	20	1	484 - 506	\$1,071 - \$1,218	\$2.21 - \$2.41		
				1BR	70	5	646 - 744	\$1,333 - \$1,639	\$2.06 - \$2.20		
				1BR+D	12	0	940 - 996	\$1,745 - \$2,168	\$1.86 - \$2.18		
				2BR	40	0	962 - 1,308	\$1,745 - \$2,168	\$1.66 - \$1.81		
<p>Notes: 5-story building. Amenities include indoor/outdoor pool, fitness center, outdoor lounge (fire pit, grilling station, outdoor TV), club room, underground parking (\$120/month), storage, and concierge services. Units offer granite islands, in-unit W/D, and patios or decks.</p>											
<p>----- projects located outside PMA -----</p>											
Victoria Park 740 Victoria St Saint Paul, MN	2014	216	4	1BR	106	4	542 - 972	\$1,234 - \$1,580	\$1.63 - \$2.28		
				2BR	84	0	858 - 1,200	\$1,530 - \$2,051	\$1.71 - \$1.78		
				3BR	26	0	1,308 - 1,645	\$2,151 - \$2,676	\$1.63 - \$1.64		
<p>Notes: Three-story buildings. Amenities include a swimming pool, clubhouse, business center, TV lounge, fitness center, yoga studio, cyber lounge, grilling patio, and free bike use. Units include granite countertops, SS appliances, in-unit W/D, walk-in closets, and some fireplaces.</p>											
The Pointe at River Crossings 1375 S Davern St Saint Paul, MN	2009	104	1	1BR	42	1	622 - 828	\$1,096 - \$1,288	\$1.56 - \$1.76		
				2BR	42	0	1,009 - 1,453	\$1,407 - \$1,674	\$1.15 - \$1.39		
				2BR+D	12	0	1,301 - 1,301	\$1,693 - \$1,693	\$1.30 - \$1.30		
				3BR	8	0	1,458 - 1,466	\$1,642 - \$1,859	\$1.13 - \$1.27		
<p>Notes: Four-story building. Units include granite countertops, SS appliances, in-unit W/D, and some fireplaces. Amenities include business center, clubhouse, fitness center, game room, hot tub, multimedia center, swimming pool, and underground parking.</p>											
CityVue Apartments 3435 Promenade Ave Eagan, MN	2015	113	4	1BR	89	3	514 - 855	\$1,115 - \$1,745	\$2.04 - \$2.17		
				2BR	24	1	792 - 1,113	\$1,610 - \$2,375	\$2.03 - \$2.13		
<p>Notes: Renovated 11-story office building. Amenities include rooftop lounge and patio, fitness center, free ramp parking, heated UG parking (\$150/mo.), package receiving, and free internet. Units feature keyless entry, walk-in closets, in-unit W/D, SS appliances, and granite countertops. Electric, water, sewer, and trash removal included in rent.</p>											
Waterford Commons 2930 146th St W Rosemount, MN	2009	85	0	1BR	41	0	651 - 892	\$1,001 - \$1,268	\$1.42 - \$1.54		
				2BR	34	0	1,004 - 1,243	\$1,369 - \$1,615	\$1.30 - \$1.36		
				3BR	10	0	1,243 - 1,616	\$1,320 - \$1,646	\$1.02 - \$1.06		
<p>Notes: 3-story building. Units feature full-size W/D, 9' ceilings, granite countertops, SS appliances, balconies, and kitchen islands. Amenities include outdoor pool, fitness center, heated UG parking, business ceNter, and controlled access. 108-unit community (23 tax credit units).</p>											
Flats at Cedar Grove 3825 Cedar Grove Pkwy Eagan, MN	2015	191	24	1BR	108	8	710 - 766	\$1,306 - \$1,372	\$1.79 - \$1.84		
				2BR	72	11	943 - 1,305	\$1,654 - \$2,026	\$1.55 - \$1.75		
				3BR	11	5	1,564 - 1,568	\$2,350 - \$2,472	\$1.50 - \$1.58		
<p>Notes: Project in initial lease-up. Four stories. Amenities include fitness center, bike racks, business center, UG parking, concierge, community room, clubhouse, outdoor pool and sundeck. Units feature granite countertops, SS appliances, walk-in closets, full size W/D, and balconies.</p>											
Total		1,118	41								

Source: Maxfield Research & Consulting, LLC

RENTAL MARKET ANALYSIS

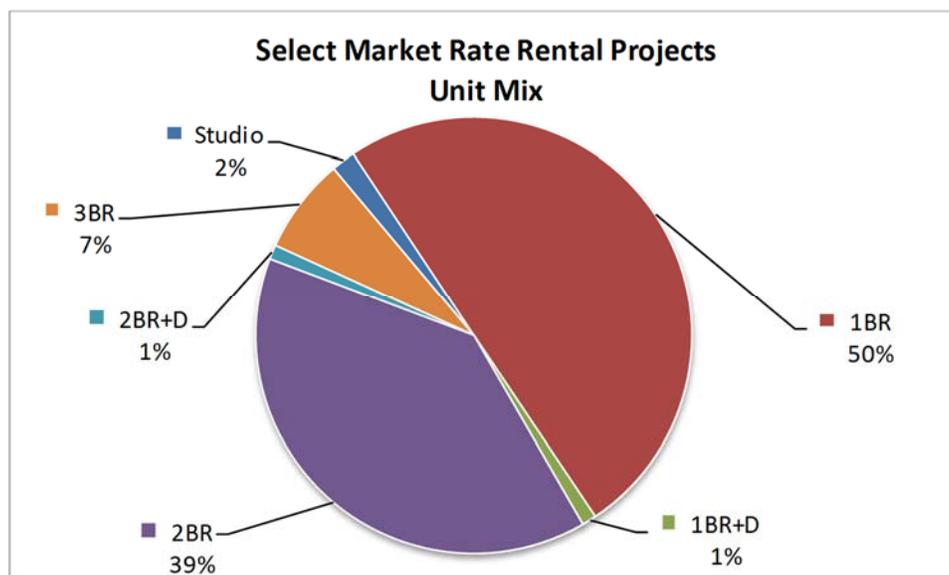
The per square foot average rents presented reflect a weighted average based on the number of units in each development. Therefore, developments with a larger number of units of any one type contribute more toward the average than those with only a few units of a specific type. Table 13 and the points that follow summarize key observations for the selected general occupancy market rate rental developments.

- A total of 1,118 units is represented among eight developments located in or near the PMA.

Unit Type	Total Units	% of Total	Avg. Size	Monthly Rents		
				Range Low - High	Avg. Rent	Avg. Rent/ Sq. Ft.
Studio	20	1.8%	495	\$1,071 - \$1,218	\$1,145	\$2.31
1BR	558	49.9%	755	\$1,001 - \$1,745	\$1,311	\$1.76
1BR+Den	12	1.1%	968	\$1,745 - \$2,168	\$1,957	\$2.02
2BR	437	39.1%	1,115	\$1,219 - \$2,375	\$1,626	\$1.47
2BR+Den	12	1.1%	1,301	\$1,693 - \$1,693	\$1,693	\$1.30
3BR	79	7.1%	1,473	\$1,320 - \$2,676	\$1,968	\$1.33
Total:	1,118	100%	950	\$1,001 - \$2,676	\$1,488	\$1.63

Source: Maxfield Research & Consulting, LLC

- Nearly half of all units in the competitive set are one-bedroom units and 39% of the units have two bedrooms. Units with three bedrooms represent 7% of the inventory and 2% are studio units. One-bedroom plus den and two-bedroom plus den units each represent 1% of the inventory.



RENTAL MARKET ANALYSIS

- On average, units in these market rate projects are 950 square feet, with studio units being the smallest (495 square feet) and the units with three bedrooms being the largest at 1,473 square feet.
- Monthly rental rates range from a low of \$1,001 for one-bedroom units at Waterford Commons in Rosemount to a high of \$2,676 for a three-bedroom unit in Flats at Cedar Grove in Eagan. Monthly rents average \$1,145 for studio units, \$1,311 for one-bedroom units, \$1,957 for one-bedroom plus den units, \$1,626 for two-bedroom units, \$1,693 for two-bedroom plus den units, and \$1,968 for units with three bedrooms.
- The weighted average monthly rent at these market rate projects is \$1,488 which equates to \$1.63 per square foot. Per square foot rents for these properties range from a low of \$1.02 per square foot for a three-bedroom unit in Waterford Commons to a high of \$2.41 for a studio unit at West Side Flats.
- The following list identifies the average per square foot rent for these properties along with their City and year built:

– CityVue Apartments (2015)	Eagan	\$2.09 per square foot
– West Side Flats (2014)	Saint Paul	\$2.04 per square foot
– Victoria Park (2014)	Saint Paul	\$1.79 per square foot
– Flats at Cedar Grove (2015)	Eagan	\$1.73 per square foot
– The Pointe at River Crossings (2009)	Saint Paul	\$1.41 per square foot
– Waterford Commons (2009)	Rosemount	\$1.36 per square foot
– Blackberry Pointe (2004)	Inver Grove Heights	\$1.18 per square foot
– Monument Ridge (2004)	Inver Grove Heights	\$1.16 per square foot
- We include seven properties with a total of 927 units in our vacancy analysis, as Flats at Cedar Grove was recently completed and is still in initial lease-up. These seven projects contain a total of 17 vacant units, representing a 1.8% vacancy rate, well-below equilibrium (5.0% vacancy). As such, it appears that the supply of newer rental housing in and near the PMA is below the level needed to adequately meet demand.

Table 14 on the following page summarizes unit features and common area amenities at each community, but the newest properties are offering residents contemporary features and amenities such as:

- Nine foot ceilings, walk-in closets, in-unit laundry, patios, porches, or balconies;
- Full kitchen appliance packages with stainless appliances and granite countertops;
- Fitness center, outdoor living/entertainment options, swimming pool, community room;
- Secure keyless entry, private theater, concierge, and package receiving services;
- Underground/covered parking and free WiFi in common areas.

RENTAL MARKET ANALYSIS

**TABLE 14
UNIT FEATURES AND COMMON AREA AMENITIES
SELECTED MARKET RATE RENTAL PROJECTS
August 2016**

Projects	In Unit/Common Area Amenities										Utilities and Parking						
	Central/AC	Dishwasher	Patio/Balcony	Walk-in Closet	Laundry	Concierge	Community Rm.	Fitness Center	Playground	Pool	Storage	Heat/Gas	Electricity	Water/Sewer	Trash	Cable	Parking
Blackberry Pointe	X	X	X		IU		X	X	X	X	X			X	X		UG
Monument Ridge	X	X	X	X	IU		X	X	X		X			X	X		UG
West Side Flats	X	X	X	X	IU	X	X	X		X	X			X	X		UG
Victoria Park	X	X	X	X	IU	X	X	X		X							UG
The Pointe at River Crossing	X	X	X	X	IU	X	X	X		X	X				X		UG
CityVue Apartments	X	X	X	X	IU	X	X	X				X	X	X	X	X	UG
Waterford Commons	X	X	X	X	IU		X	X		X		X					UG
Flats at Cedar Grove	X	X	X	X	IU	X	X	X		X	X			X			UG

Notes: X=Available/Included; DG=Detached Garage; UG=Underground; AG=Attached Garage; IU=In-unit

Source: Maxfield Research & Consulting, LLC

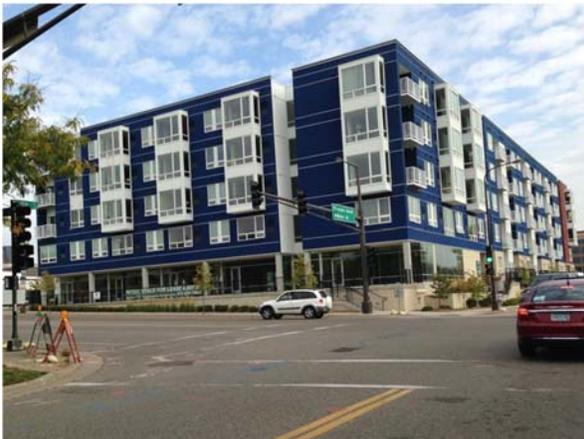
Market Rate General Occupancy Rental Property Photos



Blackberry Point



Monument Ridge



West Side Flats



Victoria Park



The Pointe at River Crossing



CityVue Apartments

Market Rate General Occupancy Rental Property Photos



Waterford Commons



Flats at Cedar Grove

Other New Suburban Rental Projects

Maxfield Research also compiled detailed information for a select group of the newest market rate apartment properties that have been developed in secondary suburban locations in the Twin Cities (outside the PMA). While these projects will not compete directly with new general occupancy apartment units on the subject property, we surveyed these properties to present information on projects developed in locations that could be considered comparable to the subject property.

Data on these new suburban properties is presented in Table 15 on the following page. Information includes project location, year built, size of project, number of stories, unit mix, unit sizes, rental rates, and features and amenities.

- On average, units in these projects are 969 square feet, with studio units being the smallest (633 square feet) and the units with three bedrooms being the largest at 1,389 square feet.
- Monthly rental rates range from a low of \$995 for studio units at The Cielo in Fridley to a high of \$2,490 for a two-bedroom plus den unit in Lakeview Terrace in Shoreview. Monthly rents average \$1,101 for studio units, \$1,309 for one-bedroom units, \$1,595 for one-bedroom plus den units, \$1,582 for two-bedroom units, \$2,209 for two-bedroom plus den units, and \$1,844 for units with three bedrooms.
- The weighted average monthly rent at these market rate projects is \$1,457 which equates to \$1.53 per square foot. Average per square foot rents for these properties range from a low of \$1.29 at Gates of New Hope to a high of \$1.63 at Gallery Flats in Hopkins.

RENTAL MARKET ANALYSIS

TABLE 15 SELECT NEW MARKET RATE RENTAL PROJECTS TWIN CITIES METRO AREA SUBURBAN LOCATIONS August 2016										
Project Name/Location	Occp. Date	No. of Units	Unit Description			Monthly Rent		Rent/sq. ft.		Rent/sq. ft.
			Type	No.	Size	Min	Max	Min	Max	Average
The Cielo 6051 University Ave NE Fridley, MN	2016	101	Studio	5	613 - 676	\$995 - \$1,050		\$1.55 - \$1.62		\$1.34
	vacancy rate:		1BR	24	790 - 1,114	\$1,140 - \$1,395		\$1.25 - \$1.44		
			1BR+D	12	971 - 1,114	\$1,415 - \$1,620		\$1.45 - \$1.46		
			2BR	49	991 - 1,212	\$1,265 - \$1,575		\$1.28 - \$1.30		
			3BR	11	1,286 - 1,553	\$1,820 - \$2,055		\$1.32 - \$1.42		
Notes: Four-story building. Units feature private balcony, oversized windows, granite counters, walk-in closets, and in-unit washer/dryer. Amenities include community/party room, fitness center, controlled access, first floor parking, and bike parking.										
5 Central Apartments 20 6th Street NW Osseo, MN	2015	140	Studio	7	557 - 697	\$975 - \$1,075		\$1.54 - \$1.75		\$1.61
	vacancy rate:		1BR	73	703 - 884	\$1,230 - \$1,485		\$1.68 - \$1.75		
			1BR+D	6	950 - 950	\$1,580 - \$1,580		\$1.66 - \$1.66		
			2BR	48	1,043 - 1,217	\$1,429 - \$1,920		\$1.37 - \$1.58		
			2BR+D	3	1,379 - 1,379	\$2,025 - \$2,025		\$1.47 - \$1.47		
		3BR	3	1,310 - 1,310	\$1,650 - \$2,050		\$1.26 - \$1.56			
Notes: Three-story buildings. TV lounge, underground heated parking, detached garages, elevator, 24-hour fitness center, car wash bay, outdoor recreation area, picnic area, fire pit, bike racks, stainless appliances, in-unit washer/dryer.										
Gates of New Hope 9390 Medicine Lake Rd New Hope, MN	2015	32	1BR	15	794 - 897	\$1,100 - \$1,175		\$1.31 - \$1.39		\$1.29
			2BR	14	1,091 - 1,100	\$1,350 - \$1,375		\$1.24 - \$1.25		
			3BR	3	1,250 - 1,250	\$1,550 - \$1,550		\$1.24 - \$1.24		
Notes: Four-story building. Community features include in-unit washer/dryer, walk-in closets, fitness room, 9' ceilings, heated indoor parking, stainless steel appliances, granite countertops, outdoor play area, and secure entry system. Heat, water, and trash removal included in rent.										
Arden Flats 1290 W County Road F Arden Hills, MN	2014	60	1BR	27	719 - 1,068	\$1,208 - \$1,472		\$1.38 - \$1.68		\$1.42
	vacancy rate:		2BR	27	1,101 - 1,181	\$1,499 - \$1,660		\$1.36 - \$1.41		
			3BR	6	1,435 - 1,447	\$1,815 - \$1,815		\$1.25 - \$1.26		
Notes: Four-story building. Amenities include extra storage, lounge, playground, elevator, fitness center, heated underground parking, outdoor grills, and clubhouse. Unit features include full kitchen appliance package, sun decks, granite counters in kitchens, and in-unit washer/dryer.										
Lakeview Terrace 3595 Owasso Street Shoreview, MN	2014	104	1BR	40	830 - 830	\$1,200 - \$1,745		\$1.45 - \$2.10		\$1.63
	vacancy rate:		1BR+D	18	1,045 - 1,135	\$1,445 - \$1,860		\$1.38 - \$1.64		
			2BR	34	1,218 - 1,264	\$1,570 - \$2,145		\$1.29 - \$1.70		
		2BR+D	12	1,327 - 1,327	\$2,020 - \$2,490		\$1.52 - \$1.88			
Notes: Six-story building. Building amenities include club room with kitchen, fitness room, theater, and two elevators. Unit amenities include 9-foot ceilings, in-unit washer/dryer, stainless appliances, granite counters in kitchen, balcony/patio, and 1 underground parking space included in rent (additional space for \$70/month).										
Gallery Flats 50 8th Avenue S Hopkins, MN	2014	163	Studio	18	611 - 654	\$1,110 - \$1,195		\$1.82 - \$1.83		\$1.60
			1BR	100	596 - 881	\$1,085 - \$1,385		\$1.57 - \$1.82		
			2BR	45	991 - 1,288	\$1,324 - \$1,714		\$1.33 - \$1.34		
Notes: 5-story buildings. Fitness center, courtyard, temperature control, community room, landscaped plaza, billiards, bike room, heated underground parking. Units feature stainless steel appliances, in-unit washer/dryer, high ceilings, and balcony.										
New Market Rate Suburban Rental Project Summary										
					Unit Mix	Average Size	Average Rent	Avg. Rent/SF		
					Studio	5%	633	\$1,101	\$1.74	
					1BR	47%	805	\$1,309	\$1.63	
					1BR+D	6%	1,051	\$1,595	\$1.52	
					2BR	36%	1,142	\$1,582	\$1.38	
					2BR+D	3%	1,337	\$2,209	\$1.65	
					3BR	4%	1,389	\$1,844	\$1.33	
					Total		969	\$1,457	\$1.53	
Source: Maxfield Research & Consulting, LLC										

Pending Rental Developments

Maxfield Research interviewed planning staff in the Market Area to identify any new rental developments that are proposed, planned or under construction that may be competitive with the proposed development. Table 16 lists pending general occupancy apartment developments in the PMA with their locations, number of units, and name of developer, if known.

- We identified six pending general occupancy rental developments in the PMA, containing a total of 1,557 units.

TABLE 16 PENDING GENERAL OCCUPANCY RENTAL DEVELOPMENTS PRIMARY MARKET AREA August 2016				
Project Name		Total		
Location	City	Units	Developer/Applicant	Status/Notes
Mendota Plaza Redevelopment 720 Highway 110	Mendota Heights	149	Paster Properties	Final approval anticipated mid-Sept 2016
Hannah Meadows Highway 3 at 70th Street	Inver Grove Heights	200	IMH Special Asset	Preliminary approval; final plans not submitted
Argenta Hills Hwy 55 at Robert Trail	Inver Grove Heights	298	Ivy Properties	Proposed
West Side Flats III Fillmore Ave	St. Paul	264	Sherman Associates	Proposed; 182 market rate and 82 affordable units
Fillmore Parcel Fillmore Ave at Livingston Ave	St. Paul	606	Weidner Homes/Hunt Development	Proposed
72 Cesar Chavez 88 Cesar Chavez St	St. Paul	40	Neighborhood Development Alliance	Approved; affordable workforce housing (60% AMI)
Under Construction Subtotal:		0		
Approved Subtotal:		40		
Proposed Subtotal:		1,517		
Pending Total:		1,557		
Source: Maxfield Research & Consulting, LLC				

- One project has been approved (72 Cesar Chavez in the West Side Neighborhood of Saint Paul), which is a 40-unit workforce housing project that will be affordable to households earning 60% of Area Median Income. Because this development is not market rate, we do not include these units in our demand calculations.
- The 149-unit Mendota Plaza redevelopment received a recommendation for approval from the City of Mendota Heights Planning Commission, and the development proposal is expected to be heard by the City Council in mid-September 2016. The developer intends to begin construction as soon as possible, with an opening planned in summer 2018. This project is included in our demand calculations.

RENTAL MARKET ANALYSIS

- Four other projects, totaling 1,368 units, have been proposed and are at various stages of the planning approval process in their respective cities. Due to the preliminary nature of these projects, we do not include these units in our demand calculations. Although, Sherman Associates is in the process of finalizing their development agreement and going through final plan review with the City of Saint Paul for the third phase of West Side Flats.
- V2 Apartments, the second phase to the Victoria Park development, is a 197-unit market rate apartment project currently under construction. A 50-unit third phase is also planned. V2 is expected to open in late 2016. The project includes a mix of units ranging in size from 623 square-foot one-bedroom units to 1,936 square-foot two-bedroom penthouse lofts. Units at V2 are renting for an average rate of \$1.90 per square foot. Because this project is not located in the PMA, we do not include these units in our demand calculations.

Summary of Rental Market Conditions

The following points summarize key findings and trends that will impact demand potential for rental housing on the subject property.

- The equilibrium vacancy rate for rental housing is considered to be 5.0%. This allows for normal turnover and an adequate supply of alternatives for prospective renters. As of the first quarter of 2016, the vacancy rate was 3.1% in the Metro Area, 1.7% in West St. Paul/South St. Paul, and 2.0% in the Inver Grove Heights/Mendota Heights/Lilydale submarket.
- In effect, the overall supply of rental housing in the Market Area is below the level considered adequate to meet demand.
- Total vacancy in the PMA declined -1.6% over the past year. Vacancy in West St. Paul/South St. Paul decreased -1.5% over the year, while Inver Grove Heights/Mendota Heights/Lilydale experienced a -1.8% decline in vacancy. The Metro Area vacancy rate increased 0.4% over the year.
- Average monthly rents increased 5.3% over the year to \$1,072 across the Metro Area, while the PMA submarkets experienced little rent growth, climbing 0.3%. At \$924, the average monthly rent in the PMA is -14% lower than the Twin Cities average.
- Within the PMA, average rental rates range from \$799 in West St. Paul/South St. Paul to \$1,025 in Inver Grove Heights/Mendota Heights/Lilydale. Average rents in West St. Paul/South St. Paul declined -1.5% over the past year, while rents increased 1.8% in Inver Grove Heights/Mendota Heights/Lilydale.
- We surveyed eight newer competitive properties in and near the PMA, containing a total of 1,118 units. Excluding Flats at Cedar Grove which is in its initial lease-up period, these properties are 1.8% vacant, well-below equilibrium. As such, it appears that the supply of newer rental housing in and near the PMA is below the level needed to adequately meet demand.
- Monthly rents in the competitive set of newer properties range from \$1,001 to \$2,676, with an average rent of \$1,488 per month, roughly 39% higher than the Metro Area average. On a per square foot basis, rents range from \$1.02 to \$2.41, with an average rent of \$1.63 per square foot.
- We identified six pending general occupancy rental developments in the PMA, containing a total of 1,557 units. One 40-unit affordable project is expected to commence construction during summer 2016. Another 149-unit market rate development is close to final approval, and the developer expects to begin construction in 2016. Four other projects, totaling 1,368 units, have been proposed and are at various stages of the planning approval process in their respective cities.

Introduction

Maxfield Research and Consulting, LLC was engaged to quantify the demand for market rate general occupancy rental housing on a 2.6-acre Site located along Marie Avenue East at its intersection with Kathleen Drive at 260 Marie Avenue in West St. Paul, Minnesota.

Earlier sections of this report examined the characteristics of the proposed development Site and surrounding land uses, growth trends and demographic characteristics of the household base in the PMA, and current and pending rental housing options in the Market Area. This section of the report quantifies demand for additional market rate rental housing in the PMA between 2016 and 2021.

Market Rate General Occupancy Rental Demand Calculations

Table 17 presents our calculation of general occupancy market rate rental housing demand for the PMA and assesses the potential for the subject property to capture a portion of demand. Factors considered include competitiveness of nearby rental properties, pending developments, demographic trends and population shifts, and the overall image and popularity of the neighborhood as a residential location. Potential demand is calculated from two categories:

1. From new household growth by age group based on the propensity of households to rent their housing in the Primary Market Area; and,
2. From existing households that will remain in the Market Area because new product is available and they value other area amenities including proximity to employment, entertainment and recreation.

First, we calculate potential demand from new income-qualified household growth over the next five years by age group based on the propensity of households to rent their housing. We focus on households between the ages of 18 and 64 that will account for the vast majority of rental demand on the subject property. We also include a portion (20%) of the demand generated by households age 65 and older, as a segment of this age group that is able to live independently could be drawn to a new general occupancy rental housing development on the subject property. The propensity to rent or own is based on 2014 American Community Survey figures by age cohort.

Next, we calculate the percentage of renters who are income-qualified for market rate rental housing. For new market rate housing, household incomes must equal or exceed \$52,400 in order to afford a one-bedroom unit in the competitive set of market rate properties in and near the PMA.

CONCLUSIONS & RECOMMENDATIONS

TABLE 17 PROJECTED DEMAND FOR MARKET RATE RENTAL HOUSING PRIMARY MARKET AREA 2016 to 2021					
	----- Number of Households -----				
	Age <25	Age 25 to 34	Age 35 to 44	Age 45 to 64	Age 65 & Over
Demand From Household Growth					
Projected Income-Qualified Household Growth 2016 - 2021 ¹	0	67	581	0	981
(times) Proportion estimated to be renting their housing ²	x 87%	50%	35%	22%	28%
(equals) Demand For Rental Housing, 2016 - 2021	= 0	34	205	0	279
Demand From Existing Households					
Estimated number of renter households in 2016	1,235	3,222	2,451	3,701	3,018
(times) Estimated % Turnover between 2016 & 2021	x 77%	77%	57%	57%	44%
(equals) Total Existing Households Projected to Turnover	= 951	2,481	1,397	2,110	1,328
(times) Percent of Households Income Qualified ²	x 33%	58%	65%	68%	39%
(equals) Total Number of Income-Qualified Households	= 314	1,439	911	1,443	517
(times) Estimated % Desiring New Rental Housing ³	x 16%	16%	16%	16%	16%
(equals) Demand From Existing Households	= 50	230	146	231	83
Total Demand From Household Growth and Existing Households	50	264	350	231	361
Demand Summary					
Total Market Area Demand for Rental Housing in PMA	=	968			
(plus) Demand from outside PMA (20%)	+	242			
(equals) Potential demand for rental housing in the PMA (2016 to 2021)	=	1,209			
(minus) Pending rental units in the PMA at equilibrium	-	142			
(equals) Excess demand for rental housing in the PMA (2016 to 2021)	=	1,067			
Market Rate Units Proposed at Subject Property		55			
(equals) Project Penetration Rate (at 95% occupancy)	=	4.9%			
¹ \$52,400 in 2016 based on average pricing of one-bedroom apartments in the competitive set. ² Data from U.S. Census Bureau. ³ Source - <i>The Upscale Apartment Market: Trends and Prospects</i> . Prepared by Jack Goodman of Hartrey Advisors for the National Multi Housing Council.					
Source: Maxfield Research & Consulting, LLC					

The second part of the analysis calculates demand from existing households, or turnover demand. Younger households tend to be highly mobile, relative to older households. The youngest households are often unable to afford rents at the top of the market unless they receive assistance from their parents or desire a roommate. Mobility rates were identified by age group (utilizing Census data) and were applied to the existing household base.

Together with demand from projected household growth and turnover, the total demand for PMA market rate rental housing is summarized. In the PMA, total demand for income-qualified market rate housing over the next five years is 968 units. An additional proportion is added for households that would move to a rental project in the PMA who currently reside outside the PMA. We estimate that 20% of the demand potential for market rate rental housing in the PMA would be derived from outside the PMA, increasing demand to 1,209 units.

CONCLUSIONS & RECOMMENDATIONS

From the demand potential, we subtract pending rental developments in the PMA at market equilibrium (95% occupancy) to find the remaining excess demand in the Market Area. We identified one 149-unit market rate project expected to begin construction during 2016 in the PMA. Subtracting this pending project at equilibrium (95% occupancy) results in excess demand for 1,067 units of market rate rental housing in the PMA between 2016 and 2021.

It is our understanding that the Client is considering a 58-unit market rate rental housing development on the Site. Based on this concept, the project penetration rate (total units to be filled at 95% occupancy divided by the excess demand for rental housing in the PMA) is 4.9%. Given the quality of the subject property and the tight rental market conditions in the PMA, it is our professional opinion that this penetration rate is achievable.

Conclusions

Multifamily rental housing has been a bright spot in the real estate industry for the past several years; here in the Twin Cities Metro Area and nationally. The downturn in the housing market and the overall economic slowdown initially created increased demand for rental housing, but vacancy rates climbed steadily from 2007 through 2009 with increased home buying due to the tax credit and increased unemployment. However, vacancy rates declined in 2010 and 2011 and have since held steady while rental traffic has increased according to leasing personnel.

As of the first quarter of 2016, the vacancy rate was 3.1% in the Metro Area, 1.7% in West St. Paul/South St. Paul, and 2.0% in the Inver Grove Heights/Mendota Heights/Lilydale submarket. Additionally, the newest competitive market rate properties in and near the PMA are currently 1.8% vacant. This information suggests that there is pent-up demand for market rate units in the PMA.

Apartment development is very active in the Twin Cities, with numerous projects either under construction or in the development pipeline. New rental properties recently completed or under construction in the Twin Cities are charging rents (on average) from \$1.50 per square foot to over \$2.60 per square foot, depending on the location of the property. Although many of the new rental properties have been built in or near Downtown Minneapolis, development is expanding outward to first- and second-tier suburban locations near areas of high employment. Recently opened suburban rentals have experienced strong absorption. New suburban rental properties are charging rents (on average, per month) between \$1.50 and \$1.80 per square foot, with several projects exceeding \$1.80 per square foot.

The housing market crash of the Great Recession pushed the homeownership rate down, resulting in new renters into the market, and home ownership psychology remains somewhat tenuous as a number of former owners lost their homes to foreclosure or sold at a loss. Additionally, many first-time home buyers are choosing rental housing over ownership housing. If mortgage interest rates remain low and job growth continues, prospects could be encouraged to move into the for-sale market, especially first-time homebuyers.

CONCLUSIONS & RECOMMENDATIONS

Strong demographics from the echo boom generation will likely generate substantial rental housing demand over the next several years. Additionally, the Twin Cities Metro Area continues to see more lifestyle renters, those with busy professional lives and people who prefer to spend their free time in leisure pursuits rather than on upkeep and maintenance of a home.

The strongest sources of demand for new rental housing in the PMA will likely be young singles and couples without children in their late-20s to mid-30s who work in Saint Paul or nearby suburban communities. Mid-age households (never-nesters or empty-nesters) who want to sell their single-family homes and have more freedom for leisure pursuits could also account for a portion of demand for new rental housing in the area.

Recommended Development Concept

Based on our assessment of market rate rental housing in the Market Area, including the occupancy rates and overall performance of new product, we find sufficient market support for additional market rate general occupancy rental units in the PMA. The 58-unit apartment development being considered for the Site would capture 4.9% of the excess demand for rental housing in the PMA.

Our review of current market conditions in the Market Area suggests that pricing and sizing for new construction, market rate general occupancy rental apartments would range as shown in Table 18 below.

Unit Type	Total Units	% of Total	Average Square Feet	Avg. Market Rate Rent Range	Rent Per Square Foot
Studio	3	5%	500 - 650	\$975 - \$1,100	\$1.69 - \$1.95
1BR	26	45%	700 - 850	\$1,200 - \$1,400	\$1.65 - \$1.71
1BR+Den	6	10%	900 - 1,000	\$1,425 - \$1,550	\$1.55 - \$1.58
2BR	23	40%	1,050 - 1,200	\$1,575 - \$1,700	\$1.42 - \$1.50
Total/Average:	58	100%	894	\$1,389	\$1.55
*Pricing is in 2016 dollars and can be trended upward by 2.0% to occupancy.					
Source: Maxfield Research & Consulting, LLC					

Considering that the target market for an apartment development will likely be young to mid-aged households, demand will likely be strongest for one-bedroom and two-bedroom units. However, offering unit floor plans such as a one-bedroom plus den should be considered. These unit layouts are often popular with older adults, seniors, and those that frequently work from home as the den will generally be used as a home office or guest room.

CONCLUSIONS & RECOMMENDATIONS

Our assessment of appropriate unit sizes takes into account the likely target market for these units, competitive developments, and what we believe prospects may be willing to pay for new rental housing units in West St. Paul. Support for the recommended pricing will require offering modern features and amenities, similar to what exists at the newest projects in the area.

We recommend that a project offer the following unit features and common area amenities:

- Stainless steel kitchen appliances and solid surface (i.e. granite or quartz) countertops;
- Open floor plan, walk-in closets, in-unit full size washer and dryer, nine-foot ceilings, extra storage, and secure entry;
- Outdoor living options such as balconies, patios, grills, and a fire pit;
- Heated underground or attached garage parking (one stall included in the rent);
- Fitness room, bike storage, and social lounge/party room with large-screen television and a media/gaming center;
- Pet-friendly.

In an effort to maximize density on the Site, we suggest that a fourth floor be considered for the development concept. A four-story building would be consistent with new suburban apartment developments elsewhere in the Metro Area, as reflected in our survey of newer market rate apartment properties. A portion of the first floor could be utilized for common area amenities such as a fitness room and social lounge. Additional residential units could occupy the remainder of the first floor, and we find excess market demand in the PMA to support additional units on the Site.

Shared amenities at the existing Westview Park Apartments complex that are not available on the subject property (i.e. swimming pool) should be made available to tenants of the new building. We recommend that the landlord provide professional management, grounds/common area maintenance, trash removal, and common-area internet. Other utilities and optional fees (i.e. gas, water, electricity, telephone, cable/satellite television) should be the responsibility of the tenant.

We anticipate that the proposed development concept will be well-received by the target market. Household growth and turnover in the Market Area should lead to a successful lease up of the project; however, this will not be at the expense of existing facilities in the PMA as the current supply of market rate rental housing is well-below equilibrium.

Projected Absorption

Based on current market conditions and vacancies among the existing competitive properties in the area surrounding the subject property, we estimate that a 58-unit development on the subject property coming on-line in early-summer 2018 would have approximately 20% of its units pre-leased with the remaining units leasing at a rate of five to seven units per month, on average. At this absorption rate, stabilized occupancy (95%) would be reached in roughly six to eight months.

This projected absorption rate assumes that the project would open for occupancy during the peak leasing season between early spring and mid-fall to allow for the maximum exposure to prospective renters and that an effective marketing campaign will be undertaken to generate awareness of the project. If the project comes on-line during the late fall or winter months, absorption will be slower, resulting in a slightly extended period from lease-up to stabilized occupancy.