



### Greater MN – 2016 Apartment Trends/2017 Expectations

By Mitchell Simonson, MAI

Over the past 12 months, Chadwick Appraisals has appraised numerous Greater Minnesota apartments ranging in size from about 20 to 150 units. The geographic region has spanned the "banana belt" surrounding the Minneapolis/St. Paul metropolitan area. The

primary cities forming the "banana belt" include Rochester, Mankato, St. Cloud and Duluth. This allows us to complete in-depth analysis of historical income and expense statements on assignments completed throughout the year. Additionally, our firm supplements the internal observations and data by constantly interviewing apartment owners, brokers, property managers and lenders.

This article discusses general rent, vacancy, operating

Greater MN  
page 5

### The early signs of a tech boom in CRE

By Andy Gutman, Farbman Group

While the real estate industry has generally not been an early adopter of new technologies, the last several years have been different—we have seen the beginning of a true tech boom in the industry.



Gutman

The relatively aggressive integration of new technologies and tools is an exciting development, and real estate professionals are not only becoming more tech savvy, they are continuing to find new ways to use these new solutions to innovate and add meaningful value to brands and businesses.

In a relatively short amount of time, tech has evolved from a rare luxury to an inescapable reality and an invaluable piece of the professional toolkit. Real estate professionals are taking advantage of increasingly powerful, affordable and user-friendly drones to take stunning aerial footage of properties and

CRE Tech  
page 8

### Numbers from Real Capital Markets prove one thing: CRE had a boom year in 2016

by Dan Rafter

How strong a year was 2016 for commercial real estate? The numbers from Real Capital Markets, a global marketplace for buying and selling commercial real estate, say that last year was a record-breaker for the industry.

Real Capital Markets facilitated the disposition of 8,508 commercial properties, bank REO properties and loans in



Shanahan

Capital Markets reported a record year in 2016, that means that the commercial

real estate industry in general enjoyed a boom year, too.

More than 50 percent of U.S. commercial assets sold are brought to the market through Real Capital Market's online marketplace, according to data from the company.

"We continued to see an incredible appetite for commercial real estate investments, from foreign and domestic sources," said Steve Shanahan, executive managing director of Real Capital Markets, in a written statement. "It was

another record-breaking year."

Of the more than 8,500 commercial property and loan dispositions facilitated by Real Capital Markets last year, 35.9 percent were multifamily assets, 19.5 percent commercial office buildings, 18.1 percent retail assets and 10.6 percent industrial assets.

"RCM's Investor Sentiment Survey showed that investors are still aggressively looking for acquisitions and are intently focused on keeping the course

Boom Year  
page 8

# Contents FEBRUARY 2017 • VOLUME 33, NUMBER 2



- 1 **GREATER MN – 2016 APARTMENT TRENDS/2017 EXPECTATIONS**
- NUMBERS FROM REAL CAPITAL MARKETS PROVE ONE THING: CRE HAD A BOOM YEAR IN 2016**
- THE EARLY SIGNS OF A TECH BOOM IN CRE**
- 12 **MORE GOOD NEWS FOR MULTIFAMILY BROKERS, DEVELOPERS: NUMBER OF RENTER-DOMINATED CITIES KEEPS GROWING**
- 14 **WANT TO SPEND LESS ON COMMERCIAL CONSTRUCTION COSTS? BUILD NOW, NOT LATER**

## Departments

PEOPLE	4
NEWS	6

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# Greater MN

From page 1

expense, and capitalization rate trends in outstate Minnesota. A quick overview of each is summarized below, followed by more details.

**Rents** – Generally speaking, rents remained strong in 2016 with most communities able to increase rents. The exception is Fargo/Moorhead where rents are flat as supply exceeds current demand.

**Vacancy Trends** – Vacancy rates in communities such as St. Cloud, Mankato, Rochester, county seats and smaller communities remained quite low. Fargo/Moorhead is experiencing significant over supply and vacancies have climbed to 9.2%.

**Operating Expenses** – Operating expenses in outstate Minnesota have held pretty stable. With rising sale prices, real estate taxes continue to be a concern for property owners.

**Cap Rates** – Cap rate compression was prevalent in 2016 and more noticeable in the larger metro areas such as St. Cloud, Rochester, and Mankato. More buyers extended out from the Minneapolis/St. Paul metropolitan in search of investment opportunities with higher yields.

**Rent Trends** – The quick story here is



rents continued their upward ascent that has now been in place for several years in the outstate MN apartment market. Overall, low vacancies and steady renter demand allowed owners and managers to implement one or more rent increases. A few participants reported rent growth of 5% to 8%. However, not all properties are operated and managed the same and some owners tend to be more conservative with regard to rent growth.

It seems the one notable exception is the Fargo/Moorhead metropolitan area. As the physical vacancy rate approaches 10%, rents have held flat for the last 18 months and new apartments coming online are offering rent concessions to lease-up (Appraisal Services, Inc.). Another market to keep an eye on over the next 12 to 18 months is the St. Cloud metropolitan area as multiple projects are under construction. At present, the

St. Cloud market remains healthy with rent growth reported across all apartment classes.

By and large, rent increases occurred in 2016 across smaller communities such as county seats. This is attributable to fewer new units being added in these areas as rents are lower and make it more difficult to justify new construction. Some participants opined rent increases may slow some in 2017.

**Vacancy Trends** – In 2016, it seemed every outstate community surveyed with the exception of Fargo/Moorhead had stabilized vacancy rates (less than 5%). There was some thought one year ago that vacancies may rise slightly in 2016. However, based on the data, this did not appear to be the case.

According to data compiled by Fargo appraisal firm Appraisal Services Inc., the current vacancy rate in Fargo-Moorhead metropolitan area is 9.21%. This represents a substantial increase from 6.4% one year ago. The following table shows the quarterly vacancy rate and number of units under construction in the Fargo-Moorhead metropolitan area over the past five years.

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