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Multi-Family For-Sale Housing Boom

Matt Mullins

New and existing residential condominiums, townhomes, and senior cooperatives were a hot commodity in 2004. Once considered second-rate to the single-family counterpart, attached housing has significantly gained stardom within residential construction. Year end permit statistics for 2004 reveal that multifamily housing (or attached housing) represented over one-half (53%) of all new planned housing units in the Twin Cities Metropolitan Area (according to the Builders Association of the Twin Cities). In comparison, new multifamily housing represented about 37% of all new housing starts in 2000, an increase of about 16% over the past four years.



Grant Park - Minneapolis

Multifamily Housing Defined

Multifamily housing not only includes condominiums and townhouses, but other housing types such as historic row homes, cluster homes, manor homes, senior cooperatives, and patio homes. According to the Community Associations Institute, an estimated 50 million Americans today choose to live in a homeowner association development, one out of six Americans. However, the two most prevalent multifamily housing choices today in the Twin Cities Metro Area and the Midwest are condominiums and townhomes.

Condominiums typically are high-density housing constructed as what's known as common interest developments (CIDs) -- you own everything in your unit, at least everything on your side of the walls. You are a shareholder (percentage owner) in the remainder of the buildings common areas and grounds. As a

shareholder you are a member of the CID's homeowners association, the organization responsible for the upkeep and care of buildings and grounds.

In general, ownership in a townhome includes the physical structure, the land on which the structure is situated, and often the patio or yard associated with the specific structure. The balance of the property, including common areas and any amenities, are owned by members of the association.

The benefits generally enjoyed by owners of both condominiums and townhome properties usually include common yard care, snow removal, and service and maintenance, with each member being assessed a monthly proportionate fee for the services and care for the property.

Multifamily Housing Buyer Profile

Traditionally, attached housing has been an affordable option for first-time homebuyers and an option for downsizing empty-nesters seeking maintenance free housing. Most buyers looking for townhomes and condominiums want to avoid the hassles of maintaining a home, particularly older adults and seniors. Many younger purchasers are singles (with or without children) and couples without children. First-time home-buyers like the affordability while many older adults who downsize are purchasing to avoid maintenance of a single-family home such as shoveling, mowing, etc.

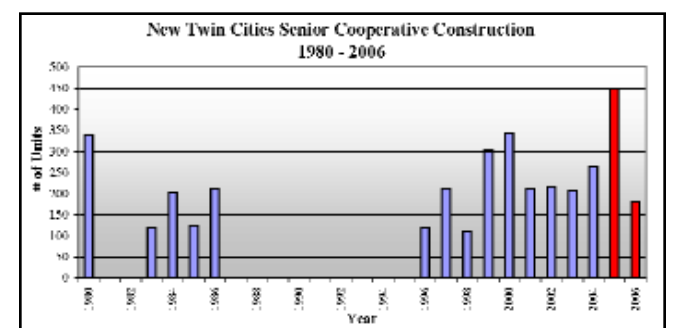
High land prices are a result of the scarcity of open space that is close to concentrations of employment and amenities. High land costs often force home-buyers to sacrifice large lots for more living space. The biggest selling point is more living space for less monthly costs than the single-family counterpart. Since attached homes have lower land and construction costs, buyers not only get increased square footage, but other unit features such as top-line appliances and designer unit features.

Specifically, little land availability and higher land costs in the core cities of Minneapolis and St. Paul and the inner-ring suburbs has been cost prohibitive for single-family home construction. Therefore, multifamily and attached housing alternatives have been the best alternative for many municipalities and developers. Growing suburbs are also requiring more and more higher-density housing to have a more diverse base of housing availability.

Senior Cooperatives

Senior Cooperatives appeal to some extent to both the rental and ownership housing markets. Cooperative developments have allowed prospects an ownership option and homestead tax benefits without a substantial upfront investment as would be true in a condominium development or life care option. In addition, there is a strong sense of community that usually results from the cooperative concept because each resident owns a share of the entire building, not just an individual unit, and is usually involved in the decision-making process. Residents of the cooperative developments tend to take an active role in overseeing the operations of their property. Cooperatives can also appeal to moderate income households since some cooperative pricing structures allow for varying share prices (unit sale price) and monthly fees. Depending on the cooperative's pricing structure, households can choose to put a large amount of the share cost down and pay a lower monthly fee or put a small amount of the share cost down and pay a larger monthly fee. Senior Cooperatives have been extremely successful in the Minnesota, especially the Twin Cities Metro Area.

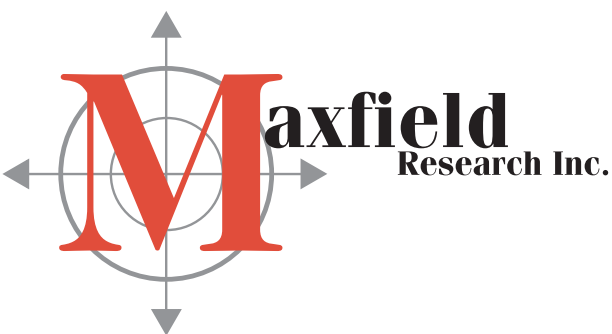
Between 1980 and 2004, nearly 3,000 senior cooperative units were constructed in the Twin Cities Metro Area. Approximately two-thirds of the units were constructed between 1996 and 2004. In fact, no cooperative units were constructed between 1987 and 1995. Overall, existing cooperative senior housing developments have a vacancy rate of 3%, indicating pent-up demand for new product. The resurgence in owner occupied age-restricted housing has provided a number of diverse housing options for today's seniors.



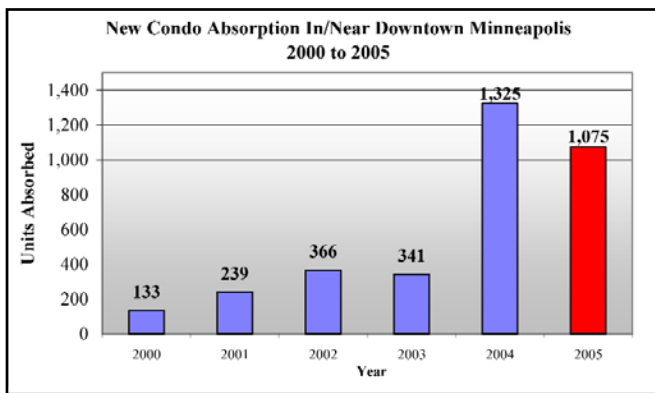
Condominium Boom in the Twin Cities Metro Area

Without a doubt, the Twin Cities Metro Area (specifically the core cities of Minneapolis and St. Paul) has witnessed a tremendous growth in new condominium construction in recent years. Record low interest rates and a lack of demand for new office space and

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rental apartments has spurred condo interest among developers. However, a large generator of this demand has been due to demographic shifts and the desire of buyers who want the convenience of living close to their place of employment and entertainment options in Downtown.



In and near the Downtown Minneapolis core, we estimate about 1,300 condominium units have been absorbed in new developments in 2004. The graph above illustrates the number of new condo's absorbed in or near Downtown Minneapolis in the past five years. As illustrated in the graph, 2004 witnessed an incredible absorption of new units,

surpassing 2003's absorption numbers by nearly 1,000 units. In 2005, we estimate a slight decrease in the number of units absorbed. However, the number of planned and proposed projects in 2006 and beyond could surpass 2004's record year.

Nationwide, condominiums set a new sales record in 2004, with about 1 million units sold, representing an increase of over 112,000 new condominium sales in 2003, an 11.3% increase. The nationwide median price of a condo was \$197,000 in 2004, an 18% increase over 2003.

2005 Outlook

According to the National Association of Realtors (NAR), nationwide home prices are expected to increase by about 5% to 6% in 2005. Although this is a slowing of 2004's increase of approximately 8%, the increase will still be rising faster than inflation. Home sales are expected to fall slightly as slower home price gains reduce investor demand and interest rate increases will slow trade-up and first-time buyers. According to NAR, multifamily housing prices are poised to keep

climbing, in part because of the favorable demographics.

Baby boomers entering retirement age will seek to downsize and purchase more manageable properties in the coming years. Furthermore, many of the baby boomers grandchildren will soon be entering the housing market, and they may be first-time homebuyers, and multifamily housing may be their best affordable option. Increasing interest rates, however, could knock some buyers out of the market and could slow down the aggressive multifamily momentum of the past few years. However, the Twin Cities housing market will likely perform better than the overall national residential market. With strong growth of older adults and young seniors, we anticipate that demand for housing products such as townhomes, detached villas, townhomes, and condominiums will increase substantially in communities throughout the region. Since the vast majority of older adults and young seniors are homeowners, we anticipate that those considering moving into multifamily housing will primarily prefer owned housing products as well.

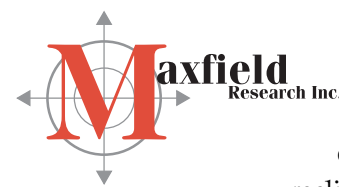


Matt Mullins
Senior Research Analyst

Mr. Mullins joined Maxfield Research in January of 2003 as a Research Analyst. He's been in real estate research and consulting for six years, specializing in assessing market demand for proposed and existing real estate projects, conducting feasibility studies and real estate market analysis.

Matt has conducted real estate market research on behalf of a wide variety of clients including the following: housing, retail, tourism, entertainment, gaming, lodging, government and financial institutions.

Matt is a graduate of St. Cloud State University with a degree in Local and Urban Affairs and is a licensed Real Estate Broker in the state of Minnesota. Matt is a member of the Minneapolis Association of Realtors, the Minnesota Association of Realtors, and the National Association of Realtors.



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its public and private assets. Consulting services provided by Maxfield Research support developers, planners and financiers of senior housing, multifamily housing, government-sponsored projects and commercial developments.

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