Executive summary | September 2024

Wipfli Real Estate Leaders Exchange

Host: Cory Bultinck | Wipfli

SME: Taylor St. Germain | ITR Economics

Facilitator: Austin Evans | Profitable Ideas Exchange

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Introduction

Seventeen leaders from the real estate industry met virtually to share leading practices and discuss topics of mutual interest based on an agenda created through a series of preinterviews. From Wipfli, Cory Bultinck, partner and national real estate leader, hosted the exchange and Austin Evans of Profitable Ideas Exchange facilitated.

Taylor St. Germain, economist and senior consulting speaker at ITR Economics, joined to provide subject matter expertise. The focus of the discussion covered the following topics over the course of the hour:

- Economic forecast
- Case study

Economic forecast

- Taylor St. Germain, an economist with ITR Economics, gave a brief overview of where they see the economy headed over the next three years. In 2024, the GDP has slowed down, but forecasters expect it to pick up again in 2025 and 2026 as interest rates "imminently" continue to drop. St. Germain stressed that the markets are in a "wait and see" mode until the election, but that "the GDP doesn't care whether a Democrat or a Republican is in office," since growth under both parties has been a statistical dead heat over the last 30 years.

- The current economic slowdown presents an opportunity for builders to take advantage of the pause and assess their next steps as they prepare for a rebound in 2025 and 2026. St. Germain sees above-average growth for the U.S. economy in 2025 and 2026, with a lot to be excited about regarding the real estate market.

Economic forecast

- Looking at the data, multifamily unit growth rates are coming down year over year. The market is coming off record building years just the years prior. Single and multifamily units aren't in sync. In fact, they are moving almost counter-cyclical to each other. In addition, developers and builders are grappling with commercial space in a post-COVID-19 world. Meanwhile, the market for commercial space is flat to mildly down, but the bottom isn't falling out of the market. Although the real estate market as a whole is still contracting, St. Germain predicts a soft landing in 2025 and 2026, not a hard landing. One can see this pretty clearly by looking at the trend for growth rates.

- A look at demographic trends shows that the highest population growth rates (on a percentage basis) are coming from "hotbeds" in places like Texas, Florida and the Carolinas. While that may be signaling the "hollowing out" of the middle states, or even the shrinking of the Northeast, it may be good for states such as California, which will benefit from immigration.

Case study

- The discussion turned to the case study of a multifamily development in Eagan, Minnesota. Eagan is an affluent suburb of the Twin Cities, with close proximity to both downtowns and the culture, sports and dining opportunities they offer, as well as the Mall of America and the Twin Cities International Airport.

- The owners are primarily multifamily unit operators. The company has 60,000 units across the country, and another 25 million square feet of commercial space. However, the owners consider the development in Minnesota to be the "crown jewel" of what a mixed-use development can look like. It is a 200-acre campus.

- The development has completed its second of three phases, building and leasing luxury multifamily apartments with on-campus amenities, such as pickleball courts, indoor and outdoor pools, a hotel, and others. The development has a Nordic theme throughout and distinguishes itself in the category as a Class A facility that partners with others, such as the United States Tennis Association, to provide superior amenities for those interested in sports and other attractions. The company has an events arm, and they try to have events going on 365 days a year.

- With its second phase complete, the development now has 480 multifamily units open, and they have added amenities in phase two, such as an indoor pool, a sauna, a fitness center and a sports simulator. It also has outdoor amenities, such as grilling stations, and other kinds of outdoor activities. Leasing rates in both phases have been high, with 95% of phase one leased out and 72% of phase two leased out. A survey of residents highlights a selling point of the development — they feel like the amenities provide an experience that is almost like resort living.

Case study

- Eagan is an affluent suburb and is attracting families moving out of the urban core who still want to be close to the airport for work. Rental data shows that the average renter is between ages 35 and 45, some with kids and some without. The development has a high number of pilots who like to be close to the airport for travel, but may also have children and want the amenities of multifamily living for their spouses and children.

- Developers need to weigh the benefits of adding amenities versus adding more units or increasing rental fees. Often when a resident's lease is up for renewal, they may realize they don't use the amenities (such as a fitness center or soaking bathtub) that they thought they would use when they originally signed the lease. As a result, the Eagan development continues to evaluate what their renters want and how to position themselves above their competitors in the mixed-use, multifamily luxury rental market.

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