Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	8,198
UNITS DELIVERED (YTD)	3,448

MARKET FUNDAMENTALS

VACANCY RATE	4.9%
YEAR-OVER-YEAR CHANGE	-30bps
ASKING RENTS	$1,556
YEAR-OVER-YEAR CHANGE	+3.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$122,900

MINNEAPOLIS MULTIFAMILY
2Q 2024

MARKET INSIGHTS

Investors ramping up activity as deliveries slow

HIGHLIGHTS

- The Twin Cities multifamily market posted improved performance in the second quarter, with vacancy tightening and rents on the rise. Some of the strengthening is associated with a slowing pace of new construction; developers are on schedule for a third straight year of easing deliveries. Completions are expected to slow to approximately 4,700 units in 2025, and about 4,000 units are slated to come online in 2026.
- Area vacancy reached 4.9 percent in the second quarter, 30 basis points lower than the rate one year ago. Since 2020, vacancy has remained between 4 percent and the low-5 percent range.
- Asking rents continued to push higher, rising 1.8 percent during the second quarter to $1,556 per month. During the past year, rents have advanced by 3 percent, a slightly slower pace than the market's recent average.
- Sales activity surged in recent months. Total sales through the first half of 2024 have doubled levels recorded in the same period of last year. Prices are a bit higher; the median price year to date is $122,900 per unit, up 6 percent from the 2023 figure.

MINNEAPOLIS MULTIFAMILY MARKET OVERVIEW

Multifamily properties in Minneapolis-St. Paul performed well during the second quarter, while developers have maintained a slowing pace of inventory growth. Construction peaked in the Twin Cities in 2021, and annual completions have slowed in each subsequent year. The current conditions are allowing for some modest vacancy tightening. The current vacancy rate is 30 basis points lower than it was one year ago and similar to its average level since 2020. Recent vacancy improvements fueled the region's largest quarterly rent gain in two years. Asking rents advanced by 1.8 percent during the second quarter and current rents are up 3 percent compared to levels from one year ago.

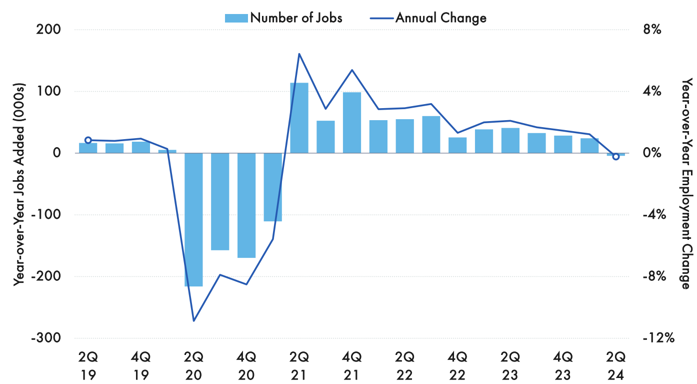
Investors ramped up activity levels in the Twin Cities during the second quarter. Transaction volume during the latest three-month period outpaced levels recorded in the first quarter by 67 percent, and sales through the first half of 2024 have doubled levels recorded in the same period of 2023. Additionally, the number of properties that traded in the first half outpaced totals from both 2021 and 2022. A more certain outlook for the region's multifamily sector is allowing the investment market to normalize, and the transaction mix has remained consistent from 2023 to 2024, with lower-tier assets making up roughly half of all sales to this point in the year. Pricing has picked up in 2024 after dipping last year.

EMPLOYMENT

- Employment in the Twin Cities dipped in recent months after steady gains in prior quarters. Year over year, total employment declined by 4,400 workers, a decrease of 0.2 percent.
- In a period where many sectors recorded modest dips or flat conditions, the education and health services sector continued to post strong growth during the past year. Employers in this sector added 22,500 workers during the past 12 months, an increase of 6.4 percent.
- Polar Semiconductor is moving forward with a $525 million expansion to its existing Bloomington location. The expansion is expected to double the location's production capacity while bringing in 160 new jobs in the process within two years.
- **FORECAST:** Employment growth should gain momentum in the coming quarters, but annual gains will likely be modest in 2024. Total employment is forecast to increase by 10,000 workers for the full year, up 0.5 percent annually. Historically, annual employment growth in the Twin Cities has averaged around 1.5 percent.

Total employment is forecast to increase by 10,000 workers.

EMPLOYMENT OVERVIEW



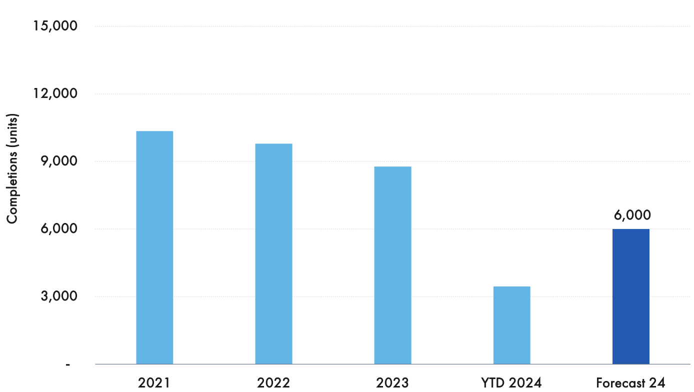
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Multifamily deliveries in the Minneapolis-St. Paul area were steady during the second quarter, as completions are tapering off after elevated levels in the preceding three years. Projects totaling more than 3,400 units came online during the first half, down 19 percent from the same period in 2023.
- The construction pipeline has thinned in recent quarters, as projects totaling nearly 8,200 units are currently under construction, down 44 percent from one year ago. Construction remains active in several submarkets, including Apple Valley/Lakeville/Hastings and Maple Grove/Golden Valley/Plymouth.
- Permitting has been steady but modest for three consecutive quarters now. Developers pulled permits for roughly 1,200 multifamily units during the second quarter, closely tracking levels recorded in the preceding two quarters.
- **FORECAST:** Multifamily deliveries are forecast to return closer to historical norms in 2024, as projects totaling 6,000 units are expected to come online for the full year. Since peaking at more than 10,000 units in 2021, annual completions have declined in each of the following years.

Projects totaling more than 3,400 units came online during the first half.

DEVELOPMENT TRENDS



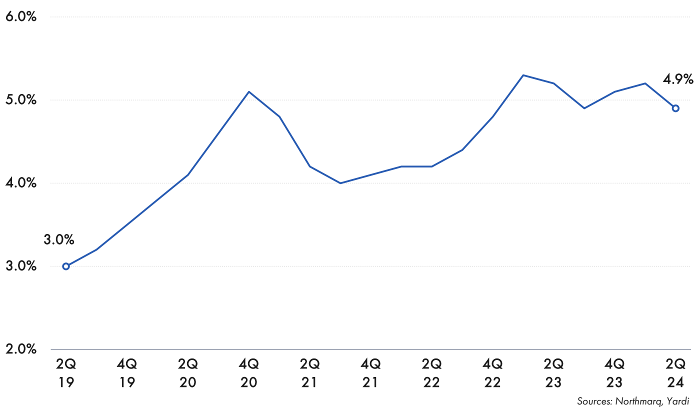
Sources: Northmarq, CoStar

VACANCY

Year over year, area vacancy declined by 30 basis points.

- Vacancy conditions in the Twin Cities have continued to perform well in recent months, particularly as supply-side pressures have eased. The vacancy rate declined by 30 basis points during the second quarter to 4.9 percent. Year over year, area vacancy declined by 30 basis points.
- Vacancy improved in both urban and suburban submarkets during the past year. Year over year, the vacancy rate in the urban areas declined by 30 basis points to 5.2 percent, while vacancy in the suburbs dipped by 20 basis points to 4.3 percent.
- Top-tier properties posted modest vacancy declines during the past year. The vacancy rate for Class A properties in the region finished the second quarter at 6.5 percent, down 20 basis points from levels recorded one year ago. Outside of the top tier, vacancies are generally ranging between 4 percent and 5 percent for Class B and Class C properties.
- **FORECAST:** Vacancy in Minneapolis-St. Paul is forecast to hold steady in the second half, and the rate is expected to end the year at 4.9 percent. This would mark a dip of 20 basis points for the full year after the rate rose in each of the two years prior.

VACANCY TRENDS

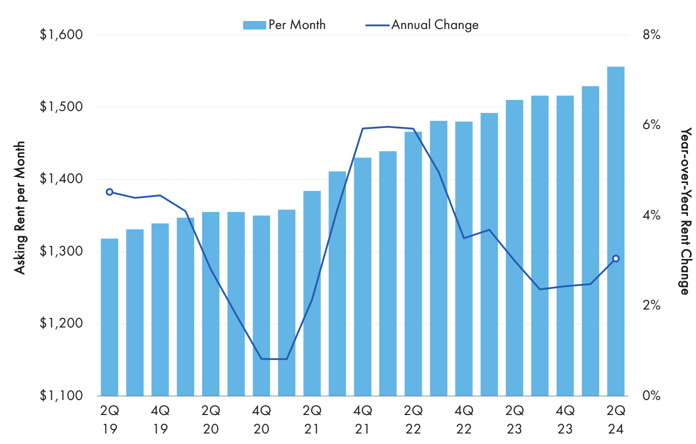


RENTS

- Apartment rents in the Twin Cities continued to rise in recent months, increasing by 1.8 percent to $1,556 per month in the second quarter. Year over year, rents have gained 3 percent.
- Current rent increases are slightly lower than the region's recent average. Apartment operators have maintained positive annual rent growth during each of the past 5 years, with rents rising by an average of 3.4 percent per year.
- Asking rents for top-tier assets posted mild rent growth during the past year. Class A rents closed the second quarter at $2,117 per month, up 0.9 percent from one year ago.
- **FORECAST:** Area rents should continue to tick higher through the end of the year, but the pace will likely cool a bit. Asking rents are forecast to finish 2024 at $1,565 per month, up 3.2 percent annually.

Year over year, rents trended higher by 3 percent.

RENTS TRENDS

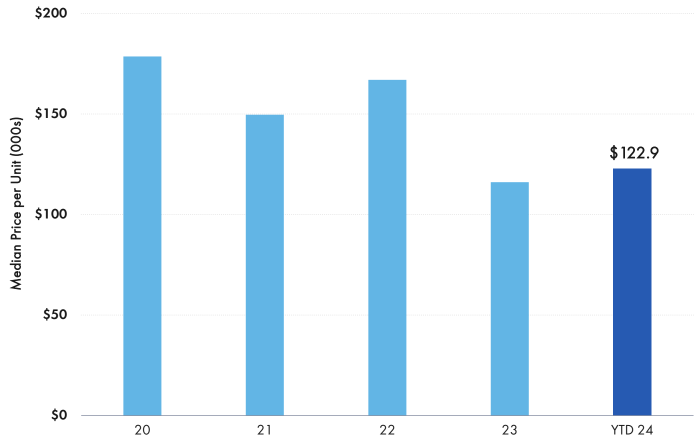


MULTIFAMILY SALES

- After slowing in 2023, sales velocity in Minneapolis-St. Paul has rebounded in recent months. Transaction volume during the second quarter was up 67 percent from the opening three months of the year and total sales during the first half of 2024 have doubled levels recorded in the same period of last year.
- Total transaction volume has surged when compared to levels in 2023. During the first half, more than $680 million was transacted, compared to about $255 million in the first half of 2023.
- The median price through the first half of 2024 was $122,900 per unit, up 6 percent from the figure in 2023. The transaction mix to this point in the year is nearly identical to levels recorded last year. Class C assets have accounted for nearly half of all sales, while Class B properties have represented about 35 percent of total transactions.
- Cap rates ranged between 6.00 percent and 6.75 percent during the sales that closed during the second quarter, closely tracking levels from earlier this year.

The median price through the first half was $122,900 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

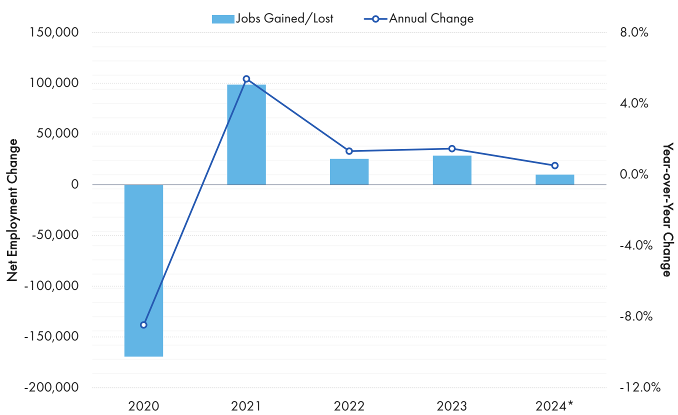
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
NordHaus	309-315 1st Ave NE., Minneapolis	2018	280	$74,250,000	$265,179
4Marq	400 Marquette Ave., Minneapolis	2015	261	$53,000,000	$203,065
The Barrington	7225-7255 Guider Dr., Woodbury	1998	282	$48,600,000	$172,340
Creekside Apartments	200 Nathan Ln N., Plymouth	1999	204	$46,600,000	$228,431

LOOKING AHEAD

Operating conditions in the Minneapolis-St. Paul multifamily market should maintain healthy performance through the remainder of the year. The supply-side pressures that are dragging on property performance across many major markets in the country are largely absent from the Twin Cities, which has allowed for modest gains in most property performance metrics. Annual inventory growth is forecast to return closer to the region's long-term averages after elevated completions from 2021 to 2023. Projects totaling 6,000 units are expected to come online in 2024 after developers completed an average of roughly 5,500 units per year from 2015 to 2020.

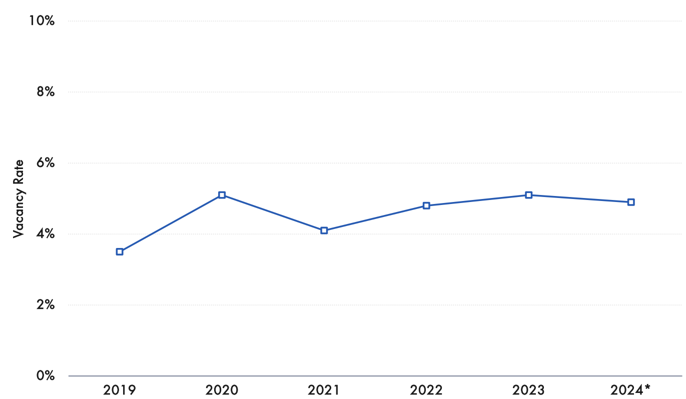
Operational stability is supporting investment conditions in the Twin Cities multifamily market, a trend that is likely to continue in the coming quarters. Transaction counts in the first half nearly matched the full-year total from 2023, putting the market on pace to significantly surpass levels recorded last year. While velocity in the investment market is up, the transaction mix is holding steady, with Class C properties accounting for about half of the properties changing hands during the past 18 months. With Class C properties generally outperforming the market averages, investor demand should remain in place.

EMPLOYMENT FORECAST



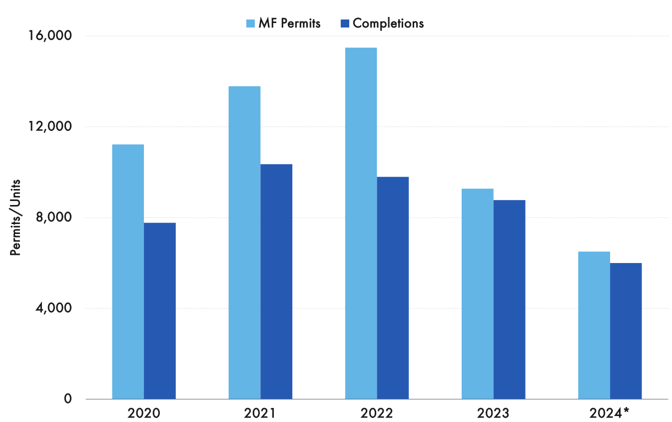
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



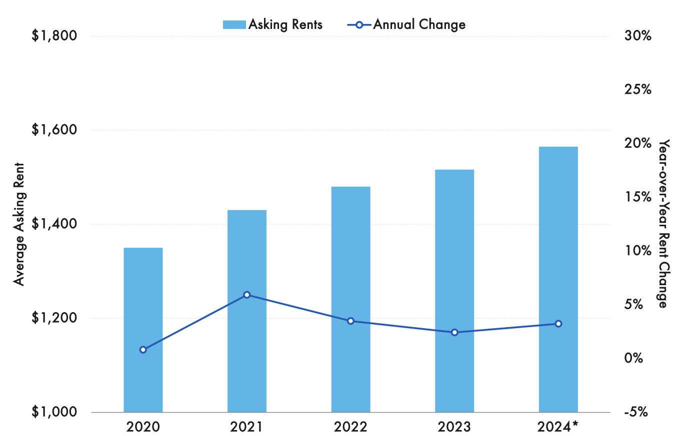
* Year End Forecast
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, CoStar, Census Bureau

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Yardi

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