

Market Insights

Minneapolis Multifamily 3Q 2022



Construction Activity



13,474

Units under construction

8,921

Units delivered (YTD)

Market Fundamentals



4.4%

Vacancy

+40bps

Year over year change

\$1,481

Asking Rent

+5.0%

Year over year change

Transaction Activity



\$190,000

Median sales price per unit (YTD)

Investment Activity Picks Up, Even as Rates Rise

Highlights

- The Minneapolis-St. Paul multifamily market remained in a strong position despite vacancy inching higher in recent months. Asking rents continued to rise during the third quarter, and developers are active as the pace of new deliveries is tracking last year's elevated levels.
- Local asking rents reached \$1,481 per month in the third quarter and are 5 percent higher than one year earlier.
- Sales activity accelerated during the third quarter while prices remain above last year's figure. The median sales price to this point in the year is \$190,000 per unit, up 27 percent from the median price in 2021. Cap rates are averaging in the mid-4 percent range.
- Area vacancy ticked higher in recent months after holding steady in recent quarters. The vacancy rate rose 20 basis points in the third quarter to 4.4 percent. Year over year, vacancy is up 40 basis points.

Minneapolis-St Paul Multifamily Market Overview

The Minneapolis-St. Paul multifamily market recorded a mixed performance during the third quarter, as asking rents continued to rise even as vacancy rates inched higher. Although more than 2,600 units were absorbed in the Greater Twin Cities region in the last three months, net move-ins still trailed supply growth, resulting in the uptick in area vacancy levels. The current vacancy rate, which is at 4.4 percent, is slightly above the long-term trend for the area; vacancy averaged 3.8 percent during the past five years. Multifamily operators raised rents for the seventh consecutive quarter, fueled by healthy renter demand and a strong local economy.

Multifamily investors remain active in the Minneapolis-St. Paul market as deal volume picked up during the third quarter, following a dip in sales activity in the previous period. Pricing remained elevated as the median transaction price thus far in 2022 is \$190,000 per unit, up 27 percent from the median price last year. While deals have traded across the quality spectrum to this point in the year, Class B and Class C assets have accounted for the bulk of the transaction mix. Additionally, sales activity occurred throughout the metro area in recent quarters with investors finding deals in both the city center as well as more outlying suburban areas.

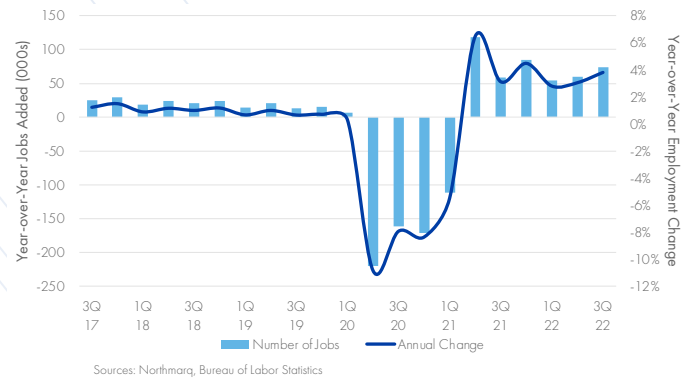
Employment

- Area employers continued to add jobs during the third quarter, although the pace of growth cooled from recent periods; the local labor market added 11,000 positions in the last three months. Year over year, total employment advanced by 3.8 percent with the addition of 74,100 jobs.
- White-collar industries in the Twin Cities outperformed most other employment sectors during the past 12 months. Year over year, the professional and business services sector grew by 19,100 workers, a gain of 6 percent.
- JPMorgan Chase recently announced plans for 40 branch locations in the Greater Twin Cities area by 2025. This is part of the bank’s aggressive expansion of its retail presence in new markets across the country. Chase has already opened 18 locations since arriving in the region in 2019 and plans to create more than 500 new jobs in the coming years.
- **Forecast:** Local employers will continue to add workers at a healthy pace in the fourth quarter. Total employment is expected to expand by 65,000 positions in 2022, a 3.3 percent growth rate.



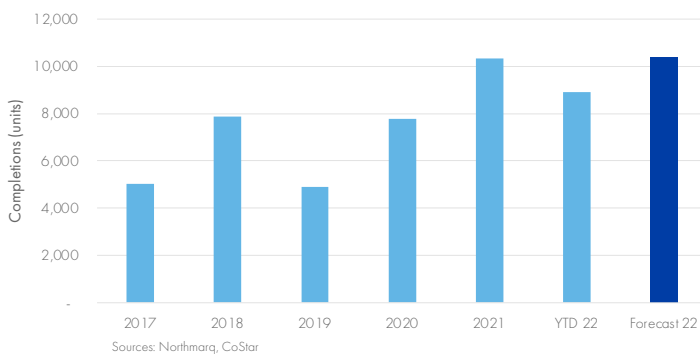
The local labor market added 11,000 positions in the last three months.

Employment Overview



Projects totaling more than 8,900 units have come online year to date.

Development Trends



Development and Permitting

- Apartment development activity accelerated in recent months as roughly 3,450 units were delivered during the third quarter. Projects totaling more than 8,900 units have come online year to date.
- Multifamily developers are extremely active throughout the Minneapolis-St. Paul area with projects totaling approximately 13,475 units currently under construction. New development is under way in nearly every submarket cluster throughout the Twin Cities with a concentration of activity around Downtown Minneapolis.
- Multifamily permitting activity fell 37 percent from the second quarter to the third quarter as developers pulled permits for nearly 3,300 units in the last three months. Despite the recent decline, permits for more than 15,000 multifamily units are forecast to be issued this year.
- **Forecast:** Apartment developers will continue to bring projects online in the final few months of the year. Projects totaling approximately 10,400 units are scheduled to deliver in 2022, closely tracking last year’s levels.

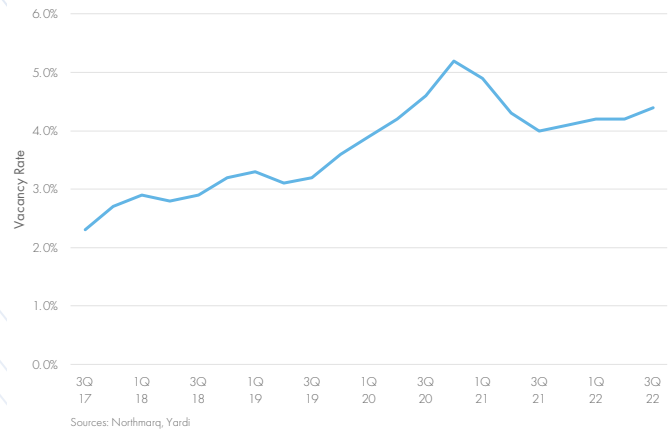
Vacancy

- After holding steady in the first half of the year, the combined vacancy rate in the Twin Cities rose 20 basis points during the third quarter to 4.4 percent. Conditions in the market are generally tight; local vacancy has averaged 3.8 percent during the past five years.
- During the past 12 months, vacancy increased by 40 basis points. The rate reached a low in 2015 and has gradually trended higher in the following years.
- While vacancy ticked higher across all asset classes during the past year, Class C properties continue to post the tightest vacancy rate. The vacancy rate in lower-tier units ended the third quarter at 3.8 percent.
- **Forecast:** Absorption levels and new supply are projected to closely track each other in the next few months, keeping the vacancy rate fairly steady. Vacancy is expected to end the year at around 4.4 percent, up 30 basis points from the end of 2021.



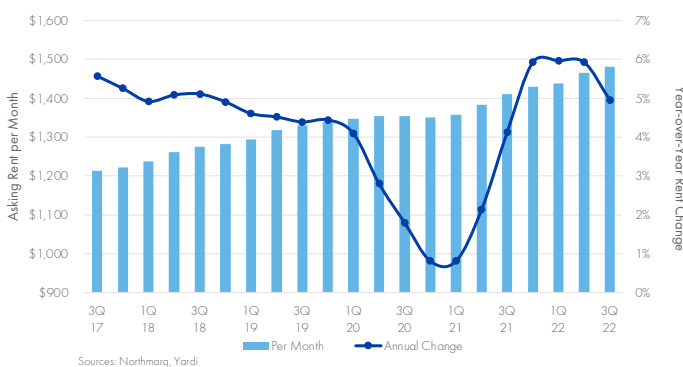
During the past 12 months, vacancy increased by 40 basis points.

Vacancy Trends



Year over year, local apartment rents are up 5 percent.

Rent Trends



Rents

- Rent growth cooled slightly in recent months but continued to push higher during the third quarter. Asking rents in the Twin Cities rose 1 percent in the last three months to \$1,481 per month.
- Year over year, local apartment rents are up 5 percent. The current pace of growth is in line with the long-term trend in the region; annual rent growth averaged 4.4 percent since 2015.
- Asking rents trended higher at a modest pace across all asset classes in recent quarters. At the top-end of the market, average Class A rents rose 3.8 percent year over year to \$1,815 per month.
- **Forecast:** Apartment rents in the Twin Cities are projected to inch higher in the coming months. Rent growth is forecast to reach 4.2 percent in 2022, finishing the year at around \$1,490 per month.

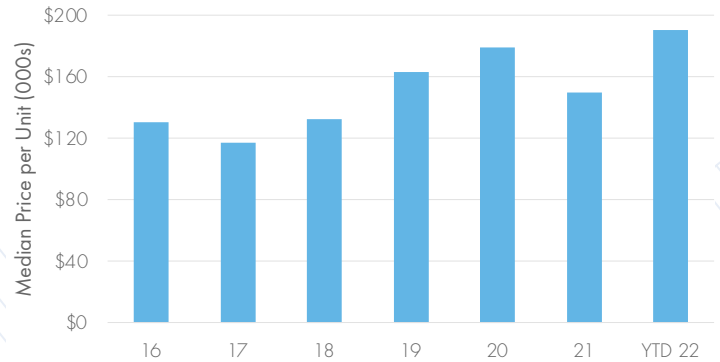
Multifamily Sales

- Multifamily transaction activity picked up during the third quarter as the number of deals increased 36 percent from the previous period. Investment volume in recent months still trails levels recorded at the start of the year.
- The median sales price to this point in 2022 reached \$190,000 per unit, up 27 percent from the median price last year. Sales activity in the third quarter was concentrated in outlying suburban submarkets.
- Cap rates held fairly steady from the second quarter to the third quarter, averaging around 4.5 percent.



The median sales price to this point in 2022 reached \$190,000 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

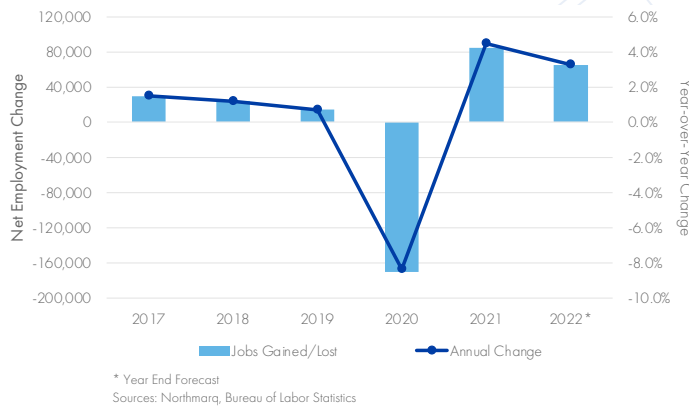
Property Name	Street Address	Units	Sales Price	Price/Unit
NEON Burnsville	14501 Grand Avenue South., Burnsville	275	\$76,500,000	\$278,182
Northlake Lofts	18400 Orchard Trl., Lakeville	208	\$60,000,000	\$288,462
Millennium at West End	5245 Wayzata Blvd., Saint Louis Park	158	\$50,700,000	\$320,886
Talus	3905-3925 Lancaster Ln N., Plymouth	192	\$34,500,000	\$179,688
Majestic Pines Apartment Community	1501 Park St., White Bear Lake	126	\$18,510,000	\$146,905
Marquette on the Hill	204-208 Western Ave N., Saint Paul	52	\$7,260,000	\$139,615

Looking Ahead

The Minneapolis-St. Paul multifamily market is expected to maintain mostly stable conditions for the remainder of the year. Local vacancy is projected to record minimal change in the next few months as absorption levels will likely closely track new supply growth. While multifamily development is underway throughout the metro area, a handful of projects located around Downtown Minneapolis are slated to come online by the end of the year. A few of the submarkets with upcoming deliveries include the Elliot Park, Audubon Park, and Kingfield neighborhoods. These levels of new development could result in some supply-side pressures beginning in 2023.

The multifamily investment market in the Twin Cities area should post a healthy fourth quarter, as transaction activity maintains a steady pace, and per-unit pricing remains above last year's figure. While sales volume in 2022 will not repeat last year's spikes, properties will still trade in the final months of the year with a continued focus on mid- and lower-tier assets. With the local unemployment rate below 2 percent, the local Minneapolis-St. Paul economy has one of the strongest labor markets in the Midwest region, which should support the local investment market and additional rent growth in the coming months and into 2023.

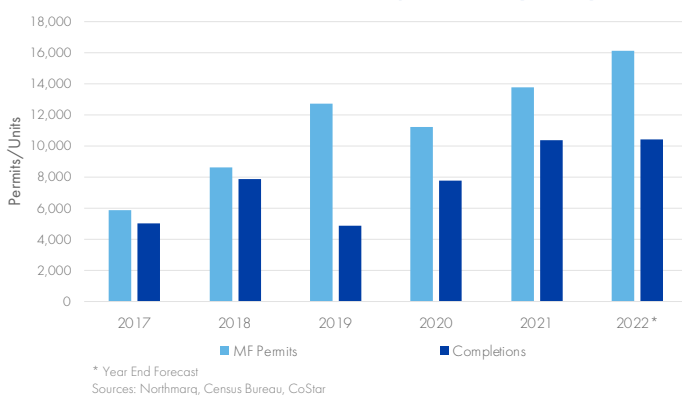
Employment Forecast



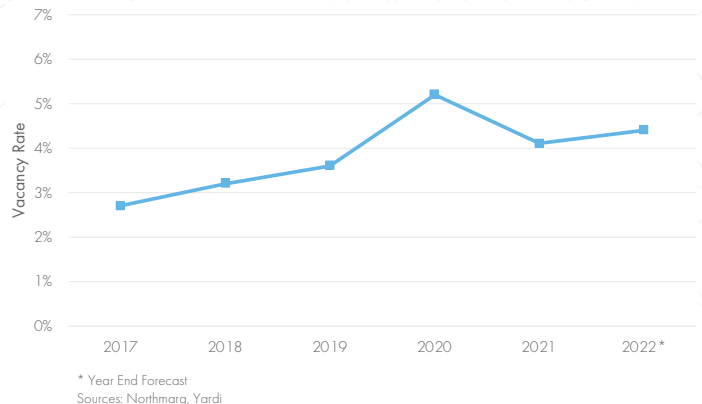
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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