Market Insights

Minneapolis-St. Paul Multifamily 2Q 2022

Northmarq

Construction Activity

13,291

Units under construction

5,462

Units delivered (YTD)

Market Fundamentals

4.2%

Vacancy

+10bps | Year over year change

$1,466

Asking Rent

+5.9% | Year over year change

Transaction Activity

$200,400

Median sales price per unit (YTD)

Tight Vacancy and Rising Rents Prompting New Development

Highlights

- Supported by steady growth in the local economy, the Minneapolis-St. Paul multifamily market maintained solid operating conditions during the second quarter. Rents pushed higher at a faster clip than at the start of the year, while vacancy stayed in the low-4 percent range. Construction of new units is gaining momentum.
- Local vacancy remained unchanged during the second quarter, finishing the period at 4.2 percent. Year over year, the rate improved by 10 basis points.
- Apartment rents rose at an accelerating rate in recent months, increasing 1.9 percent during the second quarter to $1,466 per month. Year over year, rents are up 5.9 percent.
- Transaction activity slowed in the last three months. The median sales price to this point in the year is $200,400 per unit, up 34 percent from the median price in 2021. Cap rates are averaging roughly 4.6 percent.

Minneapolis-St. Paul Multifamily Market Overview

The Minneapolis-St. Paul multifamily market posted a healthy performance during the second quarter with asking rents ticking higher and vacancies remaining within the tight range that has prevailed for the past year. Both supply and demand growth have been strong in recent quarters; net absorption has averaged around 2,500 units per quarter during the past year, and developers have delivered new units at a similar pace. The local vacancy rate has remained consistently tight enough to allow operators to raise rents. Area rents gained momentum in recent quarters, led by growth in outlying suburban submarkets including Savage and Jordan.

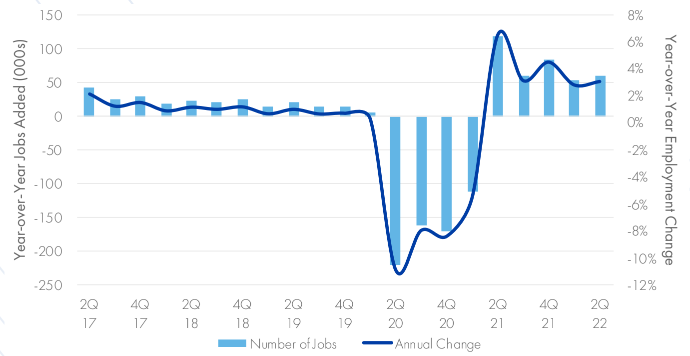
The local multifamily investment market slowed in recent months as deal volume during the second quarter was at its lowest level since the same period in 2020. Although fewer properties are trading, the investment landscape remains competitive with per-unit pricing pushing higher. The median sales price thus far in 2022 reached $200,400 per unit, a 34 percent increase from the median price last year. During the second quarter, the median price reached nearly $210,000 per unit. While a variety of multifamily assets have changed hands to this point in the year, Class B apartments accounted for nearly all of the deals in the last three months.

Employment

- The local labor market continued to expand at a rapid pace in recent months with the addition of 17,300 jobs during the second quarter. Year over year, total employment has grown by 59,500 positions, advancing roughly 3.1 percent.
- The manufacturing sector has consistently added jobs during the past 12 months. Year over year, this industry added 13,300 workers, a 6.8 percent growth rate.
- Seagate Technology recently began construction on an 81,000-square-foot expansion to its manufacturing site in Bloomington. The data storage company currently employs more than 1,000 workers at its 1.1 million-square-foot facility. With the new addition, Seagate will add nearly 50 positions to its local employment base.
- **Forecast:** Area employers are expected to continue to add workers to payrolls in the second half of the year. Total employment is projected to expand by approximately 70,000 jobs in 2022, a gain of 3.6 percent.

“ Year over year, total employment has grown by 59,500 positions.

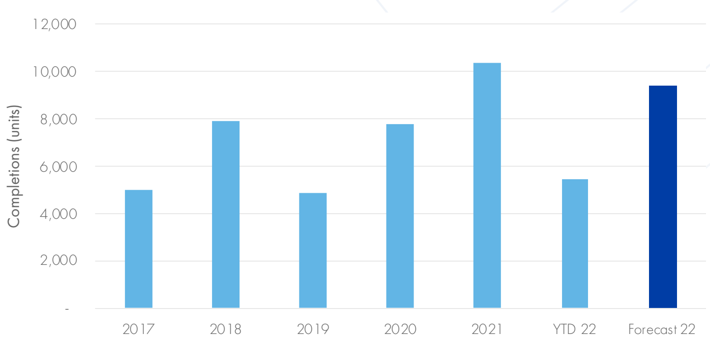
Employment Overview



Sources: Northmarq, Bureau of Labor Statistics

“ Projects totaling nearly 13,300 units are currently under construction.

Development Trends



Sources: Northmarq, CoStar

Development and Permitting

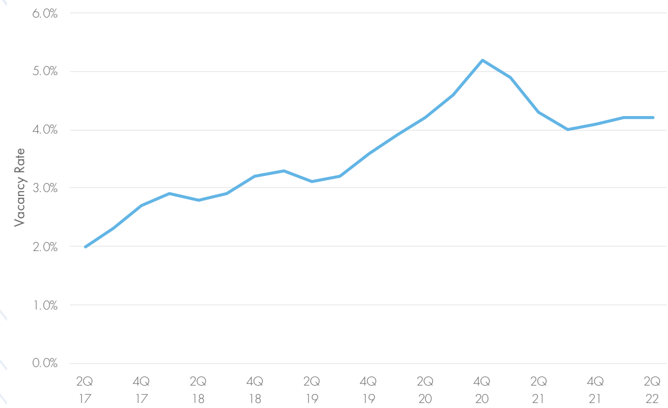
- Multifamily developers are extremely active in the Twin Cities. Year to date, nearly 5,500 apartment units have come online, a 21 percent increase from the same period last year.
- Projects totaling nearly 13,300 units are under construction in the region, down 15 percent from one year ago. Multifamily development is ongoing in both urban and suburban environments with a concentration in the Downtown Minneapolis and Maple Grove/Golden Valley/Plymouth submarkets. Combined, these areas account for roughly 25 percent of the units that have broken ground.
- Permitting surged in the first half of the year as developers pulled permits for more than 9,000 multifamily units in the last six months. The volume of multifamily permitting is on track to top a 20-year high if the current pace is sustained in the second half of 2022.
- **Forecast:** Apartment construction activity is expected to remain elevated in the coming quarters. Projects totaling nearly 9,400 units are slated to come online in 2022.

Vacancy

- The combined vacancy rate in the Twin Cities region has been fairly steady during the past several periods, ending the second quarter at 4.2 percent. Local vacancy peaked at the end of 2020 at 5.2 percent and has gradually trended lower in subsequent quarters.
- Year over year, the rate improved by 10 basis points. Vacancy is highest near the city centers of Minneapolis and St. Paul, where rates are 8.8 percent and 7.8 percent, respectively. These regions have been largely affected by the recent transition toward remote work.
- The largest improvements in vacancies in the past year occurred in upper-tier assets. The vacancy rate in Class A units dropped 80 basis points in the last 12 months to 4.9 percent.
- **Forecast:** Supply growth and net absorption are expected to closely track one another through the remainder of this year, keeping the vacancy rate in a tight range. Vacancy is forecast to finish 2022 at around 4.3 percent, up 20 basis points for the year.

> “ Year over year, vacancy improved by 10 basis points.

Vacancy Trends



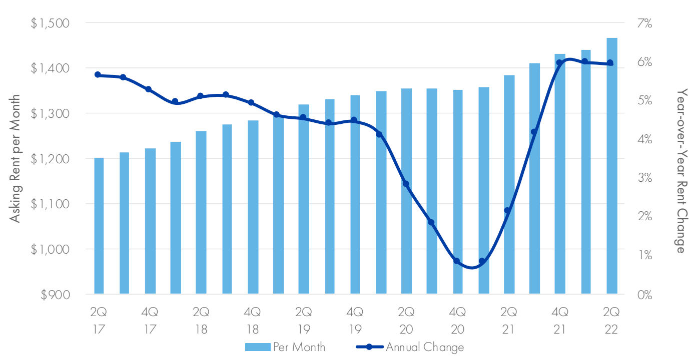
Sources: Northmarq, Yardi

Rents

> “ Year over year, asking rents are up 5.9 percent.

- Rent growth accelerated in recent months, following modest improvement at the start of the year. Average rents rose 1.9 percent in the second quarter to $1,466 per month.
- Year over year, asking rents are up 5.9 percent. Outlying suburban neighborhoods recorded the fastest rent growth in the metro area in recent quarters. In a handful of suburban submarkets, rents have jumped between 10 percent and 12 percent in the past year.
- Asking rents posted similar rates of increases across all asset classes in the last 12 months. In the Class A segment, rents have advanced 5.4 percent year over year, ending the second quarter at $1,806 per month.
- **Forecast:** Asking rents are expected to continue to rise in the coming periods, although the rate of growth will taper off from last year's pace. Average rents are forecast to increase about 4 percent this year to $1,490 per month.

Rent Trends



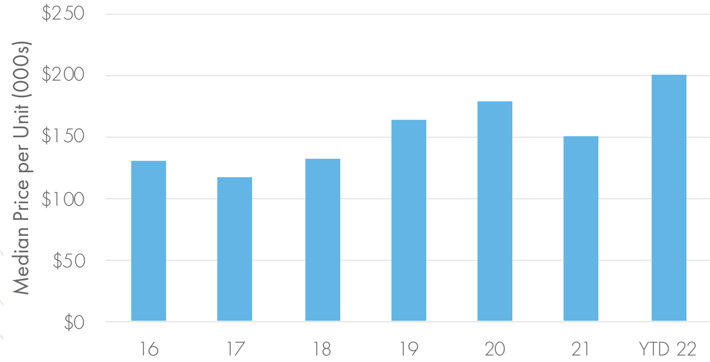
Sources: Northmarq, Yardi

Multifamily Sales

- Multifamily sales activity slowed in the second quarter as the pace of deals declined 65 percent from the start of the year. This pattern of heightened activity in the first quarter, followed by more modest sales volume in the following period, has occurred in each year since 2017. The market's cyclical peak investment activity was recorded in the final few months of last year.
- Despite fewer properties changing hands than in previous periods, sales prices are pushing higher. The median sales price to this point in the year is approximately $200,400 per unit, up 34 percent from the median price in 2021. During the second quarter, the median price topped $209,000 per unit.
- Cap rates have inched higher in recent quarters. The bulk of the transactions that have traded in 2022 have closed with cap rates in the mid-4 percent range. The average cap rate year to date is 4.6 percent, about 30 basis points higher than levels at the end of last year.

“ During the second quarter, the median price topped $209,000 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

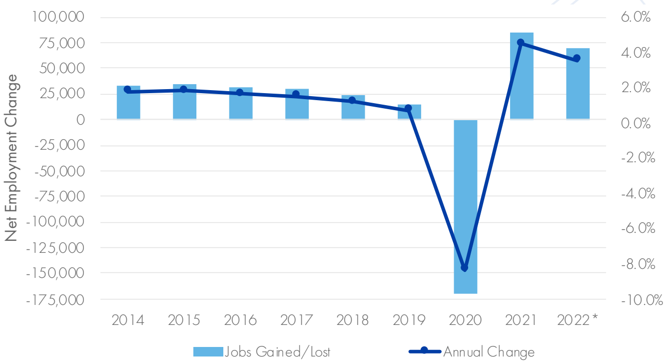
Property Name	Street Address	Year Built	Units	Sales Price	Price/Unit
The Cliffs of Minnetonka	12300 Marion Ln., Minnetonka	1985	456	$126,000,000	$276,316
SpringBrook Apartments	101-121 83rd Ave NE, Fridley	1988	361	$73,500,000	$203,601
Sapphire Apartments	7555 144th Ave NW, Ramsey	2020	118	$24,900,000	$211,016
The Shores	3150 Lexington Ave N, Shoreview	2002	68	$14,000,000	$205,882
MN46	4561 Minnehaha Ave, Minneapolis	2020	54	$12,115,000	$224,352
The Darmouth and Castleton	214-220 E 19th St, Minneapolis	1922	54	$6,750,000	$125,000

Looking Ahead

Property fundamentals in the Minneapolis multifamily market are set for moderate growth in the remainder of the year. Asking rents are forecast to continue to rise at a sustainable pace, with the increase forecast for this year expected to closely track annual average rises since 2015. The vacancy rate is forecast to stay in the low 4 percent range. The local employment market is expected to remain a source of new demand, with businesses likely to continue to add back jobs in the coming quarters. Growth is projected across a variety of industries including professional and business services, manufacturing, and leisure and hospitality.

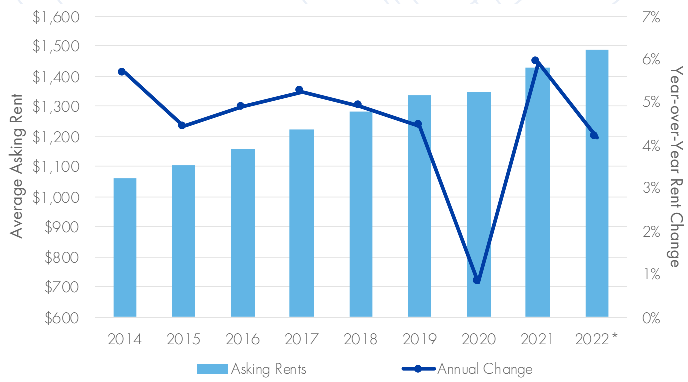
The Minneapolis multifamily investment market is expected to continue to perform well during the second half of 2022. After a slowdown in deals in recent months—a trend that has occurred during the past several years—the pace of sales should remain fairly steady in the second half. Transaction volume is not expected to repeat the spike from the end of last year when low interest rates, improving property fundamentals, and pent-up investor demand combined to fuel peak levels of transaction activity. The second half of the year will likely involve a period of time where buyers and sellers adjust to cap rate expectations in the new interest rate environment.

Employment Forecast



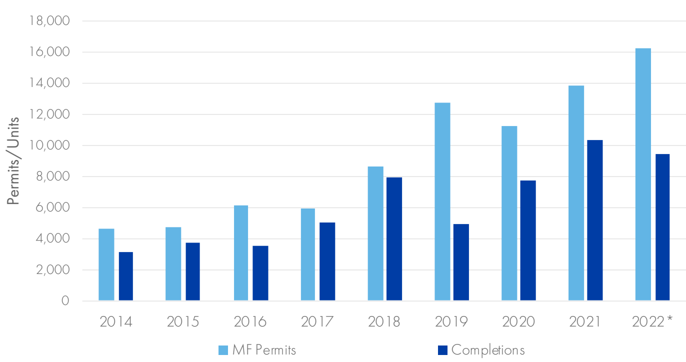
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



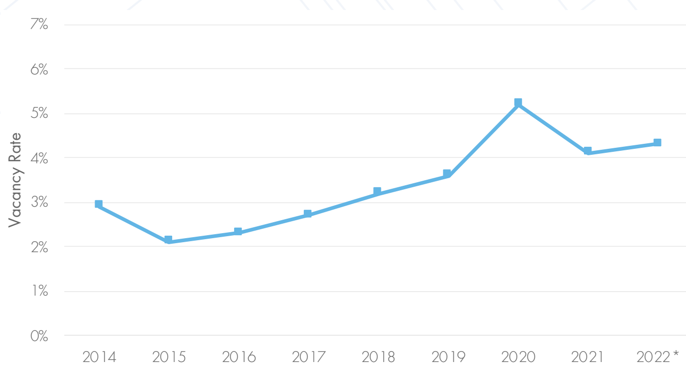
* Year End Forecast
Sources: Northmarq, Yardi

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Yardi

For more information, please contact:

Ted Bickel
Managing Director—Investment Sales
952.356.0097
tbickel@northmarq.com

Jeff Budish
Managing Director—Investment Sales
952.210.0598
jbudish@northmarq.com

Ryan Spengler
Senior Associate—Investment Sales
952.356.0097
rspengler@northmarq.com

Dan Trebil
SVP, Managing Director—Debt & Equity
952.356.0090
dtrebil@northmarq.com

Trevor Koskovich
President—Investment Sales
602.952.4040
tkoskovich@northmarq.com

Pete O'Neil
Director of Research
602.508.2212
poneil@northmarq.com

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