Northmarq

MARKET INSIGHTS

Vacancy ticks lower at midyear

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	14,535
UNITS DELIVERED	4,277

MARKET FUNDAMENTALS

VACANCY RATE	5.2%
YEAR-OVER-YEAR CHANGE	+100bps
ASKING RENTS	$1,510
YEAR-OVER-YEAR CHANGE	+3.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$110,900

Minneapolis Multifamily
2Q 2023

HIGHLIGHTS

- The multifamily market in the Twin Cities improved gradually during the second quarter as vacancy conditions inched lower and apartment rents gained some ground. Developers are on track to deliver about 8,000 units in 2023, a dip from the elevated supply gains of the past two years.
- The local vacancy rate improved slightly during the second quarter, dipping 10 basis points to 5.2 percent. Year over year, the rate is up 100 basis points.
- Asking rents continued to trend higher, rising 1.2 percent in the second quarter to $1,510 per month. Area rents increased 3 percent during the past 12 months.
- Multifamily transaction activity in the Minneapolis-St. Paul market slowed during the first half of 2023. The median sales price to this point in the year is $110,900 per unit, while cap rates are averaging between 5.75 percent and 6.5 percent.

MINNEAPOLIS MULTIFAMILY MARKET OVERVIEW

Healthy conditions in the Minneapolis-St. Paul employment market supported modest improvement of multifamily property fundamentals in the second quarter. During the last three months, apartment operators raised rents at a modest pace and vacancies recorded their first quarterly decline since the second half of 2021.Multifamily developers are active in both urban and suburban submarkets with projects totaling more than 14,500 units currently under way throughout the Twin Cities. Some of the submarkets with notable levels of new development include Downtown Minneapolis, Maple Grove/ Golden Valley/Plymouth, Washington Far Eastern Suburbs, and St. Louis Park/Hopkins.

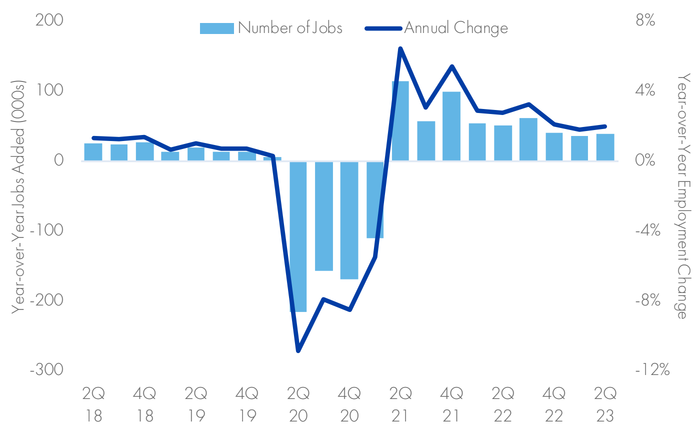
Multifamily sales activity maintained a slow but steady pace in the Twin Cities amid a challenging capital markets environment. The number of transactions through the first half of 2023 fell more than 50 percent from the same period last year, although the market appears to have settled into a consistent pace of deal flow. The combination of fewer transactions, higher cap rates, and an increased share of the sale of older assets has dragged on pricing. During the first half of 2023, Class A and Class B properties made up only 40 percent of sales, significantly lower than in recent years. The median sales price to this point in the year is $110,900 per unit, down about 30 percent from the median price in 2022.

EMPLOYMENT

- Job growth in the Minneapolis-St. Paul region picked back up during the second quarter, after a slow start to the year. Area employers added approximately 10,000 workers in the last three months. Year over year, total employment expanded by 38,400 positions, a gain of 2 percent.
- Growth in the local healthcare and social assistance industry continues to outperform the overall economy. During the past 12 months, employment in the sector expanded by 17,200 positions, a 5.8 percent spike.
- Zeus Industrial Products, a material science manufacturer, is opening a manufacturing facility in Arden Hills. The company recently renovated a 75,600-square-foot office building on Red Fox Road to include a state-of-the-art R&D lab and manufacturing space. The facility is on pace to open this year and will create 100 new jobs.
- **FORECAST:** Employers in the Twin Cities are expected to add workers across a wide range of industries through the remainder of the year. In total, approximately 25,000 net new jobs are forecast to be added, a 1.3 percent rate of growth.

Year over year, total employment expanded by 38,400 positions.

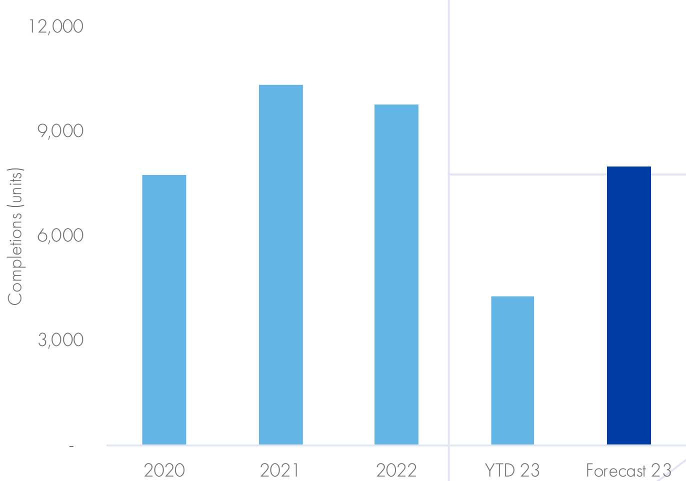
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling roughly 4,280 units came online in the first half.

DEVELOPMENT TRENDS



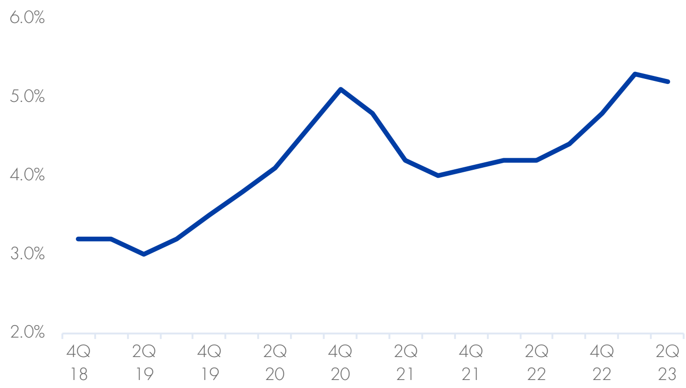
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Apartment developers remain active in the Twin Cities with the completion of nearly 2,250 units during the second quarter. Projects totaling roughly 4,280 units came online in the first half, closely tracking the pace of deliveries recorded during the second half of 2022.
- More than 14,500 units are currently under construction throughout the Minneapolis-St. Paul area, up about 5 percent from one year ago. Although developers will continue to deliver new projects in the second half of the year, completions in 2023 will trail the totals from the past two years. In 2021 and 2022, developers delivered an average of more than 10,000 units per year.
- After spiking in 2021 and 2022, the pace of multifamily permitting cooled substantially in the first half. Year to date, developers have pulled permits for nearly 5,300 multifamily units, down more than 40 percent from the same period last year.
- **FORECAST:** Multifamily developers are expected to deliver new units at a slightly slower pace through the remainder of this year. Projects totaling 8,000 units are scheduled to come online in 2023.

Vacancy dipped 10 basis points during the second quarter.

VACANCY TRENDS



Sources: Northmarq, Yardi

VACANCY

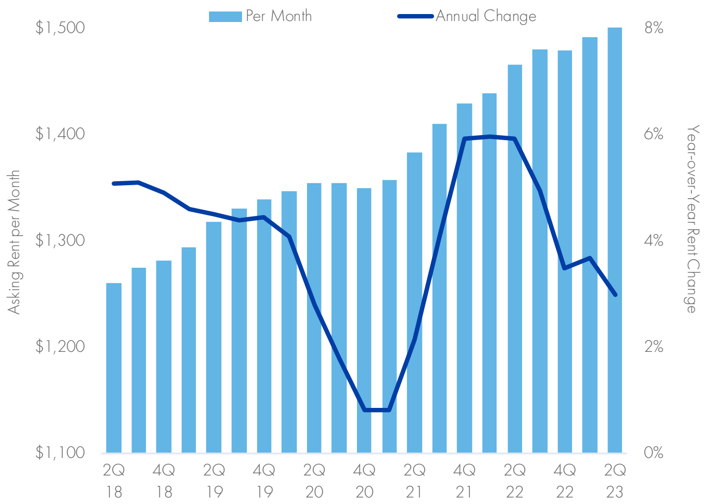
- The vacancy rate in the Minneapolis-St. Paul area crept lower in recent months, after trending higher for nearly two straight years. Area vacancy dipped 10 basis points during the second quarter to 5.2 percent.
- Year over year, the vacancy rate has increased by 100 basis points. The current rate is above the long-term trend in the region due to a surge in apartment construction. Vacancy in the Twin Cities averaged 3.4 percent during the past decade.
- Area vacancy rates are fairly consistent across asset classes. Class A vacancy ended the second quarter at 5.6 percent, 80 basis points higher than one year ago. Vacancies in Class B and Class C properties are both below 5 percent.
- **FORECAST:** Vacancy in the Twin Cities is expected to end the year nearly identical to the current rate. After rising 70 basis points in 2022, vacancy is forecast to increase 50 basis points to 5.3 percent this year.

RENTS

- Rent growth picked up during the second quarter, after a modest increase at the start of the year. Apartment rents in the Minneapolis-St. Paul region rose 1.2 percent in the last three months to $1,510 per month. Year to date, rents are up 2 percent.
- The pace of rent growth in the Twin Cities has been trending lower since the beginning of 2021. During the past 12 months, average rents increased by 3 percent. Historically, longer-term rent has averaged nearly 4.5 percent per year since 2014.
- Asking rents trended higher at a steady pace across all asset classes in recent periods. At the top-end of the market, average Class A rents rose 2 percent during the past year to $1,847 per month.
- **FORECAST:** Asking rents are expected to continue inching higher in the remainder of the year. Apartment rents in the Twin Cities are projected to rise 3.4 percent in 2023 to $1,530 per month. Last year, rent growth reached 3.5 percent.

During the past 12 months, rents increased by 3 percent.

RENT TRENDS



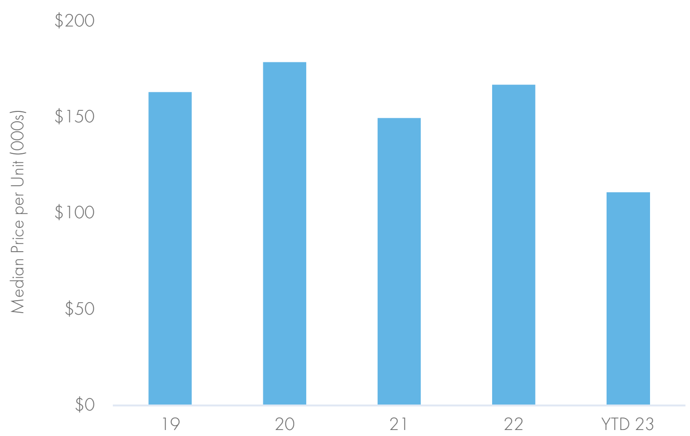
Sources: Northmarq, Yardi

MULTIFAMILY SALES

- Multifamily sales activity continued to slow in recent months, declining 33 percent from the first quarter to the second quarter. The number of transactions in the first half of 2023 was down more than 50 percent from the same period last year.
- Sales prices have trended lower in recent months to reflect the higher cap rate environment and the changing mix of properties that are selling. During the first half of 2023, Class A and Class B units combined to account for only 40 percent of sales, after averaging 57 percent of transactions from 2020 through 2022.
- The median sales price to this point in the year is $110,900 per unit, down about 30 percent from the median price in 2022. The median price in the few Class A properties that have transacted was nearly $220,000 per unit.
- Cap rates in the Twin Cities continued to increase during the second quarter. Most properties are selling with cap rates between 5.75 percent to 6.5 percent. One year ago, cap rates were averaging in the mid-4 percent range.

The median sales price is $110,900 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

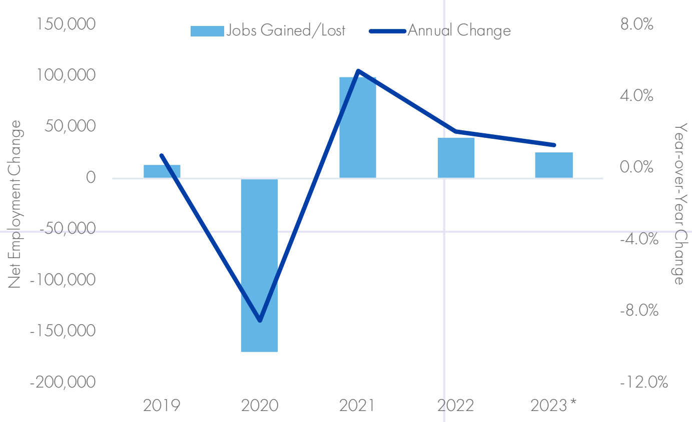
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
LPM Apartments	1369 Spruce Pl., Minneapolis	354	$74,000,000	$209,040
Urbana Court Apartments	5401 94th Ave N., Brooklyn Park	207	$47,000,000	$227,053
Sherman Forbes Apartments	310 7th St W., Saint Paul	104	$17,330,695	$166,641
205 Wentworth	205 Wentworth Ave W., West Saint Paul	46	$5,100,000	$110,870

LOOKING AHEAD

Steady conditions should prevail in the local multifamily market through the remainder of the year. Developers are active, but the pace of new construction is tapering off after consecutive years of above-trend completions. Projects totaling approximately 8,000 units are scheduled to be completed in the Twin Cities in 2023, a 20 percent decline from delivery levels from recent years. The vacancy rate seems to have adjusted to the robust inventory growth in recent periods and is expected to hold steady in the mid-5 percent range for the remainder of the year. With vacancy conditions stabilizing, operators should continue to raise rents at a measured pace. Rent increases this year will likely be an indication of the region's long-term averages going forward.

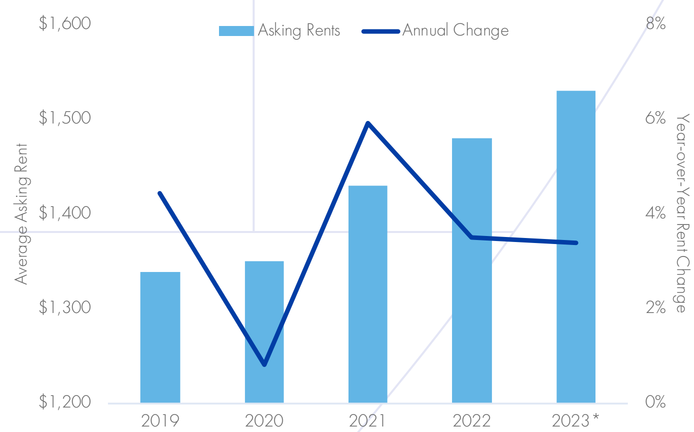
Apartment properties will continue to change hands in the Twin Cities through the remainder of the year, but sales velocity is expected to remain limited compared to prior years. The combination of higher borrowing costs and recent rent control measures will likely keep some investors on the sidelines until a greater amount of certainty returns to the market. Sellers have begun to adjust to the new market realities, and current cap rates are 125 to 200 basis points higher than averages from one year ago. Cap rates may trend slightly higher in the coming quarters, particularly if interest rates remain elevated or push higher in the second half.

EMPLOYMENT FORECAST



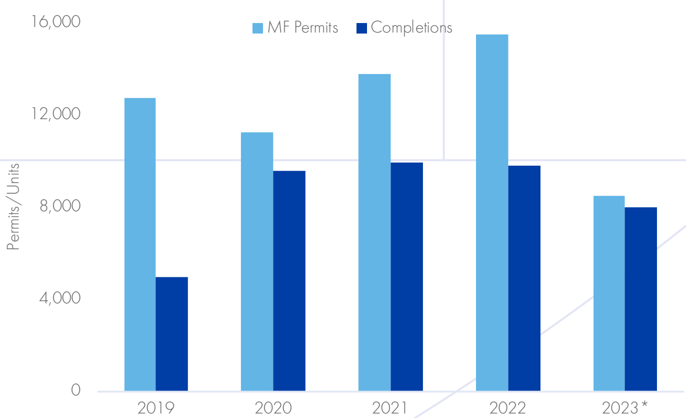
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



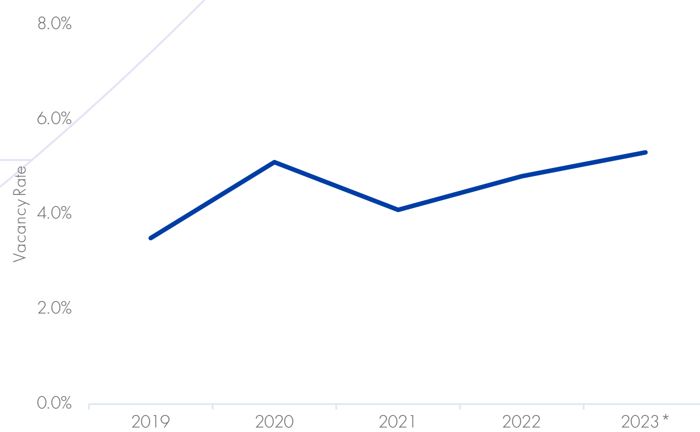
** Year End Forecast*
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, Yardi

Northmarq

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.co

DAN TREBIL
Regional 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

ABOUT NORTHMARQ

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching $80 billion, and $40+ billion in transaction volume.

BUILT TO THRIVE®

northmarq.com