Northmarq

MARKET INSIGHTS

Absorption outpaces supply, driving strong rent growth and falling vacancy

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	3,097
UNITS DELIVERED (YTD)	4,535

MARKET FUNDAMENTALS

VACANCY RATE	4.7%
YEAR-OVER-YEAR CHANGE	-20bps
ASKING RENTS	$1,596
YEAR-OVER-YEAR CHANGE	+2.6%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$192,500

MINNEAPOLIS-ST. PAUL MULTIFAMILY
2Q 2025

HIGHLIGHTS

- The Minneapolis-St. Paul multifamily market has posted healthy property performance metrics during the first half, even as new units have come online at a steady pace. With the pace of deliveries likely to slow in the second half, the market should be able to maintain its current trajectory.
- Vacancy dipped 10 basis points in the second quarter, following an identical decline in the first few months of the year. The rate sits at 4.7%, down 20 basis points year over year. Vacancies are tightening in response to elevated absorption totals.
- Rents have gained ground in recent periods. Asking rents are up 2.6% during the past 12 months, ending the second quarter at $1,596 per month.
- Deal volume slowed from last quarter's three-year high, with properties trading at a median sales price of $192,500 per unit. Cap rates are generally stable, with most properties changing hands with cap rates between 5.25% and 5.75%.

MINNEAPOLIS-ST. PAUL MULTIFAMILY MARKET OVERVIEW

The Minneapolis-St. Paul multifamily market remained on an improving trajectory in the second quarter, characterized by steady renter demand that has allowed vacancies to inch lower in recent periods and supported two consecutive quarters of rising rents. Rents posted a 2% quarterly increase in the second quarter, a stronger three-month gain than has been recorded in more than three years. While development in the first half has closely tracked levels from last year, absorption has kept pace with supply growth, allowing for modest vacancy tightening. The current vacancy rate of 4.7% has dipped 20 basis points from one year ago and is at its lowest level since the second half of 2022.

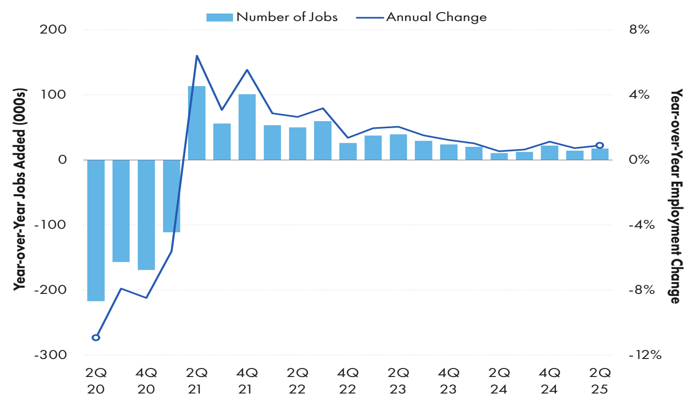
On the investment side, transaction volume slowed from the recent high recorded in the first quarter, with a total of 12 multifamily properties changing hands during the second quarter. Pricing has remained elevated to this point in 2025, with a median price of $192,500 per unit, higher than pricing levels from both 2023 and 2024. On average, cap rates are generally fairly steady, with most properties selling with cap rates in the low- to mid-5% range.

EMPLOYMENT

- Employment in Minneapolis-St. Paul recorded continued growth in the second quarter, with the metro adding 17,600 jobs over the past year, reflecting an annual employment growth rate of 0.9%.
- The education and health services sector led regional performance, posting robust annual job gains of 3.8%. In contrast, the financial sector contracted over the same 12-month period, with employment declining by 2.5%.
- Two major transit lines launched during the second quarter: Metro Gold Line connecting downtown St. Paul to Woodbury, and Metro B Line linking St. Paul to Uptown Minneapolis. These projects aim to create transit jobs, reduce congestion, and improve local connectivity.
- **FORECAST:** Minneapolis-St. Paul is forecast to add approximately 20,000 new jobs in 2025, a growth rate of 1.0%. Growth in the healthcare sector will drive much of this increase.

Employers added 17,600 jobs over the past year.

EMPLOYMENT OVERVIEW



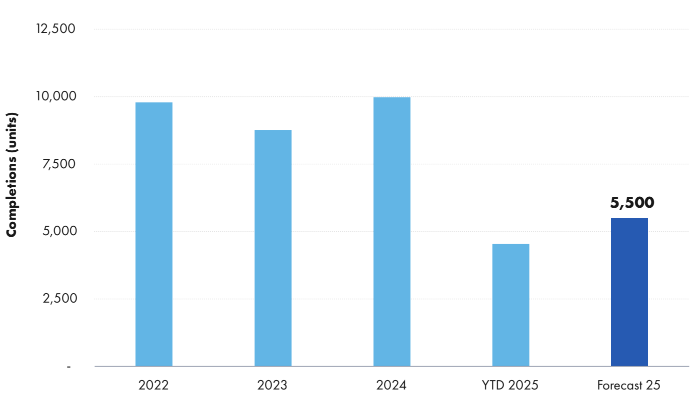
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

Approximately 3,100 units were under construction at midyear.

- Year to date, developers have delivered 4,535 units through the Twin Cities, but completions are forecast to slow between now and the end of 2025. Deliveries year to date are down significantly from the same period one year ago.
- The construction pipeline is thinning; approximately 3,100 units were under construction at midyear. As recently as two years ago, projects totaling more than 14,500 units were under construction.
- Permitting activity has been declining in recent years. During the first half, multifamily permits for about 2,100 units were pulled, down 10% compared to the total for the same period in 2024.
- **FORECAST:** The bulk of the anticipated deliveries for 2025 occurred during the first half and there should be fewer units coming online in the coming quarters. For the full year, developers are expected to complete 5,500 units, after nearly 10,000 units were delivered in 2024.

DEVELOPMENT TRENDS

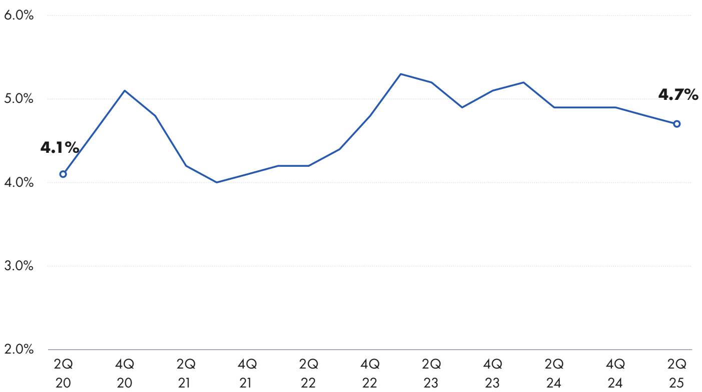


Sources: Northmarq, CoStar

VACANCY

Vacancy fell to 4.7% in the second quarter.

VACANCY TRENDS



Sources: Northmarq, Yardi

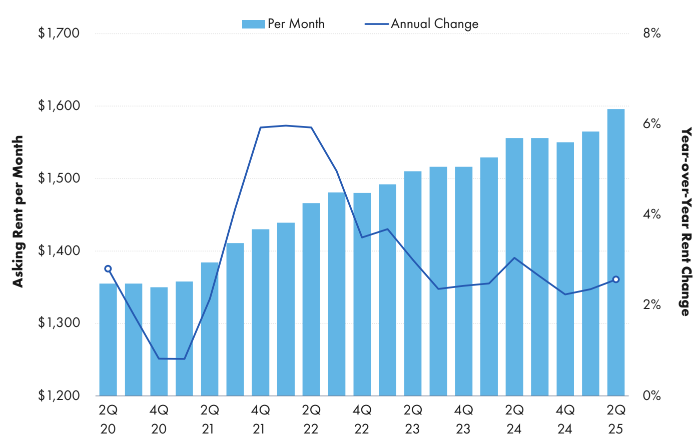
- After remaining flat through most of 2024, multifamily vacancy in Minneapolis-St. Paul improved for two consecutive quarters. Vacancy fell to 4.7% in the second quarter, down 10 basis points from last quarter and 20 basis points year over year.
- Healthy levels of absorption have supported the recent vacancy tightening in the region. Net absorption totaled approximately 2,500 units during the second quarter, similar to levels from the first three months of the year.
- Vacancies in the suburban areas of the Twin Cities continue to outperform. The average vacancy rate in local suburbs ended the second quarter at 4.1%, down 20 basis points year over year. In submarkets closer to the cores of Minneapolis and St. Paul, average vacancies are 5.2%.
- **FORECAST:** Vacancy is projected to finish 2025 at 4.8%, reflecting a 10 basis point decline from the prior year. Supported by slowing construction and strong demand, this trend is expected to continue into 2026.

RENTS

- Multifamily asking rents in Minneapolis-St. Paul rose 2.0% in the second quarter to $1,596 per month, the strongest quarterly gain since the second quarter of 2021. Year over year, rents increased by 2.6%.
- While both urban and suburban multifamily properties recorded significant gains this quarter, urban rent growth outperformed suburban rent increases.
- Average rents for Class A properties ended the second quarter at approximately $1,900 per month, up just 1.2% from one year earlier. With leasing activity expected to remain elevated, Class A rents could gain momentum in the coming quarters.
- **FORECAST:** Rent growth is accelerating due to sustained demand and a slowing rate of new supply. Average rents are projected to reach $1,605 per month by year end, a 3.5% annual increase.

Year over year, rents increased by 2.6%.

RENTS TRENDS



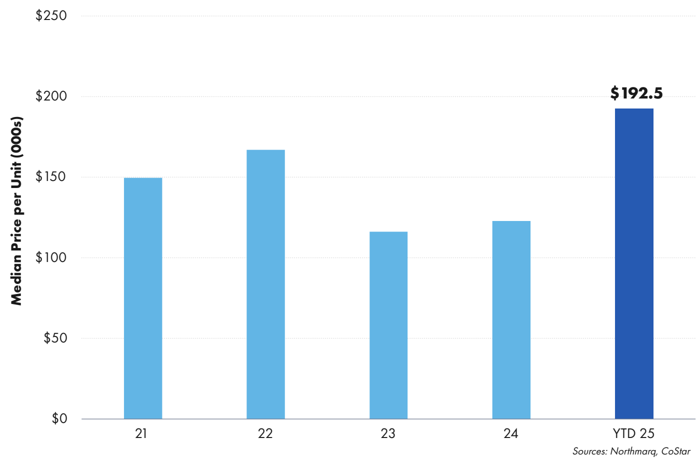
Sources: Northmarq, Yardi

MULTIFAMILY SALES

- After hitting a 3-year high last quarter, transaction volume slowed in the second quarter of 2025, with 12 properties changing hands. Nearly half of those sales took place in Hennepin County.
- The median sale price in transactions that have closed year to date is $192,500 per unit. Prices have bounced off of lows recorded in 2023 and 2024.
- The submarket with the highest transaction volume was Scott Far Western suburbs, accounting for nearly 30% of the total sales. Of the properties sold in this submarket, all were recently constructed.
- Cap rates have been mostly flat in transactions that have closed year to date, generally ranging between 5.25% and 5.75%.

The year-to-date median sale price is $192,500 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

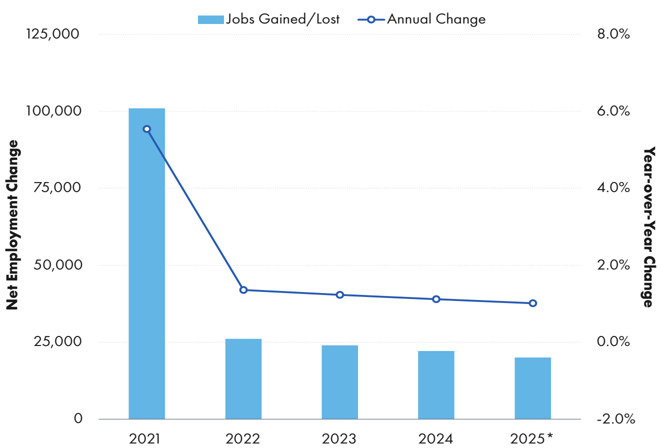
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Elwood Apartment Homes	1610 Emblem Way, Shakopee	2024	288	$65,000,000	$227,400
The Liberty	2448 Winnetka Ave. N, Golden Valley	2017	242	$59,500,000	$245,900
Sand Creek Flats	201 El Dorado Dr., Jordan	2023	72	$15,500,000	$215,300

LOOKING AHEAD

The local multifamily market in the Twin Cities is expected to remain active in the coming years. Developers had taken a much more cautious approach in pursuing new projects in the region a few years ago in response to passage of controversial rent stabilization measures in St. Paul. During the second quarter, the St. Paul City Council voted to permanently exempt new construction from rent control caps, removing an impediment to new development. In the near term, the bulk of the deliveries scheduled for 2025 have already occurred, and the construction pipeline has thinned, setting the stage for limited deliveries during the next 24 months. Over the extended outlook, the removal of uncertainty surrounding the economic viability of new construction projects will likely spur supply growth beginning over the course of the next few years.

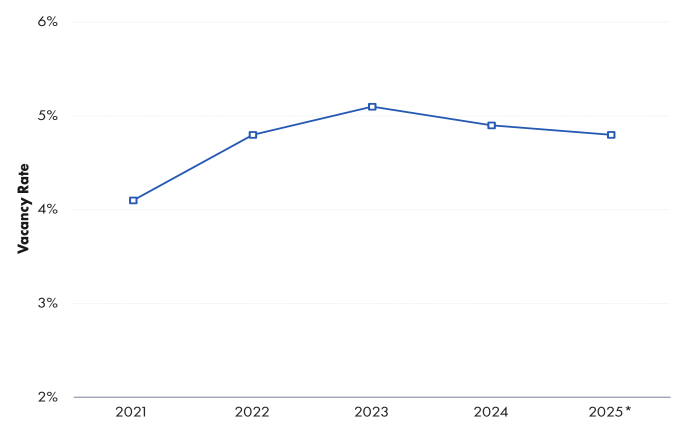
The same forces that should facilitate development activity will likely also spur increased transaction volumes. The investment market got off to a strong start to 2025, before activity moderated somewhat in the second quarter. Still, sales volumes in the first half of this year are nearly identical to levels from the same period in 2024 and have doubled the number of transactions that occurred in the first half of 2023. Strengthening operations should support a more robust investment climate going forward. Area vacancies generally remain within a fairly tight range, but did reach as high as 5.2% in early 2023, and have inched lower in recent periods. A return to longer-term averages near 4%, coupled with steady rent increases would strengthen property performance, and make underwriting new acquisitions easier.

EMPLOYMENT FORECAST



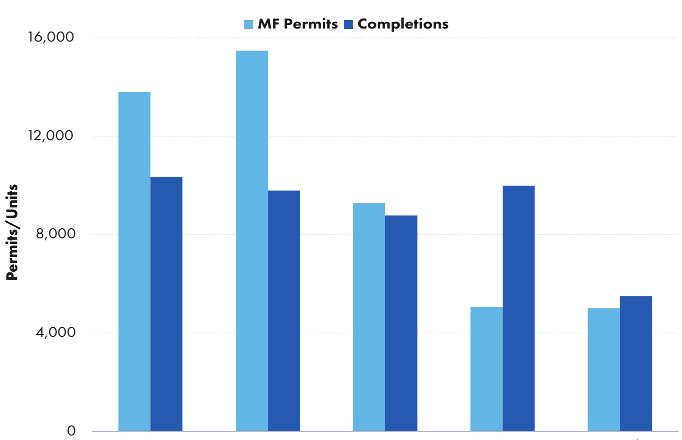
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



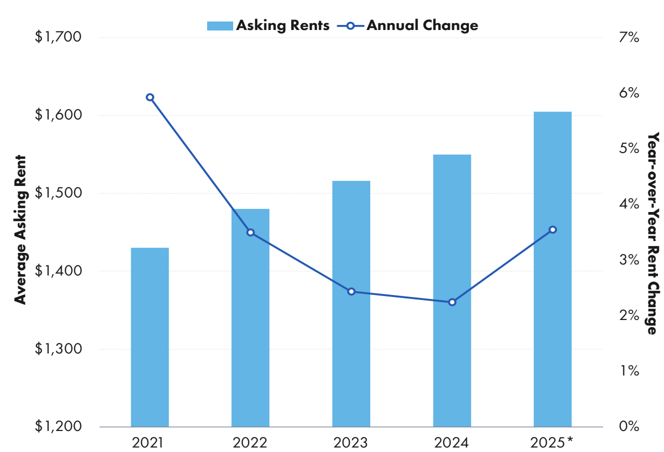
* Year End Forecast
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Yardi

Northmarq

FOR MORE INFORMATION, **PLEASE CONTACT**

TED BICKEL
Managing Director, Investment Sales
952.247.2801
tbickel@northmarq.com

DYLAN STEMAN
Associate Vice President, Investment Sales
952.247.2846
dsteman@northmarq.com

JEFF BUDISH
Managing Director, Investment Sales
952.837.8751
jbudish@northmarq.com

ANDY FINN
Managing Director, Debt & Equity
952.837.8756
afinn@northmarq.com

DAN TREBIL
Regional Managing Director, Debt + Equity
952.356.0090
dtrebil@northmarq.com

PETE O'NEIL, *Director of Research* | 602.508.2212 | poneil@northmarq.com

ABOUT **NORTHMARQ**

Northmarq is a full-service capital markets resource for commercial real estate investors, offering seamless collaboration with top experts in debt, equity, investment sales, loan servicing, and fund management. The company combines industry-leading capabilities with a flexible structure, enabling its national team of experienced professionals to create innovative solutions for clients. Northmarq's solid foundation and entrepreneurial approach have built a loan servicing portfolio of more than $76 billion and a two-year transaction volume of $52 billion. Through the 2022 acquisition of Stan Johnson Company, Northmarq established itself as a provider of opportunities across all major asset classes. For more information, visit www.northmarq.com.