Northmarq

MARKET INSIGHTS

Construction pipeline continues to shrink

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	4,585
UNITS DELIVERED (YTD)	1,964

MARKET FUNDAMENTALS

VACANCY RATE	4.6%
YEAR-OVER-YEAR CHANGE	-10bps
ASKING RENTS	$1,652
YEAR-OVER-YEAR CHANGE	+3.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$146,800

MINNEAPOLIS-ST. PAUL
MULTIFAMILY
Q2 2026

HIGHLIGHTS

- Multifamily conditions strengthened during the second quarter, with vacancy declining and asking rents moving higher. Balanced supply and demand dynamics continue to support pricing power, contributing to some of the strongest rent growth in the country.
- Vacancy declined 10 basis points quarter over quarter and year over year to 4.6%, supported by absorption that continued to exceed deliveries. The Central Minneapolis submarket recorded the market's largest improvement, with vacancy falling 110 basis points, while Class A vacancy remained stable.
- Asking rents rose 1.0% during the quarter to $1,652 per month, bringing annual growth to 3.5%. Suburban Class A and Class B properties continued to lead rent gains, reflecting strong demand across a wide range of renter profiles.
- Second-quarter transaction activity followed typical seasonal patterns, with Class B assets driving the mix. The year-to-date median sale price stands at $146,800 per unit.

MINNEAPOLIS-ST. PAUL MULTIFAMILY MARKET OVERVIEW

The defining feature of the Minneapolis-St. Paul multifamily market remains its sustained rent growth, which extended to a sixth consecutive quarter and continues to rank among the strongest in the nation. Consistent rent gains reflect a market that remains well balanced. New supply has moderated meaningfully from the elevated pace of recent years, while renter demand has remained more than sufficient to absorb deliveries, preserving pricing power that has eroded across much of the country. Vacancy remains tight and has held near its current level even as operators worked through the bulk of recent completions. Demand has also proven broad-based rather than concentrated in a single segment. Suburban Class A and B properties continue to lead rent growth, underscoring that strength extends across both geographies and renter profiles. This combination of balanced fundamentals and durable demand continues to distinguish Minneapolis-St. Paul as one of the country's most fundamentally sound multifamily markets.

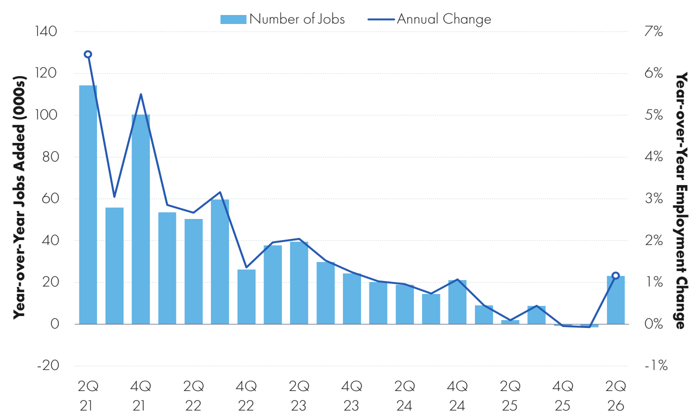
Sales activity in the Minneapolis-St. Paul multifamily investment market moderated in recent months, with the first-half transaction count trailing the region's five-year average for the period by 14%. Even so, the buyer profile remained consistent with long-term trends, as Class B assets in the Outlying St. Paul submarket continued to attract the greatest share of investor interest. Class B properties have accounted for roughly half of all multifamily transactions over the past five years. The year-to-date median sale price moved lower, reflecting a shift in the vintage and quality of traded assets as value-add investors pursued opportunities supported by strong rent growth. Cap rates remained stable, while the continued flow of Class A acquisitions in the high-4% to mid-5% range underscores sustained institutional demand for well-located Twin Cities properties.

EMPLOYMENT

- Employment growth in the Twin Cities accelerated during the second quarter. Year over year, employers added 23,100 jobs, a 1.2% increase.
- The mining, logging, and construction sector added approximately 8,200 workers during the past year, an increase of 8.2%. Employment in the education and health services sector also expanded, rising 4.8% with the addition of 18,300 jobs.
- The professional and business services sector posted its first annual employment gain since the first quarter of 2023, adding 2,600 jobs during the past 12 months.
- **FORECAST:** Job growth is expected to moderate through the second half of 2026. Employers are forecast to add roughly 15,000 workers for the full year, lifting payrolls by 0.8%.

Year over year, employers added 23,100 jobs.

EMPLOYMENT OVERVIEW

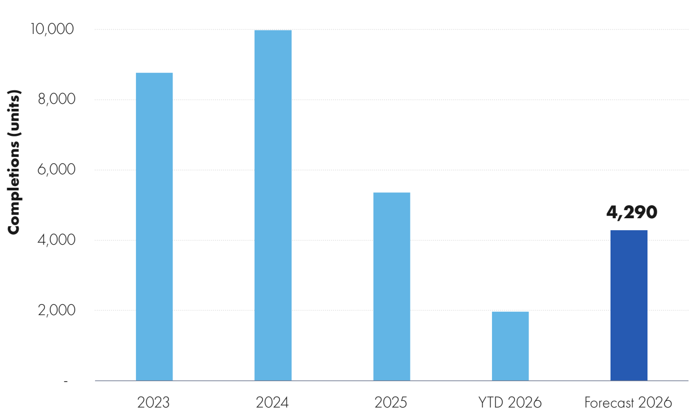


Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

At the midpoint of 2026, 4,585 units were under construction.

DEVELOPMENT TRENDS



Sources: Northmarq, CoStar

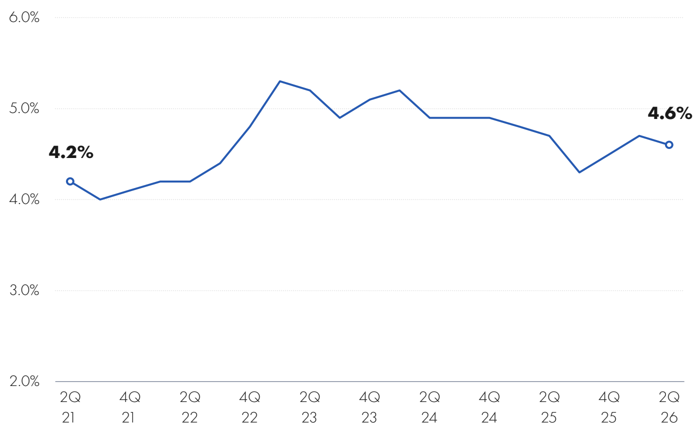
- Developers have completed 1,964 units through the second quarter of 2026, with most new builds concentrated in suburban submarkets, including Apple Valley/Lakeville, Far Eastern Washington, and Far West Hennepin.
- The pipeline of new supply is continuing to contract after several years of elevated development activity. At the end of the second quarter, 4,585 units were under construction, down 25% from the prior quarter and down 76% from the 2022 peak.
- Multifamily permitting remained steady during the first half of 2026, with developers pulling permits for roughly 2,400 units, in line with the prior six-month period.
- **FORECAST:** Apartment completions are projected to total 4,290 units in 2026, down 20% from last year as developers continue to scale back new supply. Permitting is estimated to total 4,800 units in 2026, similar to the year prior, but 69% below the 2022 cycle peak.

VACANCY

Vacancy declined 10 basis points year over year to 4.6%.

- Vacancy ended the second quarter at 4.6%, down 10 basis points quarter over quarter and year over year. Year-to-date absorption of approximately 2,400 units outpaced the 1,964 units delivered during the same period, contributing to modest vacancy compression.
- Overall suburban vacancy fell 30 basis points year over year to 4.2%, while urban vacancy declined 20 basis points to 4.9%. Central Minneapolis, an urban submarket, recorded a 110-basis-point improvement to 5.8% during the same timeframe.
- Despite elevated supply conditions in recent years, Class A vacancy rose by just 20 basis points over the past 12 months to 5.2%. Over the same period, a total of 2,800 Class A units were absorbed, demonstrating continued demand for premium buildouts.
- **FORECAST:** Vacancy is expected to inch higher in 2026 as the market works through the elevated supply delivered over the past few years. Overall vacancy is projected to reach 4.8%, 30 basis points above the 2025 level.

VACANCY TRENDS



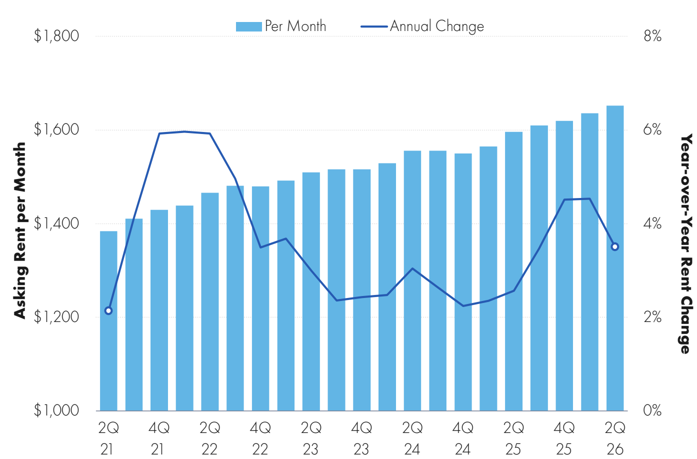
Sources: Northmarq, Yardi

RENTS

- Minneapolis-St. Paul recorded notable rent growth for the sixth consecutive quarter. Asking rents rose 1.0% during the second quarter to an average of $1,652 per month. Asking rents increased 3.5% year over year.
- Rent growth was widespread across the metro, though Northeast Minneapolis and Inver Grove Heights led the way. Asking rents increased 5.0% year over year to $1,677 per month in Northeast Minneapolis and 6.4% to $1,766 per month in Inver Grove Heights.
- Class A and B properties in suburban submarkets continued to record solid annual rent growth, increasing 3.9% and 3.8%, respectively. In Contrast, Class C apartments in urban markets posted a 1.3% year-over-year rent decline to $1,108 per month.
- **FORECAST:** Multifamily rent growth is expected to persist in the coming quarters as supply-demand fundamentals remain balanced. Rents are projected to rise 3.4% annually, reaching an average of $1,675 per month by year-end.

Asking rents increased 3.5% year over year.

RENTS TRENDS



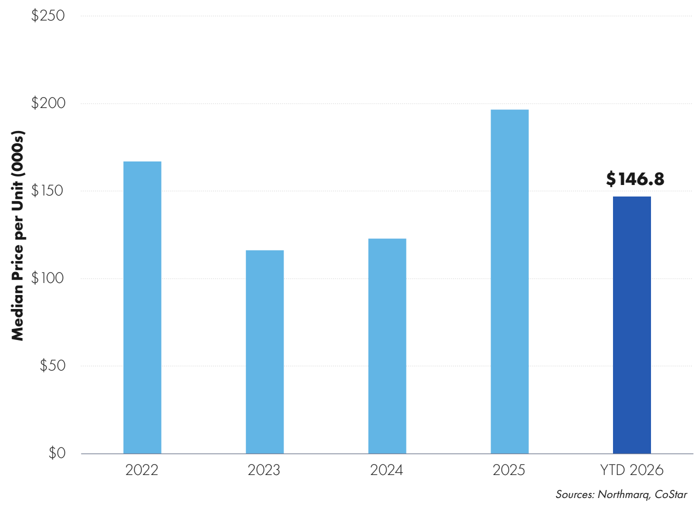
Sources: Northmarq, Yardi

MULTIFAMILY SALES

- Despite activity slowing from last year's elevated levels, properties continue to change hands, indicating a healthy, stable market. In the first half of 2026, sales activity was driven primarily by Class B properties trading in the Outlying St. Paul submarket.
- The median sale price to this point in the year is $146,800 per unit, down 25% from last year. The average year built of properties sold in 2026 is 1994, only slightly older than the 1998 average recorded last year.
- The average cap rate in 2026 is 5.3%, with Class A assets trading in the high-4% to mid-5% range. Average cap rates have increased modestly, rising 10 basis points from last year's level.

The year-to-date median sale price is $146,800 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

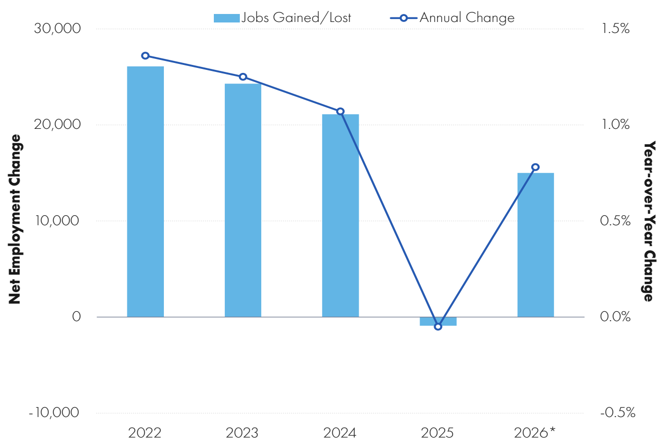
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Norhart Oakdale	7600 2nd St. N., Oakdale	2025	328	$78,254,000	$238,579
Creek Point	1045 Hiawatha Ave., Hopkins	1967	320	$30,975,000	$96,797
Villa Del Coronado Apartments	8104 Zane Ave., Brooklyn Park	1969	192	$16,500,000	$85,938
The Boulders	3533 Willow Ave., White Bear Lake	2002	93	$15,425,000	$165,860

LOOKING AHEAD

The outlook for Minneapolis-St. Paul remains favorable, with rent growth expected to persist and rank among the strongest in the nation through the remainder of 2026. Supporting this outlook is a development pipeline that continues to thin. Construction activity has fallen sharply from its recent peak, and the number of units scheduled for delivery this year trails last year's pace, helping preserve the market's supply-demand balance. New development remains concentrated in suburban submarkets, where absorption has been strongest and rent growth has proven more consistent. While employment growth slowed in prior periods, a recent uptick is expected to continue supporting household formation and apartment demand. Provided new deliveries remain aligned with absorption, vacancy should stay relatively tight and rent growth should continue to outperform the national average.

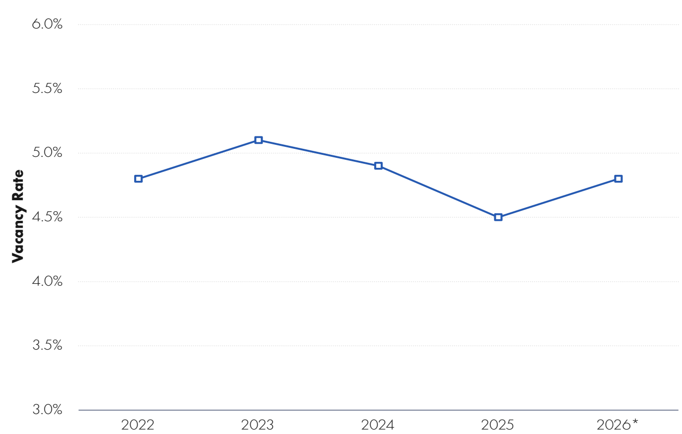
Stable market fundamentals and an improving long-term supply picture should continue to support investor interest. Class B assets are expected to remain the most active segment, supported by the elevated rent growth and the deep pool of value-add investors historically drawn to the Twin Cities. As recently delivered suburban communities stabilize and begin to trade, capital could increasingly target those growth corridors. Consistently tight vacancy and above-average rent growth provide a stronger underwriting backdrop than many peer markets, while stabilized Class A cap rates remain competitive relative to comparable metros. The primary factor to monitor is suburban permitting activity, which could modestly reaccelerate supply in future years. For now, balanced market conditions position Minneapolis-St. Paul to deliver stable, income-driven returns with limited downside risk.

EMPLOYMENT FORECAST



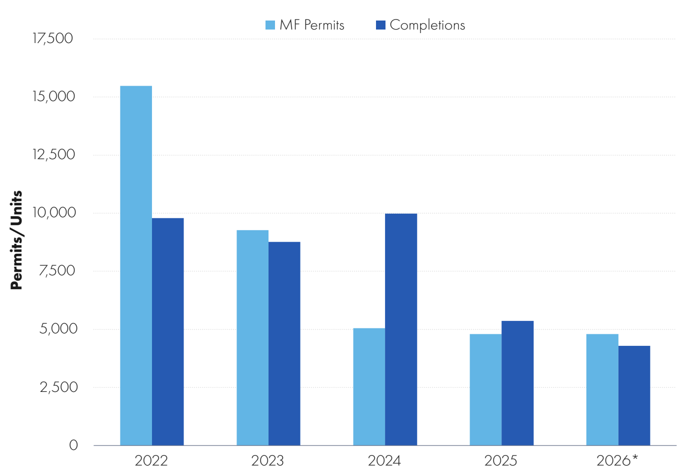
** Year-End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



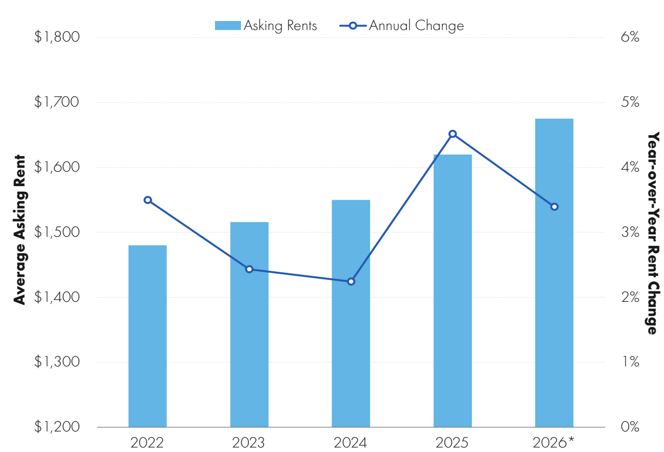
** Year-End Forecast*
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



** Year-End Forecast*
Sources: Northmarq, Yardi

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