

Transaction activity continues to strengthen

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **3,940**

UNITS DELIVERED (YTD) **4,570**

MARKET FUNDAMENTALS



VACANCY RATE **4.3%**

YEAR-OVER-YEAR CHANGE **-60bps**

ASKING RENTS **\$1,610**

YEAR-OVER-YEAR CHANGE **+3.5%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$186,400**

MINNEAPOLIS-ST. PAUL
MULTIFAMILY
Q3 2025

HIGHLIGHTS

- Operating fundamentals strengthened in the third quarter, with the vacancy rate hitting a three-year low and rents continuing to gain ground.
- Fewer than 4,600 units have come online year to date, and developers are on pace to complete about half as many units in 2025 as were delivered in 2024. Fewer than 4,000 units remain under construction, suggesting completions in the coming years will continue to slow.
- Employment growth remained positive, with nearly 15,000 jobs added over the past year, or 0.8%, which supported the absorption of 9,300 units year over year.
- Sales velocity has improved significantly so far this year, more than doubling the number of sales from a few years ago. Class A and Class B properties are accounting for a larger share of total sales, pushing prices higher. The median price in properties sold to this point in 2025 is \$186,400 per unit.

MINNEAPOLIS-ST. PAUL MULTIFAMILY MARKET OVERVIEW

Multifamily operating conditions strengthened during the third quarter. Area vacancies have tightened in each of the first three quarters of the year, with the sharpest drop recorded during the past three months. This sustained improvement brought the rate down to just 4.3%, down 60 basis points from one year earlier and the market's lowest figure since 2022. With vacancies improving, rents have gained momentum. Average rents topped \$1,600 per month for the first time, and the pace of annual rent increases gained ground to 3.5% as of the third quarter. With fewer than 4,600 units delivered year to date and around 3,900 units still under construction, the impact of elevated supply from 2021-2024 is easing, allowing absorption to outpace completions in several urban core and university-adjacent submarkets.

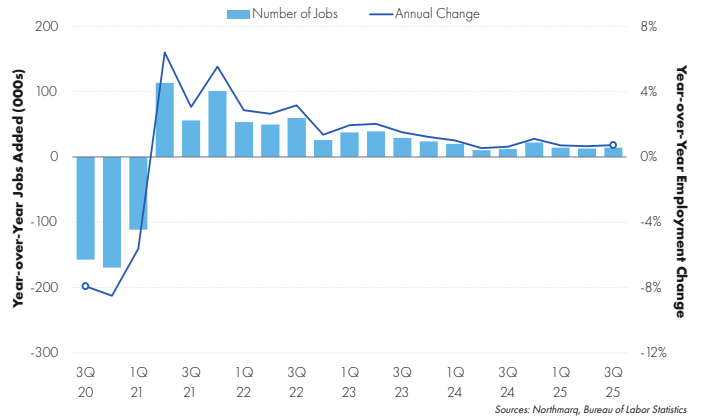
Investment activity in the Minneapolis-St. Paul metro has rebounded, supported by the improvement in property fundamentals. To this point in the year, the median sale price is \$186,400 per unit, considerably higher than pricing figures from 2023 and 2024. This rise is largely attributable to the sale of several properties delivered in recent years that transacted at elevated per-unit prices. On average, cap rates are generally between 5.0% and 5.5% to this point in the year, but there is some variation based on class and vintage. Class A assets with strong operational performance are averaging cap rates in the high-4% range, while value-add assets are trading closer to 6.0%.

EMPLOYMENT

- Total employment in Minneapolis–St. Paul rose 0.8% year over year, with employers adding 15,000 positions.
- The healthcare and social assistance industry added 16,000 jobs, expanding by 4.9% and offsetting job losses in other sectors such as financial and professional services.
- Several of the largest companies in the Twin Cities are intensifying return-to-office mandates, which should increase commuter activity, support growth in local retail jobs, and support rental demand in some submarkets.
- **FORECAST:** Modest annual employment growth of 1.0%, or 20,000 jobs, is expected through year-end. While this trails the area’s 10-year average, it should be sufficient to sustain positive absorption as the construction pipeline tapers.

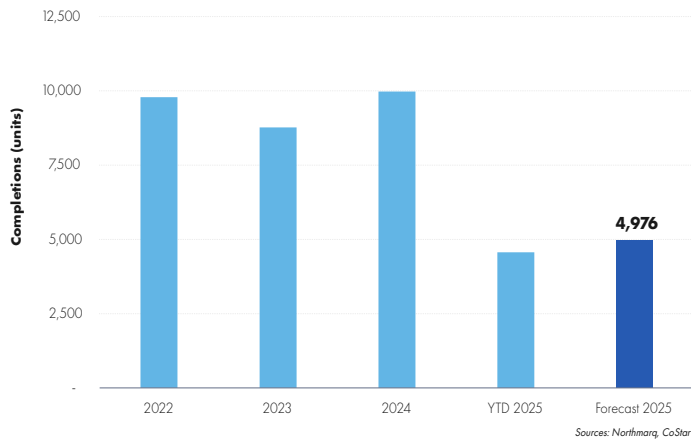
Total employment rose 0.8% year over year.

EMPLOYMENT OVERVIEW



Around 3,900 units are under construction.

DEVELOPMENT TRENDS

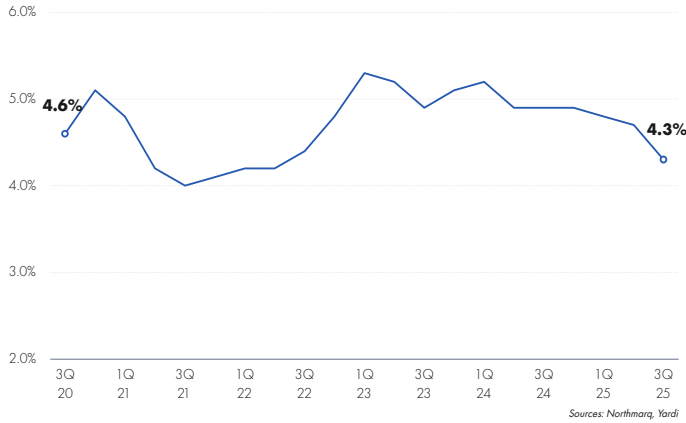


DEVELOPMENT & PERMITTING

- Year-to-date deliveries totaled fewer than 4,600 units at the end of the third quarter. The pace of completions is down more than 30% when compared to totals from the same period in 2024.
- Around 3,900 units are under construction at the end of third quarter, significantly below the 2023 peak when over 20,000 units were underway, pointing to further vacancy tightening heading into 2026 if demand holds.
- Developers pulled permits for approximately 3,370 units from the start of the year through the end of third quarter. Over the same period in the past five years, permits for an average of 10,930 units were issued, reflecting a 70% reduction in 2025 and pointing to a contraction in future new supply.
- **FORECAST:** Developers are on track to complete just under 5,000 units by year-end 2025. Construction starts are expected to remain subdued into 2026, allowing the market to absorb recent deliveries.

Class A vacancy declined by 180 basis points.

VACANCY TRENDS



VACANCY

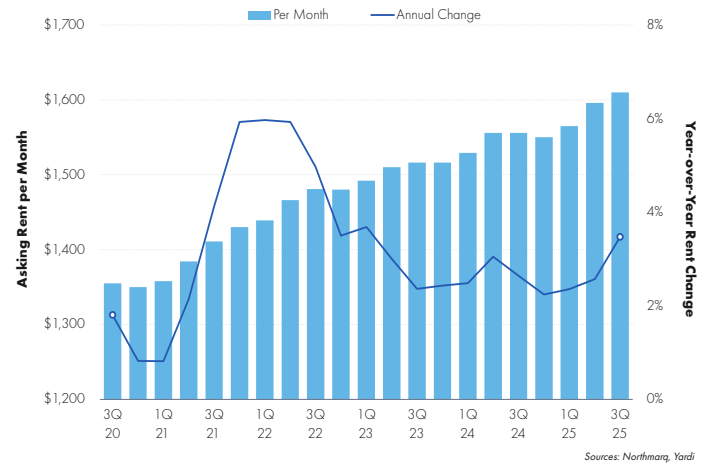
- Vacancy fell to 4.3%, improving 40 basis points quarter over quarter and 60 basis points year over year. Vacancy has improved or remained flat for six consecutive quarters.
- The strongest vacancy improvements occurred in the St. Louis Park/Hopkins and Downtown Minneapolis submarkets. The Coon Rapids/Fridley/Blaine submarket ended the quarter with the lowest vacancy rate at 4.0%.
- Class A communities saw the sharpest vacancy improvement, down 180 basis points year over year to 4.6%. In comparison, Class B vacancy edged down 30 basis points to 3.9%, while Class C vacancy increased by 50 basis points to 7.2%.
- **FORECAST:** Overall vacancy is forecast to decline slightly during the fourth quarter, reaching 4.2% by year-end 2025, with incremental tightening expected in 2026 if construction starts remain limited.

RENTS

- Asking rents advanced to \$1,610 per month by the end of the third quarter, marking a 0.9% quarterly increase and 3.5% annual gain, more than offsetting the rent declines recorded in late 2024.
- Urban core assets continued to rebound, supported by amenity density and proximity to major employers. Urban submarkets posted a 1.4% rent increase since last quarter, compared to a 0.6% gain in suburban submarkets.
- Class A assets led rent gains with 4.0% annual growth, as absorption improved and completions reached stabilization. Class A rents reached \$1,990 per month, while Class B and Class C apartments reached \$1,505 per month and \$1,107 per month, respectively.
- **FORECAST:** Asking rents are expected to reach \$1,612 per month by the end of 2025, representing an annual increase of 4.0%. With a thinning development pipeline and steady job growth in Minneapolis-St. Paul, rent growth of 2.5%–3.5% is projected over the next 12 months.

Asking rents increased 3.5% annually.

RENTS TRENDS

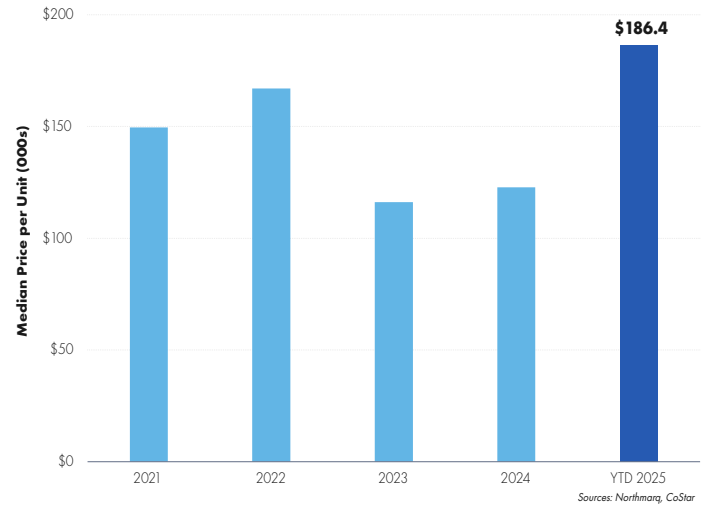


MULTIFAMILY SALES

- Transaction velocity remains elevated compared to the five-year average. Since 2020, an average of 36 properties have traded from the start of the year through the end of the third quarter, while in 2025 51 properties have changed hands over the same time period.
- Year to date, the median sale price increased to \$186,400 per unit, up from \$123,000 at the end of 2024. Pricing has been pushed higher by the sale of several Class A and Class B properties.
- Downtown Minneapolis and the Uptown/West Calhoun/Bryn Mawr submarkets dominated sales, accounting for 40% of multifamily transactions this quarter. The average year built of properties sold in these submarkets were 2019 and 1998, respectively.
- To this point in the year, stabilized Class A properties have generally traded at cap rates in the low-5% range, while value-add properties built in the 1980s and 1990s have traded at cap rates in the mid-6% to low-7% range.

Transaction velocity in 2025 is 40% above the 5-year average.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

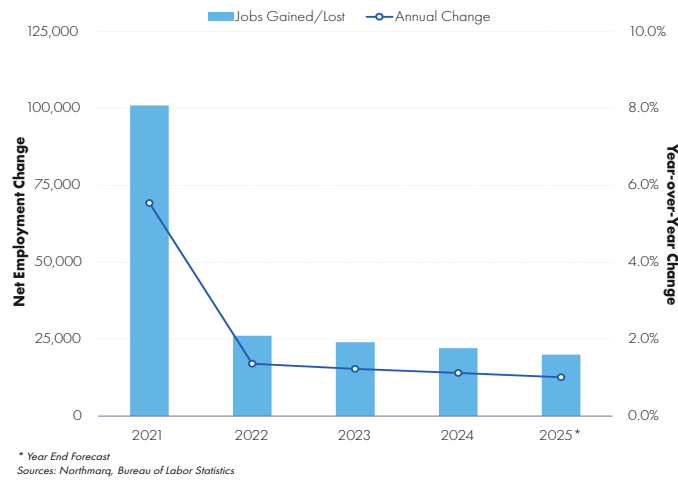
| PROPERTY NAME | STREET ADDRESS | YEAR BUILT | UNITS | SALES PRICE | PRICE/UNIT |
|---------------------------|------------------------------------|------------|-------|---------------|------------|
| The Beach Club Residences | 2900 Thomas Ave S., Minneapolis | 1948 | 332 | \$103,250,000 | \$310,994 |
| Cortland Mill District | 313 Washington Ave S, Minneapolis | 2014 | 318 | \$77,000,000 | \$242,138 |
| Axle Apartments | 6530 University Ave NE., Fridley | 2022 | 262 | \$59,400,000 | \$226,718 |
| Meridian Pointe | 251 McAndrews Rd W., Bursville | 1988 | 339 | \$63,000,000 | \$185,841 |
| Courtyard Apartments | 2524 Highway 100 S, St. Louis Park | 1964 | 152 | \$18,350,000 | \$120,724 |

LOOKING AHEAD

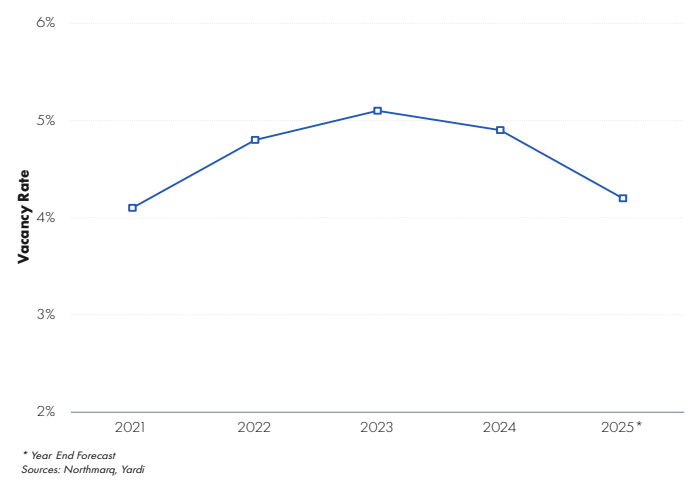
The combination of moderating supply and steady job growth sets the stage for continued operational health through the end of this year and into 2026. Vacancy is expected to hold near current levels with solid rent growth anticipated over the next year, particularly in the region’s top submarkets. Potential risks, such as a slower labor market, expense pressures, or a re-acceleration in new construction, appear unlikely in the near term. Factors supporting the local rental market include improving downtown vibrancy and adaptive reuse projects, such as office-to-residential conversions, which are becoming increasingly common, especially in St. Paul.

Continued transaction momentum is expected for well-located, Class A assets with premium amenities, where operations are outperforming and pricing clarity has emerged following the recent increase in sales. Investors will likely continue to evaluate top-tier assets in the Twin Cities after several large trades in the third quarter. As the 2026 supply dip takes shape and NOI growth persists, cap rates could compress 25–50 basis points at the upper end of the quality spectrum.

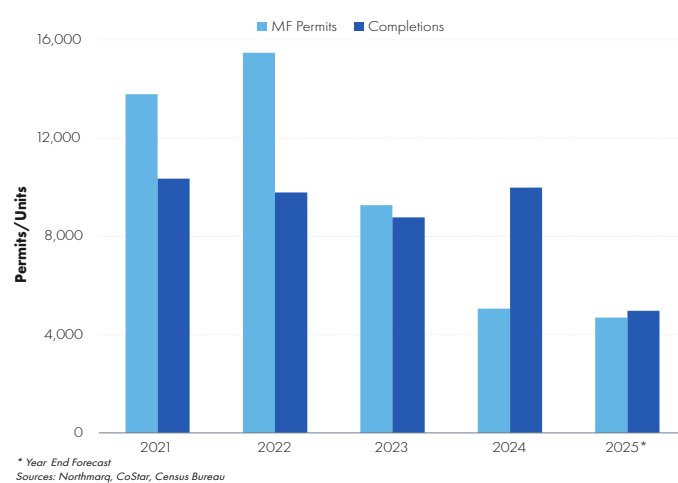
EMPLOYMENT FORECAST



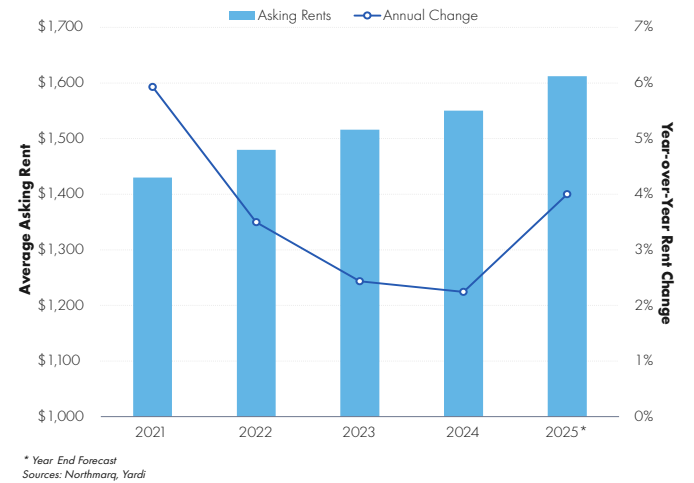
VACANCY FORECAST



CONSTRUCTION & PERMITTING FORECAST



RENTS FORECAST





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, *National Director, Research* | 602.508.2212 | poneil@northmarq.com

JOHN TAGG, *Research Manager* | 972.455.4916 | jtagg@northmarq.com

KEVIN LIMA, *Research Analyst* | 480.977.6980 | klima@northmarq.com

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