

Limited new supply fuels continued rent growth

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **4,980**

UNITS DELIVERED (YTD) **5,361**

MARKET FUNDAMENTALS



VACANCY RATE **4.5%**

YEAR-OVER-YEAR CHANGE **-40bps**

ASKING RENTS **\$1,620**

YEAR-OVER-YEAR CHANGE **+4.5%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$196,600**

MINNEAPOLIS-ST. PAUL
MULTIFAMILY
Q4 2025

HIGHLIGHTS

- Multifamily property fundamentals continued to improve in 2025. A sharp decline in new supply tightened vacancy and accelerated rent growth. A resurgence in urban investment activity drove higher transaction volume and lifted average pricing.
- Vacancy closed the year at 4.5%, declining by 40 basis points year over year. Renter demand was strong in 2025, with Minneapolis-St. Paul recording net move-ins totaling more than 9,800 units.
- Asking rents posted a fourth consecutive quarter of growth, rising 4.5% annually to \$1,620 per month. Suburban rent growth outpaced urban gains.
- Investment sales rebounded sharply in the fourth quarter of 2025, led by Downtown Minneapolis, pushing market-wide median pricing higher. Year over year, multifamily transaction velocity increased 45%, while the median sale price rose 60% to \$196,600 per unit.

MINNEAPOLIS-ST. PAUL MULTIFAMILY MARKET OVERVIEW

Market fundamentals strengthened throughout 2025 as supply and demand rebalanced favorably. Vacancy tightened as developers pulled back on new supply, with around 5,400 units delivering during the year, or 46% fewer than in 2024. Renter demand remained resilient, absorbing 9,800 units and outpacing completions, which resulted in a 40 basis point annual decline in vacancy. As a result of this rebalancing, rent growth accelerated, with average rents increasing 4.5% year over year to \$1,620 per month. The fourth quarter of 2025 marked the fourth consecutive quarter of positive quarterly rent growth. Developers are increasingly seeking solutions to address the feasibility challenges for new housing. Office-to-multifamily conversions have emerged as a strategy, accelerating across the Minneapolis market and accounting for nearly 80% of adaptive reuse projects. Millions of square feet of additional office inventory in the region is considered viable for residential conversion.

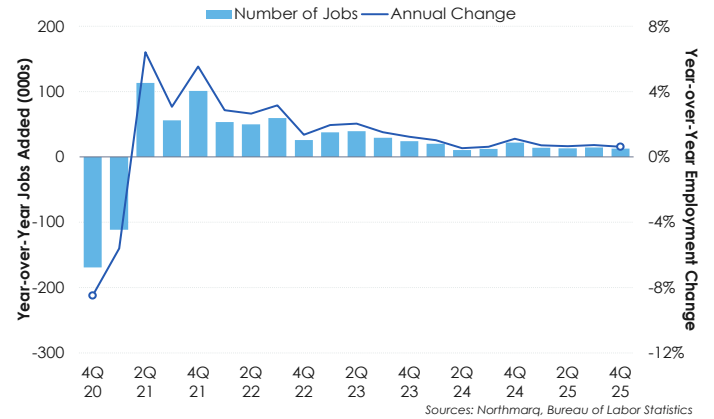
Multifamily investment performance in Minneapolis attracted the attention of regional and national investors, bringing new entrants into the market. This increased participation drove higher transaction activity, particularly in Downtown Minneapolis, where sales were roughly three to four times higher than the five-year average. Recent buyers have largely focused on Class A and Class B downtown urban properties, contributing to a substantial upswing in the median sale price, which spiked to \$196,600 per unit. The price gain reflects several factors, including higher urban acquisitions by new entrants and a shift in the asset mix toward more Class B and fewer class C properties. Modest cap rate compression in 2025 signals renewed investor confidence in long-term fundamentals. A measured resurgence in multifamily investment activity is expected to continue in 2026.

EMPLOYMENT

- Although total employment growth in the Twin Cities remained slow throughout 2025, employment continued to expand. The labor market added 12,600 workers in 2025, representing an annual increase of 0.6%.
- The mining, logging, and construction sector led job growth in 2025, expanding by 5,000 positions for a 5.5% increase, while the financial and information sectors weighed on overall employment gains.
- Work has commenced on the Community Performing Arts Center, an 8,000-seat riverfront amphitheater that is part of the 48-acre, \$350 million Upper Harbor Terminal redevelopment along the Mississippi River, creating about 500 construction jobs and 250 permanent jobs.
- **FORECAST:** Employment growth is expected to rebound modestly in 2026. Area employers are forecast to add roughly 14,000 workers to payrolls in 2026, increasing total employment by 0.7%.

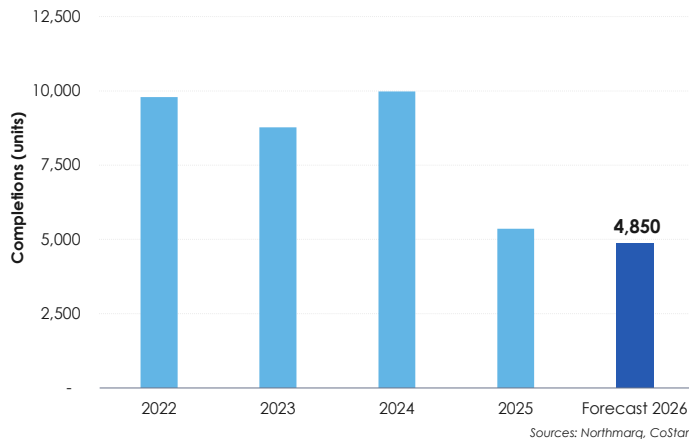
The labor market added 12,600 workers in 2025.

EMPLOYMENT OVERVIEW



Multifamily development activity declined sharply in 2025.

DEVELOPMENT TRENDS

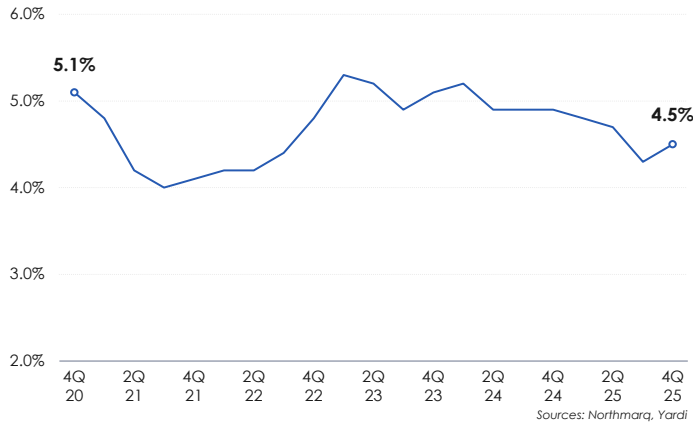


DEVELOPMENT & PERMITTING

- Multifamily development activity declined sharply in 2025. Approximately 5,400 units delivered during the year, 46% less than total units delivered in 2024 and well below the trailing five-year average of 9,300 units per year.
- The construction pipeline continued to contract through 2025. As of year-end, 4,980 units were under construction, down 18% from 6,050 units one year earlier.
- Multifamily permitting is estimated at 4,500 units for the full year 2025. New developments are increasingly shifting into the suburbs. About half of completions since 2023 are at least 10 miles outside the urban core.
- **FORECAST:** Apartment completions are expected to decline further in 2026. Projects totaling 4,850 units are expected to come online, marking the slowest rate of multifamily construction since 2019.

Urban vacancy declined 60 basis points to 4.7%.

VACANCY TRENDS



VACANCY

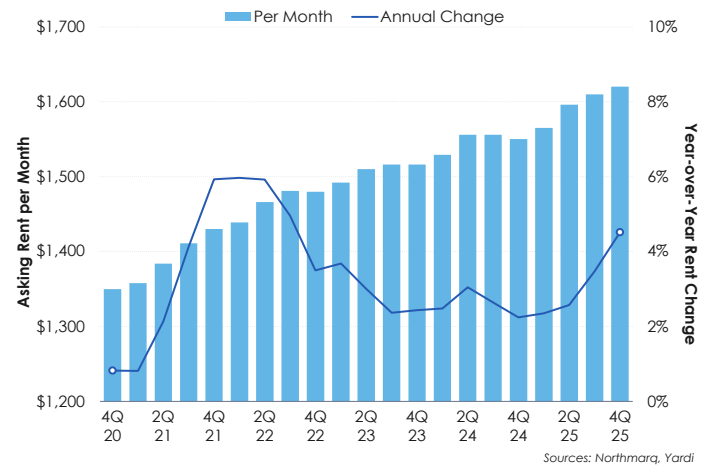
- The vacancy rate declined 40 basis points from last year, finishing 2025 at 4.5%. Strong net absorption of 9,800 units outpaced completions of 5,400 units, driving a significant reduction in vacancy.
- Suburban vacancy held steady at 4.2% year over year, while urban vacancy declined 60 basis points to 4.7%. The Minnetonka submarket tightened 130 basis points to 3.6%, while Coon Rapids improved 70 basis points to 2.8%.
- Class A and Class B vacancy remained tight at 5.3% and 4.3%, respectively. Class C vacancy rose 100 basis points to 7.6%, continuing a longer-term upward trend for the asset class since 2020.
- **FORECAST:** Vacancy conditions are expected to improve in 2026 as multifamily deliveries slow, with overall vacancy projected to fall to 4.3%. If employment growth rebounds above expectations, vacancy could decline even further.

RENTS

- Minneapolis-St. Paul outperformed many U.S. multifamily markets in 2025 with strong rent growth. Average asking rents increased 4.5% year over year to \$1,620 per month.
- Asking rents advanced at a brisk pace in the region’s major submarkets. Rents in Central Minneapolis rose 3.6% annually to \$1,813 per month, while rents in suburban Burnsville advanced 3.8% annually to \$1,578 per month.
- While average market rents grew 4.5% annually, trends varied by asset class. Class C properties recorded the highest growth at 5.0%, followed by Class A and Class B at 4.6% and 4.4%, respectively.
- **FORECAST:** The strong rent growth recorded over the past five years is expected to continue through 2026. Average rents are projected to rise 3.1% to \$1,670 per month by year-end.

Asking rents increased 4.5% year over year.

RENTS TRENDS

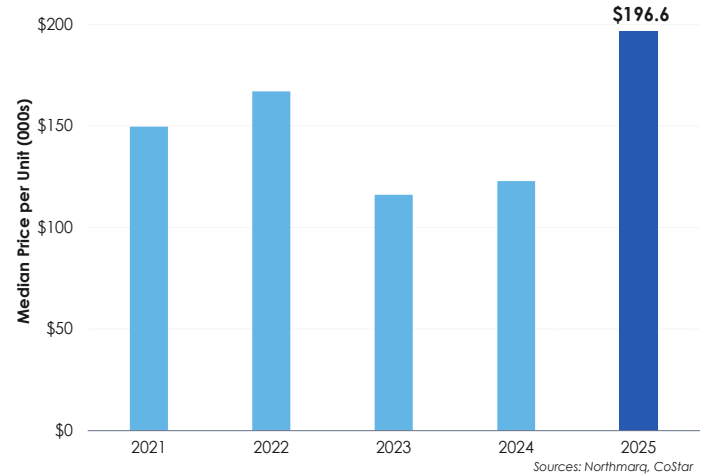


MULTIFAMILY SALES

- Annual transaction velocity rose 45% from 2024, driven by activity in Class A and Class B properties in Downtown. The Downtown submarket accounted for 18% of total sales, the largest share among submarkets by a wide margin.
- The median sale price in 2025 was \$196,600 per unit, up 60% from last year. Pricing was driven higher by new entrants to the market targeting urban assets and a shift in the asset mix toward more Class B and fewer Class C properties.
- Since 2020, Class C properties have accounted for an average of 42% of transactions, while Class B has represented 36%. In 2025, those proportions reversed, while Class A remained steady at roughly 22% of properties traded.
- Downtown Minneapolis recorded a significant jump in activity in 2025. After averaging two to three multifamily sales per year over the past five years, the submarket recorded 13 transactions.
- Cap rates have trended slightly lower by 25-50 basis points since the beginning of 2025. Class A institutional quality assets are trading near cap rates in the high-4% to mid-5% range.

Multifamily transaction velocity rose 45% from 2024.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

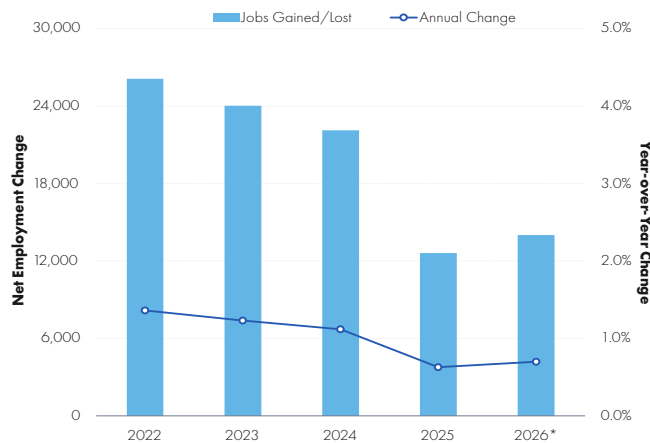
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Bristol Village Apartments	7301 Bristol Village Drive, Bloomington	1987	290	\$58,050,000	\$200,172
Orchards of Minnetonka	10955 Wayzata Blvd., Minnetonka	2019	147	\$57,500,000	\$391,156
Dock Street Flats	325-337 Washington Ave N., Minneapolis	2013	185	\$56,500,000	\$305,405
Shady Oak Crossing	4312 Shady Oak Road, Minnetonka	2021	75	\$19,750,000	\$263,333
Overlook on 100	2524 Highway 100 S., Saint Louis Park	1964	151	\$18,350,000	\$121,523

LOOKING AHEAD

The Minneapolis–St. Paul multifamily market enters 2026 positioned for continued stabilization and improvement, supported by a constrained development pipeline and steady renter demand. Apartment completions are expected to decline further, with approximately 4,850 units forecast to deliver, marking the slowest pace of new supply since 2019. A slowing pace of supply growth is expected to contribute to downward pressure on vacancy, particularly in urban and inner-ring suburban submarkets where recent absorption has been strong. Overall vacancy is projected to trend toward the low-4% range, with greater improvement possible if employment growth accelerates beyond current forecasts. Rent growth is expected to moderate from 2025’s elevated pace but remain healthy; rents are forecast to rise 3.1% in 2026.

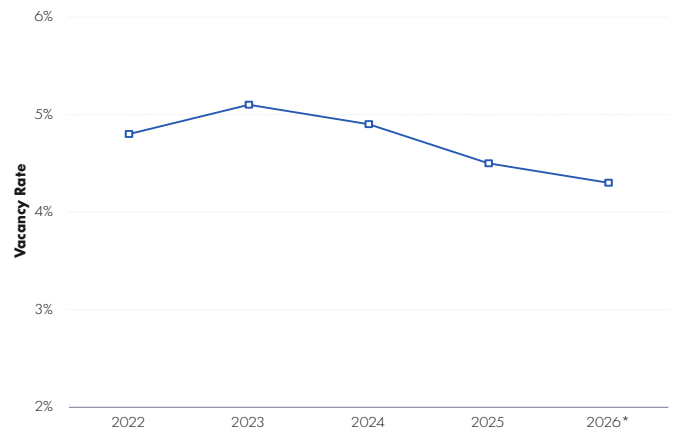
Investment activity is expected to carry momentum into 2026 as improving operating fundamentals intersect with increased capital availability. Well-located newer vintage, urban properties are likely to continue to attract an increased share of investor interest. Downtown Minneapolis is expected to remain a focal point for transactions, particularly for stabilized Class A and B assets, while value-add investors may find selective opportunities within the Class C property segment. Overall, the combination of slowing supply growth, stabilization of newly built properties, and renewed investor confidence positions the Minneapolis–St. Paul multifamily market for a more durable expansion phase as the next cycle unfolds.

EMPLOYMENT FORECAST



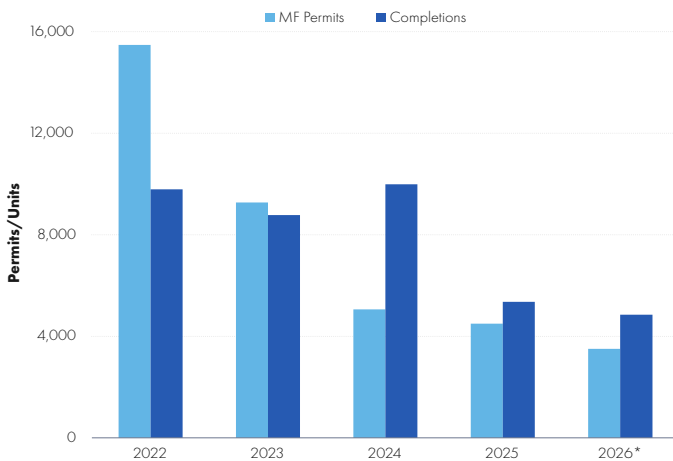
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



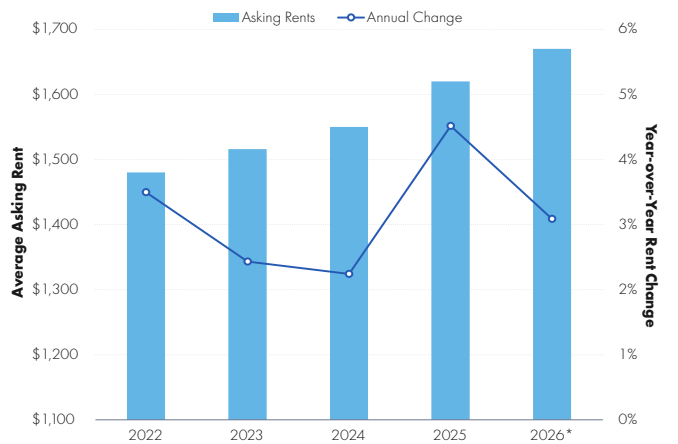
* Year End Forecast
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Yardi



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