Northmarq

MARKET INSIGHTS

# Transaction activity ticks up to start 2024

**CONSTRUCTION** ACTIVITY

| | |
|---|---|
| UNDER CONSTRUCTION | 7,730 |
| UNITS DELIVERED | 1,569 |

**MARKET** FUNDAMENTALS

| | |
|---|---|
| VACANCY RATE | 5.2% |
| YEAR-OVER-YEAR CHANGE | -10bps |
| ASKING RENTS | $1,529 |
| YEAR-OVER-YEAR CHANGE | +2.5% |

**TRANSACTION** ACTIVITY (YTD)

| | |
|---|---|
| MEDIAN SALES PRICE PER UNIT | $131,400 |

Minneapolis Multifamily
**1Q 2024**

## HIGHLIGHTS

- The Minneapolis-St. Paul multifamily market has been recording accelerating absorption and slowing construction in recent quarters. Fewer than 1,600 units came online during the first quarter, down 23 percent from the delivery total one year ago.
- Area vacancy inched higher by 10 basis points during the first quarter to 5.2 percent. Vacancy levels have been steady in recent periods, with the rate dipping 10 basis points year over year.
- Asking rents rose 0.9 percent during the first quarter to $1,529 per month and have increased 2.5 percent in the past year.
- Transaction activity gained momentum in the first quarter, after sales slowed throughout much of 2023. The median price through the first three months of the year is $131,400 per unit, while cap rates have ranged from 6.25 percent and 7 percent.

## MINNEAPOLIS MULTIFAMILY MARKET OVERVIEW

Property fundamentals in the Minneapolis-St. Paul multifamily market were steady in recent months, as supply growth was mild during the first quarter. This extended a trend that has emerged in recent years of cooling development activity. Multifamily completions peaked in 2021, with annual declines recorded in each of the past two years. Permitting and construction starts are also slowing, which should limit supply-side pressures in the coming years. With inventory growth cooling and the local economy continuing to add workers, area vacancy has operated in a tight band for more than a year. Net absorption totaled more than 8,000 units during the past year, up 23 percent from the preceding 12-month period. Continued renter demand has also supported rent gains; asking rents increased by 2.5 percent in the past year.

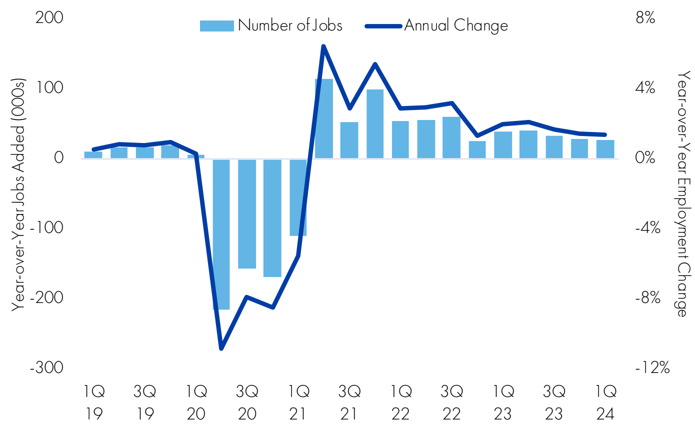
After slowing in 2023, transaction activity in the Twin Cities began to bounce back in the first quarter. The number of transactions surged from year-end 2023 levels, and sales velocity is ahead of the pace established at the beginning of last year. The transaction mix has not changed significantly, as Class C properties made up roughly half of all sales during the first quarter, with Class A and Class B assets each accounting for 25 percent of sales. The median price in all transactions to this point in 2024 is $131,400 per unit, up 13 percent from 2023 levels. Pricing varies by vintage however, with some newer properties trading above $300,000 per unit, while a handful of Class C assets have changed hands at less than $100,000 per unit.

## EMPLOYMENT

- Employers in the Minneapolis-St. Paul region continued to add workers in recent periods. Year over year, total employment expanded by 27,300 positions, an increase of 1.4 percent. Last year at this time, the annual growth rate was closer to 2 percent.
- Healthcare and social assistance employers added new workers at a rapid pace during the past year and gains in this sector are accounting for about half of the total growth in the region. During the past 12 months, total employment in this sector expanded by more than 5 percent with the addition of 15,400 positions.
- Chase recently announced plans to double the company's original bank branch and employment expansion goals in the Twin Cities. Originally, Chase had plans for roughly 30 new branches by 2025, but with the recent announcement, the company will now add 60 branches by 2027, creating an additional 300 jobs in Minneapolis-St. Paul.
- **FORECAST:** Area employers are projected to continue to add jobs at a modest pace through the end of the year. The local labor market is forecast to expand by 25,000 positions in 2024, an annual increase of 1.3 percent.

*Year over year, employment expanded by 27,300 positions.*

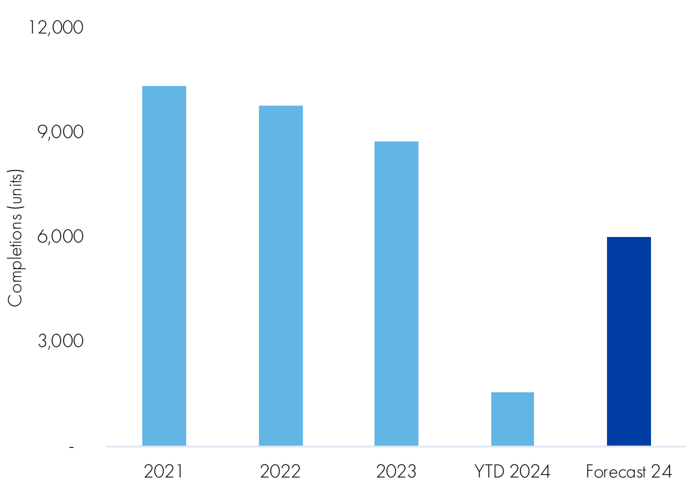
### EMPLOYMENT OVERVIEW




*Sources: Northmarq, Bureau of Labor Statistics*

*Roughly 1,600 units came online during the first quarter.*

### DEVELOPMENT TRENDS



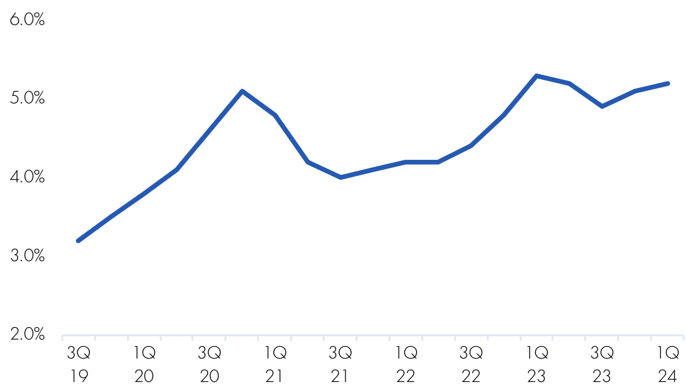

*Sources: Northmarq, CoStar*

## DEVELOPMENT & PERMITTING

- Multifamily deliveries in the Twin Cities were modest to start 2024. Projects totaling fewer than 1,600 units came online during the first quarter, lagging levels recorded in the same period of last year by 23 percent.
- Construction starts continued to taper off during the first quarter. Projects totaling approximately 7,700 units are currently under construction, down nearly 50 percent from one year earlier. Development is dispersed throughout the region, with the Downtown Minneapolis, Carver County, and Maple Grove/ Golden Valley/Plymouth submarkets holding a handful of projects each.
- Multifamily permitting remained modest in recent months, as levels have slowed since peaking in 2022. Developers pulled permits for roughly 1,850 units in the last three months, marking the lowest first-quarter permitting total since 2017. On average, developers issued permits for nearly 3,000 units in the first quarter of the preceding six years.
- **FORECAST:** Annual completions in 2024 are forecast to slow, after elevated deliveries in the preceding three years. Projects totaling approximately 6,000 units are expected to come online in 2024, dow from more than 8,700 units in 2023.

*Year over year, vacancy is down 10 basis points.*

### VACANCY TRENDS




*Sources: Northmarq, Yardi*

## VACANCY

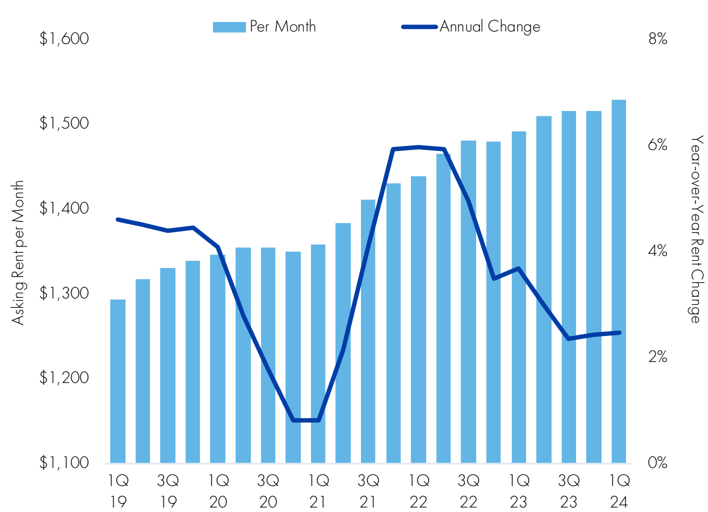
- Area vacancy in the Twin Cities has operated in a tight band in recent quarters. The vacancy rate inched higher by 10 basis points during the first quarter, reaching 5.2 percent. Year over year, vacancy is down 10 basis points.
- During the past 12 months, area vacancy has hovered in the low-5 percent range, and going back to early 2020, vacancy is ranging between 4 percent and 5.3 percent. The rate has not fluctuated significantly, despite increased levels of supply growth in recent years.
- Vacancy trended lower in both middle-tier and lower-tier properties during the past year. The vacancy rate for Class B assets declined by 30 basis points in the past 12 months to 4.6 percent, while Class C buildings posted an 80-basis point decline, with the rate finishing the first quarter at 6.6 percent.
- **FORECAST:** Vacancy in the Twin Cities is expected to end the year at 5.3 percent. The rate is forecast tick higher by 20 basis points for the full year, after rising 30 basis points in 2023. Continued job growth should support renter demand in the region.

## RENTS

- Asking rents ticked higher in recent months after holding steady in the final three months of 2023. Rents in the Twin Cities rose by 0.9 percent during the first quarter to $1,529 per month.
- Year over year, rents are up 2.5 percent. Recent rent growth has lagged the pace recorded in prior years; since 2015, rents in the area have increased at an average rate of 4.1 percent per year.
- Middle-tier properties recorded consistent rent gains in recent periods, with annual rent growth for Class B assets closely tracking the market's overall trend. Rents for Class B assets rose 2.4 percent during the past year, reaching $1,441 per month.
- **FORECAST:** Rent growth in 2024 should closely track levels recorded last year. Area rents are forecast to rise 2.2 percent in 2024, reaching $1,550 per month.

*Year over year, rents are up 2.5 percent.*

### RENT TRENDS



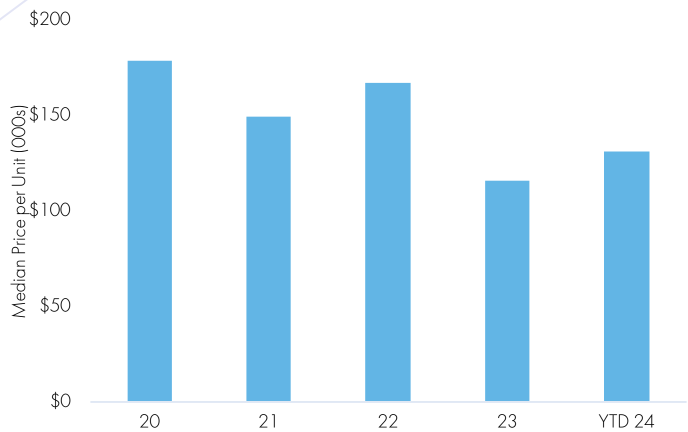

*Sources: Northmarq, Yardi*

## **MULTIFAMILY** SALES

- After slowing throughout much of 2023, investment activity in Minneapolis-St. Paul picked up in recent months, accelerating by approximately 80 percent from the fourth quarter of last year to the first quarter of 2024. Transaction counts to start 2024 are ahead of the 2023 pace.
- The median price to this point in 2024 is $131,400 per unit, up 13 percent from last year. Most properties that have traded this year have had little or no vacancy, which has supported pricing. At the high-end of the market, some Class A assets have traded for more than $300,000 per unit.
- Cap rates have been mixed in recent quarters. During the second half of last year, cap rates seemed to range between 5.25 percent and 6.25 percent. Year to date, the range has pushed out to between 6.25 percent and 7 percent in most cases.

*The median price to this point in 2024 is $131,400 per unit.*

### INVESTMENT TRENDS




*Sources: Northmarq, CoStar*

## **RECENT TRANSACTIONS** MULTIFAMILY SALES ACTIVITY

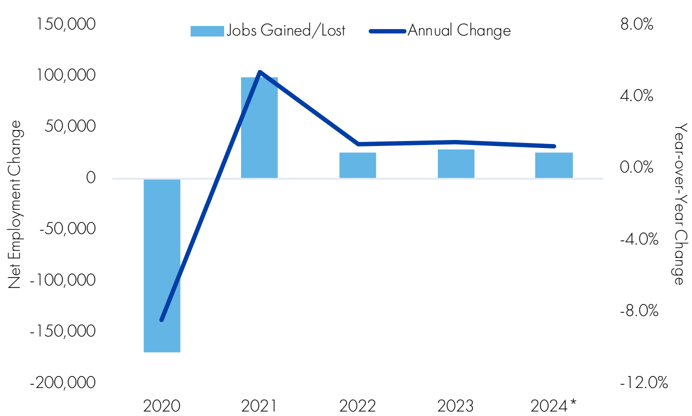
| PROPERTY NAME | STREET ADDRESS | UNITS | SALES PRICE | PRICE/UNIT |
|---|---|---|---|---|
| Arlo West End | 1325 Utica Ave S., Saint Louis Park | 164 | $53,400,000 | $325,610 |
| 4Marq | 400 Marquette Ave., Minneapolis | 261 | $53,000,000 | $203,065 |
| The Barrington | 7225-7255 Guilder Dr., Woodbury | 282 | $48,600,000 | $172,340 |
| Avery Park | 9713 95th Pl., Maple Grove | 124 | $44,820,000 | $361,452 |
| The Cosmopolitan | 250 E 6th St E., Saint Paul | 258 | $33,900,000 | $131,395 |

# **LOOKING** AHEAD

While many markets in the country are recording rapid increases in multifamily supply, developers will slow activity in the Twin Cities this year. Projects totaling 6,000 units are expected to come online in 2024, down more than 30 percent from the 2023 total and about 45 percent lower than the market's 2021 peak. While supply growth is slowing, renter demand should remain strong going forward. The local labor market is forecast to continue to add positions and the region's population is expanding. Vacancies are expected to remain near current ranges throughout the remainder of the year, while demand should be strong enough to support modest rent gains.

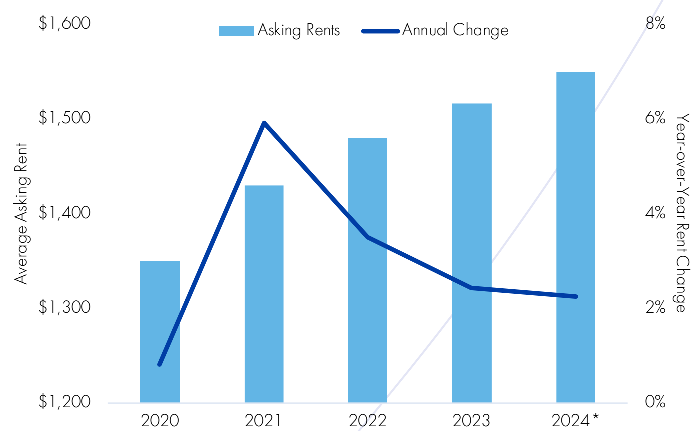
A healthy start to 2024 could result in a more active investment market this year, following a considerable drop in sales velocity in 2023. Investors will likely be drawn to the region's consistent rent growth and stable vacancy conditions in the coming periods, and the upward trend in cap rates is offsetting some of the rise in interest rates that dragged on investment activity last year. The deliveries of new units in recent years could yield some additional transaction volume. Roughly one-third of the projects built since the beginning of 2023 have already stabilized, and some of these assets will likely change hands.

## EMPLOYMENT FORECAST



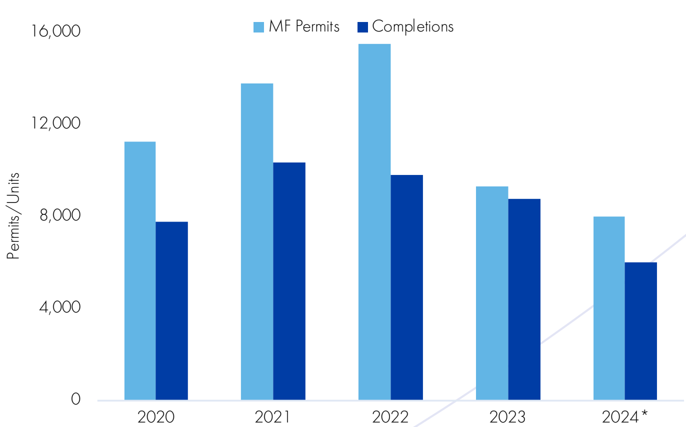

* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

## RENT FORECAST



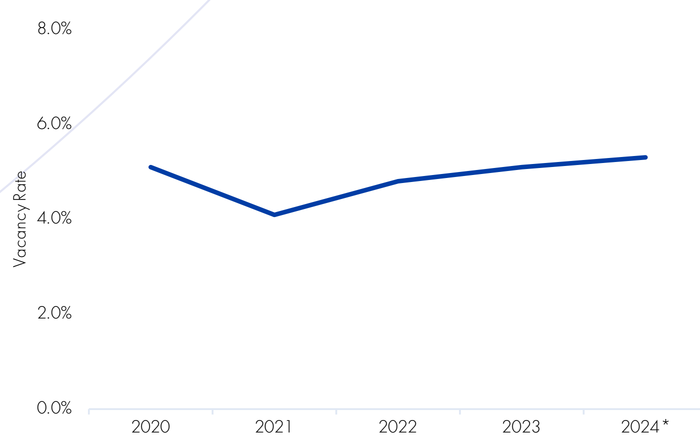

* Year End Forecast
Sources: Northmarq, Yardi

## CONSTRUCTION & PERMITTING FORECAST




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

## VACANCY FORECAST




* Year End Forecast
Sources: Northmarq, Yardi

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## ABOUT NORTHMARQ

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