Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	8,252
UNITS DELIVERED (YTD)	6,838

MARKET FUNDAMENTALS

VACANCY RATE	4.9%
YEAR-OVER-YEAR CHANGE	+0bps
ASKING RENTS	$1,556
YEAR-OVER-YEAR CHANGE	+2.6%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$126,500

MINNEAPOLIS MULTIFAMILY
3Q 2024

MARKET INSIGHTS

Accelerating renter demand supporting absorption totals

HIGHLIGHTS

- Operating conditions in the Twin Cities multifamily market were steady during the third quarter, as vacancy and rents were unchanged from the previous period.
- The vacancy rate was unchanged from the second quarter to the third quarter, holding steady at 4.9 percent. Renter demand was strong in recent months, as apartments recorded net move-ins for more than 3,500 units during the third quarter. In the preceding five years, net absorption averaged roughly 2,400 units in the same period.
- Apartment rents averaged $1,556 per month, up 2.6 percent from one year ago. Annual rent growth has ranged between 2.5 percent and 3.0 percent since mid-2023.
- Sales activity has rebounded to this point in the year after being limited in 2023. Sales velocity during the past nine months is up more than 70 percent from the same period of last year, and total sales to this point in the year are similar to levels recorded from 2016 to 2022.

MINNEAPOLIS MULTIFAMILY MARKET OVERVIEW

Multifamily property fundamentals in the Twin Cities were steady during the third quarter, as renter demand closely tracked supply growth. Year-to-date absorption levels have been elevated compared to totals recorded in 2022 and 2023. During the past 12 months, net absorption in the region has totaled approximately 11,750 units, up 33 percent from year-earlier levels. Heightened renter demand has helped to keep vacancy conditions steady, with the rate unchanged and somewhat lower than in early 2023. Steady vacancy conditions are supporting rent growth, although recent gains are more modest than the region's long-term averages. Apartment rents were unchanged during the third quarter, and rents have advanced by 2.6 percent during the past year.

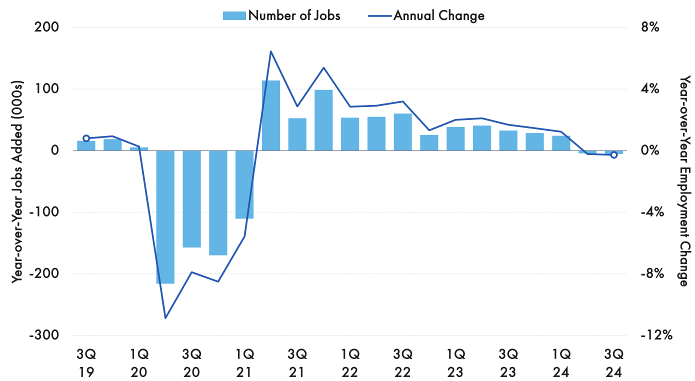
Multifamily properties in the Twin Cities continued to change hands in recent months, as sales activity has returned closer to historical norms after restricted activity in 2023. Cap rates have adjusted higher to this point in the year, ranging between 6.25 percent and 7 percent in most cases after being as low as the mid-4 percent range in 2022. The cities of Minneapolis and St. Paul have accounted for approximately 40 percent of the sales that have occurred to this point in 2024, tracking the region's long-term trends. Outside of the core population centers, sales have also been recorded to the north and northwest in cities such as Brooklyn Center, Brooklyn Park, Fridley, and Maple Grove.

EMPLOYMENT

- Following steady growth in 2023 and early 2024, employment levels in the Twin Cities have tapered off in recent quarters. Year over year, total employment is down 5,500 workers, a decline of 0.3 percent.
- Trends have been mixed during the past year, with the healthcare and social assistance sector posting the greatest job additions. During the past 12 months, healthcare employment has expanded by 20,300 positions, an increase of 6.5 percent. Professional and financial sectors dragged on total employment during the past year.
- Niron Magnetics recently held a grand opening for the company's new manufacturing facility, which will be an extension of the company's headquarters in the Mid-City Industrial neighborhood. The opening comes immediately after Niron announced the purchase of 79 acres of land in Sartell for another manufacturing facility in the region. Between the two projects, Niron expects to create 250 jobs in the region.
- **FORECAST:** Local employment is forecast to expand by 0.3 percent in 2024, with payrolls growing by 5,000 workers. This will mark just the third time in the past decade where the annual growth rate in the Twin Cities will come in below 1 percent.

Local employment is forecast to expand by 0.3 percent in 2024.

EMPLOYMENT OVERVIEW



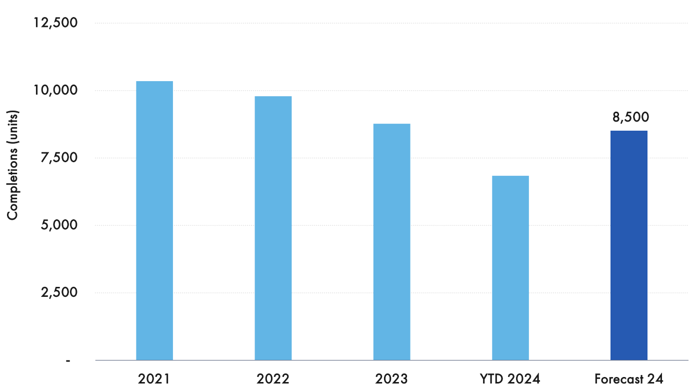
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- After tapering off in the first half of 2024, multifamily deliveries in Minneapolis-St. Paul picked up in recent months, and completions year to date are now closely tracking levels recorded in 2023. Projects totaling more than 6,800 units have come online to this point in 2024, nearly identical to the total from the same period in 2023.
- While completions have continued at close to their 2023 pace, starts have slowed and the construction pipeline has thinned during the past year. Projects totaling approximately 8,250 units are currently under construction, down 25 percent from one year ago. Development activity is dispersed throughout the metro area.
- Permitting remains modest, as developers have pulled permits for roughly 1,250 multifamily units for three consecutive quarters. Permitting levels have tapered off since the beginning of 2023.
- **FORECAST:** The pace of multifamily deliveries is expected to slow slightly in the closing months of the year. Projects totaling 8,500 units are forecast to come online in 2024, after more than 8,700 units were delivered last year. Since peaking in 2021, completion levels have slowed in the subsequent years.

More than 6,800 units have come online in 2024.

DEVELOPMENT TRENDS



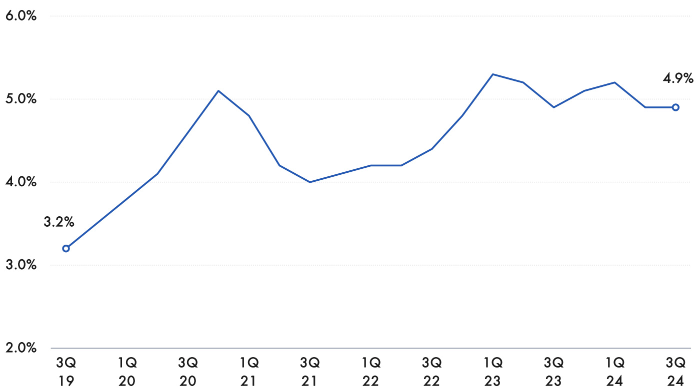
Sources: Northmarq, CoStar

VACANCY

Vacancy conditions have been steady since the closing months of 2022.

- Vacancy in the Twin Cities held steady from the second quarter to the third quarter, remaining at 4.9 percent, and the current vacancy rate is identical to the market's figure from one year ago. Vacancy conditions have been steady since the closing months of 2022, with the rate averaging around 5 percent during this time frame.
- Renter demand has been strong to this point in the year, with net absorption totaling more than 9,700 units through the first three quarters of the year. In the same period of 2022 and 2023, absorption totaled approximately 7,100 units and 8,100 units, respectively.
- Apartment vacancy in the region's suburbs has performed well in recent quarters. Year over year, the vacancy rate in suburban Minneapolis-St. Paul has improved by 30 basis points to 4.2 percent.
- **FORECAST:** The vacancy rate is forecast to end 2024 at 5.1 percent through the end of 2024. This will mark the third consecutive year where vacancy was near 5 percent, after the rate averaged just 3.2 percent for the prior decade.

VACANCY TRENDS



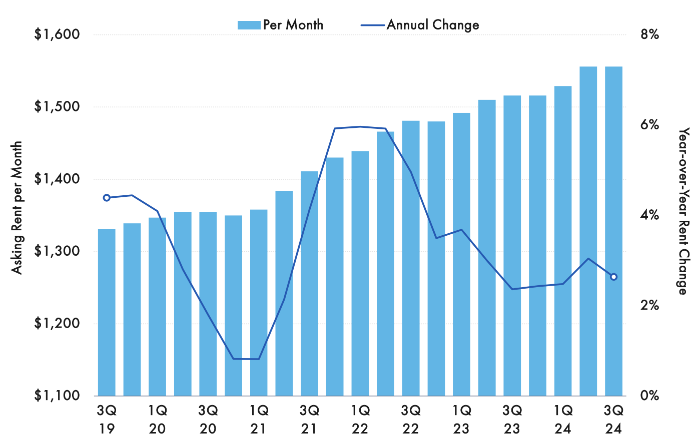
Sources: Northmarq, Yardi

RENTS

- After healthy gains during the second quarter, rents in the Twin Cities were flat at $1,556 per month during the third quarter. Despite leveling off in recent months, current asking rents are up 2.6 percent from one year ago.
- Suburbs surrounding the Twin Cities have posted elevated rent growth during the past 12 months. Year over year, rents in the region's suburban submarkets have risen by 4.1 percent to $1,559 per month.
- Rents in the Downtowns of Minneapolis and St. Paul have been rising, but at a moderate pace. Average rents in the Downtown submarkets are up 1.6 percent from one year ago at $1,593 per month. Rents in Class A properties in the Downtown core have inched lower by 0.3 percent year over year, ending the third quarter at $1,916 per month.
- **FORECAST:** Rents should hold mostly steady in the fourth quarter and will likely end the year only a few dollars higher than current levels. For the full year, rents are expected to rise 2.8 percent, a slightly faster pace of gain than was recorded in 2023. Historically, rents in the Twin Cities have gained more than 4 percent per year.

Current asking rents are up 2.6 percent from one year ago.

RENTS TRENDS



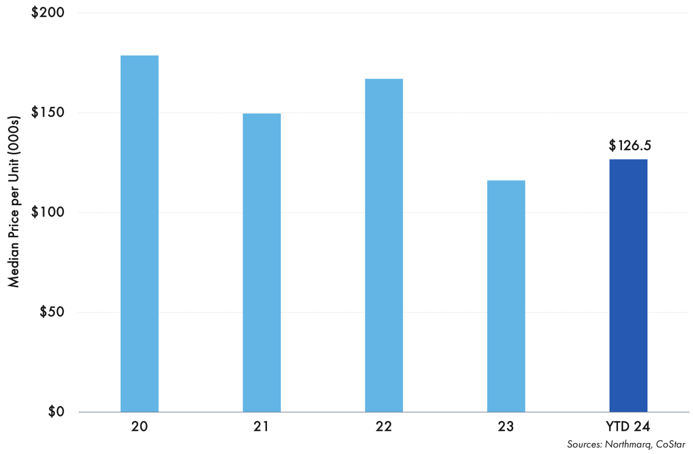
Sources: Northmarq, Yardi

MULTIFAMILY SALES

- Properties continued to trade in the Twin Cities multifamily investment market in recent months, as transaction volume to this point in the year has returned to historical norms after bottoming in 2023. Total transactions thus far in 2024 have nearly doubled the low levels recorded last year.
- The median price year to date is $126,500 per unit, up 9 percent from 2023, but still lagging levels recorded from 2019 to 2022.
- Some of the decline in pricing is due to a retreat in Class A prices. The median price for Class A properties year to date is $209,400 per unit. In the preceding 5 years, this figure was between $250,000 per unit and $275,000 per unit.
- Cap rates remained elevated in recent months, averaging 6.5 percent. Cap rates ranged between 6.25 percent and 7 percent during the first half.

The median price year to date 2024 is $126,500 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

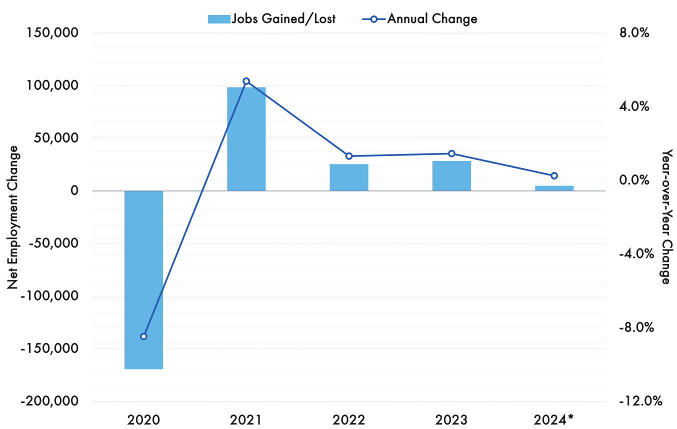
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Blue and Lime Apartments	2922 Aldrich Ave S & 2904 Lyndale Ave S., Minneapolis	2008/2014	413	$80,500,000	$194,915
IndiGO Apartments	8001 33rd Ave S., Bloomington	2016	395	$80,000,000	$202,532
Woodbury Park at City Centre	2150 Vining Dr., Woodbury	1997	224	$55,500,000	$247,768
Banfill Crossing	8310 University Ave NE., Fridley	1999	110	$17,900,000	$162,727
The Groves Apartments	6802 63rd Ave N., Brooklyn Park	1967	120	$12,000,000	$100,000

LOOKING AHEAD

Operational stability in the Minneapolis-St. Paul multifamily market should continue in the coming months and into 2025. The pace of new development has been on a gradual decline in the Twin Cities since peaking in 2021, and deliveries this year are expected to come in slightly lower than in 2023. The development pipeline has thinned to the point that completions of new projects are expected to decline over each of the next two years. Vacancy is forecast to close the year at around 5 percent, which will mark two full years of the rate remaining in the low-5 percent range. Stable vacancy conditions should promote further rent growth for the foreseeable future.

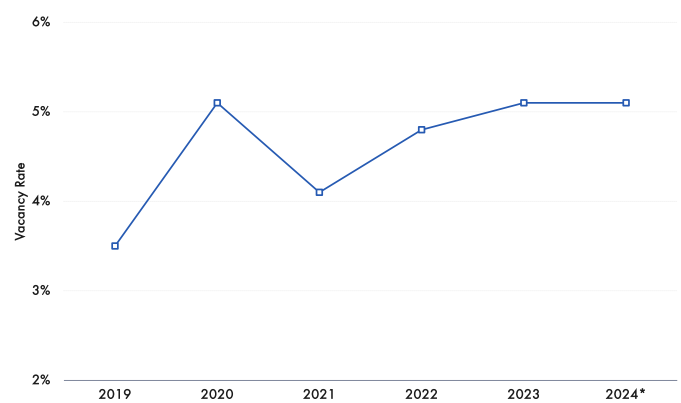
Multifamily properties in the Twin Cities are expected to continue to change hands at a pace that tracks the region's historical levels. Total sales to this point in the year have already surpassed levels recorded in all of 2023, with annual sales velocity in line with levels recorded in the five years leading up to the light volumes posted last year. One reason activity has regained momentum is cap rates, which have pushed higher in 2024 and are forecast to remain near current ranges. To this point, nearly half of the sales have occurred in the major population centers of Minneapolis and Saint Paul, although it appears there could be an uptick in activity outside of the market's two core cities.

EMPLOYMENT FORECAST



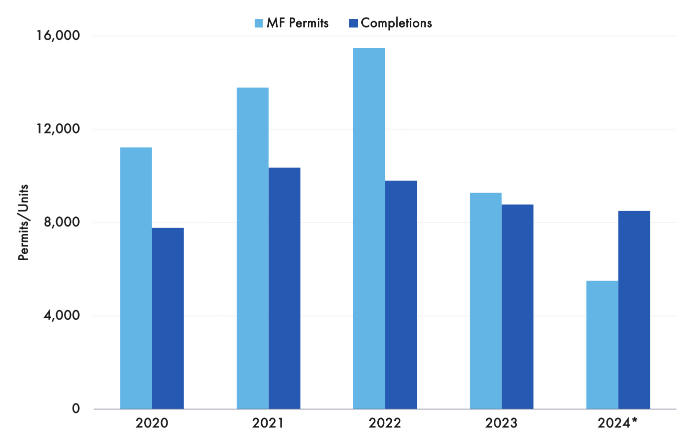
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



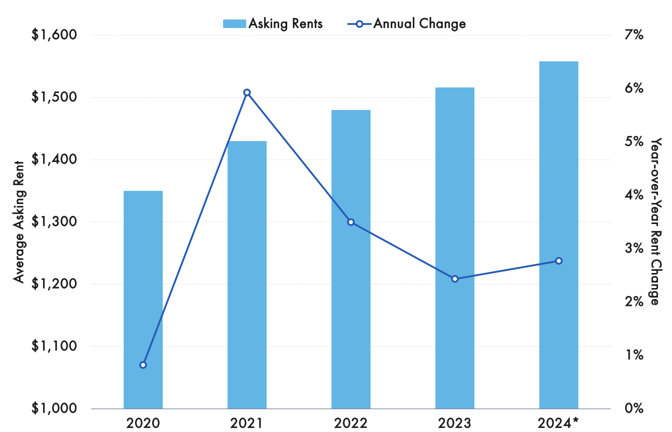
* Year End Forecast
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Yardi

FOR MORE INFORMATION, **PLEASE CONTACT**

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

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

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

DYLAN STEMAN
Senior Associate, Investment Sales
952.247.2846
dsteman@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.