Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	14,560
UNITS DELIVERED (YTD)	9,791

MARKET FUNDAMENTALS

VACANCY RATE	4.8%
YEAR-OVER-YEAR CHANGE	+70bps
ASKING RENTS	$1,480
YEAR-OVER-YEAR CHANGE	+3.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$167,000

Minneapolis Multifamily
4Q 2022

MARKET INSIGHTS

Despite strong job growth, some softening to close 2022 market

HIGHLIGHTS

- The Minneapolis-St. Paul multifamily market leveled off during at the end of 2022, as the vacancy rate pushed moderately higher, and asking rents held steady. Surburban submarkets continued to outperform urban areas for vacancy and rent growth
- The local vacancy rate continued to trend higher during the fourth quarter, rising 40 basis points in the final months of 2022 to 4.8 percent. While the rate edged higher at the end of the year, vacancy rose only 70 basis points for all of 2022.
- Asking rents finished 2022 at $1,480 per month, down just $1 per month from the figure in the previous period. Year over year, rents are up 3.5 percent.
- The local multifamily investment market slowed late in the year, as deal volume ticked lower, and cap rates trended higher. The median sales price in 2022 was $167,000 per unit, up nearly 12 percent from the median price in 2021. Cap rates averaged around 5 percent to 5.5 percent during the fourth quarter.

MINNEAPOLIS MULTIFAMILY MARKET OVERVIEW

The Minneapolis-St. Paul multifamily market softened slightly during the fourth quarter, as the vacancy rate ticked higher, and rent growth stalled. The current vacancy rate sits at 4.8 percent, which is about 150 basis points higher than the region's five-year average. After seven consecutive quarters of rent growth, asking rents posted a minimal dip in the final months of the year. Despite property fundamentals cooling at the end of 2022, the Twin Cities continues to record healthy economic growth with a large, diverse labor pool. Job growth in the local employment market accelerated in the final months of 2022, as area employers added more than 20,000 positions during the fourth quarter.

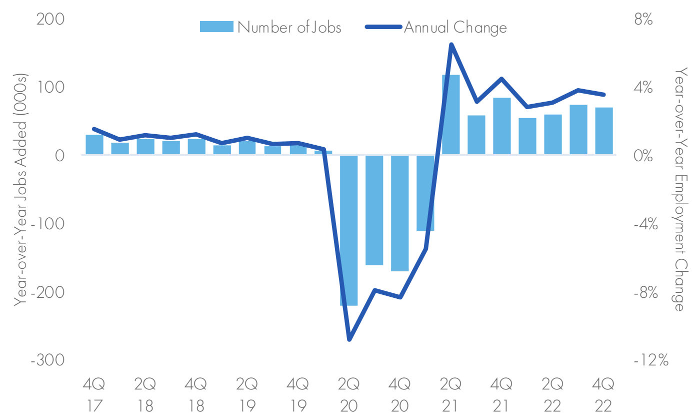
While total transaction activity slowed in the second half of the year, properties traded across the Greater Minneapolis-St. Paul area in 2022, including deals both in the city center and in outlying suburban neighborhoods. Some of the more active areas for sales in 2022 included New Brighton, the Minneapolis Whittier neighborhood, and Downtown Minneapolis. Although fewer deals traded in the last 12 months compared to the 2021 figure, per-unit pricing remained elevated. The median sales price through the end of 2022 was $167,000 per unit, up nearly 12 percent from the 2021 figure. Cap rates continued to tick higher and averaged around 5 percent to 5.5 percent during the fourth quarter.

EMPLOYMENT

- Year over year, the local labor market grew by 3.5 percent and added 69,400 jobs. Gains were particularly strong in the fourth quarter when employers added more than 20,000 jobs.
- The education and health services industry was one of the top-performing sectors. In the past year, the gains in this industry accounted for about 30 percent of total job growth in the market. The sector expanded by more than 21,000 jobs in 2022, a gain of 6.2 percent.
- Pharmaceutical company Cambrex recently announced it is investing in a new 21,000-square-foot research and development facility in Minneapolis. The state-of-the-art site will be located near the Minneapolis–St. Paul International Airport and will specialize in analytical and chemical development for pharmaceuticals.
- **FORECAST:** Job growth is projected to continue to expand at a slower pace in the coming quarters. Local employers are expected to add 20,000 jobs in 2023, an increase of nearly 1 percent.

Year over year, the local labor market grew by 3.5 percent.

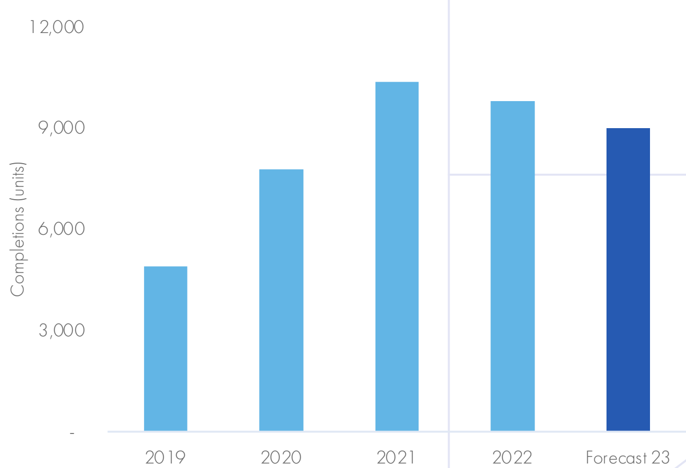
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 14,560 units are currently under construction.

DEVELOPMENT TRENDS



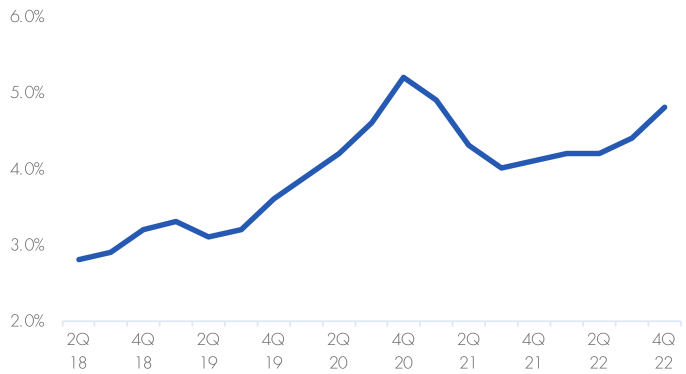
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of apartment deliveries slowed toward the end of 2022, as projects totaling 870 units came online in the fourth quarter. For the full year, developers completed nearly 9,800 units, down 5 percent from the 2021 total.
- Projects totaling 14,560 units are currently under construction throughout the region, up 4 percent from one year ago. While construction is ongoing throughout the Twin Cities, some of the most active submarket clusters for new development include Downtown Minneapolis, Carver County, and Coon Rapids/Fridley/Blaine.
- Although multifamily permitting slowed slightly in the fourth quarter, developers continued to pull permits at a healthy pace. Permits for approximately 15,500 multifamily units were issued in 2022, up 12 percent from the previous year.
- **FORECAST:** Multifamily developers are expected to remain active in 2023, although the pace of deliveries will trail the last two years. Projects totaling approximately 9,000 units are slated to come online in the year to come.

Class A vacancy ended the year at 5.6 percent.

VACANCY TRENDS



Sources: Northmarq, Yardi

VACANCY

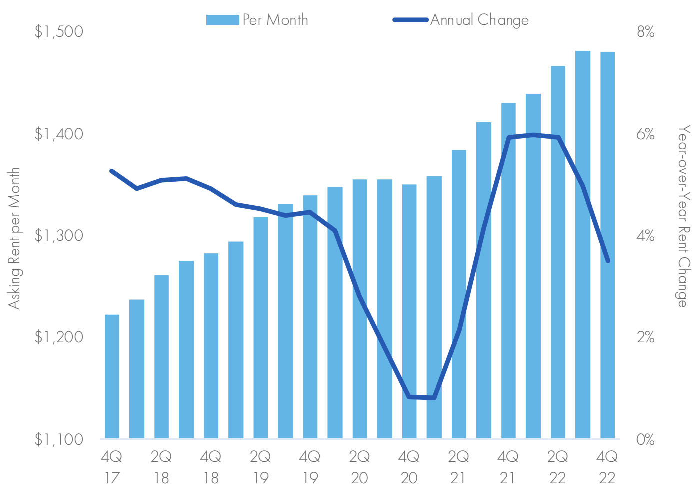
- Local vacancy continued to tick higher in the last few months of the year, rising 40 basis points during the fourth quarter to 4.8 percent.
- Year over year, the vacancy rate in the Twin Cities has increased by 70 basis points. Vacancy averaged 3.3 percent from 2015 through 2021. The rate has inched lower after topping 5 percent two years ago.
- Area vacancy ticked higher across the quality spectrum during the past year with mid-tier and lower-tier assets posting the tightest rates. The vacancy rate in both Class B and Class C units finished 2022 at 4.3 percent. Class A vacancy ended the year at 5.6 percent.
- **FORECAST:** Occupancy levels in the Twin Cities are expected to stabilize in the coming quarters before inching lower by the end of the year. Vacancy is projected to finish 2023 at around 4.6 percent, down 20 basis points from the end of 2022.

RENTS

- Asking rents were essentially flat in the final quarter of the year, following consistent increases in recent periods. Average rents finished the fourth quarter at $1,480 per month, just $1 per month lower than in the third quarter.
- Year over year, local apartment rents have risen by 3.5 percent, down slightly from the long-term average in the region. Annual rent growth in the Twin Cities averaged 4.3 percent during the past five years.
- Local apartment rents posted moderate gains across all asset classes during the past year. The largest increases occurred in Class C properties, where rents rose 4 percent during the year, reaching $1,142 per month.
- **FORECAST:** Asking rents in the Twin Cities are projected to tick higher at a modest pace. Local rents are expected to rise 2 percent in 2023 to $1,510 per month.

Year over year, local rents have risen by 3.5 percent.

RENT TRENDS



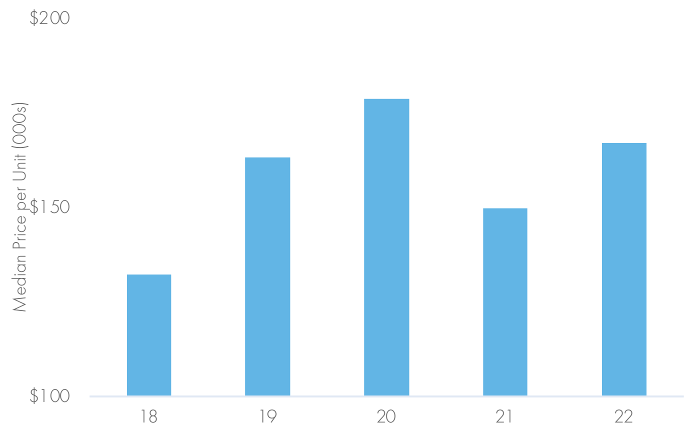
Sources: Northmarq, Yardi

MULTIFAMILY SALES

- Multifamily sales activity dipped 15 percent from the third quarter to the fourth quarter. For the full year, the number of transactions in 2022 fell approximately 25 percent when compared to 2021 sales levels.
- While the pace of sales dropped in recent quarters, pricing remained elevated. The median sales price through the end of 2022 was $167,000 per unit, up nearly 12 percent from the median price in 2021. Much of this increase was due to an acceleration in large, Class A transaction activity when compared to prior years.
- Cap rates ticked higher in 2022, trending up to 5 percent to 5.5 percent in most cases, about 75-100 basis points higher than in 2021.

The median sales price in 2022 was $167,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

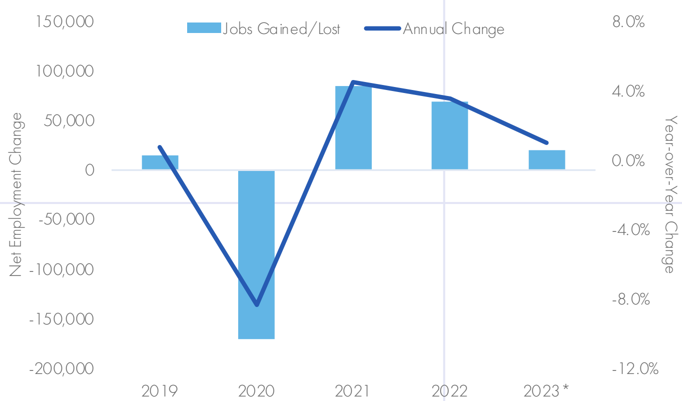
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Park Glen Apartments	4501 Park Glen Rd., Saint Louis Park	290	$55,000,000	$189,655
Edition	511 S 4th St., Minneapolis	196	$55,000,000	$280,612
Dock Street Flats	325-337 Washington Ave., Minneapolis	185	$47,000,000	$254,054
The Summit Townhomes	1500 McAndrews Rd W., Burnsville	114	$39,500,000	$346,491
ReNew West Bloomington	9900 Briar Rd., Bloomington	213	$32,800,000	$153,991
Lakeview Commons	15205 18th Ave N., Plymouth	64	$11,300,000	$176,563

LOOKING AHEAD

The overall outlook for the multifamily market remains positive in the Minneapolis-St. Paul region. Operating conditions are projected to post modest improvements in 2023, supported by a strong local economy. Supply growth should remain elevated in the coming years as multifamily permitting reached a cyclical high in 2022. While apartment units account for the majority of the construction pipeline, single-family build-to-rent communities are beginning to gain traction in the market. A handful of these communities have come online in the Twin Cities in recent years, with several more single-family rental projects currently in the development pipeline. Projects are under construction in the Maple Grove submarket as well as in the Woodbury and Rosemount areas.

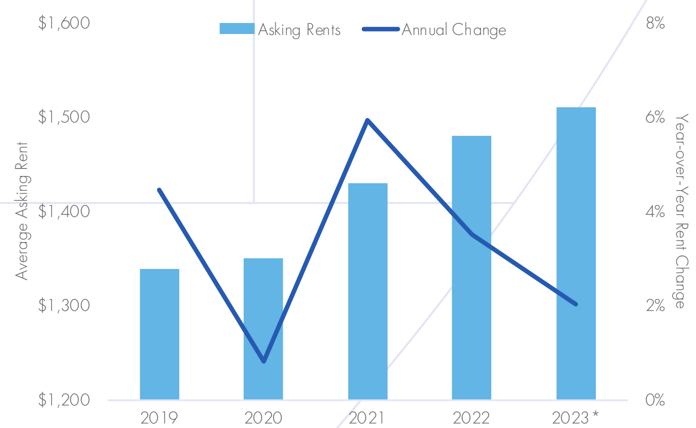
An early look into the investment market shows that transaction activity will likely remain fairly quiet in the early months of 2023. The number of deals in the first half is expected to trail levels recorded in recent years, as investors continue to adjust to the fluctuations in both interest rates and cap rates. One factor that will ultimately support investment activity is the local economy, which posted some of the strongest gains in the Midwest in 2022. These healthy economic fundamentals should continue to support investor sentiment. Additionally, the active construction pipeline and the recent spike in multifamily permitting should continue to bring new projects into the investment market upon completion.

EMPLOYMENT FORECAST



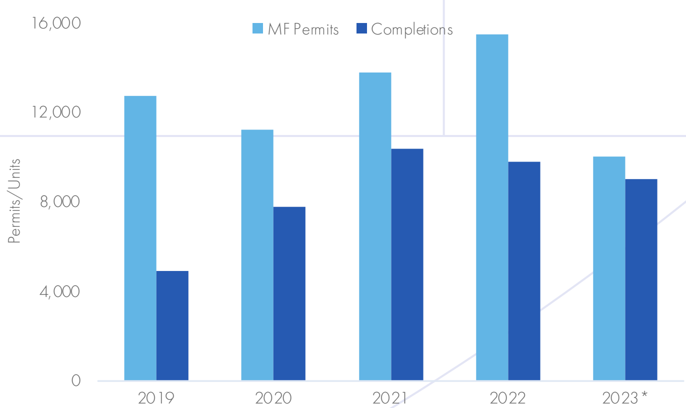
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



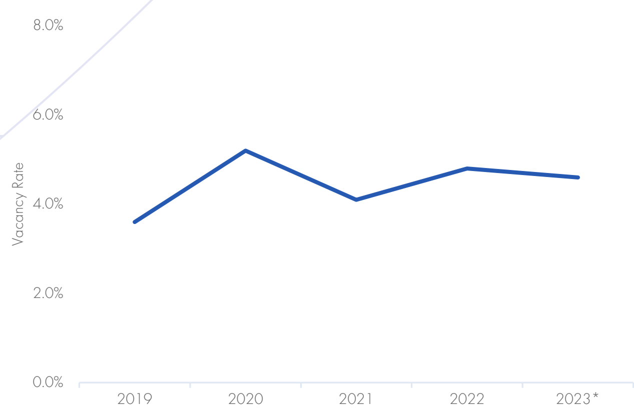
** Year End Forecast*
Sources: Northmarq, Yardi

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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