

Rents rise, but greater uncertainty in the near term

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **14,309**

UNITS DELIVERED **2,030**

MARKET FUNDAMENTALS



VACANCY RATE **5.3%**

YEAR-OVER-YEAR CHANGE **+110bps**

ASKING RENTS **\$1,492**

YEAR-OVER-YEAR CHANGE **+3.7%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$117,100**

HIGHLIGHTS

- Renter demand in the Twin Cities was positive in the first quarter but could not keep pace with the delivery of new units. Vacancy rose, but rents trended higher at a steady pace.
- The local vacancy rate continued to push higher during the first quarter, rising 50 basis points in the last three months to 5.3 percent. Year over year, the rate increased by 110 basis points.
- Apartment rents inched up during the first quarter, rising 0.8 percent to \$1,492 per month. Year over year, asking rents are up 3.7 percent.
- The multifamily investment market recorded a slowdown in deal volume during the first quarter, particularly among Class A and Class B properties. Cap rates are generally averaging between 5.75 percent and 5.85 percent.

MINNEAPOLIS MULTIFAMILY MARKET OVERVIEW

The Minneapolis-St. Paul multifamily market posted a mixed performance during the first quarter as rents advanced despite a rise in the vacancy rate. Apartment developers have been active in recent periods. More than 2,000 multifamily units were completed throughout the Twin Cities to start 2023, outpacing absorption levels. While vacancy topped 5 percent for the first time since late 2020, leasing volume was still active enough to support rent growth. Asking rents inched higher at the start of the year, following a flat end to 2022. Growth in the region's suburban submarkets outperformed the urban cores in recent periods with steady gains in Bloomington West, Eden Prairie, and Maplewood/East Ramsey County.

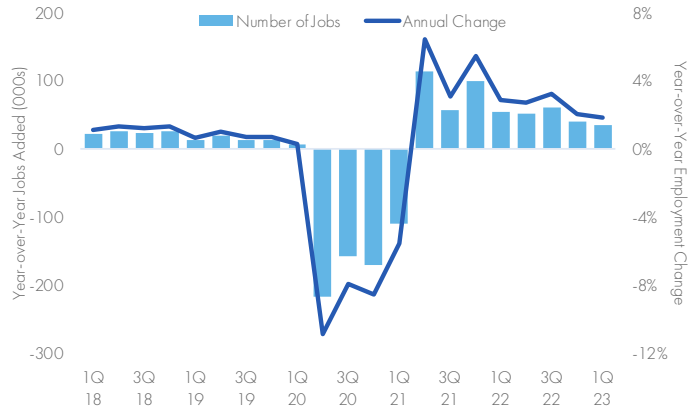
Multifamily transaction activity continued to slow during the first quarter as the local investment market recorded its lowest volume of sales since 2020. During the opening quarter, sales activity in the Twin Cities fell 33 percent from the previous period and is down nearly 70 percent from one year ago. While overall deal velocity is slowing, some investors are still transacting. The sales that did occur during the last three months were spread throughout the region including deals in both Downtown Minneapolis and Downtown St. Paul, as well as outlying suburban submarkets. Older, Class C properties accounted for most of the transactions, which has dragged down per-unit pricing.

EMPLOYMENT

- Year over year, total employment in the Twin Cities grew by 35,200 workers, an annual increase of 1.8 percent. Gains were modest at the beginning of 2023, however, with the addition of only 4,000 jobs during the first quarter.
- The local health care and social assistance industry has outperformed the overall economy in recent periods. During the past year, this sector expanded by 14,200 jobs, a growth rate of nearly 5 percent.
- Locally based aerospace engineering and manufacturing firm ION recently announced plans to build a 112,800-square-foot manufacturing and research facility in North Minneapolis. The expansion is expected to create more than 100 jobs in the region upon completion in 2025.
- **FORECAST:** Job growth is projected to slow in 2023, following two years of healthy gains. Total employment is expected to expand by 0.8 percent this year with the addition of 15,000 workers.

Year over year, total employment grew by 35,200 workers.

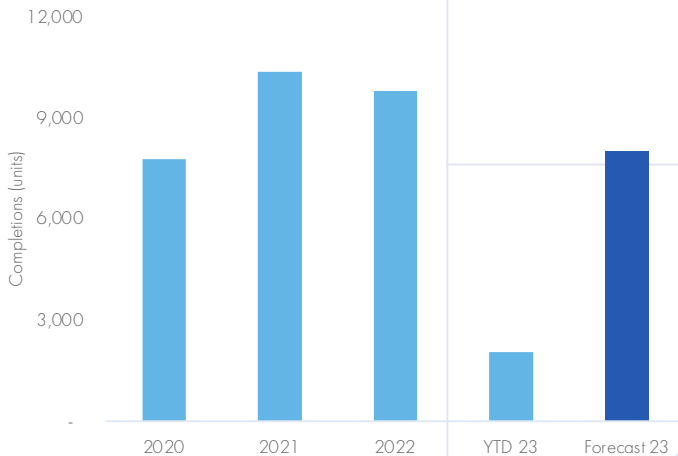
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers delivered 2,030 units in the first quarter.

DEVELOPMENT TRENDS



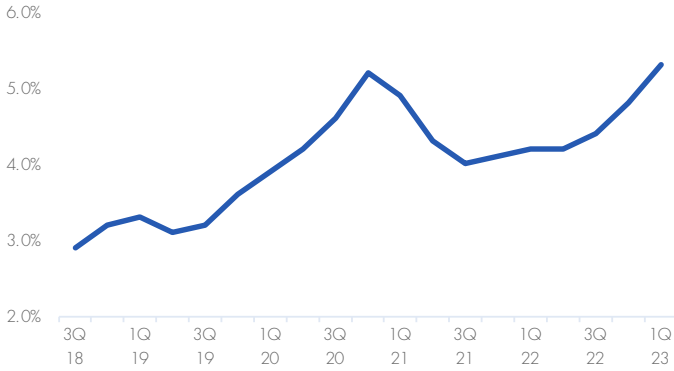
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Apartment construction has been active for the past three years, a trend that continued at the start of 2023. Developers delivered 2,030 units in the first quarter.
- Projects totaling more than 14,300 units are currently under construction in the Twin Cities, up 10 percent from one year ago. While developers continue to be most active around Downtown Minneapolis, new construction is ongoing in nearly every suburban submarket including Maple Grove/Golden Valley/Plymouth, St Louis Park/Hopkins, and Carver County.
- Multifamily permitting slowed slightly in the first quarter with permits for roughly 2,300 units pulled in the last three months, down 20 percent from the previous period. Permitting activity peaked in 2022 with 15,300 permits issued for the full year.
- **FORECAST:** Developers are expected to continue to bring new units to the market in the coming quarters, although the pace of deliveries will trail levels recorded during the last two years. Projects totaling approximately 8,000 units are slated to come online in 2023.

Lower-tier properties are recording the tightest conditions.

VACANCY TRENDS



Sources: Northmarq, Yardi

VACANCY

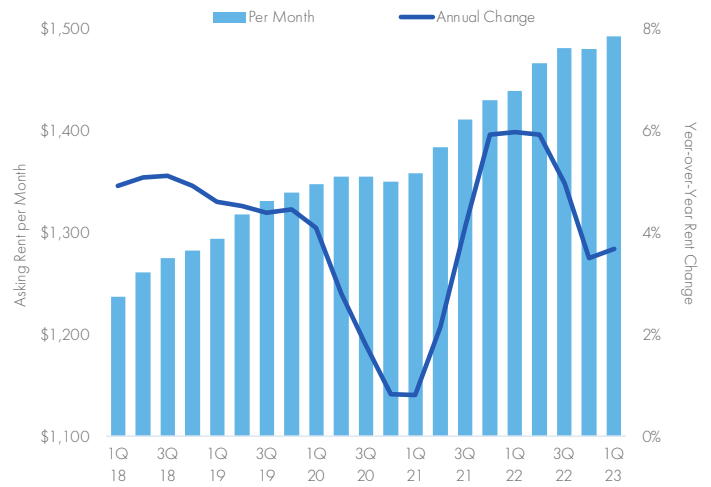
- The vacancy rate in the Minneapolis-St. Paul region continued to climb during the first quarter, rising 50 basis points in the last three months to 5.3 percent. The rate fell to a cyclical low in the second half of 2021 and has since gradually trended higher.
- Year over year, the vacancy rate rose 110 basis points. The current rate is above the long-term trend in the region; in recent years, vacancy has generally averaged between 4 percent and 4.4 percent.
- While vacancy rose across asset classes in the last year, lower-tier properties are recorded the tightest conditions. The vacancy rate in Class C units rose 90 basis points during the past 12 months but still ended the first quarter at just 4.7 percent.
- **FORECAST:** Vacancy in the Twin Cities is expected to record modest upticks in the remainder of the year. The rate is forecast to finish 2023 at around 5.5 percent, up 70 basis points from the end of last year.

RENTS

- Asking rents inched higher during the first quarter, following flat conditions in the final months of 2022. Apartment rents in the Twin Cities rose 0.8 percent in the last three months to \$1,492 per month.
- Year over year, asking rents are up 3.7 percent. Rent growth has averaged 4.1 percent per year since 2015.
- Asking rents in the region’s downtown areas have underperformed in recent periods compared to some of the suburban submarkets. Apartment rents in Downtown St. Paul rose 0.8 percent in the past year to \$1,571 per month. In Downtown Minneapolis, rents have pushed up 2.9 percent in the past year, while rents in the University submarket have ticked lower year over year.
- **FORECAST:** Annual rent growth in 2023 is expected to lag levels recorded during the previous two years. Asking rents in the Minneapolis-St. Paul area are on track to rise 2.4 percent this year to around \$1,515 per month.

Year over year, asking rents are up 3.7 percent.

RENT TRENDS



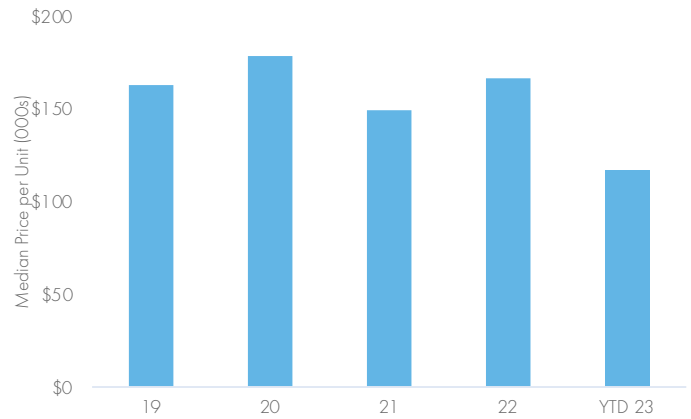
Sources: Northmarq, Yardi

MULTIFAMILY SALES

- Multifamily sales activity slowed during the first quarter, as investment volume fell to its lowest level since 2020. The number of transactions in the last three months declined 33 percent from the end of last year.
- As fewer properties have traded, the transaction mix has also changed, and per-unit pricing has retreated. The median sales price thus far in 2023 is \$117,100 per unit, after pricing was closer to \$160,000 per unit in recent years.
- Year to date, older, Class C assets have made up the bulk of the transaction mix, contributing to the recent price trends. The few Class A properties that traded were priced near \$225,000 per unit, while Class C assets have sold for between \$75,000 per unit and \$125,000 per unit.
- Cap rates in the Twin Cities continued to increase at the start of the year. Most properties are selling with cap rates between 5.75 percent to 5.85 percent.

The median sales price thus far in 2023 is \$117,100 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

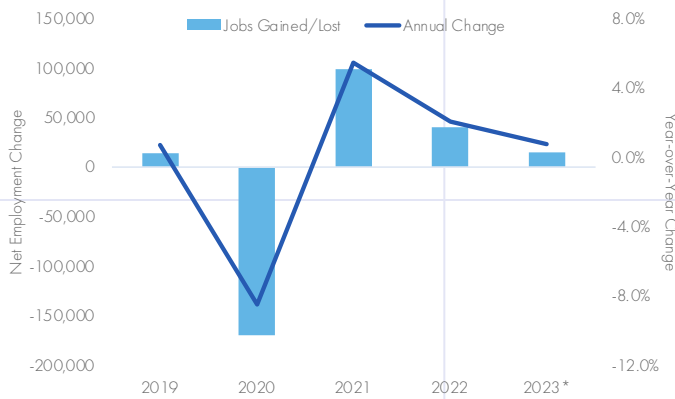
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Urbana Court Apartments	5401 94th Ave N., Brooklyn Park	207	\$47,000,000	\$227,053
Residence at Discovery Square	519 3rd Ave. SW., Rochester	143	\$27,400,000	\$191,608
Windsor Gates Apartments	6200 78th Ave N., Brooklyn Park	201	\$15,500,000	\$77,114
Boulder Court Apartments	4182 Rahn Rd., Eagan	115	\$14,600,000	\$126,957
Briarcliff Manor Apartments	115 East Ave., Mahtomedi	70	\$8,960,000	\$128,000
The Portage	3146 Calhoun Blvd W., Minneapolis	62	\$6,650,000	\$107,258

LOOKING AHEAD

Developers in the Twin Cities are expected to continue to bring new apartment properties online at a steady pace through the remainder of this year. Projects totaling approximately 8,000 units are scheduled to be completed in 2023, a slight decline from the elevated levels of supply growth during the last two years. While new inventory is on track to outpace absorption levels for the second straight year, the overall outlook for the local multifamily market remains fairly optimistic. The vacancy rate in Minneapolis-St. Paul is projected to tick higher in the coming periods, but the increases will be more modest than in recent quarters, and the rate is ultimately forecast to return closer to its long-term average.

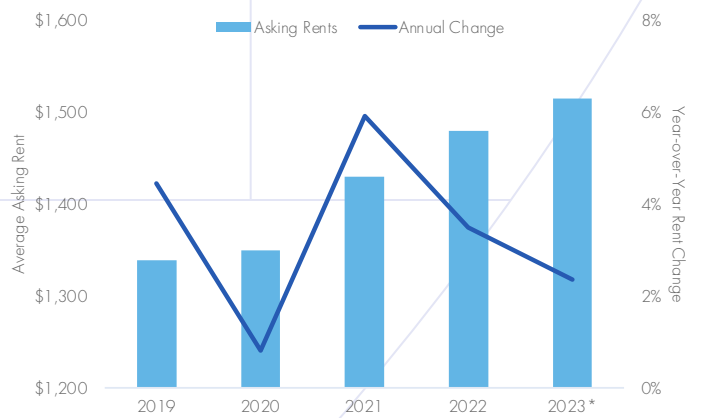
Investment activity in the Twin Cities will likely be restrained throughout much of the rest of this year, with both national and local forces potentially limiting transactions. The national factors include more cautious underwriting and elevated borrowing costs, which are dragging on investment in nearly all forms of commercial real estate. These pressures will likely ease as the year progresses and investors become accustomed to the new conditions. Additionally, it may take some investors time to adjust to the rent control measures that took effect in St. Paul at the beginning of 2023. The impact of the new initiative may be limited to the city of St. Paul—Minneapolis City Council staff recommended against a similar program earlier this year—but it will still take some time for investors to assess the full impact of the program. This uncertainty will likely restrict transaction activity in the near term.

EMPLOYMENT FORECAST



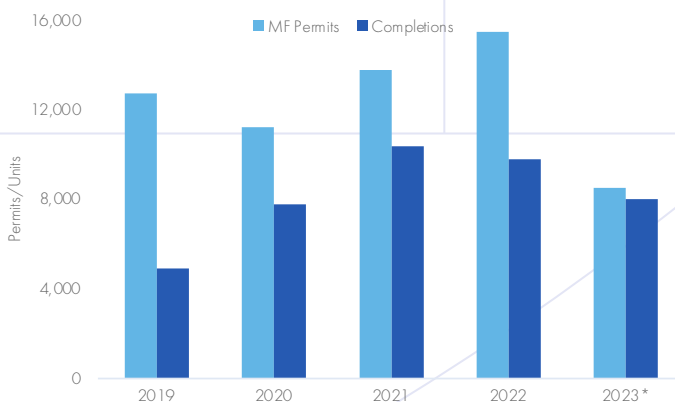
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



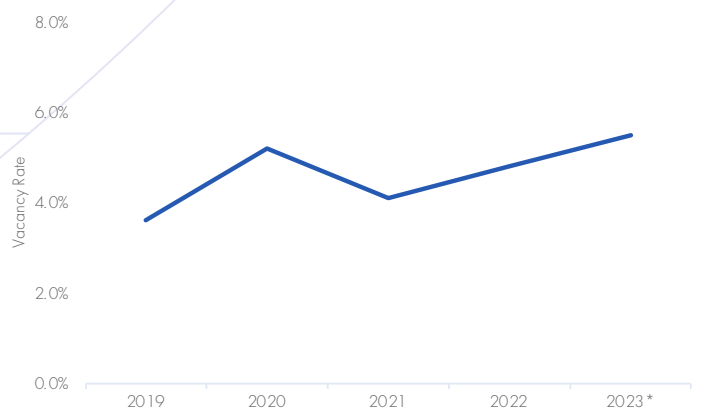
* Year End Forecast
Sources: Northmarq, Yardi

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, Yardi



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