

# Multifamily Metro Outlook:

## Minneapolis - Q1 2021

### Overview:

- After years of above-average growth, the local economy in Minneapolis went through a period of slowdown. Coupled with the arrival of COVID-19 throughout 2020, the local economy did not fare too well. However, it appears as if the metro is regaining its footing, although the recovery in Minneapolis still trails behind the national average in addition to other major metro areas. During Q1 2021, the local economy expanded by 7.6 percent compared to 8.2 percent.
- Apartment fundamentals within the Minneapolis metro were impacted by the virus' presence as well. Vacancies continue to increase and are at their highest level in nearly 10 years, at 6 percent during Q1 2021. Furthermore, rent growth has also finally rebounded however, at a slightly slower pace than the national average. During the same period, rent growth was 0.25 percent compared to 0.5 percent nationally. An abundance of new supply will continue to be delivered to the metro through the first half of 2022, however it should be easily absorbed as the metro boasts an above-average demographic profile.

### Market Strengths:

- Much of the incoming supply in the Minneapolis metro will be in the class A luxury. However, according to CoStar, Minneapolis has the demand and renter profile to absorb the luxurious supply. According to the *Metropolitan Council* the metro ranks first among 30 of the largest metros nationwide regarding the highest percentage of dual-income married households with college degrees.
- According to Moody's Analytics, the Minneapolis metro is in good position to soften the economic impact of COVID-19. From an economic viewpoint, Minneapolis is a very diverse economy with a 0.78 industrial diversity rating. The metro is also home to the highest amount of Fortune 500 companies (16) present in one single metro. All these companies are concentrated in different employment sectors, speaking to the metro's high industrial diversity score. The presence of these employers will continue to help lure top talent and retain the high amounts of intellectual capital within the metro per CoStar.
- A silver lining during the pandemic was the performance of one of the metro's largest employers, Target Corp. According to Reis Inc., Target Corp, had a very fruitful 2020 as e-commerce sales were up approximately 154 percent compared to 2019.

### Market Weaknesses:

- Even though the recovery has gotten off to a strong footing in 2021, the local economy is not completely in the clear regarding impacts from the virus. Top employer in the metro, Wells Fargo plans to cut expenses by approximately \$8 billion which will also reduce headcount in the metro per Moody's Analytics.
- As remote working has been successful during the pandemic, there are some potential ripple effects that will impact downtown Minneapolis. According to Moody's Analytics, Target has announced that employees who work at their headquarters will be on a hybrid return to work model once they return to the office. Furthermore, other employers located downtown such as local law firms are also decreasing their footprint which will impact businesses located downtown.
- There were some existing labor market concerns about the local economy prior to the arrival of COVID-19. According to Moody's Analytics, Minneapolis will continue to have ongoing labor shortages as the unemployment rate continues to drop. Furthermore, as baby boomers retire, there is a dearth of skilled workers that the metro is struggling to replace.
- According to CoStar, the metro's exorbitant rate of job expansion began to drastically slow in 2019. Prior to 2019, the local job base in the metro was growing at nearly 2 percent annually. However, employment growth has slowed in the metro for a myriad of reasons. One of the major reasons growth has slowed is the working-age population (ages 16-64) is not expected to expand until after 2030 per CoStar. Labor force participation is also at an all-time low and many of the jobs lost as a result of the virus are in danger of not returning.

### Development:

- While approximately 20,000 condo units were completed since the beginning of 2006, condo development has drastically slowed and there is not much activity in the pipeline through Q2 2022.
- Approximately 33,000 apartment units have been completed since the beginning of 2016, and approximately 14,000 units are currently underway for delivery through the first half of 2022.

### Outlook:

- Multifamily Outlook- Steady: The apartment market continues to feel the effects of the virus. Vacancies continue to increase but rent growth has started to recover as the metro continues to work through consistent amounts of supply.
- Economic Outlook - Stable: Job growth in the metro was already expanding at a tepid pace prior to the arrival of COVID-19, although the local economy has a very diverse local economy that will aid in the recovery process. Furthermore, low paying jobs recaptured in a job market expansion (pre-COVID) don't help the metro exceed their status prior to the recession. The recent uptick of supply and the ongoing labor shortages coupled with both the short and long-term impacts of a slowing economy are also something that bears watching as they could hinder the continued expansion of the metro.

## Five Year Metro Area Growth Forecast

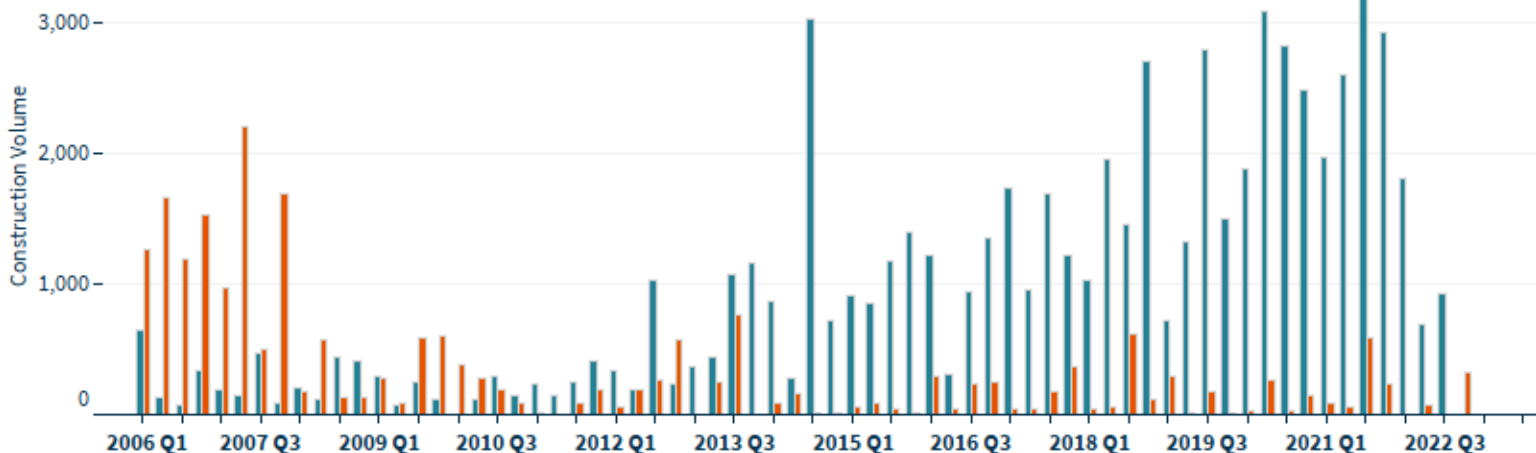
	Q4 2020	Q4 2025	Minneapolis (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	3,704	3,855	0.80%	0.52%
Households (000s)	1,421	1,548	1.72%	1.41%
Renting Cohort (Ages 20-34) (000s)	751	741	-0.27%	-0.26%
Total Employment (000s)	1,892	2,059	1.71%	1.71%
Median Household Income	\$85,285	\$95,594	2.31%	2.83%
Median SF Home Price	\$336,764	\$384,710	2.70%	4.30%
Net Migration	10,777	9,610		

Source: Moody's

## SupplyTrack Pipeline

### Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



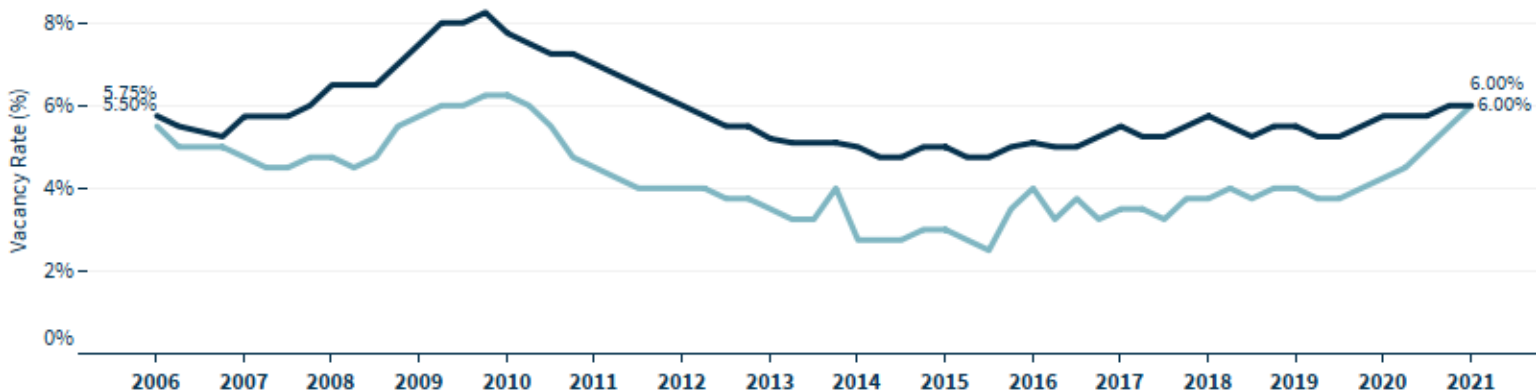
## Vacancy & Rent Composite Estimates

### Vacancy Rates

Minneapolis | National

Q1 2021 Vacancy Rate:

6.00%

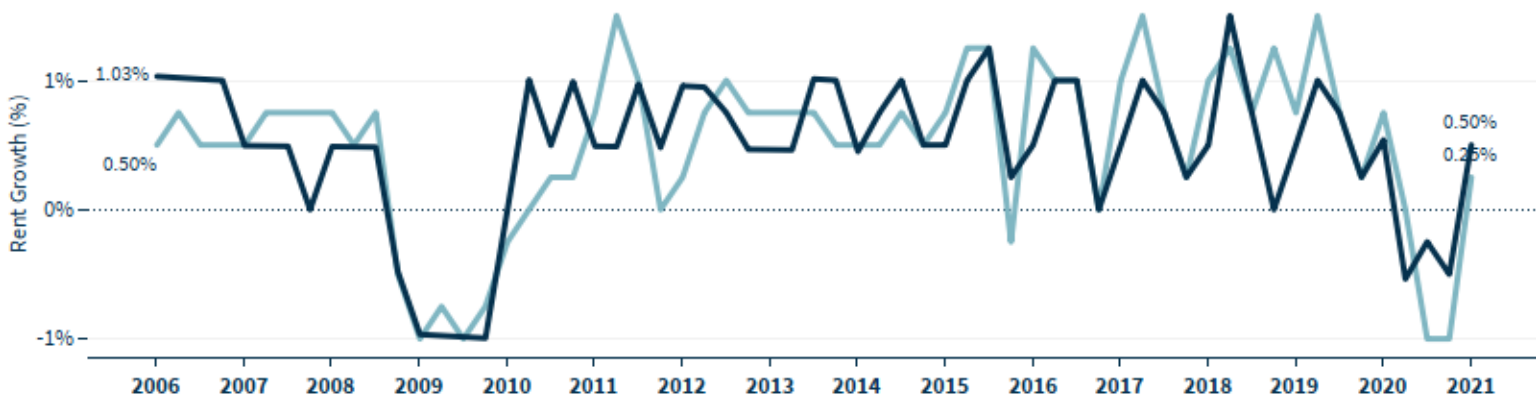


### Asking Rent Growth

Minneapolis | National

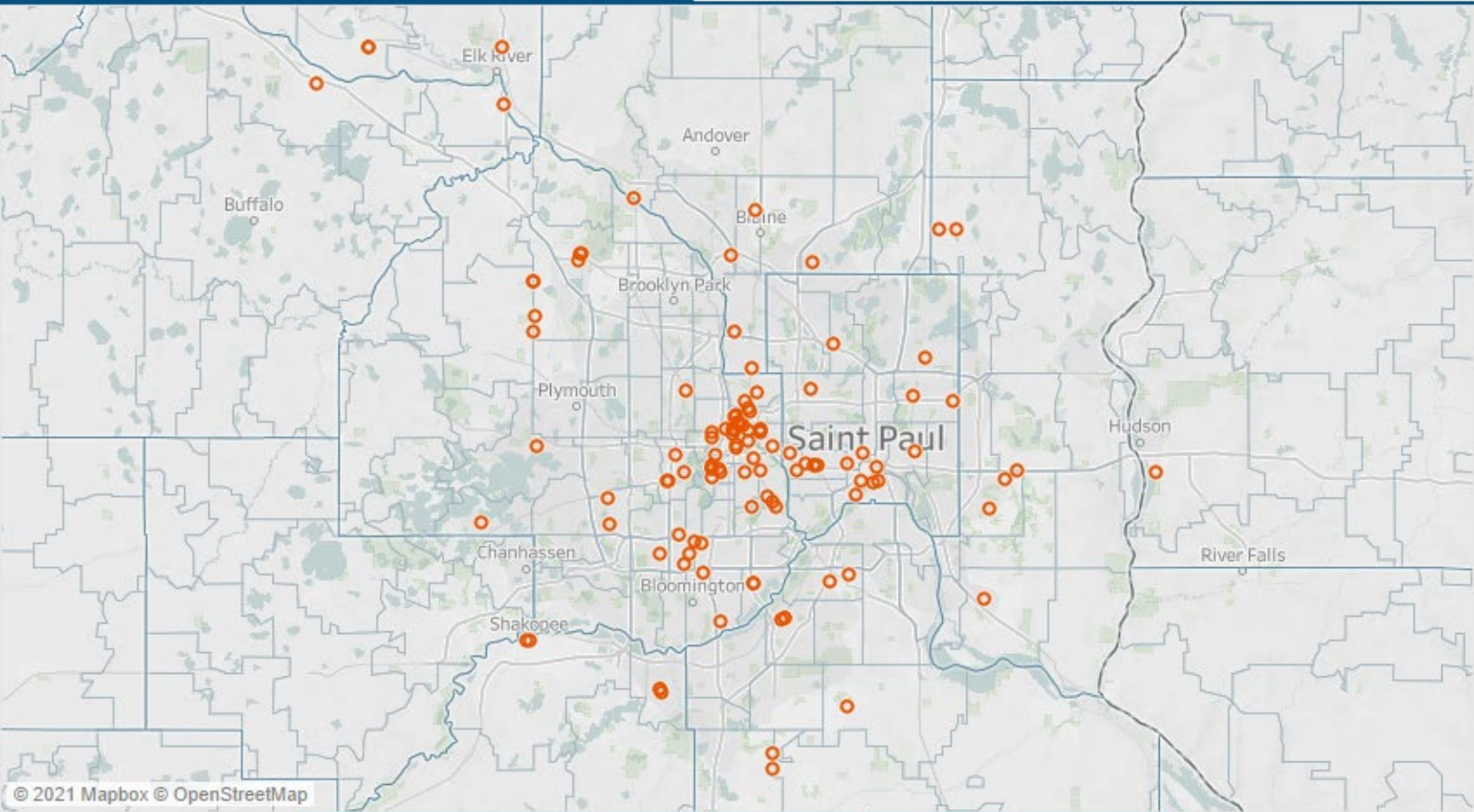
Q1 2021 Asking Rent:

\$1,340



Source: Multifamily Economics and Research

## Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Anoka County	10	1,272	1.61M
Bloomington	4	769	1.00M
Burnsville/Apple Valley	3	390	0.44M
Central St. Paul	3	544	0.66M
Downtown Minneapolis/University	14	2,126	2.35M
East St. Paul	11	1,467	1.79M
Eden Prairie/Shakopee/Chaska	5	404	0.49M
Minnetonka	4	196	0.35M
North Minneapolis	10	1,333	1.47M
Plymouth/Maple Grove	8	504	0.73M
South Minneapolis/Richfield	12	1,386	1.60M
South St. Paul/Eagan	7	1,092	1.47M
Uptown/St. Louis Park	12	1,214	1.38M
West St. Paul	10	1,419	1.54M
<b>Grand Total</b>	<b>113</b>	<b>14,116</b>	<b>16.89M</b>

## Multifamily: ESR Team

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## Multifamily Economics and Market Research Team

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### Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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