

Multifamily Metro Outlook:

Minneapolis - Q4 2023

Overview:

- The Minneapolis metro's job market is in a state of flux as job growth has been tepid for quite some time and is now threatening to be worse off than pre-pandemic levels according to Moody's Analytics. Much of the adversity facing the local job market is due to the underperforming Financial Activities job sector coupled with a weak labor force and declining demand for workers. However, for the period ending Q4 2023, the local job market performed on level-footing with the national rate at 1.8% as local healthcare industry performance has been a boon for the metro.
- Apartment fundamentals have re-softened after a few consecutive quarters of stagnation. For the period ending Q4 2023, vacancies inched up to 7.25% up nearly 75 bps quarter-over-quarter. Furthermore, rent growth is also moving in the wrong direction as it was -1% during the same period.

Market Strengths:

- Despite ongoing labor market struggles, the Education and Health employment sector, specifically on the healthcare side, is performing decently. According to Moody's Analytics, the metro has a high concentration of residents who are 65+ which bodes well for healthcare demand. Furthermore, the biotechnology industry is also expanding rapidly and has contributed to the health industry renaissance in the metro.
- Although the threat of multifamily oversupply looms over the metro, there are signs that supply underway will deliver at a more staggered pace. As a result of the current economic environment that includes elevated interest rates, developers and builders have noted that projects are now 15-40% more expensive to construct compared to pre-pandemic prices as building materials also continue to increase.

Market Weaknesses:

- A recent new rent control policy has the potential to impact new development in the metro. Recently, a policy in neighboring St. Paul capped rising rent limits to 3% annually and since then new construction permits are down -40% compared to the three-year average. In the same period, permits are up +30% across the metro. With the need of affordable housing in the metro, the city of Minneapolis is similarly developing a policy to cap rent increases.
- One of the major contributors to the ongoing labor struggles in the metro is the underperformance of the Financial Activities sector. According to Moody's Analytics, Financial Activities sector jobs account for nearly 8% of total jobs in the metro and during the period ending Q4 2023 the sector contracted by nearly -1.9% compared to 0.8% nationally. The current economic environment with rising interest rates has reduced demand for loans which is a vital part to how banks make profits.

Development:

- Development in the metro remains elevated as nearly 70,000 units have been completed since 2017. Furthermore, there are nearly 14,000 units underway and an additional 38,000 in the planning stages.

Outlook:

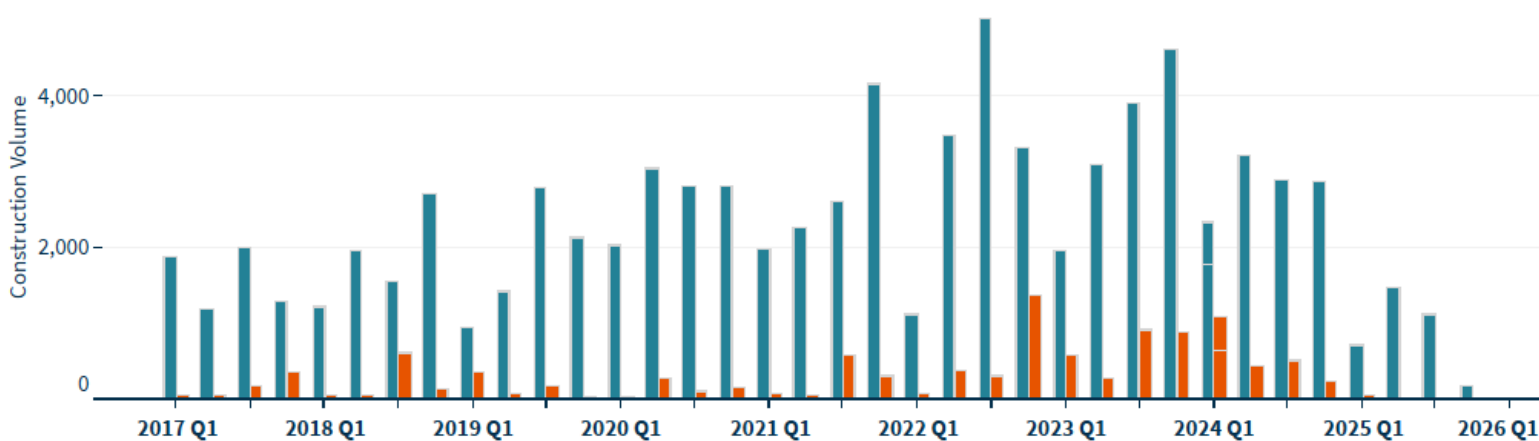
- The apartment market fundamentals have entered a period of softening after a brief period in which growth was stagnant. However, on the bright side, the current economic environment may delay the rate at which new supply is delivered to the metro as developers and builders are taking note of softening demand.
- Minneapolis' economy should continue to make slow but steady gains in the foreseeable future. Although job growth in both the Financial Activities and Professional/Business Services sector is troubling, the metro does have a decent demographic profile and a strong presence of high-wage employers. Furthermore, even with ongoing labor market struggles, overall job growth is still on par with the national rate and unemployment levels continue to stay low which both bode well for the metro.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

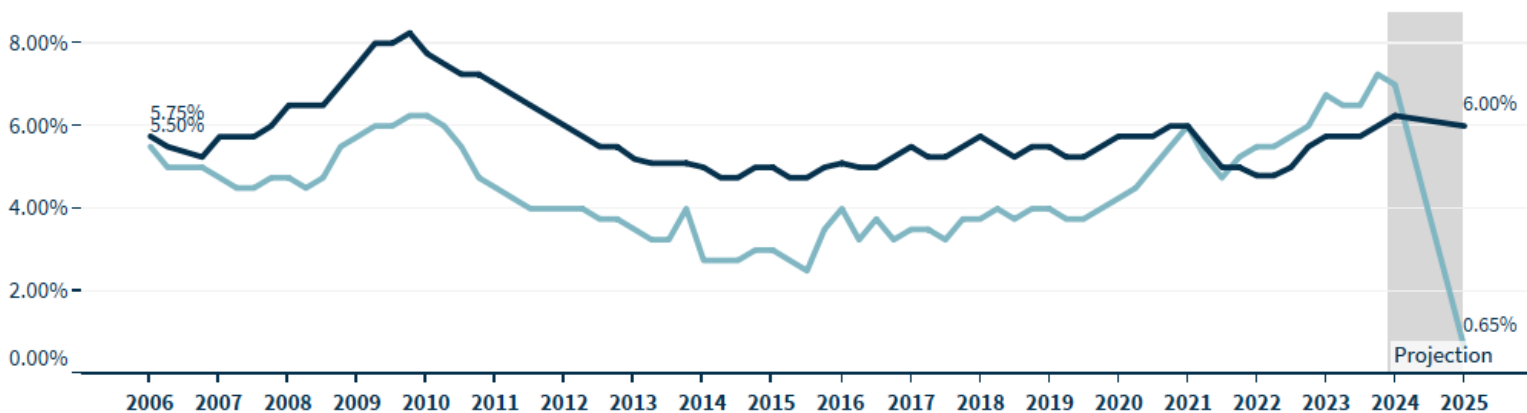
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Minneapolis | National

Q4 2023 Vacancy Rate:

7.25%

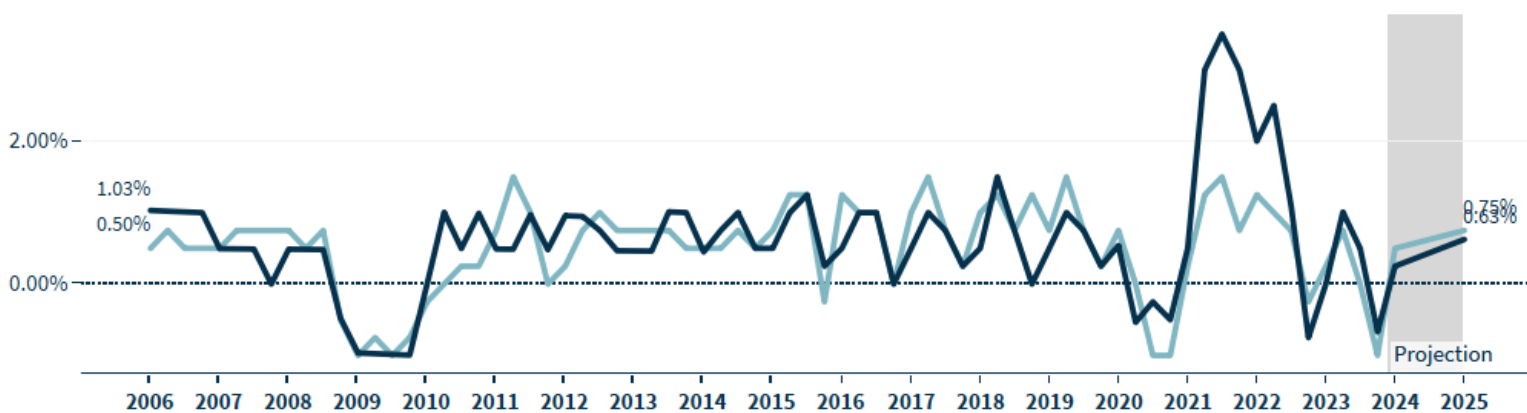


Asking Rent Growth

Minneapolis | National

Q4 2023 Asking Rent:

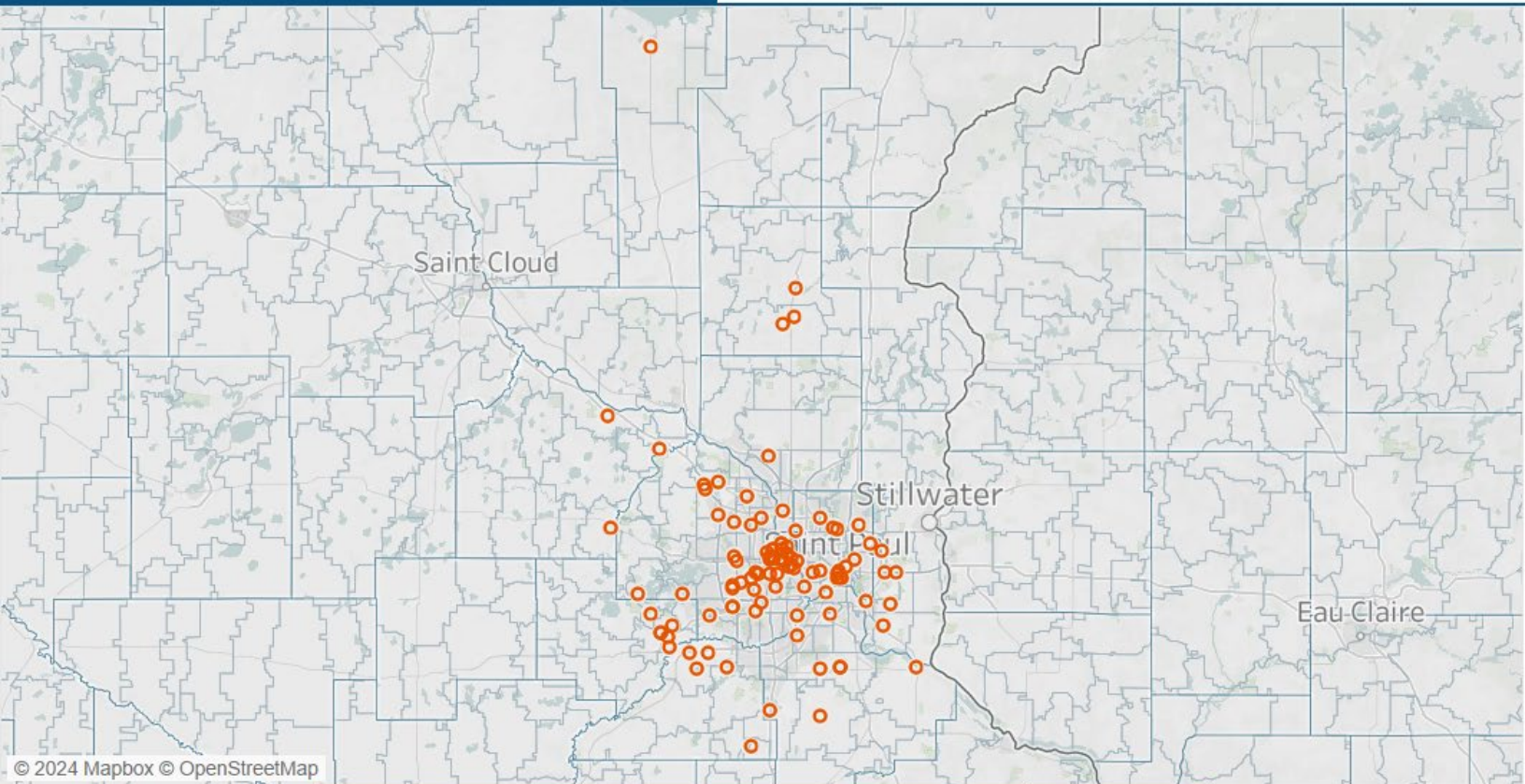
\$1,490



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Anoka County	7	665
Bloomington	1	242
Burnsville/Apple Valley	6	841
Central St. Paul	3	374
Downtown Minneapolis/University	7	1,889
East St. Paul	10	1,273
Eden Prairie/Shakopee/Chaska	14	2,333
Minnetonka	5	647
North Minneapolis	10	738
Plymouth/Maple Grove	9	996
South Minneapolis/Richfield	6	934
South St. Paul/Eagan	6	860
Uptown/St. Louis Park	10	1,586
West St. Paul	5	838
Grand Total	99	14,216

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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