

# Multifamily Metro Outlook:

## Minneapolis - Q1 2022

### Overview:

- The Minneapolis local job market continues to recover in the right direction albeit at a tepid pace. The rate of job market recovery in the metro has been up and down as the metro deals with the virus and for the period ending in Q1 2022 the job market expanded by 3.8% compared to 4.4% nationally.
- Apartment fundamentals within the metro were initially impacted by the virus' presence but continue to recover nicely. Vacancies inched up slightly and are now at 5.5% and rent growth remains positive at 1.25% during Q1 2022. An abundance of new supply will continue to be delivered to the metro throughout 2022 and into 2023, 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, Minneapolis is well positioned 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.
- One of the sectors that has been aiding in the metro's recovery is Manufacturing, specifically the manufacturing of healthcare machinery. According to Moody's Analytics, healthcare demand in the metro is very strong due to an aging population and as a result manufacturing will be poised to continue being an economic boon for the metro.

### Market Weaknesses:

- Even though the recovery got off to a strong footing in 2021, the local economy is not completely in the clear regarding impacts from the virus. The top employer in the metro, Wells Fargo, plans to cut expenses by approximately \$8 billion which will also reduce payrolls by approximately 25% in the metro per Moody's Analytics. Furthermore, Huntington Bank recently acquired TCF and as a result there were also substantial job cuts.
- As remote working has been successful during the pandemic, there are some potential ripple effects that may impact downtown Minneapolis. According To Moody's Analytics, Target has announced that headquarters employees will be on a hybrid return to work model once they return. 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% 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. While the recovery from COVID continues to progress in the metro, the jobs are returning at a tepid pace. Minneapolis' total number of jobs are still nearly 4% below the February 2020 numbers and according to Oxford Economics, pre-pandemic employment levels are not expected to be reached until well into 2023.

### 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 2023.
- Approximately 42,000 apartment units have been completed since the beginning of 2017, and approximately 18,000 units are currently underway for delivery throughout 2023.

### Outlook:

- The apartment market's recovery continues to trend in the right direction and has seemingly moved on from the worst part of the recovery. Vacancies have decreased to their lowest point in a year and rent growth continues to move in the right direction as the metro works through consistent amounts of supply. As more supply continues to deliver, vacancies are slightly increasing but should easily be absorbed.
- 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 economic profile 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

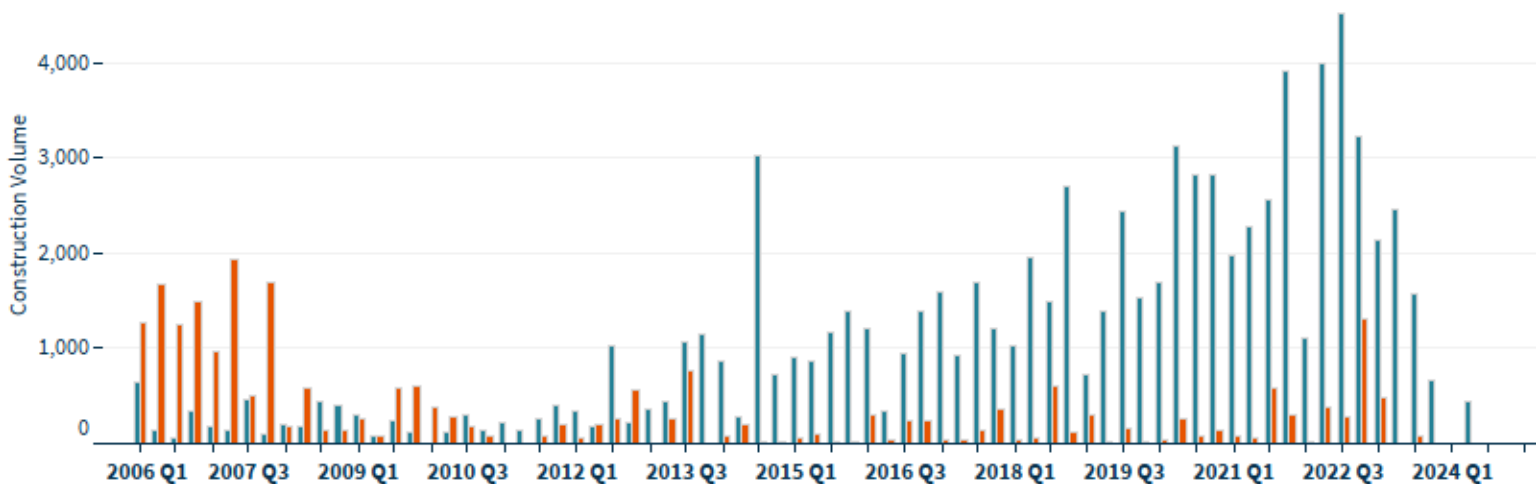
	Q4 2021	Q4 2026	Minneapolis (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	3,723	3,861	0.73%	0.47%
Households (000s)	1,455	1,543	1.18%	0.90%
Renting Cohort (Ages 20-34) (000s)	748	734	-0.37%	-0.30%
Total Employment (000s)	1,947	2,061	1.15%	1.08%
Median Household Income	\$82,055	\$96,114	3.21%	3.30%
Median SF Home Price	\$365,202	\$379,000	0.74%	1.93%
Net Migration	10,921	9,073		

Source: Moody's

## SupplyTrack Pipeline

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

Apartments | Condos



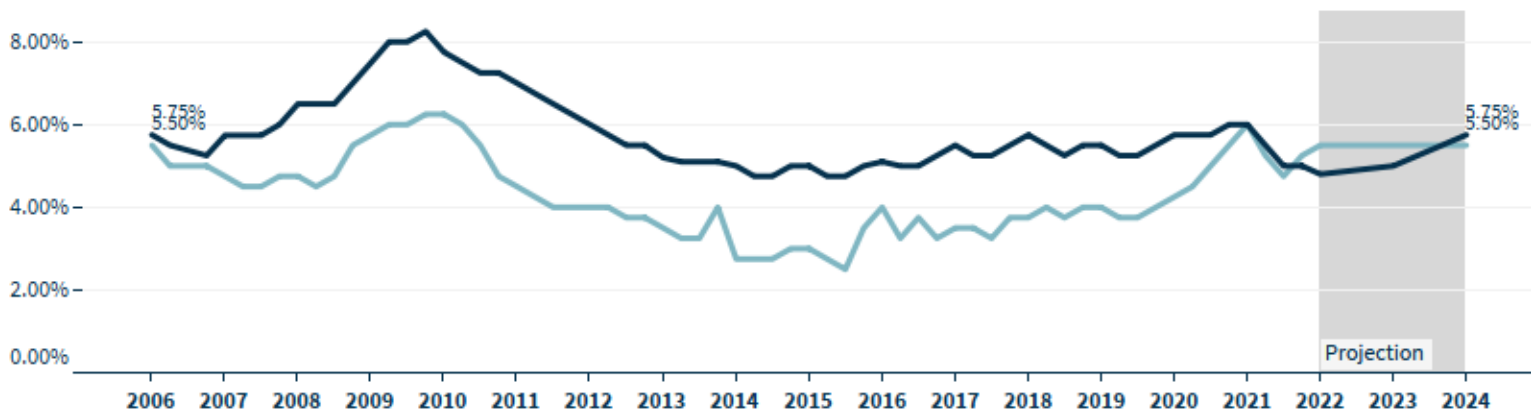
## Vacancy & Rent Composite Estimates

### Vacancy Rates

Minneapolis | National

Q1 2022 Vacancy Rate:

5.50%

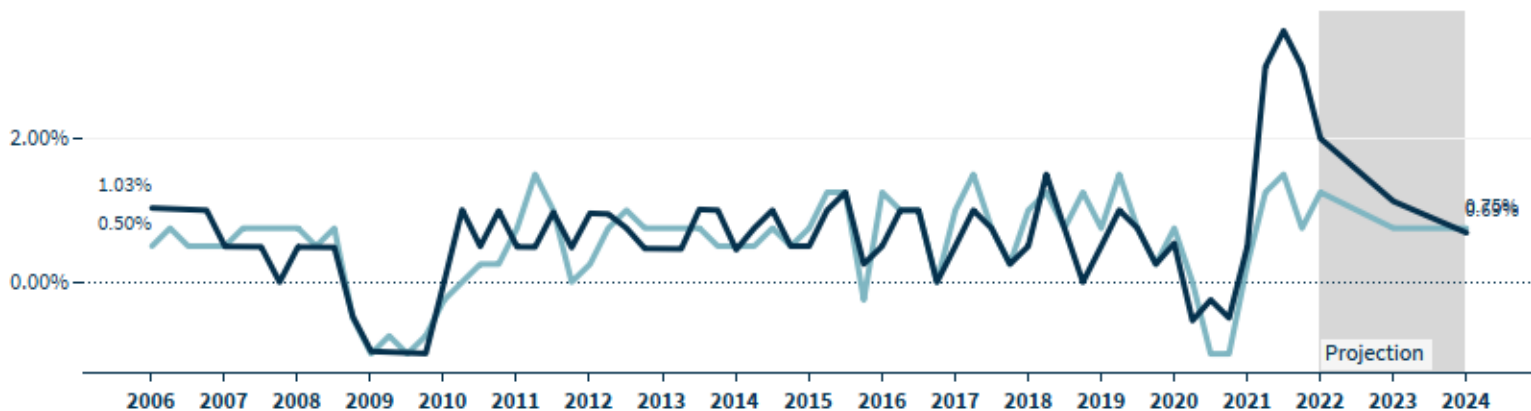


### Asking Rent Growth

Minneapolis | National

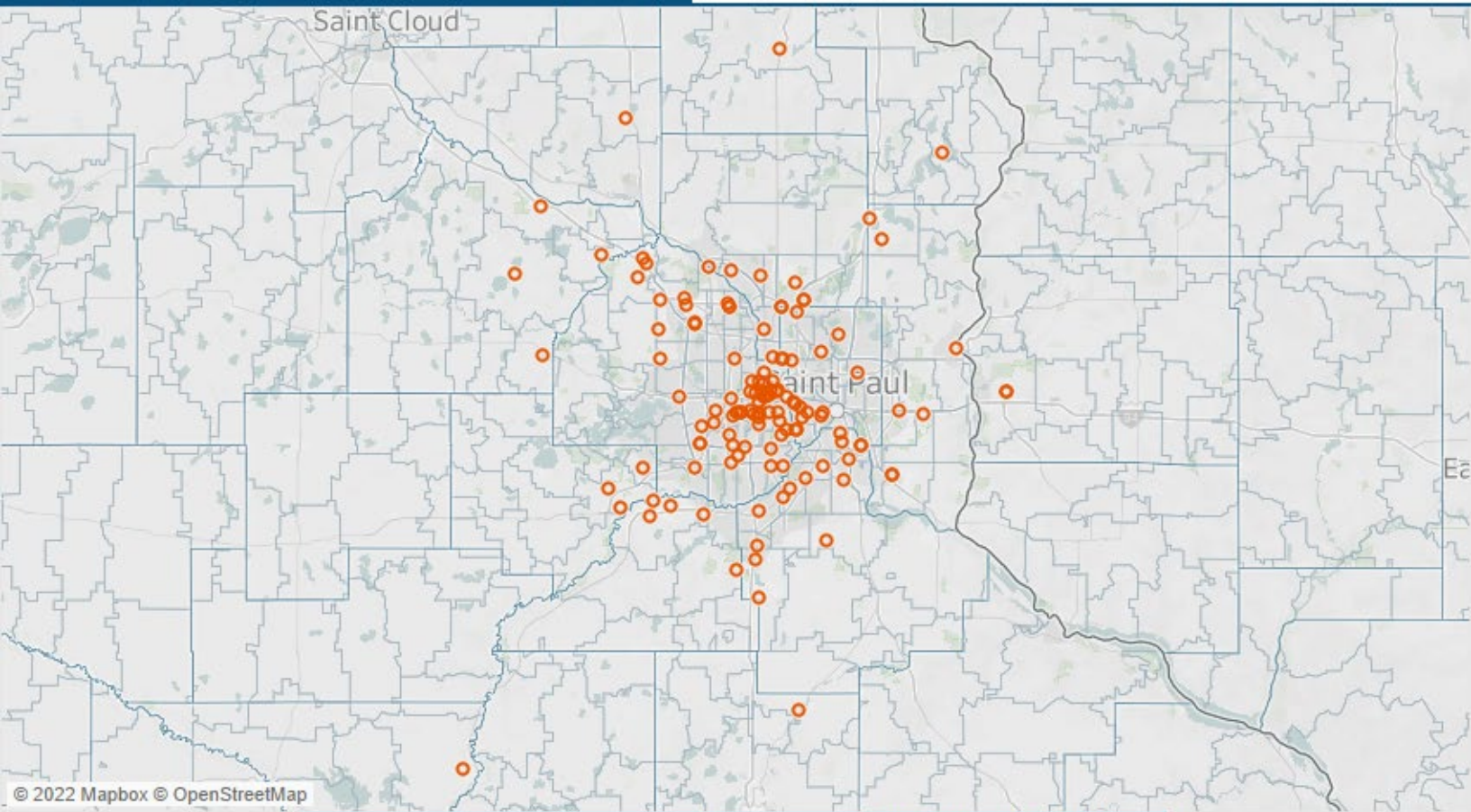
Q1 2022 Asking Rent:

\$1,430



Source: Multifamily Economics and Research

## Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Anoka County	15	1,926	2.26M
Bloomington	2	310	0.43M
Burnsville/Apple Valley	6	545	0.65M
Central St. Paul	5	490	0.50M
Downtown Minneapolis/University	11	2,704	3.11M
East St. Paul	8	991	0.95M
Eden Prairie/Shakopee/Chaska	9	1,218	1.57M
Minnetonka	5	1,049	1.52M
n/a	2	78	0.11M
North Minneapolis	9	913	0.99M
Plymouth/Maple Grove	14	1,383	1.83M
South Minneapolis/Richfield	13	1,602	1.76M
South St. Paul/Eagan	10	1,782	2.02M
Uptown/St. Louis Park	13	1,877	2.48M
West St. Paul	10	1,299	1.61M
<b>Grand Total</b>	<b>132</b>	<b>18,167</b>	<b>21.79M</b>

## Multifamily: ESR Team

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## Multifamily Economics and Market Research Team

Francisco Nicco-Annan, Economic and Strategic Research - Economics – Advisor

### 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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