

Multifamily Metro Outlook:

Minneapolis - Q1 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 as a result of the Financial Activities sector underperforming coupled with a weak labor force and declining demand for workers.
- Apartment fundamentals are continuing to soften in the metro. For the period ending Q1 2023, vacancies inched up to nearly 6.75%, up nearly 75bps from the previous quarter, although rent growth expanded and remained positive at approximately 0.25% during the same period.
- The for-sale market has also softened over the last few quarters, although affordability is continuing to worsen. For the period ending Q1 2023, home value appreciation was slightly lower than the national rate, although it is nearly 68% more expensive to obtain a mortgage than it is to make a rent payment for a 1-bedroom rental unit in the metro.

Market Strengths:

- Despite ongoing labor market struggles, the Manufacturing sector is a bright spot within the metro. For the period ending Q1 2023, the sector expanded by nearly 2.2% compared to 1% nationally. Furthermore, as of March 2023, the Manufacturing sector has added more than 5,600 jobs compared to pre-pandemic employment levels.
- 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 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 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 in the metro.
- One of the major contributors to the ongoing labor struggles in the metro is the underperformance of the Finance 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 Q1 2023 the sector contracted by nearly -0.6% 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.

New Development:

- Development in the metro remains elevated as nearly 55,000 units have been completed since 2017. Furthermore, there are nearly 20,000 units underway and an additional 34,000 in the planning stages.
- The number of single-family permits issued continues to decline. For the period ending Q1 2023 nearly 6,400 permits were issued which is nearly a -47% change on the number of permits issued in Q1 2022.

Outlook:

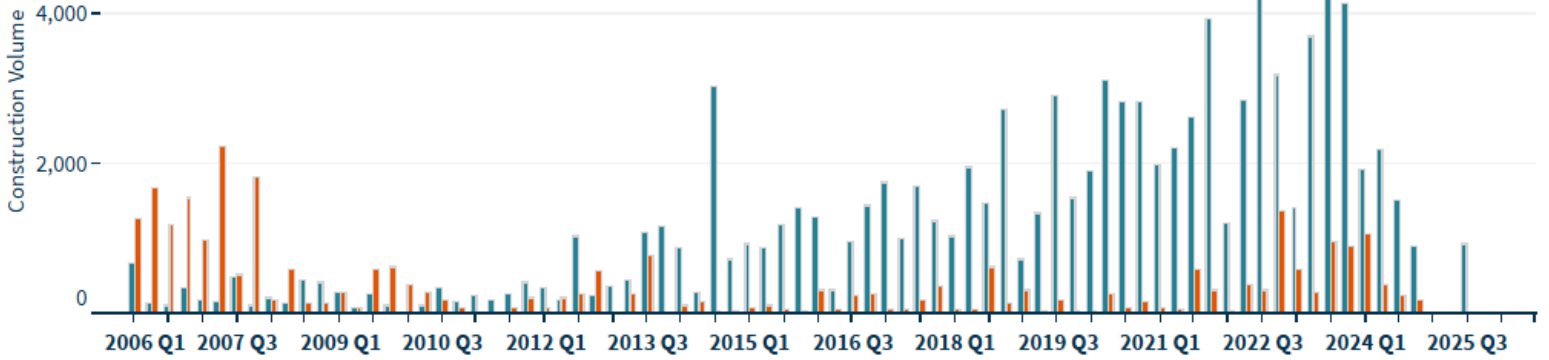
- The apartment market continues to ease as a lagging prime renting cohort growth paired with waves of supply have caused vacancies to increase. However, on the bright side, the current economic environment may delay the rate at which new supply is delivered to the metro as developers and builders are 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

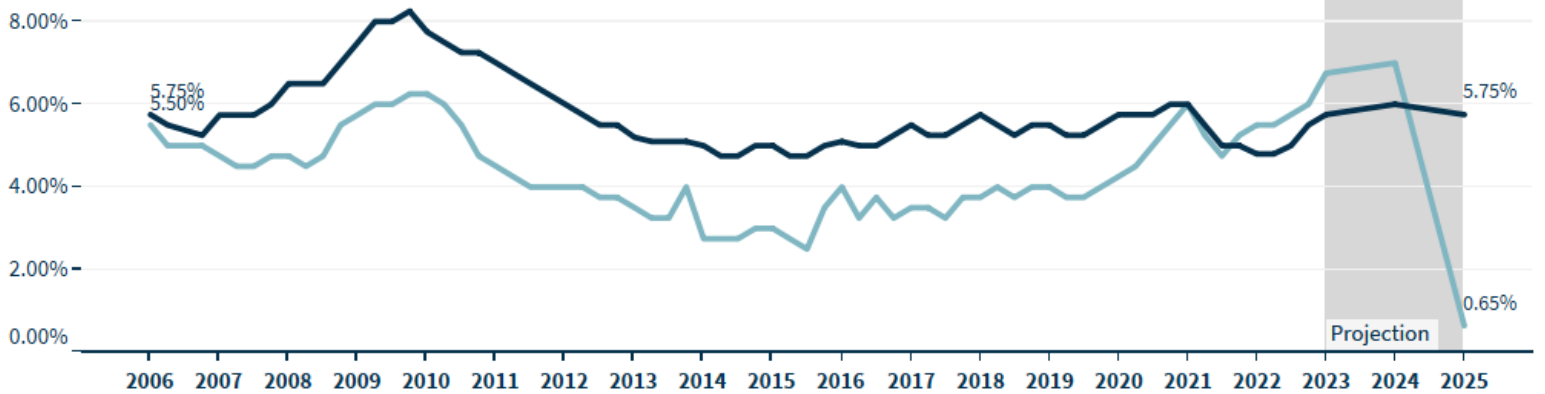
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Minneapolis | National

Q1 2023 Vacancy Rate:

6.75%

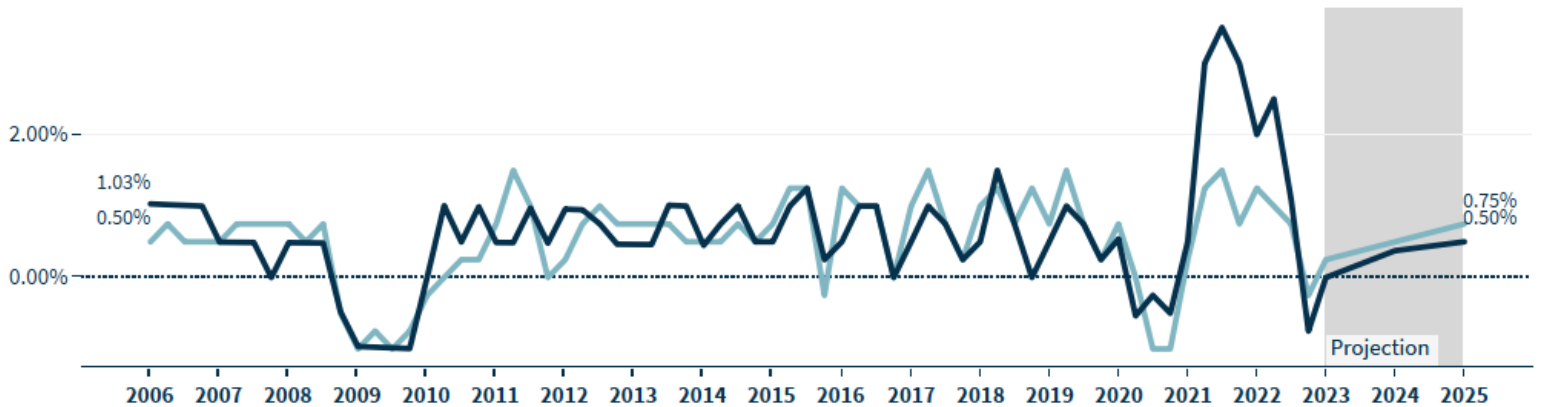


Asking Rent Growth

Minneapolis | National

Q1 2023 Asking Rent:

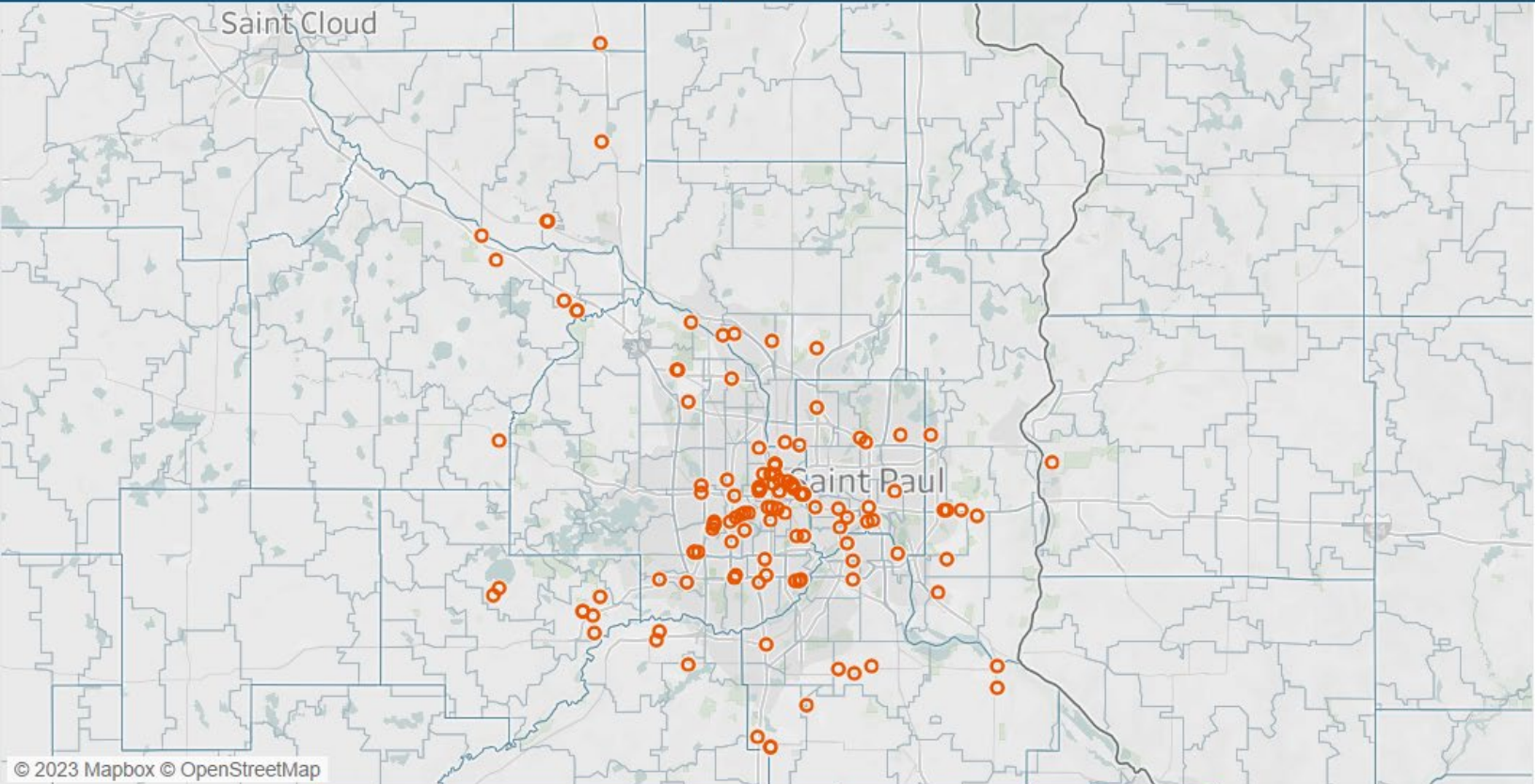
\$1,490



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>Submarket</i>	<i>Apartments</i>	<i>Building Units</i>
Anoka County	11	1,077
Bloomington	4	942
Burnsville/Apple Valley	14	1,316
Central St. Paul	3	327
Downtown Minneapolis/University	12	2,358
East St. Paul	10	1,903
Eden Prairie/Shakopee/Chaska	12	2,186
Minnetonka	7	1,577
North Minneapolis	10	1,163
Plymouth/Maple Grove	11	1,153
South Minneapolis/Richfield	10	1,284
South St. Paul/Eagan	6	942
Uptown/St. Louis Park	14	2,634
West St. Paul	5	720
Grand Total	129	19,582

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
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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