

Multifamily Metro Outlook:

Minneapolis - Q3 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.
- Apartment fundamentals have plateaued after a period of softening. For the period ending Q3 2023, vacancies remained at 6.5%. Furthermore, rent growth was also flat during the same period.

Market Strengths:

- Despite ongoing labor market struggles, the Education and Health employment sector, specifically on the education side, is performing decently. According to Moody's Analytics, strong enrollment trends at one of the largest employers in the metro, the University of Minnesota, have bested national averages for four years consecutively. Furthermore, increased enrollments will have a positive ripple effect on the local economy as state payrolls will benefit in addition to increased jobs for faculty, staff, and increased clientele for the local restaurants and bars in the hospitality sector.
- 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 in the metro.
- 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 Q3 2023 the sector contracted by nearly -1.7% compared to 0.5% 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 65,000 units have been completed since 2017. Furthermore, there are nearly 18,000 units underway and an additional 34,000 in the planning stages.

Outlook:

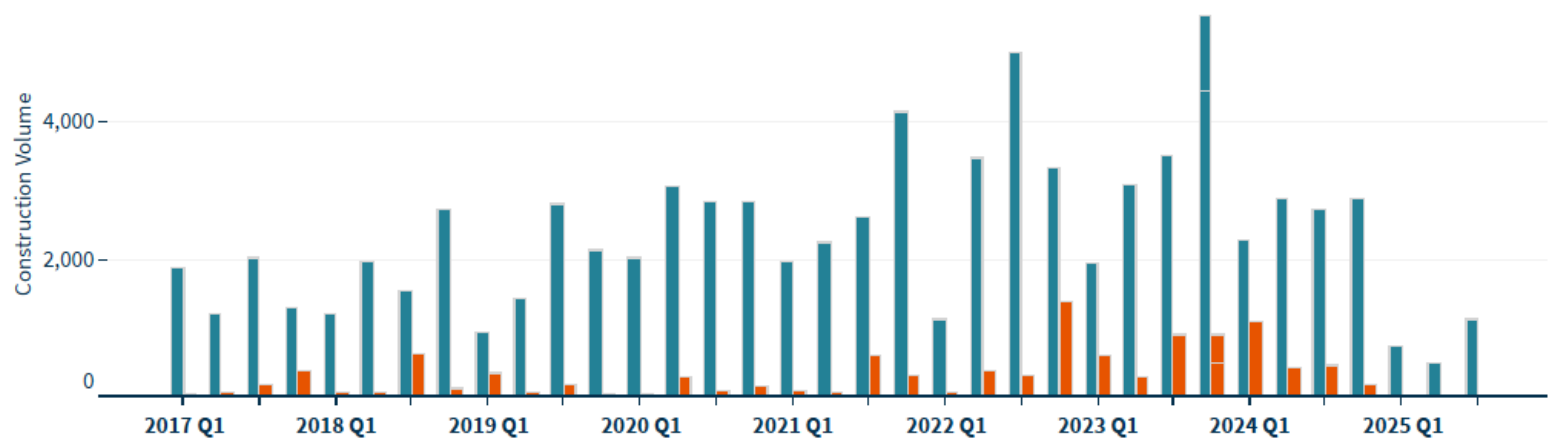
- The apartment market has plateaued after a period of softening despite some demographic challenges that persist in the metro. However, on the bright side, the current economic environment may delay the rate at which new supply is delivered to the metro as developers and builders are taking note of 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

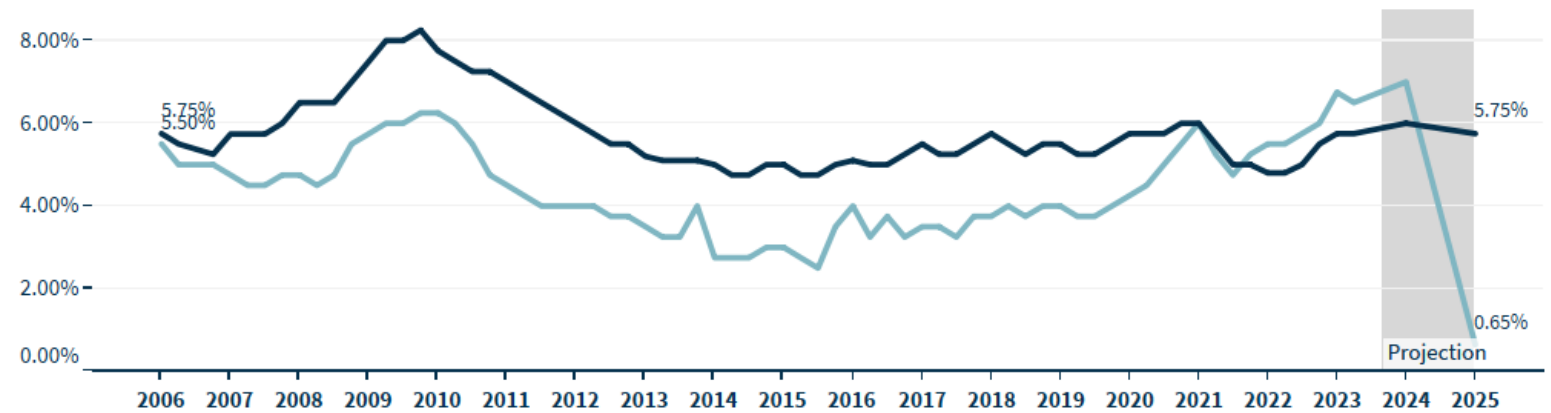
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Minneapolis | National

Q3 2023 Vacancy Rate:

6.50%

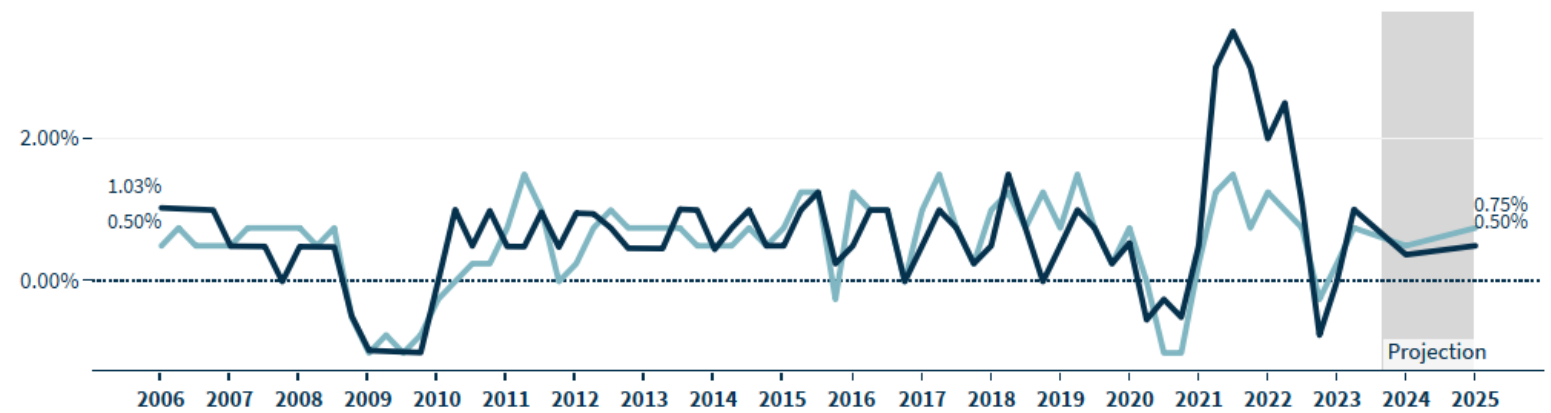


Asking Rent Growth

Minneapolis | National

Q3 2023 Asking Rent:

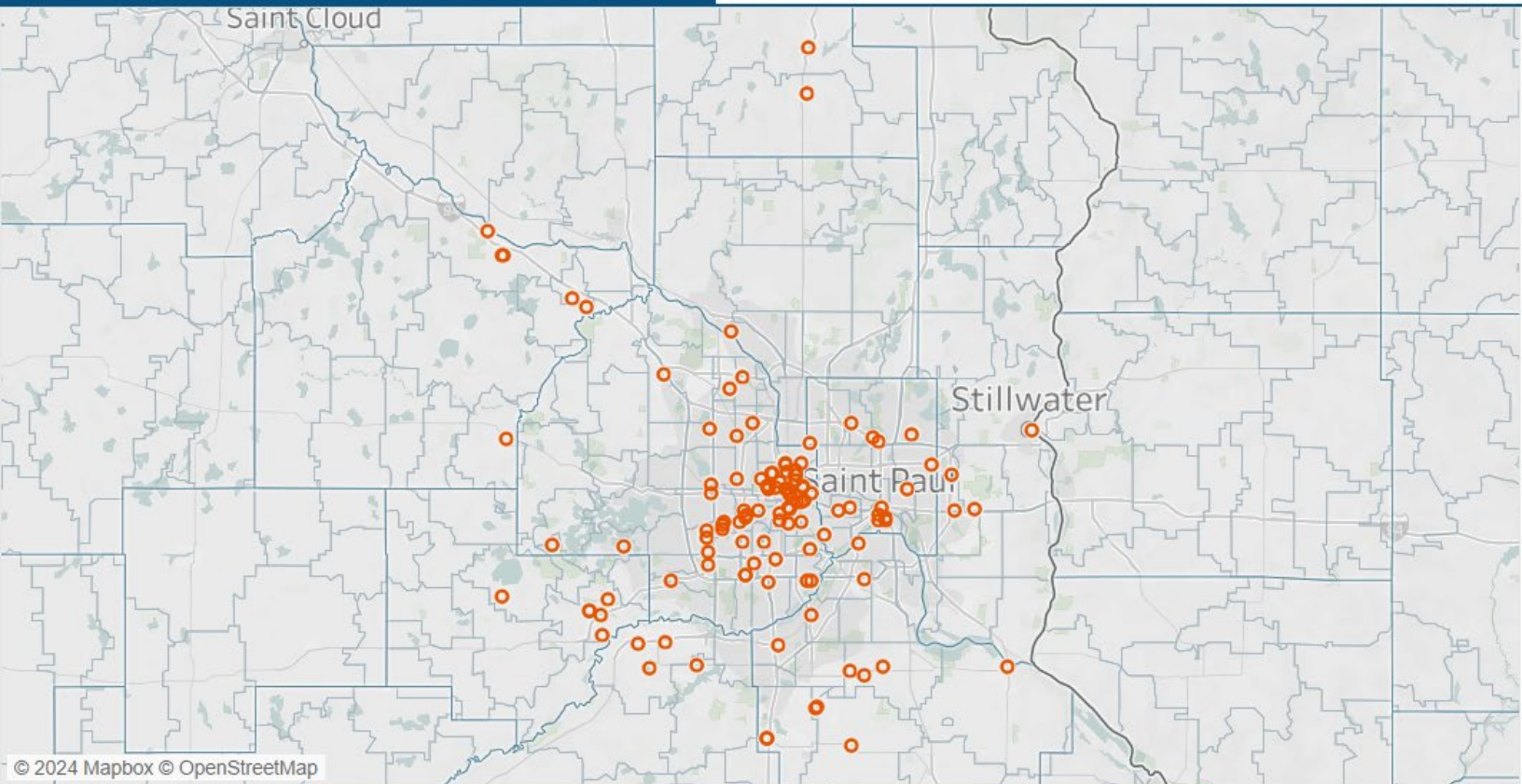
\$1,510



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Anoka County	4	465
Bloomington	3	796
Burnsville/Apples Valley	10	897
Central St. Paul	3	374
Downtown Minneapolis/University	10	2,734
East St. Paul	7	1,098
Eden Prairie/Shakopee/Chaska	12	2,098
Minnetonka	8	1,262
North Minneapolis	15	998
Plymouth/Maple Grove	9	1,335
South Minneapolis/Richfield	13	1,613
South St. Paul/Eagan	6	860
Uptown/St. Louis Park	13	2,172
West St. Paul	5	838
Grand Total	118	17,540

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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