

Multifamily Metro Outlook:

Minneapolis - Q3 2024

Overview:

- The local job market in the Minneapolis metro is currently in a very precarious state. For the period ending Q3 2024, the local job market contracted by 0.1% compared to 1.4% growth nationally. After a few quarters of tepid and slow growth, the job market continues to trend in the wrong direction, as nearly seven employment sectors contracted during this period.
- Apartment fundamentals, specifically vacancies, continue to remain soft. For the period ending Q3 2024, vacancies inched down slightly to 7%, down 25 basis points from the previous quarter. However, rent growth is trending in the wrong direction as it was flat during this same period.

Market Strengths:

- Minneapolis continues to benefit from the presence of many Fortune 500 headquarters, especially in the health care sector. Both the education and health services and leisure and hospitality employment sectors will continue to be a boon for the metro, as they both continue to expand at a rate higher than the national average. Additionally, this employment sector was one of the few to experience growth during the period ending Q3 2024, as the sector expanded by 5% compared to 3.6% nationally.
- Despite an extended period of slowdown, the financial activities sector is poised for a much-deserved bounce-back. According to Moody's Analytics, the Fed's most recent interest rate cuts will aid the recovery of loan demand at local banks.

Market Weaknesses:

- Even though the financial activities employment sector has recently been the beneficiary of good news, it still has some work to do in the short term to make up for the last two years of slowdown. 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 2024 the sector declined by nearly 2.1% compared to growth of 0.6% nationally.
- Minneapolis's local job market is in a state of turmoil. The metro had been facing issues with labor and talent shortages for quite some time. For the period ending Q3 2024, the local job market contracted, as two economic pillars in the metro, both the financial activities and professional and business services employment sectors, were among seven of the local employment sectors to contract during this period.

New Development:

- Development in the metro remains elevated as nearly 77,000 units have completed since 2017. Furthermore, there are nearly 10,000 units underway and an additional 38,000 in the planning stages.

Outlook:

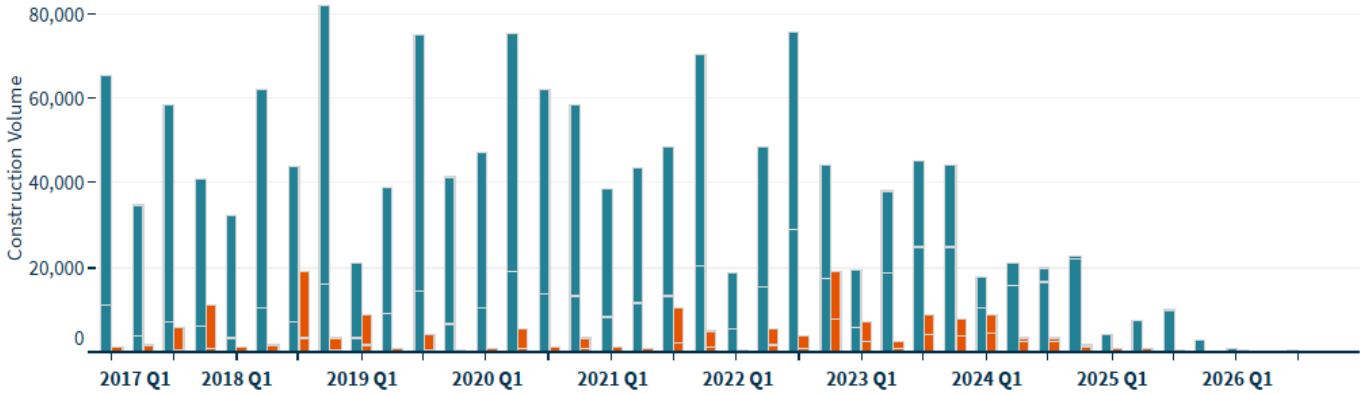
- The apartment market remains in a period of extended softness. Even though vacancies are slightly improving, they are still elevated historically. However, the amount of supply being delivered to the metro has slowed and has put the metro in a better position to absorb the existing inventory, leading to a more balanced and steady apartment market environment.
- Minneapolis's 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 sectors is troubling, the metro does have a decent demographic profile and a strong presence of high-wage employers. Furthermore, ongoing labor market struggles have caused the local job economy to contract overall, as most employment sectors are not experiencing growth during this current period.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

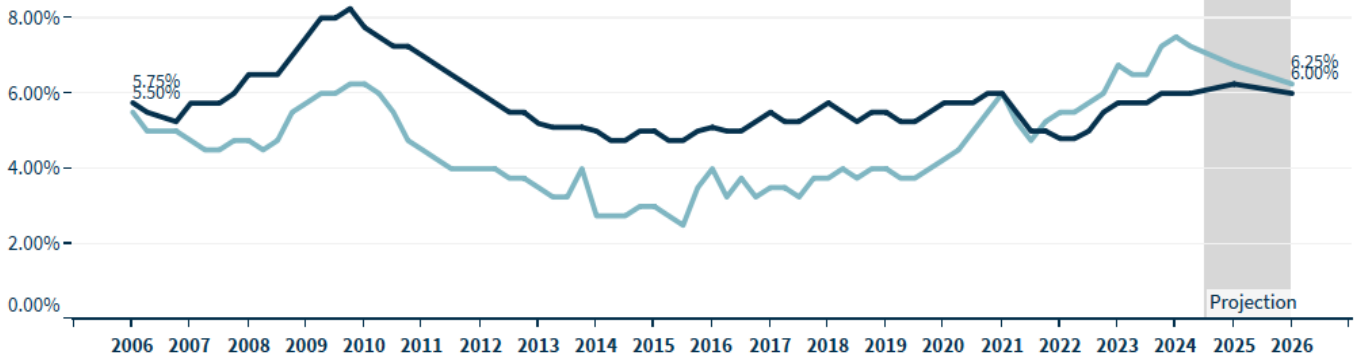
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Minneapolis | National

Q3 2024 Vacancy Rate:

7.00%

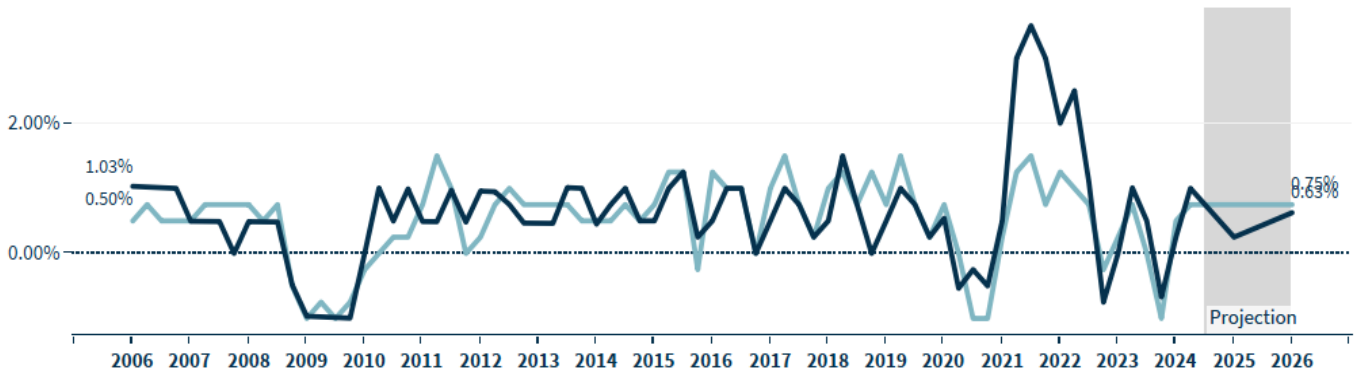


Asking Rent Growth

Minneapolis | National

Q3 2024 Asking Rent:

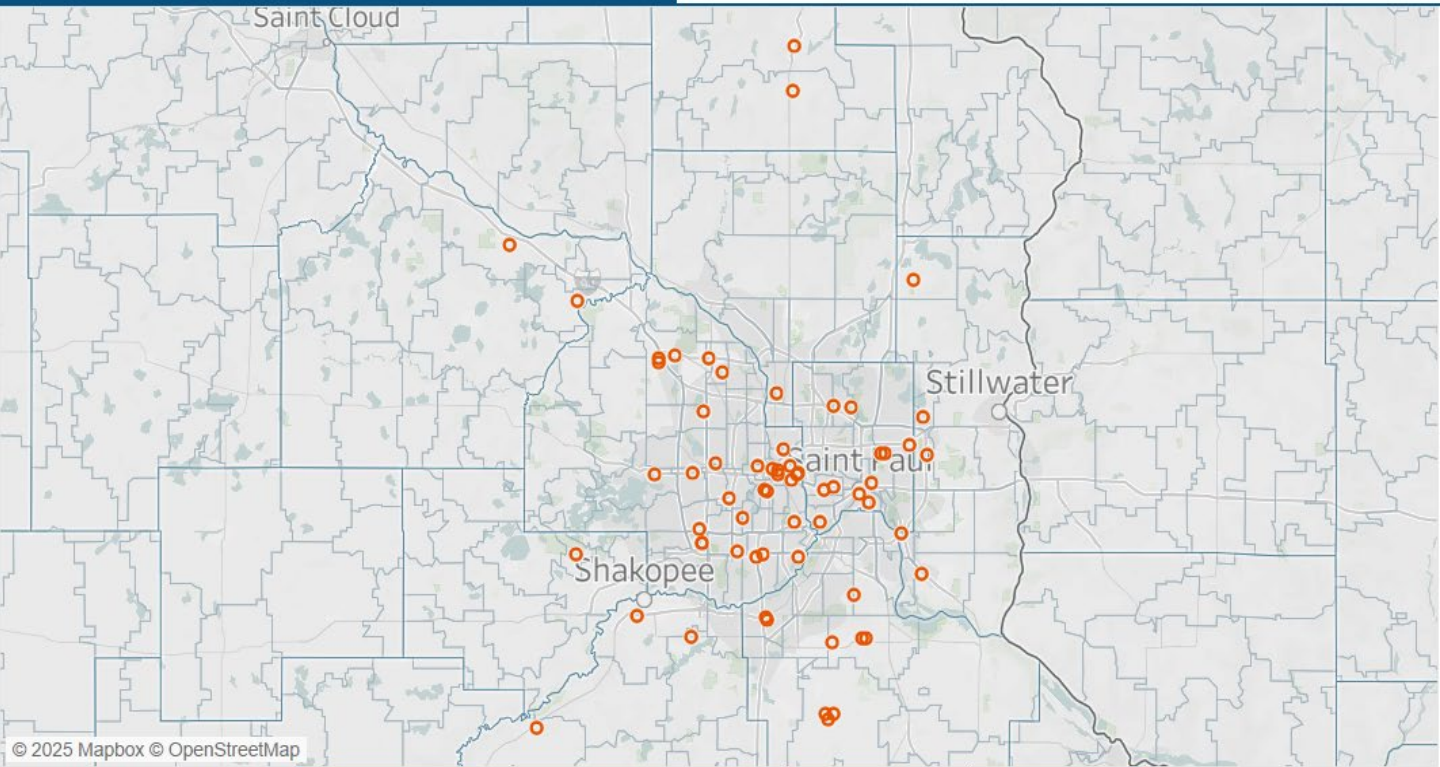
\$1,530



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



| <i>MultiHousingSubmarketName</i> | <i>Apartments</i> | <i>Units</i> |
|----------------------------------|-------------------|--------------|
| Anoka County | 4 | 424 |
| Bloomington | 3 | 469 |
| Burnsville/Apple Valley | 8 | 1,074 |
| Central St. Paul | 2 | 203 |
| Downtown Minneapolis/University | 6 | 1,573 |
| East St. Paul | 8 | 925 |
| Eden Prairie/Shakopee/Chaska | 6 | 1,073 |
| Mnettonka | 3 | 548 |
| North Minneapolis | 4 | 630 |
| Plymouth/Maple Grove | 6 | 836 |
| South Minneapolis/Richfield | 4 | 479 |
| South St. Paul/Eagan | 2 | 248 |
| Uptown/St. Louis Park | 4 | 396 |
| West St. Paul | 4 | 687 |
| Grand Total | 64 | 9,565 |

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 Real Estate Analyzer
- CBRE-Econometric Advisors
- Yardi

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