# MARKET REPORT

**Multifamily**

*Minneapolis-St. Paul Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

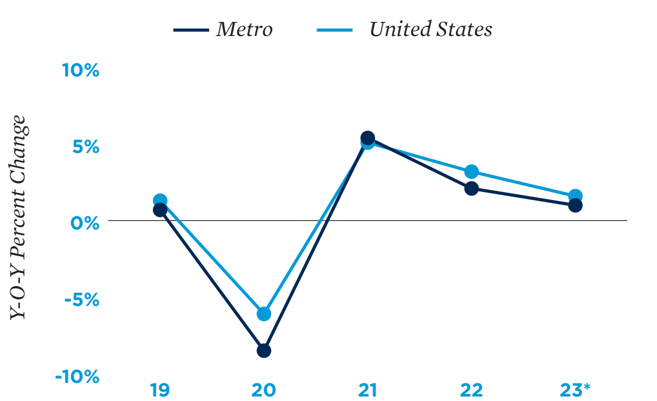
3Q/23

## Net Absorption Accelerates Metrowide, While St. Paul Fundamentals Outperform

**Demand improving, counterbalanced by a sizable delivery slate.** This year marks the fourth consecutive period in which supply additions total at least 8,000 new units, nearly doubling the average noted between 2015 and 2019. Nevertheless, net absorption reaches its third-highest figure on record in 2023, marking the 14th consecutive positive year, a theme dissimilar to all other major Midwestern metros. Although near-term supply pressure maintains upward vacancy movement in Minneapolis-St. Paul this year, demand is improving. Over the remaining six months of 2023, more than 3,800 units will be taken off the market, the second-highest total between July and December since at least 2000.

**Stability noted in Central St. Paul.** Spanning the University of St. Thomas to downtown St. Paul and south to the Mississippi, the Central St. Paul submarket recorded no change in its vacancy rate over the year ended in June. Conversely, all of the metro's 13 remaining submarkets experienced a lift of at least 110 basis points. The area's stability was evident across all property tiers, with local Class B and Class C vacancy registering below marketwide segment averages. Although recently-enacted rent control policies have taken effect, amendments to the bill allow for a 20-year exemption on new construction. This adjustment comes in conjunction with an allowed 8 percent rental rate increase, in addition to inflation upon tenants vacating their unit, for apartments of any vintage. Still, the local Class A average effective rate pulled back amid near-term demand challenges.

### Employment Trends




* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

## Multifamily 2023 Outlook

**20,000 JOBS**
*will be created*

### EMPLOYMENT:

Through July, employers added a net of 15,800 positions, bolstered by gains within the government, as well as the leisure and hospitality, sectors. Growth in these industries will allow the local employment base to improve by 1.0 percent in 2023.

**8,500 UNITS**
*will be completed*

### CONSTRUCTION:

Metro stock lifts by at least 2.5 percent for the fourth straight year in 2023, a pace that had not been met previously dating back to 2000. A notable count of near-term deliveries are welcomed in the Plymouth-Maple Grove and South Minneapolis submarkets.

**70 BASIS POINT**
*increase in vacancy*

### VACANCY:

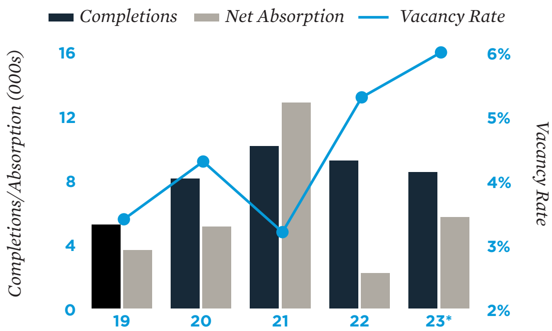
Sustained supply pressure maintains upward vacancy momentum in 2023, albeit at a slower pace than last year's 210-basis-point hike amid improved absorption. Still, this elevates the rate to 6.0 percent by year-end.

**4.1% INCREASE**
*in effective rent*

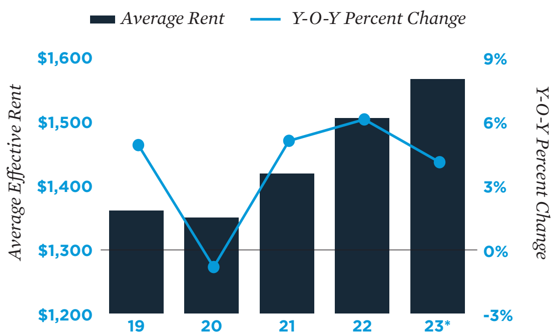
### RENT:

Amid another vacancy rate increase this year, the metro's average effective rent will rise at a slightly slower pace than the 4.3 percent trailing decade-long mean in 2023. Still, this year's lift improves the metrowide measure to $1,565 per month.

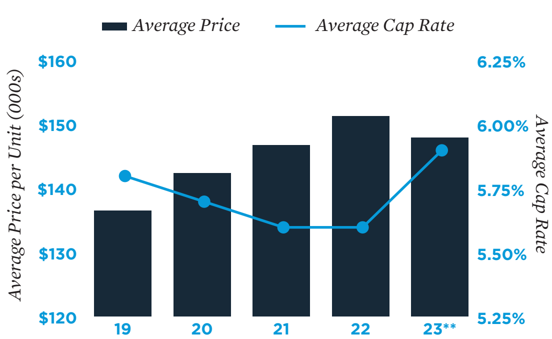
## Supply and Demand




## Rent Trends




## Sales Trends




** Forecast ** Through 2Q*

*Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.*

## 2Q 2023 - 12-Month Period

### CONSTRUCTION

**7,963 units completed**

- Plymouth-Maple Grove and South St. Paul-Eagan recorded the fastest paces of inventory expansion over the year ended in June among submarkets, noting gains of 4.0 and 4.9 percent, respectively.
- Deliveries were relatively mute in Minnetonka and Bloomington, despite below market average vacancy in both areas.

### VACANCY

**200 basis point increase in vacancy Y-O-Y**

- Nine of 14 local submarkets noted vacancy expansion of at least 160 basis points over the year ended in June. This momentum prompted the marketwide rate to reach 5.6 percent entering the midyear.
- Class A vacancy compression in Burnsville-Apple Valley and North Minneapolis allowed segment vacancies here to remain below the market level.

### RENT

**4.6% increase in the average effective rent Y-O-Y**

- South Minneapolis-Richfield's 11.3 percent pace of rent growth over the prior four quarters was the largest gain among metro submarkets.
- The average effective rent across the CBD elevated by 5.5 percent to $1,662 per month in June, while the suburban rate lifted 4.6 percent to $1,503 per month. These gains brought the marketwide measure to $1,536 per month.

## Investment Highlights

- Transaction velocity in the second quarter continued to trend down amid more conservative lending practices, higher debt costs and rising vacancy. This reduced buy-side competition drove some price adjustments as the average cost per unit ticked down to $147,900 over the 12-month period ending in June. In turn, the mean cap rate on completed deals lifted 30 basis points to 5.9 percent, its highest point since 2018.
- Preliminary data for July and August suggest that deal flow is on the rise. Of trades completed during this period, a notable count were located in Dinkytown and Wenonah. The University area benefits from student-driven apartment demand, bolstering Class B rent growth of 11.1 percent year-over-year in June. South Minneapolis, encompassing the Wenonah neighborhood, noted market-leading Class A and Class C rate gains.
- As financing challenges and local fundamentals stabilize, institutional grade investment may return to the market, following minimal activity earlier this year. Plymouth-Maple Grove may garner a notable portion of this attention as the area boasts a 5.6 percent Class A vacancy rate, which is 110 basis points under the segment's average, despite substantial supply pressure.

**IPA Multifamily**
**John Sebree**
*Senior Vice President, Director*
*Tel: (312) 327-5400 | jsebree@ipausa.com*

**IPA Multifamily Research**
**Greg Willett**
*First Vice President*
*Tel: (972) 755-5200 | gwillett@ipausa.com*

*Price: $250*