Market Report

IPA INSTITUTIONAL PROPERTY ADVISORS

MULTIFAMILY 2Q/26

Minneapolis-St. Paul Metro Area

Vacancy Compresses Despite Headwinds as Presence of Large-Scale Capital Rises

Segmented demand drives performance. Scant construction supports a favorable 2026 outlook, even as slower population growth and moderate hiring weigh on household formation. Several of the metro's largest submarkets by inventory continue to outperform. In Uptown-St. Louis Park, Class A/B rents climbed more than 9 percent in the 12 months ended in March, supported by younger, generally higher-income, college-educated renters. Though vacancy remains about 180 basis points above its pre-pandemic average, ongoing revitalization efforts support the long-term outlook. Conversely, West St. Paul saw notable vacancy compression across all tiers, particularly in Class B/C product, as below-average rents continue to draw more cost-sensitive households.

Both CBDs show cautious optimism. Downtown Minneapolis is expected to record no notable completions, while fewer than 200 units are slated for Central St. Paul. In Minneapolis, a handful of relocations and select expansions — including Associated Bank and Rise and Shine and Partners — may provide incremental support for renter demand, though the impact will likely be modest. St. Paul has fewer near-term demand catalysts; however, more than $1 billion in ongoing and committed public-private investment supports the node's longer-term outlook.

2026 FORECAST

EMPLOYMENT

15,000 Jobs will be created

0.8% Increase Y-O-Y

CONSTRUCTION

2,050 Units will be added

0.6% Inventory increase Y-O-Y

VACANCY

4.5% Vacancy rate

30 BPS decrease Y-O-Y

RENT

$1,705 Average effective rent by year-end

2.8% Increase Y-O-Y

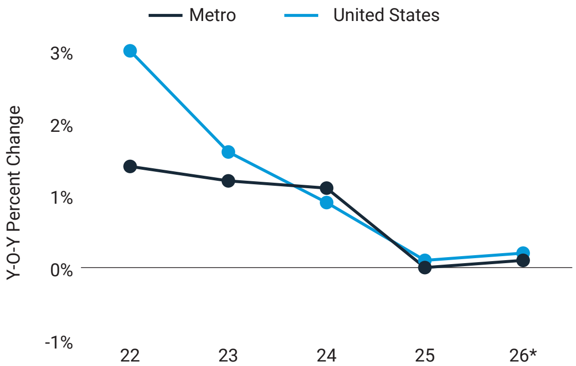
EMPLOYMENT

The metro's unemployment rate has climbed more than 200 basis points from its mid-2022 trough of 2.1 percent to the low-4 percent range in early 2026. This underscores recent softness in the local labor market, particularly in professional and business services and leisure and hospitality, which contributed to the metro's net loss of 900 jobs in 2025. In 2026, the metro is expected to return to job growth, with gains so far this year emerging in manufacturing, government, and select professional and business services sectors.

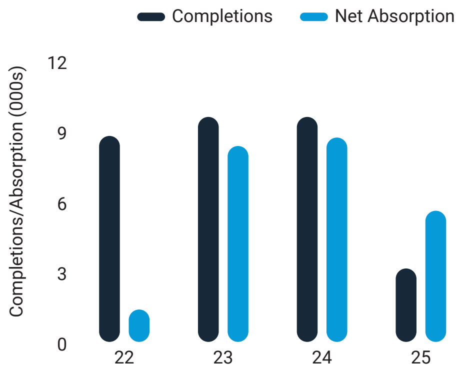
CONSTRUCTION

Completions fell from nearly 9,600 units in 2024 to around 3,100 in 2025, and 2026's slated deliveries are even fewer — on pace for the metro's smallest annual total in over a decade. Rising construction costs and economic uncertainty have created a cautious development climate, with many projects paused or deferred. Notably, five of the metro's 14 submarkets — including the Minneapolis CBD — are slated for no new apartments in 2026, while even the active submarkets expect only modest additions.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



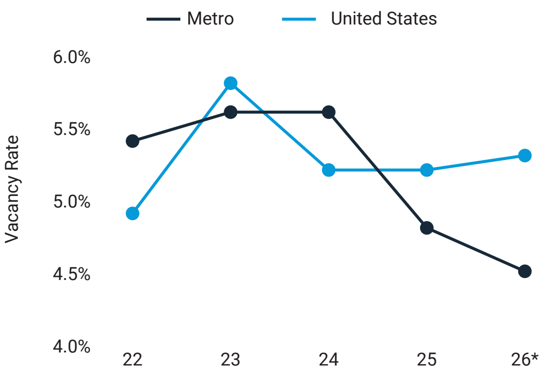
* Forecast

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

VACANCY

A limited pipeline of incoming supply will largely support a drop in vacancy this year. However, recent declines among 20-to-34-year-old renter cohorts, alongside a 50 percent pullback in household formation in the 12 months trailing March, present headwinds likely to limit the depth of vacancy compression compared to last year's 80-basis-point decline. Still, a modest labor market recovery, coupled with more than 60 percent of renters renewing leases in May, supports tight market conditions.

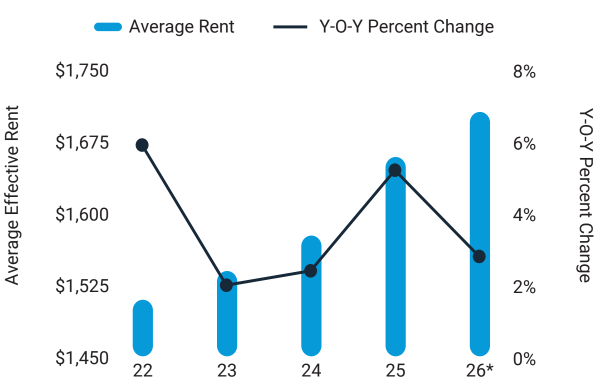
VACANCY TRENDS



RENT

With demand outpacing new supply, mean effective rent growth should continue into 2026. The local renewal conversion rate, about 5 percentage points above the national level, has kept concession usage slightly below the U.S. mark, at 15.3 percent versus 16.9 percent in May. With reduced new-leasing competition, metrowide rents are poised to rise for a sixth consecutive year. By December, however, year-over-year growth will be about half last year's, as vacancy declines more modestly.

RENT TRENDS



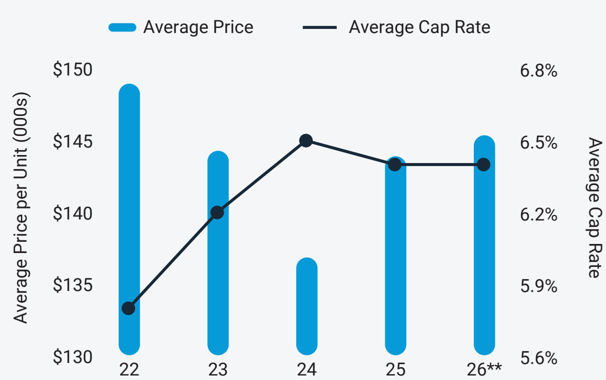
* Forecast ** Through 1Q

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

INVESTMENT HIGHLIGHTS

- Deal flow rose roughly 30 percent in the 12 months ended March, but gains were concentrated among larger assets. Transactions below $10 million increased roughly 20 percent, while sales above $20 million climbed about 70 percent, helping lift the average price per unit by 4.9 percent. Activity remains concentrated in Hennepin County and a handful of core and high-growth submarkets, where larger assets built after 2000 continue to attract the deepest pool of capital. Looking ahead, institutional demand is expected to remain strong in 2026, particularly as vacancy tightens.
- Amid modest metrowide job growth in 2026, select nodes may draw greater investor attention as larger expansions advance. Plymouth-Maple Grove stands out, with vacancy down 90 basis points over the past 12 months and Boston Scientific planning projects expected to add nearly 600 medical technology jobs by 2030. BAE Systems' newly opened engineering facility further strengthens the area's employment base. These investments underscore pockets of long-term upside in demand amid a limited-supply backdrop.
- Investors seeking rent growth were drawn to the Twin Cities over the past 12 months, as gains across all three classes ranked among the strongest nationally. While momentum may ease slightly in 2026, local lease trade-out rates of 3.5 percent in May, versus 1.6 percent nationally, suggest continued upside. East St. Paul, Uptown-St. Louis Park, and Plymouth-Maple Grove each posted rent growth of at least 7.0 percent, potentially drawing increased investor attention if sustained.

SALES TRENDS



IPA Multifamily

ANDREW LEAHY

Senior Managing Director, National Division Leader

Tel: (202) 536-3700

aleahy@ipausa.com

For info on national multifamily trends, contact:

JOHN CHANG

Senior Vice President, Chief Intelligence & Analytics Officer

Tel: (602) 707-9700

jchang@ipausa.com