

Twin Cities 2024 Market Forecast

MARKET SNAPSHOT

- AVERAGE RENT**
\$1,440 4Q 2023
\$1,489 4Q 2024
- 2024 RENT CHANGE**
3.4%
- OCCUPANCY RATE**
94.5% 4Q 2023
94.2% 4Q 2024
- 4Q 2024 OCCUPANCY CHANGE**
-30 basis points
- EMPLOYMENT***
1.97M 2023
1.99M 2024
- UNEMPLOYMENT RATE****
2.9% 2023
3.5% 2024

* Please note that these employment figures have been adjusted for seasonal variations and are based on Moody's Analytics forecast as of January 1, 2024.

** Please note that these unemployment rates are estimates that have not been adjusted for seasonal variations, and they are derived from Moody's Analytics forecast as of January 1, 2024.

KEY TAKEAWAYS

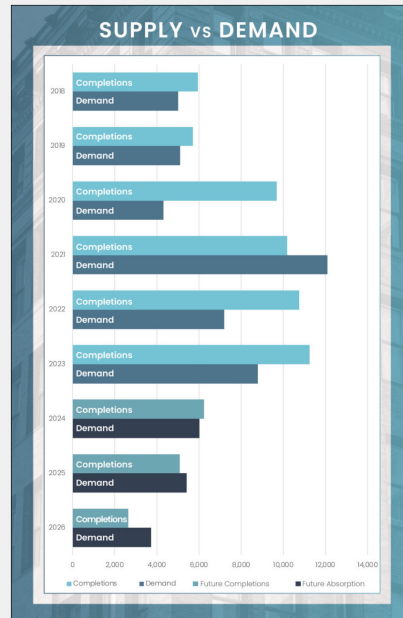
- The influx of new housing supply in Minneapolis is anticipated to moderate from the high levels of over 10,000 units annually seen since 2021, moving towards a more sustainable figure of 6,241 units.
- A minor reduction in the average occupancy rate is foreseen, influenced in part by an excess of supply that originated in 2023.
- The forecast for 2024 suggests an uptick in rent growth to 3.4% by the final quarter of 2024, as the number of new completions declines while demand remains strong.
- The healthcare, construction, and leisure and hospitality sectors are expected to drive job creation to the tune of an additional 15,800 positions.

Supply & Demand

2024 FULL YEAR FORECAST

- 6,026 Units**
 FORECASTED ABSORPTION
- 6,241 Units**
 FORECASTED NEW SUPPLY

Annual Demand Vs Completions



Demand / Occupancy Outlook

Last year, the Minneapolis housing market displayed a significant imbalance, with a total of 11,300 new units delivered, surpassing the absorption rate of 8,800 units. However, it's important to note that Minneapolis is one of only three major U.S. markets to have witnessed its average annual absorption over the past three years more than double the average from 2017 to 2019. This trend suggests that the market shifts in Minneapolis are predominantly driven by supply-side factors. Nonetheless, this marks the third time in the past four years that supply has exceeded demand in the city's housing market.

Looking ahead to 2024, the influx of new housing supply in Minneapolis is anticipated to moderate from the high levels of over 10,000 units annually seen since 2021, moving towards a more sustainable figure of 6,241 units. This adjustment is expected to align better with the market demand. Demand in Minneapolis is forecasted to match this new level of supply throughout the year. Nonetheless, a minor reduction in the average occupancy rate is foreseen, influenced in part by an excess of supply that originated in 2023. As a result, the average occupancy rate is projected to experience a modest decline of about 30 basis points from its fourth-quarter 2023 rate, settling approximately at 94.2% by the end of 2024. This slight dip, while noteworthy, is within the context of a market adjustment to a more balanced supply-demand dynamic.

New Supply Outlook

The 2024 forecast for the Minneapolis apartment sector anticipates the addition of approximately 6,241 units, which represents a significant year-over-year decrease of nearly 45%. The substantial drop in supply-side pressure has been influenced by rising interest rates and a reduction in construction lending, leading to construction starts reaching a six-year low in 2023, a near 60% decrease from the record highs of 2022. The combination of reduced completions and the continuation of healthy demand suggests a pivotal market shift for the Twin Cities. Moving from a recovery to a stability phase, the market is expected to align with historical growth patterns by 2025, indicating a more balanced and sustainable development trajectory in the coming years.

Occupancy & Rent Trends

RENT VS OWN MONTHLY PAYMENT



\$2,425

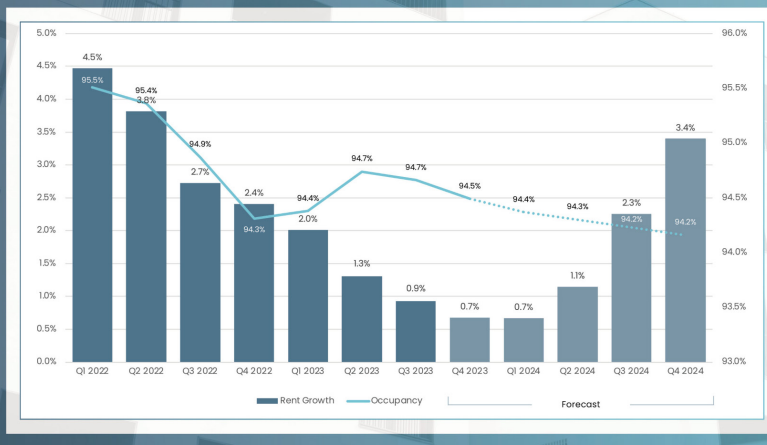
Average Monthly Mortgage Payment



\$1,440

Average Monthly Rent

RENT vs OCCUPANCY



2024 RENT TRENDS OUTLOOK

The substantial surge in housing supply in Minneapolis has notably impacted landlords' capacity to increase rents. Since the beginning of 2020, the market has seen less than 6.5% cumulative rent growth, ranking it as the fourth lowest among the top 50 U.S. markets, only surpassing the Bay Area markets in California. The final quarter of 2023 saw modest rent growth of 0.7% in Minneapolis, aligning closely with the U.S. average of 0.8%. Looking forward, the forecast for 2024 suggests an uptick in rent growth to 3.4% by the final quarter of 2024, as the number of new completions declines while demand remains strong. This growth rate is expected to accelerate further into 2025, as the effects of the recent supply wave continue to diminish, allowing for a more balanced and robust rental market in Minneapolis.

Submarket Rent & Occupancy

Submarket	Q4 2023 Stabilized Occupancy	Q4 2024 Stabilized Occupancy (f)	Annual Occupancy Change (2024/2023)	Q4 2023 Average Monthly Rent	Q4 2024 Average Monthly Rent (f)	Annual Rent Change (2024/2023)
Anoka Northern Suburbs	89.8%	89.2%	-0.6%	\$1,367	\$1,409	3.1%
Apple Valley/Lakeville/Hastings	94.2%	93.9%	-0.3%	\$1,477	\$1,527	3.4%
Bloomington West	94.4%	94.1%	-0.3%	\$1,520	\$1,569	3.2%
Carver County	98.2%	98.0%	-0.2%	\$1,609	\$1,664	3.4%
Chisago Outlying Northern Suburbs	95.0%	94.6%	-0.4%	\$1,037	\$1,077	3.9%
Coon Rapids/Fridley/Blaine	95.1%	94.8%	-0.3%	\$1,292	\$1,339	3.6%
Dayton/Champlin/Brooklyn Park	94.2%	93.8%	-0.4%	\$1,315	\$1,362	3.6%
Downtown Minneapolis	92.0%	91.6%	-0.4%	\$1,708	\$1,762	3.2%
Downtown St Paul	91.7%	91.3%	-0.4%	\$1,463	\$1,516	3.7%
Eagan/Burnsville/Inver Grove Heights	95.3%	95.0%	-0.3%	\$1,459	\$1,508	3.4%
Eden Prairie	94.2%	93.9%	-0.3%	\$1,655	\$1,716	3.7%
Edina	96.2%	95.9%	-0.2%	\$1,855	\$1,916	3.3%
Hennepin Far Western Suburbs	95.1%	94.8%	-0.3%	\$1,606	\$1,658	3.2%
Highland/M	94.4%	94.1%	-0.4%	\$1,329	\$1,377	3.6%
Isanti Northern Suburbs	95.9%	95.5%	-0.4%	\$1,271	\$1,317	3.6%
Maple Grove/Golden Valley/Plymouth	94.4%	94.1%	-0.3%	\$1,551	\$1,605	3.5%
Maplewood/East Ramsey County	95.3%	95.0%	-0.3%	\$1,423	\$1,474	3.6%
North Minneapolis	98.3%	98.1%	-0.2%	\$1,371	\$1,412	3.0%
Northeast Minneapolis	97.0%	96.7%	-0.2%	\$1,409	\$1,450	2.9%
Outlying St Paul	95.0%	94.6%	-0.3%	\$1,210	\$1,255	3.7%
Pierce Far Eastern Suburbs	96.2%	95.9%	-0.4%	\$1,031	\$1,075	4.2%
Richfield/Bloomington East	96.0%	95.7%	-0.3%	\$1,299	\$1,345	3.6%
Scott Far Western Suburbs	89.0%	88.5%	-0.5%	\$1,471	\$1,516	3.1%
Sherburne County	95.4%	95.0%	-0.4%	\$1,164	\$1,203	3.3%
South Minneapolis	94.9%	94.5%	-0.4%	\$1,212	\$1,258	3.8%
South St Paul	93.3%	92.8%	-0.4%	\$1,241	\$1,283	3.4%
St Croix Far Eastern Suburbs	96.8%	96.5%	-0.3%	\$1,292	\$1,341	3.8%
St Louis Park/Hopkins	95.1%	94.8%	-0.3%	\$1,510	\$1,557	3.1%
University	93.3%	92.9%	-0.3%	\$1,675	\$1,733	3.5%
Uptown/West Calhoun/Bryn Mawr	93.0%	92.6%	-0.4%	\$1,454	\$1,501	3.2%
Washington Far Eastern Suburbs	94.6%	94.3%	-0.3%	\$1,628	\$1,679	3.1%
West Bank/Central Minneapolis	95.1%	94.7%	-0.4%	\$1,115	\$1,153	3.4%
West Ramsey County	93.6%	93.2%	-0.4%	\$1,287	\$1,333	3.6%
West Side	92.9%	92.5%	-0.4%	\$1,225	\$1,258	2.7%
West St Paul	95.9%	95.7%	-0.2%	\$2,413	\$2,475	2.6%
Wright Far Western Suburbs	97.8%	97.5%	-0.2%	\$1,379	\$1,425	3.3%
Market	94.5%	94.2%	-0.3%	\$1,440	\$1,489	3.4%

Submarket Construction Pipeline



271,991

4Q 2023 Unit Inventory



12,520

Number of Units Under Construction



6,241

Number of Units UC Delivering
In the Next 4 Quarters

Submarket	Unit Inventory: 4Q 2023	Units Under Construction	% of Existing Inventory UC	% of Total UC	Units UC Delivering in the Next 4 Quarters
Anoka Northern Suburbs	1,067	0	0%	0%	0
Apple Valley/Lakeville/Hastings	8,626	629	7%	5%	423
Bloomington West	5,619	149	3%	1%	147
Carver County	2,994	1,236	41%	10%	411
Chisago Outlying Northern Suburbs	715	0	0%	0%	0
Coon Rapids/Fridley/Blaine	13,877	0	0%	0%	0
Dayton/Champlin/Brooklyn Park	7,037	115	2%	1%	73
Downtown Minneapolis	16,577	2,212	13%	18%	803
Downtown St Paul	3,645	387	11%	3%	0
Eagan/Burnsville/Inver Grove Heights	16,000	0	0%	0%	0
Eden Prairie	4,926	664	13%	5%	423
Edina	6,351	196	3%	2%	194
Hennepin Far Western Suburbs	10,137	105	1%	1%	102
Highland/M	9,961	0	0%	0%	0
Isanti Northern Suburbs	973	65	7%	1%	64
Maple Grove/Golden Valley/Plymouth	19,953	1,334	7%	11%	464
Maplewood/East Ramsey County	8,066	420	5%	3%	418
North Minneapolis	2,048	26	1%	0%	25
Northeast Minneapolis	3,785	160	4%	1%	159
Outlying St Paul	21,208	1,453	7%	12%	299
Pierce Far Eastern Suburbs	1,499	0	0%	0%	0
Richfield/Bloomington East	10,209	99	1%	1%	96
Scott Far Western Suburbs	5,082	493	10%	4%	286
Sherburne County	3,209	0	0%	0%	0
South Minneapolis	3,740	50	1%	0%	49
South St Paul	4,170	111	3%	1%	110
St Croix Far Eastern Suburbs	2,433	0	0%	0%	0
St Louis Park/Hopkins	13,930	570	4%	5%	379
University	7,488	0	0%	0%	0
Uptown/West Calhoun/Bryn Mawr	12,736	470	4%	4%	311
Washington Far Eastern Suburbs	10,001	862	9%	7%	499
West Bank/Central Minneapolis	17,505	79	0%	1%	75
West Ramsey County	11,396	201	2%	2%	0
West Side	959	221	23%	2%	220
West St Paul	458	126	28%	1%	125
Wright Far Western Suburbs	3,611	87	2%	1%	86
Market	271,991	12,520	5%	100%	6,241

Sales Activity

According to preliminary data from MSC, the sales volume for conventional multifamily assets in 2023 ended on a relatively positive note. The fourth quarter of the year recorded a sales volume of \$275.2 million, which was just below the pre-pandemic average of \$290 million for a comparable period. For the entire year, the total transaction volume reached \$700.7 million, distributed across 40 individual asset sales. This volume represents a 54% reduction from the previous year's figure. However, it is noteworthy that this annual total is more in line with the pre-pandemic annual averages, suggesting a return to more typical market conditions.

Looking forward to 2024, the market could present attractive opportunities for discerning investors, especially if interest rates stabilize or decline. This environment could lead to the emergence of more attractively priced deals, offering potential for long-term investments in the multifamily sector. This scenario underscores the importance of market timing and strategic investment decisions in the context of evolving economic conditions.

Most Active Buyers (Previous 24 Months)

1. FPA Multifamily
2. Weidner Apt Homes
3. SR Realty Trust

Most Active Sellers (Previous 24 Months)

1. Belgarde Enterprises
2. Roers Investments
3. Trident Development

TRANSACTION VOLUME

\$700.7M
(p)

2023 Transaction Volume

-54%

Y-O-Y Change

58 YTD

Individual Transaction Count

\$197.4k*

Price Per Unit

-2.1%

Annual PPU Price Change

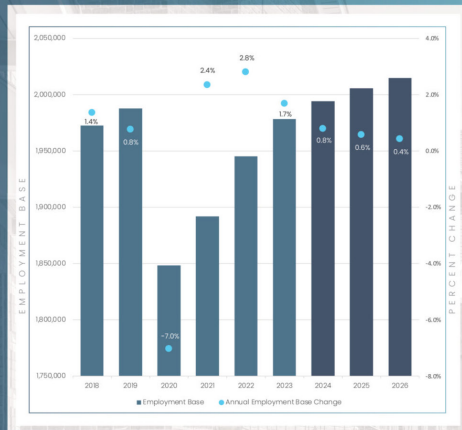
* Trailing 4Q average PPU

* Preliminary Data from RCA - Individual transaction \$2.5M +

P=Preliminary

Employment Forecast

EMPLOYMENT SECTOR FORECAST



Forecasted 2024 Employment Sector Growth

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Sector	Employment Change 2023 to 2024	Percent Change
Overall Employment	15,800	1.8%
Manufacturing	(1,000)	-0.5%
Construction	1,300	1.5%
Trade, Transport, & Utilities	2,500	0.7%
Information	(400)	-1.0%
Financial Activities	(2,400)	-1.8%
Professional & Business Services	(1,300)	-1.0%
Education & Health Services	8,200	2.3%
Government	4,600	1.9%
Leisure & Hospitality	4,700	2.5%
Other Services	(300)	-0.4%

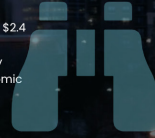
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Economic Outlook

The Minneapolis-St. Paul metro area is poised for moderate growth in 2024, likely benefitting from a projected \$2.4 billion state budget surplus and stabilizing housing market. While interest rates may dip slightly, affordability remains a challenge, especially for first-time buyers. The healthcare, construction, and leisure and hospitality sectors are expected to drive job creation to the tune of an additional 15,800 positions, even as national economic uncertainties linger. Overall, the Twin Cities should see steady economic progress in the coming year.

Sources: Costar; Yardi Matrix; BLS; MSCI; Moody's Analytics



TO GAIN FURTHER INSIGHTS INTO THE TWIN CITIES MARKET PLEASE REACH OUT TO OUR NATIONAL TEAM



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