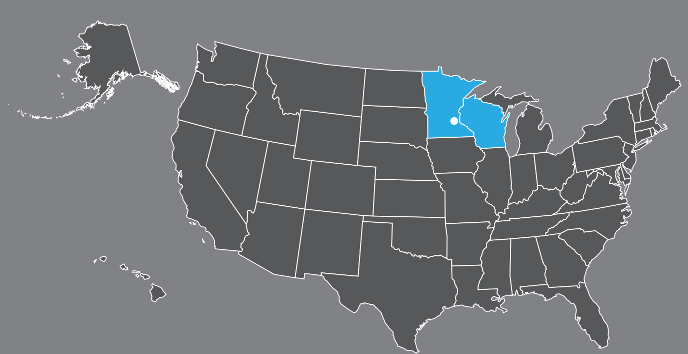
HUD PD&R Housing Market Profiles

Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin

Quick Facts About Minneapolis-St. Paul-Bloomington

- **Current sales market conditions: tight**
- **Current apartment market conditions: slightly tight**
- **Known as the "Twin Cities," the cities of Minneapolis and St. Paul are separated by the Mississippi River. The Minneapolis area is a regional center for retail shopping; this center includes the Mall of America, which approximately 40 million people visit annually and provides an estimated nearly $2 billion economic impact on the state of Minnesota (Mall of America). Employment at the Mall of America averages approximately 11,000 and increases to approximately 13,000 during the holiday season.**



By Gabriel A. Labovitz | As of February 1, 2020

Overview

The Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area (hereafter, the Minneapolis metropolitan area), includes 14 counties in Minnesota and 2 in Wisconsin. The metropolitan area is in southeast Minnesota, adjacent to Wisconsin, and includes the largest city in Minnesota (Minneapolis) and the state capital of Minnesota (St. Paul). The two largest job sectors in the Minneapolis metropolitan area are the education and health services and the professional and business services sectors. The government sector, which is currently the fourth largest sector in the area, provides a steadying influence on overall economic conditions. The University of Minnesota—Twin Cities Campus, a public university, is the third largest employer in the area. Following the Great Recession, steady economic growth has contributed to population gains, current tight sales housing conditions, and slightly tight apartment market conditions. Recently, a lack of workers to fill open positions has caused job growth to slow significantly.

- As of February 1, 2020, the population of the Minneapolis metropolitan area is estimated at 3.68 million; that population represents an average increase of 32,450, or

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1.2 percent annually since 2016, compared with an average growth of 1.0 percent from 2010 to 2016. Net natural change (resident births minus resident deaths) contributed to an average of 71 percent of total population growth from 2010 to 2016. Since 2016, this ratio has declined to an average of 62 percent, as net natural change has fallen—mirroring national trends—and net in-migration has increased.

- Since 2010, job growth in Hennepin and Ramsey Counties, which include the cities of Minneapolis and St. Paul, respectively, has contributed to population growth in the metropolitan area. Population growth averaged 1.0 percent annually in Hennepin and Ramsey Counties and averaged 0.9 percent annually in the 14 suburban counties; by contrast, during the previous decade, respective growth rates were 0.2 and 1.9 percent annually.
- Partially because of the Great Recession and its impact on sales housing markets, demand for rental housing has increased in the past 10 years, particularly in cities. Significant housing and commercial development in downtown Minneapolis and St. Paul, including increased public transit, has enhanced the population growth in these cities and Hennepin and Ramsey Counties.

Economic Conditions

The economy in the Minneapolis metropolitan area recovered all the jobs lost from the Great Recession during 2013 and has expanded since then; however, the rate of job growth has slowed significantly during the past year. From 2010 through 2018, nonfarm payroll jobs in the Minneapolis metropolitan area grew an average of 1.7 percent, or 32,800 jobs, annually. Job growth in the Minneapolis metropolitan area is constrained because there are not enough workers to fill available jobs, and area employers are now hesitant to plan for large-scale expansions. Available jobs averaged 86,050 during the second quarter of 2019, the highest total since before the Great Recession (Minnesota Department of Employment and Economic Development, Job Vacancy Survey; data are for seven counties including Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington).

During the 3 months ending January 2020—

- Nonfarm payrolls totaled 2.03 million jobs, an increase of only 700 jobs from a year earlier; the last time nonfarm payrolls were stable or declined during any 3-month period was during 2010, when the economy was starting to recover from the local effects of the Great Recession.
- The education and health services sector added 1,800 jobs, and the government sector grew by 1,600 jobs, increases of 0.5 and 0.6 percent, respectively. New developments include a new $75 million, 166,000-square-foot Regions Hospital Family Birth Center in St. Paul, which will open in the spring of 2020; total new jobs expected have not been announced.

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Although most nonfarm sectors grew in the Minneapolis metropolitan area, sharp declines in the wholesale and retail trade and the professional and business services sectors nearly offset growth.

	3 Months Ending		Year-Over-Year Change	
	January 2019 (Thousands)	January 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	2,025.8	2,026.5	0.7	0.0
Goods-Producing Sectors	280.0	280.5	0.5	0.2
Mining, Logging, & Construction	80.4	81.1	0.7	0.9
Manufacturing	199.7	199.4	-0.3	-0.2
Service-Providing Sectors	1,745.8	1,746.0	0.2	0.0
Wholesale & Retail Trade	286.3	281.8	-4.5	-1.6
Transportation & Utilities	77.5	78.3	0.8	1.0
Information	35.5	35.5	0.0	0.0
Financial Activities	157.3	157.8	0.5	0.3
Professional & Business Services	330.1	328.8	-1.3	-0.4
Education & Health Services	343.2	345.0	1.8	0.5
Leisure & Hospitality	185.0	185.5	0.5	0.3
Other Services	78.1	78.9	0.8	1.0
Government	252.7	254.3	1.6	0.6
	(Percent)	(Percent)		
Unemployment Rate	2.8	3.0		

Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

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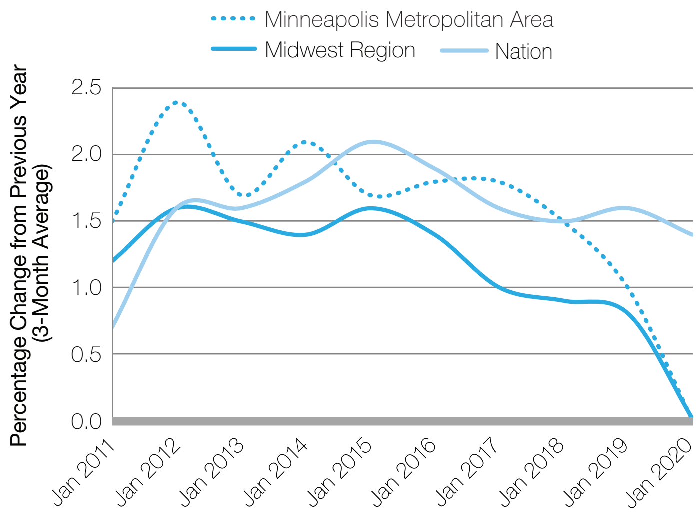
- Declining sectors include the wholesale and retail trade sector, which fell by 4,500 jobs or 1.6 percent; the professional and business services sector, which fell by 1,300 jobs, or 0.4 percent; and the manufacturing sector, which fell by 300 jobs, or 0.2 percent. TreeHouse Foods, Inc. closed a snack manufacturing plant in Minneapolis in late 2019, with a loss of approximately 120 jobs.
- The unemployment rate averaged 3.0 percent, up from 2.8 percent a year earlier; by contrast, the national unemployment rate averaged 3.6 percent, down from 3.9 percent a year earlier. The average hourly wage in the Minneapolis metropolitan area was $32.21, more than 6 percent above the average wage a year earlier; nationally, the average hourly wage rose 3 percent, to $28.44.

Largest Employers in the Minneapolis Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Allina Health System	Education & Health Services	27,650
Target Corporation	Wholesale & Retail Trade	26,700
University of Minnesota	Government	26,450

Note: Excludes local school districts.
Source: Moody's Analytics

For most of the period from 2011 through 2017, nonfarm payroll jobs grew faster in the Minneapolis metropolitan area than in the Midwest region and the nation.



Source: U.S. Bureau of Labor Statistics

Post-Analysis Update

COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020; although the as-of date of this report is February 1, 2020, the effects of COVID-19 are impacting the Minneapolis metropolitan area. The Mall of America closed on Tuesday, March 17, 2020; a scheduled reopening has not been identified as of the publication date for this report. Significant numbers of hotels and restaurants operate in and around the Mall of America and are impacted. Although the economic effects of the COVID-19 outbreak are expected to be primarily negative, some businesses in the Minneapolis metropolitan area are assisting in response to the pandemic. Medtronic, PLC, with executive headquarters in the city of Minneapolis, is one of the top producers of ventilators in the world. The company has taken steps to increase ventilator production 40 percent this year at manufacturing facilities worldwide, including in the Minneapolis metropolitan area. Medtronic is the 12th largest private employer in the Minneapolis metropolitan area. In addition, the 3M Company, headquartered in the city of St. Paul, produces personal protective equipment (PPE), including N95 masks and respirators, and has doubled their production of such equipment at their worldwide production facilities, including in the Minneapolis metropolitan area. The 3M Company is the 11th largest employer in the Minneapolis metropolitan area.

Sales Market Conditions

The sales housing market in the Minneapolis metropolitan area is currently tight and has an estimated vacancy rate of 0.8 percent, down from 1.9 percent in April 2010. Despite increased sales housing construction, population and household growth have led to steady absorption of sales housing units. During December 2019, an estimated 1.5-month supply of homes was for sale, compared with a 1.9-month supply available during December 2018 (Minneapolis Area Realtors®). Although the impact of the Great Recession and the disruptions in the sales housing market at the time caused an increase in seriously delinquent mortgage loans and real estate owned (REO) sales, the rate in the Minneapolis metropolitan area and the rate in the state of Minnesota have been below the national rate since at least 2010. As of January 2019, the rate of seriously delinquent mortgage loans and REO sales in the Minneapolis metropolitan area was 1.0 percent, unchanged from a year earlier; in the state of Minnesota, the rate was also 1.0 percent, whereas the national rate was 2.0 percent (CoreLogic, Inc.).

During 2019—

- New home sales totaled 5,525, or 19 percent fewer than a year earlier; a shortage of skilled labor and increasing construction costs are impacting new sales counts (CoreLogic, Inc., with adjustments by the analyst). From a

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recent low of 3,225 new home sales during 2011, sales increased steadily; annual gains averaged more than 11 percent, to a recent high of 6,850 during 2018.

- Approximately 64,400 regular (non-distressed) resales (including single-family homes, townhomes, and condominiums) were recorded; that number represents approximately 1,500 fewer sales, or more than 2 percent less than a year earlier (CoreLogic, Inc., with adjustments by the analyst), partly because of a lack of inventory. Regular resales were at a recent low during 2011, when 27,050 home sales were recorded; since then, regular resales have risen nearly 14 percent annually, reaching 65,900 sales during 2017.
- Home sales prices for new and regular resales increased 3 and 6 percent from the previous year to record-high levels of $426,000 and $298,000, respectively. From a recent average low of $276,900 during 2009, new home sales prices rose nearly 5 percent, on average, annually from 2010 through 2018. Prices for regular resale houses rose an average of 4 percent annually, to $281,800 during 2018 from a recent low average sales price of $216,800 during 2011.
- Distressed home sales, including REO homes and short sales, totaled 1,175—down nearly one-third from the sales count a year earlier—and the average sales price of $201,500 was nearly 9 percent above the average sales price a year earlier. From a peak of 18,100 sales during 2009, distressed home sales since then have fallen steadily, declining an average of 24 percent annually to the current level.

Despite generally increasing levels of sales housing construction, as measured by the number of single-family building permits issued, supply has not kept pace with demand, and the sales market has tightened. Constraints to new single-family housing construction include the cost of land and materials and significant shortages of skilled tradespeople for construction.

- During the 12 months ending January 2020, approximately 9,625 single-family homes were permitted, nearly 10 percent above the 8,775 homes permitted a year earlier (preliminary data). From a recent low of 3,700 homes permitted during 2009, permitting rose more than 18 percent annually, to

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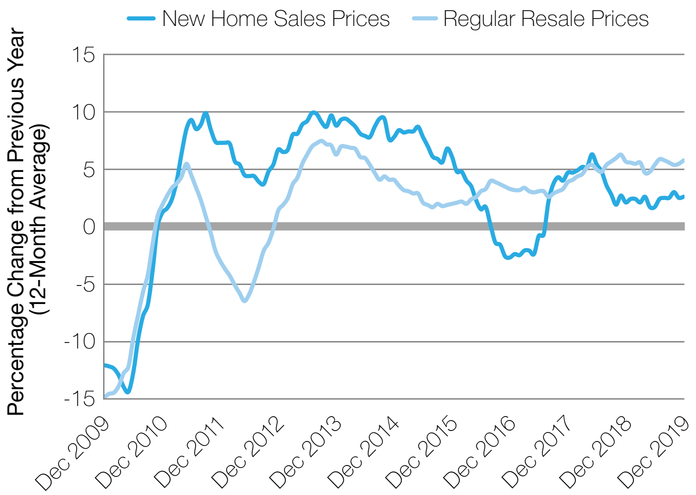
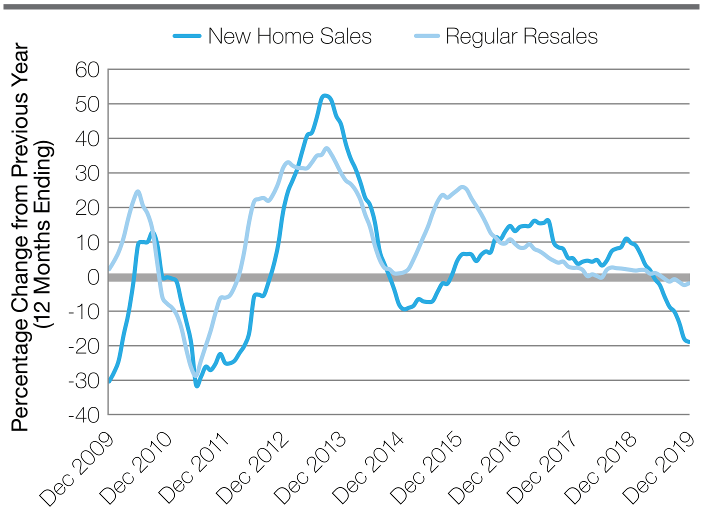
Both new and regular resale prices in the Minneapolis metropolitan area have generally increased since the Great Recession.



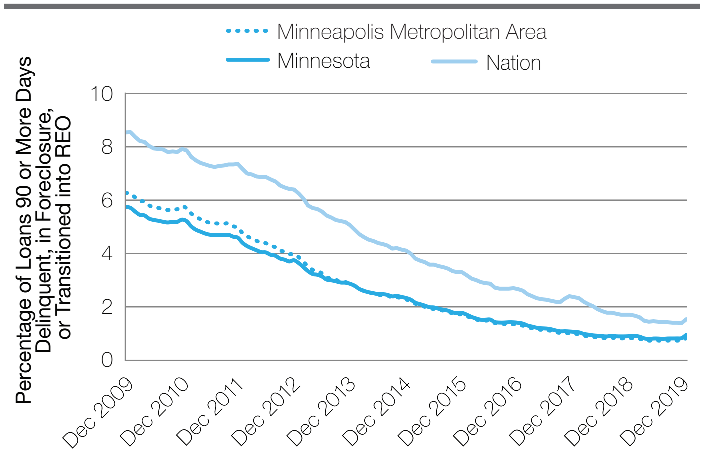
Note: Prices are for single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

Significant volatility in the counts of new and regular resales in the Minneapolis metropolitan area has receded.



Note: Homes sales are for single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

The rate of seriously delinquent mortgages and REO properties in the Minneapolis metropolitan area has been below the national rate since 2009.



REO = real estate owned.
Source: CoreLogic, Inc.

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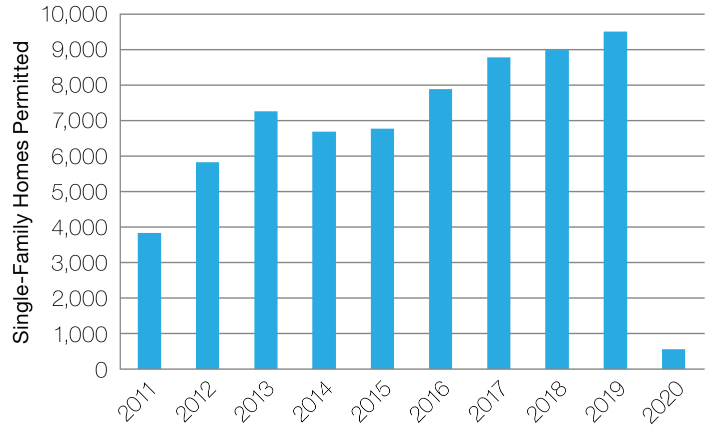
7,250 homes permitted during 2013. After 2013, permitting then slowed slightly, averaging 6,725 homes permitted a year during 2014 and 2015, before increasing again to 8,775 homes permitted during 2017.

- Similar to the shift in population growth to the urban counties of Hennepin and Ramsey, the proportion of single-family building permits has also increased in these two counties. From 2000 through 2009, approximately 18 percent of single-family homes permitted in the Minneapolis metropolitan area were in Hennepin and Ramsey Counties; since 2009, that figure has increased to 25 percent of single-family homes permitted.
- In Forest Lake (Washington County, MN), Chestnut Creek is a subdivision of new construction single-family homes that includes 45 homes in a proposed first phase. Homes range from approximately 2,150 to 2,700 square feet and are priced in the mid-$350,000 range.

Single-family homes permitted in the Minneapolis metropolitan area have generally increased since 2011.



Note: Includes preliminary data from January 2019 through January 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

The apartment market in the Minneapolis metropolitan area is currently slightly tight and has been slightly tight or tight each quarter since 2011, despite generally increasing levels of new apartment construction. During the fourth quarter of 2019, the average apartment vacancy rate in the area was 3.4 percent, up from 3.0 percent a year earlier (RealPage, Inc.). Since 2011, the quarterly vacancy rate has not been above 5.0 percent; the rate has been below 4.0 percent each quarter except the fourth quarter of 2015 and the first quarter of 2016. In addition, average apartment rents have risen faster in the Minneapolis metropolitan area than nationally since 2011.

During the fourth quarter of 2019—

- The average apartment rent in the Minneapolis metropolitan area was $1,353, nearly 5 percent above the average apartment rent a year earlier (RealPage, Inc.). From 2011 through 2017, apartment rents in the area rose an average of 4.2 percent annually. By contrast, nationally, the average rent rose 4 percent during the fourth quarter of 2019 and an average of 3.5 percent annually from 2011 through 2017.
- The highest asking rents are in the RealPage, Inc.-defined market areas (hereafter, market areas) of Downtown Minneapolis/University and Uptown/St. Louis Park; there, the rents are $1,660 and $1,557, both up from $1,606 and $1,516 a year earlier, respectively. The fastest growing rents during the past year are in the North Minneapolis and the East St. Paul market areas, where rents rose 11.1 and 9.1 percent, to $1,181 and $1,243, respectively.
- The lowest vacancy rates are in the market areas of South St. Paul/Eagan, Anoka County, and Bloomington, where the vacancy rates are 2.2, 2.8, and 2.9 percent respectively, from 2.3, 2.0, and 3.9 percent a year earlier.
- The largest numbers of new apartments completed during the past year are in the Downtown Minneapolis/University, the South Minneapolis/Richfield, and the Eden Prairie/Shakopee/Chaska market areas, where approximately 1,150, 750, and 680 new apartments were completed during the past year, respectively. These market areas are primarily in Hennepin County.

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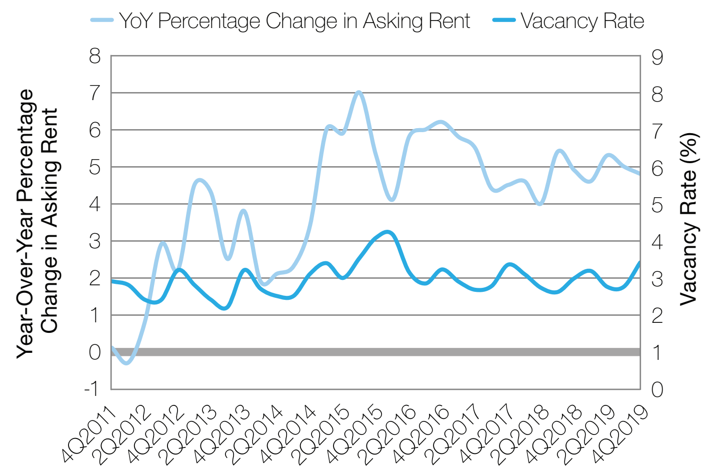
Since 2011, apartment vacancy rates have been below 5 percent in the Minneapolis metropolitan area, and rents have risen strongly since 2012.



2Q = second quarter. 4Q = fourth quarter. YoY = year-over-year.
Source: RealPage, Inc.

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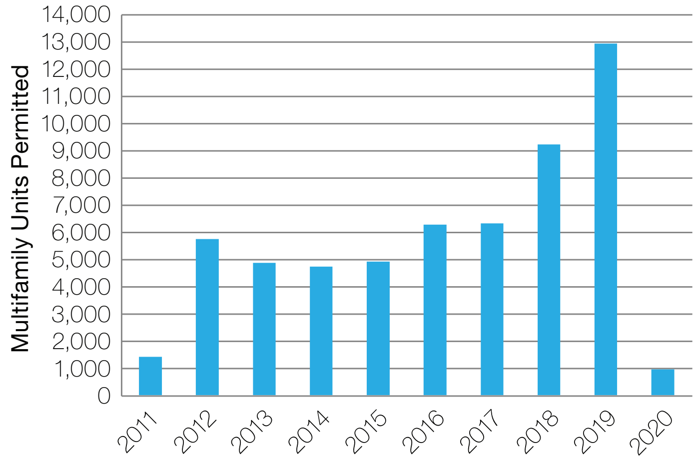
Because of continued demographic growth trends and, until recently, steady job growth, multifamily construction activity, as measured by the number of units permitted, has grown to record-high levels. During the 12 months ending January 2020, approximately 13,200 multifamily units were permitted, more than 56 percent above the 8,450 units permitted a year earlier (preliminary data); that number represents the highest annual level of multifamily permitting on record.

- Following a recent low of 1,400 multifamily units permitted during 2011, construction increased, and an average of 5,050 multifamily units were permitted annually from 2012 through 2015. Multifamily permitting rose again, averaging 6,300 annually during 2016 and 2017, before expanding to the current record levels.
- Among an estimated 13,800 units currently under construction, nearly three-fourths of the area total are in Hennepin and Ramsey Counties; more than one-fourth of the area total is in the Downtown Minneapolis/University market area.
- Since 2010, approximately 80 percent of all multifamily units permitted in the Minneapolis metropolitan area have been in Hennepin and Ramsey Counties, and 54 percent have been in the cities of Minneapolis and St. Paul.
- Located south of downtown Minneapolis, Marquee Apartments includes 231 market-rate units and 10,000 square feet of retail and restaurant space. The property is scheduled to open in the spring of 2020; starting rents for studio, one-, and two-bedroom units are $1,220, $1,525, and $2,670, respectively. In suburban Coon Rapids, in Anoka County, the Lyra at Riverdale Station apartment complex includes 180 units adjacent to a commuter rail line leading to downtown Minneapolis. Units have begun leasing at Lyra at Riverdale Station, and rents for studio, one-, two-, and three-bedroom units start at $1,249, $1,384, $1,537, and $2,094, respectively.

Multifamily units permitted during 2019 in the Minneapolis metropolitan area were a record high.



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Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst