

# Housing Market Profile



Midwest • HUD Region V

## Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin

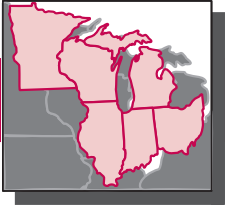
The Minneapolis-St. Paul-Bloomington metropolitan area includes 11 counties in southeast Minnesota and 2 counties in western Wisconsin. The population of the metropolitan area was estimated at 3.36 million as of October 1, 2012, an average annual increase of 30,450, or 0.9 percent, since April 2010. From 2005 to 2008, annual population growth averaged 33,500 people, or 1.1 percent, including average net in-migration of 5,125 people annually. As the economy slowed from 2008 to 2010, population growth declined to average 26,950 people annually, and net in-migration averaged 810 people annually, including net out-migration of 1,625 people between 2009 and 2010. As the economy has improved, in-migration has strengthened, and an estimated 6,275 people, on average, moved to the metropolitan area each year since 2010.

Economic conditions in the metropolitan area began to recover in 2011 after 3 years of job losses. Nonfarm payrolls averaged 1.74 million jobs during the 12 months ending September 2012, an increase of 19,700 jobs, or 1.1 percent, compared with the number of jobs recorded during the previous 12-month period. By comparison, nonfarm payrolls declined 0.6, 4.5, and 0.5 percent, or by 9,900, 79,900, and 8,600 jobs, respectively, in 2008, 2009, and 2010. During the 12 months ending September 2012, the professional and business services and the education and health services sectors grew by 12,800 and 7,400 jobs, or 4.9 and 2.7 percent, respectively, to lead employment gains. These employment sectors, the two largest in the metropolitan area, each account for approximately 16 percent of total nonfarm payroll jobs. The largest private employers in the metropolitan area in 2011 were Target Corporation, with 30,550 employees, and the University of Minnesota, with 25,300 employees. The University of Minnesota, which enrolled 52,550 students at its Twin Cities campus in the fall 2011 semester, contributes an estimated \$8.6 billion to the Minnesota economy annually, according to the university's Office of Institutional Research. Nonfarm payrolls declined by 3,300 jobs, or 2.1 percent, in the leisure and hospitality sector because a decline of 3,600 jobs, or 13.1 percent, in the arts, entertainment, and recreation subsector more

than offset job gains in the food services and drinking places subsector. The government sector declined by 2,900 jobs, or 1.2 percent, primarily because local government subsector payrolls declined by 2,700 jobs, or 1.9 percent. The average unemployment rate for the 12 months ending August 2012 was 5.7 percent, down from 6.7 percent during the previous 12-month period.

Sales housing market conditions in the Minneapolis-St. Paul-Bloomington metropolitan area are slightly soft but improving, with the sales vacancy rate estimated at 1.4 percent as of October 1, 2012, down from 1.9 percent in 2010. According to the Minneapolis Area Association of REALTORS®, 46,900 new and existing homes sold during the 12 months ending September 2012, 19 percent more than the 39,550 home sales reported during the previous 12-month period. By comparison, an average of 52,800 homes sold annually from 2000 through 2006, and an average of 40,400 homes sold annually from 2007 through 2010. Improving economic conditions and continued low mortgage interest rates are helping to strengthen the home sales market. The average home sales price increased 2 percent during the past year, to \$202,500. The average sales price, which peaked at \$275,100 from 2005 through 2007, declined an average of 16 percent annually in 2008 and 2009, to \$199,400. During the 12 months ending September 2012, new home sales increased 16 percent, to 2,825 homes sold, and the average home sales price increased 3 percent, to \$340,800. During the same period, existing home sales increased 19 percent, to 43,150 homes sold, and the average sales price increased 4 percent, to \$195,700. According to LPS Applied Analytics, as of September 2012, 4.5 percent of home loans in the metropolitan area were 90 or more days delinquent, were in foreclosure, or transitioned into REO (Real Estate Owned), down from 5.3 percent in September 2011.

Single-family construction activity, as measured by the number of homes permitted, increased in the metropolitan area in the past year but remains below the levels recorded during the past decade. According to preliminary data, 4,825 single-family homes were permitted during the 12 months ending August 2012, a 37-percent increase compared with the 3,525 homes permitted during the previous 12 months. By comparison, single-family construction averaged 17,300 homes annually from 2000 through 2006 before decreasing to 5,125 homes annually from 2007 through 2009. Because of increasing home sales activity, the supply of homes available for sale declined to 4 months of inventory as of September 2012 from 6.7 months of



inventory in September 2011, according to the Minneapolis Area Association of REALTORS®. During the 12 months ending September 2012, condominium and townhome sales increased 15 percent, to 10,900 homes sold, and the average sales price increased 5 percent, to \$149,500.

The rental housing market in the Minneapolis-St. Paul-Bloomington metropolitan area is currently tight, with an estimated rental vacancy rate of 4.8 percent as of October 1, 2012, down from 7.6 percent in 2010. According to MPF Research, the apartment vacancy rate, which is typically lower than the rental vacancy rate, was 2.4 percent in the third quarter of 2012, down slightly from 2.5 percent in the third quarter of 2011. The average rent in the metropolitan area was \$990 in the third quarter of 2012, up 3 percent from a year earlier. In the Downtown Minneapolis/University submarket, the apartment vacancy rate was 1.8 percent in the third quarter of 2012, down from 2.5 percent a year earlier, whereas the average rent rose nearly 10 percent, to \$1,325.

The tight rental market and improving economic conditions led to an increase in multifamily construction in the metropolitan area. Based on preliminary data, 3,125 multifamily units were permitted during the 12 months ending August 2012, more than double the 1,450 units permitted during the previous 12-month period. Since 2010, an estimated 80 percent of multifamily units permitted have been apartments. Multifamily construction averaged 6,175 units annually from 2000 through 2006, declined to an annual average of 1,675 units from 2007 through 2009, and began to increase in 2010. Approximately 2,000 new market-rate apartments are expected to enter the market by 2013. Most of the development is in downtown Minneapolis and St. Paul. The 204-unit Third North apartments, in the North Loop neighborhood of Minneapolis, began construction in the summer of 2012, with expected occupancy in fall 2013. Starting rents for the studio through two-bedroom units are expected to range from \$995 through \$1,835.