

HUD PD&R Housing Market Profiles

Minneapolis-Saint Paul-Bloomington, Minnesota-Wisconsin

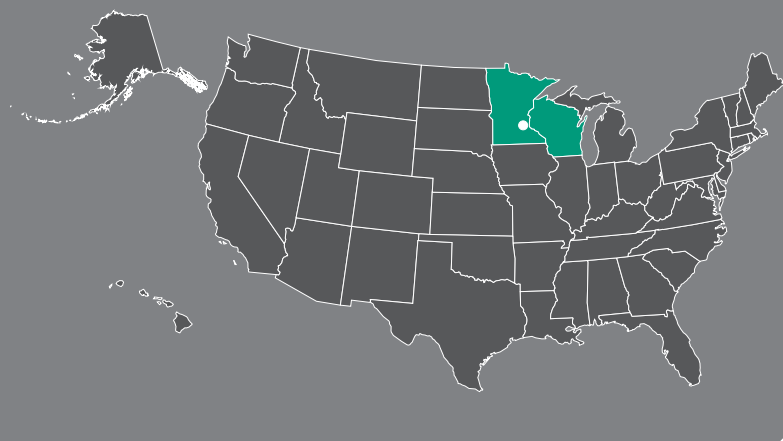


Quick Facts About Minneapolis

Minneapolis, Minnesota

By Marissa Dolin | As of March 1, 2023

- **Current sales market conditions: slightly tight but easing**
- **Current apartment market conditions: balanced**
- **The University of Minnesota Twin Cities, which is in the cities of Minneapolis and Saint Paul, had a \$5.6 billion economic impact and supported nearly 50,000 jobs statewide in 2017 (University of Minnesota).**



Overview

The Minneapolis-Saint Paul-Bloomington (hereafter, Minneapolis) metropolitan area includes 16 counties clustered around the Mississippi River in Minnesota and Wisconsin. The most populous county in the metropolitan area, Hennepin County, is home to the city of Minneapolis and corporate headquarters for UnitedHealth Group, Target Corporation, and General Mills, Inc. The Minnesota state capital, Saint Paul, is in Ramsey County, which is the second most populous county in the metropolitan area. Affected by rising home mortgage interest rates, home sales declined during the 12 months ending February 2023 compared with a year ago, and home prices rose at a slower rate. Elevated multifamily construction since 2019 contributed to a rising apartment vacancy rate and slowing rent growth during the past year as the number of apartment units that entered the market exceeded the number of units absorbed.

- The population of the Minneapolis metropolitan area is currently estimated at 3.70 million, up by an average of 3,450, or 0.1 percent, annually since 2020, slowing from a gain of 32,100, or 1.0 percent, annually from 2010 to 2020 (U.S. Census Bureau decennial census counts).

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Net natural increase since 2020 is down approximately 50 percent compared with the 2010s, and net out-migration has occurred each year since 2020, a reversal from net in-migration nearly every year of the 2010s.

- From 2020 to 2022, the population in the two central counties, Hennepin and Ramsey, declined by averages of 0.6 and 1.1 percent a year, respectively (Census Bureau population estimates as of July 1). All of the decline

is attributed to net out-migration. By comparison, the population in each of the suburban counties increased during the same period, supported by net in-migration and net natural increase.

- In 2022, the birth rate in the metropolitan area increased to 11.6 births per 1,000 residents, up from 11.2 in 2021 but down compared with a decade earlier, when the birth rate was 13.1 births per 1,000 residents in 2012.

Economic Conditions

Economic conditions in the Minneapolis metropolitan area are still recovering from the March and April 2020 recession. Nonfarm payrolls are approaching, but have not yet exceeded, levels from before the onset of the COVID-19 pandemic. During the 3 months ending February 2023, nonfarm payrolls were 37,700 jobs, or 1.9 percent, below the average number of jobs during the 3 months ending February 2020, the pre-2020 recession high. By comparison, nonfarm payrolls for the nation are fully recovered from the 2020 recession and were 1.8 percent above the number of payrolls during the 3 months ending February 2020.

During the 3 months ending February 2023—

- Nonfarm payrolls increased year over year by 33,900 jobs, or 1.8 percent, slowing from a gain of 77,900 jobs, or 4.3 percent, during the same period a year earlier. The recent gain is slightly above the average from the 3 months ending

February 2015 to the 3 months ending February 2018, when payrolls increased by 32,300 jobs, or 1.7 percent, annually.

- The leisure and hospitality sector led job gains with an addition of 16,000 jobs, or 10.0-percent growth, compared with the 3 months ending February 2022. The sector had the largest loss of jobs during the March and April 2020 recession among all sectors in the metropolitan area and was slow to recover partially because consumers limited spending at leisure and hospitality businesses during successive waves of the COVID-19 pandemic, including the omicron wave in late 2021 and early 2022.
- The financial activities and the mining, logging, and construction sectors declined year over year by 2,900 and 2,700 jobs, or 1.9 and 3.4 percent, respectively. Rising mortgage interest rates contributed to a decline

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In the Minneapolis metropolitan area, the leisure and hospitality sector had the largest increase in jobs during the 3 months ending February 2023.

	3 Months Ending		Year-Over-Year Change	
	February 2022 (Thousands)	February 2023 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	1,910.3	1,944.2	33.9	1.8
Goods-Producing Sectors	278.1	281.8	3.7	1.3
Mining, Logging, & Construction	79.6	76.9	-2.7	-3.4
Manufacturing	198.5	204.8	6.3	3.2
Service-Providing Sectors	1,632.2	1,662.4	30.2	1.9
Wholesale & Retail Trade	258.8	262.5	3.7	1.4
Transportation & Utilities	80.1	81.3	1.2	1.5
Information	30.0	29.9	-0.1	-0.3
Financial Activities	150.8	147.9	-2.9	-1.9
Professional & Business Services	302.1	299.0	-3.1	-1.0
Education & Health Services	339.9	349.4	9.5	2.8
Leisure & Hospitality	159.6	175.6	16.0	10.0
Other Services	70.1	70.7	0.6	0.9
Government	240.9	246.1	5.2	2.2
Unemployment Rate	3.0%	3.0%		

Note: Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics

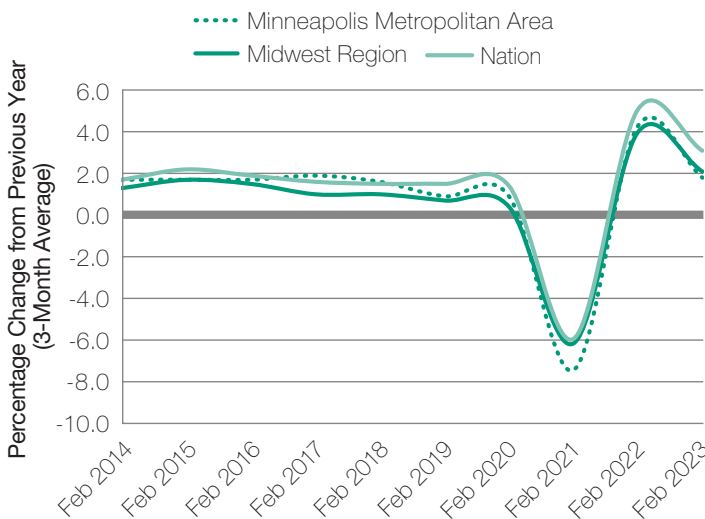


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in homebuying, reducing the number of jobs in the mortgage and home construction industries.

- The unemployment rate averaged 3.0 percent, unchanged from a year ago and down from 4.9 percent 2 years ago.

The Minneapolis metropolitan area had a steeper decline in jobs during 2021 and is currently gaining jobs at a slower rate than the Midwest region and the nation.



Source: U.S. Bureau of Labor Statistics

Medical-related companies in the metropolitan area have helped to support the economic recovery from the 2020 recession. An agglomeration of companies marketed as “Medical Alley,” which includes healthcare providers, health insurance companies, pharmaceutical companies, and medical device manufacturers, raised nearly \$1.7 billion from public and private investors in 2022. Most companies included in the Medical Alley cluster are within one of three nonfarm payroll sectors: the education and health services sector, which includes healthcare providers; the professional and business services sector, which includes scientific research; and the manufacturing sector, which includes medical devices and pharmaceuticals. During the past 2 years, the three sectors have added a combined 34,200 jobs, accounting for 31 percent of all jobs added.

Largest Employers in the Minneapolis Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Minnesota	Government	40,000
Fairview Health Services	Government/Education and Health Services	33,000
Target Corporation	Wholesale and Retail Trade	31,000

Notes: Counts are for employees statewide. Excludes the federal government and local school districts.

Source: Hennepin County, Minnesota

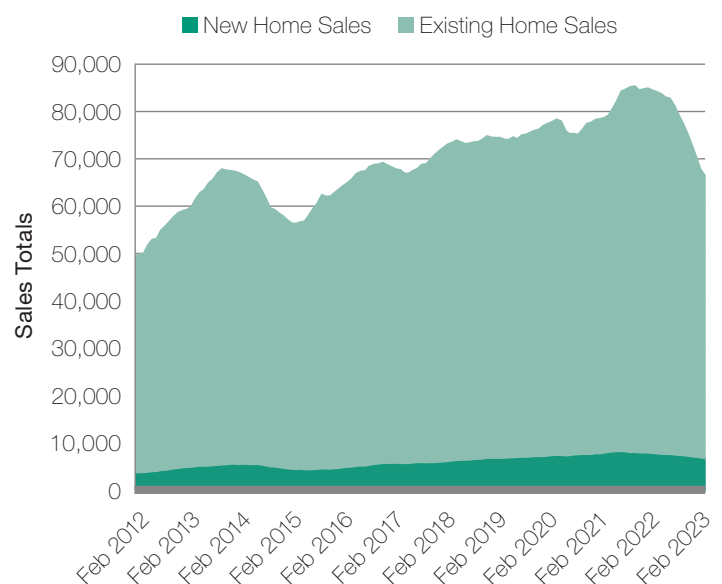
Sales Market Conditions

The home sales market is slightly tight but easing from tighter conditions a year earlier. Fluctuations in home mortgage interest rates and a relatively low inventory of homes for sale have affected conditions in the home sales market. Interest rates for a 30-year fixed-rate mortgage averaged 6.26 percent in February 2023, up from 3.76 percent in February 2022 and 2.81 percent in February 2021 (Freddie Mac). The rising rate resulted in fewer households being able to purchase a home. The inventory of homes for sale was 2.2 months in February 2023, up from 1.6 months 1 year earlier and 1.4 months 2 years earlier (Redfin, a national real estate brokerage). The number of homes listed as available for sale was up 16 percent from a year ago, and the number of homes sold declined 18 percent compared with the same month a year earlier, contributing to the increase in months of inventory. However, the months’ supply of homes for sale in February 2023 was below the February inventory levels from 2012 through 2020.

Home sales price growth slowed, and home sales were down during the 12 months ending February 2023 compared with a year ago, contributing to easing market conditions.

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New and existing home sales have been declining since mid-2022 in the Minneapolis metropolitan area.



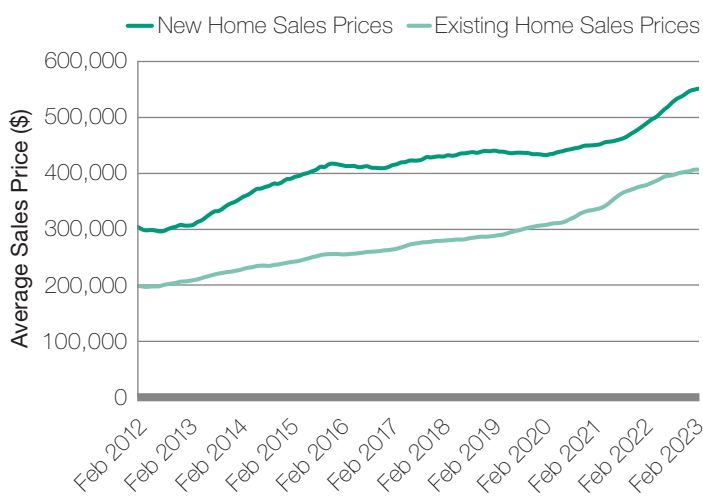
Note: Sales include single-family homes, townhomes, and condominiums.

Source: Zonda

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- The average existing home sales price was \$405,100 during the 12 months ending February 2023, up 7 percent from a year ago but down from a 13-percent gain 1 year earlier. The slowdown in price growth was sharper in recent months, with the average existing home sales price during the 3 months ending February 2023 up only 3 percent from the same period a year earlier.
- New home sales prices increased 12 percent to an average of \$549,200 during the 12 months ending February 2023,

New home sales prices increased faster than existing home sales prices in the Minneapolis metropolitan area during the 12 months ending February 2023.



Note: Prices are for single-family homes, townhomes, and condominiums.
Source: Zonda

accelerating from a gain of 9 percent a year earlier. During the 3 months ending February 2023, however, year-over-year price growth slowed to 9 percent.

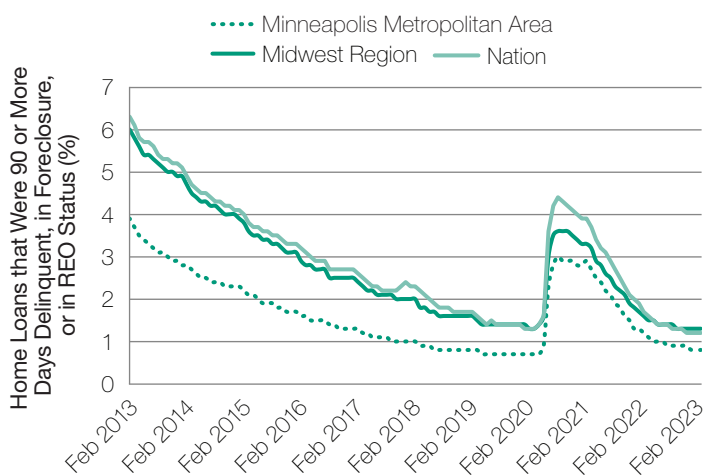
- New and existing home sales declined 16 and 23 percent, respectively, during the 12 months ending February 2023 compared with the previous 12 months. The declines were sharper during the 3 months ending February 2023, with new home sales down 31 percent and existing home sales down 37 percent compared with the same 3-month period a year earlier.
- The percentage of home mortgages in the Minneapolis metropolitan area that were seriously delinquent or in REO status declined to 0.8 percent during January 2023, down from 1.2 percent a year earlier and a recent high of 3.0 percent during August 2020 (CoreLogic, Inc.), when some homeowners were affected by job losses associated with the 2020 recession. The current rate is below the 1.3-percent rate for the HUD-defined Midwest region and the 1.2-percent rate for the nation.

In response to a decline in home sales, single-family home construction, as measured by the number of homes permitted, has declined from a year ago.

- Single-family permitting declined to 8,500 during the 12 months ending February 2023, down about 25 percent from the 11,425 homes permitted during the previous 12-month period (preliminary data). The number of homes permitted was the fewest since 2016.

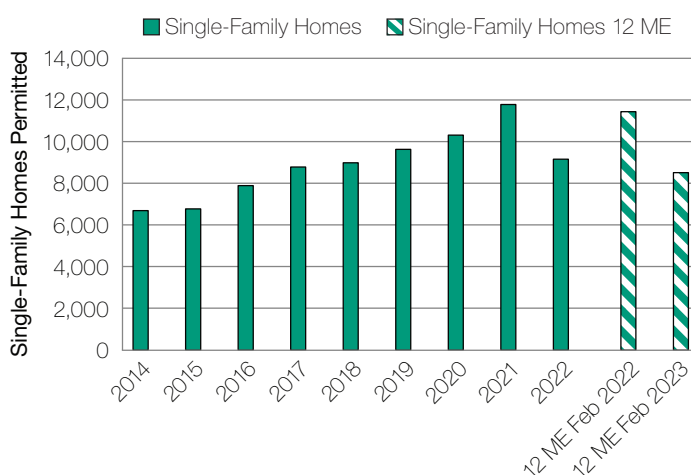
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The rate of seriously delinquent mortgages in the Minneapolis metropolitan area is below the rates in the Midwest region and the nation.



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

Single-family permitting in the Minneapolis metropolitan area slowed during the 12 months ending February 2023.



12 ME = 12 months ending.

Sources: U.S. Census Bureau, Building Permits Survey; 2014–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

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- Single-family permitting accounted for less than one-half of all housing units permitted in the Minneapolis metropolitan area since 2018. During the 12 months ending February 2023, single-family homes made up only 35 percent of housing units permitted, the smallest share in more than two decades.
- The central counties of Hennepin and Ramsey, which are home to about one-half of the population in the metropolitan

area, accounted for 20 percent of the single-family homes permitted during the past 24 months, moderating from an average of 25 percent of single-family homes permitted from 2014 through 2019. Declining population in the central counties and net in-migration to the suburban counties since 2020 contributed to the shift in the share of permitting.

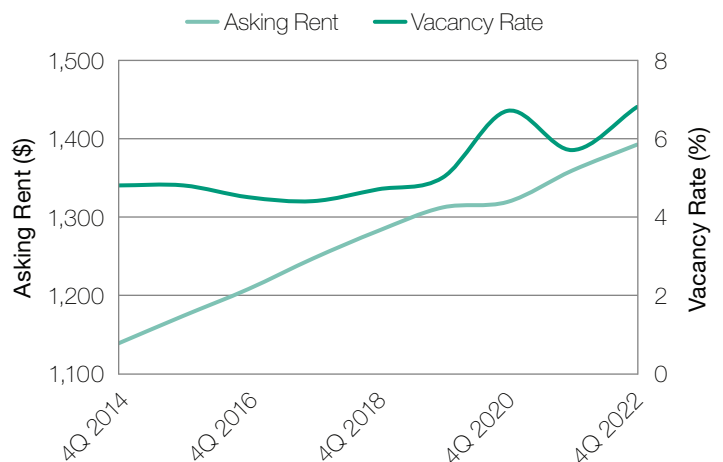
Apartment Market Conditions

Apartment market conditions in the Minneapolis metropolitan area are balanced, easing from tighter conditions a year earlier. Ongoing elevated construction levels since 2019 and slowing absorption in 2022 enabled the shift to more balanced conditions. During 2022, approximately 14,650 new apartment units entered the market, but only 9,750 were absorbed (CoStar Group), contributing to a rising vacancy rate. Absorption during 2022 was down nearly 40 percent compared with absorption during 2021. In response to the increased availability of units, rent growth slowed, and the vacancy rate increased to the highest level since 2005. Currently, 21,800 apartment units are under construction, up from 20,500 units a year earlier and above the average of 18,650 during the fourth quarters of 2019 and 2020.

An increase in evictions also contributed to the increase in the vacancy rate relative to a year ago. During the 12 months ending February 2023, a total of 12,635 evictions were filed in Hennepin and Ramsey Counties, up from 3,125 a year earlier (Eviction Lab). A statewide eviction moratorium was in place from March 2020 through June 2021. Until June 2022, landlords were prohibited from filing an eviction for nonpayment of rent for tenants with a pending application for COVID-19 emergency rental assistance.

- The average apartment rent during the fourth quarter of 2022 was \$1,392, up 2 percent from a year ago and down from a 3-percent gain during the previous year (CoStar Group). Rent growth also averaged 3 percent annually from 2015 to 2019.
- The apartment vacancy rate, which includes units in lease up, was 6.8 percent during the fourth quarter of 2022, up from 5.7 percent a year earlier and above typical levels from 2015 to 2019, when the rate fluctuated between 4.4 and 5.0 percent.
- In the CoStar Group-defined downtown Minneapolis market area, conditions are softening. The average rent was \$1,556 during the fourth quarter of 2022, unchanged from a year earlier; the vacancy rate, including units in lease up, was 10.8 percent, up from 10.3 percent a year earlier. Absorption during 2022 declined nearly 30 percent from a year ago, and completions were up 15 percent.

The apartment vacancy rate increased and rent growth slowed in the Minneapolis metropolitan area during the fourth quarter of 2022 compared with a year ago.



4Q = fourth quarter.

Source: CoStar Group

- The renter-occupied, single-family home market is slightly tight but easing. The unit type represents nearly one-quarter of all rental units in the Minneapolis metropolitan area. The vacancy rate for professionally managed single-family rental units is low but relatively stable at 1.8 percent during February 2023, unchanged from 1 year ago and down from 2.0 percent during February 2021 (CoreLogic, Inc.). The average rent per square foot increased 2 percent from a year ago, slowing from a 6-percent increase during the previous year.

Despite easing apartment market conditions, multifamily construction (primarily apartments) is up from a year ago.

- During the 12 months ending February 2023, 15,650 multifamily units were permitted, up from 13,300 units during the previous 12 months (preliminary data). Permitting increased during most years from 2015 to 2022, rising by an average of 1,375 units annually.
- Hennepin County accounted for nearly one-half of the multifamily units permitted during the most recent 12 months.

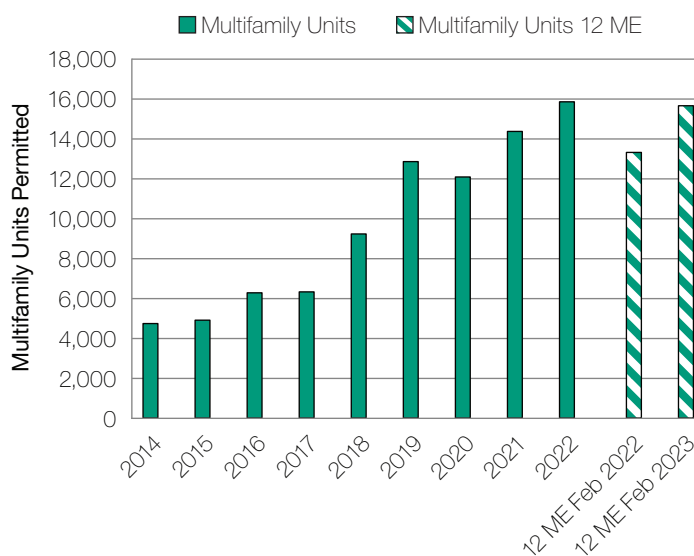
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The next largest shares were in Ramsey and Dakota Counties, each with 11 percent of total multifamily units permitted. Typically, a higher share of multifamily units is permitted in Ramsey County, but a rent control policy enacted in mid-2022 and then revised in early 2023 in the city of Saint Paul contributed to a temporary decline in permitting.

- A common apartment building type in downtown Minneapolis is the conversion of an older, existing industrial building into apartments. The Duffey, a 188-unit apartment property that opened in 2022 in the CoStar Group-defined downtown Minneapolis market area, is an example of this type of apartment. The building is in lease up, with studio and one-bedroom rents averaging \$1,317 and \$1,729, respectively.
- An emerging rental property category is a whole subdivision of single-family homes built for rent. One example of this new rental property type is Canvas at St. Croix in Woodbury, Wisconsin. The 89-unit subdivision is offering homes for rent ranging from \$2,750 for a two-bedroom house to \$4,131 for a five-bedroom house; it is expected that those units were permitted as single-family homes and not multifamily properties.
- A light rail line extension is under construction from downtown Minneapolis to the suburb of Eden Prairie in southwest Hennepin County, with completion of the line expected later in the 2020s. The Townline and Alcott Apartments in Minnetonka, with 223 and 256 units, respectively, are under construction and located near new stations on the line. Both properties are expected to open later in 2023, with average rents of approximately \$2,050.

Multifamily permitting in the Minneapolis metropolitan area increased during the 12 months ending February 2023.



12 ME = 12 months ending.

Sources: U.S. Census Bureau, Building Permits Survey; 2014–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

Terminology Definitions and Notes

A. Definitions

Building Permits	Building permits do not necessarily reflect all residential building activity. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
Existing Home Sales	Includes regular resales and REO sales.
Home Sales/Home Sales Prices	Includes single-family home, townhome, and condominium sales.
Net Natural Increase	Resident births are greater than resident deaths.
Rental Market/Rental Vacancy Rate	Includes apartments and other rental units such as single-family, multifamily, and mobile homes.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.

B. Notes on Geography

1.	The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.
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