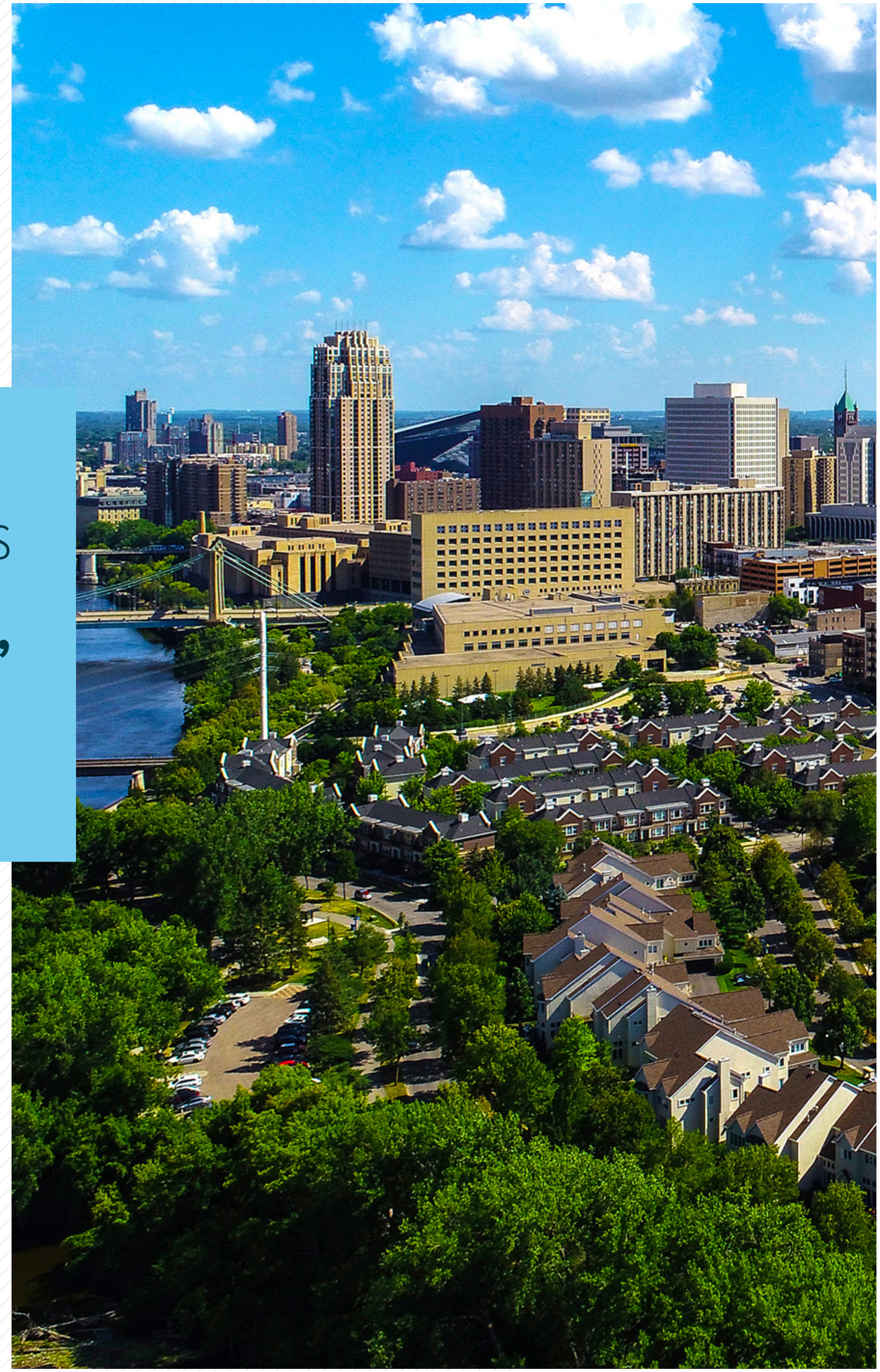
COMPREHENSIVE HOUSING MARKET ANALYSIS

Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin



U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of June 1, 2019

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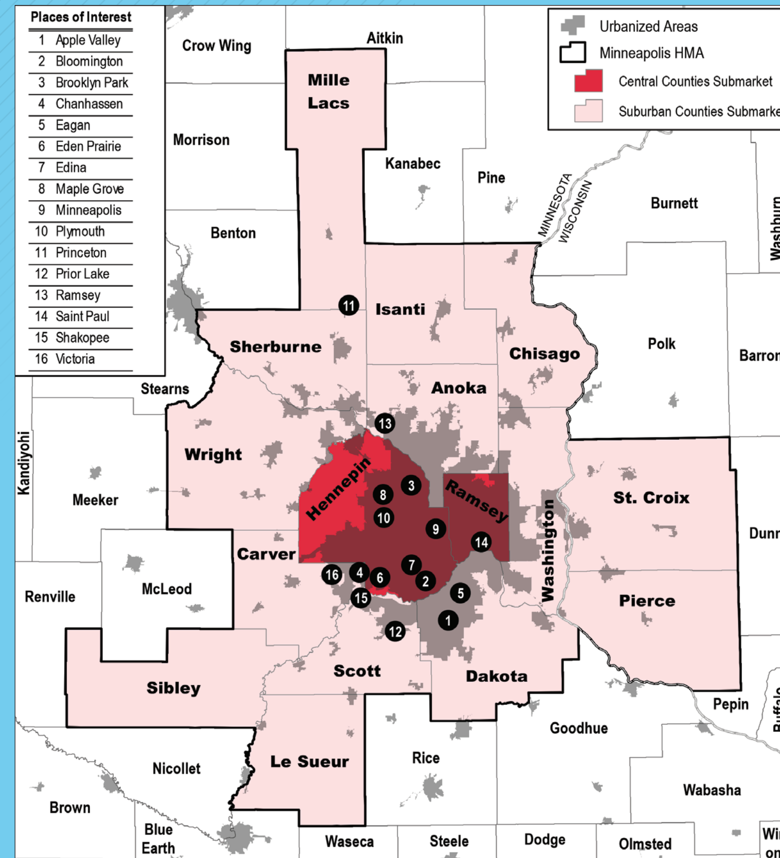

Executive Summary

Housing Market Area Description

Known as the "Twin Cities," the Minneapolis-St. Paul-Bloomington, MN-WI Housing Market Area (hereafter, the Minneapolis HMA) is coterminous with the metropolitan statistical area of the same name and includes 14 counties in Minnesota and 2 in Wisconsin. The "twin cities" of Minneapolis and St. Paul are the largest cities in the HMA and are the primary cities in Hennepin and Ramsey Counties, respectively. For purposes of this analysis, the HMA is divided into two submarkets: (1) the Central Counties submarket, which includes Hennepin and Ramsey Counties, and (2) the Suburban Counties submarket, which includes Anoka, Carver, Chisago, Dakota, Isanti, Le Sueur, Mille Lacs, Scott, Sherburne, Sibley, Washington, and Wright Counties in Minnesota, and Pierce and St. Croix Counties in Wisconsin.

The current population of the HMA is estimated at 3.67 million.

Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's Market-at-a-Glance tool.
Additional data for the HMA can be found in this report's supplemental tables.
For information on HUD-supported activity in this area, see the Community Assessment Reporting Tool.

Market Qualifiers

Economy

Strong: Economic conditions remain strong in the Minneapolis HMA, although the rate of job growth slowed considerably during the past year.

Nonfarm payrolls totaled 2.01 million during the 12 months ending May 2019, with growth of 9,300 jobs, or 0.5 percent, well below the 1.3-percent growth rate, or 25,300 jobs, added during the previous 12-month period. By contrast, from 2010 through 2017, payrolls grew by an average of 34,500 jobs annually, an average annual growth rate of 1.9 percent. The unemployment rate averaged 2.8 percent during the 12 months ending May 2019, down from 2.9 percent during the previous 12-month period. During the 3-year forecast period, nonfarm payroll growth is expected to continue at an average annual rate of 0.5 percent.

Sales Market

Slightly Tight: Relatively low levels of new single-family home construction have not kept pace with demand since the mid-2010s; particularly acute is the shortage of houses for sale at entry-level price points.

Sales housing market conditions in the Minneapolis HMA are currently slightly tight, with an estimated 2.4-month supply of homes for sale. In the Central Counties submarket, sales housing conditions are slightly tight, and in the Suburban Counties submarket, conditions are more balanced. During the 12 months ending May 2019, 70,750 new and existing homes were sold in the HMA, 950 sales above the 69,800 home sales recorded a year earlier. At the same time, the average sales price for all home sales was $298,300, nearly 5 percent higher than the average sales price a year earlier. During the 3-year forecast period, demand is estimated for 24,600 homes; the 2,430 homes currently under construction will satisfy a portion of that demand.

Rental Market

Slightly Tight: Despite record-high levels of rental housing development since 2010, rental housing market conditions in the HMA have been slightly tight as compared with balanced conditions during 2010, due to strong rental household growth.

The overall rental housing market in the Minneapolis HMA is slightly tight, with an estimated vacancy rate of 4.7 percent, down from 7.6 percent in April 2010. Similar conditions exist throughout the HMA with current estimated vacancy rates of 5 percent or less in both submarkets. The apartment market is tight, with a vacancy rate of 2.9 percent as of the first quarter of 2019, up from 2.8 percent a year earlier. The average apartment asking rent was $1,305, nearly 5 percent above the average asking rent a year earlier. During the 3-year forecast period, demand is estimated for 20,775 new units; the 13,850 units currently under construction will satisfy a portion of that demand during the first 2 years of the forecast period.

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3-Year Housing Demand Forecast

		Sales Units	Rental Units
Central Counties Submarket	Total Demand	9,550	15,250
	Under Construction	780	10,850
Suburban Counties Submarket	Total Demand	15,050	5,525
	Under Construction	1,650	3,000
Minneapolis HMA	Total Demand	24,600	20,775
	Under Construction	2,430	13,850

Notes: Total demand represents the estimated production necessary to achieve a balanced market at the end of the forecast period. Units are under construction as of June 1, 2019. The forecast period is June 1, 2019, to June 1, 2022.
Source: Estimates by the analyst

Economic Conditions

Largest sector: Education and health services

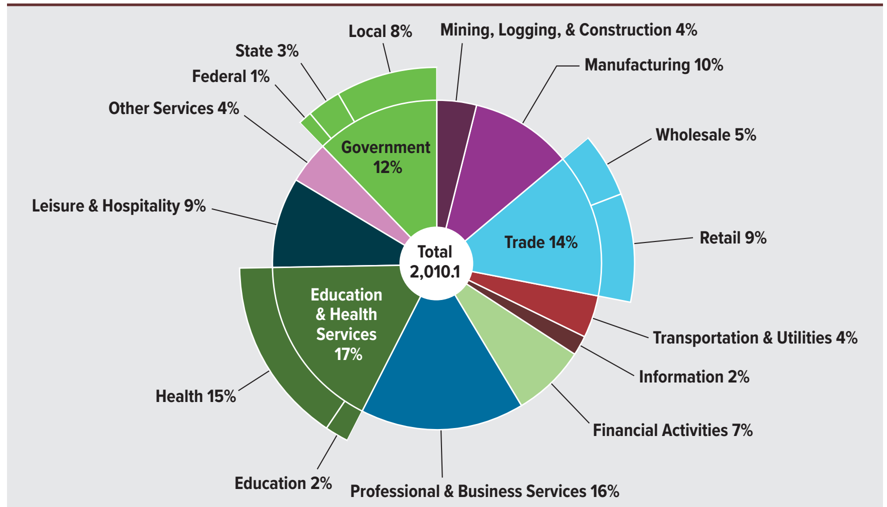
During the 12 months ending May 2019, the rate of payroll job growth in the Minneapolis HMA fell to the lowest annual rate since early 2011.

Primary Local Economic Factors—A Stable Base of Employers

The Minneapolis HMA is the largest metropolitan area in the state of Minnesota and includes the state capital (in St. Paul). Because of these attributes, the HMA relies on several industries and sectors that provide generally stable employment, including (state) government, trade, and health care, which are three of the four largest sectors or subsectors in the HMA (Figure 1). Included in the government sector is the University of Minnesota, which is the third largest employer in the HMA, with 26,450 direct jobs (Table 1). The University of Minnesota, with five campuses statewide, including its largest campus in Minneapolis, east of downtown and the Mississippi River, had an estimated economic impact (statewide) of approximately $8.6 billion annually and supported more than 77,000 jobs as of 2017 (University of Minnesota). State government payrolls averaged 65,800 during the 12 months ending May 2019, a gain of 500 jobs, or nearly 1 percent from a year earlier.

The wholesale and retail trade sector is currently the third largest employment sector in the HMA. Opened in 1992, the Mall of America (MOA) is in suburban Bloomington, Minnesota, south of Minneapolis in Hennepin County. The MOA includes 5.6 million square feet of retail space and is the largest single retail and entertainment destination in North America (Mall of America). The MOA includes more than 520 retail stores, more than 60 dining options, an indoor theme park, and a 1.3-million-gallon aquarium. The MOA generates more than $2 billion in economic impact for the state of Minnesota annually and employs more than

Figure 1. Current Nonfarm Payroll Jobs in the Minneapolis HMA, by Sector



Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. The current date is June 1, 2019.
Source: U.S. Bureau of Labor Statistics

Table 1. Major Employers in the Minneapolis HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Allina Health System	Education & Health Services	27,650
Target Corp.	Wholesale & Retail Trade	26,700
University of Minnesota	Government	26,450
HealthPartners	Education & Health Services	22,500
Fairview Health Services	Education & Health Services	22,000
Wells Fargo & Co.	Financial Activities	20,000
UnitedHealth Group	Education & Health Services	15,750
CHS Inc.	Manufacturing	12,150
U.S. Bancorp	Financial Activities	12,000
Land O'Lakes, Inc.	Manufacturing	10,000

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

11,000 workers year-round, increasing to 13,000 workers during peak seasons. The MOA is located directly south of the Minneapolis International Airport and is the southern terminus of the Metro Transit Blue Line light rail.

The education and health services sector is the largest nonfarm payroll sector in the HMA and the only sector to have job growth every year since 2000. Since 2000, jobs have increased an average of 3.1 percent annually, compared with 0.6-percent average annual growth for total nonfarm payrolls. Steady population growth in the HMA contributes to demand for jobs in this service-providing sector, and major healthcare providers are 4 of the 10 largest employers in the HMA.

The U.S. Bank Stadium contributes to jobs in the leisure and hospitality sector by spurring tourism; recent examples include the National Collegiate Athletics Association (NCAA) "Final Four" men's basketball tournament playoffs in April 2019 and Super Bowl LII in February 2018. Super Bowl LII attracted 100,000 visitors to the HMA and included an economic impact estimated at $450 million. Figures for the NCAA Final Four suggest more than 90,000 visitors and a $140 million economic impact. In addition, the stadium has spurred investments estimated at $1.1 billion in the near-eastside area of downtown Minneapolis, where the stadium is sited.

Current Conditions—Nonfarm Payrolls

Economic conditions in the Minneapolis HMA have been strong since 2010, although the rate of job growth declined significantly during the past year. During the 12 months ending May 2019, nonfarm payroll jobs increased by 9,300, or 0.5 percent from a year earlier, to 2.01 million (Table 2). By comparison, jobs grew 1.3 percent during the 12-month period ending May 2018. The primary reason for slowed job growth is a lack of qualified workers; as of the fourth quarter of 2018, approximately 76,550 jobs were available, more than 11 percent higher than available jobs a year earlier (Figure 2). Significant job expansions have become less common in the HMA as employers have been discouraged by a lack of qualified workers.

Table 2. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the Minneapolis HMA, by Sector

	12 Months Ending May 2018	12 Months Ending May 2019	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	**2,000.7**	**2,010.1**	**9.3**	**0.5**
Goods-Producing Sectors	277.7	282.5	4.8	1.7
Mining, Logging, & Construction	80.8	82.9	2.1	2.6
Manufacturing	196.8	199.6	2.8	1.4
Service-Providing Sectors	1,723.0	1,727.5	4.5	0.3
Wholesale & Retail Trade	284.9	286.7	1.7	0.6
Transportation & Utilities	75.3	75.4	0.1	0.1
Information	38.0	37.4	-0.6	-1.5
Financial Activities	148.5	150.2	1.7	1.2
Professional & Business Services	324.9	325.1	0.2	0.1
Education & Health Services	334.5	335.1	0.5	0.2
Leisure & Hospitality	188.9	190.0	1.1	0.6
Other Services	79.2	79.1	-0.1	-0.1
Government	248.9	248.6	-0.3	-0.1

Notes: Based on 12-month averages through May 2018 and May 2019. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

Figure 2. Available Jobs in the Seven-County Twin Cities Region

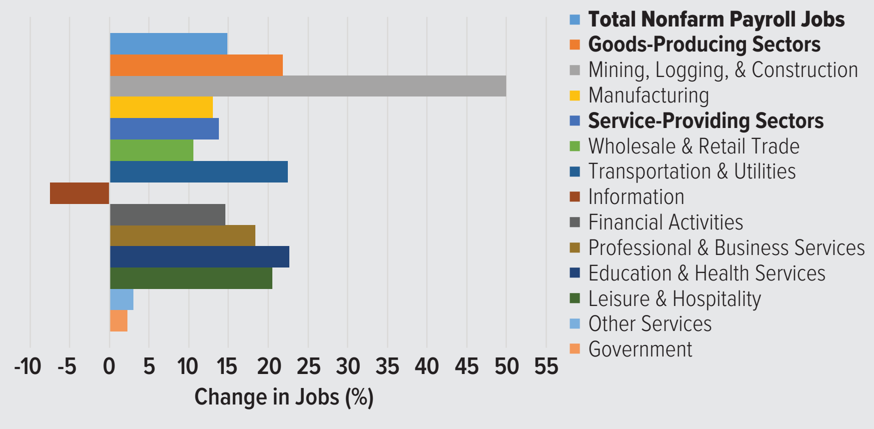
2Q = second quarter. 4Q = fourth quarter.
Note: Data are for the seven-county Twin Cities region including Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties.
Source: Minnesota Department of Employment and Economic Development, Job Vacancy Survey

Job growth in the goods-producing sectors significantly exceeded the service-providing sectors during the most recent 12 months. The two fastest-growing sectors were the mining, logging, and construction and the manufacturing sectors, which increased 2.6 percent and 1.4 percent, with growth of 2,100 and 2,800 jobs, respectively. The mining, logging, and construction sector has grown 4.9 percent annually, on average, since 2011, nearly three times as fast as total nonfarm payrolls in the HMA (Figure 3). Modest increases in sales housing construction since 2011 and significant increases in multifamily construction have contributed to job growth in this sector. During 2018, residential building permits for single-family and multifamily residences were at the highest levels since 2006, contributing to increased jobs in the construction subsector. Growth in the manufacturing sector included an expansion by Winnebago Industries, which added approximately 75 manufacturing jobs at its Eden Prairie (Hennepin County) site in late 2018. Minnetronix Medical Incorporated, a medical equipment manufacturer located in St. Paul, added approximately 100 jobs during 2018 and expects to increase employment by 30 to 40 jobs annually during the next 3 years. The Minneapolis HMA includes more than 40 medical device manufacturers with more than 100 employees each (Minnesota Department of Employment and Economic Development). Service-sector job growth was led by the financial activities and the wholesale and retail trade sectors, which added 1,700 jobs each, or gains of 1.2 and 0.6 percent, respectively. The number of jobs in the leisure and hospitality sector increased by 1,100, or 0.6 percent. Declining sectors during the past year include the information sector, the government sector, and the other services sector, which recorded job losses of 600, 300, and 100 jobs each, or 1.5 percent, 0.1 percent, and 0.1 percent, respectively.

Current Conditions—Unemployment

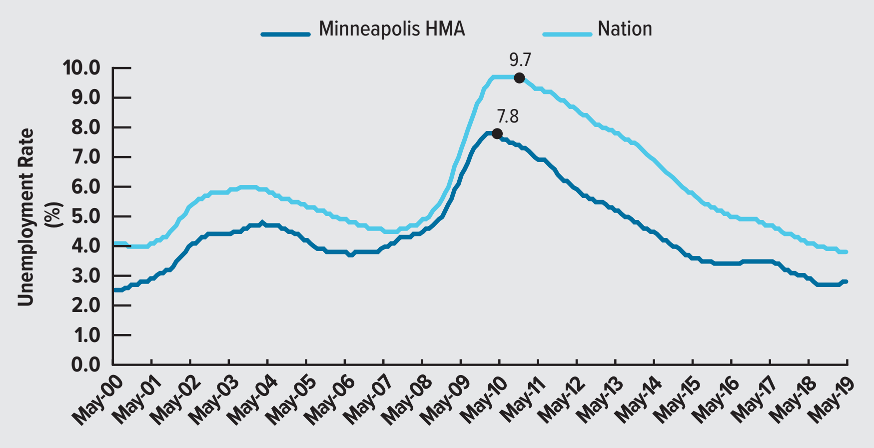
During the 12 months ending May 2019, the unemployment rate in the Minneapolis HMA averaged 2.8 percent, down from 2.9 percent a year earlier, and well below the 3.8-percent national rate (Figure 4). The unemployment rate in the Minneapolis HMA peaked at 7.8 percent during the summer of 2010, shortly after the end of the Great Recession, but has declined in all but 1 year since. The rate has been below 5.0 percent since 2013 and is currently only slightly higher than the recent low of 2.7 percent in 2000.

Figure 3. Sector Growth in the Minneapolis HMA, 2011 to Current



Note: The current date is June 1, 2019.
Source: U.S. Bureau of Labor Statistics

Figure 4. 12-Month Average Unemployment Rate in the Minneapolis HMA and the Nation



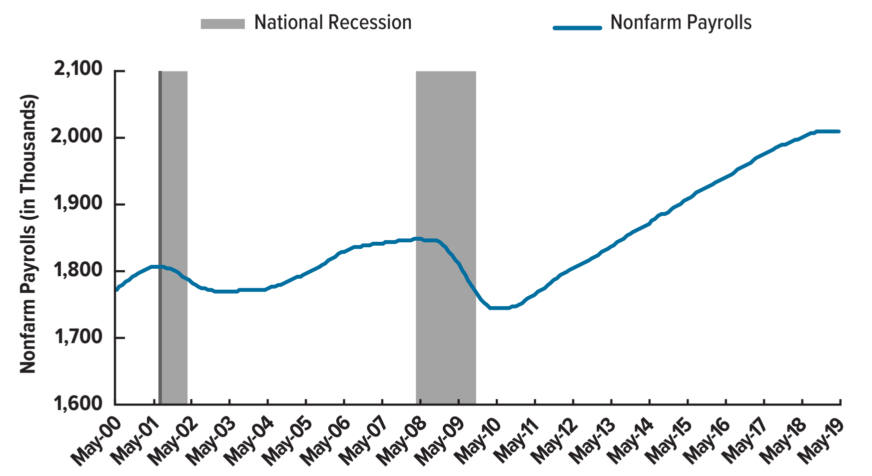
Note: 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Historic Trends

2003 Through 2006

From 2003 through 2006, job growth averaged 1.0 percent, or 17,300 jobs added annually. By comparison, national nonfarm payroll jobs grew an average of 1.1 percent annually. Growth averaging 18,900 jobs annually in the service-providing sectors offset an average decline of 1,700 jobs annually in the goods-producing sectors because manufacturing jobs fell by 1,900, or 0.9 percent, annually. Manufacturing sector layoffs were widespread in the HMA, and impacted jobs in food, machinery, and medical equipment manufacturing. In the service-providing sectors, the education and health services sector added an average of 9,200 jobs annually, with growth averaging more than 4.0 percent. The professional and business services sector added 5,200 jobs, or 1.9-percent average annual growth, and the leisure and hospitality sector added 3,300 jobs annually, or 2.1 percent. Figure 5 shows the 12-month average nonfarm payroll count in the Minneapolis HMA from 2000 to the current date.

Figure 5. 12-Month Average Nonfarm Payrolls in the Minneapolis HMA



Note: 12-month moving average.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

2007 Through 2010

This period encompassed the onset of the Great Recession, during which time the national economy contracted and impacted economic conditions in the Minneapolis HMA. Nonfarm payrolls in the HMA fell by an average of 22,300 annually or 1.2 percent; by contrast, nationally, payroll jobs declined an average of 1.1 percent. All sectors except the education and health services sector in the HMA declined during this period with the most significant losses in the goods-producing and trade sectors; these sectors declined by annual averages of 15,600 and 6,800 jobs, or 5.8 and 2.5 percent, respectively, during the period. In the goods-producing sectors, the losses were nearly evenly split, averaging 7,700 annually in the mining, logging, and construction sector, and averaging 7,900 annually in the manufacturing sector, declines averaging 10.5 and 4.0 percent annually, respectively. Residential building permitting had begun to fall sharply during 2005 and remained low during the period from 2007 through 2010. In the manufacturing sector, job dislocations were varied and numerous during this period; during 2008, Graco closed a plant in Minneapolis that manufactured industrial valves, eliminating 280 jobs. ADC, a manufacturer of telephone apparatuses, closed plants in Eden Prairie (Hennepin County, Minnesota) and Shakopee (Scott County, Minnesota), eliminating 200 total jobs. Food manufacturing jobs, medical device manufacturing jobs, and others also declined. The education and health services sector grew an average of 7,900 jobs, or 3.1 percent, only slightly slower than growth during the previous period.

2011 Through 2017

Nonfarm payrolls began to increase in the HMA in February 2011. Nonfarm payrolls rose an average of 34,500 annually from 2011 through 2017, averaging 1.9 percent. Goods-producing jobs grew at a 2.5-percent annual rate, faster than the 1.8-percent rate of growth for service-providing jobs; however, service sector jobs increased an average of 28,100 annually, or 1.8 percent, compared with 6,400 jobs added, or 2.5 percent, on average, in the goods-producing sector. In the goods-producing sector, jobs in the mining, logging, and construction sector expanded by 3,600 annually, or 5.5 percent, primarily in the construction subsector; net in-migration into the HMA rose strongly and residential construction increased to meet the housing needs of new residents. The construction of U.S. Bank Stadium, which opened in 2016, southeast of downtown Minneapolis and adjacent to the combined portion of the Blue and Green Metro Transit train lines, created an estimated 8,000 construction jobs during its 2.5-year construction period.

The education and health services sector and the professional and business services sector led gains in the service-providing sector. The two sectors grew by averages of 8,300 and 7,000 jobs annually, or 2.8 and 2.4 percent, respectively. Numerous expansions at hospitals and healthcare providers in the HMA occurred, including Fairview Health Services in Princeton (Sherburne County, Minnesota), and Fairview Southdale Hospital in Edina (Hennepin County, Minnesota), as well as Allina Health System's new "Mother-Baby Center" in St. Paul. Additional growth occurred in the leisure and hospitality and the wholesale and retail trade sectors, which grew by 4,300 jobs and 3,600 jobs annually, average growth rates of 2.5 and 1.3 percent, respectively. The government sector added an average of 600 jobs, or 0.2 percent, annually with job growth for local governments averaging 1,300 jobs annually, more than offsetting declines in federal and state government jobs. The information sector was the only sector to lose jobs from 2011 through 2017, falling an average of 300 jobs annually, or 0.8 percent.

Commuting Patterns

The Central Counties submarket is the employment center in the HMA, accounting for approximately 66 percent of all jobs in the HMA during 2018 (Table 3). That figure is down slightly, from 68 percent during 2010 and 70 percent during 2001 as employers have become increasingly likely to relocate to less expensive parts of the HMA. Approximately 87 percent of workers who live in the Central Counties submarket work in either Hennepin or Ramsey County, 11 percent commute to the Suburban Counties submarket, and 2 percent commute to areas outside the 16-county HMA. By comparison, 41 percent of workers who live in the Suburban Counties submarket commute into the Central Counties submarket for work, whereas 55 percent work in the Suburban Counties submarket, and 4 percent commute to jobs outside of the HMA (U.S. Census Bureau, estimates as of July 1, 2015; Table 4). Anoka and Dakota Counties, which are directly to the north and the south of the Central Counties submarket, respectively, combine to account for approximately 48 percent of the jobs in the Suburban Counties submarket.

Table 3. Estimated Percent Share of Covered Employment by Submarket During 2018

Central Counties	Suburban Counties
66	34

Source: U.S. Bureau of Labor Statistics, with estimates by the analyst

Table 4. Jobs by Place of Worker Residence

		Worker Residence	
		Central Counties (%)	Suburban Counties (%)
Location of Primary Job	Central Counties	87	41
	Suburban Counties	11	55
	Outside the HMA	2	4

Source: U.S. Census Bureau, 2015 Journey to Work

Employment Forecast

During the 3-year forecast period, nonfarm payrolls are expected to increase at an average annual rate of 0.5 percent, with growth likely hindered by a lack of qualified workers to fill jobs. Construction sector jobs will continue to grow because of continued demand for housing going forward. Manufacturing sector jobs are likely to remain stable despite TreeHouse Foods' announcement in May

2019 to close a plant in Minneapolis that manufactures snacks, thus eliminating 120 jobs. Job growth is expected to continue in the education and health services sector, but at lower rates than recently. Jobs are expected to be added at the University of Minnesota Health Center and Regions Hospital in St. Paul, which are both undertaking expansions, although Blue Cross and Blue Shield of Minnesota recently announced the elimination of approximately 60 jobs at its location in Eagan (Dakota County). Some expansions are expected in the professional and business services sector. Technology-consulting firm Wipro announced the development of a new technology hub in Minneapolis that is expected to create 100 jobs by 2021. New York-based financial-technology startup company DailyPay, Inc., selected Minneapolis as its second location, and plans to hire 100 workers by 2020. Offsetting these growth announcements, Thrivent Financial announced the closure of its Brightpeak Financial division and is expected to eliminate 60 jobs in Minneapolis. The continued decline in the number of unemployed residents is of some concern as a shortage of available labor, for both skilled and unskilled jobs, may dampen future economic growth.

Population and Households

Current population: 3.67 million

The rate of population growth in the Minneapolis HMA has been consistent since 2000; however, the allocation of population growth between the two submarkets has shifted significantly since 2010.

Population Trends

As of June 1, 2019, the population of the Minneapolis HMA was estimated at more than 3.67 million. Population growth has averaged 1.0 percent annually since April 1, 2010, unchanged from the rate during the period from April 1, 2000, to April 1, 2010 (Table 5). Net in-migration has increased significantly as a share of total population growth since 2010, while population growth has accelerated in the Central Counties submarket and slowed in the Suburban Counties submarket.

Table 5. Minneapolis HMA Population and Household Quick Facts

		2010	Current	Forecast
Population Quick Facts	**Population**	3,348,859	3,674,000	3,772,000
	Average Annual Change	31,700	35,450	32,650
	Percentage Change	1.0	1.0	0.9
		2010	**Current**	**Forecast**
Household Quick Facts	**Households**	1,299,635	1,427,000	1,465,000
	Average Annual Change	13,900	13,950	12,500
	Percentage Change	1.1	1.0	0.9

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (June 1, 2019), to June 1, 2022.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

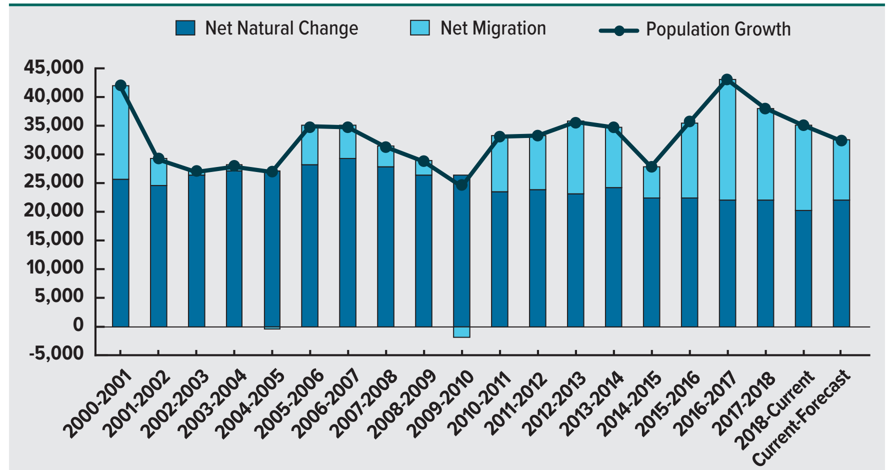
2000 to 2010

From 2000 to 2006, the population in the HMA grew an average of 32,400 annually, or 1.0 percent, and net in-migration contributed 17 percent of this growth, or 5,600 people, on average, each year. The remaining population growth, totaling 26,800 people on average each year, came from net natural change. From 2006 to 2010, encompassing declining economic conditions in the HMA resulting from the Great Recession, population growth fell slightly, to an average of 30,550 annually, or 0.9 percent, and net in-migration fell to an average of 2,750 people annually, or only 9 percent of the increase in population.

2010 to Current

Starting in 2010, when the HMA began an ongoing, 9-year period of job growth, net in-migration increased strongly, averaging 9,950 people annually from 2010 to 2014, and increasing to 14,350 people annually from 2014 to the current date. Despite the increase in net in-migration, the rate of population growth has remained stable, at 1 percent annually because net natural change has declined. From 2010 to 2014, net in-migration contributed nearly 30 percent of total population growth in the HMA—a rate that has risen to nearly 40 percent since 2014. Figure 6 shows components of population growth in the HMA since 2000. Notably, from 2010 to 2018, net in-migration was primarily international migration, which accounted for more than 90 percent of migrants into the Minneapolis HMA

Figure 6. Components of Population Change in the Minneapolis HMA, 2000 Through the Forecast



Notes: Net natural change and net migration totals are average annual totals over the time period. The forecast period is from the current date (June 1, 2019), to June 1, 2022.
Sources: U.S. Census Bureau; current to forecast—estimates by the analyst

(U.S. Census Bureau, Population Estimates Program). Although immigrants from Mexico are the largest contributor to the foreign-born population in the HMA, immigrants from Asia including the Hmong and immigrants from Africa, notably from Somalia and Ethiopia, are significantly represented in the HMA as well.

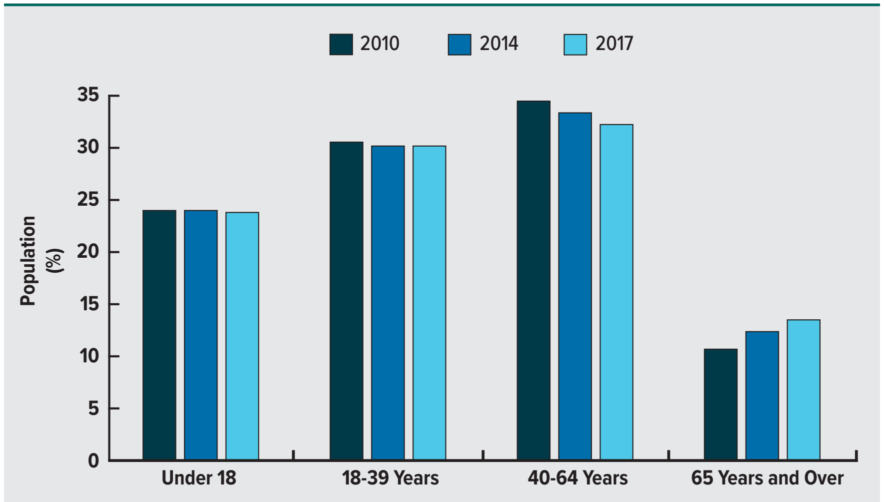
Age Cohort Trends

Local officials indicate a decline in the share of the population in the prime working age, defined as persons age 18 through 64, is contributing to lower economic growth in the HMA. The data supports this; Figure 7 shows the proportion of the population in various age cohorts, estimated in 2010, 2014, and 2017. The fastest growth is estimated to have occurred in the over age-65 cohort; the population age 18 through 39 has declined modestly, and the population age 40 through 64 has declined slightly faster. Combined, the prime working age population in the HMA has declined from 64 percent to 62 percent of the total population between 2010 and 2017.

Central Counties Submarket

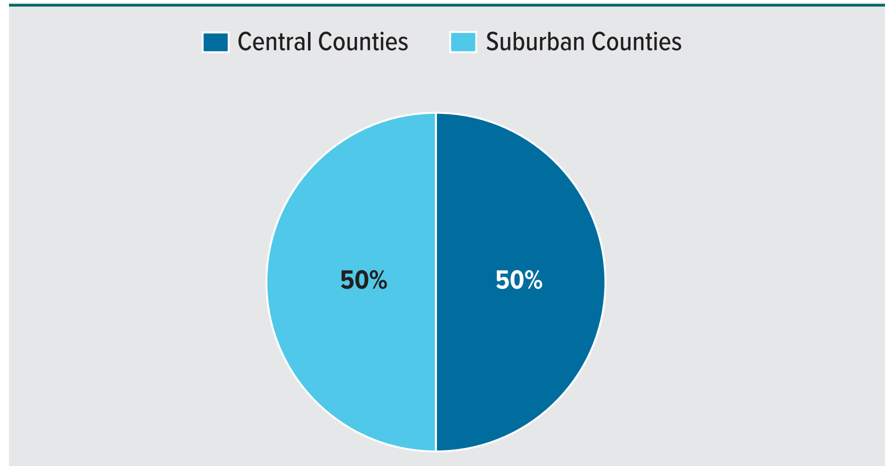
The population of the Central Counties submarket is currently estimated at 1.84 million, or 50 percent of the population in the HMA (Figure 8). The population of the submarket has risen an average of 19,300 annually since 2010, a growth rate averaging 1.1 percent; this rise represents a sharp increase from the previous decade, when the population increased an average of only 3,375 annually, or 0.2 percent. Average annual net natural change in the submarket has declined since 2010, and net in-migration has accounted for all the increased population growth. Since 2010, net in-migration to the submarket has averaged 7,350 people annually. By comparison, from 2000 to 2010, net out-migration from the submarket averaged 9,125 people annually. Recent economic growth has had a significant impact in the Central Counties submarket, and numerous development initiatives focused in the downtowns of Minneapolis and St. Paul have made the submarket more attractive to residents. In 2014, Metro Transit, the public transportation system in the HMA, opened the Green Line, which runs parallel

Figure 7. Population by Age in the Minneapolis HMA



Source: 2010, 2014, and 2017 American Community Survey, 1-year data

Figure 8. Current Population by Submarket



Note: The current date is June 1, 2019.
Source: Estimates by the analyst

to Interstate 94 and University Avenue for much of its length and connects downtown Minneapolis to downtown St. Paul. Between 2010 and 2017, the population of the census tracts adjacent to the Green Line and the Blue Line, which opened in 2004 and connects downtown Minneapolis to the Minneapolis International Airport and the MOA, increased at an average annual rate of 2.3 percent, more than twice as fast as the HMA's growth rate of 1.0 percent (American Community Survey, 5-year data; Map 2).

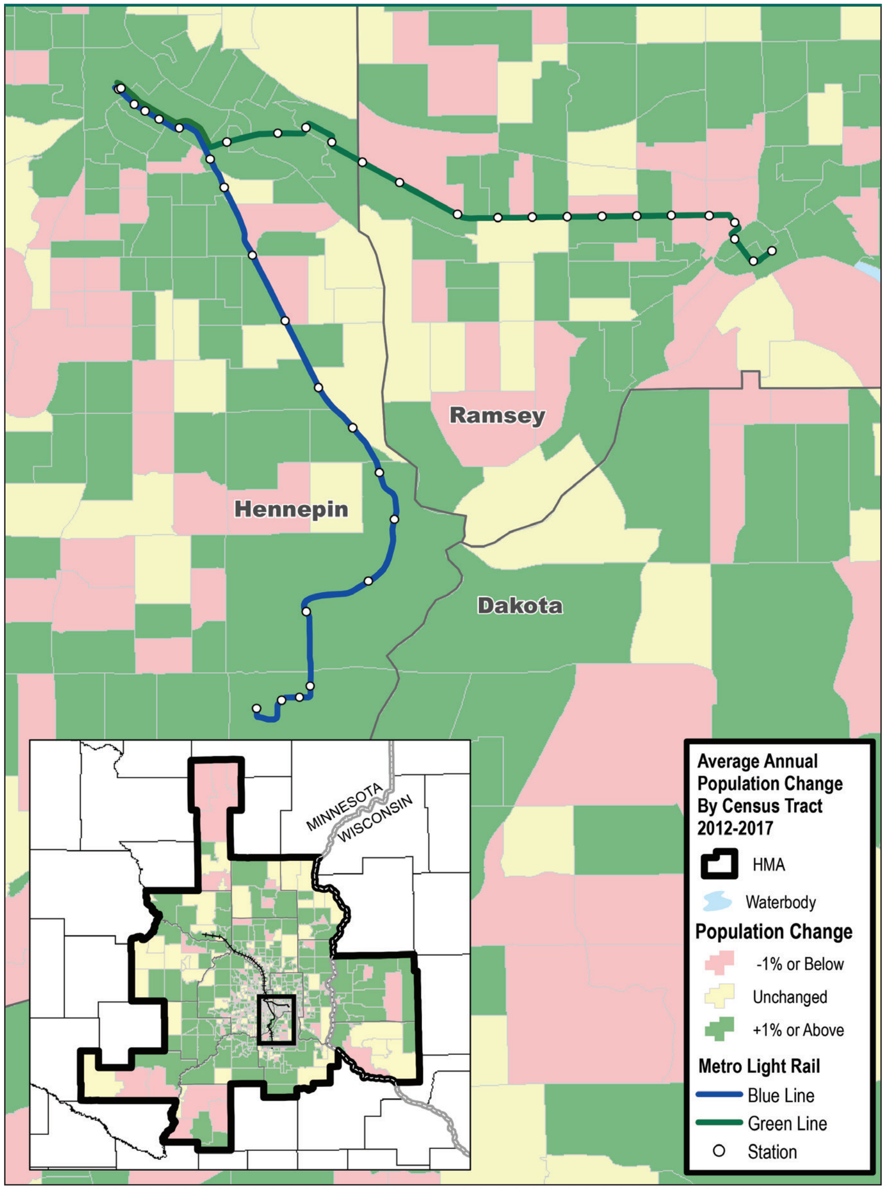
Suburban Counties Submarket

The population of the Suburban Counties submarket is also currently estimated at 1.84 million. Unlike in the Central Counties submarket, where the rate of population growth has increased compared with the previous decade, the rate of population growth has declined since 2010, although this decline has slowed since 2015. Population growth in the submarket averaged 28,300 annually, or 1.9 percent from 2000 to 2010; since 2010, the average rate of growth declined to 0.9 percent annually, or an average of only 16,200 people. From 2000 to 2006, net in-migration to the submarket averaged 19,550 people annually, contributing to average population growth of 34,100 people annually, or 2.3 percent. From 2006 through 2011, including the period of economic decline and the start of the recovery in the HMA, net in-migration into the submarket fell dramatically, averaging 2,900 people annually, and the rate of population growth more than halved, falling to 1.0 percent, or growth averaging 17,100 people annually. As economic conditions continued to improve, net in-migration into the Suburban Counties submarket fell to an average of 2,850 people annually from 2011 to 2015, and population growth slowed to an average of only 0.8 percent annually, or 14,300 people. Population growth has accelerated to an average of 1.1 percent since 2015, however, as housing costs have risen in the areas closer to the economic core of the HMA. Net in-migration to the submarket has increased to an average of 8,750 people annually, since 2015.

Household Trends

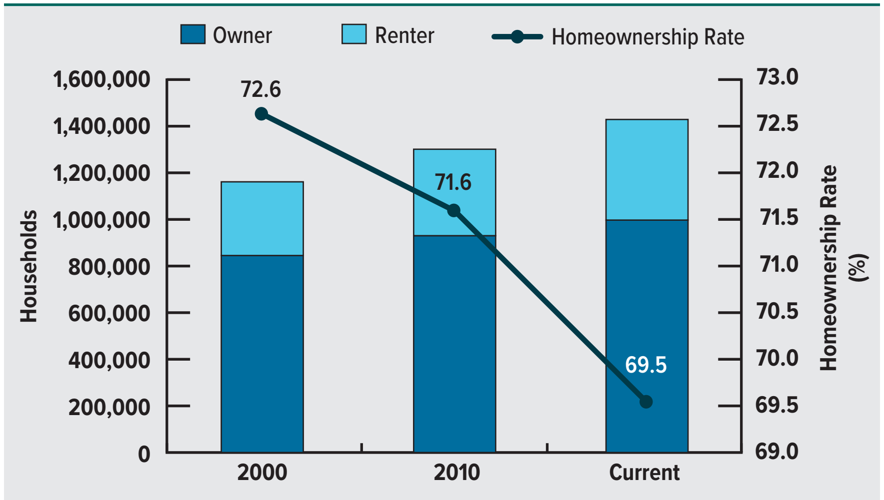
The Minneapolis HMA contains an estimated 1.43 million households, with slightly more than 52 percent residing in the Central Counties submarket, where the average household size is relatively small; approximately 48 percent in the Suburban Counties submarket, where families represent a larger share of the

Map 2. Average Annual Population Change by Census Tract in the Minneapolis HMA, 2012–2017



Source: 2012–2017 American Community Survey, 5-year data total population. By tenure, an estimated 69.5 percent of households in the HMA are homeowners, down from 71.6 percent in 2010 (Figure 9). The decline in homeownership is largely a result of the housing crisis in the late 2000s, with both new and existing households more likely to rent since 2010 than in the previous decade. Since 2010, household growth has averaged 1.0 percent annually in the HMA, or 13,950 new households annually, relatively unchanged from 1.1 percent annual growth, or 13,900 households annually during the previous decade. Since 2010, renter households in the HMA have increased 1.8 percent annually, on average, compared with owner household growth averaging 0.7 percent annually. During the previous decade, renter households rose an average of 1.5 percent annually, and owner households grew an average of 1.0 percent annually. By submarket, households have increased an average of 1.0 percent in each submarket since 2010, equal to 7,225 households added, on average, in the Central Counties submarket, and 6,700 households added annually in the Suburban Counties submarket.

Figure 9. Households by Tenure and Homeownership Rate in the Minneapolis HMA

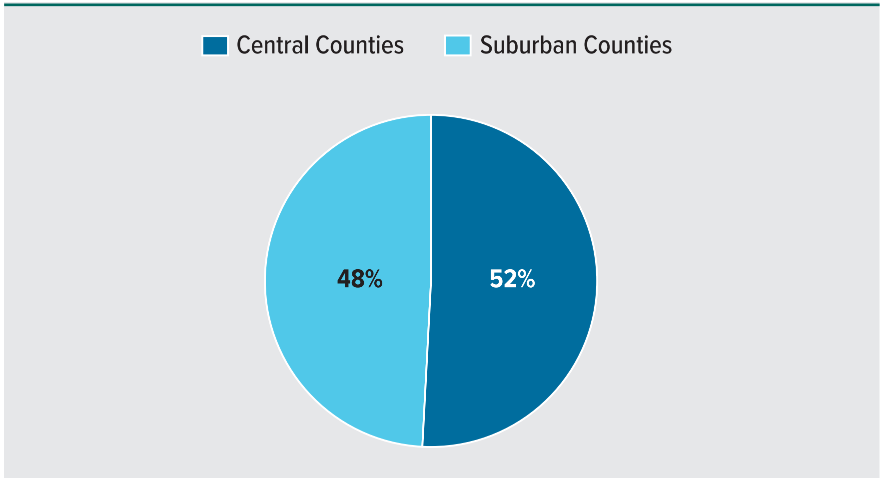


Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

Forecast

The anticipated slowdown in economic growth during the 3-year forecast period is expected to result in slowed population growth. The population of the HMA is expected to reach 3.77 million by June 1, 2022, growth of 0.9 percent, or 32,650 annually. By submarket, population growth rates are expected to average 0.9 percent annually in the Central Counties submarket and 0.8 percent annually in the Suburban Counties submarket. Approximately 52 percent of the forecast population growth is expected to occur in the Central Counties submarket (Figure 10). Households are expected to expand by an average of 0.9 percent annually in each submarket and the HMA, with annual increases of 6,650 in the Central Counties submarket and 5,850 in the Suburban Counties submarket, totaling 12,500 households added annually in the HMA.

Figure 10. Share of Forecast Population Growth by Submarket



Note: The forecast period is from June 1, 2019, to June 1, 2022.
Source: Estimates by the analyst

Home Sales Market Conditions

Sales Market—Minneapolis HMA

Market Conditions: Slightly Tight

Sales housing market conditions in the HMA have tightened since 2010 because of stronger population growth and a shortage of available inventory for sale.

Current Conditions

The home sales market in the Minneapolis HMA is currently slightly tight, with an estimated 0.9-percent vacancy rate, down from 1.9 percent in April 2010, when conditions were slightly soft (Table 6). During May 2019, there was a 2.5-months' supply of single-family detached homes for sale and a 2.1-months' supply of condominium units for sale; a year earlier, the corresponding figures were supplies of 2.4 months and 2.1 months (Minneapolis Area Realtors® [MAR]). MAR further reports that home sales are hampered by a lack of supply, particularly acute at the lower price levels. Current prices for both new and existing home sales are at all-time highs, which would typically incentivize potential sellers to list their home, although many homeowners are concerned they will not find another home to buy. Rising costs for land, materials, and labor are identified as hindrances to increasing new home production in the HMA.

Table 6. Home Sales Quick Facts in the Minneapolis HMA

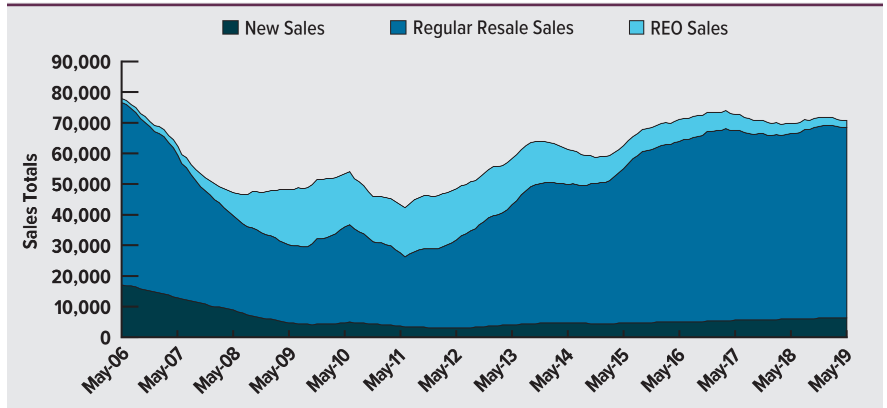
		Minneapolis HMA	Nation
Home Sales Quick Facts	**Vacancy Rate**	0.9%	NA
	Months of Inventory	2.4	3.3
	Total Home Sales	70,750	6,003,000
	1-Year Change	1.3%	-1.8%
	New Home Sales Price	$433,500	$410,400
	1-Year Change	2%	0%
	Existing Home Sales Price	$284,700	$310,200
	1-Year Change	5%	2%
	Mortgage Delinquency Rate	0.7%	1.4%

NA = data not available.
Notes: Vacancy rate is as of the current date, June 1, 2019. Home sales and prices are for the 12 months ending May 2019. Months of inventory and mortgage delinquency data are as of May 2019.
Sources: Home sales and prices—Metrostudy, A Hanley Wood Company; delinquency rate—CoreLogic, Inc.

Home Sales

Home sales, including new and existing single-family homes, townhomes, and condominiums, totaled 70,750 during the 12 months ending May 2019, an increase of 930 sales or 1.3 percent above the sales total from a year earlier (Metrostudy, A Hanley Wood Company). Figure 11 shows home sales by type in the HMA. The increase in sales occurred despite a significant decline in real estate owned (REO) sales, which fell by 1,075 sales, or more than 31 percent. Both new home sales and regular (non-distressed) resales rose during the past year, increasing 9 percent and 2 percent, to 6,300 and 62,100 sales, respectively.

Figure 11. 12-Month Sales Totals by Type in the Minneapolis HMA

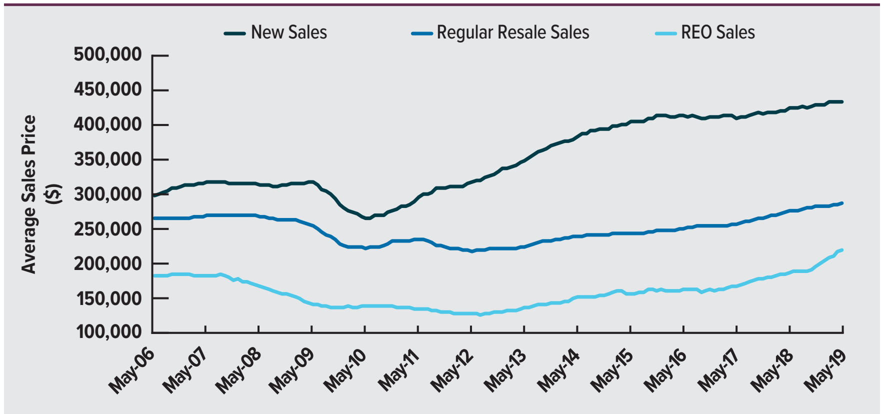


REO = real estate owned.
Source: CoreLogic, Inc., with adjustments by the analyst

Home Sale Prices

The average home sales price in the Minneapolis HMA during the 12 months ending May 2019 was $298,300, approximately $14,050, or 5 percent, higher than the average sales price a year earlier, and more than 9 percent above the prerecession high of $273,400 in 2006. By sales type, the average price of new home sales was $433,500, and for regular resale homes, the average sales price was $286,700, gains of 2 percent and 4 percent from a year earlier, respectively. Both sales prices represent record highs for the HMA. Figure 12 shows average home sales prices, by type of sale, in the Minneapolis HMA.

Figure 12. 12-Month Average Sales Price by Type of Sale in the Minneapolis HMA



REO = real estate owned.
Source: CoreLogic, Inc., with adjustments by the analyst

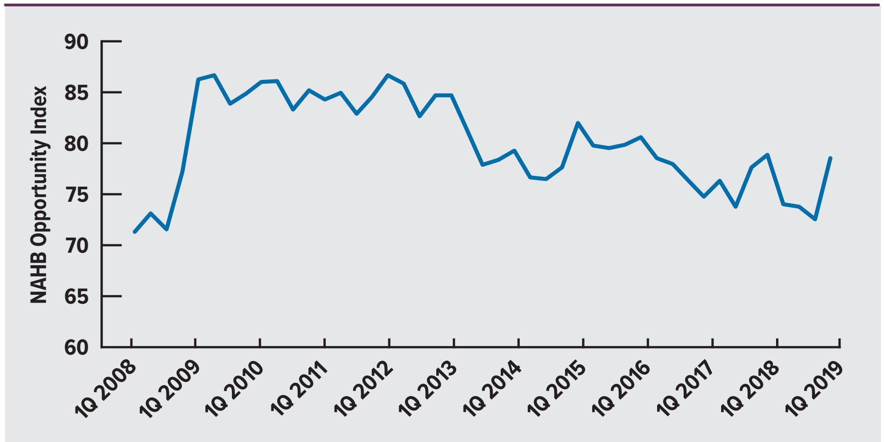
REO Sales and Delinquent Mortgages

During the 12 months ending May 2019, REO sales totaled 2,375, nearly one-third fewer than the 3,450 REO sales a year earlier, and a fraction of the peak of 19,350 in 2009 (CoreLogic, Inc., with adjustments by the analyst). As a proportion of all resale sales, REO sales contributed 4 percent during the current 12-month period, down from 5 percent a year ago and well below the 41-percent figure in 2009. As of May 2019, approximately 0.7 percent of all mortgages in the HMA were seriously delinquent or transitioned into REO status, down from 0.9 percent a year earlier and well below the high of 6.3 percent in January 2010. (CoreLogic, Inc.). The current rate in the HMA is slightly lower than the 0.8-percent rate for the state of Minnesota and nearly one-half the national rate of 1.4 percent.

Housing Affordability

Homeownership in the Minneapolis HMA is moderately affordable, although affordability has generally trended downward since early 2013. Excess inventory, present in the HMA during 2010 and 2011, has been mostly absorbed and low levels of inventory have put upward pressure on purchase prices since the mid-2010s. The National Association of Home Builders (NAHB) and Wells Fargo Housing Opportunity Index (HOI) for the HMA, which represents the share of homes sold that would have been affordable to a family earning the local median income, was 78.6 during the first quarter of 2019, down slightly from 78.9 percent a year earlier (Figure 13). During the most recent quarter, 84 metropolitan areas out of 239 metropolitan areas measured, or 35 percent of the metropolitan areas in the nation, had greater housing affordability than the HMA. From 2009 through 2012, the HOI for the Minneapolis HMA was comparatively high, averaging 85.0 during the period, although affordability has since declined with home sales prices rising faster than incomes despite increased production of single-family homes, townhomes, and condominiums.

Figure 13. Minneapolis HMA Housing Opportunity Index



1Q = first quarter. NAHB = National Association of Home Builders.
Source: NAHB/Wells Fargo

In December 2018, the city of Minneapolis adopted "Minneapolis 2040," its most recent comprehensive plan for housing and development. It includes 14 goals and 100 policy proscriptions and was developed from a recognition that long-term projections suggest the HMA will need to add approximately 14,000 new housing units annually to keep up with expected population growth and housing demand. The plan includes a proposal to eliminate single-family zoning entirely in the city of Minneapolis, allowing duplex and triplex units to be built throughout the city, as well as a proposal to allow three- to six-story buildings along certain transit corridors. Both are designed to encourage additional sales housing development, particularly of higher density projects. As of June 1, 2019, the plan has been approved by the Minneapolis City Council, but has not been approved by the Metropolitan Council, the local regional planning office that recently offered amendments to the document.

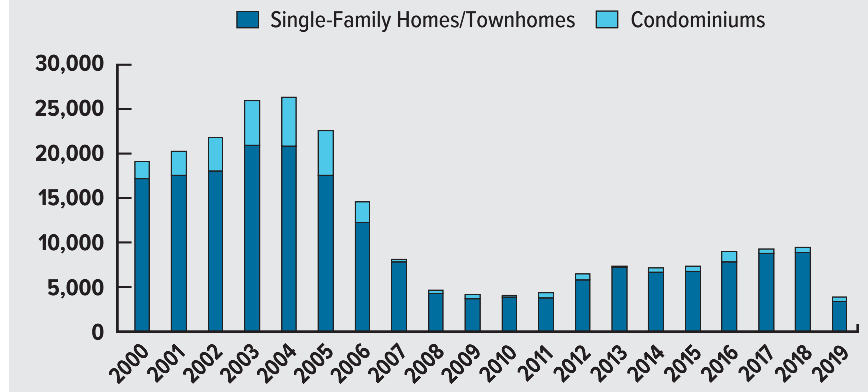
Construction Activity

Construction of single-family homes and condominiums in the Minneapolis HMA, as measured by units permitted, has increased modestly since recent low levels, but remains low compared with levels of construction during the previous decade. During the 12 months ending May 2019, approximately 8,825 single-family homes and condominiums were permitted in the HMA, slightly above the 8,800 units permitted a year earlier. During 2003 and 2004, the number of sales housing units permitted averaged 26,150 annually, and fell sharply, declining 35 percent annually, to 4,625 units permitted during 2008. From 2008 through 2011, the number of sales housing units permitted remained low, averaging 4,325 annually, before increasing modestly, averaging gains of 13 percent annually, to 9,250 homes permitted during 2017. Figure 14 shows sales housing permitting activity in the Minneapolis HMA.

Forecast

During the 3-year forecast period, demand is estimated for 24,600 new single-family homes, townhomes, and condominiums in the HMA (Table 7). The 2,430 homes currently under construction will satisfy some of this demand. Demand is expected to be strongest during the first year because of existing, unmet demand, which is likely to carry over into the second and third year of the forecast period.

Figure 14. Average Annual Sales Housing Permitting Activity in the Minneapolis HMA



Notes: Includes single-family homes, townhomes, and condominiums. 2019 includes data through May 2019.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

Table 7. Demand for New Sales Units in the Minneapolis HMA During the Forecast Period

	Sales Units
Demand	24,600 Units
Under Construction	2,430 Units

Note: The forecast period is June 1, 2019, to June 1, 2022.
Source: Estimates by the analyst

Sales Market—Central Counties Submarket

Current Conditions

The sales housing market in the Central Counties submarket is slightly tight, with an estimated sales vacancy rate of 0.8 percent, down from 2.1 percent in April 2010 (Table 8). The current homeownership rate in the submarket is estimated at 60.7 percent, down from 63.3 percent in 2010 because of strong renter household growth. The foreclosure crisis shifted some owners into rental housing

Table 8. Home Sales Quick Facts in the Central Counties Submarket

Home Sales Quick Facts		Central Counties Submarket	Minneapolis HMA
	Vacancy Rate	0.8%	0.9%
	Months of Inventory	2.1	2.4
	Total Home Sales	31,700	70,750
	1-Year Change	0.3%	1.3%
	New Home Sales Price	$511,200	$433,500
	1-Year Change	-1%	2%
	Existing Home Sales Price	$308,000	$284,700
	1-Year Change	4%	5%
	Mortgage Delinquency Rate	0.7%	0.7%

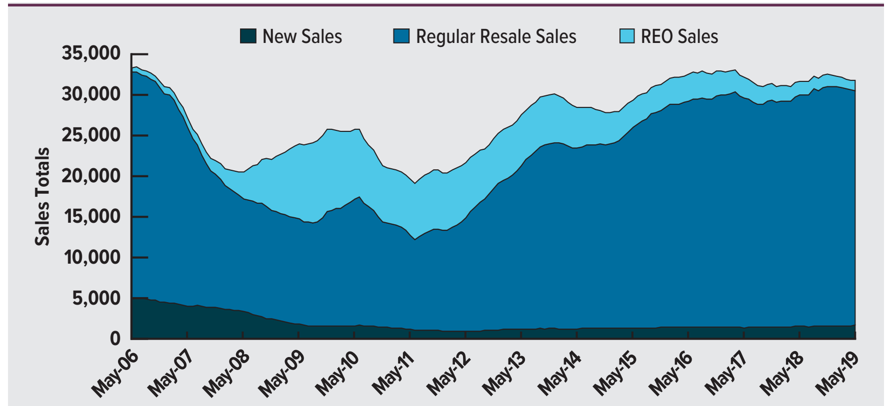
Notes: Vacancy rate is as of the current date, June 1, 2019. Home sales and prices are for the 12 months ending May 2019. Months of inventory and mortgage delinquency data are as of May 2019.
Sources: Home sales and prices—Metrostudy, A Hanley Wood Company; delinquency rate—CoreLogic, Inc.

in the late 2000s and early 2010s; the rate of seriously delinquent mortgages and mortgages that transitioned into REO status peaked in the submarket in January 2010, at 5.8 percent of all outstanding mortgage loans. Despite strengthening economic conditions, many new residents in the submarket continue to rent rather than own due in part to the relatively high cost of sales housing and scarcity of available sales housing units in the submarket. During the 12 months ending May 2019, approximately 31,700 homes were sold, slightly more than the 31,600 home sales a year earlier; the average sales price was $318,500, nearly 4 percent more than the average sales price a year earlier.

Home Sales

New home sales in the Central Counties Submarket totaled 1,625 sales during the 12 months ending May 2019, nearly 9 percent more than the 1,475 sales reported a year earlier (Metrostudy, A Hanley Wood Company). New home sales fell by an average of 25 percent annually from 2006 through 2011, when a recent low level of 910 new sales occurred. Since 2011, new home sales have increased modestly, with growth averaging 7 percent annually, to 1,400 sales during 2017 although new home sales activity remains well below the peak levels of the mid-2000s. Regular (non-distressed) resale home sales have, by contrast, recovered to prerecession levels. During the 12 months ending May 2019, regular resales totaled 28,900, nearly 2 percent more than the 28,400 sales recorded a year earlier. Regular resales averaged 26,500 during 2005 and 2006 before falling to a recent low of 12,350 sales during 2011. Since 2011, regular resales have recovered and averaged 27,750 sales annually from 2015 through 2017. REO sales totaled 1,200 during the 12 months ending May 2019, more than 30 percent fewer than were reported a year earlier; REO sales at this time accounted for nearly 4 percent of all existing home sales. REO sales reached a recent peak of 9,900 sales during 2009, when they accounted for 41 percent of all existing home sales. Figure 15 shows home sales by type in the Central Counties submarket.

Figure 15. 12-Month Sales Totals by Type in the Central Counties Submarket

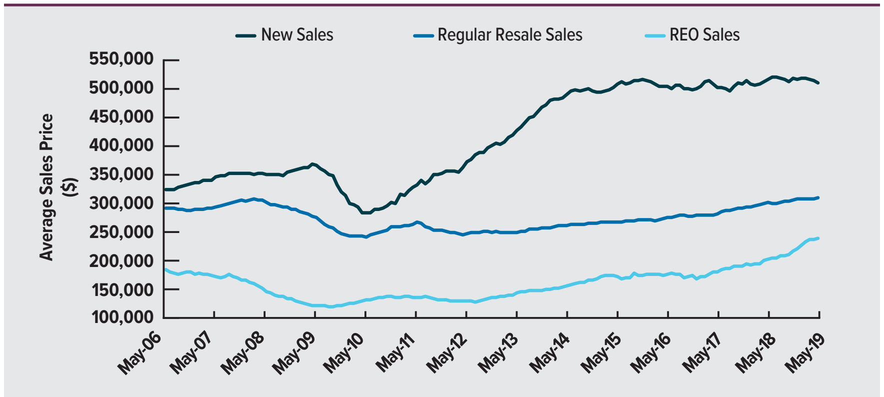


REO = real estate owned.
Source: CoreLogic, Inc., with adjustments by the analyst

Sales Prices

Although new home sales totals remain low compared with prerecession levels, new home sales prices are much higher than prerecession levels. During the 12 months ending May 2019, the average new home sales price was $511,200, approximately 1 percent below the $516,900 average sales price a year earlier, but nearly 43 percent higher than the prerecession high of $358,600 in 2008. New home sales prices reached their recent low average of $298,800 during 2010 but increased significantly beginning the following year with average gains of 13 percent annually from 2011 through 2014, when the average new home sales price was $493,600. Since 2014, new home sales prices have been stable, averaging $509,300 annually during 2015, 2016, and 2017. Regular resale home sales' average prices have also surpassed prerecession levels, and averaged $310,100 during the 12 months ending May 2019, more than 3 percent above the average sales price a year earlier. Regular resale average prices reached a recent low during 2009, when the average was $244,100. Prices for regular resale homes remained modest during 2010, 2011, and 2012, averaging $253,100 during each of those 3 years. After 2012, appreciation in regular resale prices occurred, averaging slightly more than 3 percent annual growth, to $293,000 during 2017. Figure 16 shows average sales prices in the Central Counties submarket by sales type.

Figure 16. 12-Month Average Sales Price by Type of Sale in the Central Counties Submarket



REO = real estate owned.
Source: CoreLogic, Inc., with adjustments by the analyst

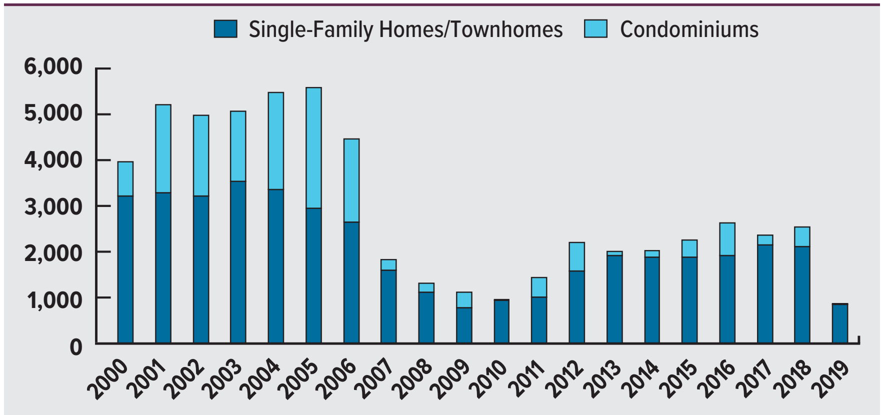
Condominium Sales Activity

Sales of condominium and other attached units are notably more prevalent in the Central Counties submarket than in the Suburban Counties submarket. Sales of new and existing condominium units averaged 8,975 during the 12 months ending May 2019, nearly 29 percent of all new and existing sales in the submarket, and an increase of 2 percent from condominium sales totals a year earlier. Also, during the 12 months ending May 2019, the average sales price was $229,000, or 6 percent above the average sales price a year earlier. Total condominium sales remain below the levels in 2005 and 2006, when 9,850 and 9,075 sales occurred, which represented 30 and 29 percent of total sales in the HMA, respectively. Current average condominium sales prices are also below prerecession values, which averaged a relatively stable $241,900 annually during 2005, 2006, and 2007, before declining to a low level of $167,700 during 2011.

Construction Activity

Single-family home construction, as measured by the number of building permits authorized, has trended upward since 2010, but is below prerecession highs. Single-family homes permitted averaged 3,325 homes annually from 2001 through 2004, declined to an average of 2,800 homes annually during 2005 and 2006, and then fell sharply, with declines averaging 33 percent annually, to a recent low level of 790 homes permitted during 2009. The subsequent recovery in single-family permitting has been more modest than the decline, with gains averaging 13 percent annually, to 2,150 homes permitted during 2017. During the 12 months ending May 2019, approximately 2,100 single-family homes have been permitted in the submarket, down slightly from 2,125 homes permitted a year earlier (preliminary data; Figure 17). Permitting of condominium units also is

Figure 17. Average Annual Sales Housing Permitting Activity in the Central Counties Submarket



Notes: Includes single-family homes, townhomes, and condominiums. 2019 includes data through May 2019.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

below prerecession highs, with most multifamily development in the submarket being built for renter occupancy. Permitting for condominium units in the Central Counties submarket fluctuated during the prerecession period, with a peak of 2,625 units permitted during 2005, after which condominium permitting fell, reaching a recent low of 5 units permitted during 2010. Since 2010, permitting for condominium units continues to fluctuate, but remains comparatively low. Approximately 140 condominium units were permitted during the 12 months ending May 2019, compared with 330 units permitted during the previous year.

Notable Recent Developments

New single-family home construction in this submarket tends to be outside the cities of Minneapolis and St. Paul. Locations with significant homebuilding include the southern suburban Hennepin County communities of Bloomington, Edina, and Plymouth in western Hennepin County. In Plymouth, in suburban Hennepin County, Camelot Nine includes six home designs on 80 lots; homes start at $393,990 and offer three to six bedrooms and two and a half to five bathrooms and start at 1,700 square feet. Currently, 72 of 80 home sites are sold, built, and occupied. Eleven Condominiums in Minneapolis has recently secured construction financing and is scheduled to break ground in late summer 2019. The 41-story tower will be east of downtown Minneapolis and include 118 units. Initial prices have yet to be released.

Forecast

During the 3-year forecast period, demand is estimated for 9,550 units, with an estimated 780 units currently under construction (Table 9). Demand will likely be strongest during the first year of the forecast period.

Table 9. Demand for New Sales Units in the Central Counties Submarket During the Forecast Period

	Sales Units
Demand	9,550 Units
Under Construction	780 Units

Note: The forecast period is June 1, 2019, to June 1, 2022.
Source: Estimates by the analyst

Sales Market—Suburban Counties Submarket

Current Conditions

The sales housing market in the Suburban Counties submarket is balanced, with a current vacancy rate estimated at 1.0 percent, down from 1.7 percent during April 2010 (Table 10). Despite slowed population growth since 2010, significantly lower sales housing construction has contributed to improving conditions in the submarket, allowing the market to reach the current balanced state. The homeownership rate in the submarket is estimated at 79.2 percent, down from 80.7 percent during 2010. Although some new households in the submarket have chosen to rent rather than buy housing, foreclosure rates, which peaked at 6.7 percent during early 2010, were modestly higher in this submarket than in the Central Counties submarket and have contributed to a decline in the homeownership rate since 2010. During the 12 months ending May 2019, total home sales were 39,050, more than 2 percent above the 38,200 sales from a year earlier; at the same time, the average sales price for all homes in the submarket was $281,900, or more than 6 percent higher than the average sales price a year earlier.

Table 10. Home Sales Quick Facts in the Suburban Counties Submarket

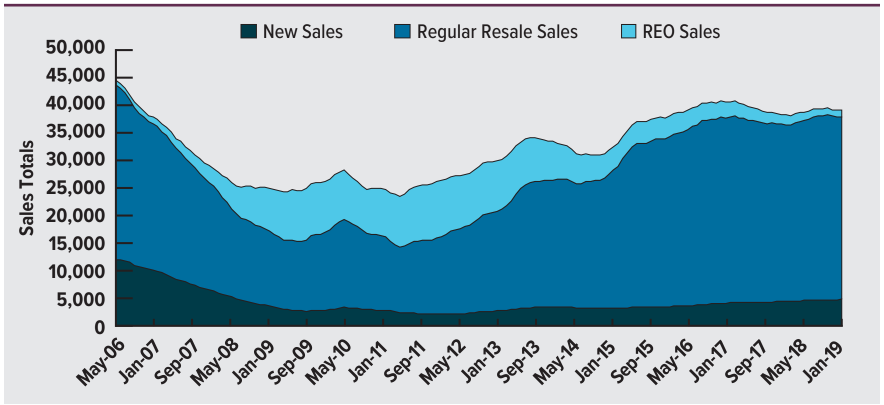
		Suburban Counties Submarket	Minneapolis HMA
Home Sales Quick Facts	**Vacancy Rate**	1.0%	0.9%
	Months of Inventory	2.7	2.4
	Total Home Sales	39,050	70,750
	1-Year Change	2.2%	1.3%
	New Home Sales Price	$406,500	$433,500
	1-Year Change	4%	2%
	Existing Home Sales Price	$265,700	$284,700
	1-Year Change	6%	5%
	Mortgage Delinquency Rate	0.8%	0.7%

Notes: The vacancy rate is as of the current date, June 1, 2019. Home sales and prices are for the 12 months ending May 2019. Months of inventory and mortgage delinquency data are as of May 2019.
Sources: Home sales and prices—Metrostudy, A Hanley Wood Company; delinquency rate—CoreLogic, Inc.

Home Sales

New home sales in the Suburban Counties submarket totaled 4,675 during the 12 months ending May 2019, an increase of nearly 9 percent from a year earlier. This figure was less than one-half the prerecession high. From 12,100 new home sales during 2005, sales activity subsequently dropped to a recent low level of 2,025 sales during 2011, an average decline of nearly 26 percent annually. Beginning in 2012, new home sales increased by an average annual rate of 15 percent to 3,050 sales during 2014. In the subsequent 3 years, new home sales increased by an average of 11 percent annually to 4,175 new sales during 2017. By contrast, regular resales have surpassed prerecession levels. During the 12 months ending May 2019, regular resale sales totaled 33,200, more than 3 percent above the total a year earlier, and 1 percent above the prerecession high of 32,800 sales during 2005. Regular resale sales averaged 13,750 annually from 2008 through 2011, before increasing steadily by an average of 16 percent annually, to 32,600 sales during 2017. REO sales in the Suburban Counties submarket totaled 1,175 during the 12 months ending May 2019, nearly one-third fewer than the sales count a year earlier and only 3 percent of all existing home sales, down from 5 percent a year ago. REO sales peaked at 10,150, or 43 percent of all existing home sales during 2011. Figure 18 provides home sales counts by sales type in the Suburban Counties submarket.

Figure 18. 12-Month Sales Totals by Type in the Suburban Counties Submarket

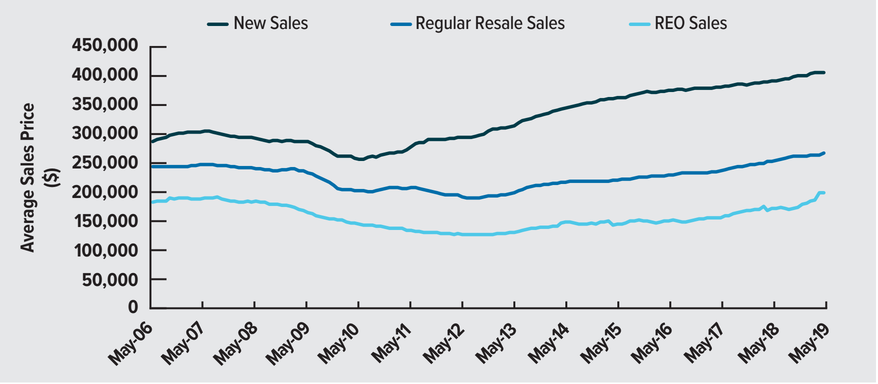


REO = real estate owned.
Source: CoreLogic, Inc., with adjustments by the analyst

Sales Prices

Average home sales prices, for all sales types, currently exceed prerecession highs due in part to the relatively modest increases in new supply since 2010. For new home sales during the 12 months ending May 2019, the average sales price in the Suburban Counties submarket was $406,500, nearly 4 percent above the average sales price a year earlier, and significantly above the prerecession high of $302,100 averaged during 2006. From a low average sales price of $261,300 during 2009, average new home sales prices have risen steadily, averaging gains of 5 percent annually, to $386,900 during 2017. The average sales price for regular resale homes during the 12 months ending May 2019 was $266,400, nearly 6 percent above the average price a year earlier, and 9 percent above the prerecession high average of $243,800 during 2006. Figure 19 provides average home sales prices by sales type for the Suburban Counties submarket.

Figure 19. 12-Month Average Sales Price by Type of Sale in the Suburban Counties Submarket



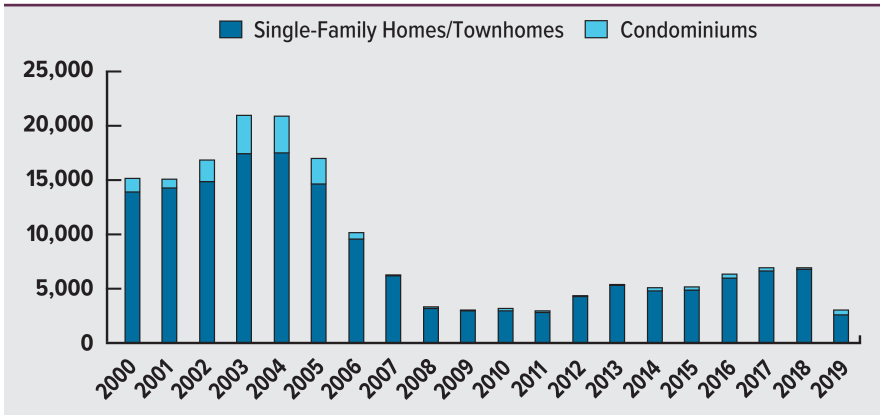
REO = real estate owned.
Source: CoreLogic, Inc., with adjustments by the analyst

Construction Activity

Sales housing construction activity, as measured by the number of units permitted, has been nearly all single-family homes in the submarket since the mid-2000s. During 2003 and 2004, an average of 20,900 sales housing units was permitted each year, 84 percent of which were for single-family homes;

since 2005, construction of condominium units has declined somewhat, and approximately 94 percent of all sales housing units permitted have been for single-family homes. Beginning in 2005, sales housing permitting fell rapidly, with declines averaging 37 percent annually, to 3,175 units permitted during 2008. From 2009 through 2011, units permitted averaged only 3,050 annually, the lowest recent levels. Since 2012, permitting has increased modestly, but remained relatively low, compared with permitting levels during the previous decade. From 2012 through 2017, the number of sales housing units permitted averaged 5,525 annually. During the 12 months ending May 2019, approximately 6,700 sales housing units have been permitted in the submarket, slightly fewer than the 6,675 sales housing units permitted a year earlier (preliminary data). Figure 20 shows sales housing permitting in the Suburban Counties submarket since 2000.

Figure 20. Average Annual Sales Housing Permitting Activity in the Suburban Counties Submarket



Notes: Includes single-family homes, townhomes, and condominiums. 2019 includes data through May 2019.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

Recently Completed Developments

More development in the submarket is occurring in counties closer to the economic core of the HMA, including Dakota, Scott, Carver, and Washington Counties, all in Minnesota. Located in Victoria (Carver County), where the population grew an estimated 3.2 percent annually from 2010 to 2017 (ACS 5-year), Whispering Hills Townhomes includes 144 newly constructed townhome units, with nearly 60 units sold. Homes range in size from 1,750 to 2,377 square feet; include three or four bedrooms and two or three bathrooms, with two-car garages; and start at $279,990. In Prior Lake (Scott County) Haven Ridge includes 162 home sites, with 25 closed and occupied and 20 more under contract. Single-family homes with two to four bedrooms and two to three bathrooms, including two- and three-car garages, start at $365,990.

Forecast

During the 3-year forecast period, demand is estimated for 15,050 new sales units (Table 11). The 1,650 units under construction will satisfy a portion of this demand. Given some current unfilled sales demand, it is likely to be stronger in the first year of the forecast period and diminish during years 2 and 3.

Table 11. Demand for New Sales Units in the Suburban Counties Submarket During the Forecast Period

	Sales Units
Demand	15,050 Units
Under Construction	1,650 Units

Note: The forecast period is from June 1, 2019, to June 1, 2022.
Source: Estimates by the analyst

Rental Market Conditions

Rental Market—Minneapolis HMA

Market Conditions: Slightly Tight

The rental housing market has been balanced to tight since the early 2010s, and the apartment vacancy rate has been at or below 5 percent every quarter since 2012.

Current Conditions and Recent Trends

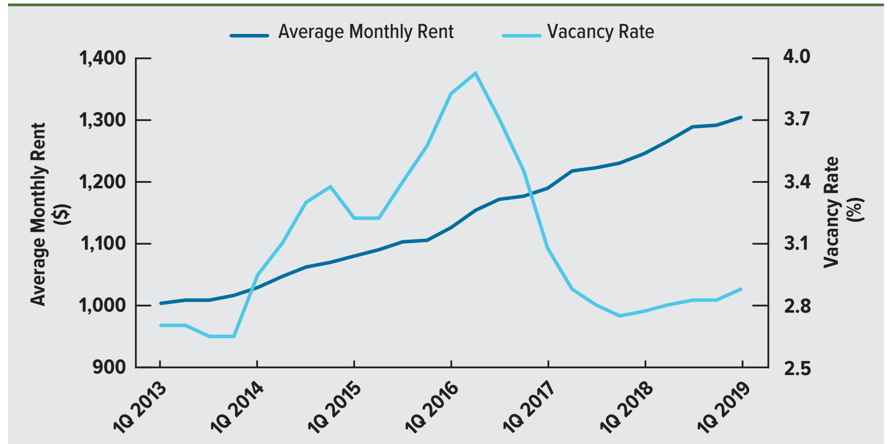
Rental housing market conditions in the Minneapolis HMA are currently slightly tight, with an overall estimated vacancy rate of 4.7 percent, down from 7.6 percent in April 2010 (Table 12). Despite relatively high levels of multifamily construction, as measured by the number of multifamily units permitted, strong net in-migration and increased renter household growth spurred by the housing crisis have kept vacancy levels low and rents steadily rising (Figure 21). Twenty-five percent of all renter households in the HMA live in single-family homes, modestly higher than the 23-percent rate in 2010, and 63 percent of all renter households live in larger apartment buildings with five or more units, like the rate in 2010, according to the 2017 ACS. Renter households living in larger apartment buildings with five or more units are more prevalent in the Central Counties submarket, closer to the economic core of the HMA. The apartment market in the Minneapolis HMA is tight, with a vacancy rate of 2.9 percent during the first quarter of 2019, up slightly from 2.8 percent a year earlier (RealPage, Inc., with adjustments by the analyst). The average rent for an apartment in the HMA was $1,305 during the first quarter of 2019, nearly 5 percent above the average rent a year ago.

Table 12. Rental Market Quick Facts in the Minneapolis HMA

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	7.6	4.7
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	23	25
	Multifamily (2–4 Units)	12	11
	Multifamily (5+ Units)	64	63
	Other (Including Mobile Homes)	1	1

Notes: The current date is June 1, 2019. 2010 data are from April 2010. Current data for "occupied rental units by structure" are 2017 American Community Survey, 1-year data, the most recent data available.
Source: American Community Survey, 1-year data

Figure 21. Apartment Rents and Vacancy Rates in the Minneapolis HMA

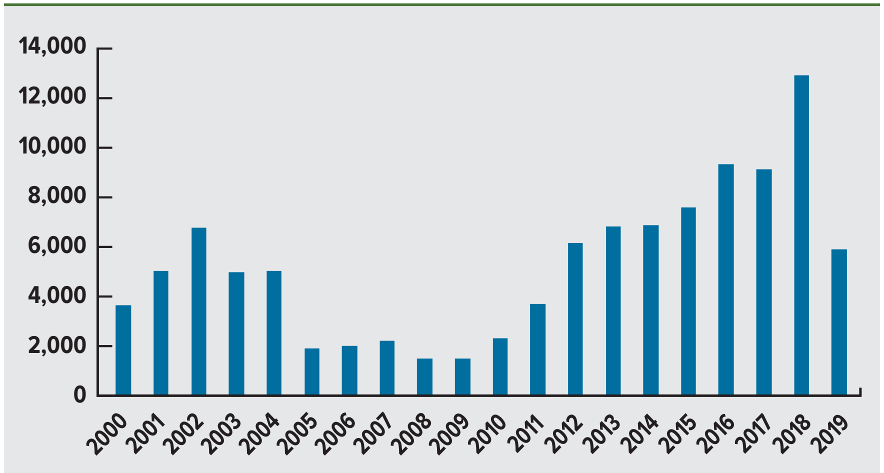


1Q = first quarter.
Source: RealPage, Inc.

Rental Construction Activity

Since 2012, rental permitting in the HMA has been at the highest levels since the mid-1980s with the 12,950 units permitted during 2018 representing the highest annual figure on record. From 2005 through 2010, including the Great Recession that impacted the national and local economies, multifamily permitting averaged 1,875 units permitted annually. As population growth accelerated, multifamily permitting rose to 3,000 units in 2011 before increasing sharply to an average of 7,075 units from 2012 through 2017, as apartment vacancy rates remained low and rents rose. During the 12 months ending May 2019, approximately 11,250 rental units have been permitted in the HMA, significantly above the 6,800 units permitted a year earlier (preliminary data); Figure 22 shows average annual rental permitting activity in the Minneapolis HMA, and Map 3 shows new apartment developments started since 2017 by number of units.

Figure 22. Average Annual Rental Permitting Activity in the Minneapolis HMA

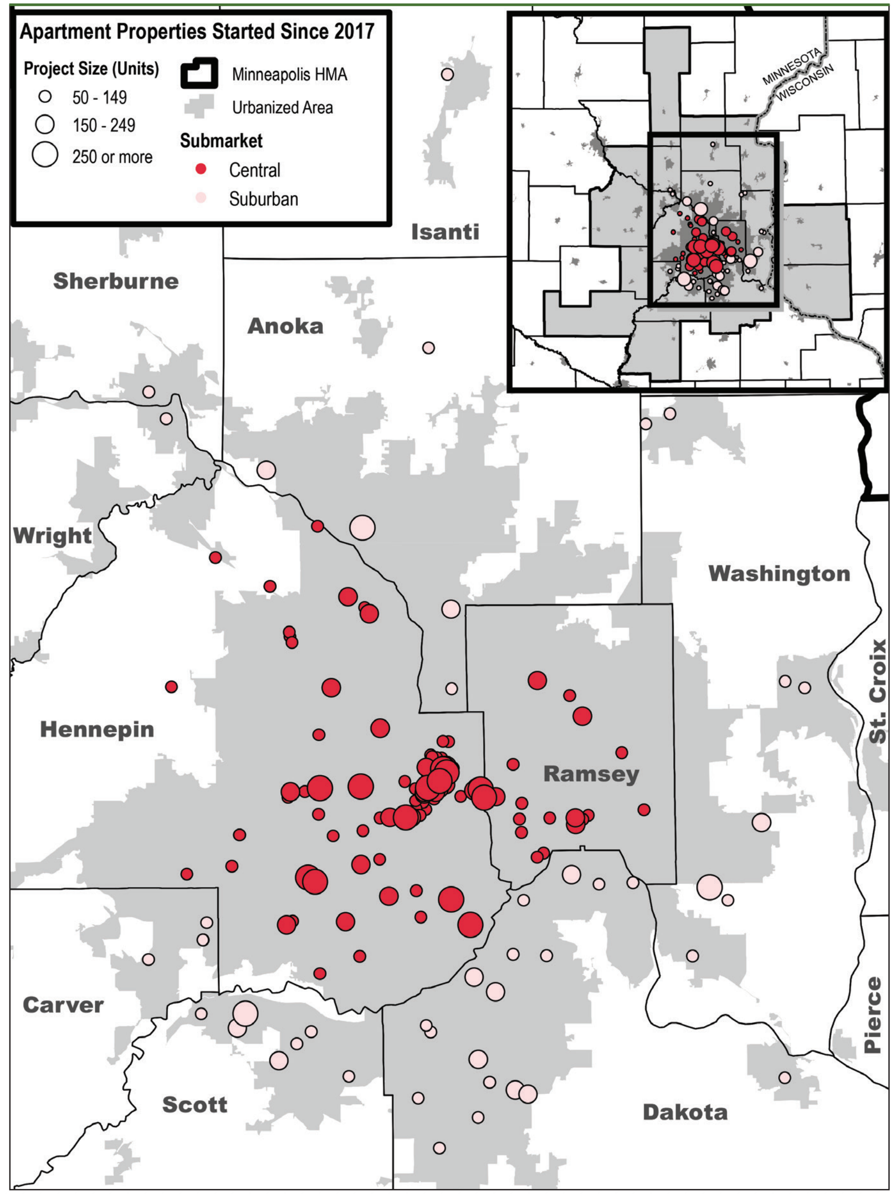


Notes: Includes apartments and units intended for rental occupancy. 2019 includes data through May 2019.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

Housing Affordability: Rental

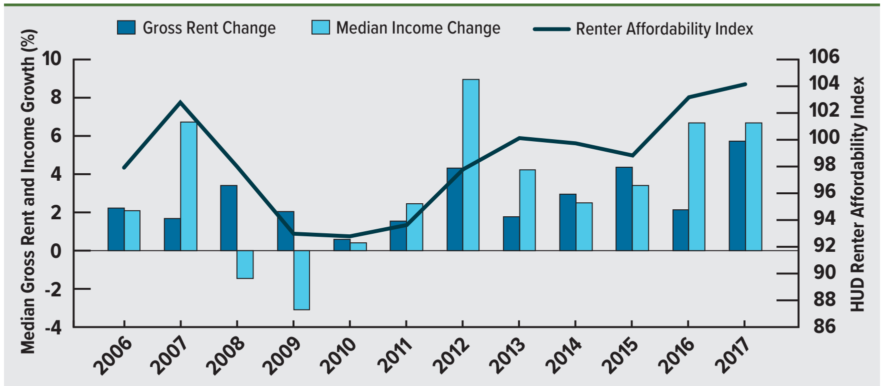
Rental housing is modestly affordable in the Minneapolis HMA, primarily because median renter household income outpaced rent increases in 5 of 7 years from 2010 to 2017. This was partially because of the shortage of workers, discussed earlier, applying upward pressure on wages in the HMA. The HUD Rental Affordability Index, a measure of median renter household income relative to qualifying income for the median-priced rental unit, has generally risen since reaching a low in 2010 with median renter household incomes rising an average of 5.0 percent annually from 2010 to 2017, whereas median gross rents rose an average of only 3.2 percent during the period (Figure 23).

Map 3. Completed Projects in the Minneapolis HMA Since 2010



Source: McGraw-Hill Construction Pipeline database, with adjustments by the analyst

Figure 23. Minneapolis HMA Rental Affordability



Source: American Community Survey, 1-year data

"Cost burden," or when households spend more than 30 percent of their income on rent, is another measure of housing affordability. In the Minneapolis HMA, cost-burdened households spending 30-49 percent of their income on rent represent 21.6 percent of all renter households, below the national average of 22.0 percent. Severely cost-burdened households, or those spending more than 50 percent of their income on rent, account for 43.7 percent of renter households in the HMA, earning less than HUD Area Median Family Income (HAMFI), and only 22.5 percent of all renter households. Both figures are below the respective national averages of 50.2 and 23.8 percent. It is important to note, however, that 31.7 percent of renter households in the HMA with income below 50 percent of the HAMFI pay between 30 and 49 percent of their income for rent, compared with only 25.7 percent of renter households nationwide. Table 13 compares cost-burdened renter households at different income levels with the national averages.

One reason for the comparative affordability of rental housing the Minneapolis HMA is increasing incomes since 2010, which is partially attributable to a shortage of qualified workers. In an effort to expand the pool of affordable rental housing, in April 2018, the city of Minneapolis adopted the 4d Affordable Housing Incentive Program, which provides property tax breaks in exchange for developers maintaining affordable rent levels in their non-subsidized apartments, using the HUD Area Median Income standards.

Table 13. Percentage of Cost-Burdened Renter Households by Income in the Minneapolis HMA, 2011–2015

	Cost Burdened		Severely Cost Burdened	
	Minneapolis HMA	Nation	Minneapolis HMA	Nation
Renter Households with Income <50% HAMFI	31.7	25.7	43.7	50.2
Total Renter Households	21.6	22.0	22.5	23.8

HAMFI = HUD Area Median Family Income.
Note: "Cost-burdened" households spend between 30–49 percent of their income on rent and "severely cost-burdened" households spend over 50 percent of their income on rent.
Sources: Consolidated Planning/CHAS Data; 2011–2015 American Community Survey, 5-year estimates; huduser.gov

Forecast

During the 3-year forecast period, demand is estimated for 20,775 units; the 13,850 units currently under construction will satisfy a portion of that demand during the first 2 years of the forecast period (Table 14).

Table 14. Demand for New Rental Units in the Minneapolis HMA During the Forecast Period

	Rental Units
Demand	20,775 Units
Under Construction	13,850 Units

Note: The forecast period is from June 1, 2019, to June 1, 2022.
Source: Estimates by the analyst

Rental Market—Central Counties Submarket

Current Conditions and Recent Trends

The rental housing market in the Central Counties submarket is currently slightly tight, with an estimated rental vacancy rate of 4.5 percent, down from 7.5 percent during 2010, when conditions were slightly soft. Significantly increased population growth since 2010 in the submarket has led to a tightening of the rental housing market, despite record numbers of new apartment construction. Housing is generally higher density in the submarket than the HMA as a whole, and comparatively fewer renter households live in single-family homes in this submarket (19 percent) than in the overall HMA, with a larger share (68 percent) of renter households living in apartment buildings with five or more units. Table 15 shows quick facts about the rental housing market in the Central Counties submarket. The Twin Cities campus at the University of Minnesota is in Minneapolis, east of the Mississippi River and downtown Minneapolis. During the fall term of 2018, total enrollment at the Twin Cities campus was 51,700 students, and student households account for an estimated 5 percent of renter households in the submarket. Student households contribute to demand for rental units in the submarket, and many new apartment properties built along transit lines also attract student renters.

Table 15. Rental Market Quick Facts in the Central Counties Submarket

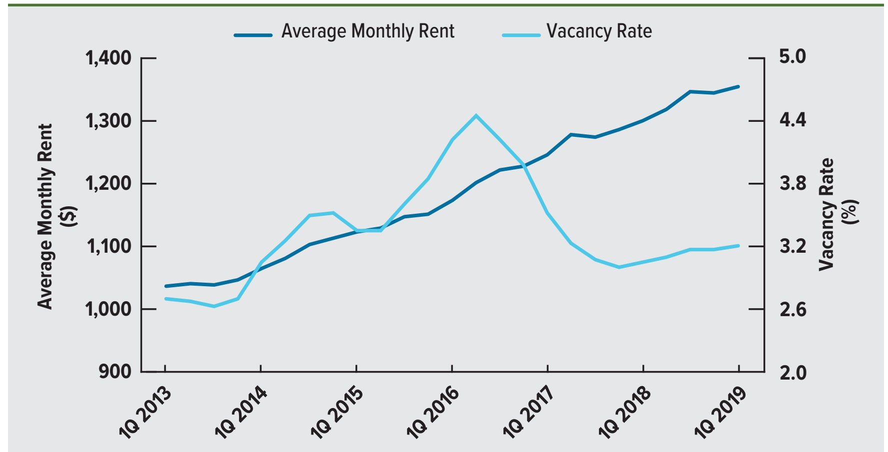
		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	7.5	4.5
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	19	19
	Multifamily (2–4 Units)	13	12
	Multifamily (5+ Units)	68	68
	Other (Including Mobile Homes)	0	0

Notes: The current date is June 1, 2019. Current data for "occupied rental units by structure" are 2017 American Community Survey, 1-year data, the most recent data available. 2010 data are from April 2010.
Source: American Community Survey, 1-year data

Apartment Market Conditions

The apartment market in the Central Counties submarket is also slightly tight, with a vacancy rate of 3.2 percent during the first quarter of 2019, up slightly from 3.1 percent a year earlier (RealPage, Inc., with adjustments by the analyst; Figure 24). The apartment vacancy rate has not been above 5 percent since before 2010, and rents rose an average of nearly 5 percent annually from the first quarter of 2013 to the first quarter of 2019. Within the submarket, the highest asking rents are in the RealPage, Inc.-defined "Downtown Minneapolis/ University" area, where asking rents averaged $1,620 during the first quarter of 2019, an increase of less than 1 percent from a year earlier; this area also had the highest vacancy rate among the market areas that make up this submarket, at 5.0 percent, up from 4.5 percent a year earlier. During the past year, more than 1,400 new apartment units have entered the market in this area. In the RealPage, Inc.-defined "Bloomington" area, which includes the city of Bloomington, nearly 820 new apartment units entered the market during 2016 and 2017, and none since. Despite the number of new units in the area, the apartment vacancy rate fell from 4.9 percent to 3.3 percent. Bloomington includes the MOA and the current southern terminus of the Metro Transit Blue Line light rail.

Figure 24. Apartments Rents and Vacancy Rates in the Central Counties Submarket

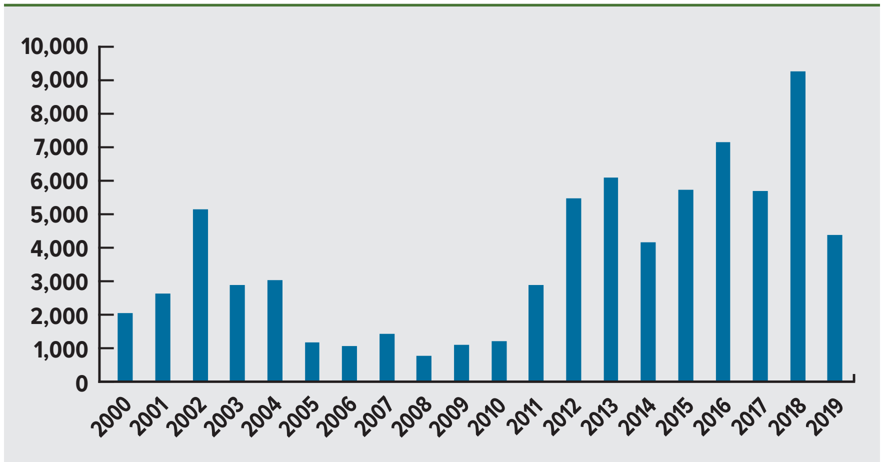


1Q = first quarter.
Source: RealPage, Inc.

Rental Construction Activity

After a lull in rental production from 2005 through 2010, when the number of units permitted averaged only 1,150 annually, rental permitting in the Central Counties submarket has increased dramatically (Figure 25). During the previous decade, population and household growth was comparatively low, and multifamily permitting was relatively limited with an average of 1,225 units permitted each year from 2005 through 2007 and an average of only 1,050 units permitted from 2008 through 2010 during the Great Recession. Since 2010, multifamily permitting has increased significantly in response to strong renter household growth in this submarket. The number of rental units permitted more than doubled during 2011, to 2,900, and nearly doubled again, to 5,475 units permitted during 2012, before averaging 5,775 units annually from 2013 through 2017. During the 12 months ending May 2019, an estimated 7,950 rental units were permitted in the Central Counties submarket, significantly above the 4,425 units permitted a year earlier.

Figure 25. Average Annual Rental Permitting Activity in the Central Counties Submarket



Notes: Includes apartments and units intended for rental occupancy. 2019 includes data through May 2019.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

Recent Developments

An estimated 10,850 new rental units are under construction in the Central Counties submarket. Since 2010, approximately 83 percent of rental units built in the submarket were in Hennepin County with approximately 48 percent of the rental units built in the submarket in the city of Minneapolis. Significant development has continued in Minneapolis, much of which is along the Blue and Green lines of Metro Transit light rail. In addition, new apartment development is occurring in southern Hennepin County, including the cities of Edina, Bloomington, and Eden Prairie. In downtown Minneapolis, 365 Nicollet opened in late 2018 and includes 370 apartments, studio through three-bedroom units, with rents starting at $1,610, $2,010, and $2,700 for studio, one-, and two-bedroom units, respectively. Three-bedroom rents were not available. In Edina (Hennepin County), Aria Apartments is under construction with completion scheduled for the summer of 2019. This property includes 174 units in one six-story building, and rents start at $1,495, $1,595, $2,395, and $3,545 for studio, one-, two-, and three-bedroom apartments, respectively.

Forecast

During the 3-year forecast period, demand is estimated for 15,250 new rental units in the submarket; the 10,850 units currently under construction will satisfy a significant portion of this demand (Table 16).

Table 16. Demand for New Rental Units in the Central Counties Submarket During the Forecast Period

	Rental Units
Demand	15,250 Units
Under Construction	10,850 Units

Note: The forecast period is from June 1, 2019, to June 1, 2022.
Source: Estimates by the analyst

Rental Market—Suburban Counties Submarket

Current Conditions and Recent Trends

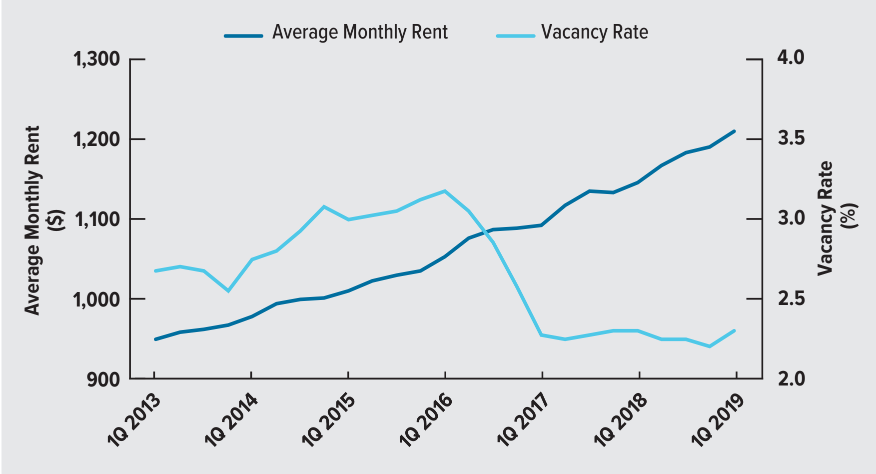
The overall rental housing market in the Suburban Counties submarket is currently balanced, with an estimated rental vacancy rate of 5.0 percent, down from 7.6 percent during 2010, when conditions were slightly soft. Housing in the submarket is generally less dense than in the Central Counties submarket, and a significantly higher percentage of renter households live in single-family homes in the submarket (37 percent) than in the Central Counties submarket (19 percent). That difference has increased since 2010 because of the continued effects of the Great Recession and its impacts on the sales housing market; increased levels of foreclosures have led to formerly owner-occupied homes entering the rental housing market (Table 17). Total household growth has been relatively slow in the Suburban Counties submarket since 2010, averaging 1 percent annually; renter household growth has been higher, averaging 1.8 percent annually, which has contributed to tightening rental housing market conditions despite an increase in multifamily units constructed.

Table 17. Rental Market Quick Facts in the Suburban Counties Submarket

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	7.6	5.0
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	33	37
	Multifamily (2–4 Units)	9	8
	Multifamily (5+ Units)	56	53
	Other (Including Mobile Homes)	2	1

Notes: The current date is June 1, 2019. Current data for "occupied rental units by structure" are 2017 American Community Survey, 1-year data, the most recent data available. 2010 data are from April 2010.
Source: 2017 American Community Survey, 1-year data

Figure 26. Apartments Rents and Vacancy Rates in the Suburban Counties Submarket



1Q = first quarter.
Source: RealPage, Inc.

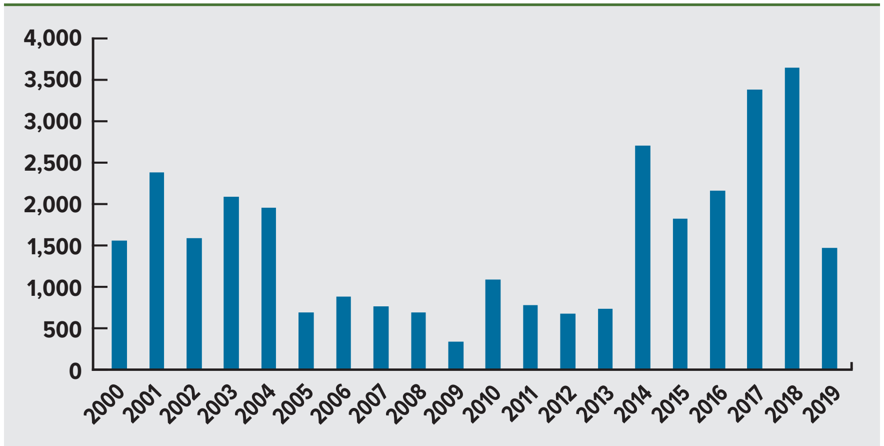
Apartment Market Conditions

The apartment market in the Suburban Counties submarket is tight, with a vacancy rate of 2.3 percent during the first quarter of 2019, unchanged from a year earlier (RealPage, Inc., with adjustments by the analyst; Figure 26). The apartment vacancy rate has not been above 3.5 percent since before 2010, and rents have risen an average of 4 percent annually from the first quarter of 2013 to the first quarter of 2019. Among RealPage, Inc.-defined market areas in the submarket, the highest rents are in the Eden Prairie/Shakopee/Chaska area, where rents averaged $1,303 as of the first quarter of 2019, an increase of 6.2 percent from the same quarter a year earlier. The largest rent increase during the past year was in the Anoka County area, where the asking rent rose 6.3 percent, to a first quarter 2019 value of $1,147, and the lowest apartment vacancy rate was in the East St. Paul area, where the apartment vacancy rate was 2.6 percent.

Rental Construction Activity

Rental construction activity in the Suburban Counties submarket was comparatively low from 2005 through 2013; this period encompasses the time leading up to the Great Recession and its impacts on economic conditions in the Minneapolis HMA and the change from quite strong population and household growth in the latter part of the previous decade to much lower growth levels in the early part of the current decade. Despite these economic and demographic changes, multifamily permitting was relatively steady, averaging 740 units permitted annually, including a spike in production during 2010 when 1,100 units were permitted. During 2014, multifamily permitting increased strongly, to 2,700 units permitted (Figure 27). Permitting slowed modestly during 2015 and 2016 before increasing again, reaching 3,650 units permitted during 2018. During the 12 months ending May 2019, approximately 3,275 new rental units have been permitted in the submarket, more than 37 percent above the units permitted a year earlier.

Figure 27. Average Annual Rental Permitting Activity in the Suburban Counties Submarket



Notes: Includes apartments and units intended for rental occupancy. 2019 includes data through May 2019.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

Recent Developments

An estimated 3,000 new rental units are under construction in the Suburban Counties submarket. Since 2010, one-third of new apartments permitted in the submarket were in Dakota County, 21 percent were in Anoka County, and 14 percent in Washington County. Recently opened in the spring of 2019 in Apple Valley (Dakota County), Springs at Cobblestone Lake includes 196 townhouse units. Rents start at $1,305, $1,544, $1,690, and $2,045 for studio, one-, two-, and three-bedroom units, respectively; some units include garages. In Ramsey (Anoka County), Affinity at Ramsey is an independent-living senior-apartment property with 174 units that is scheduled to open in the fall of 2019. Rents for studio, one-, and two-bedroom units start at $1,525, $1,645, and $1,925, respectively.

Forecast

During the 3-year forecast period, demand is estimated for 5,525 new rental units in the submarket; the 3,000 units currently under construction will satisfy a significant portion of this demand (Table 18).

Table 18. Demand for New Rental Units in the Suburban Counties Submarket During the Forecast Period

Rental Units	
Demand	5,525 Units
Under Construction	3,000 Units

Note: The forecast period is from June 1, 2019, to June 1, 2022.
Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

Demand	The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.
Other Vacant Units	In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as “other” vacant by the Census Bureau.
Building Permits	Building permits do not necessarily reflect all residential building activity that occurs in an HMA. 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.
Distressed Sales	Short sales and real estate owned (REO) sales.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.
Home Sales/ Home Sales Prices	Includes single-family home, townhome, and condominium sales.

Duplex and Triplex Units	Single structures with two or three living units.
Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units such as single-family homes, multifamily homes, and mobile homes.
Forecast Period	6/1/2019–6/1/2022—Estimates by the analyst
Cost Burdened	Spending more than 30 percent of household income on housing costs.
Net Natural Change	Resident births minus resident deaths.

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 February 28, 2013.
2.	Urbanized areas are defined using the U.S. Census Bureau's 2010 Census Urban and Rural Classification and the Urban Area Criteria.
3.	The census tracts referenced in this report are from the 2010 Census.

C. Additional Notes

1.	**The NAHB Housing Opportunity Index represents the share of homes sold in the HMA that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.**
2.	**This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.**
3.	**The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.**
Cover Photo	iStock

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