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 March 1, 2017

PDR

Housing Market Area



The Minneapolis-St. Paul-Bloomington Housing Market Area (hereafter, Minneapolis HMA) is at the confluence of the Mississippi, Minnesota, and St. Croix Rivers. The HMA is commonly known as the Twin Cities because it contains Minneapolis, the most populous city in Minnesota, and St. Paul, the state capitol. For the purposes of this analysis, the HMA is divided into two submarkets-the Central submarket, which includes Hennepin and Ramsey Counties in Minnesota, and the Suburban submarket, which includes 12 counties in Minnesota (Anoka, Carver, Chisago, Dakota, Isanti, Le Sueur, Mille Lacs, Scott, Sherburne, Sibley, Washington, and Wright) and 2 counties in Wisconsin (Pierce and St. Croix).

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Summary

Economy

During the 12 months ending February 2017, nonfarm payrolls in the Minneapolis HMA increased an average of 1.6 percent from a year earlier to an average of 1.96 million jobs. Economic growth resumed in 2011 after 3 years of decline, and nonfarm payrolls are currently more than 6 percent above the previous peak in 2007. During the next 3 years, nonfarm payrolls are expected to rise an average of 1.5 percent annually.

Sales Market

The current sales housing market in the HMA is tight, with an estimated 1.2-percent vacancy rate. During the 12 months ending February 2017, the number of new and existing homes sold decreased 4 percent, to 64,650 homes, from a year earlier, as the average sales price increased nearly 4 percent to \$265,500. During the next 3 years, demand is estimated for 26,575 new

homes (Table 1). The 1,890 homes currently under construction and a portion of the estimated 35,200 other vacant units in the HMA that may reenter the market will satisfy some of the forecast demand.

Rental Market

The current rental housing market in the HMA is balanced. The rental vacancy rate, including single-family homes, apartments, and mobile homes, is estimated to be 4.8 percent, down from 7.6 percent in April 2010. Apartment market conditions are tight, with a vacancy rate of 2.3 percent during the fourth quarter of 2016. During the 3-year forecast period, demand is estimated for 16,550 new market-rate rental units (Table 1). The 5,600 units under construction and an additional 3,550 units expected to be complete will satisfy demand in the first and second years of the forecast period.

Table 1. Housing Demand in the Minneapolis HMA* During the Forecast Period

	Minneapolis HMA*		Central S	ubmarket	Suburban Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	26,575	16,550	9,825	12,850	16,750	3,700
Under construction	1,890	5,600	540	4,600	1,350	1,000

* Minneapolis-St. Paul-Bloomington HMA.

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of March 1, 2017. A portion of the estimated 35,200 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is March 1, 2017, to March 1, 2020. Source: Estimates by analyst

Economic Conditions

The Minneapolis HMA is home to the University of Minnesota (UofM), the largest university in the state and the eighth largest public university in the nation, 16 Fortune 500 companies, and the Mall of America (National Center for Education Statistics). The HMA is known as Medical Alley, because it is the second largest medical device-manufacturing center in North America, behind Tijuana in Mexico. Because of these economic factors, the HMA is the second largest Midwest economy, behind Chicago.

Table 2. 12-Month Average Nonfarm Payroll Jobs in the MinneapolisHMA,* by Sector

	12 Month	ns Ending	Absolute	Percent
	February 2016	February 2017	Change	Change
Total nonfarm payroll jobs	1,933,000	1,963,600	30,600	1.6
Goods-producing sectors	272,100	274,100	2,000	0.7
Mining, logging, & construction	76,800	77,300	500	0.7
Manufacturing	195,300	196,800	1,500	0.8
Service-providing sectors	1,660,900	1,689,500	28,600	1.7
Wholesale & retail trade	282,900	286,200	3,300	1.2
Transportation & utilities	67,800	70,000	2,200	3.2
Information	38,300	38,000	- 300	- 0.8
Financial activities	139,600	142,200	2,600	1.9
Professional & business services	314,800	320,000	5,200	1.7
Education & health services	315,300	324,100	8,800	2.8
Leisure & hospitality	179,100	181,100	2,000	1.1
Other services	79,000	79,600	600	0.8
Government	244,100	248,200	4,100	1.7

* Minneapolis-St. Paul-Bloomington HMA.

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through February 2016 and February 2017.

Source: U.S. Bureau of Labor Statistics



Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Minneapolis HMA,* 2000 Through 2016

* Minneapolis-St. Paul-Bloomington HMA. Source: U.S. Bureau of Labor Statistics

The HMA had strong economic growth after the most recent economic downturn that resulted from the national recession from 2007 to 2009. Total jobs declined by an average of 44,900, or 2.5 percent, annually in 2009 and 2010, but the losses were fully recovered by 2013. During the recovery and subsequent economic expansion from 2011 through 2015, nonfarm payrolls increased by an average of 35,600 jobs, or 2.0 percent, annually. During the 12 months ending February 2017, nonfarm payrolls rose by 30,600 jobs, or 1.6 percent, from a year earlier to average 1.96 million jobs, and exceeded the previous peak of 1.85 million jobs in 2007 by more than 6 percent. Growth in nearly every sector during the past 12 months more than offset the small loss of 300 jobs in the information sector (Table 2). The unemployment rate averaged 3.6 percent during the 12 months ending February 2017, up from 3.4 percent a year earlier, as labor force gains outpaced employment growth. Figure 1 shows trends in the labor force, resident employment, and the unemployment rate in the HMA from 2000 through 2016.

The HMA economy contracted during the early 2000s before expanding from 2003 through 2007. During 2001, payrolls increased slightly by 1,600 jobs, but from 2002 through 2003, payrolls decreased by an average of 13,800 jobs, or 0.8 percent, annually, a lagged effect of the national recession in 2001. The manufacturing and professional and business services sectors led job losses, shedding a respective 11,400 and 7,900 jobs, or 5.1 and 3.0 percent, annually. From 2004 through 2007, payroll growth resumed at an average of 18,900 jobs, or 1.1 percent, annually. The education and health

services and professional and business services sectors had the fastest job growth, averaging gains of 4.4 and 2.6 percent, or 10,100 and 6,900 jobs, respectively, per year.

Construction of the Minneapolis Transit Authority light rail lines began in 2003. The Metro Blue Line began running in June 2004, connecting downtown Minneapolis to the airport and Mall of America. The Metro Red Line opened in 2013, connecting Mall of America with Lakeview through the southern suburbs. The Metro Green Line, which opened in June 2014, connects downtown Minneapolis to the UofM campus and downtown St. Paul. The mining, logging, and construction sector lost an average of 8,600 jobs, or 12.7 percent, annually during 2009 and 2010, partly because of a slowdown in residential construction, but has gained an average of 9,000 jobs, or 5.6 percent, annually since 2011. The Green Line, nearly 10 miles in length, cost more than \$950 million, created more than 5,450 construction jobs, and generated more than \$4.2 billion in development along the line during the first 2 years of operation (Metropolitan Council). Several expansions are planned, including a Metro Orange line to open in 2019 that will extend from the city of Minneapolis to Lakeview south along Interstate 35W.

The education and health services sector was the second fastest growing payroll sector during the past year, increasing by 8,800 jobs, or 2.8 percent, to average 324,100 jobs during the 12 months ending February 2017. The education and health services sector is the largest employment sector in the HMA, and the sector has gained an average of 11,700 jobs, or 3.4 percent, since 2000. This sector also had the largest growth since 2000, increasing nearly three times as much as the second highest-growing sector (Figure 2). This payroll sector helped mitigate the impact of job losses during economic downturns and is one of the leading sectors during economic growth.



Figure 2. Sector Growth in the Minneapolis HMA,* Percentage Change, 2000 to Current

* Minneapolis-St. Paul-Bloomington HMA.

Notes: Current is based on 12-month averages through February 2017. During this period, payrolls in the wholesale and retail trade sector showed no net change.

Source: U.S. Bureau of Labor Statistics

During the most recent recession in 2009 and 2010, the sector added an average of 4,900 jobs, an increase of 1.8 percent, annually, to dampen the impact of losses in other sectors. Sector job growth is concentrated in the healthcare and social assistance industry, and growth is expected to continue during the 3-year forecast period. The Mayo Clinic recently announced the addition of 16,000 square feet to the existing 22,000-square-foot sports medicine center that opened in 2014 in downtown Minneapolis. The expansion will add 15 new patient examination rooms, an ultrasound suite, and an unannounced number of additional staff.

The government sector is the fourth largest payroll sector in the HMA

Figure 3. Current Nonfarm Payroll Jobs in the Minneapolis HMA,* by Sector



* Minneapolis-St. Paul-Bloomington HMA. Note: Based on 12-month averages through February 2017. Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Minneapolis HMA*

Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Minnesota	Government	53,800
Target Corporation	Wholesale & retail trade	30,750
Allina Health	Education & health services	23,850
University of Minnesota	Government	23,700
Wal-Mart Stores, Inc.	Wholesale & retail trade	20,700
Wells Fargo & Co.	Financial activities	20,000
Fairview Health Services	Education & health services	19,600
UnitedHealth Group	Education & health services	18,000
3M	Manufacturing	15,000
HealthPartners	Education & health services	11,000

* Minneapolis-St. Paul-Bloomington HMA. Note: Excludes local school districts.

Source: Twin Cities Business Information Guide

(Figure 3) and provides a source of economic stability. With the location of the state capital in the city of St. Paul, the State of Minnesota is the largest employer in the HMA, with more than 53,800 employees. Government payrolls account for 248,200 jobs, or nearly 13 percent of all payrolls. Also contributing to government sector payrolls is UofM, with nearly 23,700 employees (Table 3). With 51,580 full- and part-time students enrolled as of the fall 2016 semester at the Twin Cities campus, enrollment increased about 1 percent during the past year (UofM). Enrollment growth was strongest during economic recessions, because people not in the workforce took the opportunity to learn new skills. Enrollment rose nearly 3 percent annually from 2008 to a peak of 52,557 students during 2011. As job opportunities returned with economic growth, enrollment declined almost 1 percent annually from 2012 to 50,678 students during 2015. During the 12 months ending February 2017, government payrolls increased by 4,100 jobs, or 1.7 percent, from a year earlier. The local government subsector led growth, adding 3,200 jobs, a gain of 2.0 percent from a year earlier.

The professional and business services sector led job gains during the economic recovery from 2011 through 2015, increasing by an average of 8,200 jobs, or 2.8 percent, annually. Following job losses surrounding the national recession at the start of the 2000-to-2009 decade, the sector added an average of 5,700 jobs, a gain of 2.1 percent, annually, from 2004 through 2008, before a single year of job losses in 2009. The losses were significant, however, with a decline of 16,900 jobs, or 6.0 percent. The sector recovered quickly, and the number of jobs lost was recovered by 2011. Growth in the sector slowed during the 12 months ending February 2017 to 5,200 jobs, or 1.7 percent, from a year earlier. As the second largest payroll sector in the HMA, comprising 16.3 percent of all nonfarm payrolls, the professional and business services sector contributed significantly to job growth during periods of expansion and has been the third fastest-growing sector since 2000, increasing 16 percent.

With the Mall of America in the city of Bloomington, and with proximity to Chain of Lakes Regional Park and more than 50 microbreweries launched in the past 3 years, the HMA is a tourist destination. More than 500,000 Canadians visit the state annually, and the tourism industry generated more than \$625 million in sales tax in the HMA during 2015, supporting 167,950 jobs (Explore Minnesota). The leisure and hospitality payroll sector has been one of the fastest growing sectors since 2011, adding an average of 4,100 jobs, or 2.5 percent, annually, through 2015. During the 12 months

ending February 2017, the leisure and hospitality sector increased by 2,000 jobs, or 1.1 percent, to average 181,100 jobs. The Mall of America has more than 40 million visitors annually, and out-of-state visitors to the mall spend more than \$1 billion annually outside the mall on hotel rooms, rental cars, and other services (TripleFive Group of Companies).

Economic conditions are expected to continue to remain strong during the forecast period. Nonfarm payrolls are expected to rise an average of 1.5 percent annually, slower than the rate of 2.0 percent from 2011 through 2015. Growth in the education and health services sector is expected to continue to be significant. The Hennepin County Medical Center began construction of a \$220 million, 377,000-square-foot, ambulatory outpatient specialty center in late 2015. The building, which is expected to open in January 2018, will include six floors of clinics and services, with 221 stalls for patients and family.

Population and Households

Population growth in the Minneapolis HMA has been relatively consistent since 2000, as changing economic conditions, the local downturn from July 2001 through January 2003, and the deeper decline from June 2007 through January 2011 had relatively minor effects on population change. The current population of the HMA is estimated at 3.57 million, an increase of 32,250 people, or 0.9 percent, annually since 2010. During the previous decade,

population growth averaged 31,700 people, or 1.0 percent, annually. The components of population growth, however, have changed significantly since 2006. Population growth averaged 28,100 people, or 0.9 percent, annually from 2001 to 2005 (Census Bureau population estimates as of July 1), nearly all of which (95 percent) was because of net natural change (resident births minus resident deaths). From 2005 through 2009, population growth rose slightly to 32,850, or 1.0

percent, annually, but net in-migration more than tripled to 4,650 people annually. Part of the increased net in-migration was attributable to relatively minor effects of the national recession in the HMA, compared with nearby regional job centers. The Chicago and St. Cloud metropolitan areas were the sources of the most domestic migrants to the HMA (Census Bureau metro-to-metro migration flows). Unemployment rates in these two metropolitan areas peaked at 12.2 and 9.1 percent in January 2010, compared with a peak of 8.2 percent in the HMA. Since 2009, population growth in the HMA has slowed slightly to 31,500 people, or 0.9 percent, annually, but net in-migration surged

annually. As before, part of this increase was likely because of economic growth in the HMA. Since
2010, nonfarm payrolls in the HMA have risen 1.6 percent annually and are more than 6 percent higher than the previous peak in 2007. Figure 4 shows population and household growth in the HMA, and Figure 5 shows the components of population change in the HMA from 2000 to the forecast date.

more than 65 percent to 7,700 people

Revitalization of the downtown sections of Minneapolis and St. Paul and construction of mass transit significantly affected population growth in the Central submarket. Population in the submarket declined by an average of 1,725 people, or 0.1 percent, annually, from April 2000 to July 2004, with net out-migration averaging 13,850 people annually. The Metro Blue Line opened in 2004, and from 2004 to 2010, population growth in the submarket rose to 7,175 people, or 0.4 percent, annually, with net outmigration slowing to an average of 5,625 people annually. The expansion of the Blue Line and the additions of the Red and Green Lines that opened in 2013 and 2014, respectively, encouraged further population growth and residential development in the Central submarket. Since 2010, population growth has risen significantly to 17,750 people, or 1.0 percent, annually, with the migration pattern reversing and net in-migration surging to 5,700 people annually. Net in-migration to the Central submarket is expected to slow by 20 percent to 4,600 people during the next 3 years, as new residents likely will be attracted to increased transit and housing options in the Suburban submarket. Tables DP-1, DP-2, and DP-3 at the end of

Figure 4. Population and Household Growth in the Minneapolis HMA,* 2000 to Forecast



* Minneapolis-St. Paul-Bloomington HMA.

Notes: The current date is March 1, 2017. The forecast date is March 1, 2020. Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analyst





* Minneapolis-St. Paul-Bloomington HMA.

Notes: The current date is March 1, 2017. The forecast date is March 1, 2020. Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast-estimates by analyst this report show additional demographic information about the HMA and submarkets.

Population changes in the Suburban submarket were inversely related to changes in the Central submarket. As net in-migration and population growth increased in the Central submarket, these trends slowed in the Suburban submarket. The population rose by 34,650 people, or 2.4 percent, annually from April 2000 to July 2004, with net in-migration of 20,500 people, annually, constituting nearly 60 percent of total growth. From 2004 to 2010, population growth slowed to 23,600 people, or 1.5 percent, annually, with net in-migration falling to 8,550 people annually, or about 36 percent of population growth. Since





Note: The current date is March 1, 2017.

Sources: 2000 and 2010-2000 Census and 2010 Census; current-estimates by analyst





Note: The current date is March 1, 2017. Sources: 2000 and 2010–2000 Census and 2010 Census; current—estimates by analyst 2010, population growth in the Suburban submarket averaged 14,500 people, or 0.8 percent, annually. Net in-migration in the submarket continued to decline to 3,050 people, or 21 percent of population growth. Net in-migration to the Suburban submarket is expected to stabilize during the next 3 years, as increased residential construction likely will encourage households to reside further from the city center.

The number of households in the HMA is currently estimated to be 1.39 million, representing an average gain of 12,650, or 0.9 percent, annually, since 2010. In the Central submarket, the number of households grew by an average of 2,125, or 0.3 percent, annually, during the previous decade, as net out-migration contributed to lower household growth. Since 2010, as increased transit options and residential development resulted in higher net in-migration and household formation, household growth increased to 6,400, or 0.9 percent, annually. In contrast, household growth in the Suburban submarket averaged 11,750, or 2.1 percent, annually, during the previous decade, before falling to 6,275, or 1.0 percent, annually since 2010.

During the next 3 years, the population of the HMA is expected to increase by an average of 31,650, or 0.9 percent, a year. Approximately 28 percent of the growth is anticipated to be from net in-migration, which is expected to average 9,000 people a year. Household growth is expected to average 12,550, or 0.9 percent, annually during the next 3 years. Household growth is expected to be evenly split between the Central and Suburban submarkets. Figures 6 and 7 show the number of households by tenure in each submarket from 2000 to the current date.

Housing Market Trends

Sales Market–Central Submarket

Sales housing market conditions in the Central submarket are tight, with an estimated 1.3-percent vacancy rate, down from 2.1 percent in April 2010. During the 12 months ending February 2017, 28,025 new and existing single-family homes, townhomes, and condominiums sold, a decrease of more than 9 percent from a year earlier (CoreLogic, Inc., with adjustments by the analyst). Home sales reached a recent peak in 2004, totaling 39,150 home sales, before declining to 33,550 sales in 2006, an average drop of 7 percent annually, and then fell precipitously to a level of 18,800 sales during 2011, an average decline of 2,950 home sales, or 9 percent, annually. Home sales began to increase in 2012, rising by an average of 2,950, or 16 percent, annually through 2015, because of economic growth and increased access to credit. During the 12 months ending February 2017, home prices averaged \$292,100, up 5 percent from a year earlier. By comparison, as home sales declined from 2005 through 2011, home prices declined only slightly more than an average of 2 percent annually during the period.

Low levels of for-sale inventory hamper existing home sales in the submarket. The inventory of homes for sale fell by 33 percent from February 2016 to February 2017 (Minneapolis Area Association of Realtors®). During the 12 months ending February 2017, 26,750 existing homes sold, a 9-percent decrease from a year earlier (Core-Logic, Inc., with adjustments by the analyst). Existing home sales declined by 2,450 homes sold, or 7 percent, annually from 2004 through 2011. Because of strong economic and population growth, home sales grew

by an average of 2,375, or nearly 11 percent, annually from 2012 through 2015. Despite the strong increase, existing home sales are less than 80 percent of the peak of 34,900 homes sold during 2004. The inventory of homes available is not keeping up with the demand for homes. Despite existing home sales prices that rose nearly 7 percent annually from 2009 through the 12 months ending February 2017 to \$283,200, existing homeowners are not listing homes for sale. Many existing homeowners are wary of selling primary residences without an adequate supply of for-sale inventory to purchase (local real estate sources). This reluctance is limiting the number of single-family homes for sale throughout the Minneapolis HMA, including the submarket. During February 2017, a 1.9-month supply of homes for sale existed in the submarket, down from a 2.1-month supply a year earlier (Minneapolis Area Association of Realtors[®]).

The increase in total home prices in the mid-2000s in the HMA mirrored the rest of the nation, but the decline in home prices during the national recession was steeper in the HMA, falling by more than 9 percent annually from 2006 to 2009, compared with less than 8 percent nationally. Of all home loans in the Central submarket, 1.2 percent were seriously delinquent (loans that are 90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status as of January 2017, down from 1.7 percent a year earlier and less than the 5.8-percent peak reached during January 2010 (Core-Logic, Inc.). By comparison, the percentage of loans that were seriously delinquent or had transitioned into REO status in the nation was 2.6 percent during January 2017.

The condominium market in the submarket is tight, with a 1.7-month supply of for-sale inventory during February 2017, down from a 2.0-month supply a year earlier (Minneapolis Area Association of Realtors[®]). By comparison, the for-sale condominium inventory comprised a 4.2-month supply nationally in February 2017, down from a 4.8-month supply a year earlier (National Association of Realtors[®]). Condominium sales prices in the submarket averaged \$173,100 during the 12 months ending February 2017, down 2 percent from \$176,900 a year earlier. During the period, condominium sales declined more than 4 percent to 5,525 sales. Construction of condominiums, as measured by the number of homes permitted, averaged 1,725 units annually from 2000 through 2006, before declining rapidly to an average of 230 units annually from 2007 through 2011. Demand for condominiums remains strong, however, as the higher prices of new detached, single-family homes in the HMA price existing and potential homeowners out of that market segment. Builders are beginning to respond to this increasing demand. From 2012 through 2016, condominium construction rose to an average of 270 units annually. Portland Tower, a 112-unit condominium project, in the Downtown East district of the city of Minneapolis, was completed in July 2016, and one-half of the units sold or are reserved. The project offers units ranging in price from \$299,000 to \$877,000.

New home demand is transitioning from the Central submarket to the Suburban submarket, and new home

sales in the Central submarket are declining. New home sales decreased more than 19 percent to 1,275 during the 12 months ending February 2017 from a year earlier, and the average new home sales price decreased 2 percent to \$478,500 (CoreLogic, Inc., with adjustments by the analyst). The inventory of new homes for sale that are priced less than \$250,000 declined 19 percent in February 2017 from a year earlier (Minneapolis Area Association of Realtors[®]). During the fourth quarter of 2016, the inventory of vacant developable lots in the submarket for homes priced under \$250,000 declined 24 percent from a year earlier (Metrostudy, A Hanley Wood Company). From 2005 through 2008, new home prices increased 4 percent annually to \$364,900, the highest rate in the HMA. At the same time, however, home sales decreased an average of 18 percent annually, to 2,275 new single-family homes sold in 2008, during a period of moderate population growth and tightening lending requirements for mortgages. During the subsequent 2 years, the average price of a new home plummeted 8 percent annually to \$306,000 in 2010. New home sales continued to decrease more than 22 percent annually from 2008, to a low of 1,050 homes sold during 2011. From 2012 through 2015, because of strong net in-migration and economic growth, new home sales rose 10 percent annually to 1,575 sales, and the average price of a new home rose an average of 12 percent annually to \$489,200. In part, the strong increase in new home prices since 2010 was a result of the construction of larger homes. The average size of a new home built during the 12 months ending February 2017 was about 2,450 square feet (Metrostudy,

A Hanley Wood Company). By comparison, the size of new homes averaged about 2,250 square feet during 2010, before rising to an average of 3,250 square feet during 2014 and 2015, an increase of nearly 45 percent.

Net out-migration and limited household growth in the submarket from 2005 through 2010, coupled with the economic effects of the national recession, discouraged homebuilding activity, as measured by the number of single-family homes permitted. Single-family permitting averaged 3,275 homes annually from 2000 through 2005, before averaging declines of nearly 30 percent annually to a low

Figure 8. Single-Family Homes Permitted in the Central Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through February 2017. Data for 2017 are preliminary.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 4. Estimated Demand for New Market-Rate Sales Housing in
the Central Submarket During the Forecast Period

Price Range (\$)		Units of	Percent	
From	m To De		l of Total	
273,000	349,999	1,975	20.0	
350,000	449,999	2,950	30.1	
450,000	599,999	2,950	30.1	
600,000	749,999	1,200	12.2	
750,000	and higher	750	7.6	

Notes: The 540 homes currently under construction and a portion of the estimated 14,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is March 1, 2017, to March 1, 2020. Source: Estimates by analyst of 790 homes permitted during 2009 (Figure 8). Homebuilding activity began to recover in 2010, and new home construction averaged gains of 27 percent annually to 1,925 homes permitted in 2013, before leveling off to an average of 1,900 homes annually from 2014 through 2016. During the 12 months ending February 2017, 1,900 single-family homes were permitted in the submarket, a small increase from the 1,875 homes permitted during the previous 12 months (preliminary data).

The submarket includes the central cities of the HMA, Minneapolis and St. Paul, and is largely built out; however, areas of opportunity for development still exist. Most available and affordable land is typically in the first-ring suburbs and outer suburbs of the HMA, limiting potential singlefamily development near the central cities. Hamlets of Rush Creek, in Maple Grove northwest of the city of Minneapolis, is a 76-lot, single-family development currently under construction. Homes in the community start at \$425,990.

During the next 3 years, demand in the submarket is expected for 9,825 new single-family homes, townhomes, and condominiums (Table 1). The 540 homes currently under construction and a portion of the 14,000 other vacant units that may come back on the market likely will satisfy a portion of the forecast demand. Demand for new homes is anticipated to be strongest in the \$350,000-to-\$499,999 price range (Table 4).

Rental Market–Central Submarket

The rental housing market in the Central submarket is currently balanced, with an overall estimated vacancy rate-including apartments, singlefamily homes, mobile homes, and other rental units-of 5.6 percent, down from 7.5 percent during April 2010 (Figure 9). Approximately 32 percent of all occupied rental units in the submarket are single-family homes and structures of one to four units, compared with 27 percent in 2000 (2015 American Community Survey [ACS] 1-year estimates; 2000 Decennial Census). The apartment vacancy rate was 2.4 percent during the fourth quarter of 2016, down from 3.1 percent a year earlier (MPF Research, Inc.). Strong rental market demand from increased net in-migration led builders to increase apartment construction in 2015 and 2016. Despite increased construction in the submarket, absorption is stronger, leading to a tight apartment market. Despite tight apartment market conditions, rent increases are not as strong as in recent years, partly because of increased use of concessions at Class-A units competing with the large number of newly constructed units currently in leaseup. The apartment rent in the

 Solution
 7.5

 7.0
 5.6

 5.0
 5.6

 4.0
 2.6

 2.0
 2.6

 2.0
 200

 2000
 2010

Sources: 2000 and 2010-2000 Census and 2010 Census; current-estimates by analyst

submarket was \$1,161 in the fourth quarter of 2016, a 3-percent increase from a year earlier. By comparison, the average apartment rent rose nearly 6 percent from the fourth quarter of 2014 to the fourth quarter of 2015. Monthly rents averaged \$940, \$1,016, \$1,272, and \$1,968 for studio, one-, two-, and three-bedroom units in the submarket, respectively.

Nearly one-half of the new apartment construction during 2016 in the entire HMA was concentrated in the MPF Research-defined Downtown Minneapolis/University and Uptown/ St. Louis Park market areas, both of which are in the Central submarket. These market areas had the highest rents, averaging \$1,558 and \$1,249, respectively, during the fourth quarter of 2016 (MPF Research, Inc.). Additionally, the combined vacancy rate in the Downtown Minneapolis/University and Uptown/St. Louis Park market areas was 2.7 percent during the fourth quarter of 2016, down from 4.7 percent a year earlier. The combined market area benefited from the development of the Metro Green Line, which is expected to attract \$7 billion of economic development along the rail line over the next 30 years; however, the Green Line development attracted \$4.2 billion in development in the first 2 years of operation (Metropolitan Council). Additionally, the submarket is home to UofM, one of the largest universities in the nation, with enrollment of 51,580 students in the fall of 2016 at the Twin Cities campus. Students at UofM account for about 6 percent of the renter households in the submarket and contribute to strong rental demand in the market area.

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Figure 9. Rental Vacancy Rates in the Central Submarket, 2000 to Current

Note: The current date is March 1, 2017.

Apartments have comprised nearly 95 percent of multifamily units built in the submarket since 2010, spurred by strong demand for rental housing and partly because 75 percent of households moving to the HMA from Chicago and St. Cloud since 2010 have been renters (ACS 1-year data). Builders increased multifamily construction, as measured by the number of multifamily units permitted, to an average of 5,325 units annually from 2011 through 2015 and maintained levels at 5,250 units permitted during the 12 months ending February 2017 (preliminary data). This activity is more than quadruple the average of 1,325 units permitted annually from 2007 through 2010 and higher than the average of 4,350 units permitted annually from 2000 through 2006. The increased activity since 2011 is partly in response to average annual net in-migration of 5,700 annually since 2010 that was in sharp contrast to net out-migration of 5,625 annually from 2004 to 2010. The increased net in-migration was in conjunction with the construction of the Red and Green light rail lines that were completed in

2013 and 2014. Figure 10 shows the number of multifamily units permitted in the submarket from 2000 to the current date.

In conjunction with the transit expansion of the Blue, Red, and Green Lines, a concentration of new apartment developments emerged. Recent completions and developments under way in the submarket include projects along the transit corridors. Rise at Prospect Park, in the Prospect Park East River Road neighborhood adjacent to the Green Line and near the UofM campus, is currently under construction. The mixed-use development will contain 336 marketrate apartments and nearly 40,000 square feet of commercial space and is expected to be complete in April 2018. Proposed rents are not yet available. Ray apartments, an 80-unit project near the Green Line in St. Paul, will offer micro units ranging from 372 to 509 square feet, with monthly rents of \$960 to \$1,170. One- and two-bedroom units will rent from \$1,280 to \$1,790 monthly.

During the next 3 years, demand is estimated for 12,850 new marketrate rental units in the submarket (Table 1). The estimated 4,600 units currently under construction will meet a portion of the expected demand. In addition, projects in planning with construction scheduled or with final plan approval are expected to add another 2,200 units during the next 3 years. Table 5 shows the forecast demand for new market-rate rental housing in the submarket by rent level and number of bedrooms.





Notes: Excludes townhomes. Current includes data through February 2017. Data for 2017 are preliminary.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Central Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,140 to 1,339	1,100	1,280 to 1,479	3,775	1,725 to 1,924	2,500	2,200 to 2,399	830
1,340 to 1,539	850	1,480 to 1,679	1,350	1,925 to 2,124	500	2,400 or more	830
1,540 or more	490	1,680 or more	270	2,125 or more	330		
Total	2,450	Total	5,400	Total	3,350	Total	1,675

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 4,600 units currently under construction will likely satisfy some of the estimated demand. The forecast period is March 1, 2017, to March 1, 2020.

Source: Estimates by analyst

Sales Market–Suburban Submarket

Current sales housing market conditions in the Suburban submarket are tight, with an estimated 1.0-percent vacancy rate, down from 1.7 percent in April 2010. The submarket had a 2.9-month supply of for-sale inventory in February 2017, equal to the 2.9-month supply a year earlier (Minneapolis Area Association of Realtors®; CoreLogic, Inc.). The average home price for new and existing home sales increased 4 percent during the 12 months ending February 2017 to nearly \$245,200, and the number of homes sold rose nearly 1 percent to approximately 36,625 (CoreLogic, Inc., with adjustments by the analyst). The average price and total home sales are below the highs reached before the housing crisis and the Great Recession. The average price is about 4 percent less than the previous peak of \$254,650 in 2006. Likewise, total home sales are about 33 percent less than the peak of 54,600 homes sold in 2004.

Existing home sales, including singlefamily homes, townhomes, and condominiums, increased more than 2 percent to 33,700 homes sold during the 12 months ending February 2017, compared with the number sold a year earlier. Existing home sales are 18 percent below the previous peak of

41,000 homes sold in 2004, but existing sales prices are less than 2 percent lower than the previous peak in 2006. From 2001 through 2006, sales of existing homes were strong, a result of strong net in-migration, averaging 36,950 homes sold annually. Existing home prices rose more than 7 percent annually to a peak of \$238,800 in 2006. When lending requirements tightened and jobs were lost, sales declined quickly, decreasing by 3,075 homes sold, or nearly 12 percent, annually from 2007 through 2011, and prices declined 8 percent annually to a low of \$172,400. The recovery was strong, with sales growth similar to that of the first part of the past decade. From 2012 through 2015, sales increased by 3,650 homes sold, or 15 percent, annually, to average 32,750 homes sold, and prices rose nearly 8 percent annually to \$222,500 in 2015.

Mortgage delinquency in the submarket returned to the low levels from 2000 and remains well below the national average. As of January 2017, 1.3 percent of home loans in the HMA were seriously delinquent or had transitioned into REO status, down from 1.6 percent a year earlier and from a peak of 6.7 percent in January 2010. By comparison, the national rate was 2.6 percent during January 2017, down from 3.2 percent a year earlier, and the peak of 8.6 percent in February 2010.

Despite recent increases in new home construction in the submarket, new home sales in the HMA are approximately 80 percent below the most recent peak of 13,600 new homes sold in 2004. During the 12 months ending February 2017, 2,925 new homes sold, down more than 15 percent from a year earlier. From 2001 through 2004, partly in response to economic growth and strong net in-migration, new home sales increased more than 30 percent annually, by 2,500 homes, during the buildup before the national housing crisis. Beginning in 2005, demand for new homes diminished as the housing market began to show signs of weakness. From 2005 through 2011, new home sales decreased by 1,775 homes sold, or 25 percent, annually, to 2,225 homes sold. As net in-migration began to rise in 2012, consumer confidence grew after the recession ended, and demand increased as access to credit improved. In 2012 and 2013, new home sales rose by 1,375 homes sold, a gain of 51 percent, annually, to 4,025 homes, before dipping 13 percent to 3,500 homes sold in 2014. The average price of a new home built during the 12 months ending February 2017 was \$367,500. Although only 2 percent higher than new home prices a year earlier, this price is 21 percent

Figure 11. Single-Family Homes Permitted in the Suburban Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through February 2017. Data for 2017 are preliminary. Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst higher than the average of \$302,600 for new homes sold in 2006. The price of a new home fell an average of 7 percent annually from 2007 through 2009 and increased by an average of about 6 percent annually through 2015. One reason new home prices recovered beyond their prerecession peak is a sharp rise in home sizes. The average size of a new home built during the 12 months ending February 2017 was about 2,425 square feet, 11 percent larger than the average size in 2007 (Metrostudy, A Hanley Wood Company). By comparison, the size of new homes averaged about 2,250 square feet during 2008 and 2009, before rising to 2,550 square feet from 2012 through 2014.

Single-family homebuilding activity, as measured by the number of homes permitted, averaged 14,350 units from 2000 through 2002, when population growth was relatively strong because of net in-migration to the Suburban submarket. Despite slightly slowing population growth, demand for housing increased. From 2003 through 2004, the number of single-family homes permitted rose by 1,325 homes, or 8 percent, annually, to a peak of 17,500 homes permitted (Figure 11). Following national trends and the bursting of the housing market bubble, single-family construction decreased by an average of 2,100 units, or 23 percent, annually, to a low of 2,800 homes permitted in 2011 following the recession. Beginning in 2012, after 2 years of job gains and economic recovery in the HMA, single-family home construction gradually recovered, increasing by an average of 210 homes, or 5 percent, annually, to 4,875 homes permitted in 2015. During the 12 months ending February 2017, approximately 5,925 homes were permitted,

up 20 percent from the 4,950 homes permitted during the previous 12 months (preliminary data).

Recent new home construction has been concentrated in the southern portion of the submarket, about 20 miles south of the cities of Minneapolis and St. Paul, near Apple Valley. Construction of the Cobblestone Lake master-planned community, comprising more than 323 acres, is currently

Table 6. Estimated Demand for New Market-Rate Sales Housing in the Suburban Submarket During the Forecast Period

Price Range (\$)			Units of	Percent
	From	То	Demand	of Total
	202,000	299,999	3,350	20.0
	300,000	399,999	5,875	35.0
	400,000	499,999	5,875	35.0
	500,000	and higher	1,675	10.0

Notes: The 1,350 homes currently under construction and a portion of the estimated 21,200 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is March 1, 2017, to March 1, 2020. Source: Estimates by analyst under way, and approximately 900 homes of the potential 2,500 singlefamily and multifamily homes are complete. Spirit of Brandtjen Farm, in nearby Lakeville, is also under way with nearly 500 homes planned, and prices for single-family homes starting in the mid-\$300,000s.

During the next 3 years, demand is expected for 16,750 new singlefamily homes, townhomes, and condominiums (Table 1). The 1,350 homes currently under construction and a portion of the 21,200 other vacant units that may reenter the market likely will meet a portion of the demand. Demand is anticipated to be strongest for new homes priced between \$300,000 and \$499,999 (Table 6).

Rental Market–Suburban Submarket

The rental housing market in the Suburban submarket is tight, with an overall estimated vacancy rate including apartments, single-family homes, mobile homes, and other rental units—of 3.2 percent, down from 7.6 percent during April 2010 (Figure 12). Approximately 49 percent





Note: The current date is March 1, 2017.

Sources: 2000 and 2010–2000 Census and 2010 Census; current-estimates by analyst

of all occupied rental units in the submarket are single-family homes and structures of one to four units, offering alternatives to apartments (2015 ACS 1-year estimates). Apartment market conditions are tight and followed a similar trend to the Central submarket. Population and household growth and limited for-sale housing inventory led to increased rental market demand in the Suburban submarket. During 2014 and 2015, builders increased apartment construction in response to the stronger demand. The apartment vacancy rate was 2.2 percent during the fourth quarter of 2016, down from 2.8 percent a year earlier (MPF Research, Inc.). By comparison, the vacancy rate averaged 2.6 percent from 2012 through 2014. The apartment rent in the submarket was \$978

in the fourth quarter of 2016, up 5 percent from a year earlier. By comparison, the average apartment rent increased an average of 3 percent annually from 2012 through 2015. Monthly rents averaged \$720, \$867, \$1,019, and \$1,255 for studio, onebedroom, two-bedroom, and threebedroom units, respectively.

Multifamily construction rose during the past year. During the 12 months ending February 2017, 1,875 multifamily units were permitted, up from 1,125 units permitted a year earlier (preliminary data). Builders increased multifamily construction, as measured by the number of units permitted, to 3,100 units during 2014, nearly 4 times the average of 810 units permitted annually from 2007 through 2013 (Figure 13). Despite the increased activity since 2014, the current level of permitting is far below the average of 3,575 units permitted annually from 2000 through 2006, when net in-migration was nearly five times higher than the average since 2014. The moderate level of multifamily construction in the submarket since 2010 is partly in response to slowing

Figure 13. Multifamily Units Permitted in the Suburban Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through February 2017. Data for 2017 are preliminary. Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst annual net in-migration since 2010. Net in-migration to the submarket comprised all the net in-migration to the HMA during the previous decade but has fallen to less than 35 percent since 2010. Increased transit options and development in the urban core has attracted new renter households to the Central submarket.

Current developments in the Suburban submarket include two projects delivered in Apple Valley during 2016. The 196-unit Gabella at Parkside and the 280-unit Springs at Apple Valley are both in Apple Valley's town center. The Gabella at Parkside is nearing completion, and rents for one-, two-, and three-bedroom units begin at \$1,140, \$1,530, and \$1,750, respectively. Rents at the Springs at Apple Valley begin at \$1,122, \$1,360, \$1,480, and \$1,893 for studio, one-, two-, and three-bedroom units, respectively.

During the next 3 years, demand is estimated for 3,700 new market-rate rental units in the submarket (Table 1). The estimated 1,000 units currently under construction will meet a portion of the expected demand. Planned projects with construction scheduled are expected to add another 1,380 units during the next 3 years. Any additional construction in the submarket, including projects in various stages of planning, should be timed to enter the submarket during the third year of the 3-year forecast period. Table 7 shows the forecast demand for new market-rate rental housing in the submarket by rent level and number of bedrooms.

Table 7. Estimated Demand for New Market-Rate Rental Housing in the Suburban Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand						
1,097 to 1,296	65	1,140 to 1,339	540	1,480 to 1,679	1,275	1,890 to 2,089	540
1,297 to 1,496	50	1,340 to 1,539	190	1,680 to 1,879	250	2,090 or more	540
1,497 or more	30	1,540 or more	40	1,880 or more	170		
Total	150	Total	780	Total	1,700	Total	1,075

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 1,000 units currently under construction will likely satisfy some of the estimated demand. The forecast period is March 1, 2017, to March 1, 2020.

Source: Estimates by analyst

Data Profiles

Average Annual Change (%)

Table DP-1. Minneapolis HMA,* Data Profile, 2000 to Current

	2000	2010	Current	2000 to 2010	2010 to Current
Total resident employment	1,741,965	1,733,642	1,871,000	0.0	1.2
Unemployment rate	2.7%	7.3%	3.6%		
Nonfarm payroll jobs	1,797,200	1,749,700	1,964,000	- 0.3	1.9
Total population	3,031,918	3,348,859	3,572,000	1.0	0.9
Total households	1,160,655	1,299,635	1,387,300	1.1	0.9
Owner households	842,895	930,449	945,800	1.0	0.2
Percent owner	72.6%	71.6%	68.2%		
Renter households	317,760	369,186	441,500	1.5	2.6
Percent renter	27.4%	28.4%	31.8%		
Total housing units	1,197,124	1,386,721	1,456,000	1.5	0.7
Owner vacancy rate	0.6%	1.9%	1.2%		
Rental vacancy rate	2.8%	7.6%	4.8%		
Median Family Income	\$63,600	\$83,900	\$88,802	2.8	1.0

* Minneapolis-St. Paul-Bloomington HMA.

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through February 2017. Median Family Incomes are for 1999, 2009, and 2012. The current date is March 1, 2017.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. Central Submarket Data Profile, 2000 to Current

				Average Ann	ual Change (%)
	2000	2010	Current	2000 to 2010	2010 to Current
Total population	1,627,235	1,661,065	1,784,000	0.2	1.0
Total households	657,365	678,604	722,900	0.3	0.9
Owner households	429,511	429,569	433,000	0.0	0.1
Percent owner	65.3%	63.3%	59.9%		
Renter households	227,854	249,035	289,900	0.9	2.2
Percent renter	34.7%	36.7%	40.1%		
Total housing units	675,272	726,666	759,900	0.7	0.6
Owner vacancy rate	0.5%	2.1%	1.3%		
Rental vacancy rate	2.6%	7.5%	5.6%		

Notes: Numbers may not add to totals because of rounding. The current date is March 1, 2017.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-3. Suburban Submarket Data Profile, 2000 to Current

				Average Ann	Average Annual Change (%)	
	2000	2010	Current	2000 to 2010	2010 to Current	
Total population	1,404,683	1,687,794	1,788,000	1.9	0.8	
Total households	503,290	621,031	664,500	2.1	1.0	
Owner households	413,384	500,880	512,900	1.9	0.3	
Percent owner	82.1%	80.7%	77.2%			
Renter households	89,906	120,151	151,600	2.9	3.4	
Percent renter	17.9%	19.3%	22.8%			
Total housing units	521,852	660,055	695,900	2.4	0.8	
Owner vacancy rate	0.7%	1.7%	1.0%			
Rental vacancy rate	3.2%	7.6%	3.2%			

Notes: Numbers may not add to totals because of rounding. The current date is March 1, 2017.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census 2010: 4/1/2010—U.S. Decennial Census Current date: 3/1/2017—Estimates by the analyst

Forecast period: 3/1/2017–3/1/2020—Estimates by the analyst

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.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/ CMARtables_Minneapolis_StPaul_BloomingtonMN_ WI_17.pdf.

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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.

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.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.