

# COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market



## MULTIFAMILY MARKET

### Voracious Renter Demand Exceeds Supply

Despite a steady pipeline of new projects that have been delivered over the past five years, vacancies dipped another 20 basis points in first quarter to 2.2%. Even accounting for new properties still undergoing lease-up, vacancies continue to hover at an exceptionally low 2.8%. The apartment sector is benefitting from a perfect storm of demand coming from a robust local economy; job and population growth; a strong cohort of Millennials and Empty Nesters that favor renting; and a limited inventory of for-sale homes.

#### DEVELOPERS RACE FORWARD WITH MORE PROJECTS

Construction is on pace for a record year with completions expected to reach more than 5,500 units. That volume comes on top of the 18,500 units delivered from 2013 through 2017. Vacancies will likely climb higher in the short term as the market works to absorb the surge in new supply, and concessions may emerge in pockets where there is a bigger concentration of new properties being added. For example, an estimated 1,400 units will open in Downtown Minneapolis this year, which is more than double the volume of deliveries in 2016 and 2017 combined. However, demand is proving to be strong and sustainable. Some new projects in high-demand areas have experienced strong leasing momentum even through the winter months.

#### NOTABLE DEVELOPMENT DEALS

As previously reported, Opus is nearing completion of its 365 Nicollet project. The 30-story building will add 369 units to downtown Minneapolis with the first move-ins expected to start in the second quarter.

#### MULTIFAMILY AVERAGE RENTS BY UNIT TYPE

Source: Marquette Advisors

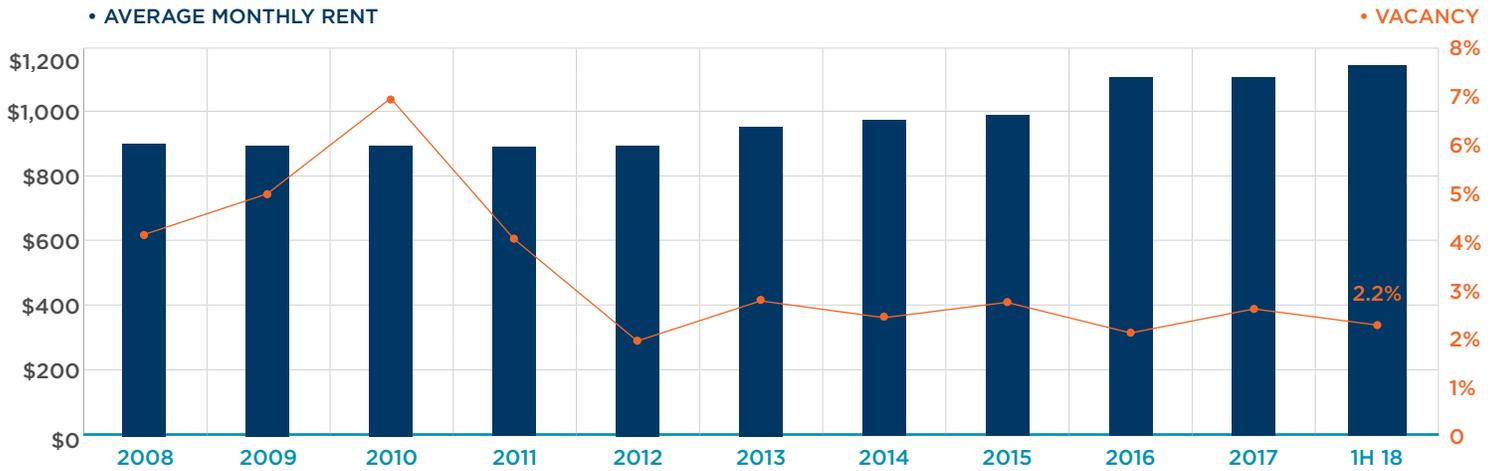
##### AVERAGE MARKET RENT

##### % CHANGE



### MULTIFAMILY TWIN CITIES METRO RENT & VACANCY

Source: Marquette Advisors



### APARTMENTS BENEFIT FROM SHORTAGE OF FOR-SALE HOMES

Economic and demographic drivers that have propelled the rental market for the past few years remain firmly in place. The Minneapolis MSA added 8,000 new jobs during first quarter, which is consistent with the 30,000 annual new jobs that the metro has generated for the past three years. Apartment owners are also riding an added tailwind from the limited supply of for-sale homes, townhomes and condos.

The inventory of for-sale homes is at its lowest level in more than a decade with an average supply at mid-year hovering at 1.9 months. Some Millennial homebuyers who have been discouraged with the ability to find a starter home that fits their criteria in terms of location, quality and price have moved to the sidelines and are delaying plans to purchase a home.

Providing more affordable options for renters along with the opportunity to generate higher per square foot rents is pushing developers to expand into the micro-unit market.

### OUTLOOK

Developers could open another 6,000 additional units in 2019, which would bring the total expansion of the apartment inventory during this development cycle to 8.5% since 2013.

Developers are starting to see return on cost starting to slide due to land and construction costs that are up nearly 35%.

Tech is emerging as the new “super” amenity with on-site features that include perks such as ultra-fast Wi-Fi, Echo devices and smart thermostats as part of the rental package.

## ABOUT THE AUTHOR

### THE COMPASS REPORT

Copyright © 2018 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. It is our intent to provide the best possible information while leaving the reader the responsibility of further verification before using this report for business and/or financial decisions. The report was created by experts using Twin Cities commercial property data from the first six months of 2018. The Compass report includes information for multi-tenant office, industrial and retail projects greater than 20,000 SF and multifamily for-rent properties. Not included are owner occupied, government or single-tenant buildings. Not all information and insights we've collected can be published in any given issue.

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