

# MARKETBEAT

## Minneapolis/St. Paul Industrial Q3 2017



### MINNEAPOLIS/ST. PAUL INDUSTRIAL

#### Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Minneapolis Employment	2.0M	2.0M	▲
Minneapolis Unemployment	3.6%	3.5%	▼
U.S. Unemployment	4.9%	4.4%	▼

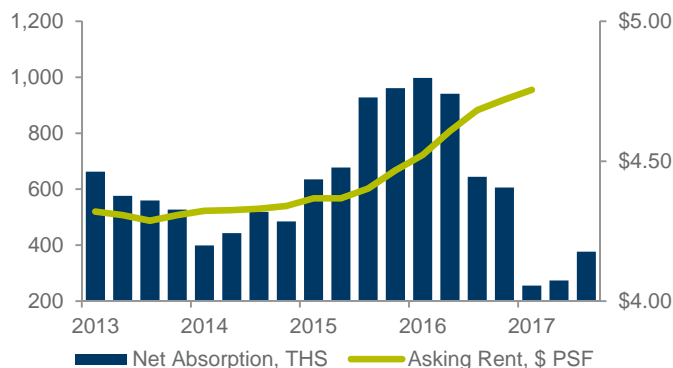
#### Market Indicators (Overall, All Classes)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	8.4%	8.0%	▼
YTD Net Absorption (sf)	460k	988k	▲
Under Construction (sf)	2.2M	2.4M	■
Average Asking Rent*	\$4.78	\$4.90	▲

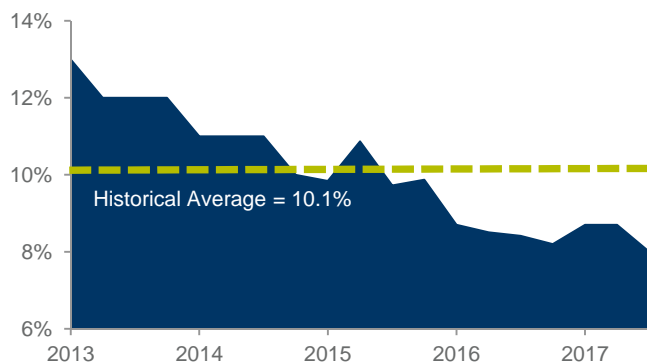
\*Rental rates reflect net asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent

##### 4-QTR TRAILING AVERAGE



#### Overall Vacancy



### Economy

According to the Minnesota Department of Employment and Economic Development, Minnesota has outgained the U.S. in over-the-year job growth for four consecutive months, and is in the midst of a seven-year employment expansion. In the metro, solid hiring demand was partly overshadowed by the continuation of baby boomers retiring and an increase of part-time and low-wage positions as job vacancies increased 36.8% from one year ago.

### Market Overview

Demand for modern industrial product remained strong in Minneapolis/St. Paul as market fundamentals regained momentum through the third quarter of 2017. Leasing activity increased as the market vacancy rate declined 70 basis points (bps) from second quarter 2017. Over the past four years the vacancy rate has declined 260 bps as tenants have expanded into highly sought after new speculative and build-to-suit (BTS) developments.

Overall absorption exceeded 872,000 square feet (sf) in the third quarter 2017 and is nearing 1.0 million square feet (msf) year-to-date. Excluding sublease activity, direct absorption has already surpassed 1.0 msf year-to-date. Warehouse/Distribution continues to be the key market driver as vacancy declined 130 bps from second quarter 2017. In terms of submarkets, the Northwest vacancy rate has dropped 100 bps from first quarter 2017 and accounts for nearly 60% of total market absorption year-to-date.

Construction activity remains robust, and the pipeline continues to expand. A wave of new multi-tenant deliveries is expected in fourth quarter 2017, to the tune of 1.3 msf. Of those deliveries, 63% of the space is pre-leased which will bolster end-of-year absorption numbers. BTS deliveries in the fourth quarter 2017 will add another 795,000 sf of user-occupied space to the market.

Closed investment sales slowed in the third quarter 2017, yet ample amounts of available investment capital is eagerly awaiting an increase of for-purchase modern warehouse facilities. Sellers continue to obtain premium pricing and competing offers for high-quality assets.

### Outlook

After a languid start to 2017, the market could reach 2 msf of overall absorption by year-end. Of the 1.3 msf of new speculative product expected to come online in the fourth quarter of 2017, over 800,000 sf is pre-leased and set for occupancy. The additional new product will continue to put upwards pressure on asking rates, and larger tenants in expansion mode are likely to exert downward pressure on overall vacancy rates.

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SUBMARKET	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT (HT)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (WD)
Northeast	33,060,504	469,588	6.8%	-136,514	1,168,900	\$5.12	\$4.73	\$4.64
Northwest	29,343,504	466,507	10.6%	586,081	384,200	\$5.05	\$5.44	\$4.52
Southeast	17,713,335	62,666	6.9%	366,015	459,623	\$5.17	\$4.79	\$4.83
Southwest	25,935,036	177,251	7.4%	172,271	430,700	\$5.43	\$4.90	\$4.90
<b>MINNEAPOLIS/ST. PAUL TOTALS</b>	<b>106,052,379</b>	<b>1,176,012</b>	<b>8.0%</b>	<b>987,853</b>	<b>2,443,423</b>	<b>\$5.21</b>	<b>\$5.00</b>	<b>\$4.63</b>

\*Rental rates reflect asking \$psf/year

HT = High Tech OS = Office Service/Flex W/D = Warehouse/Distribution

SUMMARY BY TYPE	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT
High Tech	315	20,444,653	53,646	10.6%	-170,347	0	\$5.21
Office Service/Flex	689	48,475,219	851,622	5.8%	544,693	1,237,300	\$5.00
Warehouse/Distribution	220	37,132,507	270,744	9.5%	613,507	1,206,123	\$4.63

### Key Lease Transactions Q3 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5651 Innovation Blvd., Shakopee	162,753	COKem	New	Southwest
945 Aldrin Dr., Eagan	71,497	Don Stevens LLC	New	Southeast
2250 Pilot Knob Rd., Mendota Heights	66,000	RTI	Renewal	Southeast
8201 Brooklyn Blvd., Brooklyn Park	63,129	The Bindary	New	Northwest
2841 Beverly Dr., Eagan	60,000	Shaw Industries	New	Southeast

### Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
411 Farwell Ave., South St. Paul	422,727	Equity Commonwealth / Farallon Cap Management	\$16,250,000 / \$38	Southeast
9997 85 <sup>th</sup> Ave. N, Maple Grove	285,000	Scannell / Gramercy	\$24,520,000 / \$86	Northwest
700 24 <sup>th</sup> Ave. S, Minneapolis	168,096	TCF Financial / Interstate Development	\$3,500,000 / \$21	Northeast
5150 76 <sup>th</sup> St. W, Edina	139,101	Sara Investment / Francois Oil	\$10,962,500 / \$79	Southwest
12201-12243 Nicollet Ave. S, Burnsville	117,667	Wellington Management / Commercial Partners	\$4,725,000 / \$40	Southeast

Cushman & Wakefield  
3500 American Blvd W, Ste 200  
Bloomington, MN 55431  
[cushmanwakefield.com](http://cushmanwakefield.com)

For more information, contact:  
Patrick Hamilton  
Director of GIS & Market Analytics  
Tel: +1 952 837 8574  
[patrick.hamilton@cushwakenm.com](mailto:patrick.hamilton@cushwakenm.com)

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