

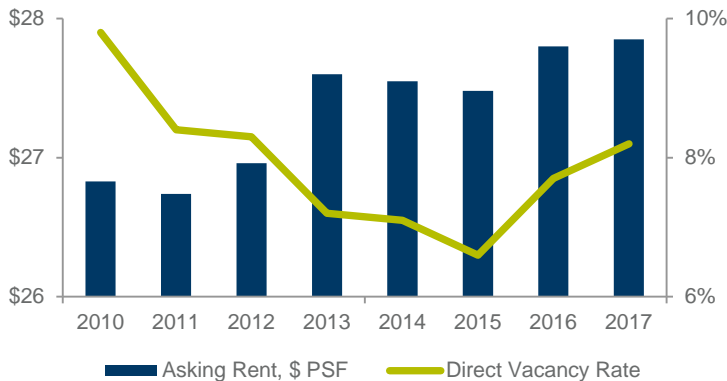
ECONOMIC INDICATORS

National	Q2 16	Q2 17	12-Month Forecast
GDP Growth	1.3%	2.3%	▲
CPI Growth	1.1%	1.9%	▲
Consumer Spending Growth	2.7%	2.7%	■
Retail Sales Growth	2.2%	4.0%	■

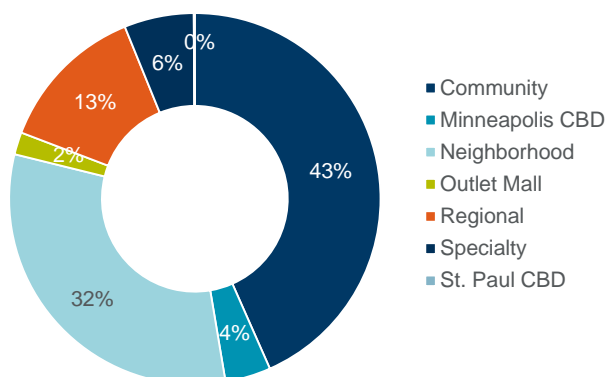
Regional	Q2 16	Q2 17	12-Month Forecast
Household Income	\$72,200	\$73,671	▲
Population Growth	1.2%	1.1%	▲
Unemployment	3.5%	3.4%	▼

Source: Moody's Analytics

Rental Rate vs. Direct Vacancy



Availability by Submarket



Economy

Over the past year, the state added 48,068 jobs, a gain of 1.7% compared to the national average of 1.5%. The Twin Cities economy, specifically, continues to churn as it has added over 200,000 jobs since the end of second quarter 2009, and the labor market continues to tighten as job vacancy postings have increased. According to the Minnesota Department of Employment and Economic Development, the Twin Cities had less than one unemployed persons for every one job vacancy as of April 2017.

Market Overview

Retailers and developers are proceeding with caution as they try to figure out how to operate in a challenging environment that includes eCommerce competition, changing consumer habits, surplus locations, and less traffic at centers. The vacancy rate in the Twin Cities increased due to numerous store closings, downsizings, and the shuttering of underperforming locations across all types of retail centers while fewer new concepts are scouting the market.

More than 300 retailers have filed bankruptcy this year. While most of these are mom-and-pop shops, notable chains on the list include The Limited, Wet Seal, Payless ShoeSource, Gordmans, Gander Mountain, Gymboree, Rue21, and RadioShack.

While department stores, mid-price retailers, and apparel stores struggle, value and discount retailers are driving demand. Meanwhile, coffee shops remain hot as Tim Hortons and Dunkin' Donuts entered the market and the quick-serve restaurant boom continues as chains expand. The supermarket battle rages on as Hy-Vee and Fresh Thyme compete for prime locations.

With construction of CityPlace (Woodbury) and Central Park Commons (Eagan) nearly complete, no larger-scale retail projects are on the immediate horizon. One in early stages of planning is the Avienda in Chanhassen. More single-family home construction may need to occur to help drive the next big retail project.

Outlook

There are large vacancies to fill and likely more to come as more national retail closures are anticipated. Rents are currently flat but will likely experience downward pressure in cases where landlords are sitting with significant vacancy. Value retailers will continue to thrive as luxury and mid-price retail is in flux. The repositioning and recycling of older, outdated concepts is expected to continue. Landlords of regional malls might look to buy back department store boxes in an effort to control and reposition these spaces.

MARKETBEAT

Retail Snapshot Q2 2017

Minneapolis/St. Paul



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANCY RATE	DIRECT CURRENT NET ABSORPTION (SF)	DIRECT YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT (NNN)
Community	137	32,107,628	7.60%	-126,180	-126,180	247,000	\$19.11
Minneapolis CBD	18	1,319,301	16.90%	13,557	13,557	32,000	\$24.65
Neighborhood	316	20,406,989	8.60%	201,926	201,926	501,915	\$16.32
Outlet Mall	4	1,197,440	9.10%	-12,000	-12,000	0	\$33.74
Regional	8	10,981,097	6.60%	-83,411	-83,411	0	\$62.99
Specialty	22	2,322,728	14.60%	-17,486	-17,486	171,929	\$32.61
St. Paul CBD	8	290,157	1.70%	0	0	33,000	\$18.05
MINNEAPOLIS/ST. PAUL	513	68,625,340	8.20%	-23,594	-23,594	985,844	\$27.85

Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
8301-8345 3 rd Street	38,194	Burlington Coat Factory	New	Community
14200 Wayzata Boulevard	25,775	Total Wine	New	Community
2601 Lyndale Avenue South	20,600	Aldi	New	Specialty
3120-3130 Highway 13 West	16,508	Harbor Freight Tools	New	Neighborhood
3301 Hazelton Road	12,515	Hirshfields	Renewal	Neighborhood
289 5 th Street East	12,183	Almanac Fish	New	St. Paul CBD

Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
700 Nicollet Mall	1,006,275	Macy's / 601W Companies	\$59,000,000 / \$59	Minneapolis CBD
200 Southdale Circle	247,902	JC Penney / Simon Property Group	\$4,000,000 / \$16	Regional
13601 Grove Drive	191,095	Sidcor Real Estate / Weijie Zeng	\$26,800,000 / \$140	Neighborhood
1501 17 th Avenue	158,647	IRC Retail Center / Essjay Investment	\$18,900,000 / \$119	Community
1276 Town Centre Drive	154,000	RREEF Funds / Epic RE Partners	\$21,600,000 / \$140	Community

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