

MARKETBEAT

Retail Snapshot Q4 2018

Minneapolis/St. Paul



ECONOMIC INDICATORS

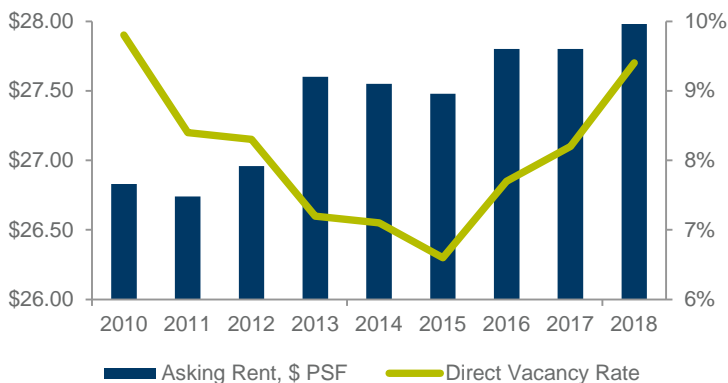
National	Q4 17	Q4 18	12-Month Forecast
GDP Growth	2.5%	3.3%	▲
CPI Growth	2.1%	2.3%	▲
Consumer Spending Growth	2.7%	2.7%	▲
Retail Sales Growth	5.9%	4.6%	▲

*Q4 18 Estimates. Values represent year-over-year % change.
 **Forecast by Cushman & Wakefield.

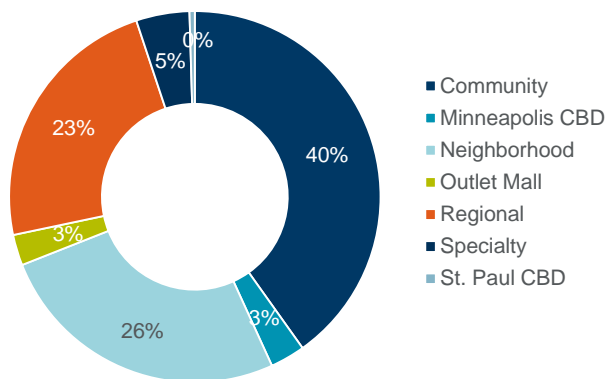
Regional	Q4 17	Q4 18*	12-Month Forecast
Household Income	\$77,650	\$79,922	▲
Population Growth	1.2%	0.9%	▲
Unemployment	3.0%	2.6%	▼

Source: Moody's Analytics

Rental Rate vs. Direct Vacancy



Availability by Submarket



Economy

The Twin Cities unemployment rate dropped 40 basis points from fourth quarter 2017 to a 19-year low of 2.6% in fourth quarter 2018. With constrained labor availability, employers continued to be creative and aggressive in talent retention and recruitment strategies.

Market Overview

The Twin Cities retail market continued to grapple with an inventory of big-box vacancies left behind by national bankruptcies and store closures throughout 2018, as well as shifting consumer demands for in-store “experiences” and seamless shopping between physical and digital channels. Most large vacancies created by retailers such as Sears, Herberger’s and Toys “R” Us were still available at year-end 2018, offering expanding concepts and emerging new brands the opportunity to land in desirable locations. Demand remained, however, for prime space in the strongest, most affluent markets. One example was Hobby Lobby backfilling the Toys “R” Us vacancy in Minnetonka.

Value-add retailers, service retailers, grocers, fitness brands, and fast-casual restaurants fueled much of the leasing activity in community and neighborhood centers in 2018. Active value-add retailers included TJX’s concepts, Sierra Trading, and Aldi. Fitness expansions included PureBarre, Planet Fitness and Anytime Fitness.

More top-tier malls began redeveloping underutilized surface parking lots into high-density uses like hotels, restaurants, housing, and entertainment. At Southdale Center, for example, Shake Shack and Homewood Suites by Hilton opened locations in portions of the parking lot while Restoration Hardware began construction of RH Gallery in the southwest corner of the lot.

Outlook

As the market continues backfilling vacancies, it could absorb approximately 60,000 square feet in the first half of 2019. That number was originally higher but took a hit with the announced closing of Sears at the Mall of America. Uncertainty remains as more closings are expected.

Most big-box vacancies will be divided to house smaller users. Prime space at attractive centers will continue to offer strategic plays for expanding concepts. Weaker centers will take longer to backfill. In some cases, retailers will seek shorter-term leases with termination clauses.

No significant, large-scale retail development is on the horizon, except for the Avenida project in Chanhassen and a new Lunds & Byerly’s grocery location proposed in Apple Valley. Many developers will continue to focus on smaller, mixed-use projects with ground floor retail beneath apartment units and/or office.

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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	31,915,787	8.1%	-399,801	-309,810	100,000	\$19.43
Minneapolis CBD	18	1,319,301	14.8%	21,422	-21,889	279,000	\$25.45
Neighborhood	316	20,411,839	8.1%	-34,663	9,288	149,700	\$16.65
Outlet Mall	4	1,197,440	14.4%	0	-8,000	0	\$30.06
Regional	8	11,122,097	13.4%	-279,767	-349,687	195,000	\$62.99
Specialty	22	2,369,118	12.6%	59,775	43,494	165,382	\$32.67
St. Paul CBD	9	369,029	8.1%	27,006	31,084	0	\$18.05
MINNEAPOLIS/ST. PAUL	514	68,704,611	9.4%	-606,028	-605,520	889,082	\$27.98

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
14200 Wayzata Blvd., Minnetonka	61,369	Hobby Lobby	Direct	Community
710-900 78 th St. W., Richfield	23,210	Aldi	Direct	Community
8906 Highway 7, St. Louis Park	20,000	Aldi	Direct	Community
710-900 78 th St. W., Richfield	18,458	Sierra Trading Post	Direct	Community
38500 Tanger Dr., North Branch	12,000	Dollar Tree	Direct	Outlet Mall
3200-3260 Lake St. W., Minneapolis	11,000	Allina Health	Direct	Neighborhood

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
325 Radio Dr., Woodbury	140,000	Elion Partners / Inland RE Group	\$56,580,000 / \$404	Community
1750 Highway 36, St. Paul	81,138	Kimco / Colliers International	\$5,749,000 / \$71	Community
7634 Brooklyn Blvd., Brooklyn Park	80,586	The Goodman Group / Mark Haymaker	\$6,725,000 / \$83	Neighborhood
305 Radio Dr., Woodbury	45,000	Elion Partners / Inland RE Group	\$2,217,000 / \$471	Community
17705 Kenwood Trl., Lakeville	43,826	Steven Cheney / Matthew Ward	\$3,925,000 / \$90	Neighborhood

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