Capital Markets & Asset Strategies - Midwest

2023 ANNUAL REPORT

MINNEAPOLIS - ST. PAUL

REGIONALLY COMMITTED
NATIONALLY CONNECTED

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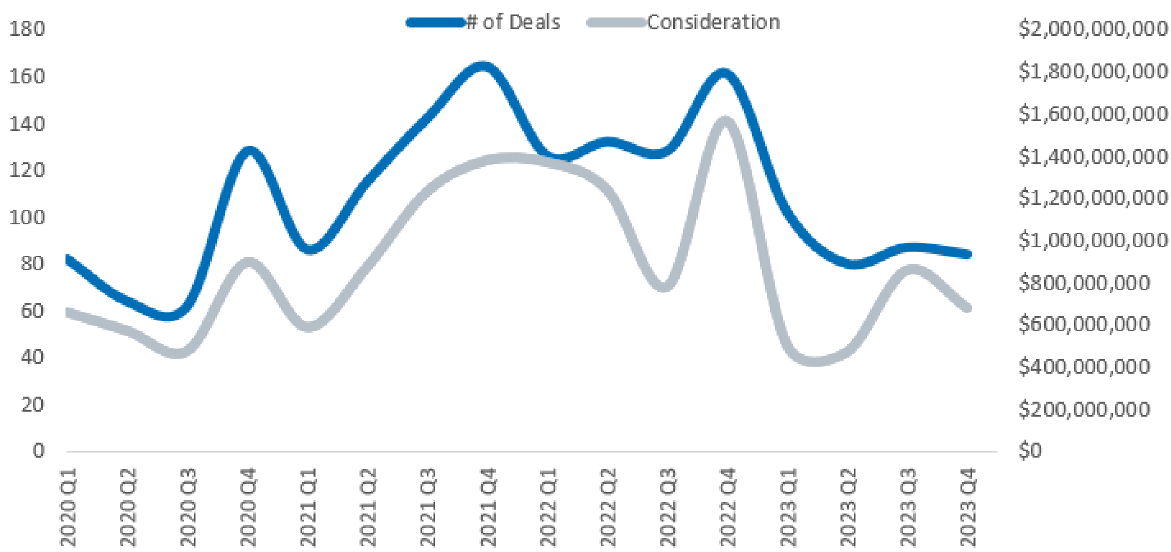
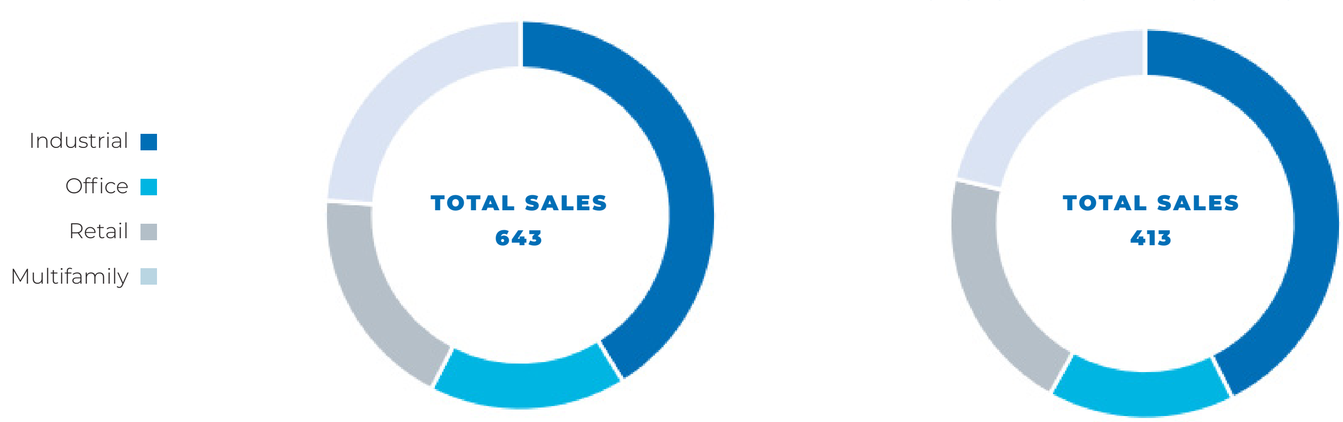
2023 IN REVIEW

After a robust performance in the broader commercial real estate (CRE) sector in the 4th quarter of 2022, there was cautious optimism for 2023. However, persistent uncertainty stemming from the Federal Reserve made institutional investors hesitant to allocate funds to any commercial property type throughout the year. Consequently, there was a notable decline in both sales volume and sales consideration in 2023. Nevertheless, the middle market demonstrated remarkable resilience, presenting a lucrative option for a limited number of opportunistic investors who remained active during this turbulent period.

DEAL ACTIVITY - MSP BY QUARTER



2022 SALES BY ASSET CLASS **2023 SALES BY ASSET CLASS**



Investors encountered challenges in accurately underwriting assets due to the persistent changes and uncertainties in the debt market. Consequently, there was a decline in overall market activity which will likely carry over into 2024.

As the year unfolded, the Federal Reserve continued to be a source of frustration for dealmakers and investors. Despite seven rate hikes in 2022 aimed at curbing inflation, the desired spending slowdown did not materialize. In response, the Fed implemented four additional rate hikes throughout 2023, further complicating the hopeful resurgence of CRE investment. While there is optimism about potential rate cuts in 2024, caution is advised regarding their impact on treasuries and the ultimate investment appetite of CRE investors.

2023 FED RATE HIKES

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
February 1, 2023	+25	4.50% to 4.75%
March 22, 2023	+25	4.75% to 5.00%
May 3, 2023	+25	5.00% to 5.25%
July 26, 2023	+25	5.25% to 5.50%

** Source: forbes.com*

RBC GATEWAY

THE EXPO

TOP 2023 CRE SALES - MINNEAPOLIS-ST. PAUL

Property	Sale Price	Sale Date	Seller	Buyer
RBC Gateway OFFICE	$225M	Jul 2023	United Properties	Spear Street Capital
The Expo MULTIFAMILY	$120M	Dec 2023	Doran-CSM SE I LLC	Bigos Management Inc., Oak Grove Capital Inc.
Uptown Apartment Portfolio MULTIFAMILY	$111M	Sept 2023	Greystar	Weidner Apartment Homes
Arrive Minnetonka MULTIFAMILY	$89M	Oct 2023	Rreef	FPA Multifamily
Millennium Edina MULTIFAMILY	$74.7M	Aug 2023	Dakota Pacific Landmark Cos.	Belgarde Enterprises
LPM Apartments MULTIFAMILY	$73.82M	Jun 2023	National Real Estate Advisors	Weidner Apartment Homes
Japs-Olson Co. Printing Facility INDUSTRIAL	$71.2M	May 2023	Japs-Olson Co.	Angelo Gordon
Industrial Portfolio INDUSTRIAL	$71M	Jun 2023	Artis REIT	Capital Partners, PCCP
The Nic on 5th MULTIFAMILY	$70M	Sept 2023	AEW Capital Management	Weidner Apartment Homes
Urbana Court MULTIFAMILY	$47M	Apr 2023	Trident Development	Turner Impact Capital

2024 Projects to Watch

NORTHSTAR CENTER

- Mixed-use redevelopment (Office, Multifamily, Retail)
- Set to open September 2024
- $85M redevelopment project

PLYMOUTH PRUDENTIAL SITE

- $300M Redevelopment project
- Mixed use redevelopment
- The project received approval in early 2024

LASALLE PLAZA

- $20M Improvement project
- Flight to quality experience
- Construction set to be completed in June 2024

ROSEMOUNT DATA CENTER

- $800M Mete data center
- 715,000 SF Facility spanning across 280 acres
- Construction set to start late summer 2024

LANDMARK TOWERS

- $80-$85M Multifamily conversion to market-rate apartments
- Converting office-commercial space on floors two through 20
- Sherman Associates was granted $21M in TIF

UPPER HARBOR TERMINAL

- A new amphitheater located along the Mississippi River will be accompanied by a 20-acre park.
- The city has completed reconstruction of street and sidewalks, as well as installation of utilities.
- Construction of the amphitheater is set to start early summer of 2024.

4TH & PARK

- Newest luxury apartment tower in Minneapolis set to open in April.
- 350 units spanning across 25 stories.
- Weidner Apartment Homes developed the property in partnership with Ryan Companies.

What to Expect in 2024

Anticipating a prosperous 2024, investors seek market stability, expected to be facilitated by the actions of the Federal Reserve. This expectation will hopefully prompt investors to dust off their checkbooks and get back to investing in CRE, both locally and nationally. While some speculate the possibility of up to six rate cuts this year, the consensus leans toward expectations of 2 to 4 in the second half of the year. Nonetheless, the focal point for 2024 remains stability, a crucial factor for capital markets. As the debt markets stabilize, investors are likely to feel more at ease in committing funds to all CRE property types.

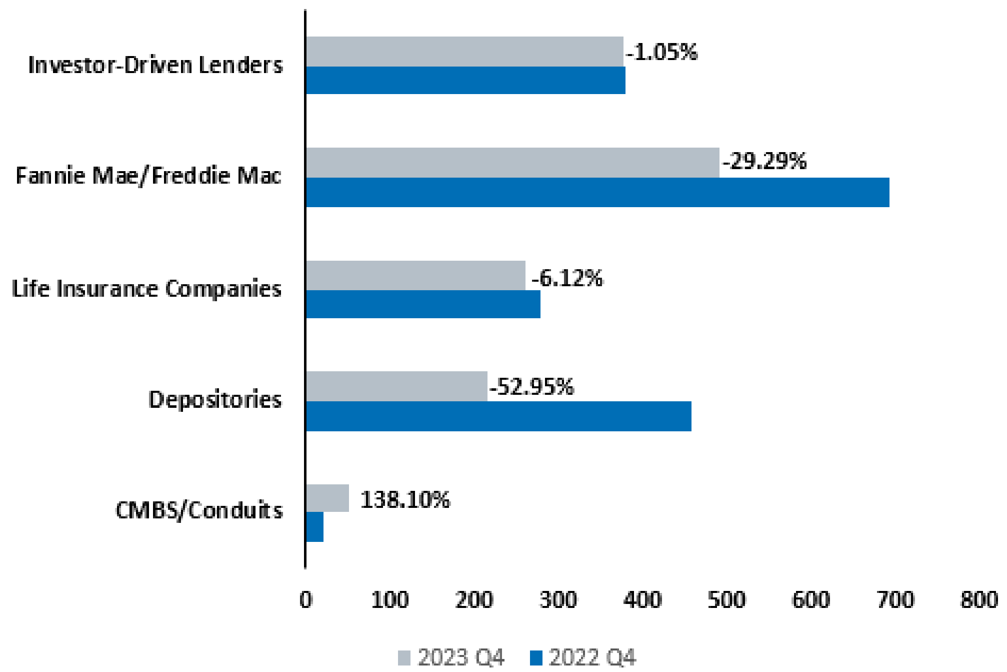
After billions of dollars remained on the sidelines during the past 24 months, 2024 is primed to be a "bounce back" year. The crucial question is whether investors feel confident and decide to pull the trigger. Distress in the office sector will prompt some opportunistic investors to seize unique value-add opportunities on office assets that have seen significant deterioration of value. Amidst the turbulence, the industrial sector has displayed remarkable stability, making it the favored asset class for 2024. Retail and multifamily have also demonstrated some resilience, a trend that is expected to persist in the near term. The multifamily asset class in particular, which is heavily reliant on the 10-year treasury, is poised for significant investment sales growth as soon if debt markets cooperate.

In 2024, we can expect significantly increased capital markets activity in all asset types, but in particular the industrial, retail and multifamily sectors. Although the office sector will have ongoing challenges, specifically driven by deteriorating user demand, there will still be opportunities for high quality, highly amenitized properties. Anticipate increased investment sales volume throughout the CRE sector, driven by more stability in the interest rate environment, an abundance of motivated capital by investors who have been on the sidelines for the past few years (including the return of significant institutional money re-entering the market), and generally a more optimistic outlook for CRE.

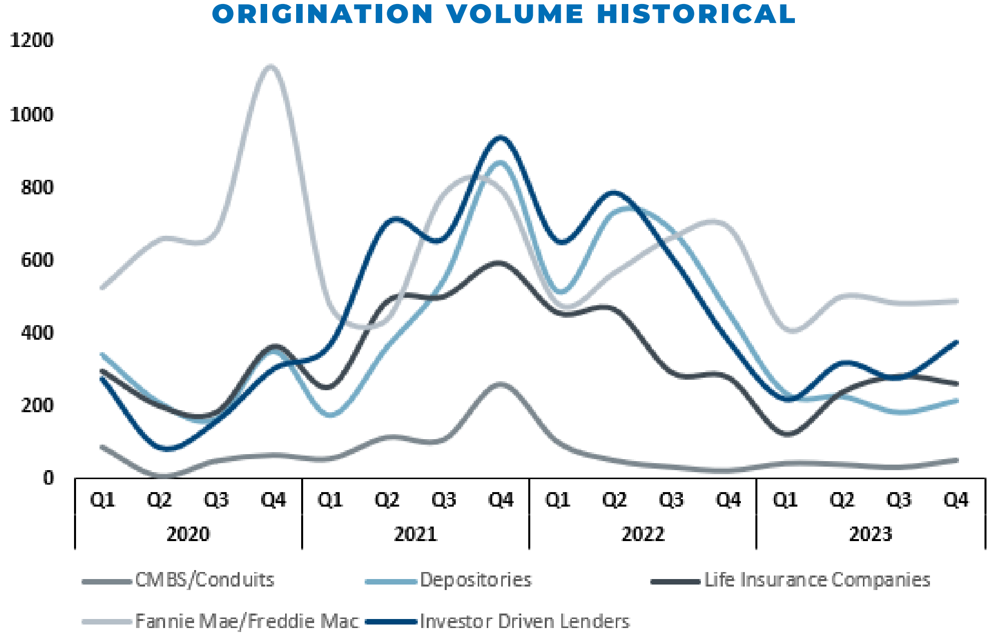
DEBT & ECONOMIC REVIEW

The debt markets in 2023 were marked by turbulence and uncertainty. Despite some sectors showing positive signs throughout the year, challenges persisted in securing financing for deals across the board. The volatility and uncertainty surrounding debt markets further complicated the completion of transactions throughout the year. Fluctuations in interest rates, coupled with shifts in investor sentiment and regulatory changes, contributed to an environment where securing favorable, or even reasonable, financing terms became increasingly challenging. As a result, market participants faced hurdles in accessing capital, which in turn impacted deal flow and investment activity in the CRE sector. Overall, navigating the debt markets in 2023 required careful assessment of risk and a strategic approach to securing financing amidst uncertain economic conditions.

ORIGINATION VOLUME Q4 Y-O-Y

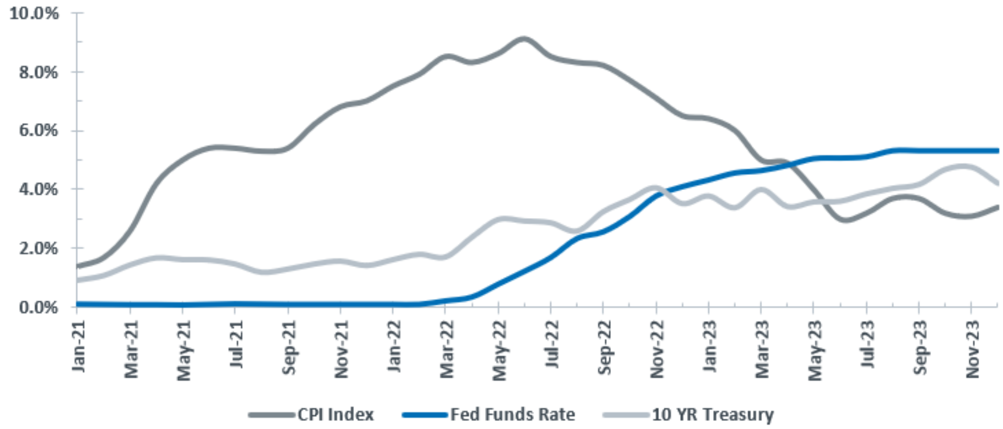


ORIGINATION VOLUME HISTORICAL

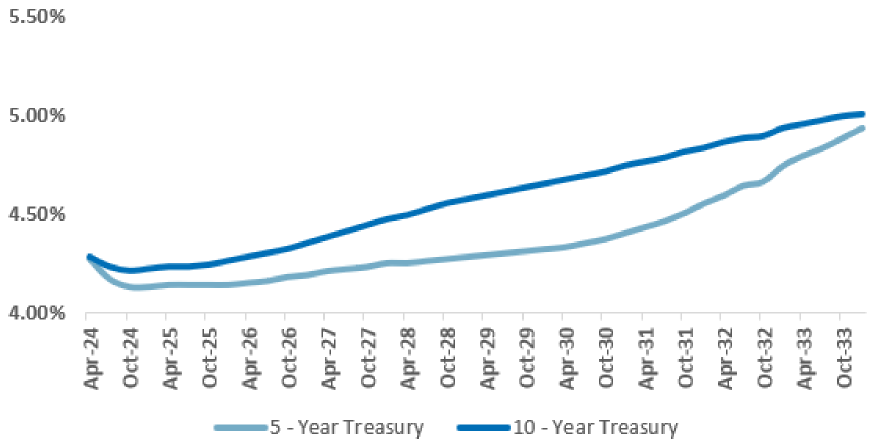


Reflecting on the evolution of debt over the last couple of years, it's notable that Fannie and Freddie have maintained their activity levels, whereas depositories and life insurance debt have experienced marked declines. Year-over-year total volume has significantly decreased, reflecting lender apprehension amidst debt market instability. Lenders have notably adopted a more cautious and conservative approach, particularly in terms of LTC and LTV coverage and partially due to a decline in deposits. Before the pandemic, LTC ratios of 75% were not uncommon; however, in 2023, seeing 60 to 65% LTC ratios was considered favorable and were often contingent upon sponsors moving deposits to the lending institutions. As the entire industry navigates these challenging times, there is a collective anticipation that some semblance of stability will return in the latter part of 2024. Further, CMBS availability is increasing, providing investors with another debt option which has been largely sidelined for the past 24 months.

KEY DETERMINANTS



TREASURY PROJECTIONS



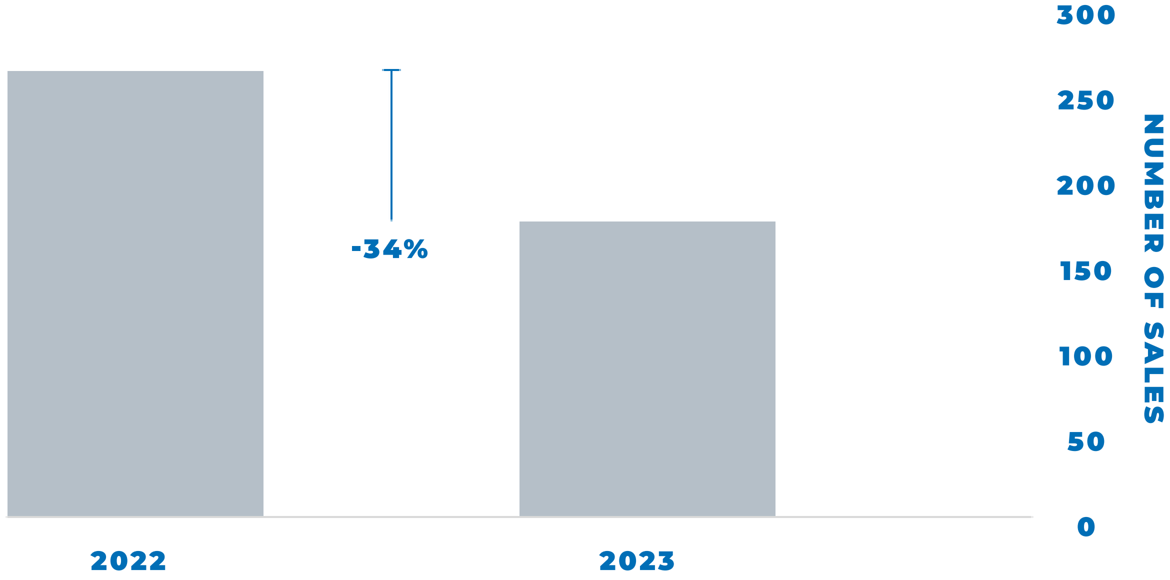
What to Expect in 2024

In 2023, turbulent conditions prevailed across virtually every asset class. Despite seeing strong fundamentals in the industrial, retail and multifamily sectors, complexities in debt markets hindered the completion and elongation of numerous deals. Moving forward, optimism is warranted with expectations of increased sales volume as debt stabilizes and the Federal Reserve offers more clarity on their direction. Reflecting on the past three years, the CPI index exhibited volatile and abrupt shifts, mirroring the fluctuations in the 10-year treasury. The significant rise in the federal funds rate over the past 24 months has contributed to the challenges in deal completion. Looking ahead, stability in the debt markets is crucial; it's not just the cost, but the volatility of debt that impedes deals. With improved stability, we anticipate a resurgence in deal activity.

INDUSTRIAL SECTOR

In 2023, the industrial investment sales market exhibited moderate activity amid broader economic uncertainties. With its strong infrastructure, the Twin Cities continued to attract investors seeking stable returns in the industrial sector despite the relative slowdown from 2022. Although year-over-year sales were down, the industrial asset class fared much better than other asset classes. Notwithstanding the modest level of investment activity, the industrial market in the Twin Cities remained fundamentally sound with strong tenant demand, rising rental rates and low vacancy. Coupled with very little new development activity throughout the metro area in 2023, these strong underlying fundamentals are reason for optimism moving forward.

INDUSTRIAL SALES 2022 VS. 2023



What to Expect in 2024

Looking ahead, the outlook for the industrial market remains positive, supported by favorable market fundamentals and continued investor confidence in the Twin Cities area. The scarcity of large blocks of new deliveries in 2023 bodes well for investors of existing assets. The Twin Cities witnessed some of the highest rental rate increases (as a percentage) in the entire nation in 2023 which may cause some investors to refocus on the Twin Cities after chasing opportunities in sunbelt states in recent years. Expect to see middle market sales volume increase this year as investors and lenders become more comfortable with the state of the debt markets. While institutional investors would like to deploy capital into the Twin Cities, it remains to be seen if worthwhile opportunities will present themselves as the biggest owners in the market are largely content to hold and benefit from continued rental rate growth.

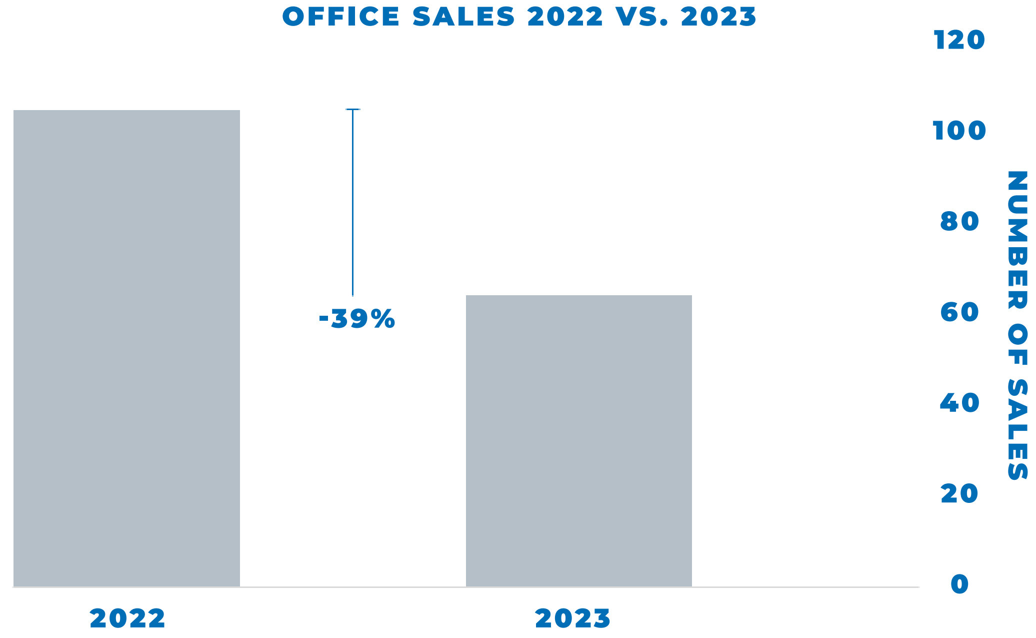
2023 NOTABLE INDUSTRIAL SALES

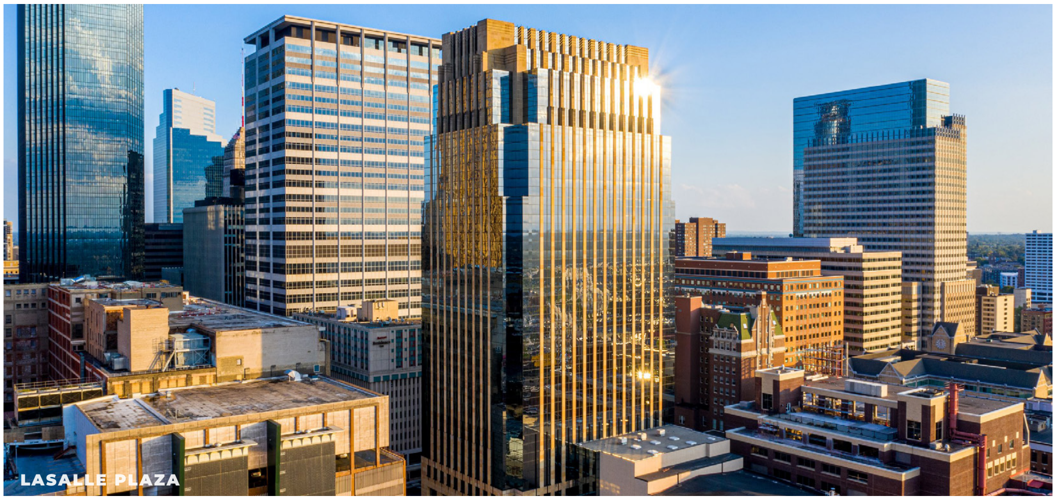
Building	Address	City	Size (SF)	Buyer	Seller	Sale Price	$/SF
PCCP Portfolio	Multiple	Multiple	1,039,260	Capital Partners	PCCP	$88,500,000	$85.16
Artis Portfolio	Multiple	Multiple	697,475	Capital Partners & PCCP	Artis REIT	$71,000,000	$101.80
Core Logistics Portfolio	Multiple	Multiple	622,319	Onward Investors	AEW Capital Management	$60,500,000	$97.22
Seagate	1280 Disc Dr	Shakopee	397,477	CIRE equity	Seagate Technology	$36,000,000	$90.57
United Properties Portfolio	9435 & 9405 Winnetka Ave N	Brooklyn Park	238,760	PCCP	United Properties	$35,200,000	$147.43
Gateway Interstate	4200 W Round Lake Rd	Arden Hills	250,000	Altus Properties	Scannell Properties	$33,275,000	$133.10
234 N McKay Ave	234 N McKay Ave	Alexandria	111,287	AMCON Distributing Company	Henry's Food INC	$30,250,000	$271.82
Clearwater Creek Distribution Center	6870 21st Ave S	Lino Lakes	405,522	Onward Investors	Artis REIT	$28,900,000	$71.27
Twin Cities Distribution Center	905 Yankee Doodle Rd	Eagan	358,532	New Mountain Capital	Murphy Logistics	$25,000,000	$69.73
Avg.			**437,899**			**$46,992,500**	**$130.53**

OFFICE SECTOR

In 2023, the office market navigated a landscape marked by both challenges and select opportunities. Secondary office properties faced even greater scrutiny, as concerns over vacancy rates and changing tenant preferences prompted a more discerning approach. Despite these challenges, innovative workspace solutions and adaptive reuse projects emerged as key strategies to revitalize underperforming office assets. Sales like LaSalle Plaza & Landmark Towers signified opportunistic investors looking to capitalize on the discount currently being offered on office buildings.

Medical office on the other hand proved to be the desired asset class for many previous office investors. Boston Scientific planning a $170 Million expansion in Maple Grove is a prime example of the Twin Cities continuing to be a premier medical location. While buyers remained well capitalized, few healthcare offers were launched and closed in 2023.





What to Expect in 2024

In 2023, the office sector in the Twin Cities continued to get battered due to a significant shift to remote and hybrid work. As this trend continues to impact office Landlords into 2024 and beyond, we expect to see significant distress in the office sector. Much of this distress is due to declining office demand in general. But a great deal of it can also be attributed to the physical and functional obsolescence of many existing office buildings. This is especially true in the St. Paul and Minneapolis CBD's as well as several of the corporate office campuses scattered throughout the suburbs of the Twin Cities. This obsolescence will ultimately lead to the conversion or demolition of millions of square feet, making way for new or remodeled residential, industrial, and retail uses, to name a few. Add to these factors the looming debt maturities and other debt related issues, and 2024 is sure to be an active year for transfer of office properties – whether willful or forced.

Savvy investors are poised to seize opportunities in distressed assets and there will be plenty to choose from in the Twin Cities office market. With over $600 billion maturing in 2024, many owners will be forced to sell if they are not able to successfully refinance their properties. Consequently, we anticipate a significant uptick in completed deals as owners grapple with a variety of financial challenges. Believing the worst is yet to come, many office investors are intent to sit on the sidelines until greater clarity emerges. However, some opportunistic buyers are expected to intensify their activity in 2024, aiming to capitalize on the potential for substantial gains amidst the currently diminished office real estate values. Institutional investors continue to sit on the sidelines; expect funds, private equity, family offices and high net wealth individuals to be the most active buyers.

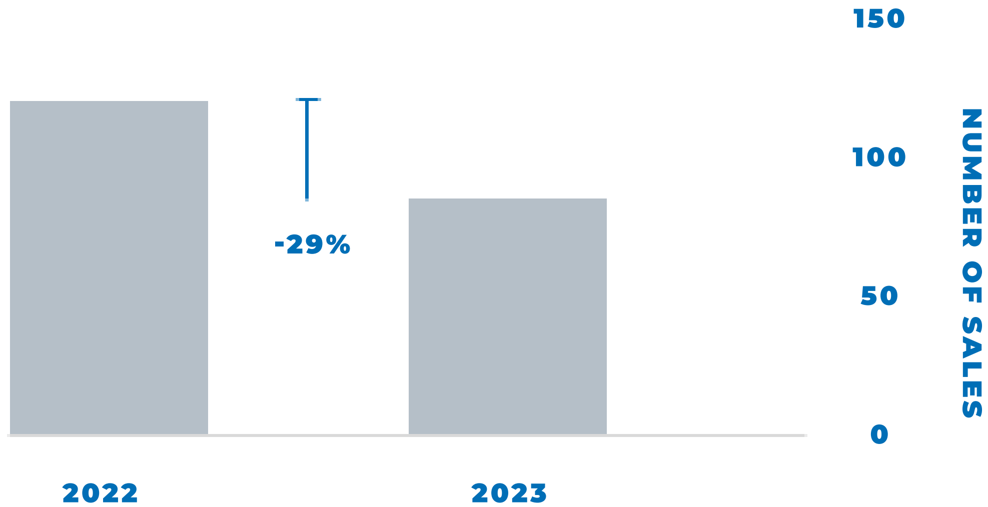
2023 NOTABLE OFFICE SALES

Building	Address	City	Size (SF)	Buyer	Seller	Sale Price	$/SF
RBC Gateway	250 Nicollet Mall	Minneapolis	532,000	Spear Street Capital	United Properties Investment	$225,000,000	$422.93
LaSalle Plaza	800 LaSalle Ave	Minneapolis	621,629	Hempel	Northwestern Mutual	$46,000,000	$74.00
445 Lake Building	445 Lake St E	Wayzata	40,128	Clackamas Commons Property Management	Tamarack Investments	$25,700,000	$640.45
City Centre Professional Building	1625 Radio Dr	Woodbury	52,033	Paul Buchmayer	MSP Commercial	$13,069,246	$251.17
Riverpoint Office	1715 Yankee Doodle Rd	Eagan	102,049	Ashish Aggarwal	BridgeCap Partners	$12,450,000	$122.00
310 Broadway Ave S	310 Broadway Ave S	Rochester	40,265	Three Amigos Property Management	Bao Tran	$10,300,000	$255.81
Valley Creek Office Centre	1687 Woodlane Dr	Woodbury	32,711	Montecito Medical Real Estate	Obgyn Consultants	$9,800,000	$299.59
Barrel House	111 3rd Ave S	Minneapolis	96,824	DLR Group	ICM Realty Group	$8,500,000	$87.79
Landmark Towers	345 Saint Peter St	St. Paul	216,252	Sherman Associates	PIMCO / Midland	$8,150,000	$37.69
Avg.			**173,389**			**$35,896,924**	**$219.14**

RETAIL SECTOR

In 2023, the retail market underwent a transformative period characterized by adaptation and innovation. Amid ongoing shifts in consumer behavior and the rise of e-commerce, retail properties faced both challenges and opportunities. While some traditional brick-and-mortar retailers struggled, others embraced strategies and experiential offerings to thrive in the evolving landscape. Investors showed cautious optimism, targeting well-positioned retail assets with strong tenant mixes and potential for value-add opportunities. Mixed-use developments and community retail hubs gained traction, reflecting a growing emphasis on customer experience. As the retail sector continues to evolve, 2023 highlighted the creativity and adaptability of the Minneapolis market, paving the way for a more dynamic and diversified retail landscape in the years ahead.

RETAIL SALES 2022 VS. 2023



What to Expect in 2024

In 2023, the retail sector defied expectations of doom and displayed remarkable resilience. Amid widespread predictions of its demise in the wake of the pandemic, retail surprised many observers with its ability to weather the storm. Despite enduring a challenging initial year, the sector has bounced back impressively. Looking ahead to 2024, there is considerable optimism that this positive trajectory will persist in retail investment sales. As society gradually returns to pre-pandemic norms and consumer behaviors resume their usual patterns, retail stands poised to reap significant benefits. With more individuals embracing in-person shopping experiences and resuming their regular spending habits, retail is anticipated to be among the asset classes experiencing the most substantial gains. This optimistic outlook reflects not only the adaptability of the retail sector but also the enduring appeal of brick-and-mortar establishments in an increasingly digital age.

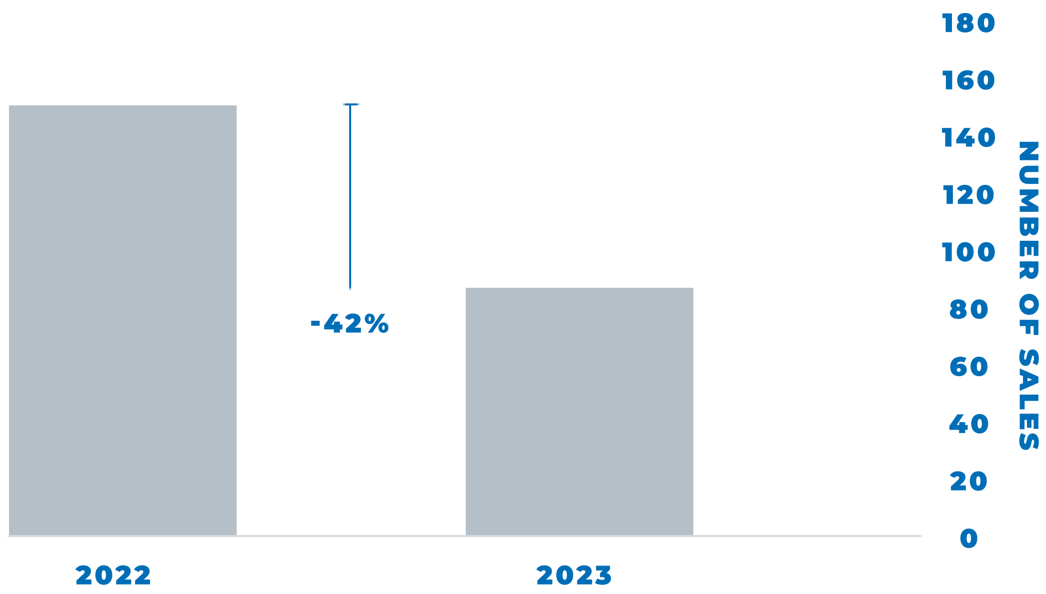
2023 NOTABLE RETAIL SALES

Building	Address	City	Size (SF)	Buyer	Seller	Sale Price	$/SF
Portfolio of 3	Multiple	Blaine	685,553	4th Dimension Properties	Washington Prime Group	$31,000,000	$45.22
4165 Loberg Ave	4165 Loberg Ave	Hermantown	173,631	Edgewood REIT	Fleet Farm	$30,000,000	$172.78
Crossroads of Roseville	1643-1663 County Rd B2 W	Roseville	357,115	HJ Development	CalSTRS	$29,000,000	$81.21
Elk Park Center 3 Property Portfolio	Multiple	Elk River	205,009	Essential Growth Properties	Brent Herron	$20,800,000	$101.46
Portfolio of 6	Multiple	Edina & Minnetonka	118,567	Interstate Development	Haugland Company	$17,900,000	$150.97
Maplewood Mall	3001 White Bear Ave N	Maplewood	321,217	Brookwood Capital Advisors	Highland Capital	$15,000,000	$46.70
Profile Center	2630 SE University Ave	Minneapolis	50,000	Greystar Real Estate partners	Profile Music Center	$14,200,000	$284.00
Fleet Farm	875 General Sieben Dr	Hastings	125,958	Steve Cheney	Fleet Farm	$12,841,865	$101.95
Marcus Theatre	4340 Maine Ave	Rochester	63,425	WKM Properties	Marquee Capital & Hempel	$9,750,000	$153.72
Central Lakes Crossing	7352 Glory Rd	Baxter	83,360	Agree Realty Corporation	Copeland Development & Construction	$9,730,000	$116.72
Avg.			**218,383**			**$19,022,186**	**$125.47**

MULTIFAMILY SECTOR

In 2023, the demand for multifamily properties remained robust, fueled by demographic trends, urbanization, and a growing preference for rental housing. Investors continued to view multifamily assets as stable, income-producing investments with long-term growth potential. Strong fundamentals, including low vacancy rates and steady rent growth, supported transaction activity throughout the year. Although sales volume was significantly down mainly due to the challenges of acquiring reasonable debt, the overarching sentiment was that multifamily remains a stable investment. The Twin Cities also witnessed an uptick in mixed-use projects integrating residential components, reflecting a shift towards more vibrant, walkable communities. As the multifamily market in the Twin Cities continues to evolve, 2023 underscored its resilience and attractiveness to investors seeking stable returns.

MULTIFAMILY SALES 2022 VS. 2023



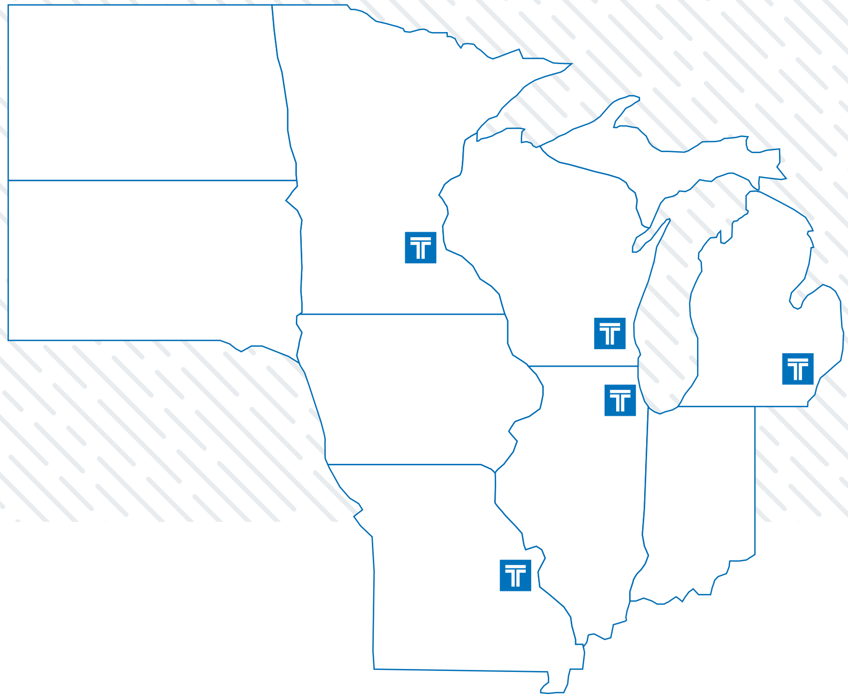
What to Expect in 2024

In 2023, the multifamily sector experienced a significant decrease in sales volume, despite widespread belief in its status as one of the safer asset classes. However, as we anticipate the landscape of 2024, there is an expectation of a rebound in sales volume. This anticipation stems from the belief that the Federal Reserve will play a crucial role in stabilizing the debt markets, which are integral to the multifamily sector's operations. Multifamily investments heavily rely on treasury stability, and a perceived sense of stability will facilitate a smoother transaction processes for investors. Once this stability is established in the debt markets, multifamily properties are poised to reap the benefits, reinforcing the prevailing sentiment that multifamily investments remain highly favorable.

2023 MULTIFAMILY SALE COMPS

Building	Address	City	Size (Units)	Buyer	Seller	Sale Price	$/Unit
EXPO	200 University Ave SE	Minneapolis	369	Bigos	The Doran Group	$120,000,000	$325,203
Elan Uptown & The Miles	Multiple	Minneapolis	590	Weidner	Greystar	$111,000,000	$188,136
The Waters Portfolio	Multiple	Multiple	318	Inland Real Estate Group	PGIM	$95,060,000	$298,931
Arrive Minnetonka	300 Carlson Pkwy	Minnetonka	435	FPA Multifamily	DWS Group	$89,000,000	$204,598
Millennium Edina	3250 W 66th St	Edina	227	Belgarde Property Services	Dakota Pacific Real Estate Partners	$74,700,000	$329,075
Centerspace Portfolio	Multiple	Multiple	892	Monarch Investment	Centerspace	$74,500,000	$83,520
LMP Apartments	1369 Spruce PL	Minneapolis	354	Weidner	National real Estate Advisors	$74,000,000	$209,040
The Nic on 5th	465 Nicollet Mall	Minneapolis	253	Weidner	AEW Capital Management	$70,000,000	$276,680
Urbana Court Apartments	5401 94th Ave N	Brooklyn Park	207	Turner Impact	Trident Development	$47,000,000	$227,053
Zelia on Seven	5855 Highway 7	Saint Louis Park	217	Bigos	Raphael Wallander	$33,250,000	$153,226
Avg.			**386**			**$78,851,000**	**$229,546**

TRANSWESTERN REAL ESTATE SERVICES



Capital Markets
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LET'S WORK TOGETHER

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