



TRANSWESTERN

MINNEAPOLIS - SAINT PAUL RETAIL MARKET

Q4 2022



TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.1	3.2	↓	4.1	↑
NET ABSORPTION (THOUSANDS SF)	77.8	579.1	↓	65.0	↓
OVERALL VACANCY RATE	8.0%	8.2%	↓	8.5%	↑
OVERALL VACANT SF (MSF)	7.6	7.7	↓	8.0	↑
UNDER CONSTRUCTION (MSF)	0.5	0.5	↔	0.6	↑
LEASE RENT, NNN (PSF)	\$17.44	\$17.93	↓	\$17.56	↑
SALES VOLUME (MILLIONS)	\$79.0	\$128	↓	\$157.7	↓

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

RETAIL MARKET SHOWS SIGNS OF SLOWDOWN

The Minneapolis-Saint Paul (MSP) retail market ended the year with slower growth as fears of a potential recession and market volatility impacted the market. MSP closed the year with an 8% vacancy rate, a 10 basis point increase from the previous quarter, but is still 20 basis points lower year-over-year. Net absorption for the quarter was 77,800 SF, significantly lower than the previous year’s total of 579,104 SF. For the year total net absorption was 501,096 SF, over 50% lower than the 2021 total net absorption of 1,266,530 SF.

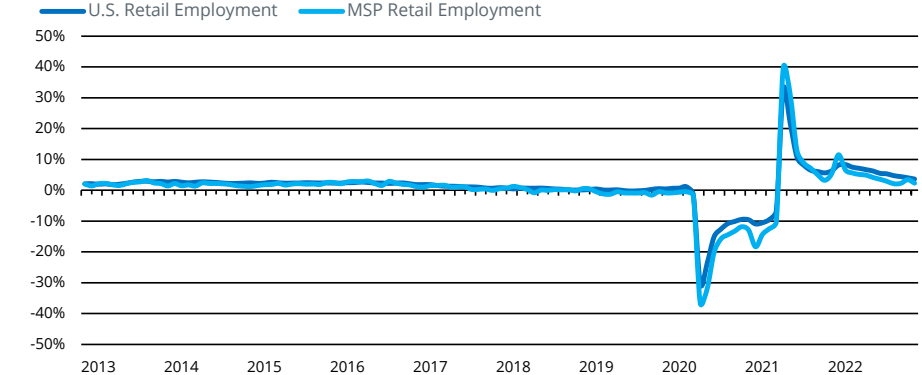
Suburban retail continues to see positive growth, as vacancy rates in the suburban submarkets are lower than the overall vacancy rate. The CBD submarkets continues to face challenges as Downtown activity has not recovered to pre-pandemic levels. Lease rental rates continue to be competitive as year-over-year rent growth is negative for a fourth consecutive quarter and that new construction and deliveries have been lower from pre-pandemic levels as well.

ECONOMY

Job Growth Remains Consistent

- The labor market continues to be tight, as the unemployment rate is under 2% for the third consecutive month as of November, while the labor force has slightly decreased.
- Total employment in the Minneapolis-Saint Paul metro area grew by 3.9% from this time last year. This is the seventh month year-over-year employment growth has been above three percent.
- Minneapolis - Saint Paul retail employment increased by 2.3% from the previous year to 330,292.
- The unemployment rate for Minneapolis - Saint Paul is currently at 1.9%, a slight decrease from last quarter when it was 2.1%, but lower than the 2.5% rate from a year ago.
- Minneapolis - Saint Paul companies have added a significant number of jobs in 2022 including:
 - Cloud HQ in Chaska - 100 Jobs
 - Graco in Dayton - 150 jobs
 - MyPlas in Rogers - 300 jobs
 - Amazon in Centerville - 600 jobs
 - Colder Products in Arden Hills - 500 jobs

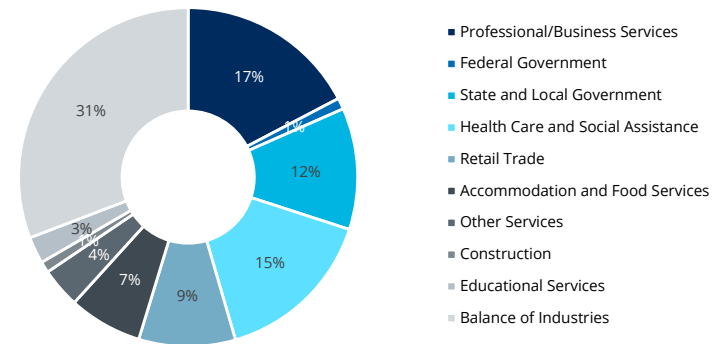
Y-O-Y CHANGE IN RETAIL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

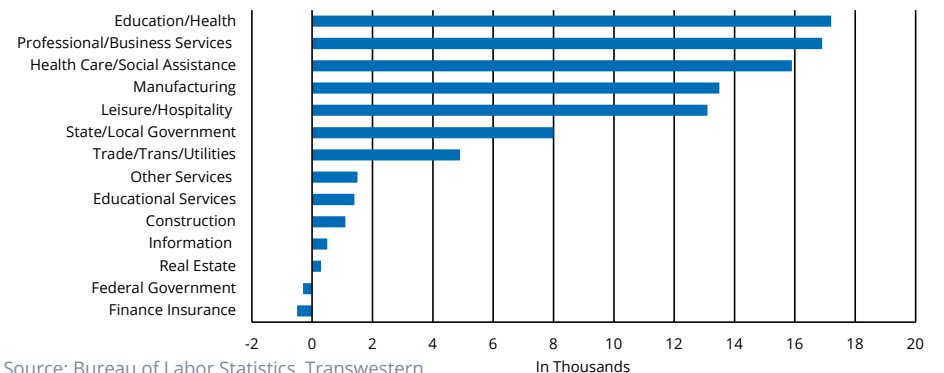
Minneapolis - Saint Paul | November 2022



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis - Saint Paul | November 2022



Source: Bureau of Labor Statistics, Transwestern

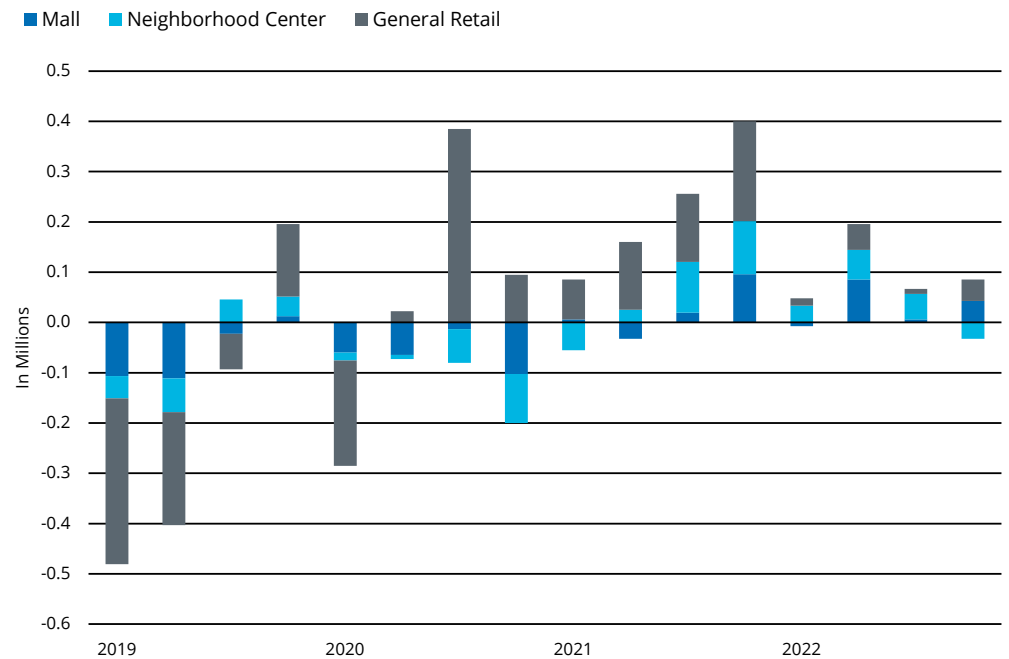


NET ABSORPTION

Demand for Space Retreats

- Third quarter net absorption totaled 77,799 SF, down 25.5% from the previous quarter and down 86% year-over-year.
- For 2022 total net absorption was 501,096 SF, a decrease of 60% from 2021.
- 629,988 SF of space was delivered in 2022, an increase of 88.3% from 2021's total of 334,512 SF.
- For the year Community Center properties had the largest net absorption for the year with 148,728 SF, followed by Freestanding/Big Box properties with a net absorption of 118,417 SF. No property category had negative net absorption for the year.
- As economic uncertainty continues to increase, net absorption is most likely to decline as consumer spending tapers off.

NET ABSORPTION BY CLASS



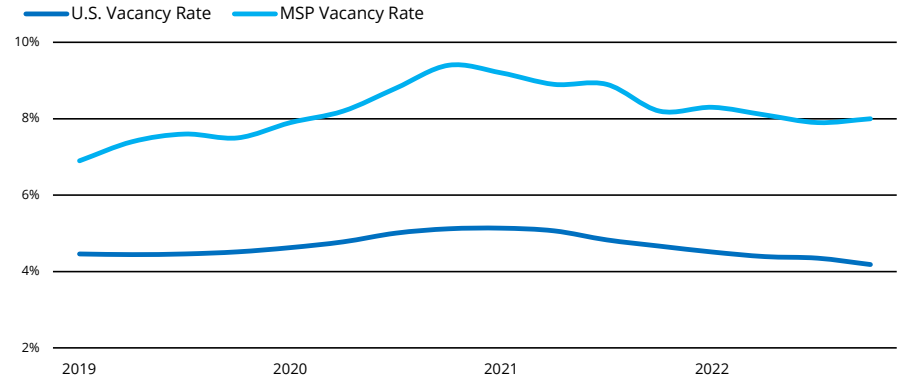
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Continues to Decrease

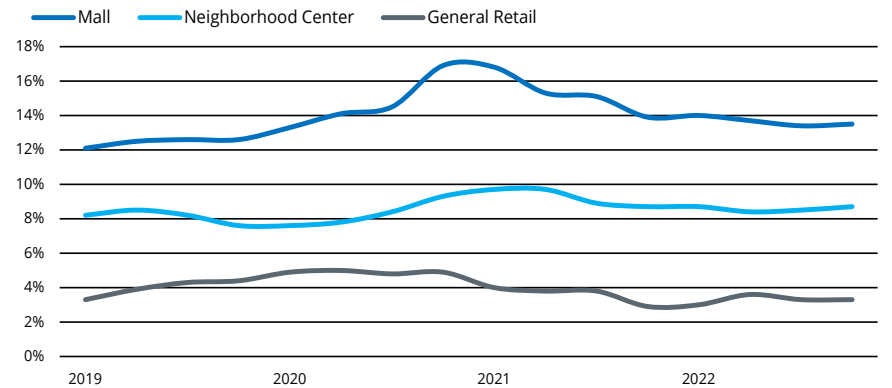
- Overall market vacancy for the fourth quarter was 8%, which is an increase of 10 basis points from the third quarter. The vacancy rate increased for the first time since the beginning of the year, but still significantly lower than pandemic highs.
- The Southeast submarket has the lowest vacancy rate at 6.1%, followed by the West submarket with a vacancy rate 6.7%.
- The Minneapolis and Saint Paul CBD submarkets continue to be challenged as vacancy rates are 28.4% and 14.4% respectively. Vacancy rates have increased by 200 basis points and 190 basis points in the two submarkets.
- Community Center property type vacancy rates had the largest year-over-year decline from 15.2% in Q4 2021 to 13.5% in Q4 2022, a 170 basis point decline.

OVERALL VACANCY RATE



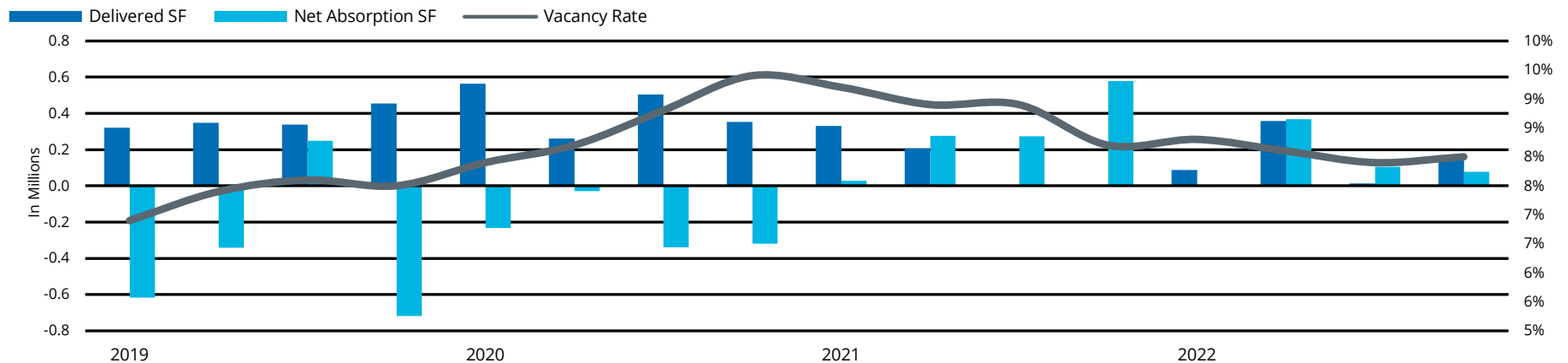
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



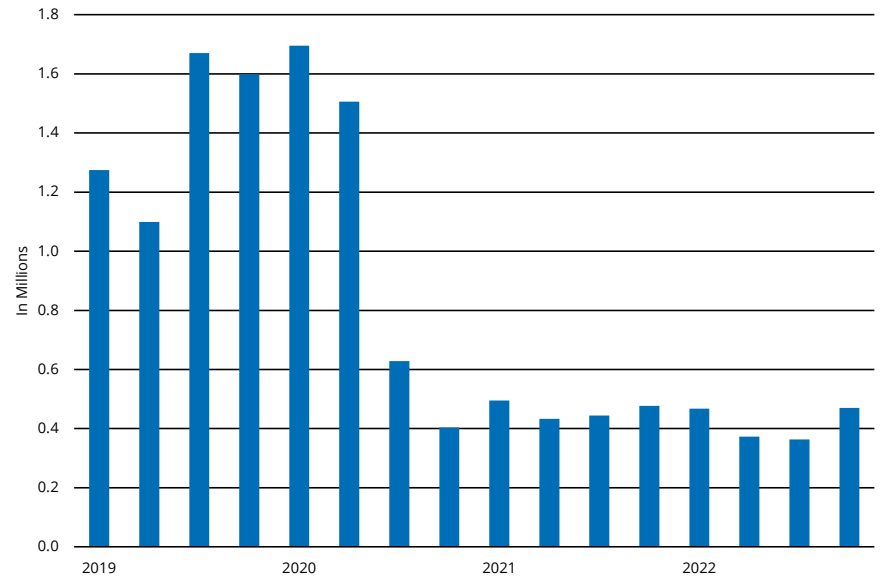
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Construction Imperious to COVID-19

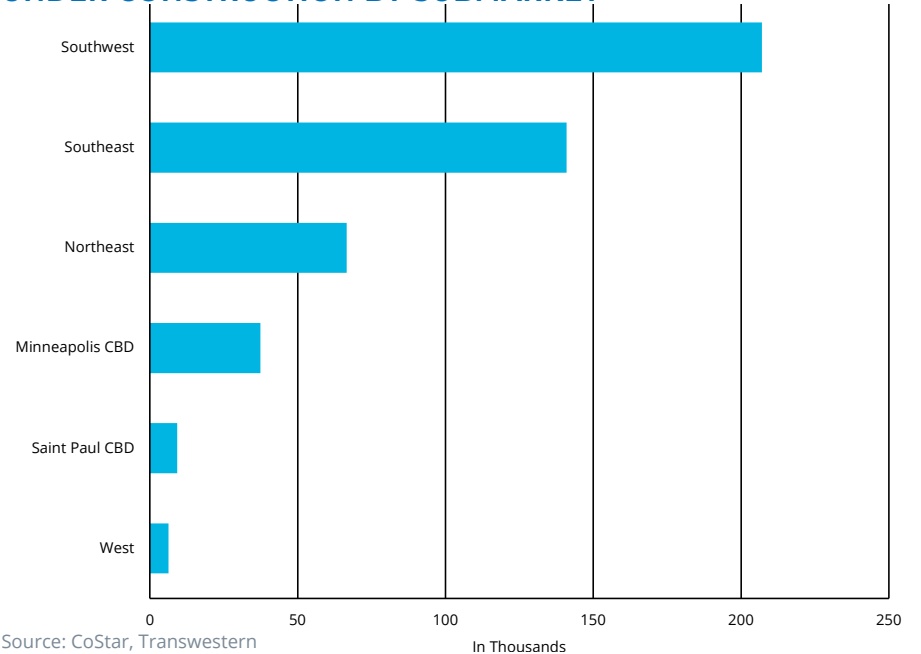
- 470,026 SF was under construction in the fourth quarter, a 29% increase from the previous quarter.
- The Southwest submarket had the largest amount of retail space under construction, with 207,021 SF, followed by the Southeast submarket with 140,970 SF.
- For 2022 on average 418,476 SF was under construction during the year, a 9.5% increase from 2021 when an average of 462,285 SF was under construction

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

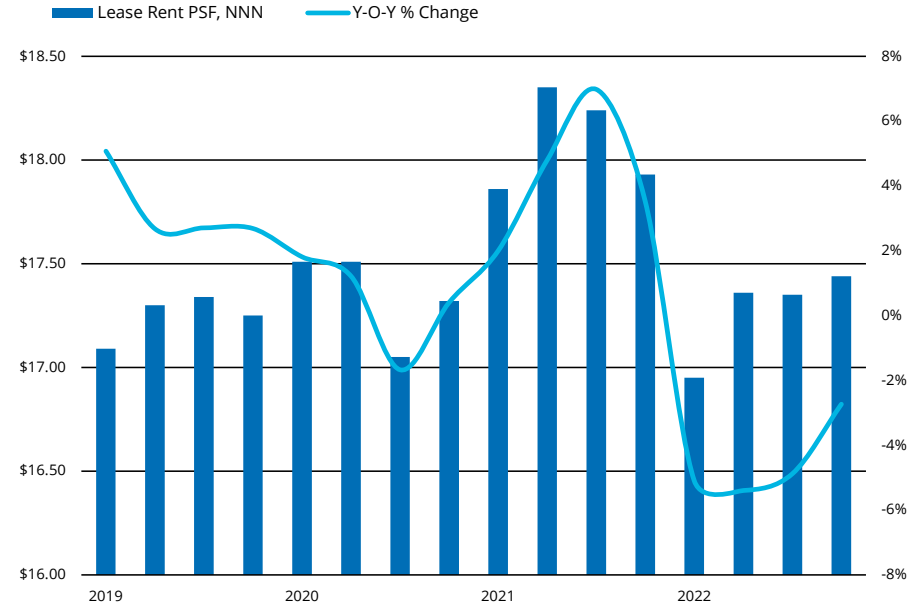


RENTAL RATES

Rents Continue To Decline

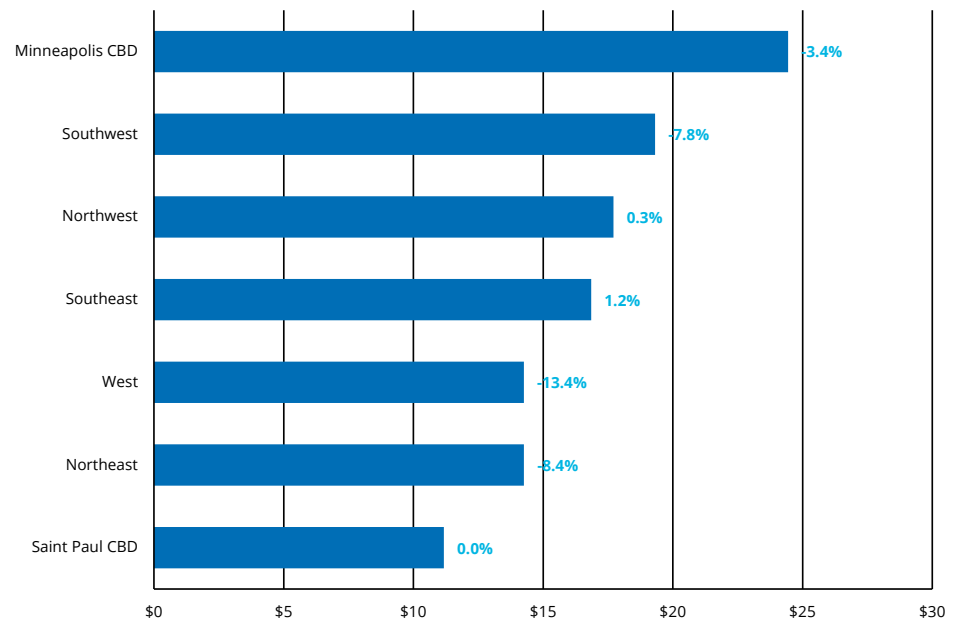
- At \$17.44 per square feet (PSF) asking rents have increased by nearly 1% from the previous quarter, but declined by 3% year-over-year. This is the fourth consecutive quarter that rental rates have declined from the previous year.
- Lease rents were the highest in the Minneapolis CBD at \$24.44 PSF, followed by the Southwest submarket at \$19.31PSF.
- Rents have increased year-over-year in the Southeast (1.2%), and Northwest (0.3%) Submarkets, while the largest decreases were in the West (-13.4%), Northeast (-8.4%), and Southwest (-7.8%) submarkets.
- Property types where lease rents increased the most from the previous year were Mixed Use properties in the Northeast submarket, increasing by 7.8% to \$17.58 PSF and Strip Center properties in the Northeast submarket also with a 7.8% increase to \$20.63 SF.

LEASE RENT



Source: CoStar, Transwestern

LEASE RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

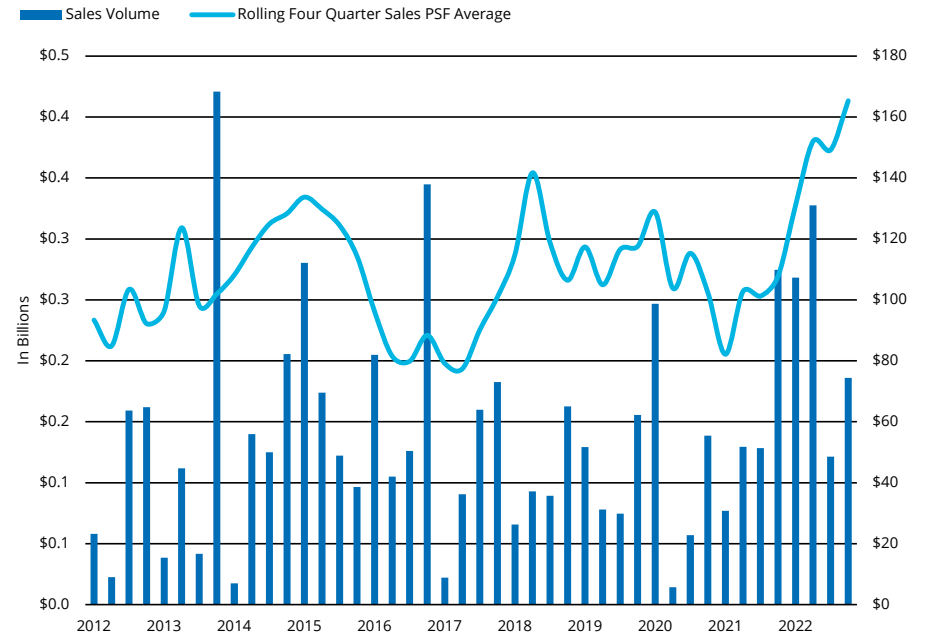


SALES

Sales Volume Recovers

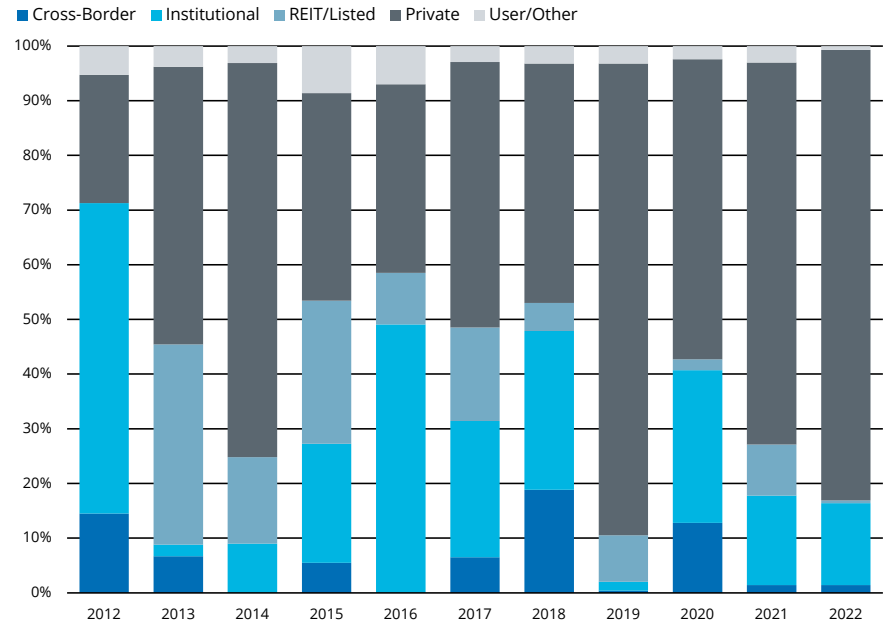
- Sales volume recovered in the fourth quarter to \$186 million dollars, a 53% increase from the third quarter. Year-over-year sales volume is down 32%.
- Even as sales activity recovered, economic uncertainty and the possibility of increasing interest rates continues to negatively impact sales.
- The most notable sale of the quarter was The Shops at West End, which was purchased for \$64.75 million by Hempel Real Estate. The deal was a value-add play, with 81% of the property leased at the time of sale.
- In 2022 82% of the transaction volume has been from private buyers, an increase from 2021 when nearly 70% of capital came from private buyers.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
THE MODERN SPORTSMAN	10 Coon Rapids Blvs NW	Northeast	New	38,173
K&G FASHION	2100 Snelling Ave N	Northeast	New	24,946
LAKEVILLE LIQUORS	20164 Heritage Dr	Southeast	New	8,859
ROBBINSDALE WOMAN'S CENTER	5640 W Broadway Ave	Northwest	New	8,611
CHOUA CHANG	3050 Coon Rapids Blvd NW	Northwest	New	8,300

NOTABLE SALES

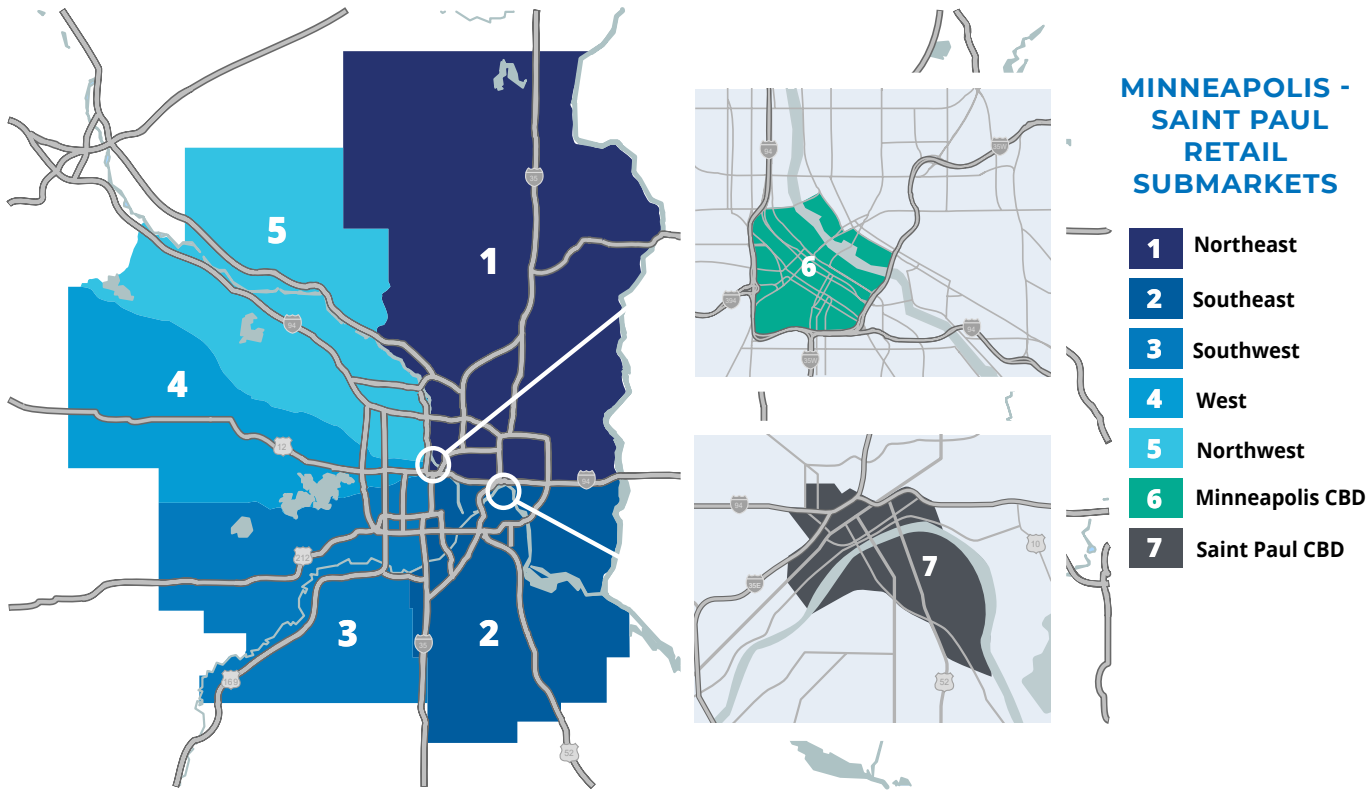
ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1603-1695 WEST END BLVD	West	\$64,750,000	382,376	\$119	Hempel	The Necessity Retail REIT
812 LAKE ST E	West	\$13,100,000	43,217	\$303	Asana Partners	Leisure Lane Partners, LLP
6301 RICHFIELD PKWY	Southeast	\$21,100,563	136,739	\$184	Capital Partners Management	Artis REIT
235 W STATE HWY 5	Southwest	\$8,250,000	22,124	\$373	Fury Motors	Timothy & Janette Curtis
2920 WHITE BEAR AVE N	Northeast	\$8,183,838	14,264	\$574	Robert Katz	Swanson Development Group

 = Transwestern deal

**MARKET INDICATORS**

All Property Types | Q4 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	ASKING RENT PSF
COMMUNITY CENTER	12,343,903	1,657,492	13.4%	13.5%	68,567	\$12.50
FREESTANDING/BIG BOX	38,260,568	1,216,348	3.2%	3.3%	42,639	\$10.50
MIXED USE	7,599,068	1,229,701	16.2%	16.8%	(12,193)	\$16.11
NEIGHBORHOOD CENTER	17,031,434	1,401,362	8.2%	8.7%	(32,198)	\$13.60
REGIONAL CENTER	7,505,085	1,016,042	13.5%	13.5%	42,678	\$25.00
STRIP CENTER	12,362,868	877,564	7.1%	7.3%	(31,784)	\$18.99
TOTAL	95,102,926	7,398,509	7.8%	8.0%	77,799	\$17.44



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on retail properties located in the Minneapolis - Saint Paul seven county metro area (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties). This report includes single tenant and multi-tenant retail properties 15,000 SF and larger or are a part of a complex larger than 15,000 SF.

FOR MORE INFORMATION

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