

# MINNEAPOLIS - SAINT PAUL INDUSTRIAL MARKET

Q4 2022

## TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	1.8	2.5	↓	4.1	↑
NET ABSORPTION (Millions SF)	1.2	2.6	↓	1.2	↓
OVERALL VACANCY RATE	3.5%	3.6%	↓	4.2%	↑
OVERALL VACANT SF (MSF)	9.6	9.7	↓	11.1	↑
UNDER CONSTRUCTION (MSF)	7.9	5.1	↑	4.6	↑
ASKING RENT (PSF)	\$9.18	\$8.30	↑	\$8.20	↑
SALES VOLUME (Millions)	\$877	\$582	↑	\$403.5	↑

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

## INDUSTRIAL MARKET CONTINUES TO PERFORM

Minneapolis-Saint Paul's (MSP) industrial real estate market in the fourth quarter continues to grow, albeit somewhat slowly compared to previous quarters. Net absorption was 1.2 million square feet (SF), down from last quarter's 2.1 million SF and the vacancy rate of 3.5 percent, slightly up from last quarter's 3.3%. Market rents continue to increase significantly even as 1.8 million SF was delivered to the market and 7.8 million SF is currently under construction. As more square feet comes online, price increases may slow.

Overall the MSP economy continues to be steady even as interest rate increases have caused some economic uncertainty. The region's unemployment rate was 1.9% in August, down 30 basis points from the previous year from 2.2%. Manufacturing employment continues to grow as employment increased by 13.5% from the previous year. Trade, Transportation and Utilities employment increased by 4.9% from the previous year.

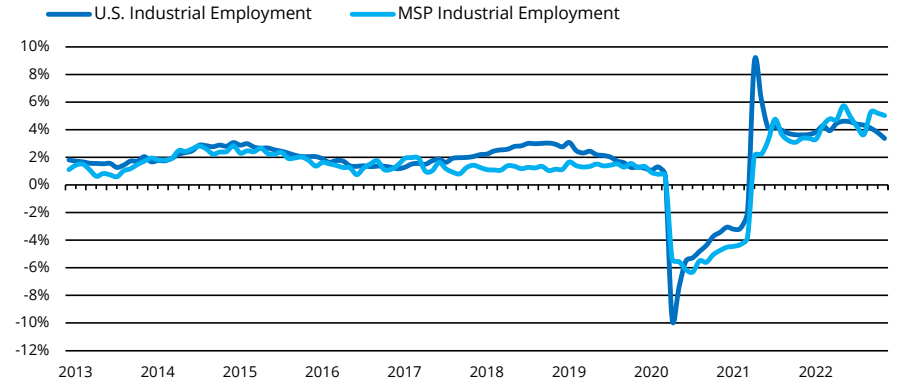


**ECONOMY**

**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 total 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.
- 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

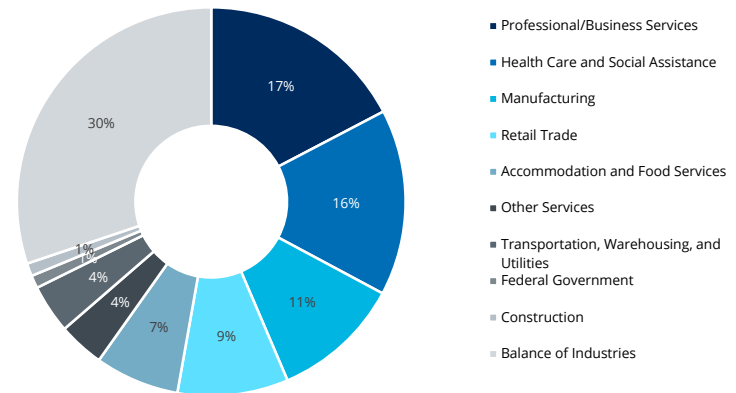
**Y-O-Y CHANGE IN INDUSTRIAL JOBS**



Source: Bureau of Labor Statistics, Transwestern

**SHARE OF EMPLOYEES BY INDUSTRY**

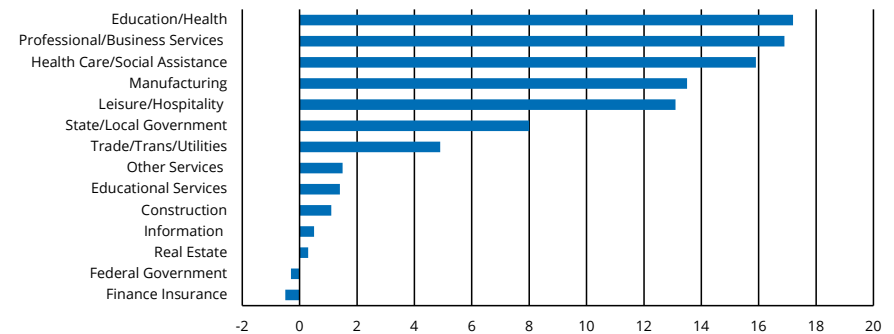
Minneapolis - Saint Paul | November 2022



Source: Bureau of Labor Statistics, Transwestern

**SHARE OF EMPLOYEES BY INDUSTRY**

Minneapolis - Saint Paul | November 2022



Source: Bureau of Labor Statistics, Transwestern

In Thousands

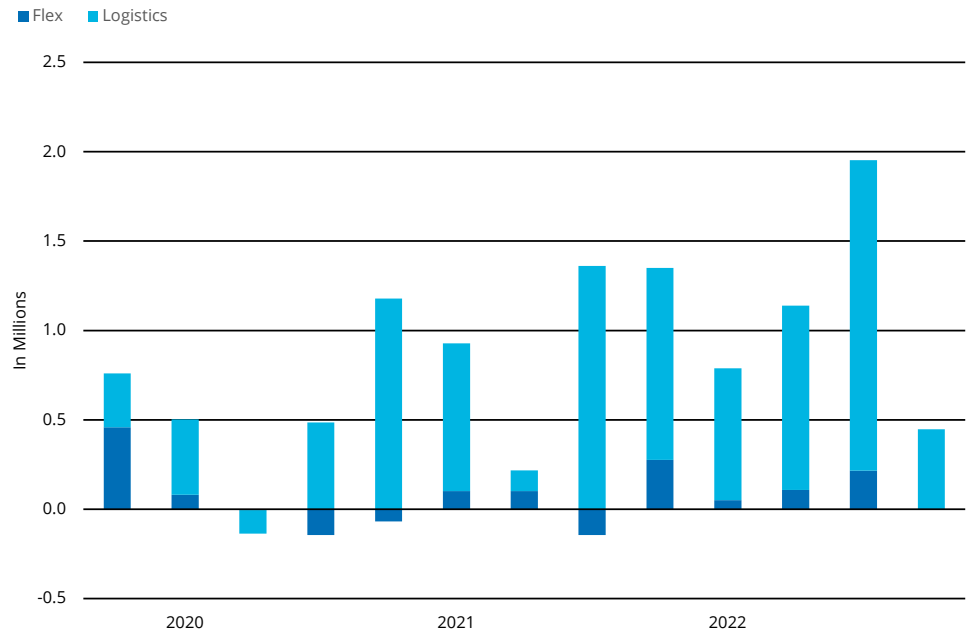


## NET ABSORPTION

### Demand continues to be solid

- MSP absorbed 1.2 million SF of industrial space in the 4th Quarter, which continues to show the strong demand for space in the region.
- As job growth in industrial industries continue to be steady, there is still a need for additional space, as 1.8 million SF was delivered in the previous quarter and another 7.8 million SF is under construction.
- Logistics and warehouse/office space continues to see demand as those two segments absorbed most space, (1,209,124 SF). Flex space only absorbed 1,020 SF.
- Even as the economy continues to show signs of slower growth into 2023, demand for industrial continues to be there as manufacturing employment does not show signs of retrenchment.

## NET ABSORPTION BY PRODUCT TYPE



Source: MNCAR, Transwestern

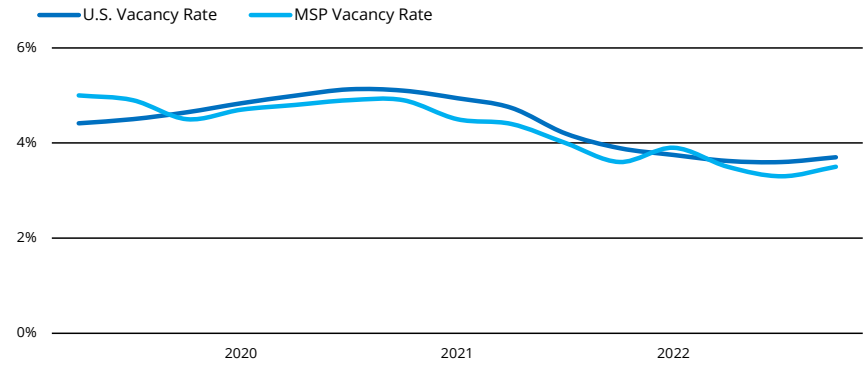


### VACANCY

#### Vacancy Rate Ticks Up

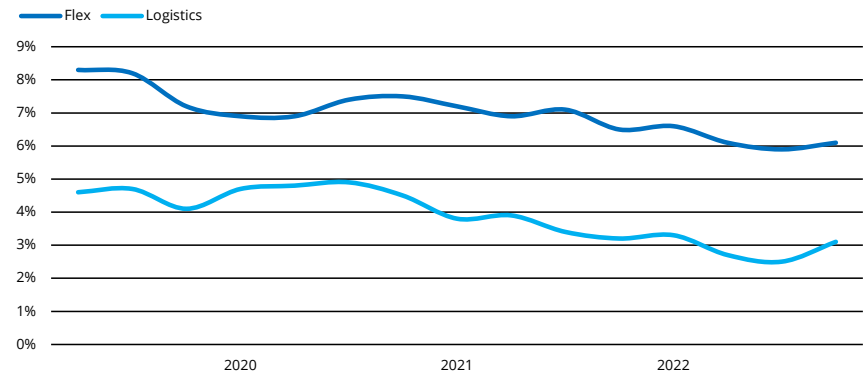
- Overall market vacancy for the fourth quarter was 3.5%, which is an increase of 20 basis points from last quarter. Vacancy rates continue to be at all-time low levels.
- The Northeast submarket has the region's lowest vacancy rate at 2.0%, followed by the Southeast submarket at 3.3%
- Vacancy in the West submarket has increased four consecutive quarters to 5.5% as the 'Warehouse Distribution' property type vacancy rate increased by 50 basis points from the previous quarter.
- Overall 'Warehouse Office' vacancy rate is the lowest at 2.9%, followed by 'Warehouse Distribution' at 3.1%. 'Flex/R&D' vacancy rate was the highest at 6.1%.

### OVERALL VACANCY RATE



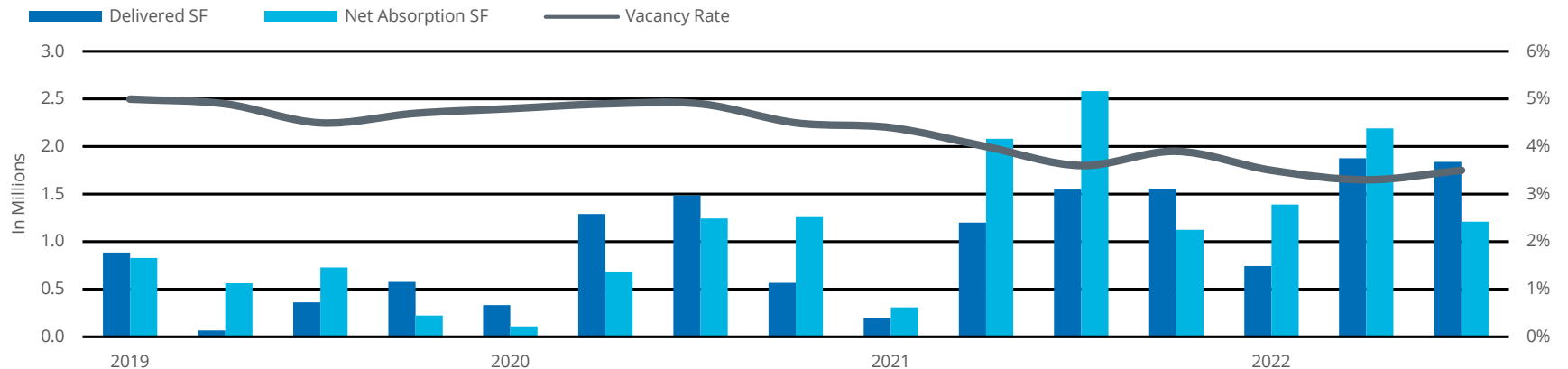
Source: MNCAR, Transwestern

### OVERALL VACANCY RATE BY PRODUCT TYPE



Source: MNCAR, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

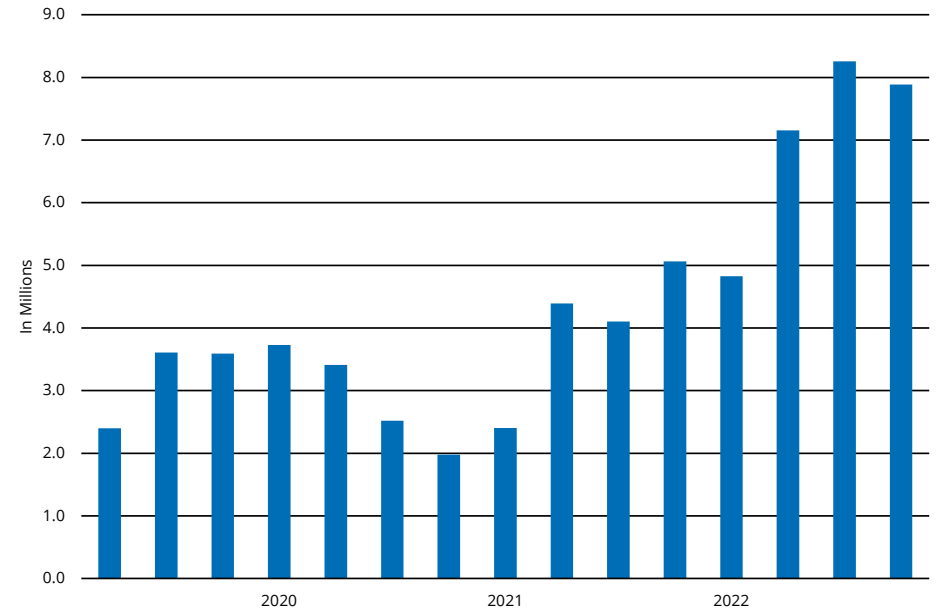


## UNDER CONSTRUCTION

### Construction Continues to Grow

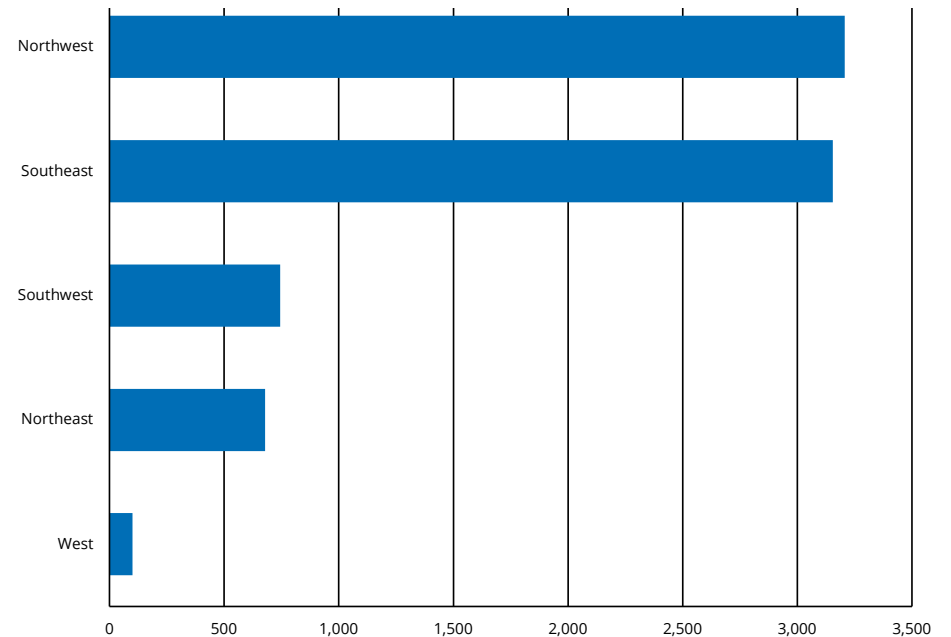
- 7.8 million SF of industrial space is under construction in the MSP market.
- Most construction is taking place in Northwest and Southeast submarkets, with over 6.3 million SF, or 80% of the total square feet, under construction.
- The MSP market is on pace to add over six million square feet into 2023 as the amount of speculative and build-to-suit property continues to increase.

## UNDER CONSTRUCTION



Source: MNCAR, Transwestern

## UNDER CONSTRUCTION BY SUBMARKET



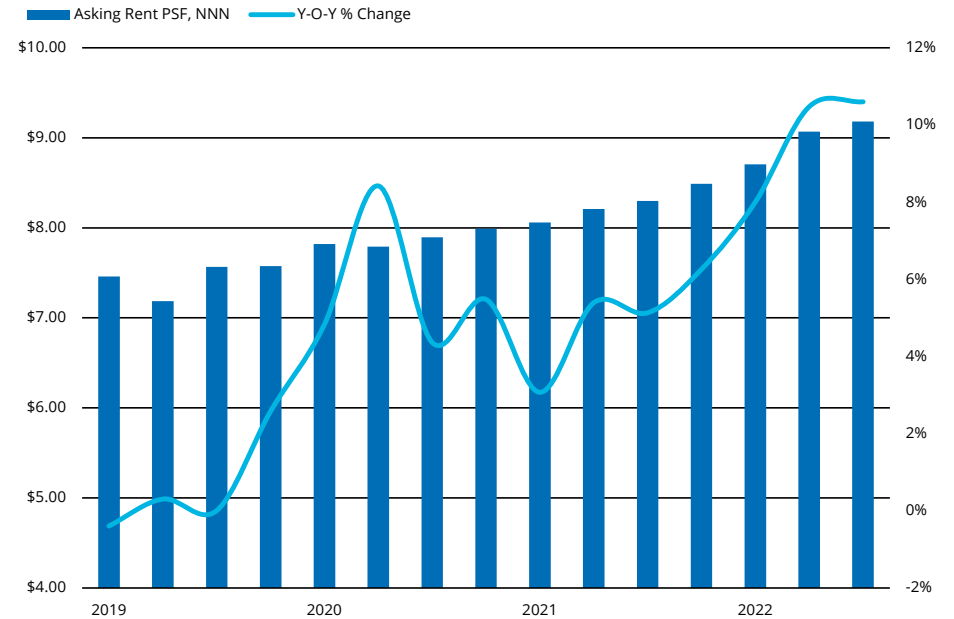
Source: MNCAR, Transwestern

## RENTAL RATES

### Rents Reach All-Time Highs

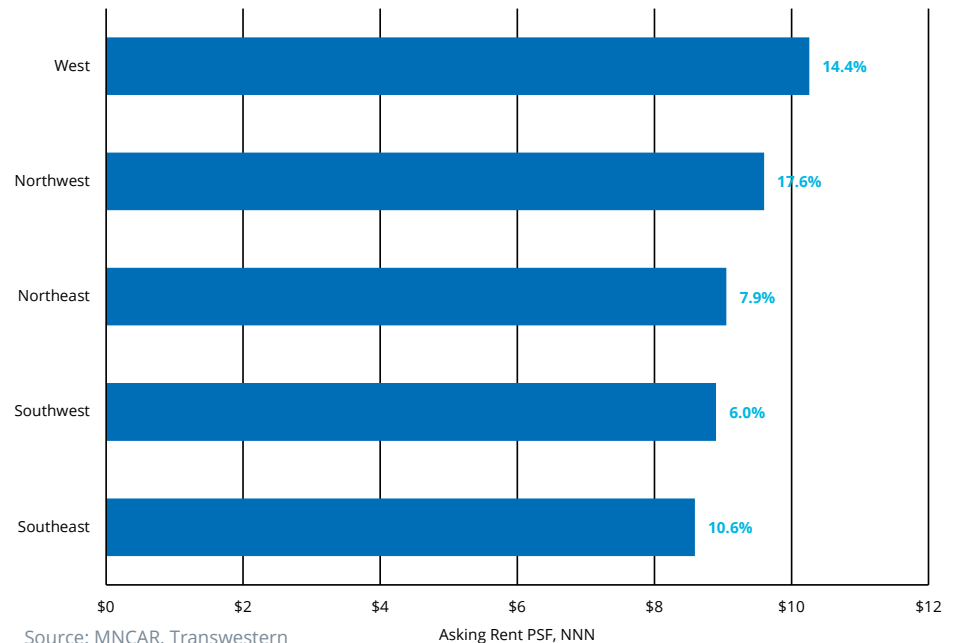
- At \$9.18 per square feet (PSF) rents continue to increase. Average lease rate at the low end were \$7.36 PSF while average lease rates on the high end were \$10.86 PSF.
- Average rent increased by 10.6% from the previous year showing strong demand for space even as additional space was added to the market.
- The West region has the highest asking rents in the region, \$10.26 PSF, and the largest year-over-year change, up by 14%. This was driven by higher prices for the subregion’s ‘Flex/R&D’ space and Warehouse Office space.
- The Southeast subregion has the lowest asking rents averaging at \$8.59 PSF, led by the low prices for its ‘Warehouse Distribution’ space.

## ASKING RENT



Source: MNCAR, Transwestern

## ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: MNCAR, Transwestern

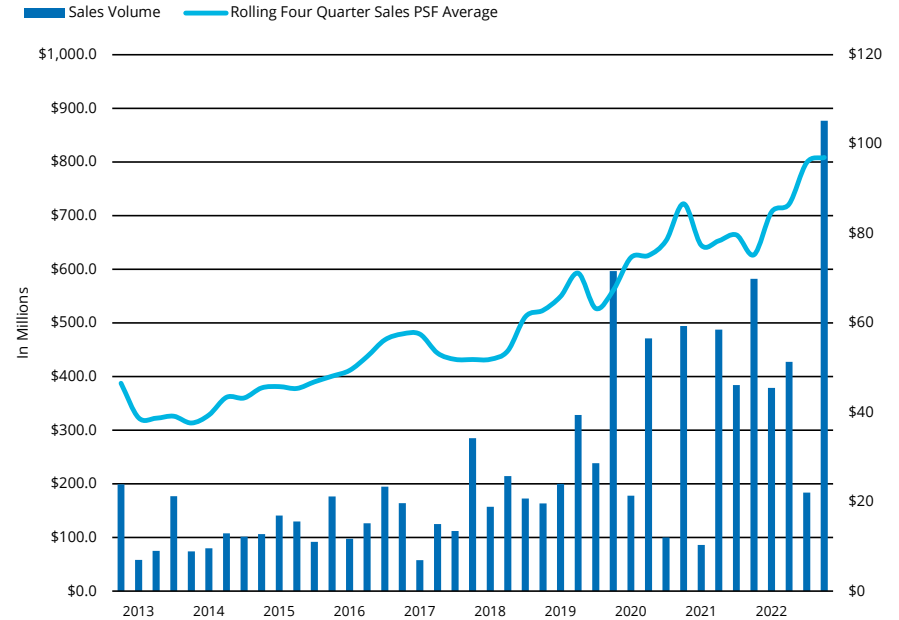


### SALES

#### Sales Volume Declines Considerably

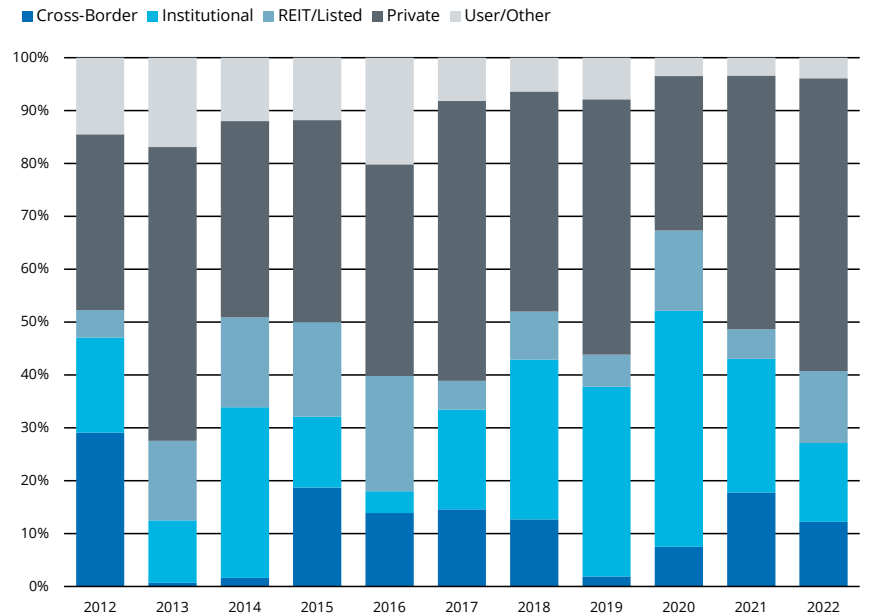
- Q4 2022 industrial sales increased significantly to \$876.9 million, after last quarter's total of \$183 million. Several large portfolio sales occurred that helped with the increased sales volume.
- Overall for the year total sales totaled \$1.86 billion, an increase of 21.2% from 2021. This occurred even as interest rates increased in the second half of 2022.
- The most notable sale of the quarter was 6203 111th St W, which sold for \$54 million dollars in the Southwest subregion.
- In 2022 Private sales made up the majority of buyer's capital, over 54%. REIT's made up 13.6%, nearly doubled from 2021, when it made up only 5.6% of buyer capital.

### SALES VOLUME



Source: CoStar, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
SUPERIOR LOGISTICS	I-694 & County Rd 14	Northeast	New	199,919
GUNNER ELECTRIC & ALDRICH	1885 Douglas Dr N	Northwest	New	128,054
LUBETECH	2400 N Xenium Ln	West	New	114,461
DAIKIN	2400 N Xenium Ln	West	New	100,193
DEDICATED NETWORKS	9000 93rd Avenue N	Northwest	New	94,072

## NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
6201 W 111TH ST	Southwest	\$54,000,000	580,733	\$93	Orton Development Group	First Industrial Realty Trust, Inc.
1000 BLUE GENTIAN RD	Southeast	\$35,500,000	137,897	\$257	WSP Eagan LLC	SCC Real Estate, LLC
2360 PILOT KNOB RD	Southeast	\$32,500,000	404,552	\$80	TCI LL, LLC	AX TC Industrial III LP
451 INDUSTRIAL BLVD	Northeast	\$29,900,000	162,618	\$184	TCI LL, LLC	AX TC Industrial III LP
1930 ENERGY PARK DR	Northeast	\$29,900,000	250,000	\$120	TCI LL, LLC	AX TC Industrial III LP

 = Transwestern deal

**MARKET INDICATORS**

All Property Types | Fourth Quarter 2022

SUBMARKET	INVENTORY SF	TOTAL VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	89,445,025	1,770,696	2.0%	678,682	840,729	2,097,836	\$9.05
NORTHWEST	59,526,148	2,493,954	4.2%	3,207,289	198,619	2,393,032	\$9.60
SOUTHEAST	56,441,053	1,859,502	3.3%	3,155,252	310,983	1,441,488	\$8.59
SOUTHWEST	52,271,400	2,544,758	4.9%	744,576	(86,368)	503,654	\$8.90
WEST	17,518,561	971,979	5.5%	100,000	(53,801)	(372,275)	\$10.26
<b>TOTAL</b>	<b>275,202,187</b>	<b>9,643,889</b>	<b>3.5%</b>	<b>7,885,799</b>	<b>1,210,144</b>	<b>6,063,735</b>	<b>\$9.11</b>

**MARKET INDICATORS**

Flex/R&amp;D | Fourth Quarter 2022

SUBMARKET	INVENTORY SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	11,400,196	581,248	5.1%	126,408	362,543	\$9.73
NORTHWEST	7,011,456	180,349	2.6%	(123)	123,238	\$11.10
SOUTHEAST	7,584,219	751,062	9.9%	10,227	7,117	\$9.15
SOUTHWEST	12,835,559	760,394	5.9%	(38,087)	17,761	\$8.83
WEST	4,162,956	341,174	4.0%	(97,405)	(105,902)	\$11.75
<b>TOTAL</b>	<b>42,994,386</b>	<b>2,614,227</b>	<b>6.1%</b>	<b>1,020</b>	<b>404,757</b>	<b>\$10.11</b>

**MARKET INDICATORS**

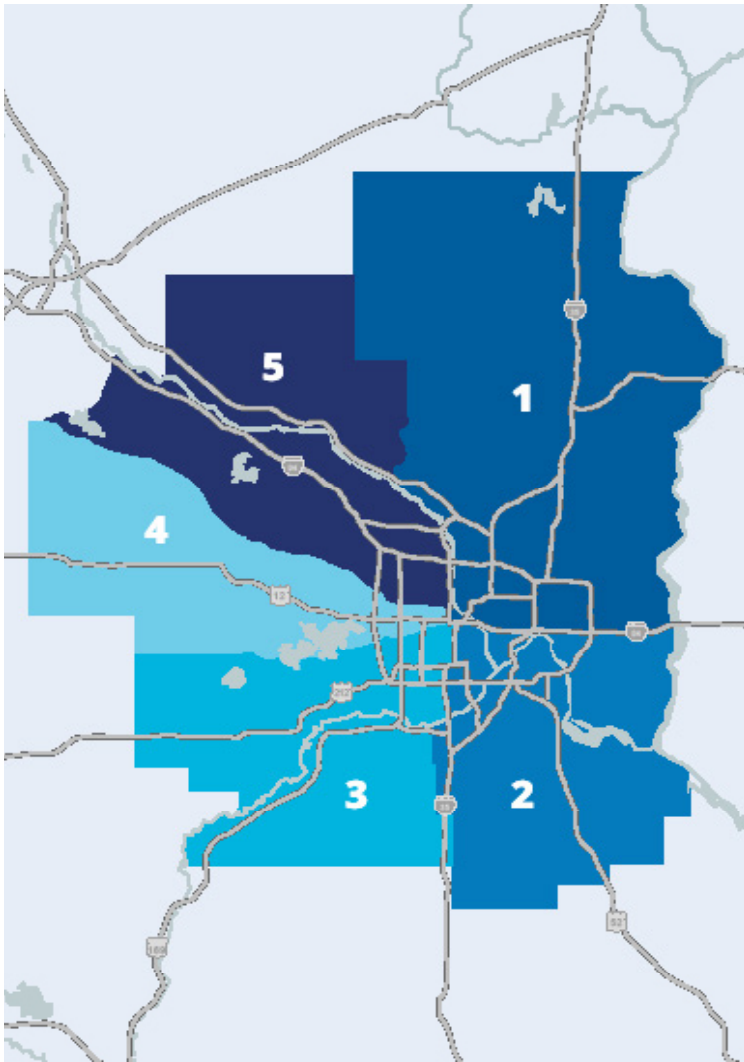
## Warehouse Distribution | Fourth Quarter 2022

SUBMARKET	INVENTORY SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	31,176,706	593,326	1.9%	169,437	899,864	\$6.25
NORTHWEST	29,626,607	1,117,948	3.8%	71,742	1,723,680	\$10.25
SOUTHEAST	24,642,963	425,446	1.7%	313,812	1,470,003	\$6.25
SOUTHWEST	19,286,904	1,130,198	5.9%	(108,731)	420,246	\$7.49
WEST	3,753,294	149,001	4.0%	0	(80,658)	\$5.17
<b>TOTAL</b>	<b>108,486,474</b>	<b>3,415,919</b>	<b>3.1%</b>	<b>446,260</b>	<b>4,433,135</b>	<b>\$7.08</b>

**MARKET INDICATORS**

## Warehouse Office | Fourth Quarter 2022

SUBMARKET	INVENTORY SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	46,868,123	596,122	1.3%	544,884	835,429	\$8.69
NORTHWEST	22,888,085	1,195,657	5.2%	127,000	546,114	\$8.74
SOUTHEAST	24,213,871	682,994	2.8%	(13,056)	(35,632)	\$8.19
SOUTHWEST	20,148,937	657,166	3.3%	60,432	65,647	\$9.46
WEST	9,602,311	481,804	5.0%	43,604	(185,715)	\$10.86
<b>TOTAL</b>	<b>123,721,327</b>	<b>5,870,501</b>	<b>2.9%</b>	<b>762,864</b>	<b>1,225,843</b>	<b>\$9.19</b>



### MINNEAPOLIS - SAINT PAUL INDUSTRIAL SUBMARKETS

- 1** Northeast
- 2** Southeast
- 3** Southwest
- 4** West
- 5** Northwest

### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Minneapolis-Saint Paul seven-county region. This report includes single tenant, multi-tenant and owner-user properties 20,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

### FOR MORE INFORMATION

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