



TRANSWESTERN

MINNEAPOLIS - SAINT PAUL RETAIL MARKET

Q1 2023



TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.0	3.0	↔	4.1	↑
NET ABSORPTION (THOUSANDS SF)	(292.1)	(4.0)	↓	60.0	↓
OVERALL VACANCY RATE	8.0%	8.3%	↓	8.5%	↑
OVERALL VACANT SF (MSF)	7.6	7.9	↓	8.0	↑
UNDER CONSTRUCTION (MSF)	0.7	0.5	↑	0.6	↑
LEASE RENT, NNN (PSF)	\$17.57	\$16.95	↑	\$17.58	↑
SALES VOLUME (MILLIONS)	\$231.7	\$275	↓	\$168.5	↓

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

RETAIL MARKET CONTINUES TO SLOW

The Minneapolis-Saint Paul (MSP) retail market began the year with slower growth as fears of a potential recession and market volatility impacted the market. MSP’s retail market had a 8% vacancy rate, no change from the previous quarter, but 30 basis points lower year-over-year. Net absorption for the quarter was -292,134 SF, significantly lower than the previous year’s total of -4,045 SF as several large users vacated space such as Marshall’s from City Center in Minneapolis CBD and Dick’s Sporting Goods and Bed, Bath & Beyond vacated Westridge Market Shopping in Minnetonka.

Suburban retail continued to see vacancy rates decrease and are lower than the overall vacancy rate. Lease rental rates continue to be competitive as lease rates increased by 3.66% year-over-year to \$17.57. Retail space that is under construction increased by 39.4% from Q4 2022 to 655,586 SF. Retail is facing some headwinds as economic conditions continues to be challenged as consumers reduce spending and that retailers see revenues decrease.

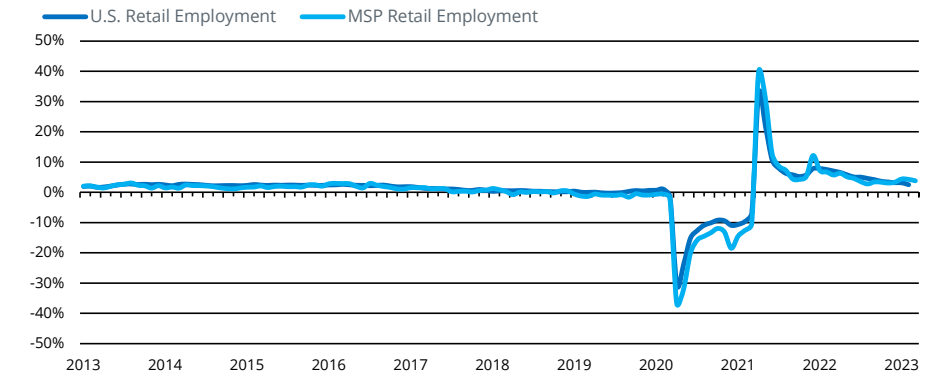


ECONOMY

Job Growth Remains Consistent

- Minneapolis - Saint Paul unemployment increased from Q4 2022, but continued to be historically low. March unemployment was 2.8% and the quarterly average was 3%.
- Total employment in the Minneapolis - Saint Paul metro area grew by 1.8% from the previous year. While solid growth, it's the fourth consecutive month employment growth was below 2% from the previous year.
- Retail employment from the previous year increased by 3.8% to 325,500 in March. Employment growth in the sector has been above 3% for seven consecutive quarters.
- Employment continued to be below pre-pandemic levels as employment growth has not been at a steady pace. March retail employment was 92% of peak employment in August 2019 of 353,300.

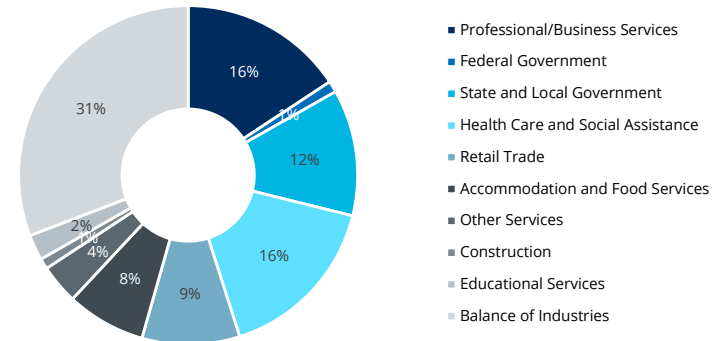
Y-O-Y CHANGE IN RETAIL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

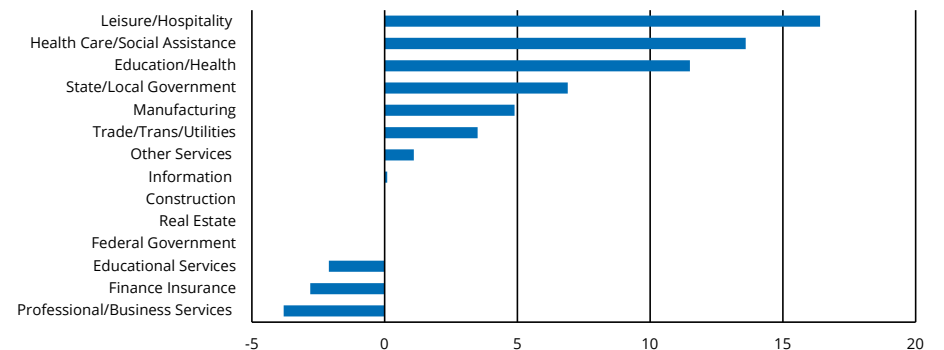
Minneapolis - Saint Paul | March 2023



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis - Saint Paul | March 2023



Source: Bureau of Labor Statistics, Transwestern

In Thousands

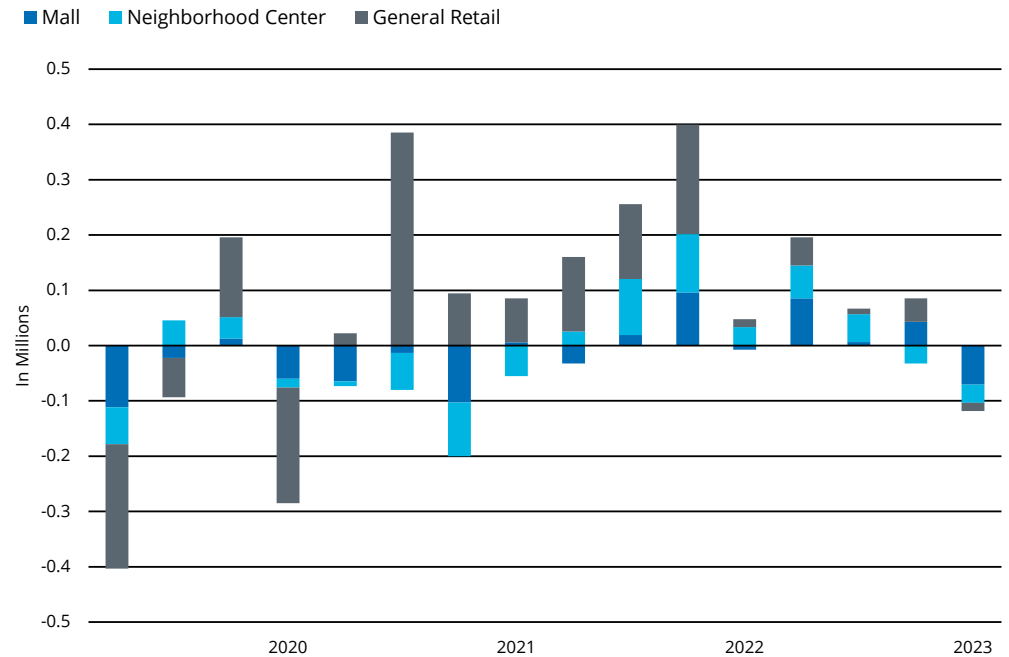


NET ABSORPTION

Demand for Space Retreats

- Q1 2023 net absorption totaled -292,134 SF, significantly lower than Q4 2022 total of 77,799 SF and last year's -4,045 SF.
- The 'Community Center' property type had the largest negative net absorption, totaling -118,325 SF, followed by 'Regional Center' which had a negative net absorption of -70,943 SF.
- The Southeast submarket was the only submarket to register a positive net absorption, totaling 29,046 SF due to positive performance of the 'Community Center' property type.
- The Northeast submarket had the largest negative net absorption totaling -124,352 SF. This was due to large negative net absorption of 'Community Center' and 'Regional Center' property types.
- Several tenants vacated large amounts of space this quarter including:
 - Dicks Sporting Goods - 101,216 SF vacated from Westridge Market Shopping (Minnetonka)
 - Marshalls - 50,163 SF vacated from City Center (Minneapolis CBD)
 - Snappy Furniture - 38,901 SF vacated Sun Ray Shopping Center (Saint Paul)
 - Bed, Bath & Beyond - 34,124 SF vacated from Westridge Market Shopping (Minnetonka)

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

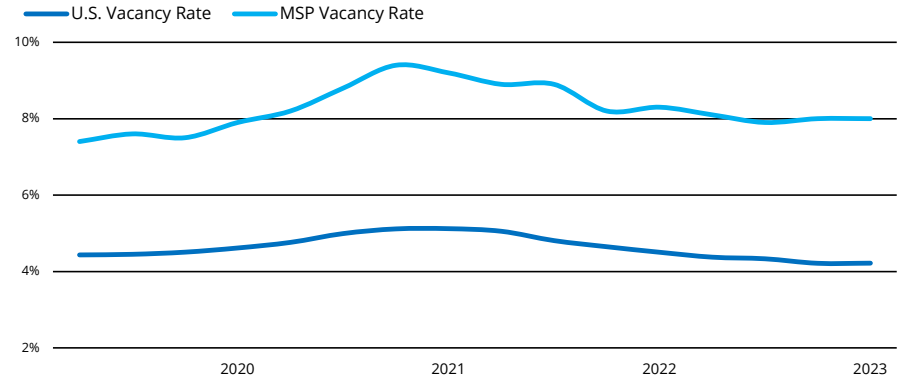


VACANCY

Vacancy Rate Continues to Decrease

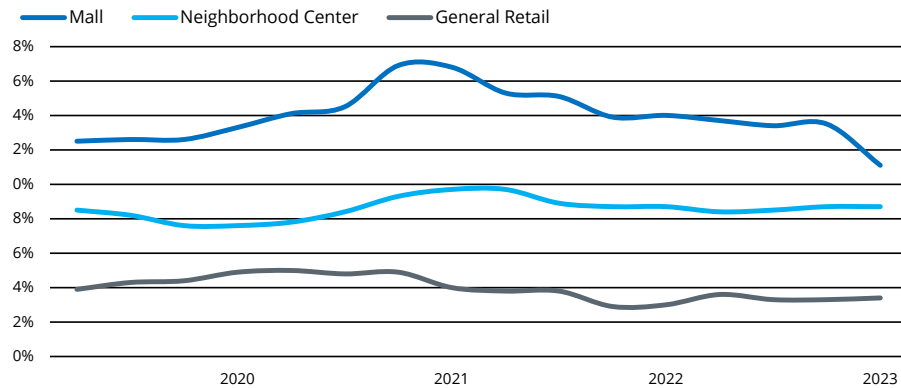
- Overall market vacancy for Q1 2023 was 8%, which was no change from Q4 2022. Year-over-year vacancy decrease by 30 basis points.
- The Southeast submarket has the lowest vacancy rate at 6.2%, followed by the Southwest submarket with a vacancy rate 6.6%.
- The Minneapolis and Saint Paul CBD submarkets continue to be challenged as vacancy rates are 29.5% and 14.9% respectively. Year-over-year vacancy rates have increased by 380 basis points and 360 basis points in the two submarkets.
- 'Regional Center' property type vacancy rates had the largest year-over-year decline from 14% in Q1 2022 to 11.1% in Q1 2023, a 290 basis point decline.

OVERALL VACANCY RATE



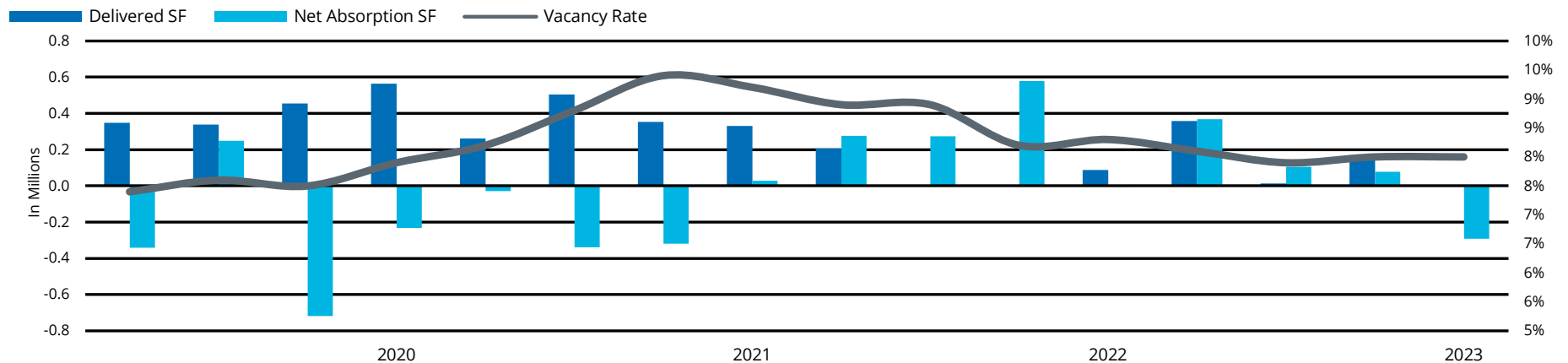
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

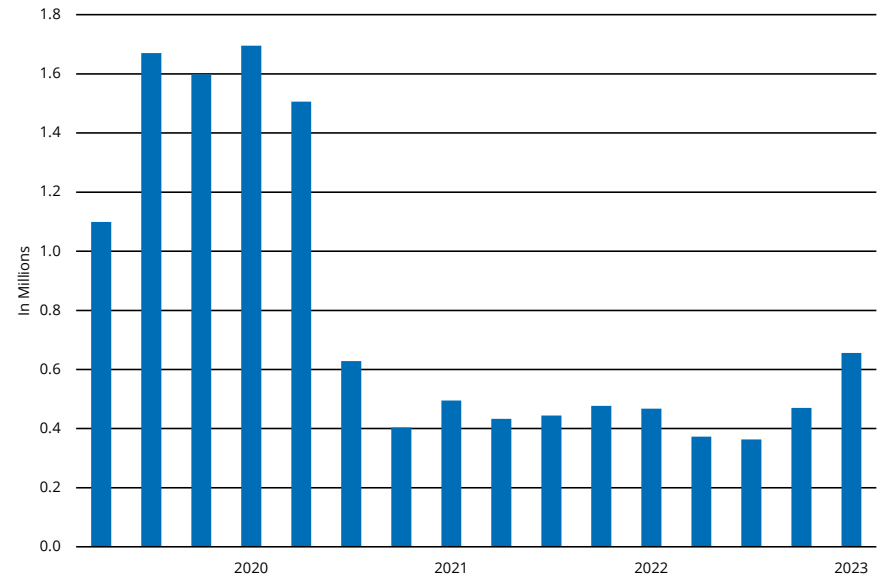


UNDER CONSTRUCTION

Construction Rebounds

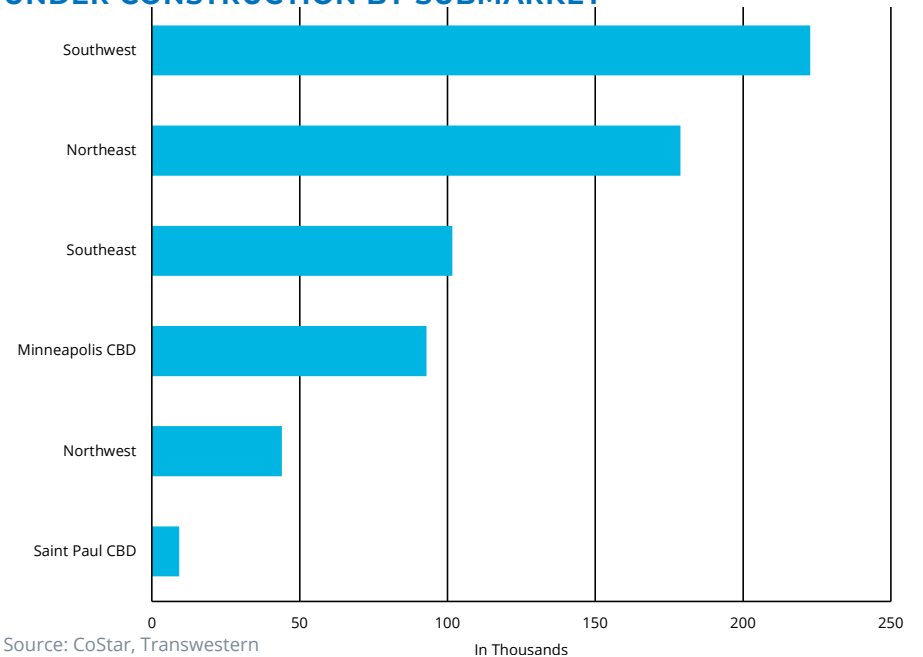
- 655,586 SF was under construction Q1 2023, a 39% increase from the previous quarter.
- The Southwest submarket had the largest amount of retail space under construction totaling 222,761 SF followed by the Northeast submarket with 178,789 SF.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

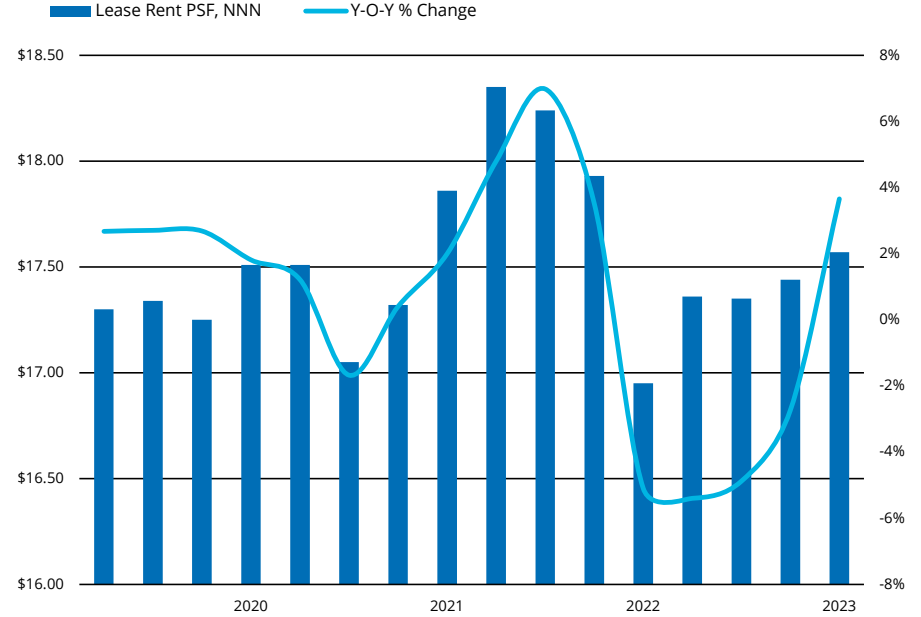


RENTAL RATES

Rents Continue To Decline

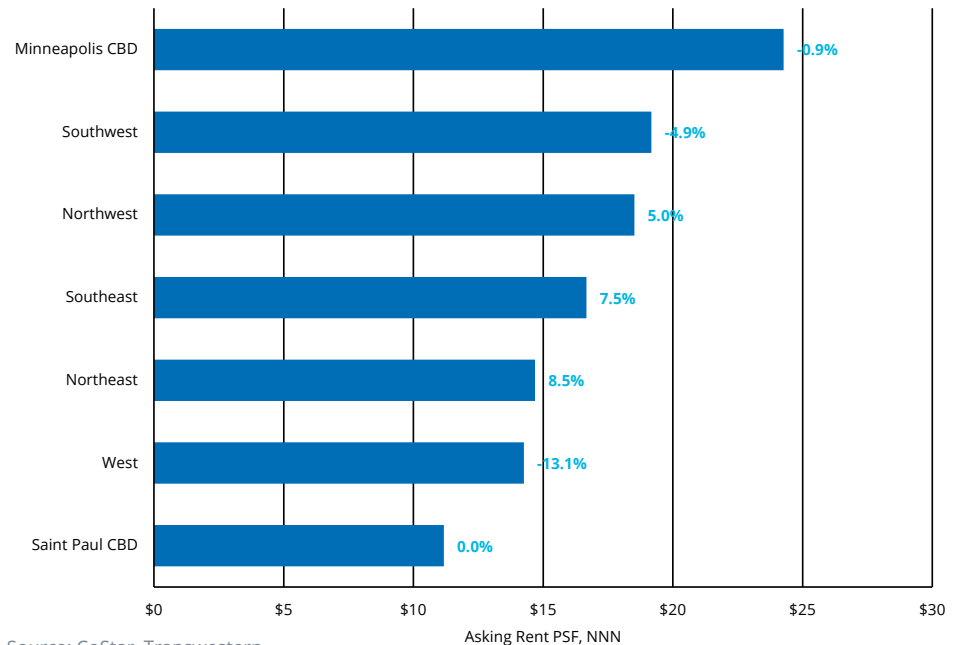
- At \$17.57 per square feet (PSF) asking rents have increased by nearly 1% from the previous quarter, but increased by 3.7% year-over-year. This is the first quarter since Q1 2022 that rental rates increased year-over-year.
- Lease rents were the highest in the Minneapolis CBD at \$24.27 PSF, followed by the Southwest submarket at \$19.17 PSF.
- Rents have increased year-over-year in the Northeast (8.5%), and Southeast (7.5%) submarkets, while the largest decreases were in the West (-13.1%) and Southwest (-4.9%) submarkets.
- Property types where lease rents increased the most from the previous year were 'Strip Center' properties in the Southeast and West submarkets, increasing by 10.8% to \$18.66 PSF and a 7.8% increase to \$20.00 SF respectively.

LEASE RENT



Source: CoStar, Transwestern

LEASE RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

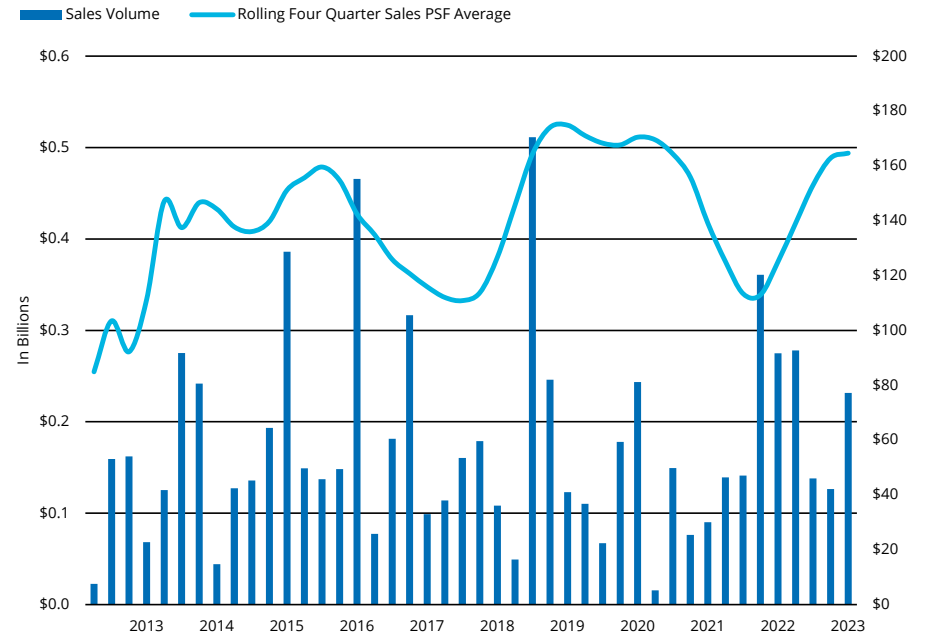


SALES

Sales Volume Recovers

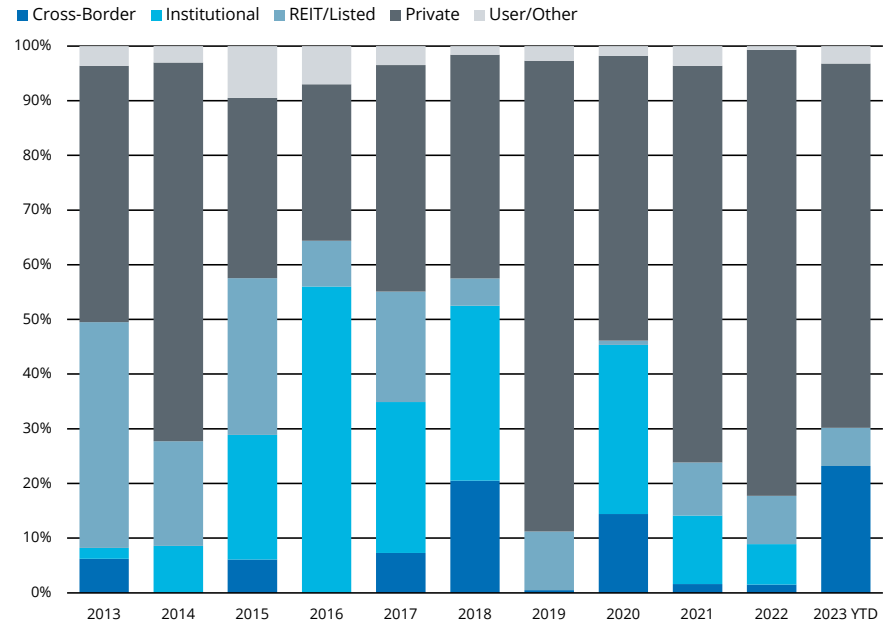
- Sales volume recovered in Q1 2023 to \$231 million, a 83.3% increase from the previous quarter. Year-over-year sales volume is down 15.7%.
- Even as sales activity recovered, economic uncertainty and the possibility of increasing interest rates continues to negatively impact sales.
- The most notable sale of the quarter was Maplewood Mall, which was purchased for \$15 million. The deal was a value-add play, with 81% of the property leased at the time of sale.
- As with other sales activity in other asset classes, private buyers was the majority in buying property totaling 66.7% of capital used. cross-border capital made up 23.2%.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
PICKLE BALL	17505-17585 State Hwy 7	Southwest	New	35,000
ASHLEY FURNITURE	1259 Promenade Pl	Southeast	New	30,290
DROP SHOT PICKLEBALL	1100 Shakopee Town Sq	Southwest	New	24,017
OFFICE MAX	1259 Promenade Pl	Southeast	New	23,628
PUTTERY	270 Hennepin	MPLS CBD	New	20,365

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
MAPLEWOOD MALL	Northeast	\$15,000,000	321,217	\$47	Brookwood Capital Advisors	Highland Capital
CLIFF LAKE CENTRE	Southeast	\$9,450,000	74,182	\$127	True North Investments	IRC Retail Centers
1106 MAINSTREET	Southwest	\$5,100,000	34,334	\$149	Enclave Development	Beard Group, Inc.
8620 CENTRAL AVE	Northeast	\$4,978,000	17,920	\$278	SSJLB Mesquite LLC	Four Springs Capital Trust Operating Partnership
301 E LAKE ST	Southeast	\$4,900,000	12,752	\$384	Egal Properties LLC	Abdiwahab S. Mohamud

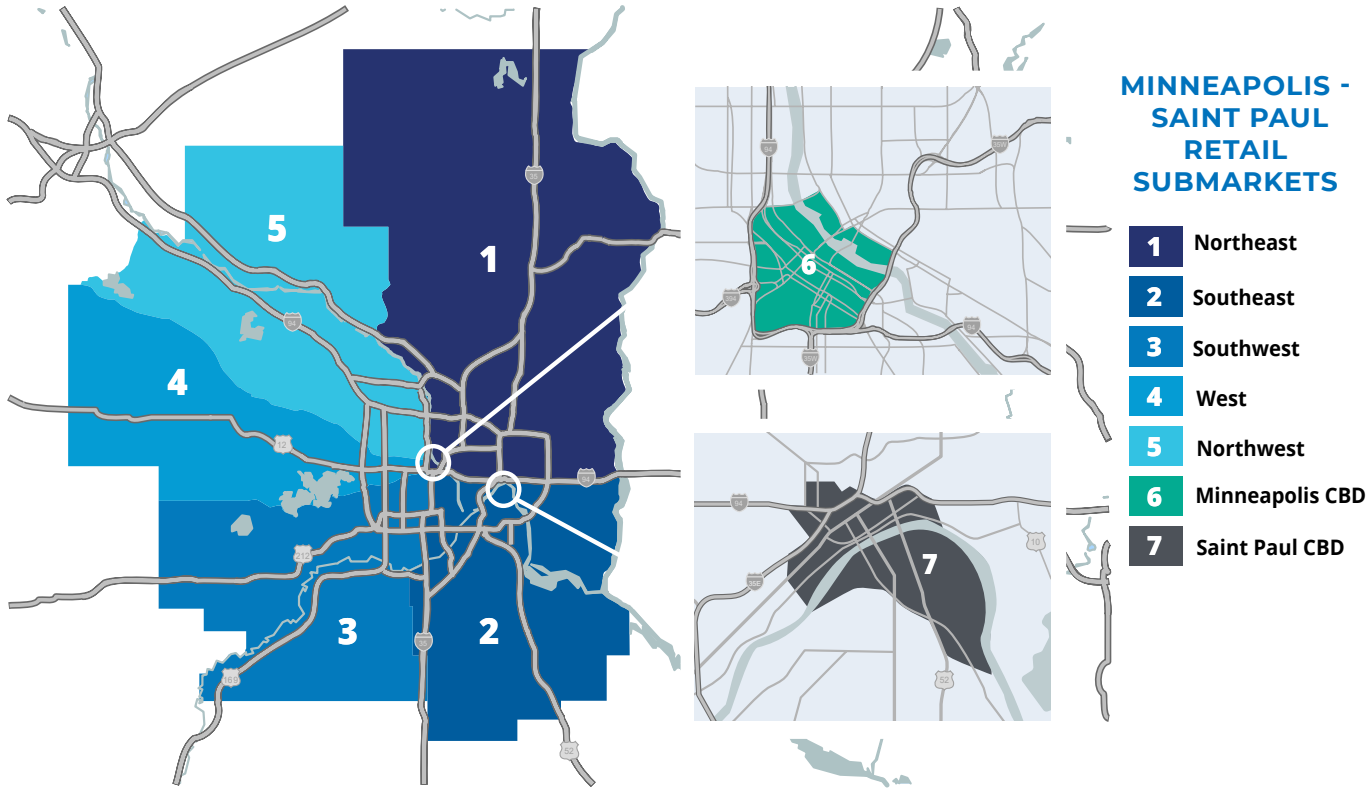
 = Transwestern deal



MARKET INDICATORS

All Property Types | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	ASKING RENT PSF
COMMUNITY CENTER	11,845,213	1,556,944	1,697,857	14.3%	14.6%	(118,325)	\$13.33
FREESTANDING/BIG BOX	38,532,450	462,542	1,265,653	3.3%	3.4%	(14,805)	\$10.50
MIXED USE	7,355,423	1,324,155	1,322,000	18.0%	18.4%	(36,507)	\$15.69
NEIGHBORHOOD CENTER	18,856,910	1,521,380	1,602,492	8.5%	8.7%	(32,921)	\$13.28
REGIONAL CENTER	7,505,085	836,271	833,267	11.1%	11.1%	(70,493)	\$25.00
STRIP CENTER	10,772,183	767,424	701,841	6.5%	6.6%	(19,083)	\$19.56
TOTAL	94,867,264	6,468,716	7,423,110	7.8%	8.0%	77,799	\$17.57



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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ABOUT TRANSWESTERN

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