

MINNEAPOLIS - SAINT PAUL INDUSTRIAL 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 (Millions SF)	1.1	1.1	↔	1.2	↓
OVERALL VACANCY RATE	3.8%	3.8%	↔	4.1%	↑
OVERALL VACANT SF (MSF)	10.5	10.4	↑	11.0	↑
UNDER CONSTRUCTION (MSF)	8.5	4.8	↑	4.9	↑
ASKING RENT (PSF)	\$9.29	\$8.49	↑	\$8.34	↑
SALES VOLUME (Millions)	\$304.2	\$362	↓	\$487.9	↓

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

INDUSTRIAL MARKET CONTINUES TO BE SOLID

Minneapolis-Saint Paul's (MSP) industrial real estate market in Q1 2023 continues to grow, albeit somewhat slowly compared to previous quarters. Net absorption was 1.1 million square feet (SF), slightly lower from last quarter's 1.2 million SF and the vacancy rate increased by 40 basis points to 3.8%. Market rents continue to increase, 9.4% growth year-over-year, even as 1.5 million SF was delivered to the market and 8.5 million SF is currently under construction showing that demand for space continues to be elevated.

There are signs that economic growth in the region is slowing due to the increase in economic uncertainty. While unemployment remains historically low, it has increased by 70 basis points since May 2022 when it was unemployment was at 2.1% to 2.8% in March 2023. Additionally industrial employment growth has slowed, increasing by only 1.5% year-over-year.

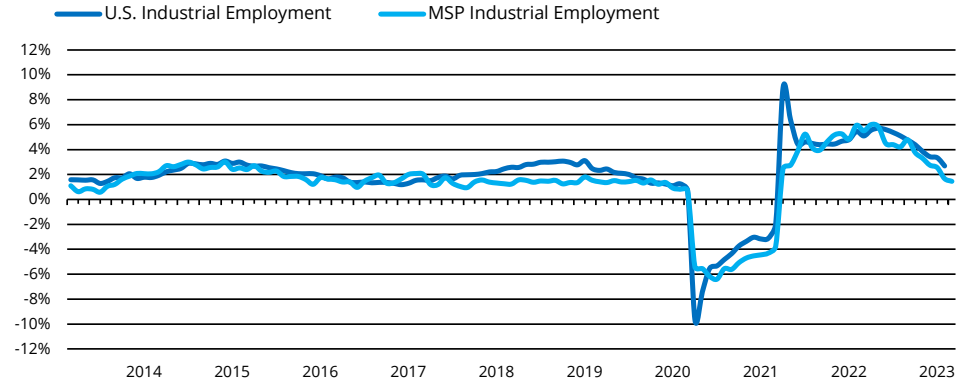


ECONOMY

Job Growth Slows

- 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%.
- Industrial employment increased by 1.5% year-over-year. While growing it is significantly lower than the growth experienced during 2022 when employment was increasing by 4% to 5% year-over-year.
- Total employment in the Minneapolis - Saint Paul metro area grew by 1.8% year-over-year. While solid growth, it's the fourth consecutive month employment growth was below 2%.
- While employment totals have exceeded pre-pandemic levels slowing employment growth is a concern that could impact industrial space needs.

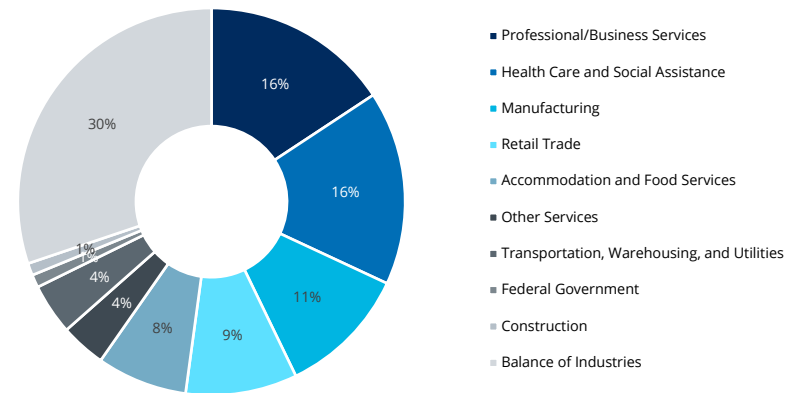
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

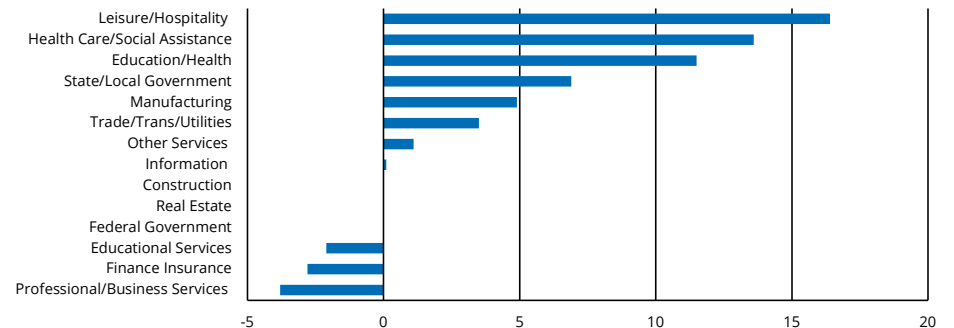
Minneapolis - Saint Paul | March 2023



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis - Saint Paul | March 2023



Source: Bureau of Labor Statistics, Transwestern

In Thousands

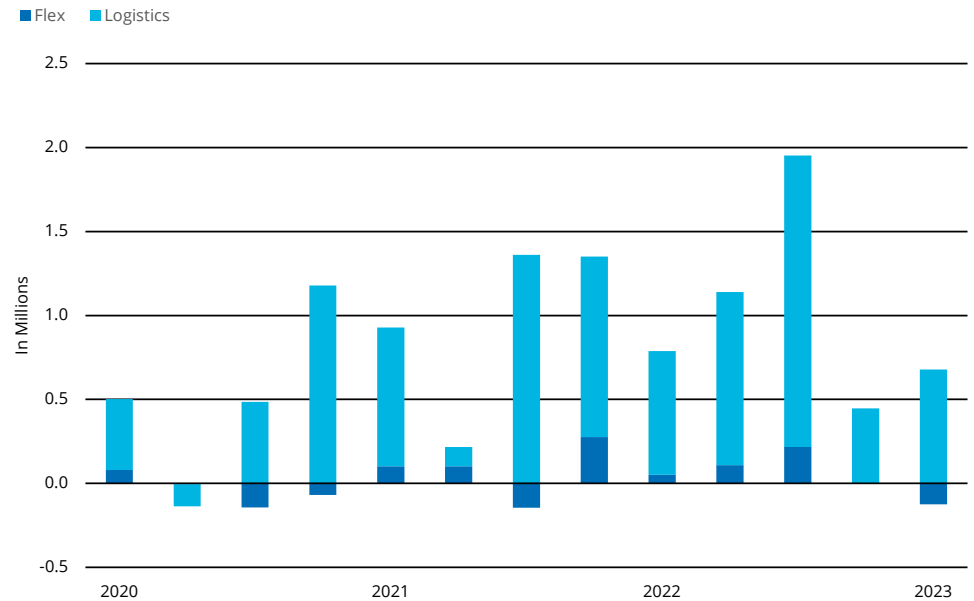


NET ABSORPTION

Demand Continues To Be Solid

- MSP absorbed 1 million SF of industrial space in Q1 2023, which continues to show the strong demand for space in the region.
- As job growth in industrial industries continues, there is still demand for additional space, as 1.5 million SF was delivered in the previous quarter and another 8.5 million SF is under construction.
- Logistics and warehouse/office space continues to see demand as those two segments absorbed most space, (1,176,086 SF). Flex space registered a negative net absorption total of 125,348 SF.
- As other parts of the economy shows signs of slowing, demand for industrial space has continued to be steady as space needs manufacturing and distribution needs continues to be strong.

NET ABSORPTION BY PRODUCT TYPE



Source: MNCAR, Transwestern

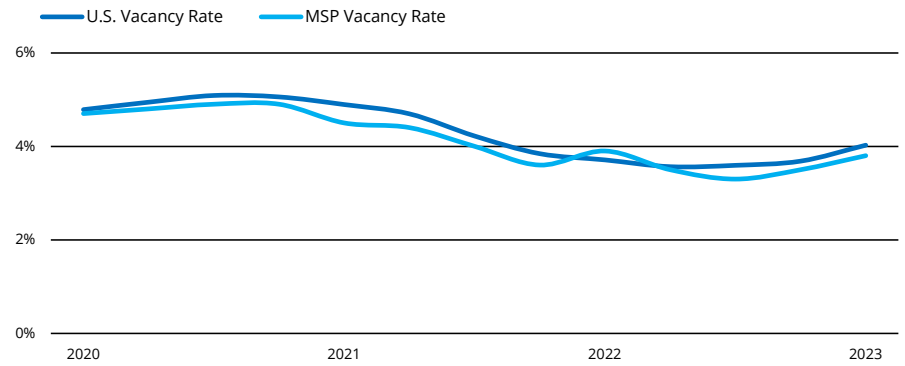


VACANCY

Vacancy Rate Ticks Up

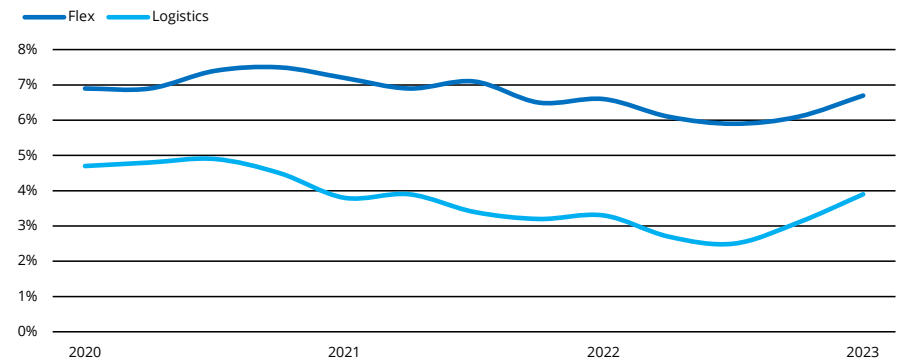
- Overall market vacancy for the Q1 2023 was 3.8%, which is an increase of 40 basis points from the previous quarter. Year-over-year there was no change in the rate. Vacancy rates are slightly lower in the MSP region than the nation overall.
- The Northeast submarket has the region's lowest vacancy rate at 2.3%, followed by the Northwest submarket at 3.4%
- Northeast submarket Flex/R&D space saw the largest year-over-year decrease in vacancy, declining by 340 basis points, from 8.3% in Q1 2022 to 4.9% in Q1 2023. Southeast submarket Warehouse Distribution space had the largest year-over-year increase in vacancy, increasing by 350 basis points, from 1.9% in Q1 2022 to 5.6% in Q1 2023.
- Overall 'Warehouse Office' vacancy rate is the lowest at 2.6%, followed by 'Warehouse Distribution' at 3.9%. 'Flex/R&D' vacancy rate was the highest at 6.7%.

OVERALL VACANCY RATE



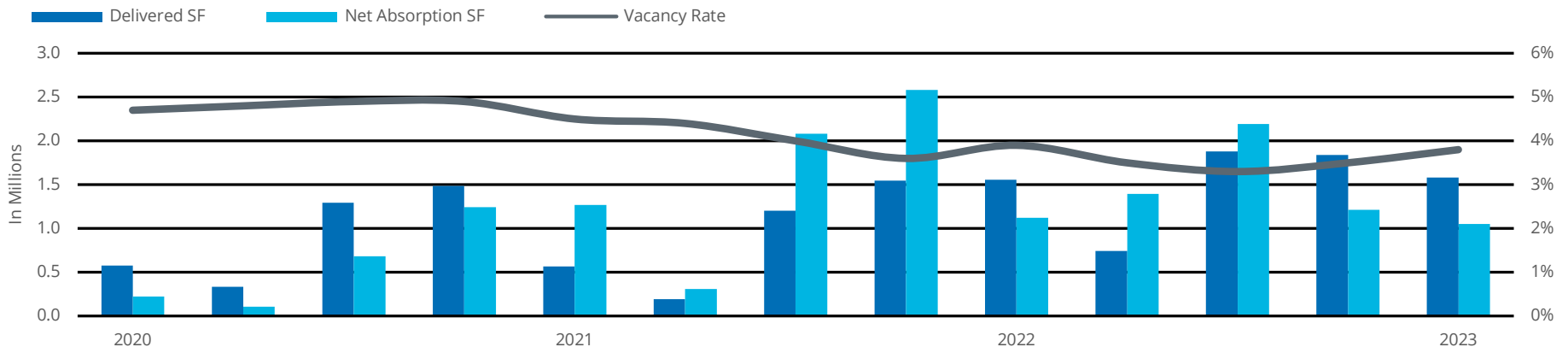
Source: MNCAR, Transwestern

OVERALL VACANCY RATE BY PRODUCT TYPE



Source: MNCAR, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

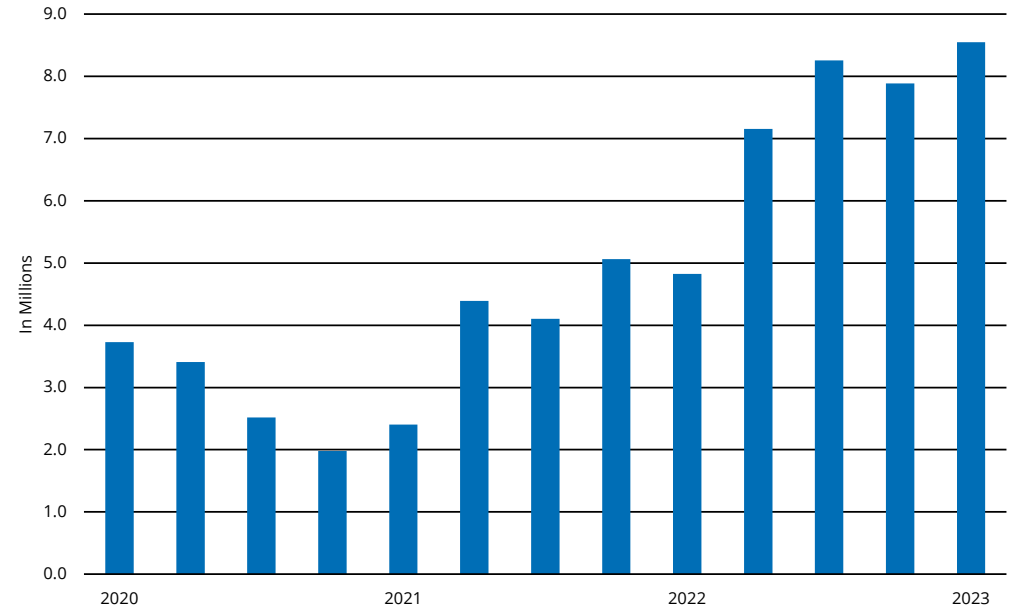


UNDER CONSTRUCTION

Construction Continues to Grow

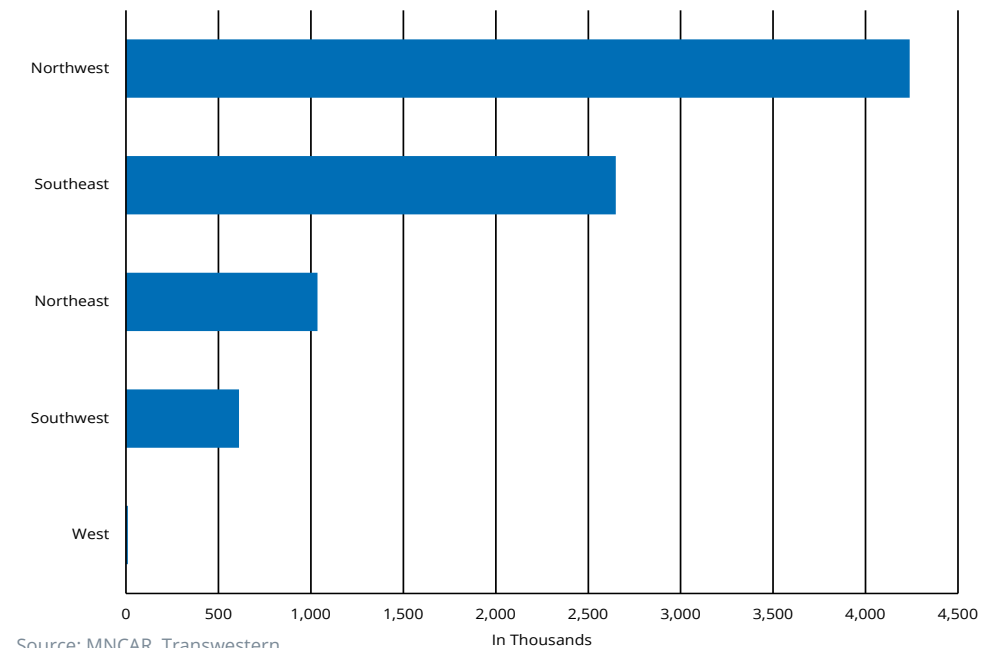
- 8.5 million SF of industrial space is under construction in the MSP market, a 77.1% increase from Q1 2022.
- Most construction is taking place in Northwest and Southeast submarkets, with over 6.8 million SF, or 80% of the total square feet under construction.
- The MSP market continues to see increased construction of SF, highlighting that demand remains elevated even with the economic uncertainty present.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

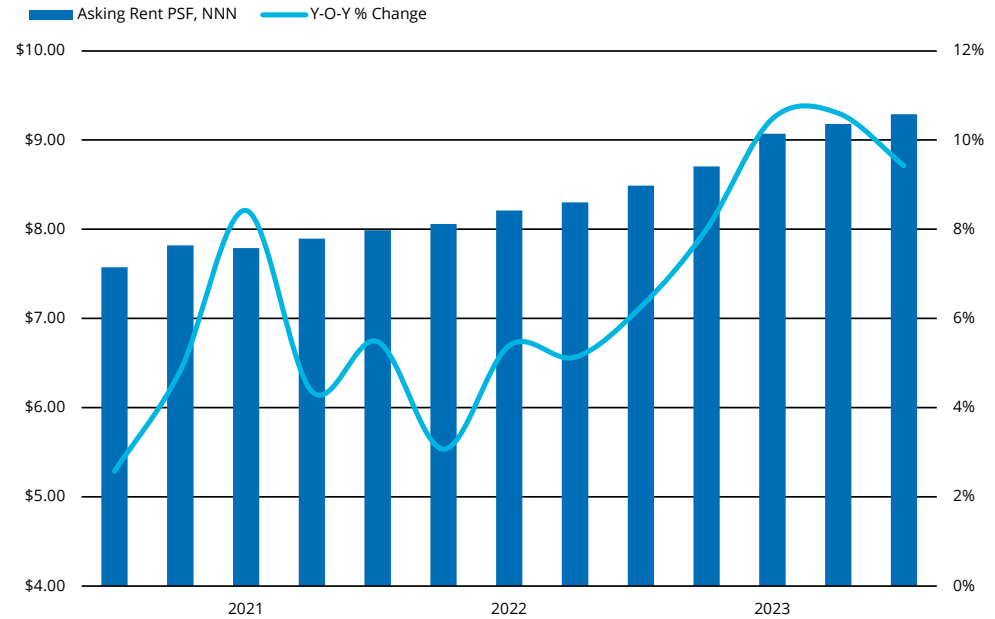


RENTAL RATES

Rents Continue To Grow

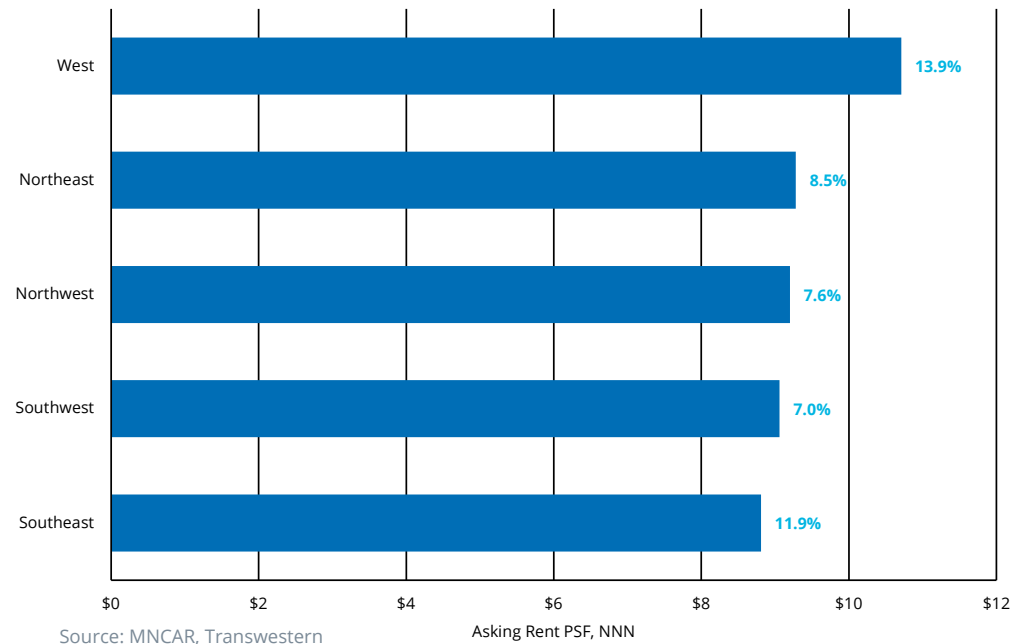
- At \$9.29 per square feet (PSF) rents continue to increase. Average lease rate at the low end were \$7.58 PSF while average lease rates on the high end were \$11.00 PSF.
- Average rent increased by 9.4% from the previous year showing strong demand for space even as additional space was added to the market.
- The West region has the highest asking rents in the region, \$10.71 PSF, and the largest year-over-year change, up by 13.9%. 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 \$8.81 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

Asking Rent PSF, NNN

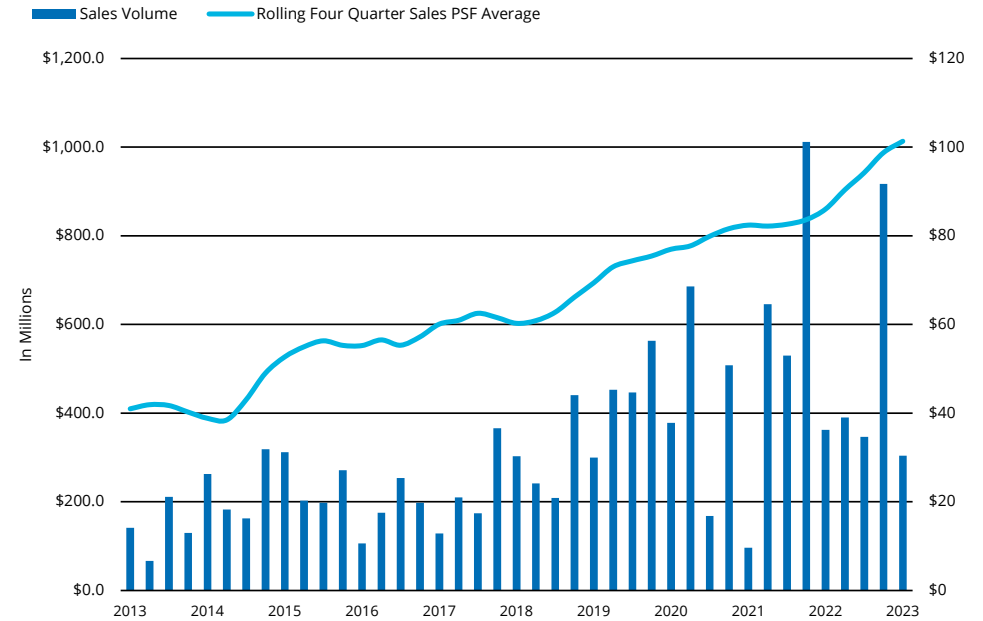


SALES

Sales Volume Declines Considerably

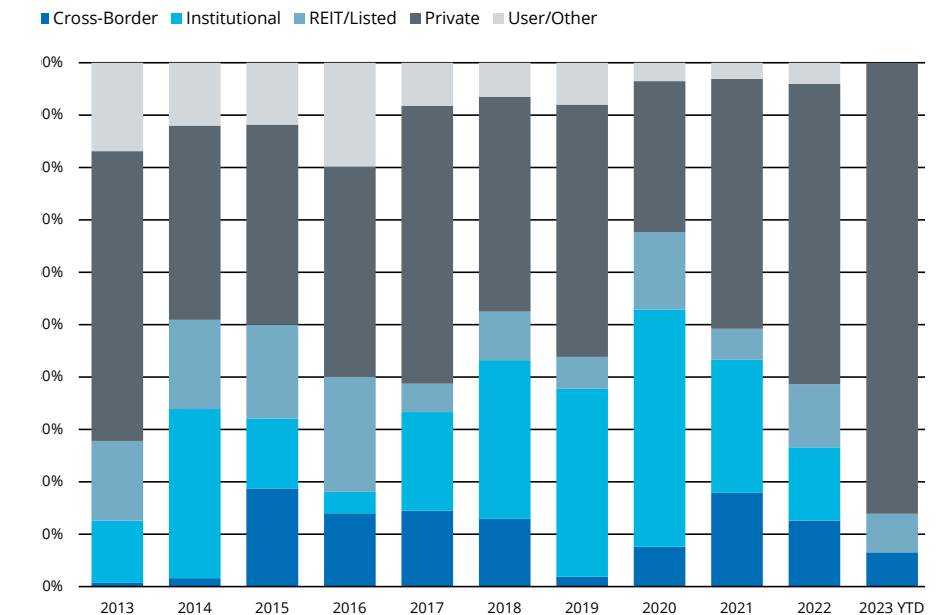
- Q1 2023 industrial sales totaled \$304.1 million after last quarter's total of \$917 million, a 66.8% decline in sales volume and a 16% decline from the previous year.
- Portfolio sales volume declined by 53.7% from the previous year while individual property sales volume increased by 18.7%.
- The most notable sale of the quarter was 905 Yankee Doodle Rd, which sold for \$25 million dollars in the Southeast subregion.
- 86% of deal complete by buyers were from private sources, followed by REIT/Listed making up 7.4% of deal activity.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
SAMS CLUB	7400 Hentges Way	Southwest	New	365,552
MURPHY WAREHOUSE	901 Canterbury Rd S	Southwest	New	174,116
BOSTON SCIENTIFIC	10700 Xylon Ave N	Northwest	New	117,897
AZEK COMPANY	2737 W Service Rd	Southeast	New	92,958
SAM HRP	5300 W 76th St	Southwest	New	80,000

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
905 YANKEE DOODLE RD	Southeast	\$25,000,000	358,532	\$70	Schafer Richardson	Murphy Logistics
3350 4TH AVE E	Southwest	\$18,900,000	232,000	\$81	Onward Investors	AEW Capital Management
5851 E RIVER RD NE	Northeast	\$17,463,380	274,587	\$64	Realty Income Properties 13, LLC	Cardinal Industrial
8001 E BLOOMINGTON FWY	Southeast	\$15,800,000	122,177	\$129	CIRE Equity Partners	Oak Street Real Estate Capital
8401 EAGLE CREEK PKWY	Southwest	\$13,810,000	250,000	\$55	Onward Investors	AEW Capital Management

 = Transwestern deal



MARKET INDICATORS

All Property Types | Q1 2023

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	88,133,122	4,034,119	3,041,763	3.5%	1,036,333	372,386	372,386	\$9.28
NORTHWEST	57,439,933	2,503,857	2,166,747	3.8%	4,239,053	564,216	564,216	\$9.20
SOUTHEAST	53,867,926	2,981,044	1,773,787	3.3%	2,649,556	159,829	159,829	\$8.81
SOUTHWEST	51,349,752	3,706,962	2,643,618	5.1%	611,576	165,653	165,653	\$9.06
WEST	17,717,143	1,269,161	746,219	4.2%	10,000	(139,930)	(139,930)	\$10.71
TOTAL	268,507,876	14,495,143	10,372,134	3.9%	8,546,518	1,122,154	1,122,154	\$9.29

MARKET INDICATORS

Flex/R&D | Q1 2023

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	11,358,891	773,339	560,039	4.9%	21,209	21,209	\$10.11
NORTHWEST	7,110,810	480,751	356,415	5.0%	(176,066)	(176,066)	\$9.68
SOUTHEAST	8,073,847	1,049,117	696,836	8.6%	54,226	54,226	\$9.33
SOUTHWEST	13,148,551	1,299,801	961,345	7.3%	(20,951)	(20,951)	\$9.11
WEST	4,162,956	417,562	344,940	8.3%	(3,766)	(3,766)	\$10.42
TOTAL	43,855,055	4,020,570	2,919,575	6.7%	(125,348)	(125,348)	\$9.73

**MARKET INDICATORS**

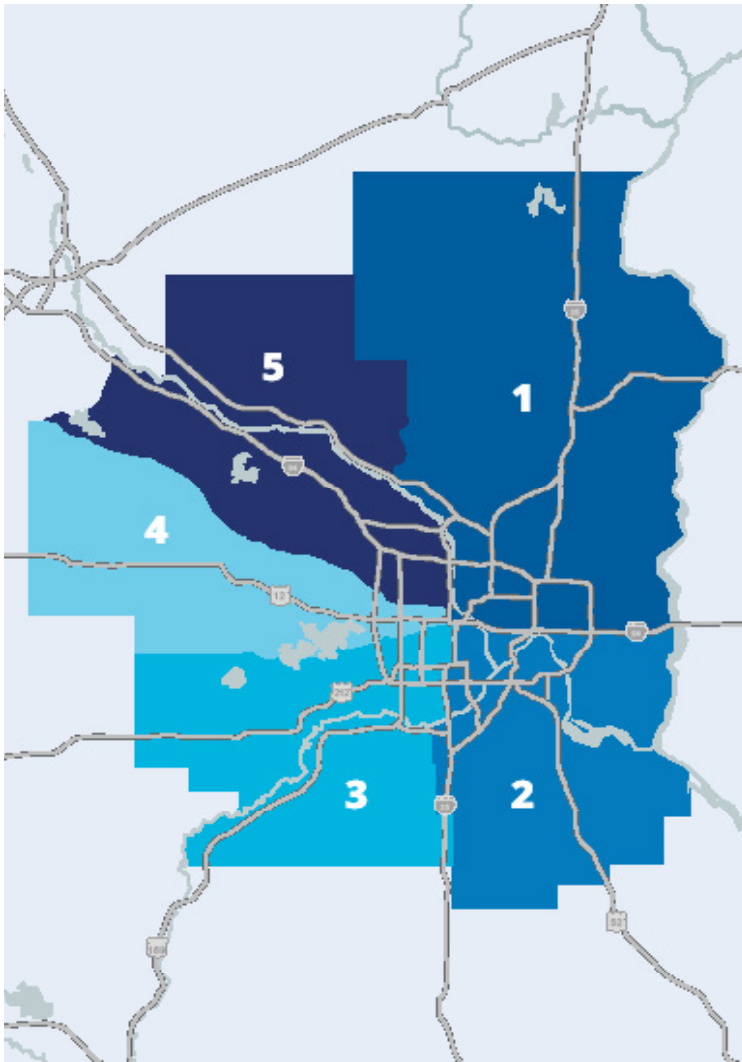
Warehouse Distribution | Q1 2023

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	30,940,391	921,463	556,278	1.8%	(111,716)	(111,716)	\$6.50
NORTHWEST	29,757,482	987,148	948,134	3.2%	269,814	269,814	\$8.55
SOUTHEAST	25,877,620	2,029,861	1,455,433	5.6%	454,900	454,900	\$6.75
SOUTHWEST	19,419,904	990,181	1,220,310	6.3%	42,887	42,887	\$7.29
WEST	3,831,576	292,474	127,404	3.3%	21,597	21,597	\$6.50
TOTAL	109,826,973	5,221,127	4,307,559	3.9%	677,482	677,482	\$7.12

MARKET INDICATORS

Warehouse Office | Q1 2023

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	47,420,444	2,179,147	958,713	2.0%	(191,310)	(191,310)	\$8.61
NORTHWEST	22,847,658	1,236,858	750,073	3.3%	445,584	445,584	\$8.93
SOUTHEAST	24,707,346	983,239	578,150	2.3%	85,516	85,516	\$7.97
SOUTHWEST	20,251,043	1,060,763	654,143	3.2%	11,318	11,318	\$9.44
WEST	10,508,413	562,126	334,308	3.2%	147,496	147,496	\$11.60
TOTAL	125,734,904	6,022,133	3,275,387	2.9%	498,604	498,604	\$9.31



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 industrial 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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