

MINNEAPOLIS - SAINT PAUL INDUSTRIAL MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.8	2.3	↑	4.0	↑
NET ABSORPTION (Millions SF)	0.3	1.4	↓	1.2	↓
OVERALL VACANCY RATE	3.8%	3.9%	↑	4.1%	↑
OVERALL VACANT SF (MSF)	10.9	9.3	↑	10.9	↑
UNDER CONSTRUCTION (MSF)	10.4	7.2	↑	5.5	↑
ASKING RENT (PSF)	\$9.56	\$8.71	↑	\$8.49	↑
SALES VOLUME (Millions)	\$207.9	\$404	↓	\$480.3	↓

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

INDUSTRIAL MARKET SHOWS SIGNS OF SLOWING

Minneapolis-Saint Paul's (MSP) industrial real estate market in Q2 2023 continues to grow, albeit slowly compared to previous quarters. Net absorption totaled 304,037 square feet (SF); the lowest net absorption total since Q2 2021. The vacancy rate was 3.9%, a 0.4% increase from the previous year. Market rents continue to increase at a healthy rate with 9.8% growth year-over-year, even as nearly 1.1 million SF was delivered to the market and 10.3 million SF is under construction, showing that demand for space remains elevated.

Economic growth in the MSP market continues bolstered by the positive news that interest rate hikes may taper as inflation continues to decrease. While unemployment remains historically low, it has increased by 0.8% since May 2022 from 2.1% to 2.9% in May 2023. Additionally, industrial employment growth has continued to be steady, increasing by 1.7% year-over-year.

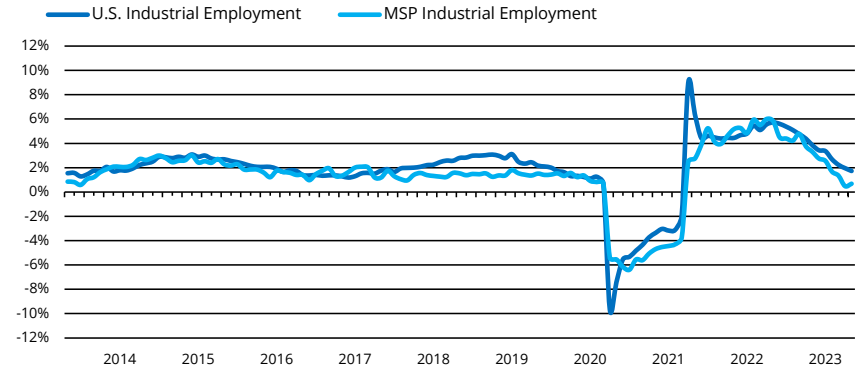


ECONOMY

Job Growth Remains Steady

- MSP's unemployment rate continues to increase from its low point in mid-2022. May 2023 unemployment rate was 2.9%, an increase of 0.8% from May 2022's rate of 2.1%.
- Industrial employment increased by 1.7% year-over-year, continuing the trend of steady employment growth seen in the past few quarters. Manufacturing employment led growth inside the sector, increasing by 1.3%.
- Total employment in the MSP metro area grew by 1.9% year-over-year. This was the first year-over-year increase since December 2022.
- Employment growth has steadied over the last few months as economic factors have stabilized, including the reduced chance of another interest rate hike and lower inflation, signaling a more predictable economy.

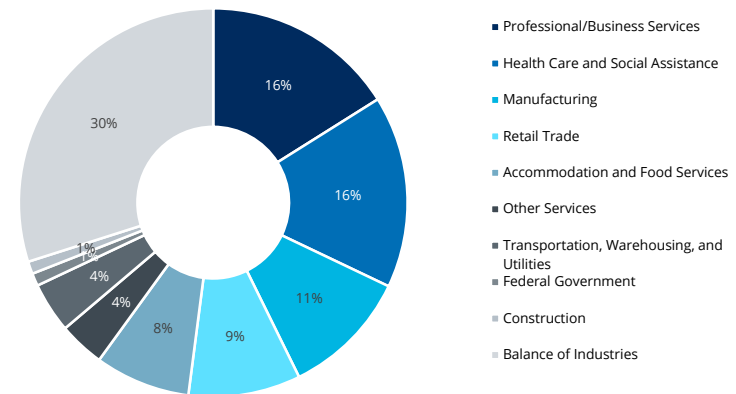
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

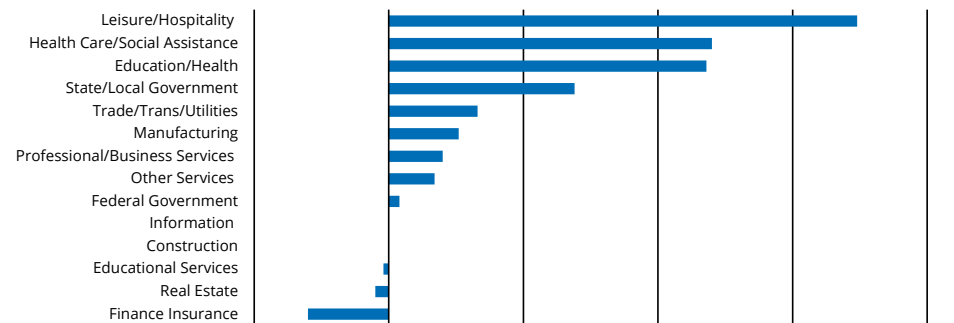
Minneapolis - Saint Paul | May 2023



Source: Bureau of Labor Statistics, Transwestern

YEAR-OVER-YEAR CHANGE IN JOBS BY INDUSTRY

Minneapolis - Saint Paul | May 2023



Source: Bureau of Labor Statistics, Transwestern

In Thousands

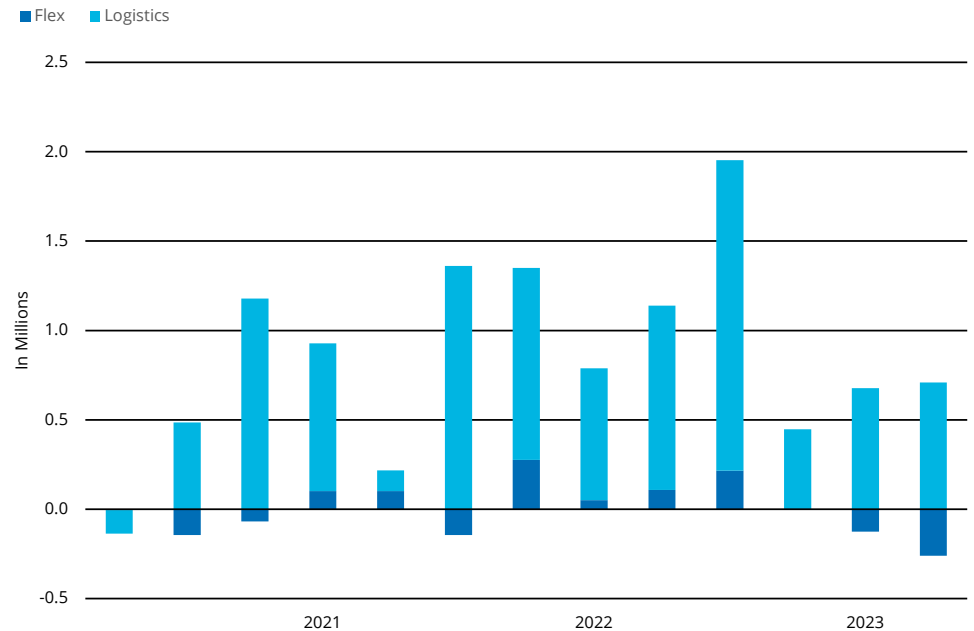


NET ABSORPTION

Demand Slightly Declines

- MSP net absorption totaled 304,037 SF of space in Q2, its lowest total since Q2 2021. Compared to the previous year, the net absorption is down by nearly 1.08 million SF.
- While net absorption was sharply down, 1.08 million SF was delivered in Q1.
- Warehouse/Distribution space continues to see demand as it was the only segment with positive net absorption of 709,651 SF.
- Flex/R&D space registered a net absorption total of (260,608) SF and 'Warehouse Office' recorded a net absorption of (145,006) SF.
- While demand has decreased from the previous quarter, the increased construction of space points to a potential that demand may increase as the economy continues to hold steady.

NET ABSORPTION BY PRODUCT TYPE



Source: MNCAR, Transwestern

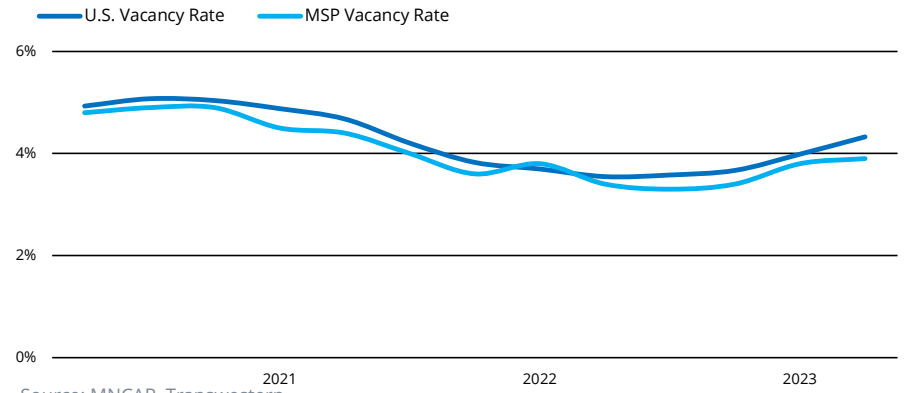


VACANCY

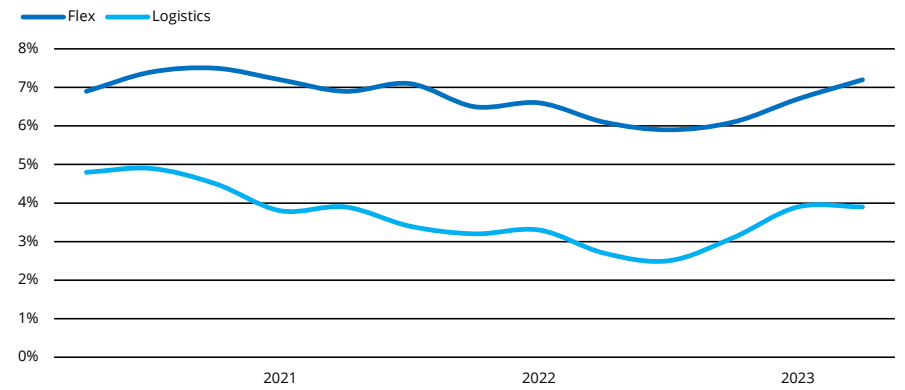
Vacancy Rate Ticks Up

- Overall market vacancy for Q2 2023 was 3.9%, an increase of 0.1% from the previous quarter. Year-over-year there was a 0.5% increase. Vacancy rates are 0.4% lower in the MSP region than the nation overall.
- The Northeast submarket has the region’s lowest vacancy rate at 2.4%, followed by the Northwest submarket at 3.8%.
- The Northeast submarket’s Flex/R&D space saw the largest year-over-year decrease in vacancy, declining by 1.6%, from 6.6% in Q2 2022 to 5.0% in Q2 2023.
- On the other hand, the Southeast submarket’s Warehouse Distribution space had the largest year-over-year increase in vacancy, rising by 4.1%, from 1.3% in Q2 2022 to 5.4% in Q2 2023.
- The Warehouse Office vacancy rate is the lowest at 2.7%, followed by Warehouse Distribution at 3.9% and Flex/R&D posted the highest vacancy rate at 7.2%.

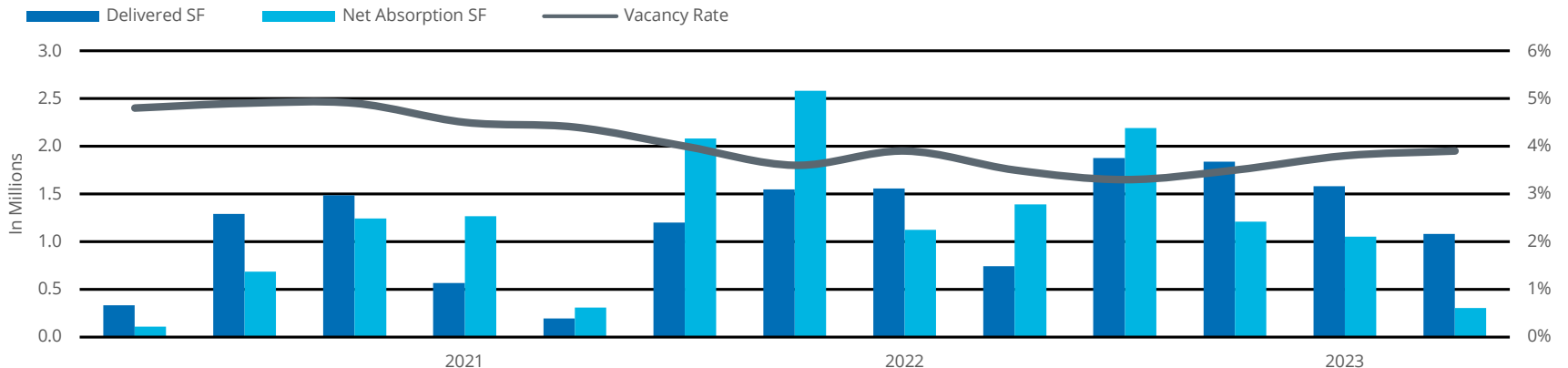
OVERALL VACANCY RATE



OVERALL VACANCY RATE BY PRODUCT TYPE



DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

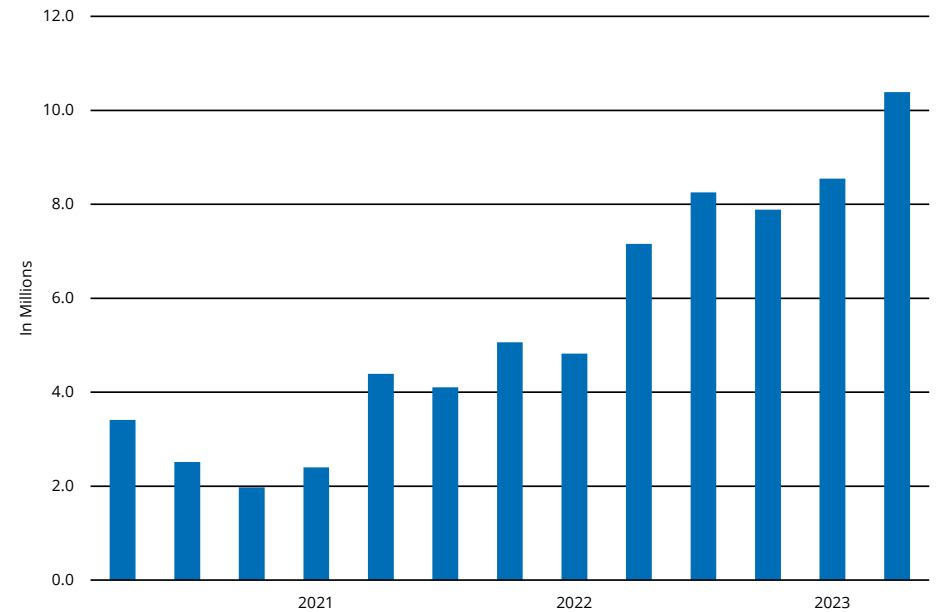


UNDER CONSTRUCTION

More Space is Under Construction

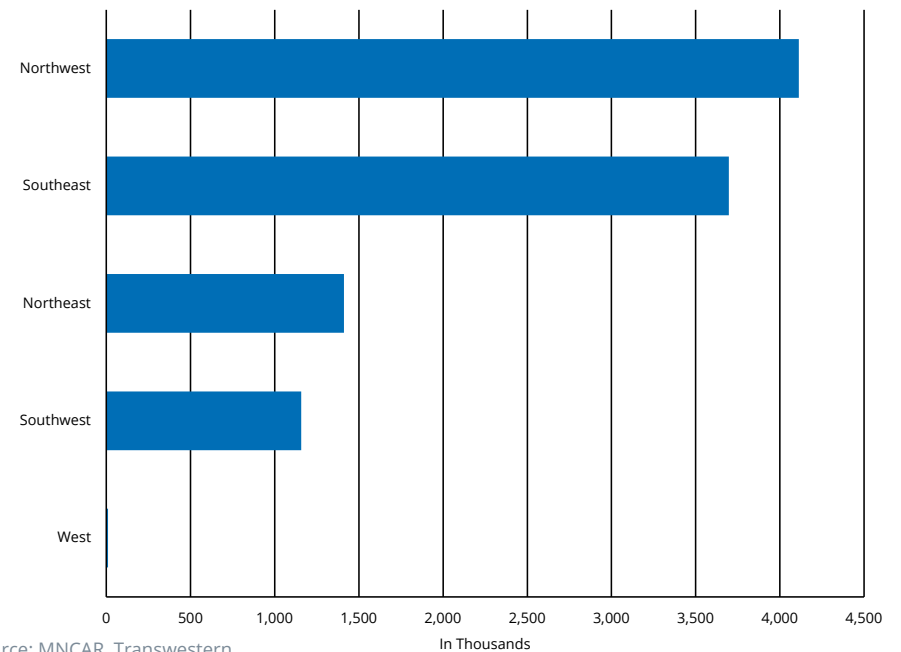
- 10.3 million SF of space is under construction in the MSP market, a 45.2% increase from Q2 2022.
- The majority of construction is taking place in the Northwest and Southeast submarkets, with over 7.8 million SF, or 75% of the total square feet under construction.
- The MSP market continues to see more construction of industrial space, highlighting that demand remains elevated even with the economic uncertainty present.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

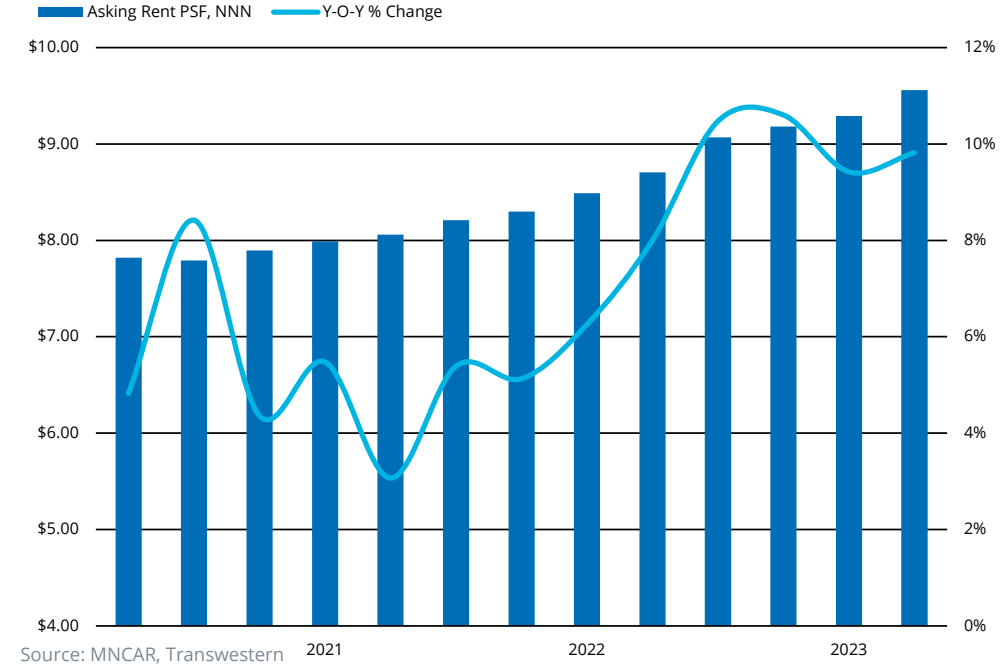


RENTAL RATES

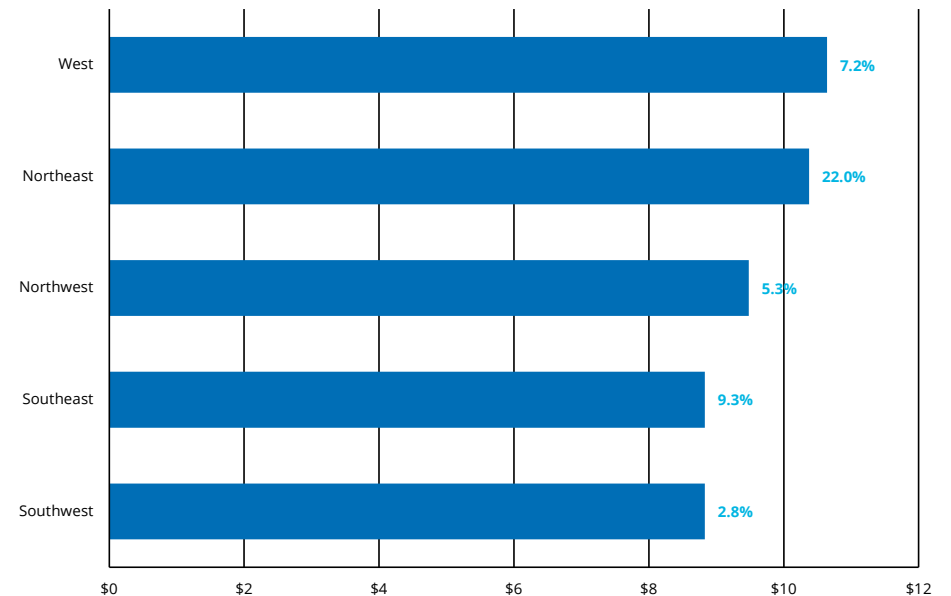
Rents Continue To Grow

- Q2 2023 Asking rents were averaging \$9.61 per square feet (PSF)/ NNN with a range of \$7.92 PSF to \$11.20 PSF.
- Average asking rent increased by 9.8% from the previous year and 2.9% from the previous quarter. The rent increase continues to show strong demand for space even as another 1.08 million SF was added to the market.
- The West submarket had the highest asking rents in the region averaging \$10.64 PSF. The Northeast submarket had the largest percentage growth in rent, increasing by 22%. This was driven by higher prices for the submarket’s Flex/R&D and Warehouse Office space.
- The Southeast and Southwest submarkets had the lowest asking rents averaging \$8.83 PSF, led by the low prices for its Warehouse Distribution space.

ASKING RENT



ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



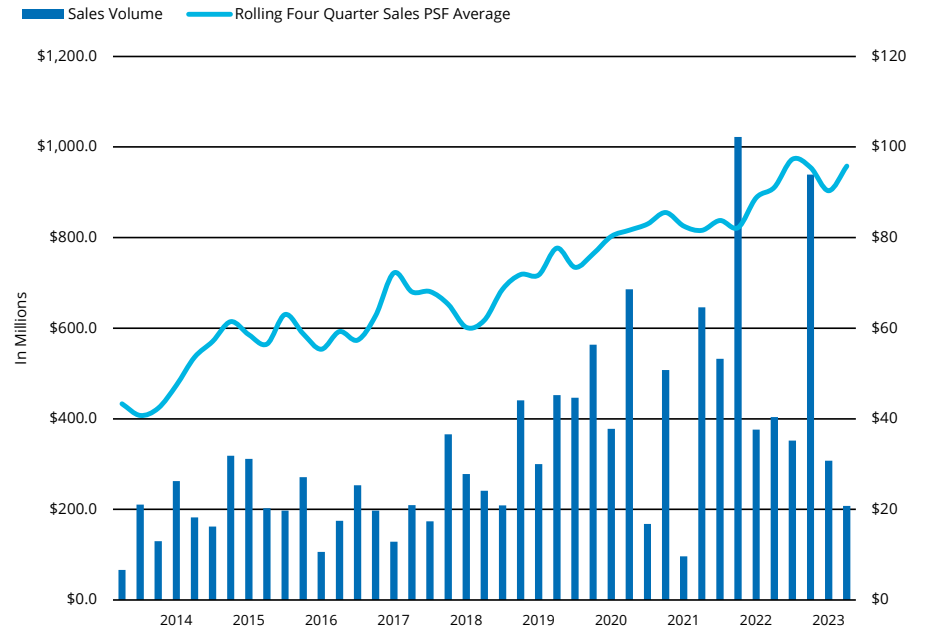


SALES

Sales Volume Declines Considerably

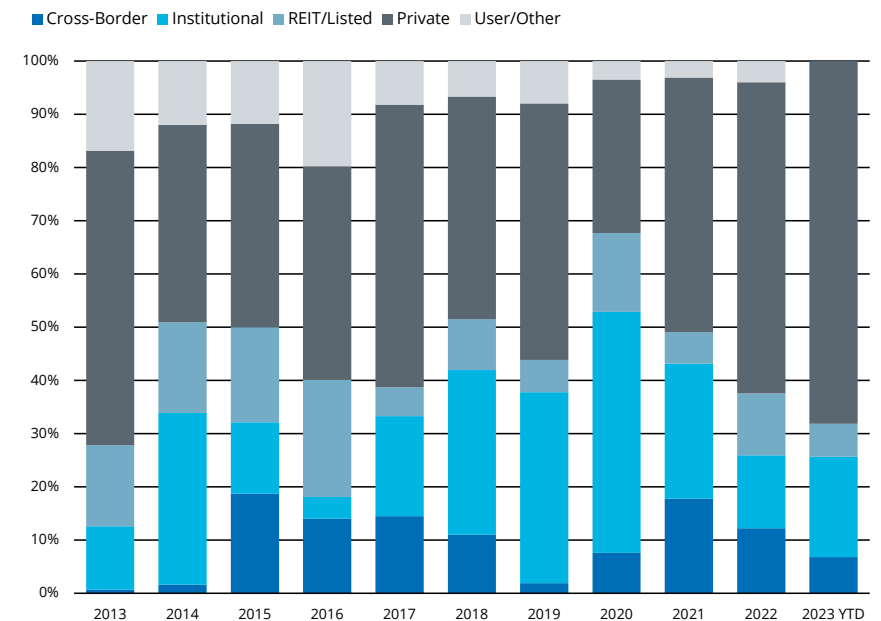
- Q2 2023 industrial sales totaled \$207.9 million after last quarter's total of \$307.3 million, a 32% decline in sales volume and a 49% decline from the previous year.
- Portfolio sales volume declined by 91% from the previous year while individual property sales volume decreased by 18.7%.
- The most notable sale of the quarter was 7500 Excelsior Blvd., which sold for \$71.2 million dollars in the Southwest subregion.
- 68.1% of completed deals were from Private Capital sources, followed by Institutional sources at 18.8%.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
JAPS-OLSON	7500 Excelsior Blvd	Southwest	New	692,969
NATURAL AMERICAN FOODS	21558 Cedar Ave	Southeast	New	360,000
SBS TRANSPORTATION	489 Prior Ave N	Northeast	New	250,493
STATE OF MINNESOTA	13120 Cty Rd 6	West	New	179,614
TESLA	Hwy 610 & Jefferson Hwy	Northwest	New	126,000

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
7500 EXCELSIOR BLVD	Southwest	\$71,200,000	704,000	\$101	Angelo Gordon & Co., L.P.	Japs-Olson Company
6870 21ST AVE S	Northeast	\$28,900,000	402,522	\$72	Onward Investors	Artis REIT
2800 NORTHWEST BLVD	Northwest	\$19,000,000	163,938	\$116	Not Reported	Data Recognition Company
8675 EAGLE CREEK PKWY	Southwest	\$16,295,464	122,912	\$133	FORCE America Inc.	Artis REIT
9231 PENN AVE S	Southwest	\$15,400,000	218,990	\$70	Buligo Capital Partners	Fountain Real Estate Capital

TI = Transwestern deal

MARKET INDICATORS

All Property Types | Q2 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	89,887,480	3,533,463	2,157,369	2.4%	1,411,553	88,230	(176,892)	\$8.82
NORTHWEST	60,653,753	2,852,491	2,307,469	3.8%	4,112,505	432,598	992,192	\$8.89
SOUTHEAST	58,830,834	3,993,869	2,732,324	4.6%	3,696,941	(16,305)	578,337	\$9.50
SOUTHWEST	53,633,933	3,760,500	2,865,010	5.3%	1,157,196	(166,001)	(10,435)	\$10.22
WEST	18,513,679	1,208,157	841,137	4.5%	10,000	(34,485)	130,842	\$10.77
TOTAL	281,519,679	15,348,480	10,903,309	3.9%	10,903,309	304,037	1,514,044	\$9.61

Flex/R&D | Q2 2023

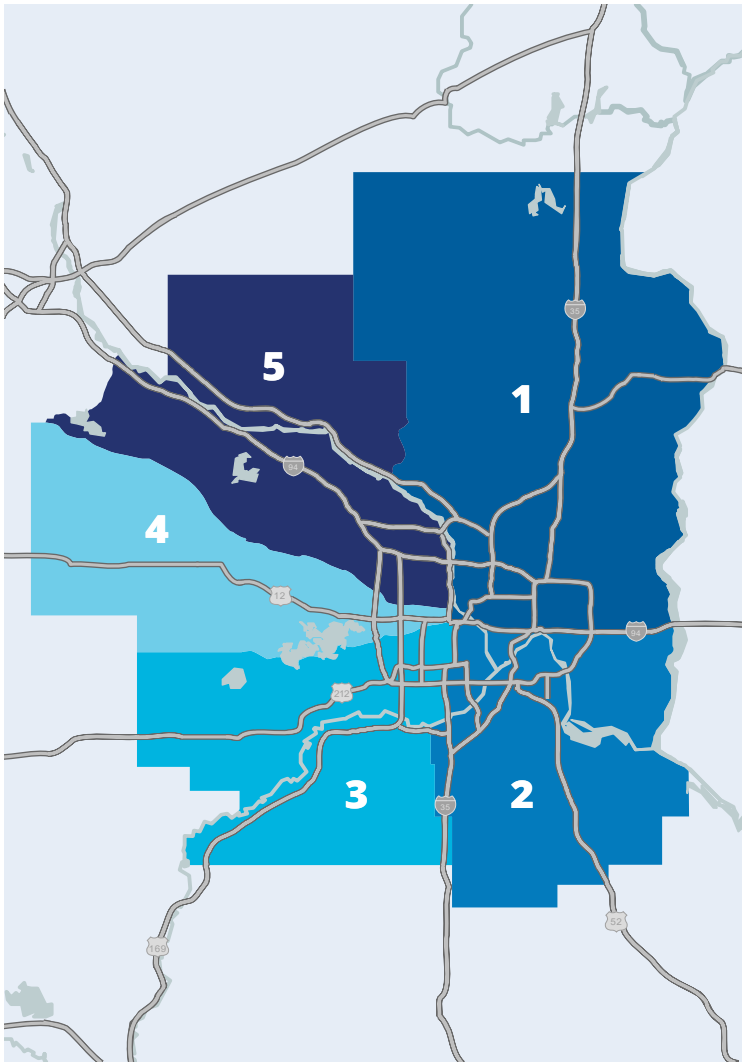
SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	11,333,169	857,872	571,490	5.0%	(29,646)	8,258	\$11.34
NORTHWEST	7,173,456	513,526	410,762	5.7%	(58,466)	(214,270)	\$10.06
SOUTHEAST	8,016,285	1,126,575	825,630	10.3%	(128,794)	(74,568)	\$9.45
SOUTHWEST	13,324,534	1,267,756	973,007	7.3%	6,264	(14,687)	\$8.96
WEST	4,251,972	453,075	394,906	9.3%	(49,966)	(53,732)	\$10.64
TOTAL	44,099,416	4,218,804	3,175,795	7.2%	(260,608)	(348,999)	\$10.09

Warehouse Distribution | Q2 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	31,143,287	883,785	603,490	1.9%	181,160	69,444	N/A
NORTHWEST	30,380,575	1,091,587	1,098,414	3.6%	472,813	742,627	\$10.25
SOUTHEAST	25,875,780	2,012,486	1,385,406	5.4%	70,027	524,927	\$6.75
SOUTHWEST	19,495,366	1,155,291	1,112,347	5.7%	(14,349)	150,850	\$6.88
WEST	3,753,294	207,332	127,404	3.4%	0	21,597	\$6.50
TOTAL	110,648,302	5,350,481	4,327,061	3.9%	709,651	1,509,445	\$7.60

Warehouse Office | Q2 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	47,411,024	1,791,806	982,389	3.0%	(63,284)	(254,594)	\$9.15
NORTHWEST	23,099,722	1,247,378	798,293	3.3%	18,251	463,835	\$8.93
SOUTHEAST	24,938,769	854,808	521,288	3.3%	42,462	127,978	\$7.54
SOUTHWEST	20,814,033	1,337,453	779,656	4.3%	(157,916)	(146,598)	\$9.06
WEST	10,508,413	547,750	318,827	3.8%	15,481	162,977	\$11.15
TOTAL	126,771,961	5,779,195	3,400,453	2.7%	(145,006)	353,598	\$9.16



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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