

# MINNEAPOLIS - SAINT PAUL INDUSTRIAL MARKET

Q3 2023



## TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.2	2.6	↑	3.5	↑
NET ABSORPTION (Millions SF)	1.7	2.2	↓	1.3	↓
OVERALL VACANCY RATE	4.3%	3.3%	↑	4.0%	↑
OVERALL VACANT SF (MSF)	12.3	9.0	↑	10.9	↑
UNDER CONSTRUCTION (MSF)	7.6	8.3	↓	5.8	↑
ASKING RENT (PSF)	\$9.14	\$9.70	↑	\$8.63	↑
SALES VOLUME (Millions)	\$243.9	\$358	↓	\$458.3	↓

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

## INDUSTRIAL MARKET REBOUNDS

Minneapolis-Saint Paul's (MSP) industrial real estate market in Q3 2023 saw increased activity, rebounding from last quarter's small slump. Total net absorption totaled 1.62 million square feet (SF); its highest total since Q3 2023. The vacancy rate was 4.3%, a 1% increase from the previous year. Asking rent continued its growth, increasing by 7.3%, from the previous year. While the asking rent increase is robust it is slightly lower than last quarter where year over year growth was 10.3%. This is due in part to 2.3 million SF being delivered to the market in Q3, which had an impact on asking rent as more supply became available.

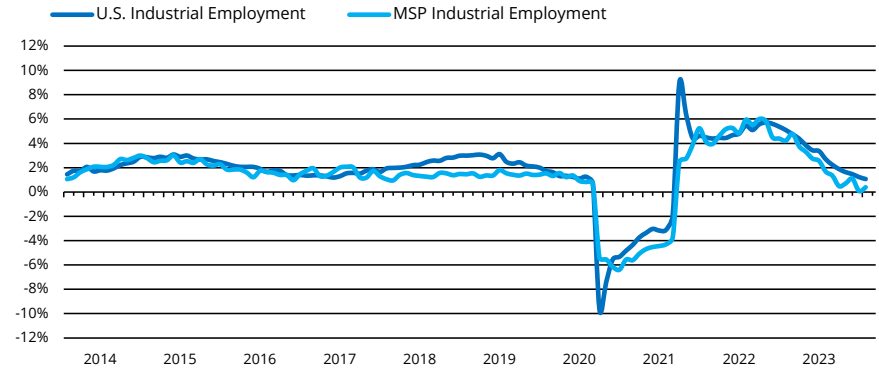
The MSP economy continues to be resilient as there have been fewer interest rate increases in the last quarter. The unemployment rate in August was 3.2%, an increase of 0.5% from the previous year. While the unemployment did increase it is still at historically low levels. Industrial employment growth slowed as well, increasing by 0.4% from the previous year, yet total employment in the industry is still near historically high levels.

**ECONOMY**

**Job Growth Remains Steady**

- MSP’s unemployment rate continues to increase from its low point in mid-2022. August 2023 unemployment rate was 3.2%, an increase of 50 basis points from August 2022 rate of 2.7%. MSP’s unemployment continues to be lower than the national rate, by 0.6%, at 3.8%.
- Total employment in the MSP increased by 1.8% year-over-year, or 35,260 additional jobs. Employment growth continues to be resilient even as interest rates have increased over the last year as the Federal Reserve moved to reduce inflation.
- Industrial sector employment increased by 0.4% from the previous year. The industry with the largest growth from the previous year was Transportation/Warehousing, where employment increased by 2.3%, followed by the Manufacturing industry where employment grew by 0.4%.

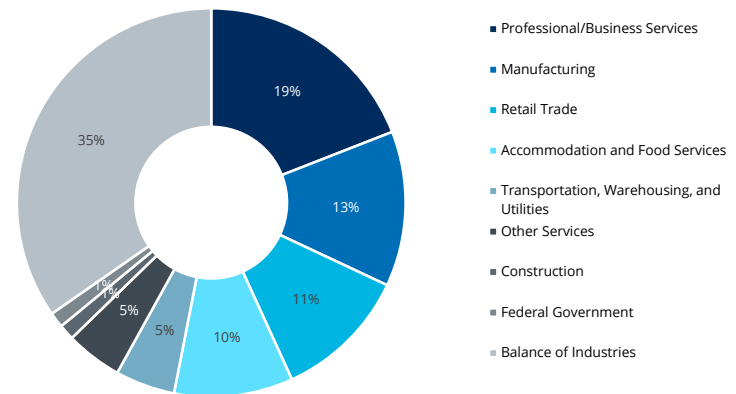
**Y-O-Y CHANGE IN INDUSTRIAL JOBS**



Source: Bureau of Labor Statistics, Transwestern

**SHARE OF EMPLOYEES BY INDUSTRY**

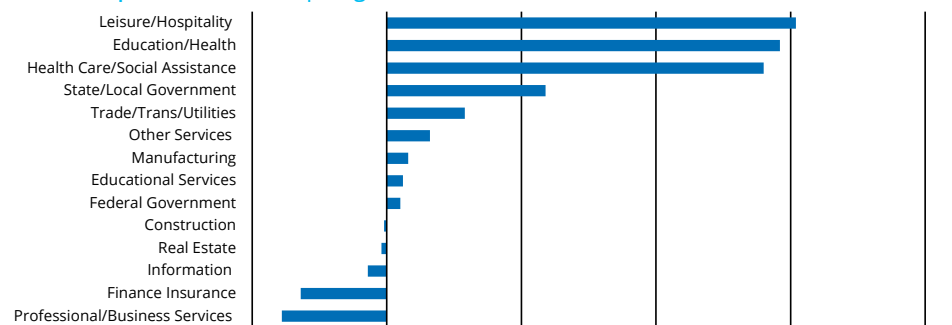
Minneapolis - Saint Paul | August 2023



Source: Bureau of Labor Statistics, Transwestern

**YEAR-OVER-YEAR CHANGE IN JOBS BY INDUSTRY**

Minneapolis - Saint Paul | August 2023



Source: Bureau of Labor Statistics, Transwestern

In Thousands

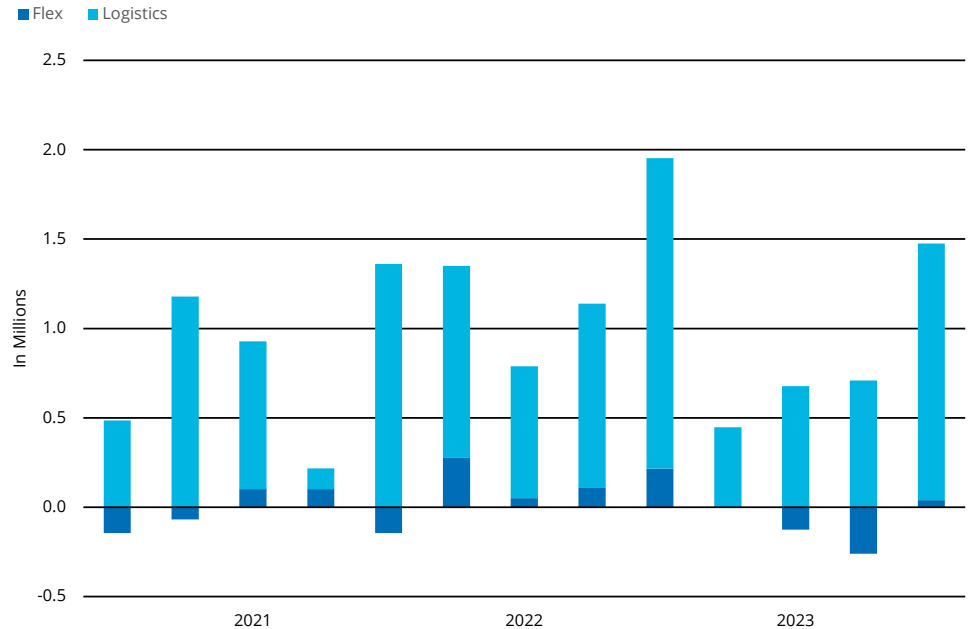


## NET ABSORPTION

### Demand Rebounds

- MSP net absorption totaled 1.68 million SF in Q3 2023, its highest amount since Q3 2022 when it was 2.18 million SF. Largest deals included nVent which leased 248,000 SF, UMAGA leased 227,357 SF, and Mas HVAC leased 149,216 SF.
- As net absorption rebounded in Q3, more industrial space continued to come online. 2.38 million SF was delivered this quarter, the most in the last 10 years. This was due to several large industrial properties being completed, including one that totaled over 1 million SF.
- All property types had positive net absorption; the first time since Q4 2022.
- Flex/R&D space registered a net absorption of 39,808 SF. The majority of positive net absorption occurred in the West submarket, with net absorption of 45,078 SF, and the Northeast submarket, with a net absorption of 43,974 SF.
- Warehouse/Distribution registered a net absorption of 1.43 million SF. This was double last quarter's total of 743,000 SF, but slightly lower than the previous year's total of 1.73 million SF.

### NET ABSORPTION BY PRODUCT TYPE



Source: MNCAR, Transwestern

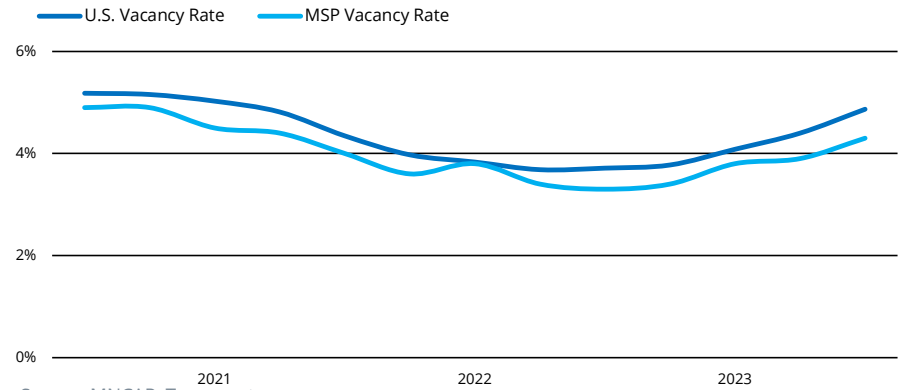


### VACANCY

#### Vacancy Rate Ticks Up

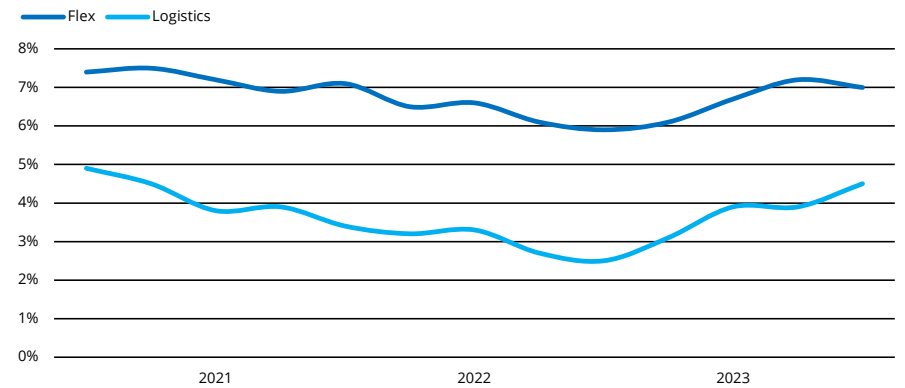
- Overall market vacancy for Q3 2023 was 4.3%, an increase of 40 basis points from the previous quarter and an 100 basis point increase from the previous year. Vacancy rates are 0.6% lower in the MSP region than the nation overall.
- The Warehouse Office vacancy rate is the lowest at 3.3%, followed by Warehouse Distribution at 4.5% and Flex/R&D posted the highest vacancy rate at 7.0%.
- The Northeast submarket has the region’s lowest vacancy rate at 2.7%, followed by the West submarket at 3.9%.
- The West submarket’s Warehouse Distribution property type saw the largest year-over-year decrease in vacancy, declining by 290 basis points, from 4.0% in Q3 2022 to 1.1% in Q3 2023.
- The Northwest submarket’s Warehouse Distribution property type had the largest year-over-year increase in vacancy, increasing by 390 basis points, from 2.6% in Q3 2022 to 6.5% in Q3 2023.

### OVERALL VACANCY RATE



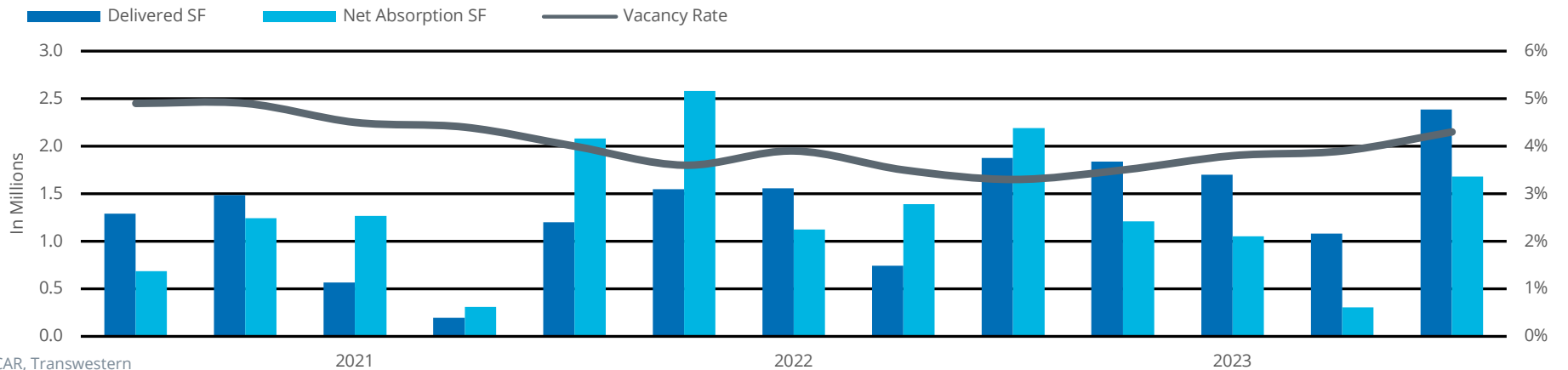
Source: MNCAR, Transwestern

### OVERALL VACANCY RATE BY PRODUCT TYPE



Source: MNCAR, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

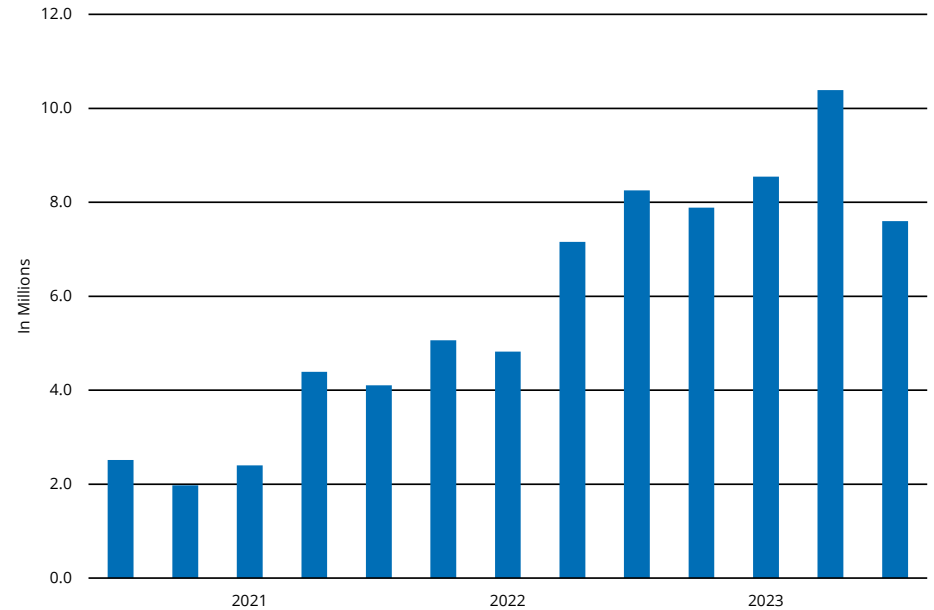


### UNDER CONSTRUCTION

#### Construction Continues to be Steady

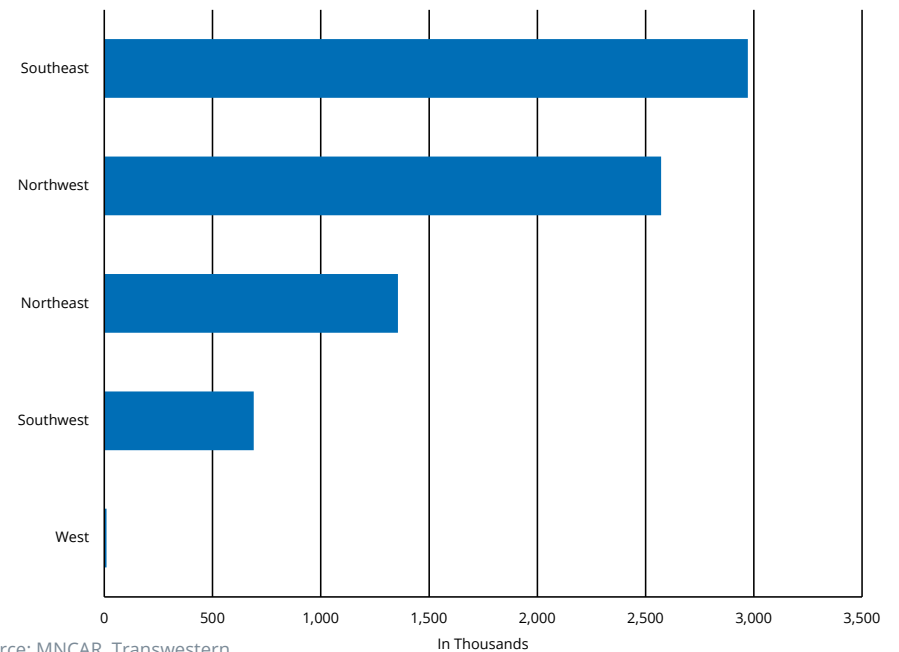
- The amount of space that is under construction in the market is 7.6 million, an 8% decrease from the previous year. SF under construction continues to be higher than pre-pandemic levels where it averaged 2.3 million SF/quarter.
- The majority of construction is taking place in the Southeast and Northwest submarkets, with over 6.8 million SF, or 90% of the total square feet under construction.
- The MSP market continues to see additional construction for industrial space, highlighting that demand remains elevated especially in distribution and manufacturing space.

### UNDER CONSTRUCTION



Source: MNCAR, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

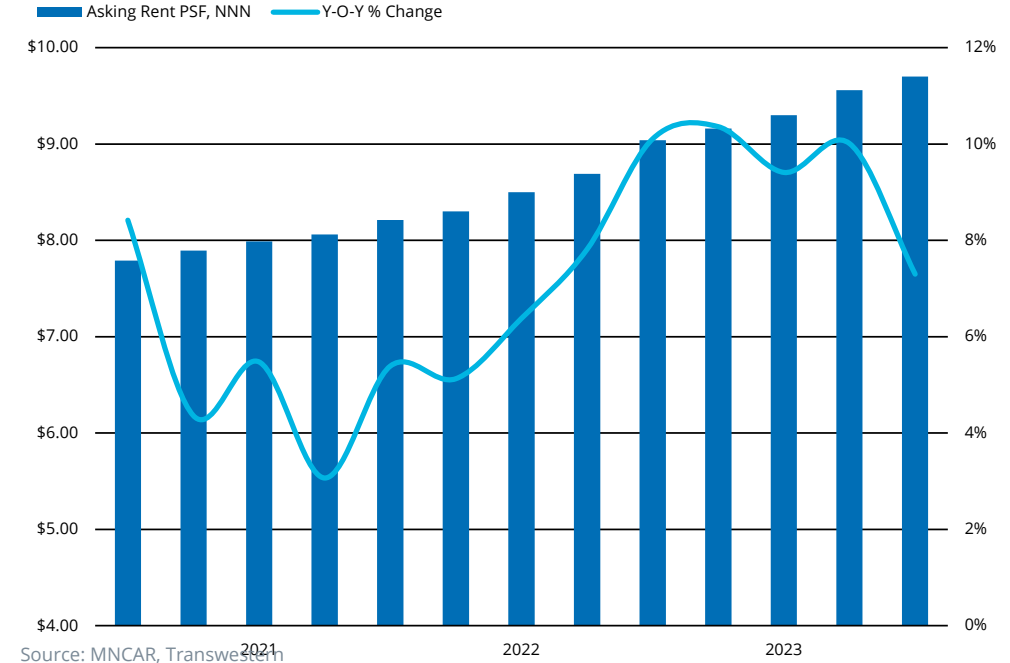


### RENTAL RATES

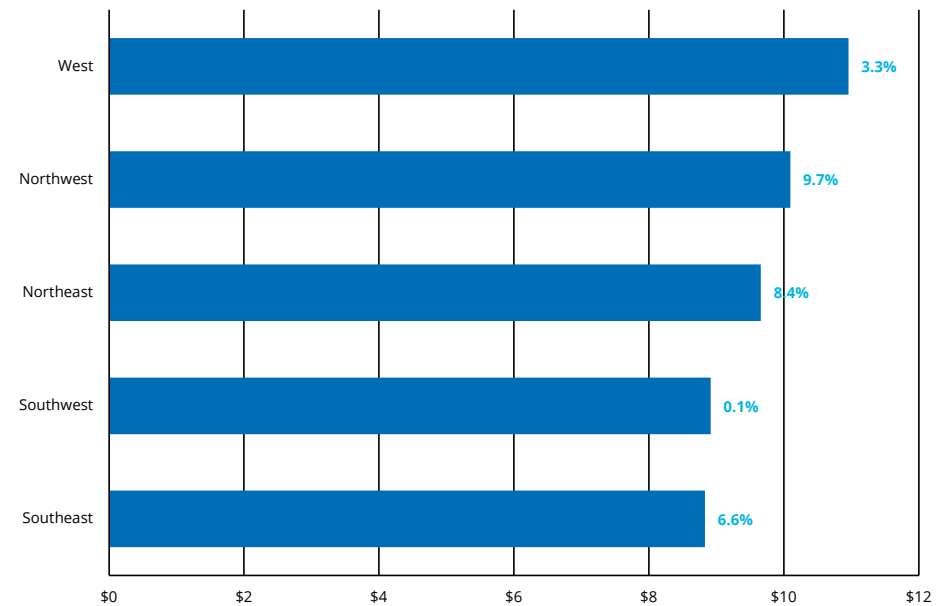
#### Rents Continue To Grow

- Q3 2023 Asking rents were averaging \$9.70 per square feet (PSF)/NNN with a range of \$8.10/PSF to \$11.30/PSF.
- Average asking rent increased by 7.3% from the previous year and increased 1.5% from the previous quarter. Asking rent growth moderated as more space entered into the market, with over 2.3 million SF being delivered during the quarter.
- The West submarket had the highest asking rents in the region averaging \$10.96/PSF. The Northwest submarket had the largest percentage growth in rent, increasing by 9.7%. This was driven by higher prices for the submarket’s Warehouse Office space.
- The Southeast submarket had the lowest asking rents averaging \$8.83/PSF, led by the low prices for its Warehouse Distribution space with an average asking rent of \$6.25/PSF.

### ASKING RENT



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



Source: MNCAR, Transwestern

Asking Rent PSF, NNN

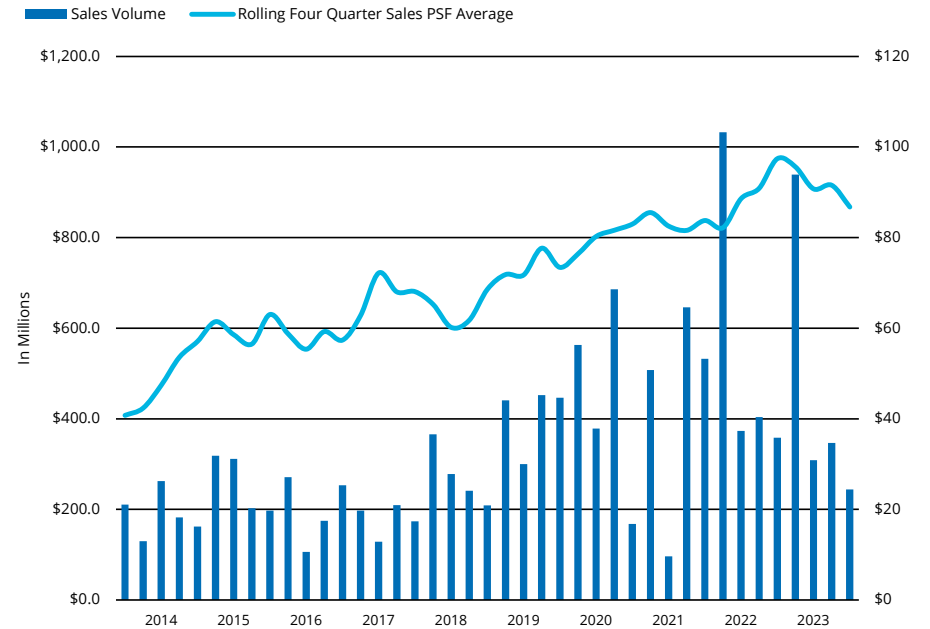


### SALES

#### Sales Volume Continues to be Challenged

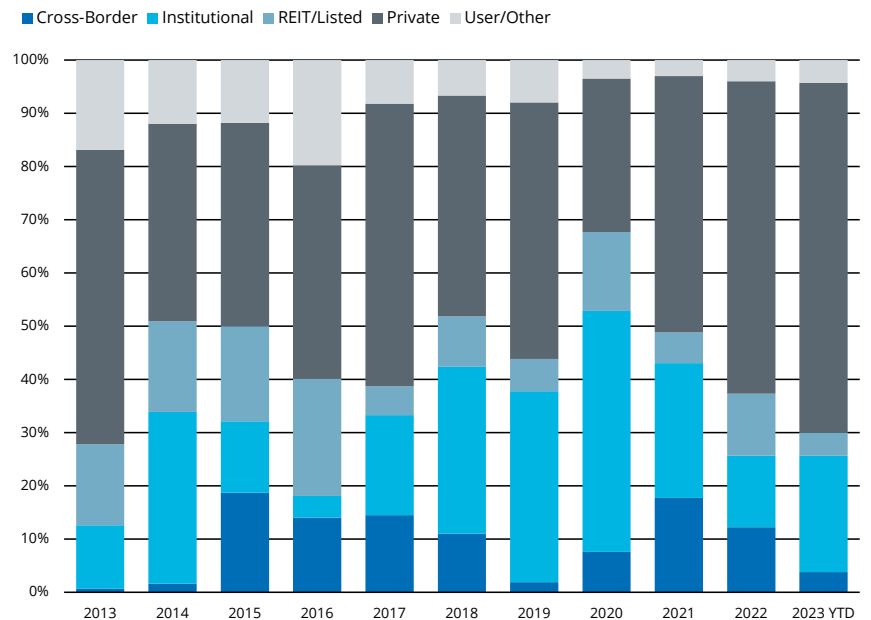
- Q3 2023 industrial sales volume totaled \$243.8 million; a 30% decline from the previous quarter and a 32% decline from the previous year.
- Portfolio sales volume declined by 32% from the previous year while individual property sales volume decreased by 18.7%.
- The most notable sale of the quarter was Xenium Business Center which sold for \$21.6 million in the West subregion.
- 66% of completed deals were from Private Capital sources, followed by Institutional sources at 22%.

### SALES VOLUME



Source: CoStar, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



**NOTABLE LEASES**

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
<b>NVENT</b>	7500 Excelsior Blvd	Northwest	New	248,000
<b>UMAGA</b>	10301 Bren Rd W	Southwest	New	227,357
<b>TILLER CORPORATION</b>	10900 Crimson Way	Northwest	New	149,216
<b>WINSTEAD COMPANY</b>	2999 Ames Crossing Rd	Southeast	New	64,675
<b>CARIBOU COFFEE</b>	10900 Fountain Dr	Northwest	New	100,543

**NOTABLE SALES**

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
<b>2400 N XENIUM LN</b>	West	\$21,600,000	214,654	\$101	Founders Properties	The Excelsior Group
<b>28261 DRESSLER CT</b>	Southeast	\$18,767,100	3,441,240	\$5	Realty Income Corp.	BHT Properties Group
<b>8840 EVERGREEN BLVD NW</b>	Northeast	\$18,700,000	262,202	\$71	CIRE Equity	Shopoff Realty Investments
<b>8235 220TH ST W</b>	Southeast	\$18,315,736	204,548	\$90	New Mountain Capital	C-P Flexible Packaging
<b>5005 NATHAN LN N</b>	Northwest	\$18,143,796	89,707	\$202	CFMOTO Powersports Inc	Endeavor Development

= Transwestern deal

**MARKET INDICATORS**

All Property Types | Q3 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	90,044,736	4,015,822	2,447,217	2.7%	1,411,553	(68,985)	(326,590)	\$9.66
NORTHWEST	63,257,218	4,192,194	3,265,011	5.2%	4,112,505	799,522	1,788,237	\$10.10
SOUTHEAST	59,790,579	3,861,578	2,828,472	4.7%	3,696,941	561,324	1,182,485	\$6.54
SOUTHWEST	54,128,906	4,458,259	3,083,948	5.7%	1,157,196	266,370	255,949	\$8.92
WEST	18,513,679	1,182,721	717,290	3.9%	10,000	123,847	254,689	\$10.96
<b>TOTAL</b>	<b>285,735,118</b>	<b>17,710,574</b>	<b>12,341,938</b>	<b>4.3%</b>	<b>10,903,309</b>	<b>304,037</b>	<b>3,152,770</b>	<b>\$9.14</b>

Flex/R&amp;D | Q3 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	1,052,997	530,416	4.7%	43,974	48,482	\$10.74
NORTHWEST	7,995,450	512,506	426,422	5.3%	(12,183)	(229,930)	\$11.15
SOUTHEAST	8,016,285	1,153,891	871,960	10.9%	(46,330)	(120,898)	\$6.64
SOUTHWEST	13,285,848	1,449,087	963,747	7.3%	9,260	(5,427)	\$9.49
WEST	4,251,972	300,513	349,819	8.2%	45,087	(8,645)	\$11.23
<b>TOTAL</b>	<b>44,882,724</b>	<b>4,468,994</b>	<b>3,142,364</b>	<b>7.0%</b>	<b>39,808</b>	<b>(316,418)</b>	<b>\$9.85</b>

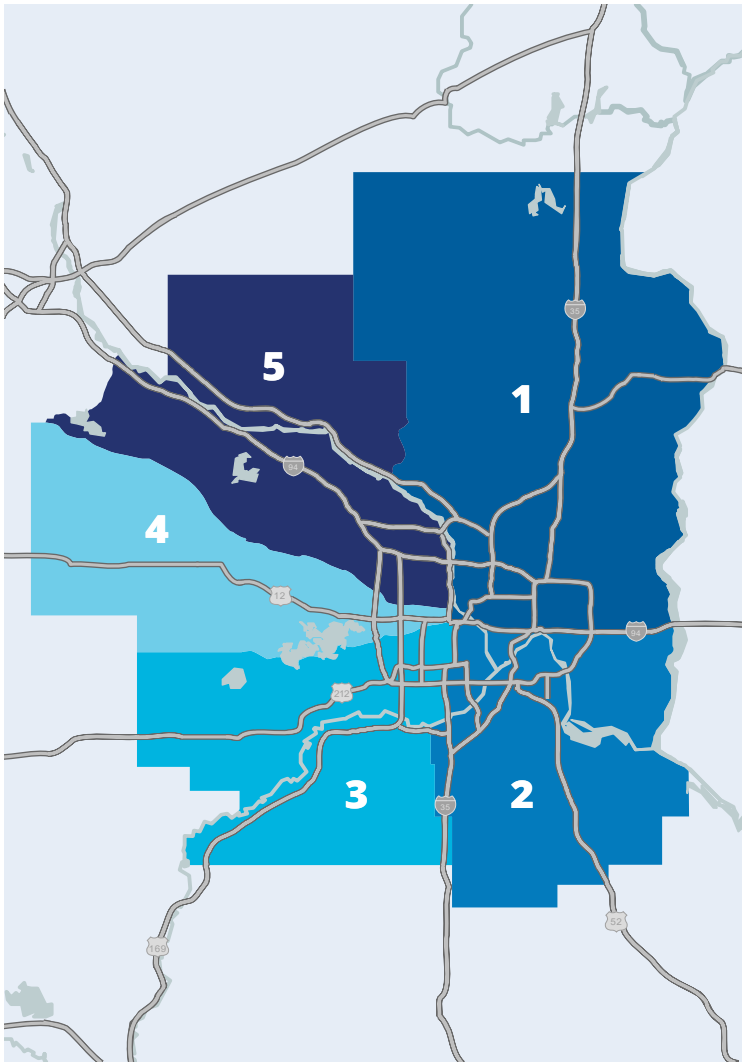


## Warehouse Distribution | Q3 2023

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	31,299,432	860,754	676,700	2.2%	67,790	137,234	N/A
NORTHWEST	32,017,455	2,468,169	2,074,772	6.5%	687,522	1,430,149	N/A
SOUTHEAST	26,142,402	1,659,216	1,256,170	4.8%	461,566	1,029,317	\$6.25
SOUTHWEST	19,534,778	1,241,317	980,176	5.0%	132,171	283,035	\$6.88
WEST	3,753,294	126,219	41,396	1.1%	0	21,597	\$6.50
<b>TOTAL</b>	<b>112,747,361</b>	<b>6,355,675</b>	<b>5,029,214</b>	<b>4.5%</b>	<b>1,349,049</b>	<b>2,901,332</b>	<b>\$6.54</b>

## Warehouse Office | Q3 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	47,412,135	2,102,071	1,240,101	2.6%	(180,749)	(512,306)	\$8.74
NORTHWEST	23,244,313	1,211,519	763,817	3.3%	124,183	588,018	\$9.08
SOUTHEAST	25,631,892	1,048,471	700,342	2.7%	146,088	274,066	\$6.30
SOUTHWEST	21,308,280	1,767,855	1,140,025	5.4%	124,939	(21,659)	\$8.61
WEST	10,508,413	755,989	326,075	3.1%	(7,248)	155,729	\$11.16
<b>TOTAL</b>	<b>128,105,033</b>	<b>6,885,905</b>	<b>4,170,360</b>	<b>3.3%</b>	<b>207,213</b>	<b>483,848</b>	<b>\$8.78</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 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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