

MINNEAPOLIS - SAINT PAUL INDUSTRIAL MARKET

Q4 2023



TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.5	2.3	↑	3.2	↑
NET ABSORPTION (Millions SF)	1.1	1.2	↓	1.3	↓
OVERALL VACANCY RATE	4.9%	3.5%	↑	4.0%	↑
OVERALL VACANT SF (MSF)	14.3	9.6	↑	11.0	↑
UNDER CONSTRUCTION (MSF)	4.7	7.9	↓	5.9	↓
ASKING RENT (PSF)	\$9.82	\$9.16	↑	\$8.79	↑
SALES VOLUME (Millions)	\$225.9	\$939	↓	\$467.0	↓

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

INDUSTRIAL MARKET IS STABLE

Minneapolis-Saint Paul's (MSP) industrial real estate market in Q4 2023 saw firm activity. Net absorption totaled 1.08 million square feet (SF) and for 2023 overall net absorption was 4.2 million SF. The vacancy rate was 4.9%, a 1% increase from the previous year. Vacant space increased 4.7 million SF from the previous year, as the market added over 9 million SF in new space in 2023. Asking rent was \$9.82/PSF NNN, a 1.2% increase from the previous quarter and a 7.2% increase year-over-year.

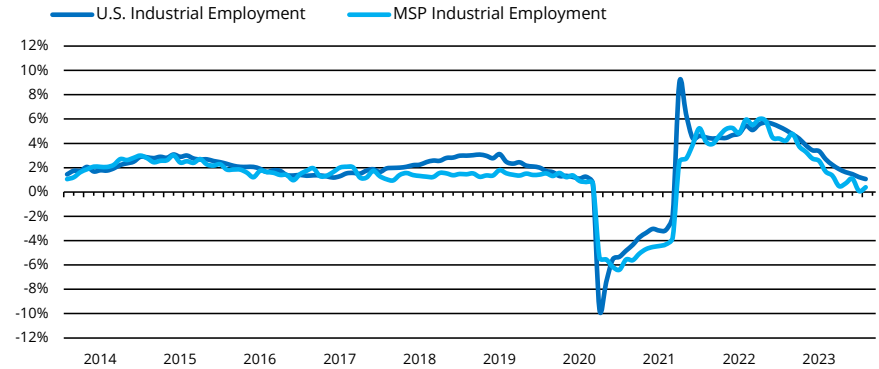
The MSP economy continues to be resilient. The unemployment rate in November was 1.9%, a decrease of 0.5% from the previous year. Unemployment continues to be at historic low levels. Industrial employment slightly increased in November by 0.2% employing over 386,000 people. As employment and the economy holds steady, demand for industrial space has mirrored the economy.

ECONOMY

Job Growth Remains Steady

- Minneapolis-Saint Paul's (MSP) unemployment rate decreased from its high point in the Summer. November 2023 unemployment rate was 1.9%, a decrease of 50 basis points from November 2022 rate of 2.4%. MSP's unemployment continues to be lower than the national rate of 3.8%.
- Total employment in the Minneapolis - Saint Paul metro area grew by 1.5% from the previous year. While solid growth, MSP employment growth continues to be lower than the United States overall, which was 1.8%.
- Industrial sector employment increased by 0.2% from the previous year. Industrial sector employment growth has significantly slowed in the last six months as manufacturing and wholesale trade employment have leveled off from its elevated growth of year when year-over year growth was between 3-4%.
- Industrial employment has slowed from the previous year, but is higher than pre-pandemic employment. For the year-to-date Industrial employment is 382,000, 3.3% higher than the 2019 total of 369,800.

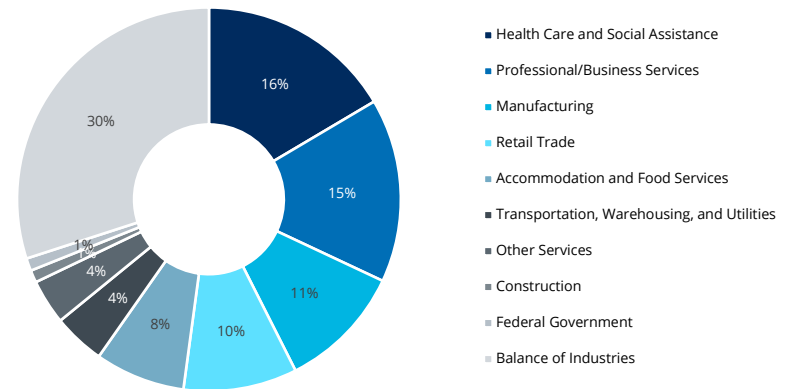
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

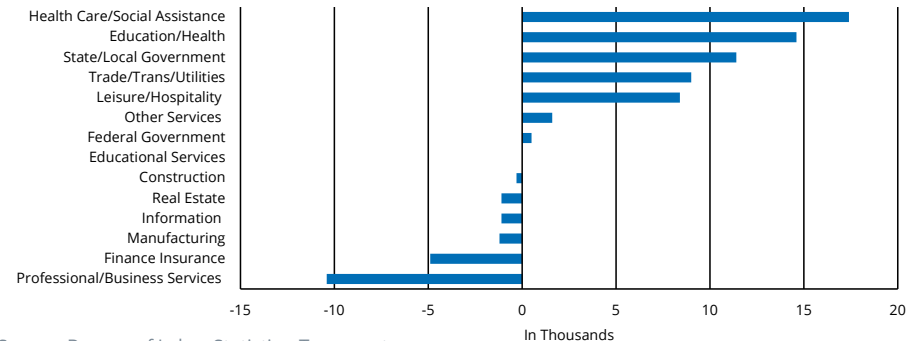
Minneapolis - Saint Paul | November 2023



Source: Bureau of Labor Statistics, Transwestern

YEAR-OVER-YEAR CHANGE IN JOBS BY INDUSTRY

Minneapolis - Saint Paul | November 2023



Source: Bureau of Labor Statistics, Transwestern

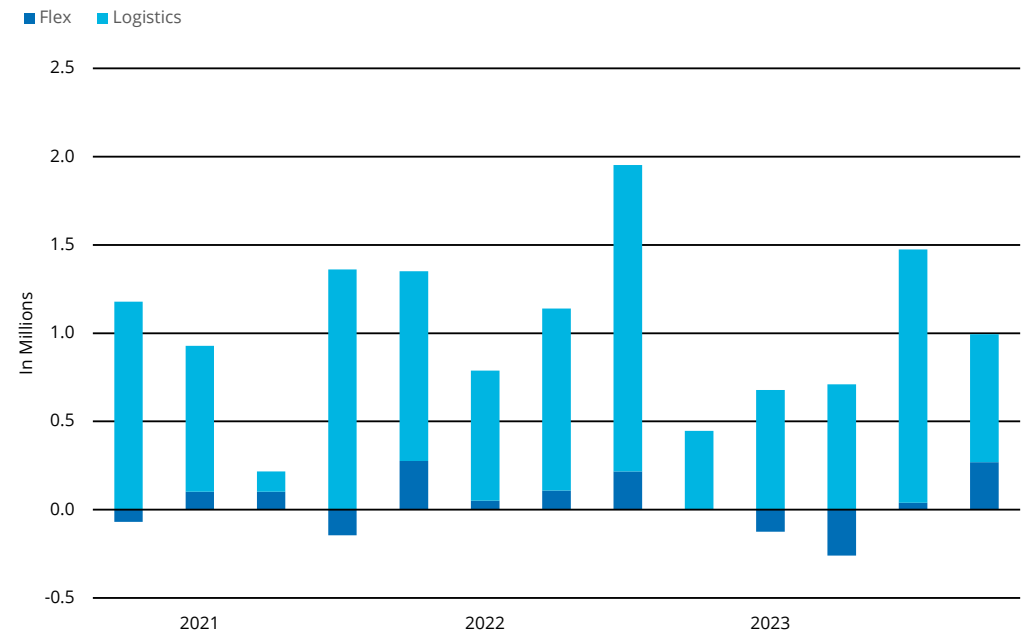


NET ABSORPTION

Demand Continued to be Steady

- The fourth quarter had 1.08 million square feet (SF) in positive net absorption. Largest deals included Seagate which leased 406,857 SF in a sale-leaseback transaction, Benchmark Logistics leased 274,587 SF, and Lumbermen's leased 89,759 SF.
- The total net absorption in 2023 was 4.23 million SF of positive absorption. While it was a 30% decline from total net absorption in 2022, it is 33% higher than total net absorption pre-pandemic in 2019 when it was 3.18 million SF. For 2023 the Warehouse/Distribution property type 3.6 million SF in positive absorption, the most across all property types.
- The Flex/R&D property type registered 269,249 SF in positive absorption in the fourth quarter. The majority of positive net absorption occurred in the Northwest submarket, 243,245 SF of positive absorption.
- The Warehouse/Distribution property type registered 724,345 SF of positive absorption. The majority of positive net absorption in the property type occurred in the Northwest submarket, with 576,502 SF of positive absorption.

NET ABSORPTION BY PRODUCT TYPE



Source: MNCAR, Transwestern

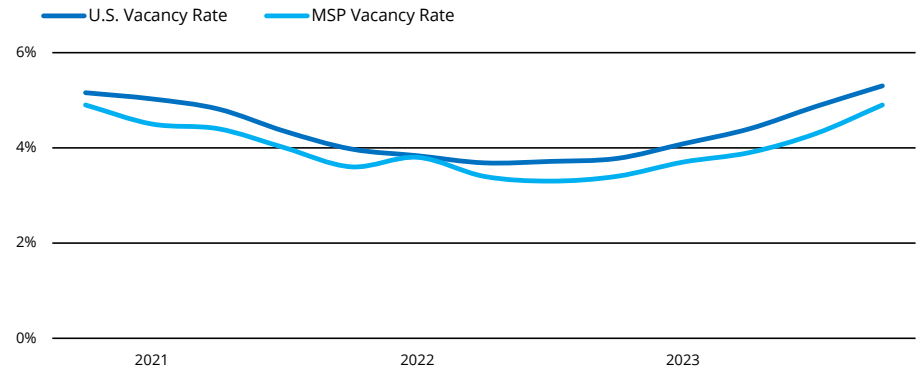


VACANCY

Vacancy Rate Ticked Up

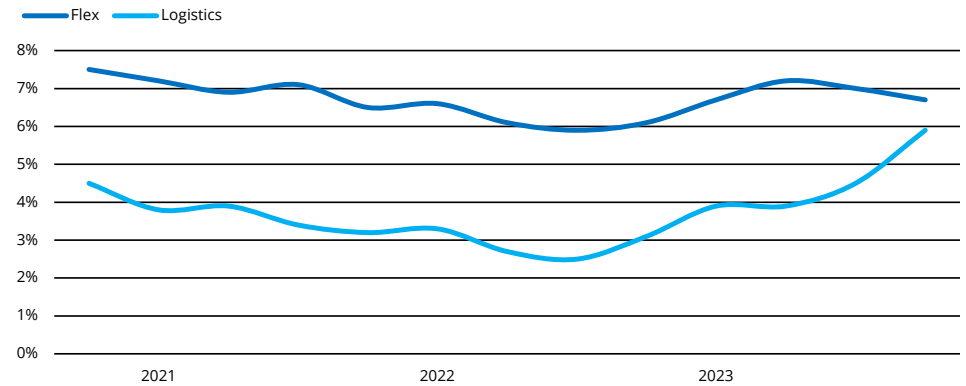
- The overall market vacancy for Q4 2023 was 4.9%, an increase of 60 basis points from Q3 2023. Year-over-year market vacancy increased by 150 basis point increase. Vacancy rates are 40 basis points lower in the MSP region than the nation overall.
- The Warehouse Office vacancy rate is the lowest at 3.4%, followed by Warehouse Distribution at 5.9% and Flex/R&D posted the highest vacancy rate at 6.7%.
- The Northeast submarket has the region’s lowest vacancy rate at 2.6%, followed by the West submarket at 3.4%.
- The West submarket’s Warehouse Distribution property type saw the largest year-over-year decrease in vacancy, declining by 280 basis points, from 4.0% in Q3 2022 to 1.2% in Q4 2023.
- The Southeast submarket’s Warehouse Distribution property type had the largest year-over-year increase in vacancy, increasing by 790 basis points, from 1.7% in Q4 2022 to 9.6% in Q4 2023. Inventory in the property type increased by over three million SF in 2023.

OVERALL VACANCY RATE



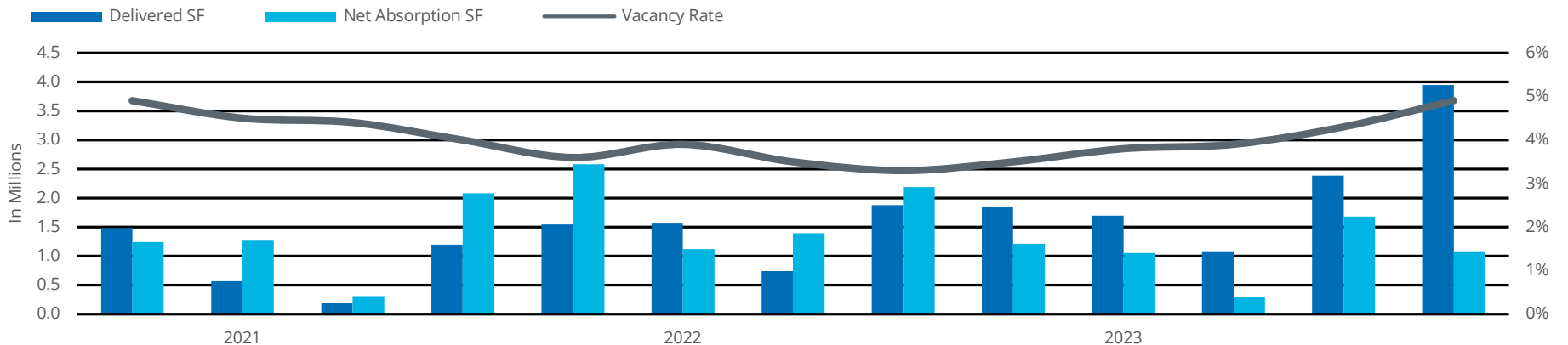
Source: MNCAR, Transwestern

OVERALL VACANCY RATE BY PRODUCT TYPE



Source: MNCAR, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

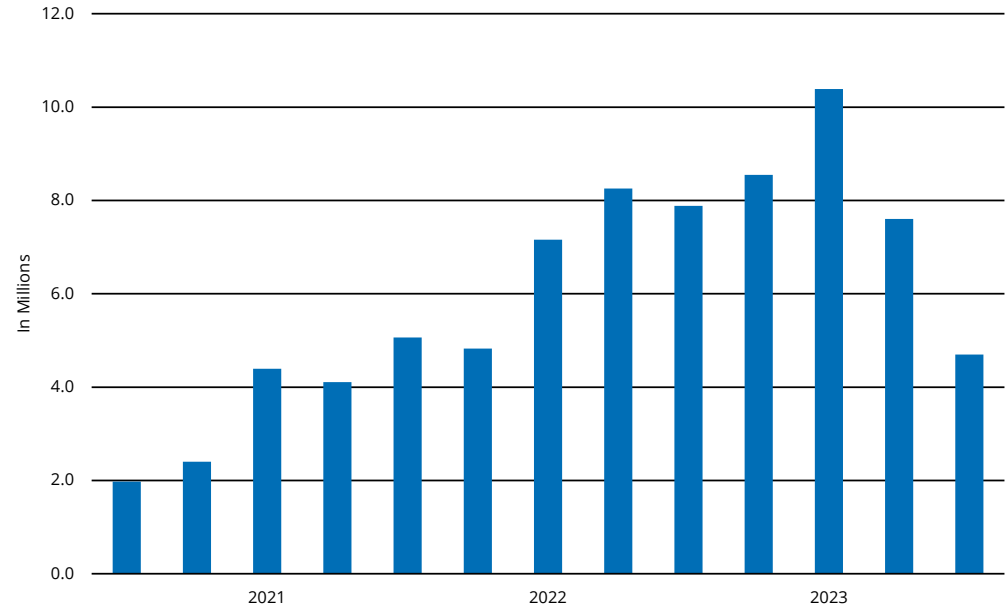


UNDER CONSTRUCTION

Construction Decelerated

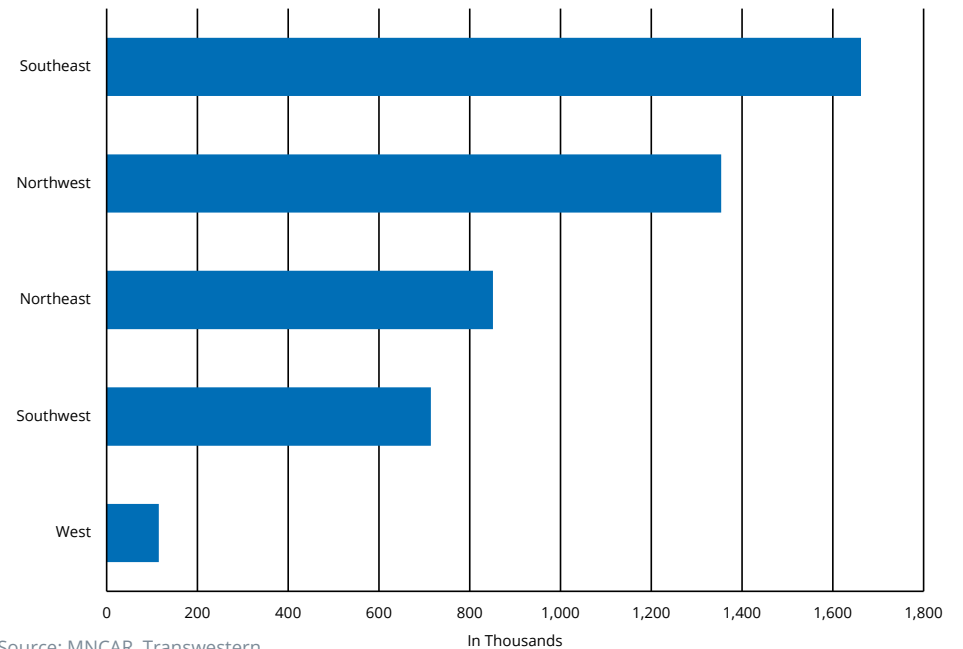
- The amount of space that is under construction in the market is 4.6 million, an 40% decrease from the previous year. SF under construction continues to be higher than pre-pandemic levels where it averaged 2.3 million SF/quarter.
- The majority of construction is taking place in the Southeast and Northwest submarkets, with over 3 million SF, or 64% of the total square feet under construction.
- In 2023 9.1 million SF of space was delivered to the market, a 51.5% increase from 2022 total of 6 million SF. 2023 delivered the most industrial space to the market since the metric was tracked.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

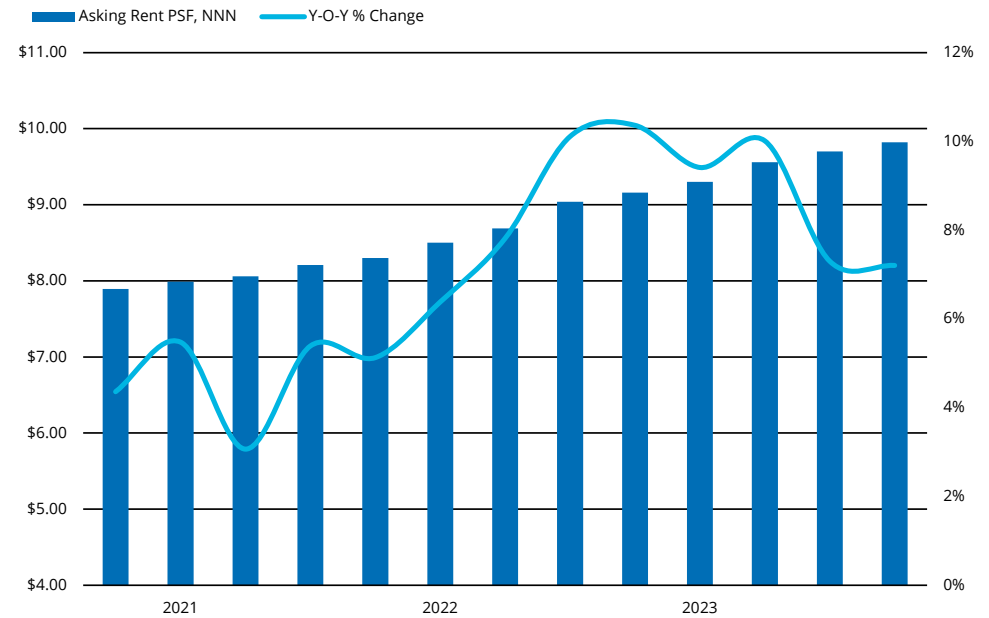


RENTAL RATES

Rents Continue To Grow

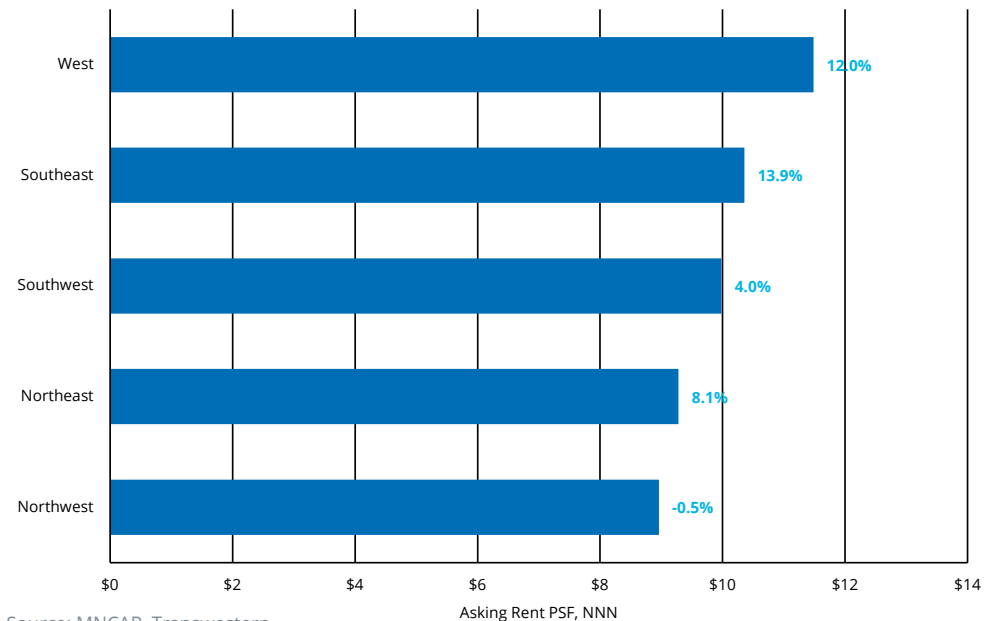
- Q4 2023 asking rental rate averaged \$9.82 per square feet (PSF) NNN with a range of \$8.18/PSF to \$11.45/PSF.
- The average asking rent increased by 1.2% from the previous quarter and increased by 7.2% from the previous year. Asking rent growth continued to be robust as more new space entered into the market, which may be asking for higher rents than existing space.
- The West submarket had the highest asking rents in the region averaging \$11.49/PSF. The Southeast submarket had the largest percentage growth in rent, increasing by 13.9%. This was driven by higher prices for the submarket’s Warehouse Office and Flex property types.
- The Southwest submarket had the lowest asking rents averaging \$8.96/PSF, led by the low prices for its Warehouse Distribution property type with an average asking rent of \$6.88/PSF.

ASKING RENT



Source: MNCAR, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: MNCAR, Transwestern

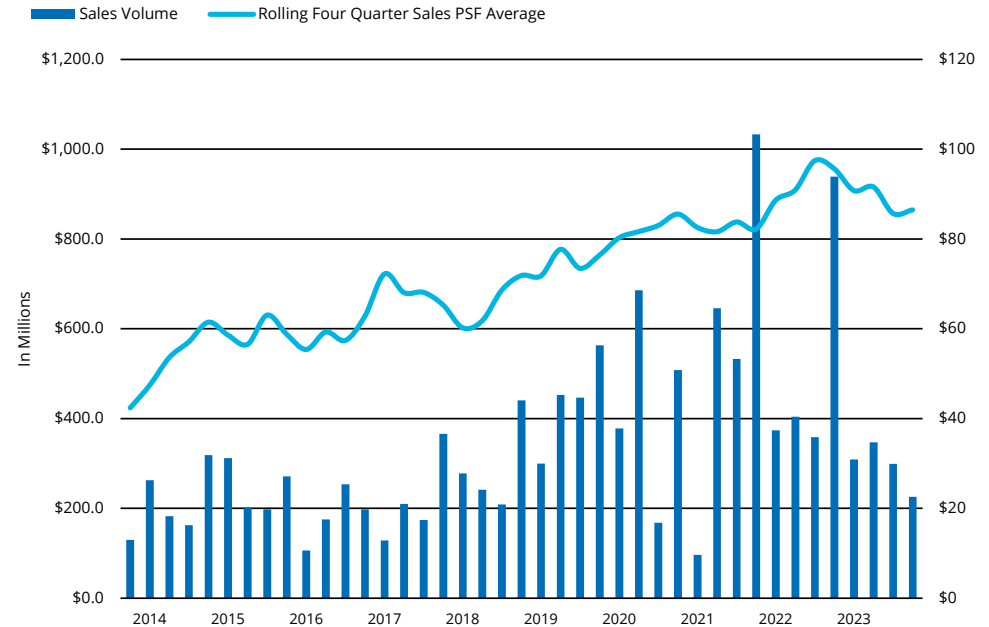


SALES

Sales Volume Continues to be Challenged

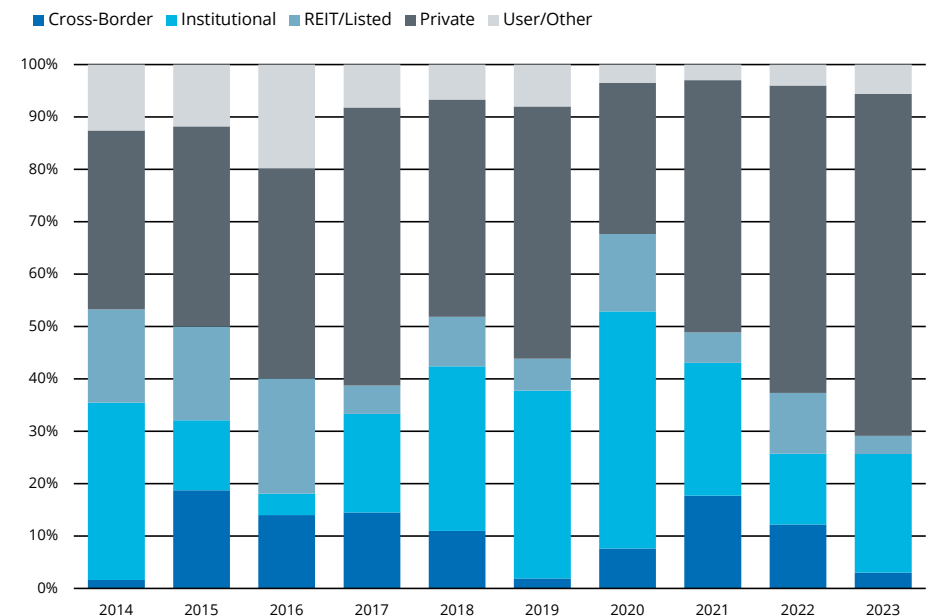
- Q4 2023 industrial sales volume totaled \$225.9 million; a 25% decline from the previous quarter and a 76% decline from the previous year.
- Total 2023 sales volume was \$1.18 billion, a 43% decline from 2022, as sales continued to be negatively impacted by high interest rates.
- Portfolio sales volume declined by 69% from the previous year while individual property sales volume decreased by 20%.
- The most notable sale of the quarter was 1280 Disc Dr (Seagate Building) which sold for \$36 million in the Southwest subregion. The largest sales transaction for 2023 was Eagle Realty Group’s \$88.4 million acquisition of a four building portfolio in October.
- For 2023 65% of completed deals were from private capital sources, followed by Institutional sources at 23%.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
SEAGATE	1280 Disc Dr, Shakopee	Southwest	New	406,857
BENCHMARK LOGISTICS	5851 E River Rd, Fridley	Northeast	New	274,587
LUMBERMEN'S INC	7601 100th St S, Cottage Grove	Southeast	New	89,759
TIME SAVERS	11123 89th Ave N, Maple Grove	Northwest	Renewal	82,116
CAMERON ASHLEY BUILDING	12195 Brockton Ln, Maple Grove	Northwest	New	76,775

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1280 DISC DR, SHAKOPEE	Southwest	\$36,000,000	397,477	\$91	Founders Properties	The Excelsior Group
4200 ROUND LAKE RD W, ARDEN HILLS	Northeast	\$33,275,000	250,000	\$133	Altus Properties	Scannell Properties
6533 FLYING CLOUD DR, EDEN PRAIRIE	Southwest	\$24,750,000	204,000	\$121	Arden Real Estate Partners IV	UBS Asset Management
4837 AZELIA AVE N, BROOKLYN CENTER	Northwest	\$21,328,370	270,000	\$79	Capital Partners Management, LLC	PCCP Equity VII
5750 MAIN ST NE, FRIDLEY	Northeast	\$20,296,174	207,588	\$98	Capital Partners Management, LLC	PCCP Equity VII

 = Transwestern deal

MARKET INDICATORS

All Property Types | Q4 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	90,351,490	5,076,154	2,358,894	2.6%	1,411,553	134,873	(106,098)	\$10.36
NORTHWEST	64,530,431	3,988,772	3,632,654	5.6%	4,112,505	875,837	2,637,074	\$9.98
SOUTHEAST	61,356,526	5,133,418	4,340,390	7.1%	3,696,941	(849)	1,155,099	\$9.28
SOUTHWEST	54,322,256	4,689,192	3,312,159	6.1%	1,157,196	(1,831)	215,275	\$8.96
WEST	18,613,798	1,280,854	641,881	3.4%	10,000	75,409	330,098	\$11.49
TOTAL	289,174,501	20,168,390	14,285,978	4.9%	10,903,309	1,083,439	4,231,448	\$9.82

Flex/R&D | Q4 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	911,055	519,849	4.6%	10,567	59,049	\$11.22
NORTHWEST	8,050,631	479,526	238,358	3.0%	243,245	13,315	\$11.34
SOUTHEAST	8,024,942	1,368,383	847,065	10.6%	24,895	(96,003)	\$10.45
SOUTHWEST	13,352,399	1,345,582	1,086,158	8.1%	(55,860)	(61,287)	\$9.55
WEST	4,205,424	382,845	303,417	7.2%	46,402	37,757	\$11.75
TOTAL	44,966,565	4,487,391	2,994,847	7.0%	269,249	(47,169)	\$10.86

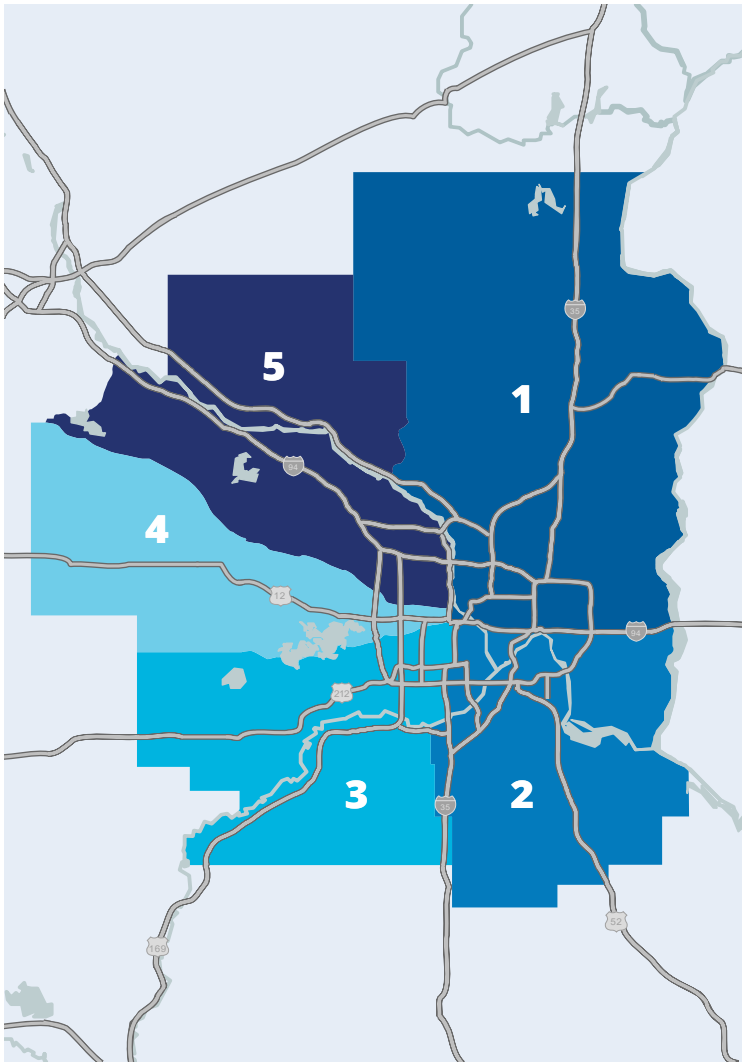


Warehouse Distribution | Q4 2023

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	31,602,090	1,782,714	778,588	2.5%	131,762	235,265	N/A
NORTHWEST	32,841,754	1,930,392	2,322,569	7.1%	576,502	1,979,651	N/A
SOUTHEAST	27,639,560	2,725,618	2,656,669	9.6%	96,659	1,083,152	\$6.25
SOUTHWEST	19,555,023	1,648,408	1,058,844	5.4%	(78,668)	204,353	\$6.88
WEST	3,753,294	128,129	43,306	1.2%	30,917	186,646	\$6.50
TOTAL	115,391,721	8,215,261	6,859,976	4.5%	757,172	3,689,067	\$6.54

Warehouse Office | Q4 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	47,416,231	2,382,385	1,060,457	2.2%	(7,456)	(400,412)	\$9.71
NORTHWEST	23,638,046	1,578,854	1,071,727	4.5%	56,090	644,108	\$8.28
SOUTHEAST	25,692,024	1,039,417	836,656	3.3%	(122,403)	167,950	\$6.66
SOUTHWEST	21,414,834	1,695,202	1,167,157	5.5%	132,697	72,209	\$8.54
WEST	10,655,080	769,880	295,158	2.8%	30,917	186,646	\$11.86
TOTAL	128,816,215	7,465,738	4,431,155	3.3%	89,845	670,501	\$9.01



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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