TRANSWESTERN

MINNEAPOLIS - SAINT PAUL INDUSTRIAL MARKET

Q1 2024

TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.9	2.9	↔	2.9	↑
NET ABSORPTION (Millions SF)	0.9	1.1	↓	1.3	↓
OVERALL VACANCY RATE	5.0%	3.8%	↑	4.0%	↑
OVERALL VACANT SF (MSF)	14.7	10.5	↑	11.2	↑
UNDER CONSTRUCTION (MSF)	3.6	8.5	↓	6.1	↓
ASKING RENT (PSF)	$9.76	$9.30	↑	$8.93	↑
SALES VOLUME (Millions)	$215.5	$318	↓	$462.3	↓

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

INDUSTRIAL MARKET IS STABLE

Minneapolis-Saint Paul's (MSP) industrial real estate market in Q1 2024 continued to soften. Net absorption totaled 932,078 square feet (SF); the second time in the last 11 quarters that net absorption was below one million SF. The vacancy rate was 5.0%, an 120 basis point increase year-over-year. Vacant space totaled 14.7 million SF, 4.2 million SF more from the previous year while an additional 1.6 million SF of new space was delivered to the market in the quarter . Asking rent was $9.76/PSF NNN, an 0.6% decrease from the previous quarter. This was the first quarterly decline in asking rent since Q2 2020. Year-over-year asking rent increased by 4.9%.

The MSP economy continues to be resilient. The unemployment rate in February was 3.3%, an increase of 0.3% from the previous quarter. Industrial employment slightly increased in February by 0.1% employing over 378,000 people. Employment growth has been nearly flat for the last three months, mirroring national employment growth.

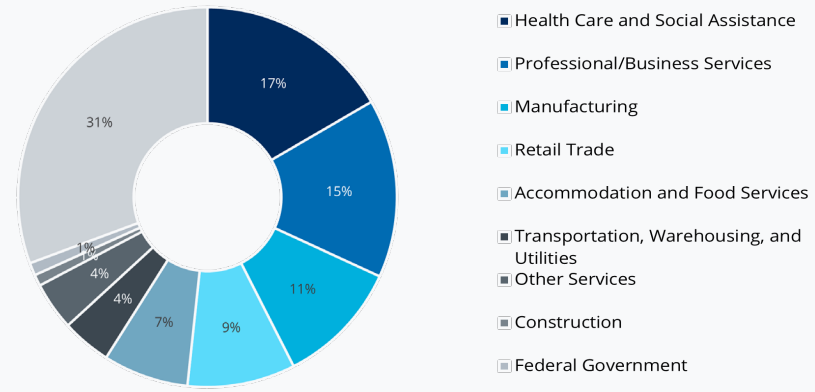
ECONOMY

Job Growth Remains Steady

- The Minneapolis - Saint Paul (MSP) unemployment rate for Q1 2024 was 2.9%, no change from the previous year. The regional labor force increased by 0.6% to 2.02 million people.
- Total employment in the Minneapolis - Saint Paul metro area grew by 1.1% YoY to 1.95 million. While solid growth, MSP employment growth continues to be lower than the United States overall, which was 1.8%.
- Industrial sector employment increased by 0.1% from the previous year. Industrial sector employment growth has significantly slowed in the last six months as construction, manufacturing and transportation/warehousing employment have reported year-over-year employment declines in the last year.
- Industrial sector employment has slowed from the previous year, but is higher than pre-pandemic employment. For the year-to-date key Industrial sector employment is 382,000, 3.3% higher than the 2019 total of 369,800.

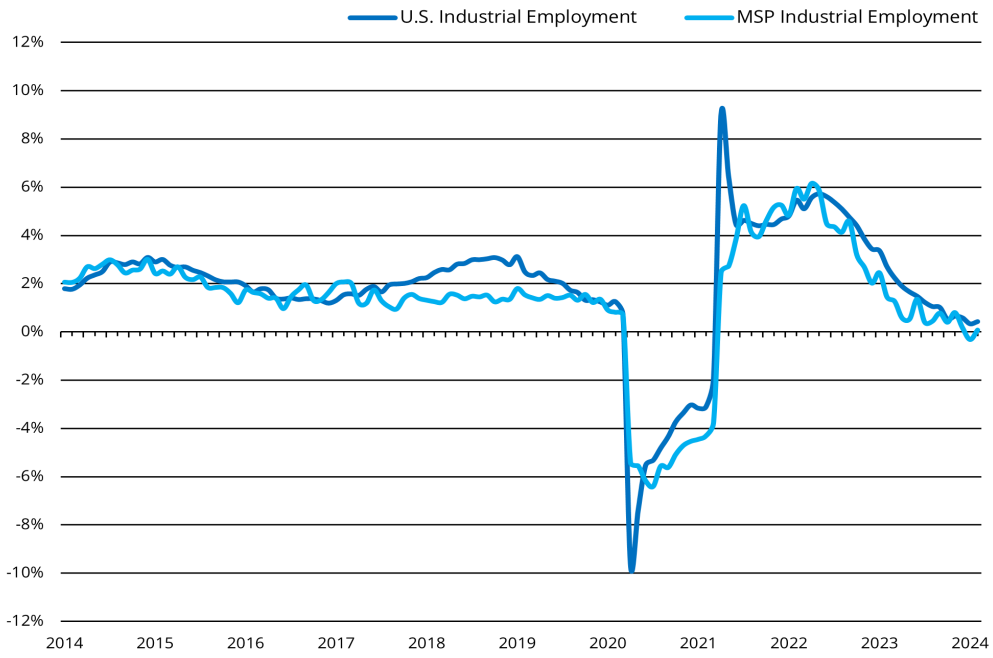
SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis - Saint Paul | February 2024



Source: Bureau of Labor Statistics, Transwestern

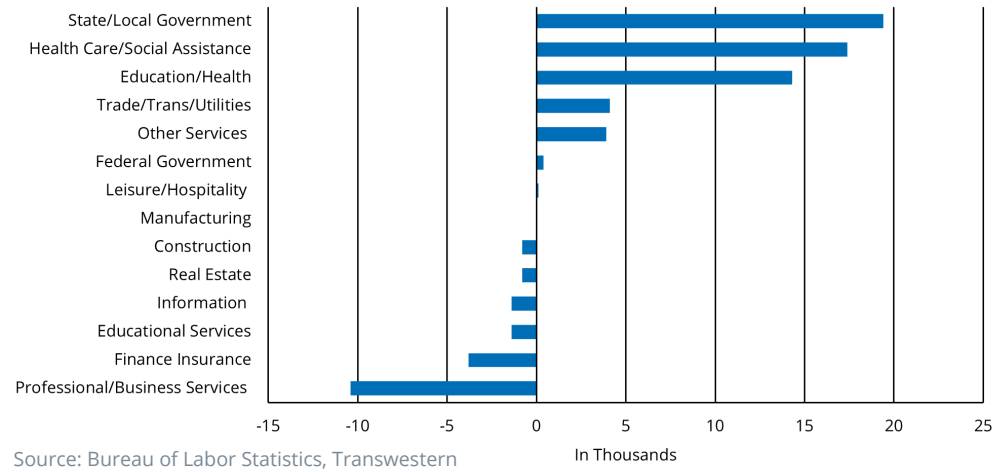
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

YEAR-OVER-YEAR CHANGE IN JOBS BY INDUSTRY

Minneapolis - Saint Paul | February 2024



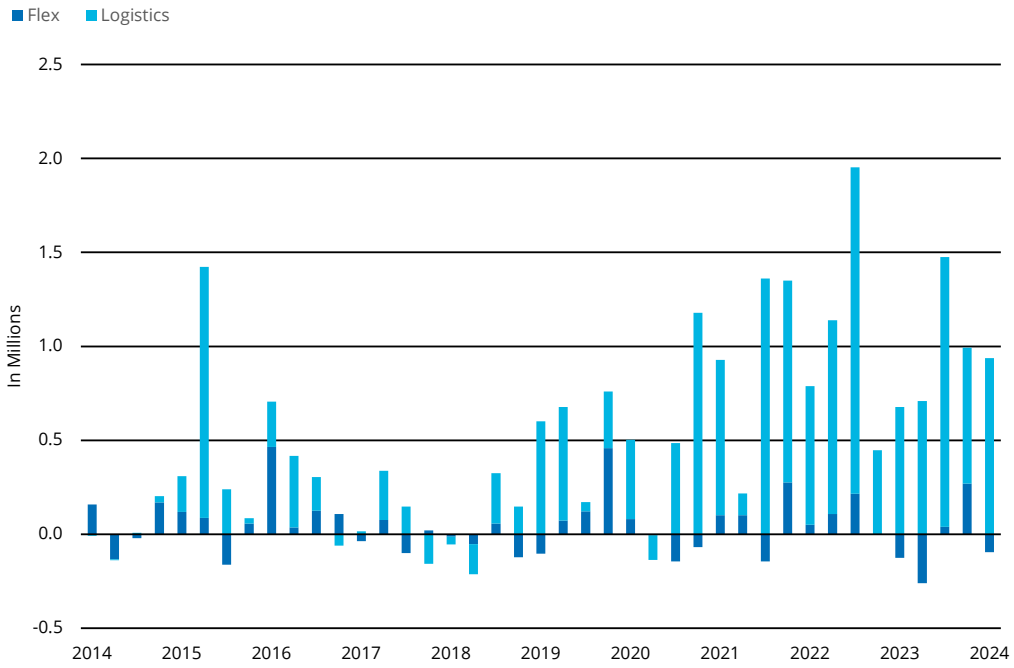
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

Demand Continues to Soften

- The Minneapolis - Saint Paul industrial market in Q1 2024 had 932,078 square feet (SF) in positive net absorption. The notable deals for the quarter included Revo Brand which leased 96,214 SF, EH Enterprises leased 85,852 SF, and Suburban Accessories leased 63,026 SF. All of these deals occurred in the Northwest submarket.
- The Warehouse/Distribution property type was responsible for the vast majority of positive net absorption, totaling 936,918 SF. Warehouse office totaled a positive net absorption of 89,699 SF, while Flex/R&D property had negative 94,539 SF of net absorption.
- The Southeast submarket had the largest positive net absorption in the market. The submarket had a positive net absorption of 420,109 SF. The Northeast submarket recorded a net absorption of negative 72,846 SF.
- While net absorption has been trending down from the post-pandemic totals, net absorption continues to be at the levels it was at pre-pandemic when it averaged a positive 600,000 SF.

NET ABSORPTION BY PRODUCT TYPE



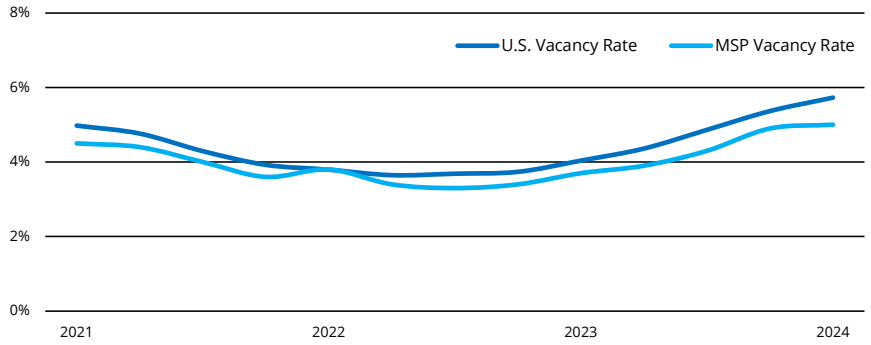
Source: MNCAR, Transwestern

VACANCY

Vacancy Rate Ticked Up

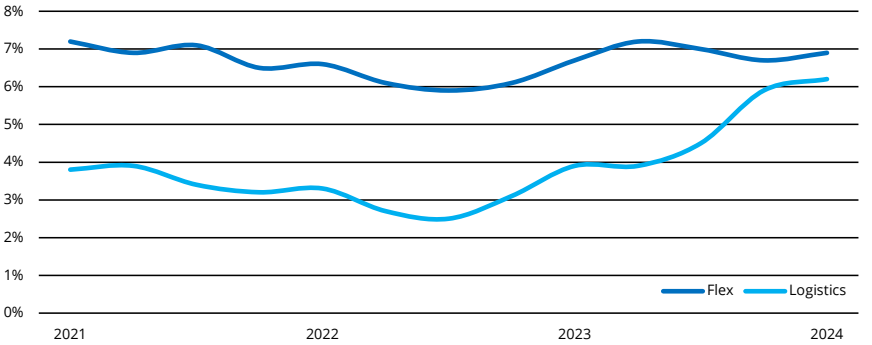
- The overall market vacancy for Q1 2024 was 5.0%, an increase of 10 basis points from the previous quarter. Year-over-year market vacancy increased by 130 basis point increase. Vacancy rates are 70 basis points lower in the MSP region than the nation overall.
- The Warehouse Office vacancy rate is the lowest at 3.4%, followed by Warehouse Distribution at 6.2% and Flex/R&D posted the highest vacancy rate at 6.9%.
- The Northeast submarket has the region's lowest vacancy rate at 2.8%, followed by the West submarket at 3.4%.
- The Northwest submarket's Warehouse Distribution property type had the largest year-over-year increase in vacancy, increasing by 420 basis points, from 3.2% in Q1 2023 to 7.4% in Q1 2024. Inventory in the property type increased by 3.8 million SF in year-over-year, and vacant space increased by 3.4 million SF.

OVERALL VACANCY RATE



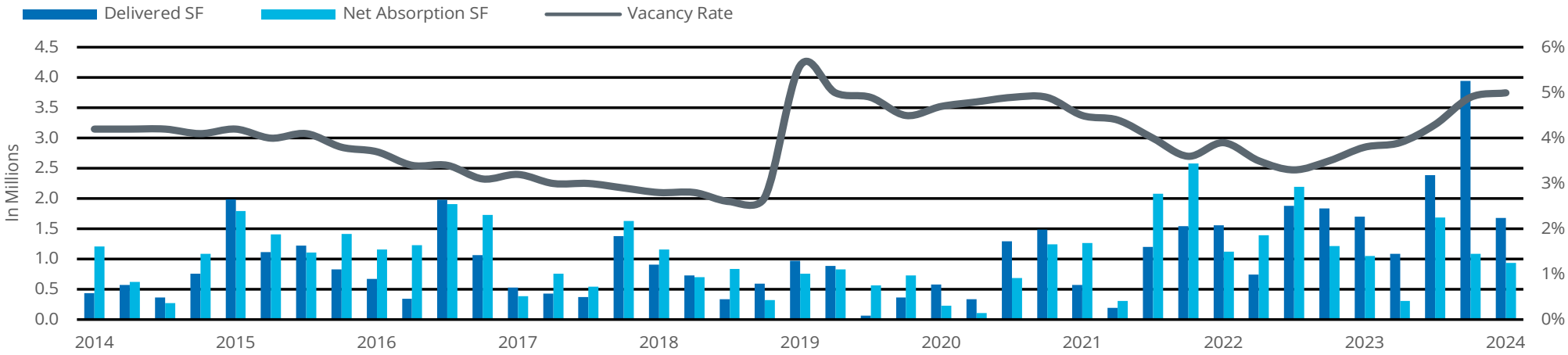
Source: MNCAR, Transwestern

OVERALL VACANCY RATE BY PRODUCT TYPE



Source: MNCAR, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



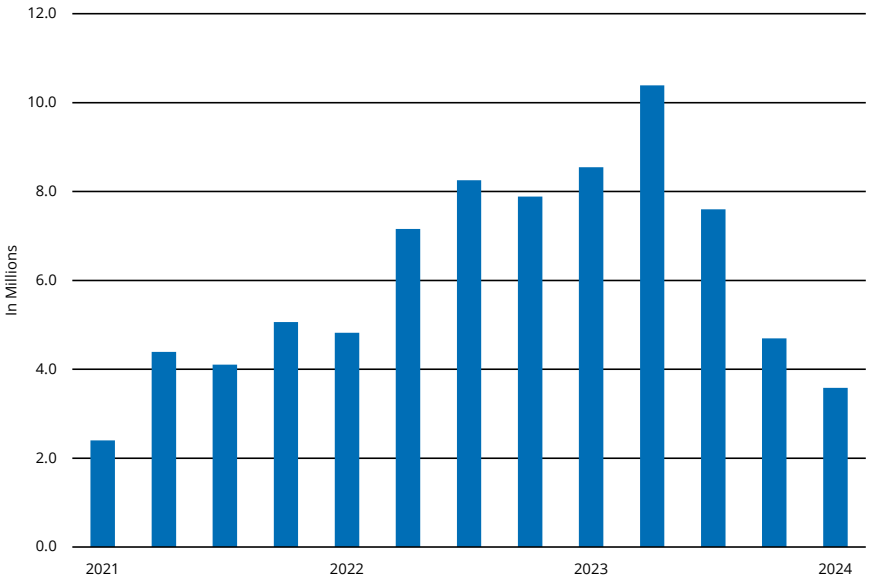
Source: MNCAR, Transwestern

UNDER CONSTRUCTION

Construction Decelerated

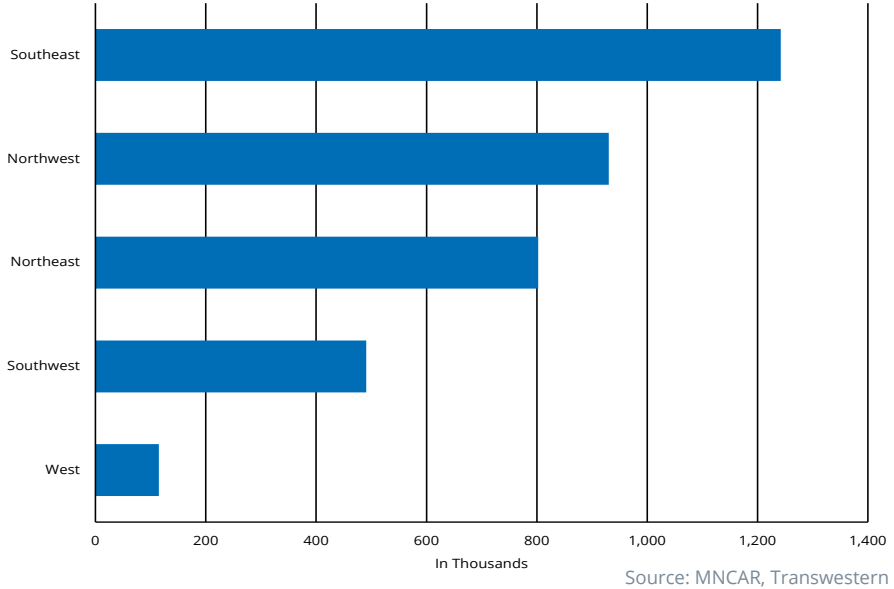
- The amount of space under construction in the market is 3.58 million SF, a 58% decrease from the previous year. This is the third consecutive quarter where SF under construction declined potentially signaling that demand may be slowing as there is ample supply in the market.
- The majority of construction is located in the Southeast and Northwest submarkets, with over 3 million SF, or 84% of the total square feet under construction.
- The Warehouse/Distribution property type has 2.1 million SF under construction while Warehouse/Office only has 419,947 SF under construction.
- Q1 2024 deliveries totaled 1.67 million SF of space to the market, a 6.2% increase from the previous year when 1.58 million SF was delivered that quarter.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



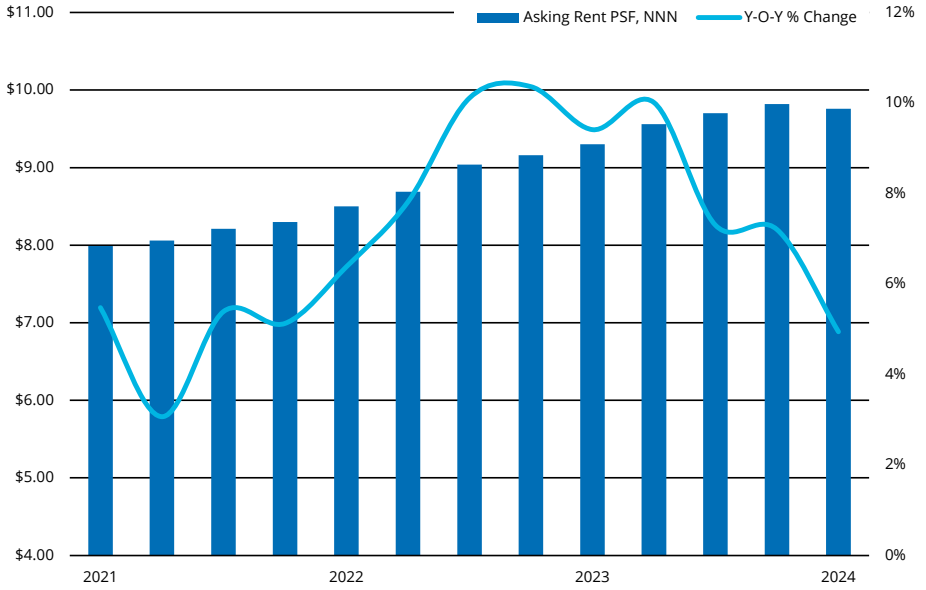
Source: MNCAR, Transwestern

RENTAL RATES

Rent Growth Slowing

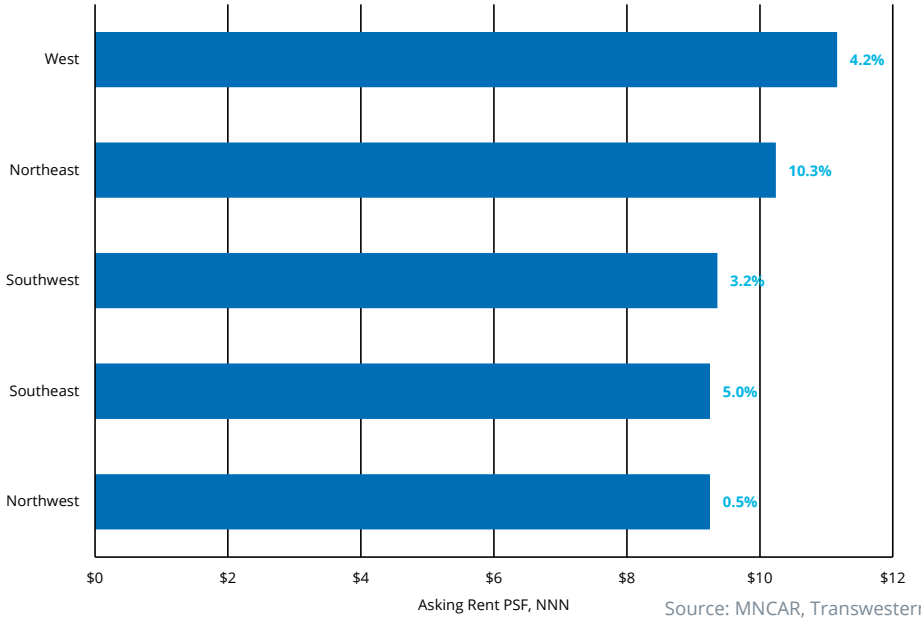
- Q1 2024 asking rental rate averaged $9.76 per square feet (PSF)NNN with a range of $8.50/PSF to $11.41/PSF.
- The average asking rent decreased by 0.6% from the previous quarter and increased by 4.9% from the previous year. Quarter-over-quarter asking rent decreased for the first time since Q3 2020 and year-over-year rent growth was below 5% for the first time since Q2 2021. As additional space is in the market rent growth may slow.
- The West submarket had the highest asking rents in the region averaging $11.16/PSF. The Northeast submarket had the largest percentage growth in rent, increasing by 10.3% to $10.24/PSF. This was driven by higher prices for the submarket's Warehouse Office and Flex property types.
- The Northwest and Southeast submarket had the lowest asking rents averaging $9.25/PSF, led by the low prices for its Warehouse Office and Warehouse Distribution property types respectively with an average asking rent of $8.84/PSF and $6.25/PSF.

ASKING RENT



Source: MNCAR, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



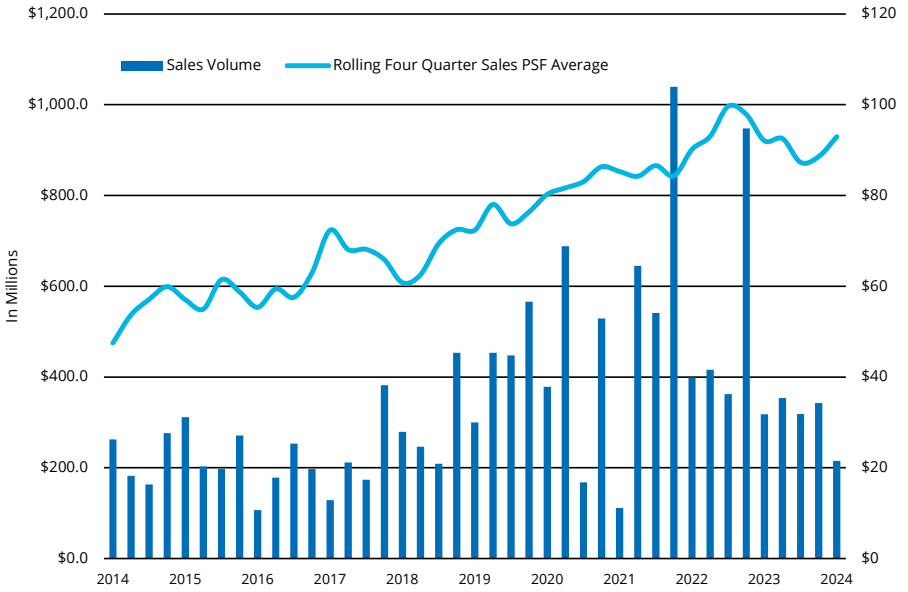
Source: MNCAR, Transwestern

SALES

Sales Volume Continues to be Challenged

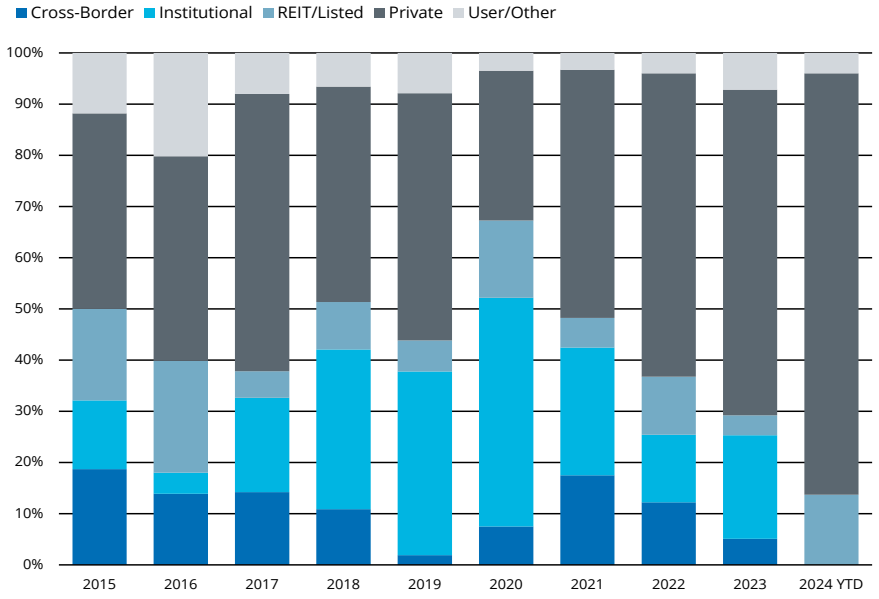
- Industrial sales totaled $215.4 million for the quarter; a 37.1% decline from the previous quarter and a 32.2% decline from the previous year.
- Portfolio sales volume declined by 69% from the previous year while individual property sales volume decreased by 20%.
- The quarter's most notable sales transaction was 650 Ottawa Ave N in Golden Valley, which sold for $23.7 million. The buyer was Kingsbarn Realty Capital and the seller was Drake Real Estate.
- The vast majority of deal activity was individual deals, totaling $208.7 million, while only $6.8 million were portfolio sales. Portfolio sales decreased by 91.7% year-over-year.
- Buyer capital for sales was led by private sources totaling 83%. Listed/REIT's made of 13% of buyer capital and 4% of capital came from User/Other sources.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern

NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
REVO BRANDS	10901 Fountains Dr, Maple Grove	Northwest	New	96,214
EH ENTERPRISES	9100 Wyoming Ave N, Brooklyn Park	Northwest	New	85,852
SUBURBAN ACCESSORIES	6501 94th Ave N, Brooklyn Park	Northwest	New	63,026
STERIS	14630 28th Ave N, Plymouth	West	New	56,100
CUMMINS	5691 E River Rd, Fridley	Northeast	New	48,138

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
650 OTTAWA AVE N, GOLDEN VALLEY	Northwest	$23,700,000	50,000	$474	Kingsbarn Realty Capital	Drake Real Estate
6850 SUNWOOD DR NW, ANOKA	Northwest	$16,500,000	158,517	$104	Three Leaf Partners	Knoll Properties LLC
10201 XYLITE ST NE, BLAINE	Northeast	$15,400,000	137,179	$112	Capital Partners Management, LLC	The Opus Group
8401 JEFFERSON HWY N, MAPLE GROVE	Northwest	$14,700,000	104,262	$141	H.B. Fuller Company	Farallon Capital Management
2900 COUNTY RD 42 W, BURNSVILLE	Southeast	$13,360,000	77,871	$172	Wixon Properties	EFH Realty Advisors

= Transwestern deal

MARKET INDICATORS

All Property Types | Q1 2024

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	92,302,899	5,274,226	2,562,910	2.8%	1,411,553	(72,846)	(72,846)	$10.24
NORTHWEST	65,283,992	5,948,912	3,820,096	5.9%	4,112,505	333,514	333,514	$9.25
SOUTHEAST	61,891,797	4,999,194	4,230,534	6.8%	3,696,941	420,109	420,109	$9.25
SOUTHWEST	54,868,666	5,008,140	3,525,531	6.4%	1,157,196	187,901	187,901	$9.36
WEST	18,936,178	1,180,887	640,681	3.4%	10,000	63,400	63,400	$11.16
TOTAL	**293,283,532**	**22,411,359**	**14,779,752**	**5.0%**	**10,903,309**	**932,078**	**932,078**	**$9.76**

Flex/R&D | Q1 2024

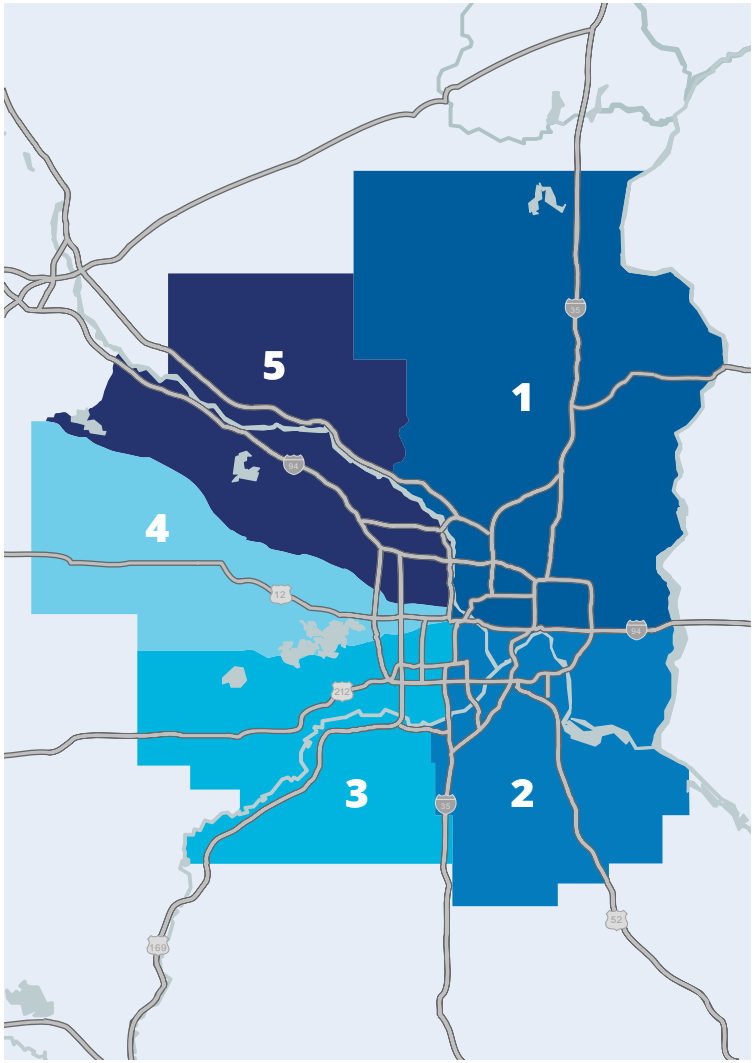
SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	11,289,903	973,258	635,076	5.6%	(122,857)	(122,857)	$11.51
NORTHWEST	8,050,631	557,779	302,179	3.8%	(63,821)	(63,821)	$9.90
SOUTHEAST	8,058,622	1,307,330	862,095	10.7%	5,037	5,037	$10.19
SOUTHWEST	13,396,399	1,214,278	1,036,206	7.7%	15,936	15,936	$10.10
WEST	4,527,804	479,979	284,451	6.3%	71,166	71,166	$10.74
TOTAL	**45,323,359**	**4,532,624**	**3,120,007**	**6.9%**	**(94,539)**	**(94,539)**	**$10.49**

Warehouse Distribution| Q1 2024

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	32,660,629	1,942,379	777,722	2.4%	139,666	139,666	N/A
NORTHWEST	33,577,137	3,809,039	2,500,129	7.4%	343,396	343,396	$9.75
SOUTHEAST	27,925,520	2,758,807	2,650,865	9.5%	260,404	260,404	$6.25
SOUTHWEST	19,995,492	2,167,506	1,271,350	6.4%	227,742	227,742	$6.88
WEST	3,753,294	128,665	77,596	2.1%	(34,290)	(34,290)	$6.63
TOTAL	**117,912,072**	**10,806,396**	**7,277,662**	**6.2%**	**936,918**	**936,918**	**$7.38**

Warehouse Office | Q1 2024

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	48,352,367	2,358,589	1,150,112	2.4%	(89,655)	(89,655)	$9.34
NORTHWEST	23,656,224	1,582,094	1,017,788	4.3%	53,939	53,939	$8.71
SOUTHEAST	25,907,655	933,057	717,574	2.8%	154,668	154,668	$6.94
SOUTHWEST	21,476,775	1,626,356	1,217,975	5.7%	(55,777)	(55,777)	$8.88
WEST	10,655,080	572,243	278,634	2.6%	26,524	26,524	$12.34
TOTAL	**130,048,101**	**7,072,339**	**4,382,083**	**3.4%**	**89,699**	**89,699**	**$9.24**



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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