

MINNEAPOLIS - SAINT PAUL INDUSTRIAL MARKET

Q2 2024



TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.7	2.7	↔	2.8	↑
NET ABSORPTION (Millions SF)	0.2	0.3	↓	1.2	↓
OVERALL VACANCY RATE	5.3%	3.9%	↑	4.1%	↑
OVERALL VACANT SF (MSF)	15.8	10.9	↑	11.5	↑
UNDER CONSTRUCTION (MSF)	3.3	10.4	↓	6.1	↓
ASKING RENT (PSF)	\$9.80	\$9.56	↑	\$9.07	↑
SALES VOLUME (Millions)	\$554.5	\$353	↑	\$496.4	↑

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

MARKET OVERVIEW

Minneapolis-Saint Paul's (MSP) industrial real estate market in Q2 2024 continued to soften. Net absorption totaled 228,025 square feet (SF); the lowest positive absorption figure since Q2 2020. The vacancy rate was 5.3%, a 140 basis point increase year-over-year. Vacant space totaled 15.7 million SF, 4.8 million SF more from the previous year while an additional 1.5 million SF of new space was delivered to the market in the quarter. Asking rent was \$9.80/PSF NNN, a 0.4% increase from the previous quarter. Year-over-year asking rent increased by 2.5%, the smallest increase since Q1 2020.

The MSP economy continues to be resilient. The unemployment rate in May was 2.6%, no change from the previous year and month. Industrial employment slightly decreased in May by 0.6% employing over 378,000 people. Employment growth has slightly decreased for the last three months in the metro area, while national growth has increased by at least 0.6%.

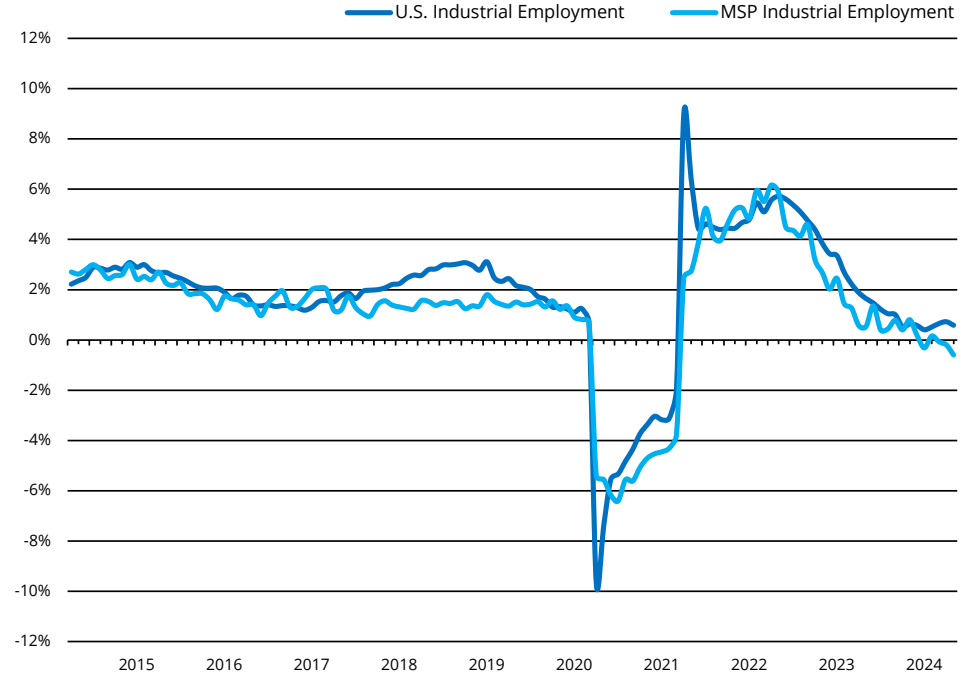


ECONOMY

Job Growth Remains Steady

- The Minneapolis - Saint Paul (MSP) unemployment rate for May 2024 was 2.6%, no change from the previous year. The regional labor force, year-over-year, decreased by 0.9% to 2.15 million people.
- Total employment in the Minneapolis - Saint Paul metro area was down by 1.1% YoY to 1.96 million. Employment, year-over-year, decreased for the first time since March 2021.
- Industrial sector employment decreased by 0.6% from the previous year. Industrial sector employment growth has significantly slowed in the last six months as construction and transportation/warehousing employment have reported year-over-year employment declines of at least 1.3% 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 378,511, 2.4% higher than the 2019 total of 369,800.

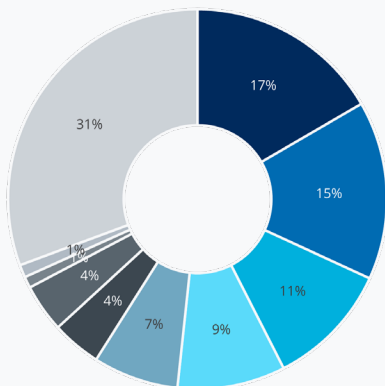
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis - Saint Paul | May 2024

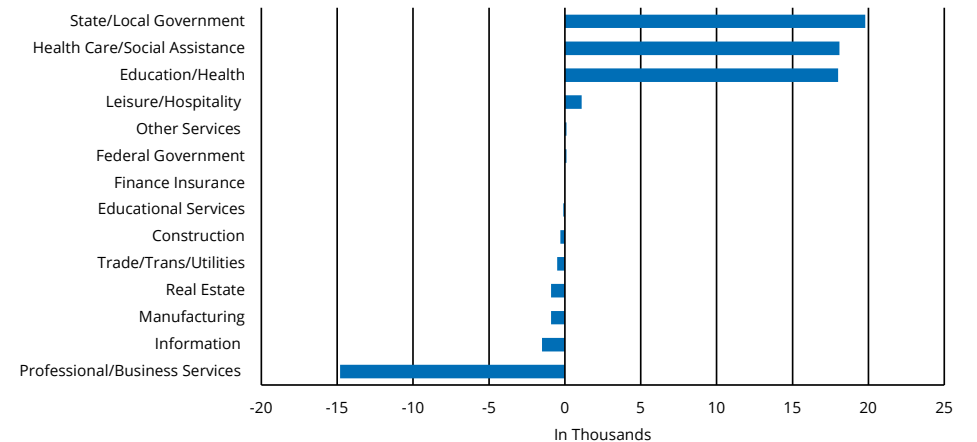


Source: Bureau of Labor Statistics, Transwestern

- Health Care and Social Assistance
- Professional/Business Services
- Manufacturing
- Retail Trade
- Accommodation and Food Services
- Transportation, Warehousing, and Utilities
- Other Services
- Construction
- Federal Government
- Balance of Industries

YEAR-OVER-YEAR CHANGE IN JOBS BY INDUSTRY

Minneapolis - Saint Paul | May 2024



Source: Bureau of Labor Statistics, Transwestern

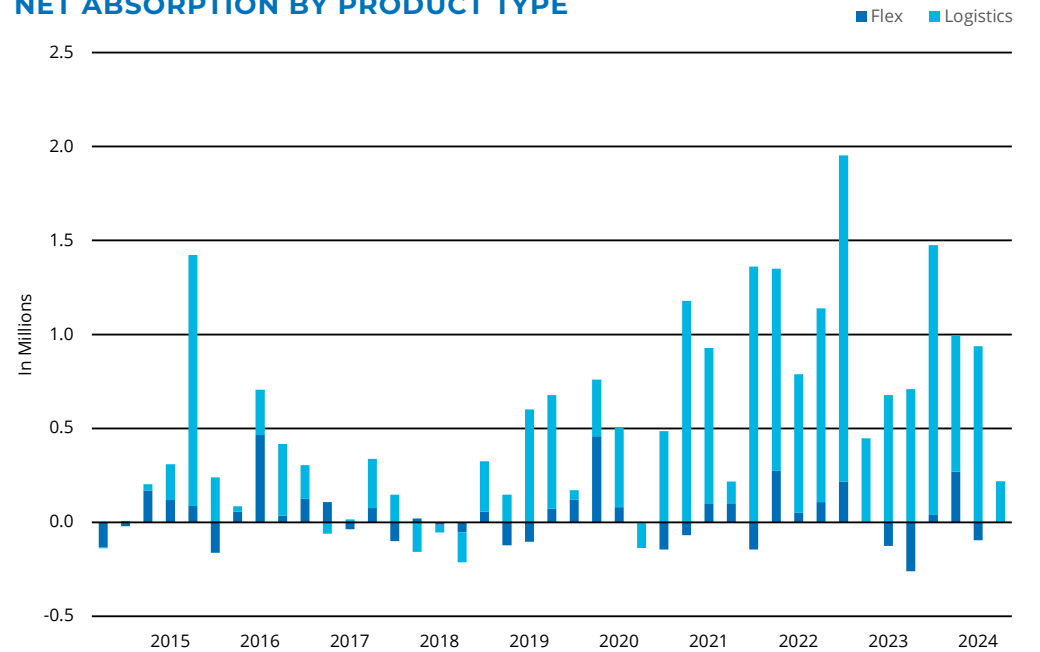


NET ABSORPTION

Demand Continues to Soften

- The Minneapolis - Saint Paul industrial market in Q2 2024 had 228,025 square feet (SF) in positive net absorption. The notable deals for the quarter included Bernard Group which leased 229,688 SF and 164,559 SF at Audubon Business Park in Chanhassen, EH Enterprises leased 85,852 SF, and Suburban Accessories leased 63,026 SF.
- The Warehouse/Distribution property type was responsible for the vast majority of positive net absorption, totaling 218,700 SF. Warehouse office totaled a positive net absorption of 8,623 SF, while Flex/R&D property had 702 SF of net absorption.
- The Southeast submarket had the largest positive net absorption in the market. The submarket had a positive net absorption of 456,754 SF. The Southwest submarket recorded a net absorption of negative 176,211 SF.
- Net absorption for this quarter is at its lowest level since Q1 2020, showing that leasing activity has slowed and that multiple quarters of new inventory being added to the market is having an impact to that.

NET ABSORPTION BY PRODUCT TYPE



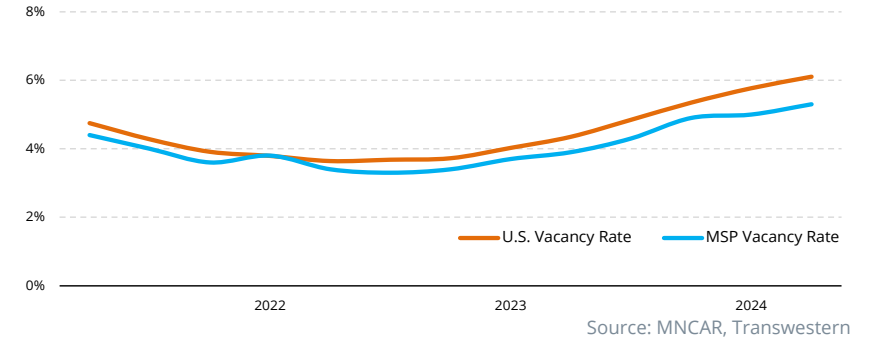
Source: MNCAR, Transwestern

VACANCY

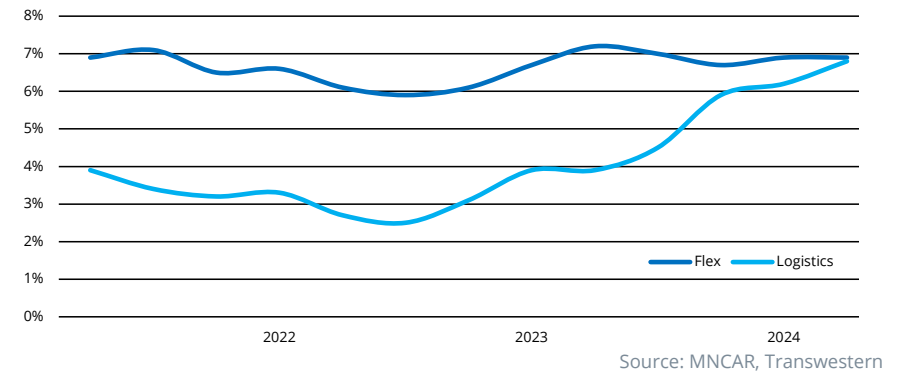
Vacancy Rate Increases

- The overall market vacancy for Q1 2024 was 5.3%, an increase of 30 basis points from the previous quarter. Year-over-year market vacancy increased by 100 basis points. Vacancy rates are 80 basis points lower in the MSP region than the nation overall.
- The Warehouse Office vacancy rate is the lowest at 3.6%, followed by Warehouse Distribution at 6.8% and Flex/R&D posted the highest vacancy rate at 6.9%.
- The West submarket has the region’s lowest vacancy rate at 3.1%, followed by the Northeast submarket at 3.2%.
- The Northwest submarket’s Warehouse Distribution property type had the largest year-over-year increase in vacancy, increasing by 480 basis points, from 3.7% in Q2 2023 to 8.5% in Q2 2024. Inventory in the property type increased by 2.8 million SF in year-over-year, and vacant space increased by 1.7 million SF.

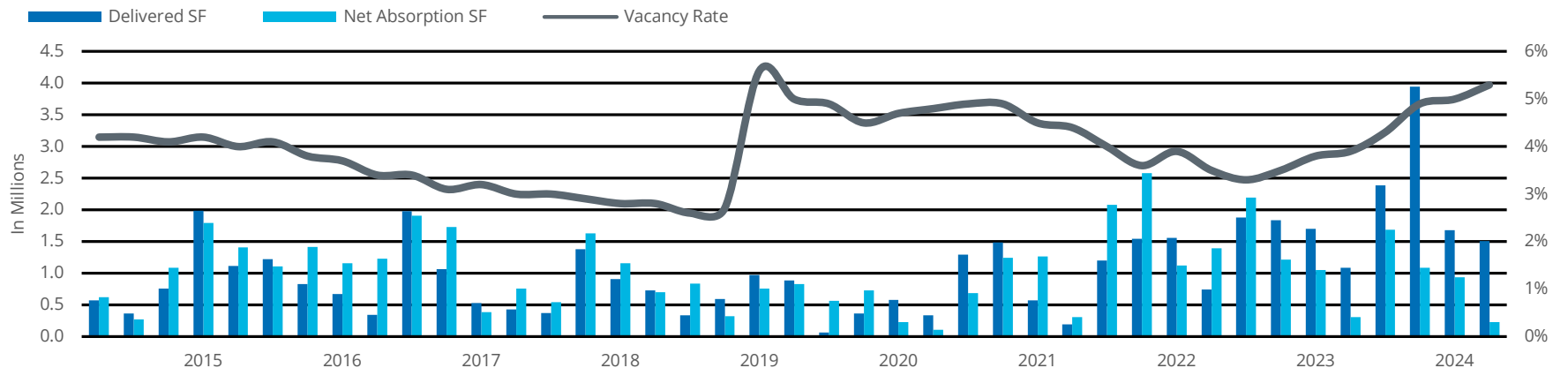
OVERALL VACANCY RATE



OVERALL VACANCY RATE BY PRODUCT TYPE



DELIVERY IMPACT ON KEY INDICATORS



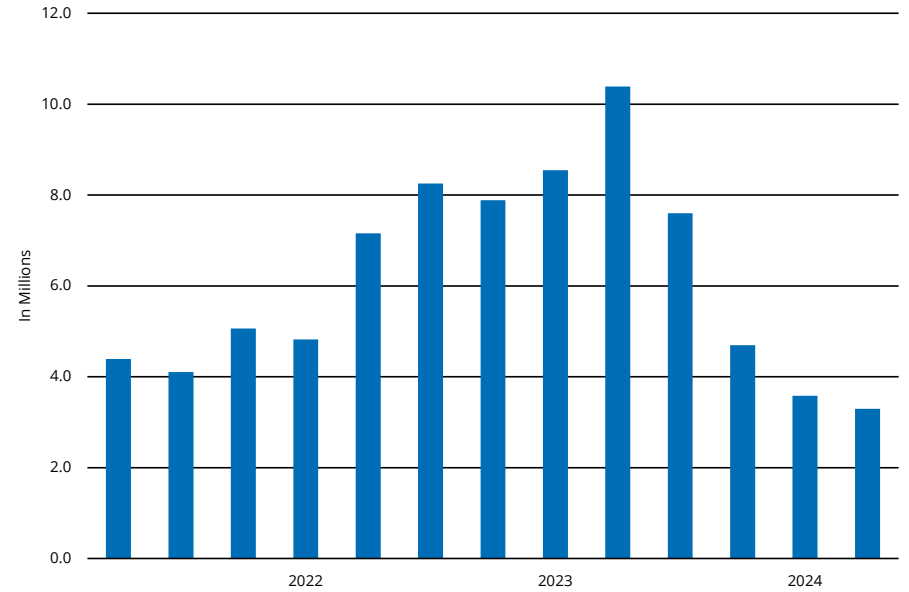


UNDER CONSTRUCTION

Construction Continues to Decelerate

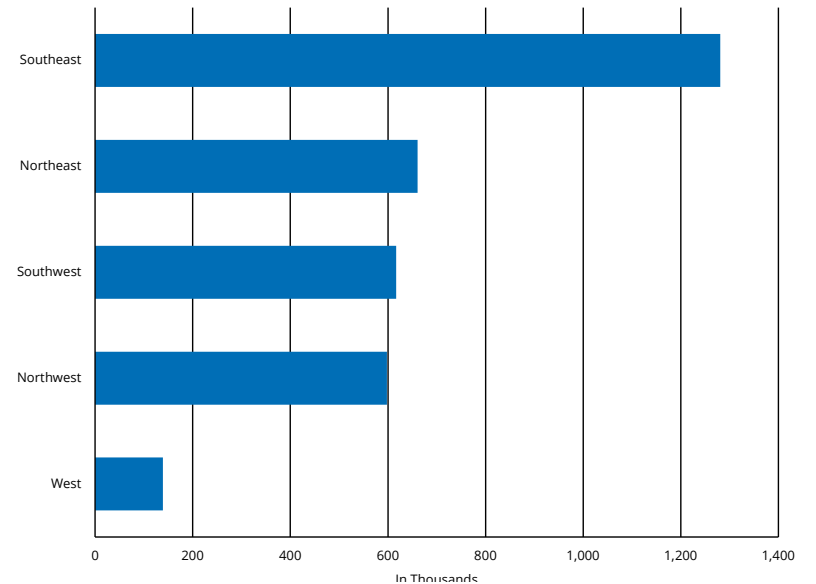
- The amount of space under construction in the market is 3.29 million SF, a 68% decrease from the previous year. This is the fourth consecutive quarter where SF under construction declined signaling that demand may be slowing as there is ample supply in the market and demand for space may be declining.
- The majority of construction is located in the Southeast and Northeast submarkets, with over 1.9 million SF, or nearly 60% of the total square feet under construction.
- The Warehouse/Distribution property type has 1.4 million SF under construction while Warehouse/Office only has 894,270 SF under construction.
- Q2 2024 deliveries totaled 1.50 million SF of space to the market, a 39.2% increase from the previous year when 1.08 million SF was delivered that quarter.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



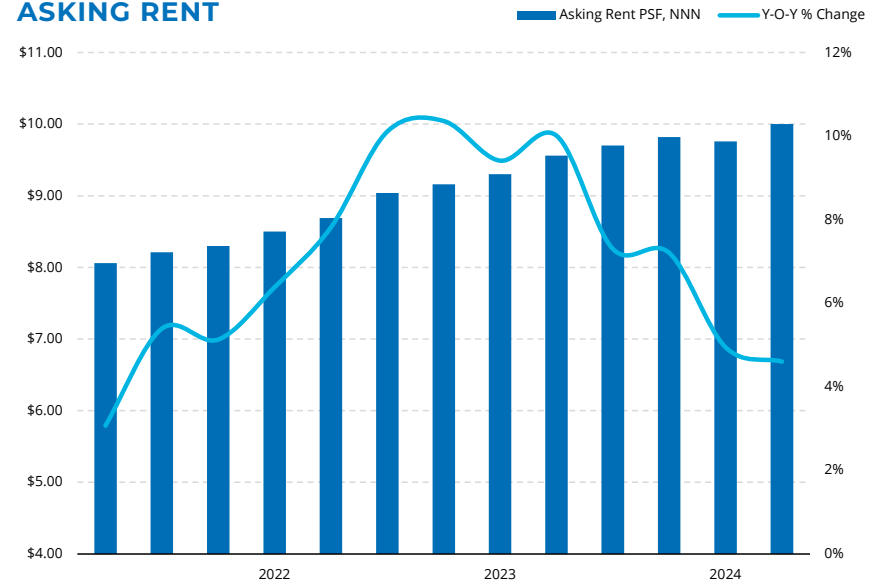
Source: MNCAR, Transwestern

RENTAL RATES

Rent Growth Slowing

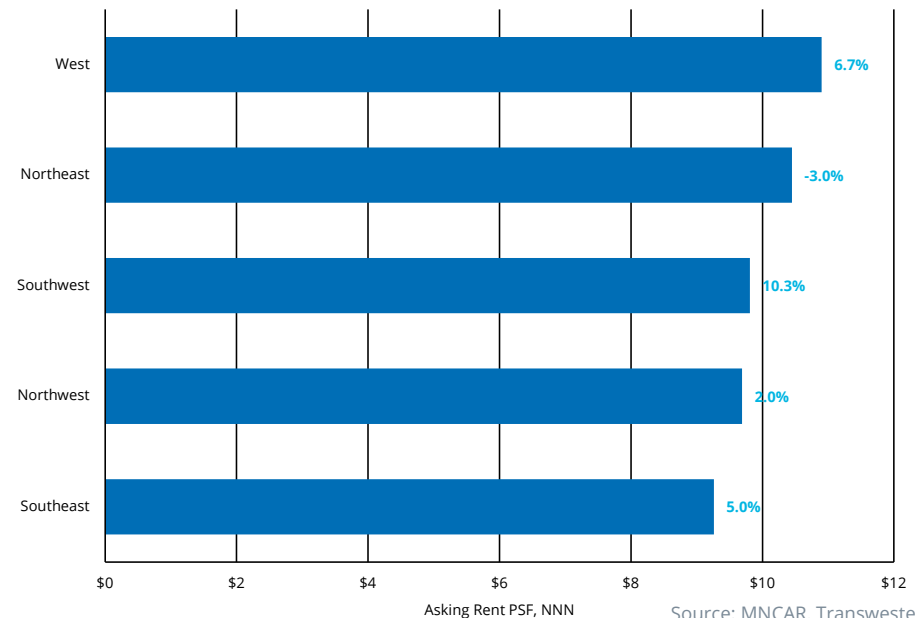
- Q2 2024 asking rental rate averaged \$9.80 per square feet (PSF) NNN with a range of \$8.43/PSF to \$11.17/PSF.
- The average asking rent increased by 0.4% from the previous quarter and increased by 2.5% from the previous year. Quarter-over-quarter asking rent increased after decreasing last quarter and year-over-year rent growth had consecutive quarters where growth was below 5% for the first time since Q4 2019 - Q1 2020.
- The West submarket had the highest asking rents in the region averaging \$10.90/PSF. The Southwest submarket had the largest percentage growth in rent, increasing by 10.3% to \$10.45/PSF. This was driven by higher prices for the submarket’s Warehouse Office and Flex property types.
- The Southeast submarket had the lowest asking rent averaging \$9.26/PSF, led by the low prices for Warehouse Distribution and Warehouse Office property types respectively with an average asking rent of \$6.25/PSF and \$7.99/PSF.

ASKING RENT



Source: MNCAR, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: MNCAR, Transwestern

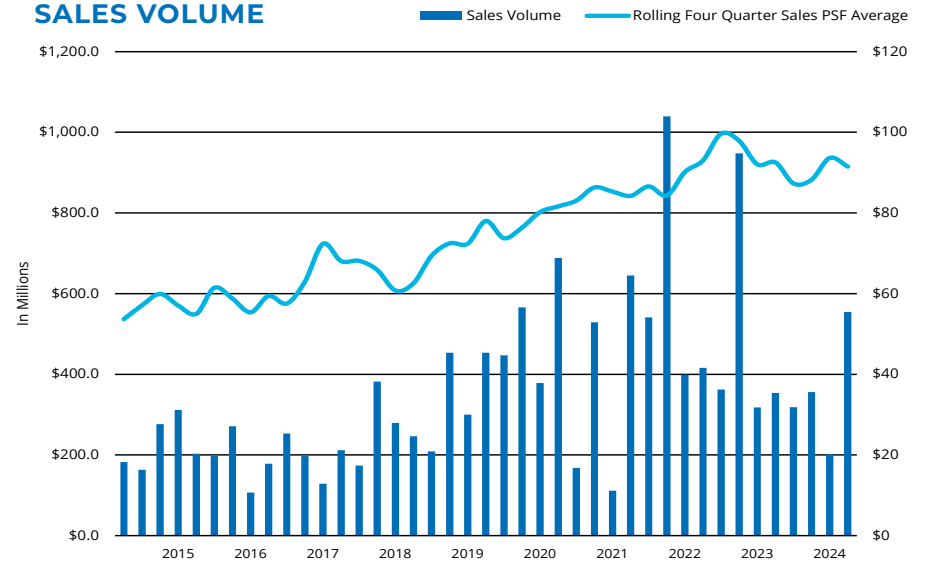


SALES

Sales Volume Rebounds

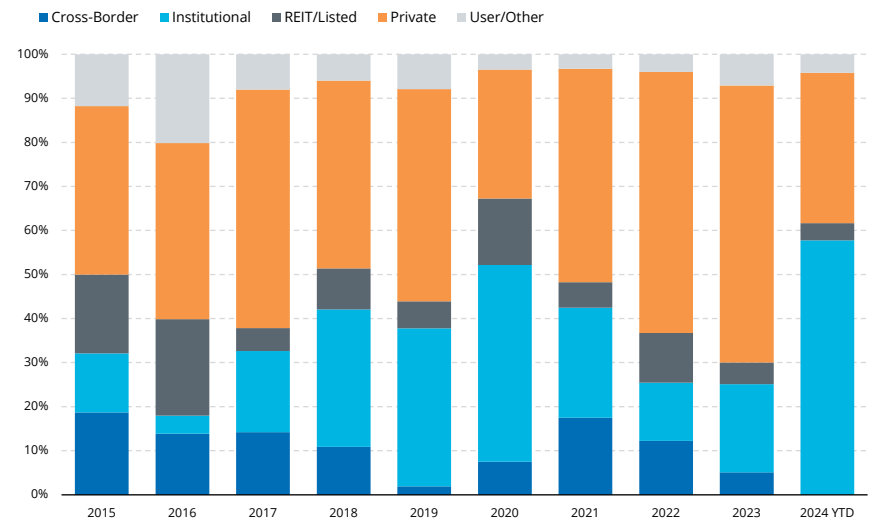
- Industrial sales totaled \$554.4 million for the quarter; a 174.3% increase from the previous quarter and a 56.9% increase from the previous year.
- The quarter's most notable sales transaction was the Prologis portfolio, selling 23 buildings totaling 4.2 million SF for \$452.3 million. The buyer was EQT Exeter and the seller was Prologis Inc. Eight properties in the portfolio sold for more than \$20 million and 20 buildings sold for more than \$10 million.
- The vast majority of deal activity was portfolio deals, totaling \$447.2 million, while \$107.2 million were individual sales. Portfolio sales increased by 418.6% year-over-year.
- Buyer capital for sales was led by institutional sources totaling 58%. Private capital made up 34% of buyer capital and 4% of capital came from User/Other and REIT/Listed sources.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
BERNARD GROUP	10901 Fountains Dr, Maple Grove	Southwest	New	394,247
AMAZON	751 Douglas Dr N, Golden Valley	Northwest	New	182,000
VIREO HEALTH	10700 165th Ave NW, Brooklyn Park	Northwest	New	131,300
SHIPPERS SUPPLY 	651 Douglas Dr N, Golden Valley	Northwest	New	123,718
TURBINEPROS	17600 Territorial Rd, Maple Grove	Northwest	New	88,760

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
6651 QUEENS AVE NE, OTSEGO	Northwest	\$41,100,000	706,904	\$58	Exeter Property Group	Prologis
7601-7681 SETZLER PKWY N, BROOKLYN PARK	Northwest	\$31,100,000	324,080	\$96	Exeter Property Group	Prologis
10501 ELM CREEK BLVD N, MAPLE GROVE	Northeast	\$31,000,000	277,222	\$112	Exeter Property Group	Prologis
2101 4TH AVE E, SHAKOPEE	Southwest	\$30,600,000	374,700	\$82	Exeter Property Group	Prologis
10500-10680 FOUNTAINS DR, MAPLE GROVE	Northwest	\$27,000,000	262,820	\$103	Exeter Property Group	Prologis

= Transwestern deal



MARKET INDICATORS

All Property Types | Q2 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	92,837,221	5,619,244	2,946,772	3.2%	660,693	(80,534)	(153,380)	\$10.15
NORTHWEST	66,186,535	5,093,732	4,351,833	6.6%	597,809	(33,313)	300,285	\$9.66
SOUTHEAST	62,747,897	5,472,660	4,206,244	6.7%	1,280,639	456,756	876,863	\$9.27
SOUTHWEST	54,949,320	5,202,058	3,712,808	6.8%	616,751	(176,211)	41,690	\$9.66
WEST	18,700,402	1,564,771	576,268	3.1%	138,900	61,329	113,065	\$10.24
TOTAL	295,421,375	22,952,465	15,793,925	5.3%	3,294,792	228,027	1,178,523	\$9.80

Flex/R&D | Q2 2024

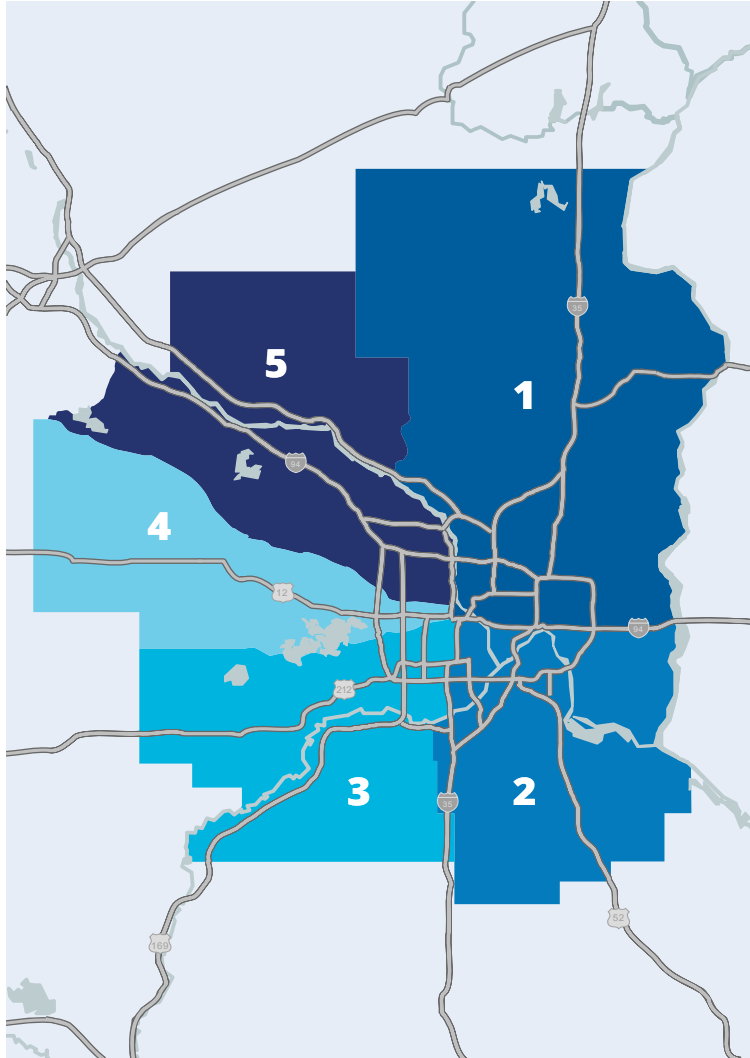
SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	11,348,797	1,125,062	612,248	5.4%	22,828	(100,029)	\$10.52
NORTHWEST	8,050,631	535,007	286,595	3.6%	15,584	(48,237)	\$10.52
SOUTHEAST	8,058,622	1,337,070	908,559	11.3%	(46,464)	(41,427)	\$10.24
SOUTHWEST	13,396,399	1,225,573	978,405	7.3%	51,445	67,381	\$10.75
WEST	4,527,804	381,394	324,058	7.2%	(42,691)	16,811	\$10.67
TOTAL	45,382,253	4,604,106	3,109,865	6.9%	702	(105,501)	\$10.54

Warehouse Distribution | Q2 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	33,238,837	2,117,431	987,430	3.0%	93,620	233,286	N/A
NORTHWEST	33,189,047	3,032,573	2,823,445	8.5%	(6,892)	336,588	\$8.13
SOUTHEAST	28,456,236	2,880,908	2,685,157	9.4%	325,708	586,112	\$6.25
SOUTHWEST	19,995,492	2,211,974	1,453,093	7.3%	(211,743)	45,999	\$6.88
WEST	10,419,304	203,551	59,589	1.6%	18,007	(16,283)	\$7.32
TOTAL	125,298,916	10,446,437	8,008,714	6.2%	218,700	1,185,702	\$5.72

Warehouse Office | Q2 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	48,249,587	2,376,751	1,347,094	2.8%	(196,982)	(286,637)	\$9.79
NORTHWEST	24,946,857	1,526,152	1,241,793	5.0%	(42,005)	11,934	\$8.95
SOUTHEAST	26,233,039	1,254,682	612,528	2.3%	177,510	332,178	\$7.99
SOUTHWEST	21,577,814	1,764,511	1,281,310	5.9%	(15,913)	(71,690)	\$8.48
WEST	10,655,080	979,826	192,621	1.8%	86,013	112,537	\$10.64
TOTAL	131,662,377	7,901,922	4,675,346	3.4%	8,623	98,322	\$9.17



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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