

MINNEAPOLIS - SAINT PAUL INDUSTRIAL MARKET

Q3 2024



TRENDLINES

	Q3 2023	Q3 2024	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.1	3.8	↑	2.8	↑
NET ABSORPTION (Millions SF)	1.7	0.7	↓	1.3	↓
OVERALL VACANCY RATE	4.3%	5.5%	↑	4.2%	↑
OVERALL VACANT SF (MSF)	12.3	16.3	↑	11.8	↑
UNDER CONSTRUCTION (MSF)	7.6	2.4	↓	6.0	↓
ASKING RENT (PSF)	\$9.71	\$9.93	↑	\$9.22	↑
SALES VOLUME (Millions)	\$318	\$276.5	↓	\$479.6	↑

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

MARKET OVERVIEW

Minneapolis-Saint Paul's (MSP) industrial real estate market is seeing increase activity while vacancy continues to increase. Net absorption totaled 705,527 square feet (SF); rebounding from last quarter's total of 228,025 SF. The vacancy rate was 5.5%, a 120 basis point increase year-over-year (YoY). Vacant space totaled 16.2 million SF, 3.9 million SF more from the previous year while an additional 1.4 million SF of new space was delivered to the market in the quarter. Asking rent was \$9.95/PSF NNN, a 1.5% increase from the previous quarter. Year-over-year asking rent increased by 2.5%.

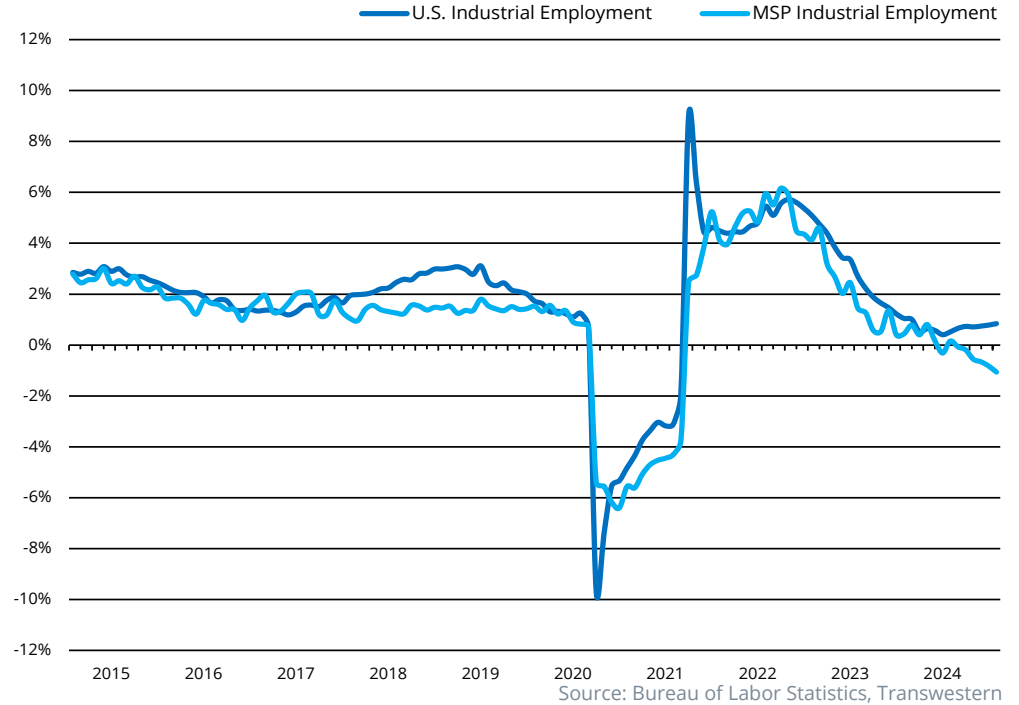
The MSP economy has seen unemployment increase in the last few months. The unemployment rate in August was 3.9%, up 10 basis points from last quarter and 80 basis points YoY. Industrial employment decreased in August by 1.1% employing over 379,000 people. Employment growth in the metro area decreased over the last three months, while industrial employment increased by 0.8% over the same time.

ECONOMY

Job Growth Remains Steady

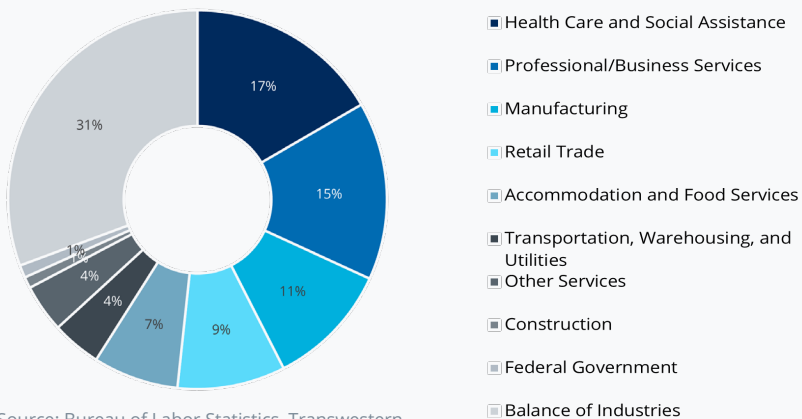
- The Minneapolis - Saint Paul (MSP) unemployment rate for August 2024 was 3.9%, a 0.8 percentage point year-over-year (YoY) increase. The regional labor force decreased by 1.3% YoY to 2.01 million people.
- Total employment in the Minneapolis - Saint Paul metro area was down by 2.6% YoY to 1.93 million. Employment has decreased from the previous year for four consecutive months.
- Industrial sector employment decreased by 1.1% 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 379,319, 2.4% higher than the 2019 total of 369,800.

Y-O-Y CHANGE IN INDUSTRIAL JOBS



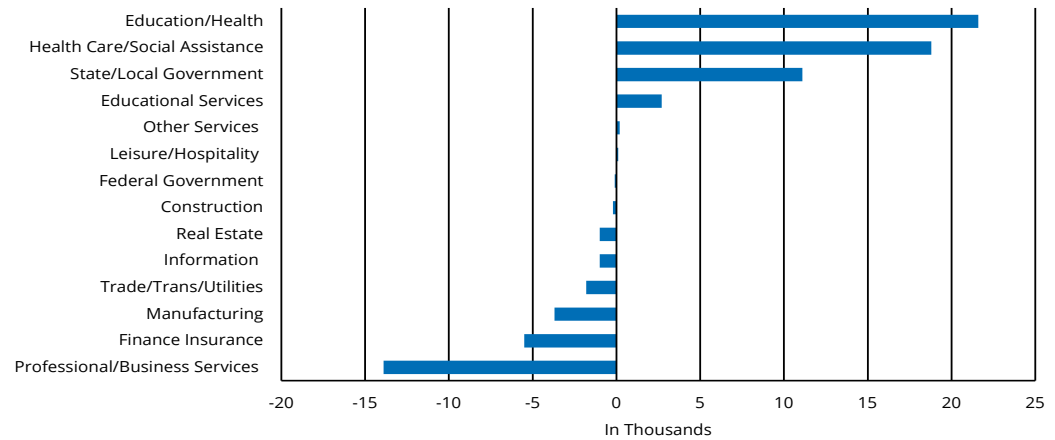
SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis - Saint Paul | August 2024



YEAR-OVER-YEAR CHANGE IN JOBS BY INDUSTRY

Minneapolis - Saint Paul | August 2024



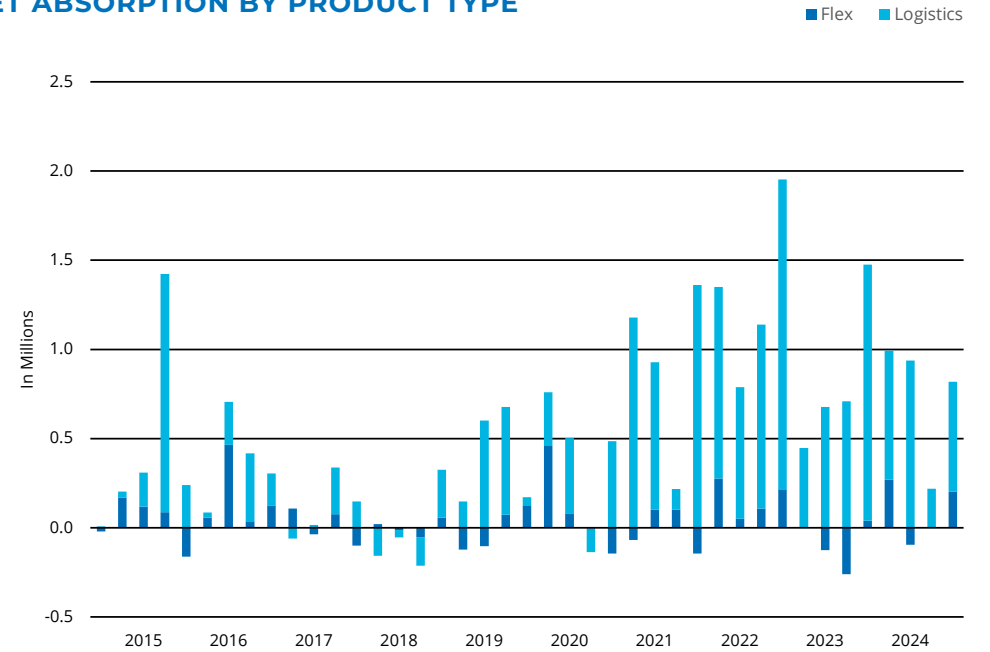


NET ABSORPTION

Demand Rebounds

- The Minneapolis - Saint Paul industrial market in Q3 2024 had 705,527 square feet (SF) in positive net absorption. The notable deals for the quarter included NFI which leased 334,750 SF at Dayton 94 in Dayton, 227,054 SF leased by Heilene Solar at Diamond Lake Distribution Center in Rogers, and GN Hearing Care leasing 217,775 SF at 5005 Dean Lakes Blvd. in Shakopee.
- The Warehouse Distribution property type was responsible for the vast majority of positive net absorption, totaling 614,778 SF. The Flex/R&D property type totaled a positive net absorption of 203,367 SF; the largest positive net absorption since Q4 2023. while the Warehouse Office property type had 112,618 SF of negative net absorption.
- The Southeast submarket had the largest positive net absorption in the market. The submarket had a positive net absorption of 825,626 SF, followed by the Northwest submarket totaling a positive net absorption of 412,331. The Southwest submarket recorded a net absorption of negative 456,474 SF led by Shutterfly vacating 217,700 SF during the quarter.
- Leasing activity rebounded from the previous quarter, totaling 3.1 million SF in Q3 leading to a larger positive net absorption.

NET ABSORPTION BY PRODUCT TYPE



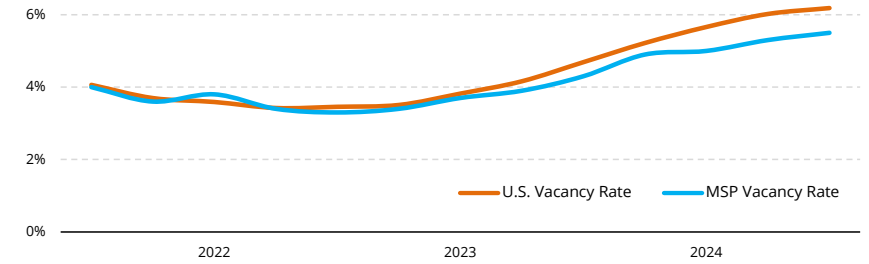
Source: MNCAR, Transwestern

VACANCY

Vacancy Rate Slightly Increases

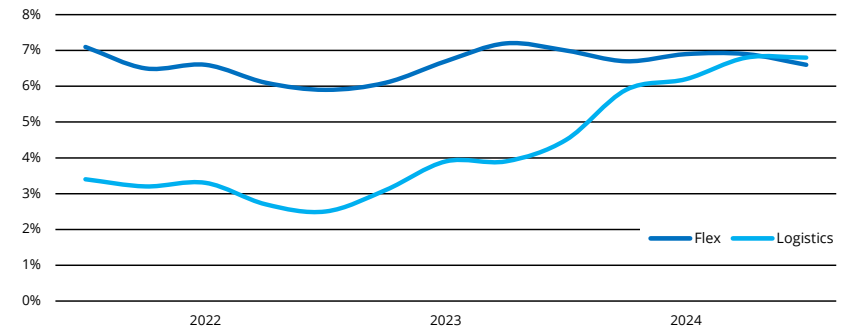
- The overall market vacancy for Q3 2024 was 5.5%, an increase of 20 basis points from the previous quarter. YoY market vacancy increased by 120 basis points. Vacancy rates are 80 basis points lower in the MSP region than the nation overall.
- The Warehouse Office vacancy rate is the lowest at 3.9%, followed by Flex/R&D space at 6.6%. The Warehouse/Distribution vacancy rate was the highest at 6.8%.
- The West submarket has the region's lowest vacancy rate at 3.3%, followed by the Northeast submarket at 3.5%.
- The Southwest submarket's Warehouse Distribution property type had the largest year-over-year increase in vacancy, increasing by 460 basis points, from 5.0% in Q3 2023 to 9.6% in Q3 2024. Vacant space has nearly doubled, from 980,000 SF to 1.92 million SF.

OVERALL VACANCY RATE



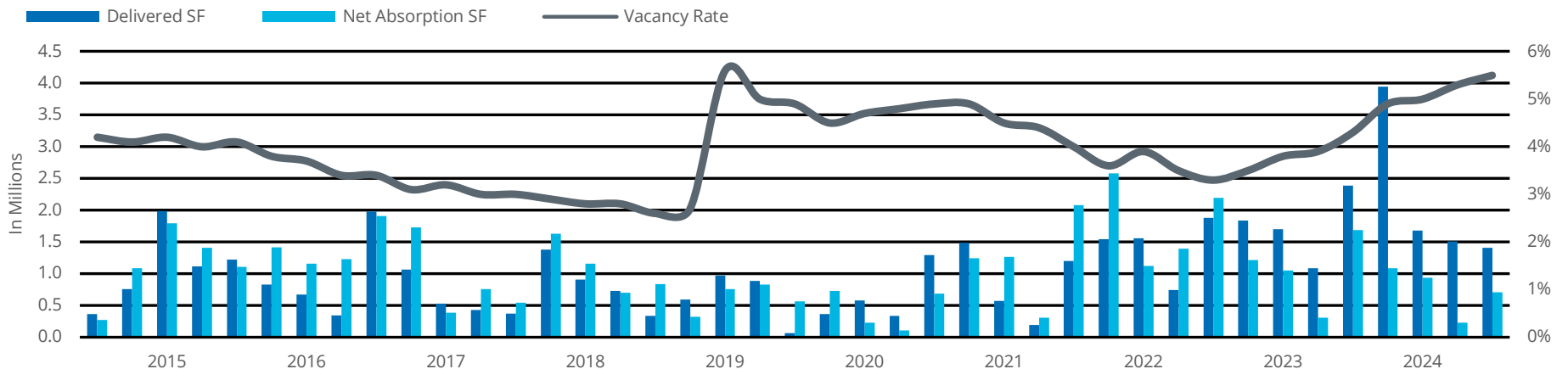
Source: MNCAR, Transwestern

OVERALL VACANCY RATE BY PRODUCT TYPE



Source: MNCAR, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

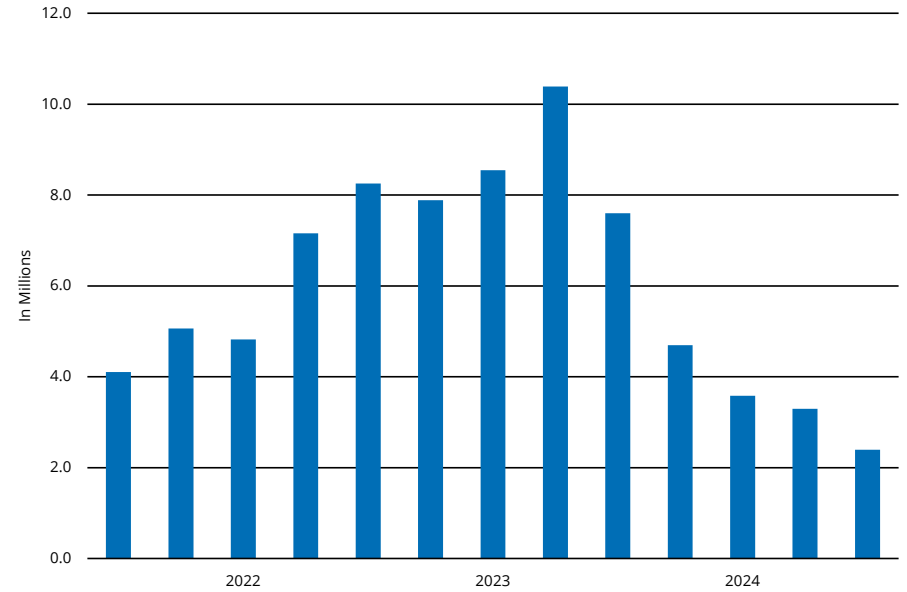


UNDER CONSTRUCTION

Construction Continues to Decelerate

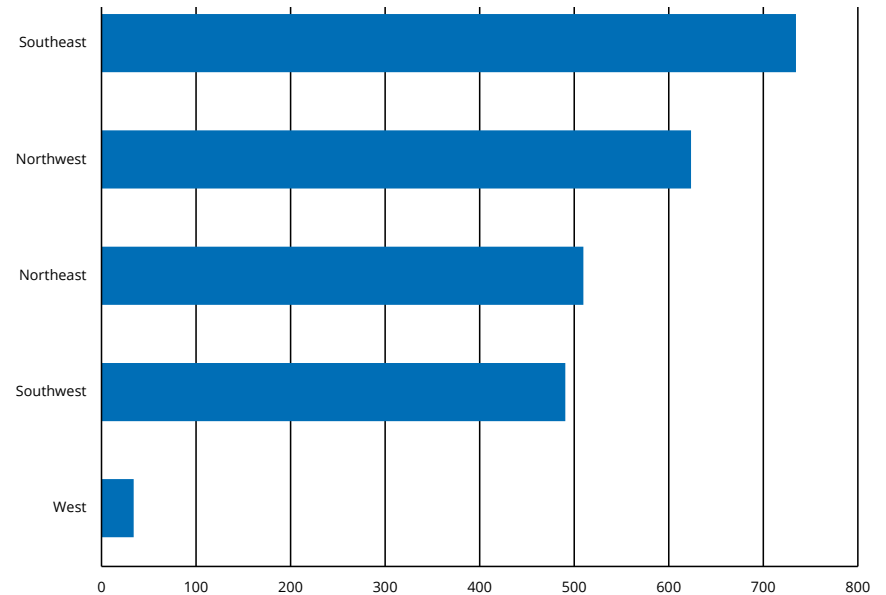
- The amount of space under construction in the market is 2.39 million SF, a 68% decrease from the previous year. This is the fifth consecutive quarter where SF under construction decreased continuing to signal that demand for space is lessening and there is a growing amount of vacant space in the market.
- The majority of construction is located in the Southeast and Northwest submarkets, with over 1.35 million SF, or nearly 60% of the total square feet under construction.
- The Warehouse Distribution property type has 1.19 million SF under construction while Warehouse Office property type only has 788,730 SF under construction.
- Q3 2024 deliveries totaled 1.4 million SF of space to the market, a 41% decrease from the previous year when 2.38 million SF was delivered that quarter.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

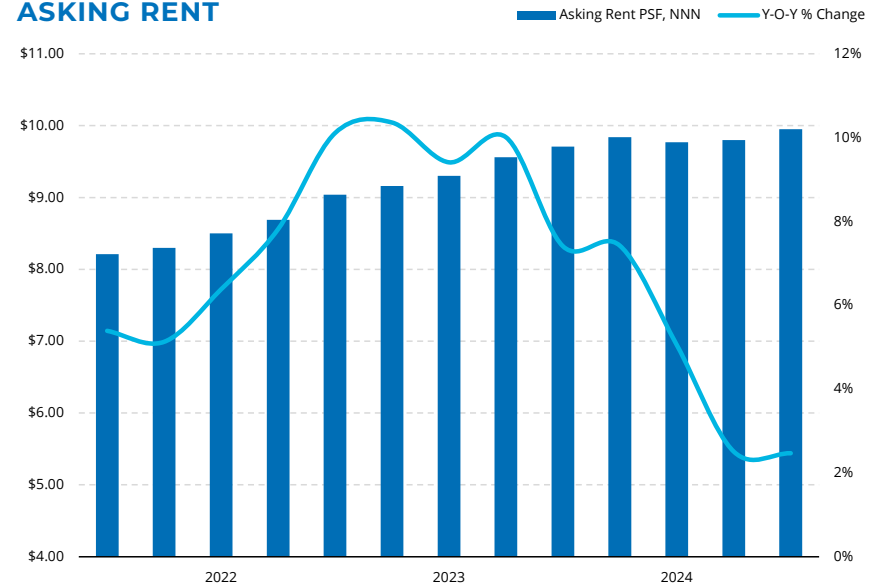


RENTAL RATES

Rent Growth Stabilizing

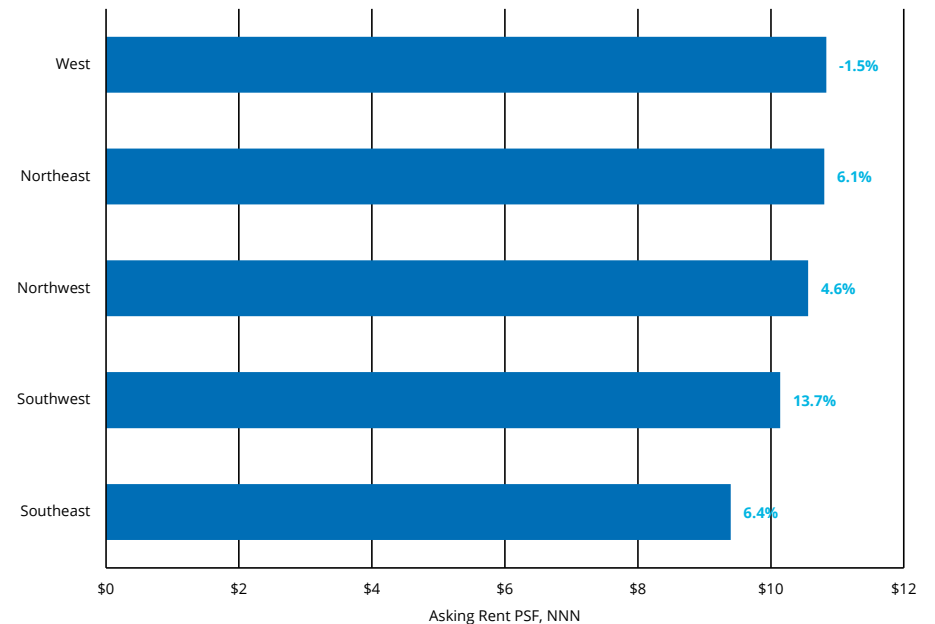
- Q3 2024 asking rental rate was \$9.93 per square feet (PSF) NNN with a range of \$8.50/PSF to \$11.35/PSF.
- The average asking rent increased by 1.5% from the previous quarter and increased by 2.5% from the previous year. Quarter-over-quarter asking rent increased after decreasing last quarter and 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 \$10.84/PSF. The Southwest submarket had the largest percentage growth in rent, increasing by 13.7% to \$10.14/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 \$8.83/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 \$8.04/PSF.

ASKING RENT



Source: MNCAR, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: MNCAR, Transwestern

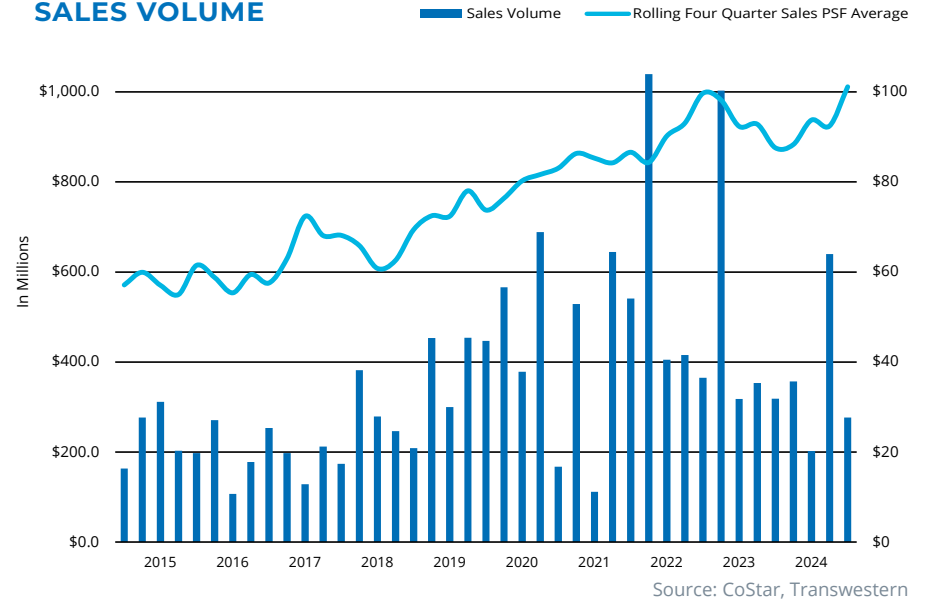


SALES

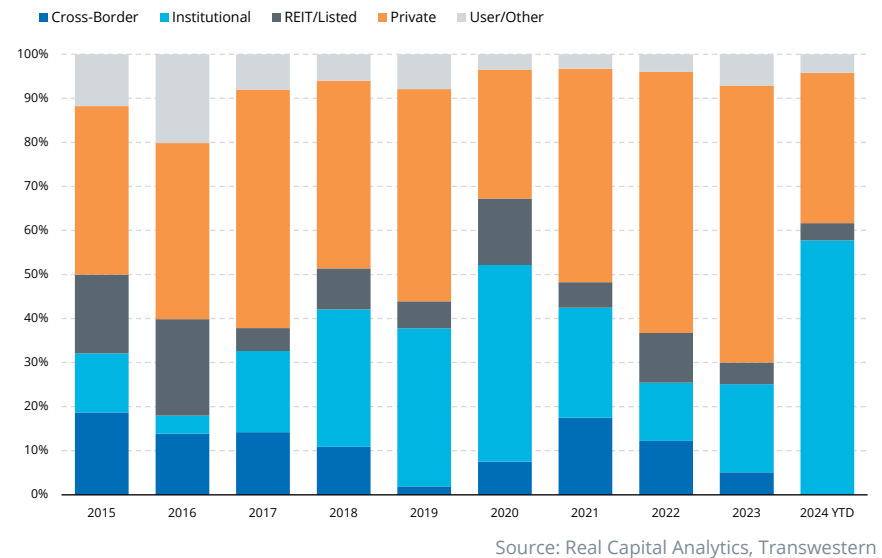
Sales Volume Rebounds

- Industrial sales totaled \$276.5 million for the quarter; a 56.8% decrease from the previous quarter and a 13.1% decrease from the previous year.
- The quarter's most notable sales transaction was the Eagan Innovation Center for \$44 million. The buyer was Hunt Electric Corporation and the seller was Water Street Partners.
- 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 48%. Private capital made up 40% of buyer capital and 9.7% of capital came from User/Other sources.

SALES VOLUME



BUYER CAPITAL COMPOSITION





NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
NFI	18150 County Rd 81, Dayton	Northwest	New	334,750
HELIENE SOLAR	13225 Brockton Ln N, Rogers	Northwest	New	227,054
GN HEARING CARE CORP	5005 Dean Lakes Blvd, Shakopee	Southwest	New	131,300
MN EVENT CENTER	415 Royalston Ave N, Minneapolis	Northeast	New	121,272
CARLISLE FLUID TECHNOLOGIES	Shoreview Park Rd, Shoreview	Northeast	New	120,000

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1000 BLUE GENTIAN RD, EAGAN	Southeast	\$44,000,000	300,000	\$146.67	Hunt Electric Corporation	Water Street Partners, LLC
12195 BROCKTON LN N, ROGERS	Northwest	\$28,500,000	263,775	\$108.05	MDH Partners	Endeavor Developments
755 INDUSTRIAL BLVD NE, MINNEAPOLIS	Northeast	\$26,500,000	182,224	\$145.60	Metropolitan Council	J.J.Taylor Companies
9450 ZACHARY LN N	Northwest	\$21,625,000	172,224	\$125.56	Altus Properties	Endeavor Development
8611 W 35W SERVICE DR NE*	Northeast	\$17,300,000	118,500	\$145.99	EQT Exeter	Artis REIT

= Transwestern deal

* = Portfolio Sale

MARKET INDICATORS

All Property Types | Q3 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	93,473,545	5,846,191	3,255,628	3.5%	509,793	(96,192)	(286,236)	\$10.81
NORTHWEST	66,417,658	4,672,737	4,059,202	6.1%	623,541	412,331	712,616	\$10.56
SOUTHEAST	63,500,158	6,091,367	4,052,344	6.4%	734,608	825,626	1,727,763	\$9.40
SOUTHWEST	55,050,591	5,084,662	4,281,898	7.8%	490,591	(456,474)	(398,583)	\$10.14
WEST	18,791,218	1,411,772	625,125	3.3%	34,000	20,236	154,208	\$10.84
TOTAL	297,233,170	23,106,729	16,274,197	5.5%	2,392,533	705,527	1,909,768	\$9.93

Flex/R&D | Q3 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	1,280,596	668,658	5.9%	(56,410)	(156,439)	\$11.38
NORTHWEST	8,170,331	489,581	272,616	3.3%	133,679	85,442	\$10.89
SOUTHEAST	8,058,622	1,238,906	737,132	9.1%	146,153	130,000	\$10.41
SOUTHWEST	13,331,116	1,222,328	1,012,251	7.6%	(33,846)	33,535	\$10.74
WEST	4,527,804	357,020	297,182	6.6%	13,791	43,687	\$10.31
TOTAL	45,436,670	4,588,431	2,987,839	6.9%	203,367	136,225	\$10.75

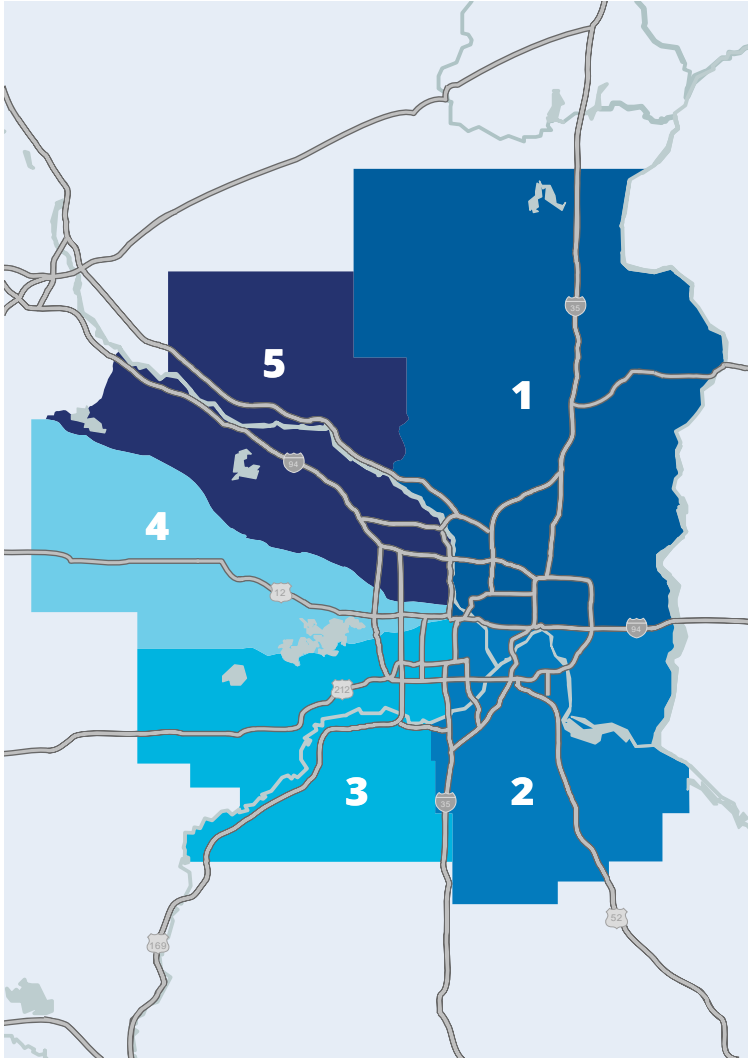


Warehouse Distribution | Q3 2024

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, NNN
NORTHEAST	33,635,961	1,967,763	984,365	2.9%	3,065	236,351	N/A
NORTHWEST	33,489,362	2,869,520	2,682,759	8.0%	140,686	587,049	\$8.13
SOUTHEAST	29,158,340	2,848,247	2,582,927	8.9%	799,230	1,385,342	\$6.25
SOUTHWEST	20,121,652	2,074,254	1,922,743	9.6%	(343,490)	(297,491)	\$8.30
WEST	3,753,294	111,119	44,302	1.2%	15,287	(996)	\$8.21
TOTAL	120,158,609	9,870,903	8,217,096	6.2%	614,778	1,910,255	\$7.72

Warehouse Office | Q3 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	48,488,787	2,597,832	1,602,605	3.3%	(42,847)	(366,148)	\$10.23
NORTHWEST	24,757,965	1,313,636	1,103,827	4.5%	137,966	40,125	\$9.01
SOUTHEAST	26,283,196	2,004,214	732,285	2.8%	(119,757)	212,421	\$8.04
SOUTHWEST	21,597,823	1,788,080	1,346,904	6.2%	(79,138)	(134,627)	\$9.00
WEST	10,510,120	943,633	283,641	2.7%	(8,842)	111,517	\$11.62
TOTAL	131,637,891	8,647,395	5,069,262	3.4%	(112,618)	(136,712)	\$9.58



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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