

	YoY Chg	12-Mo. Forecast
3.0% Vacancy Rate	▼	▲
1.9M Net Absorption, SF	▲	▬
\$7.56 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
2.0M Minneapolis Employment	▲	▲
2.1% Minneapolis Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMIC OVERVIEW

Minneapolis-St. Paul's historically tight labor market persisted with one of the lowest unemployment rates among U.S. markets tracked by Cushman & Wakefield. While the fourth quarter's unemployment rate of 2.1% marked a quarter-over-quarter (QOQ) increase of 40 basis points (bps), the local rate remained 160 bps lower than the national average of 3.7%.

SUPPLY: Development Continues as Caution Sets in Regarding 2023 Speculative Starts

New construction starts across the Twin Cities continued to expand through Q4 2022 as developers with construction financing locked in-place, or tenants signed to build-to-suit projects, moved forward with construction schedules. While overall product under construction increased nearly 24% QOQ to 8.2 million square feet (msf), most new starts were user driven such as Renewal by Anderson's 323,000-square-foot (sf) expansion in Cottage Grove and Graco's second 500,000-sf project in Dayton. Ongoing movements in the debt markets coupled with changing deal economics, ongoing supply issues, and a softening in new leasing the second half of 2022 caused some developers to re-evaluate the feasibility of future speculative construction start dates. Developers that lack existing construction financing may find it difficult to move forward in 2023 due to evolving debt requirements.

DEMAND: User Requirements Remain Healthy as Overall Leasing Slowed Second Half of 2022

At year-end 2022, just over 12.5 msf of new leases were signed, which represented a 12.5% year-over-year decline from 2021. While the number of active requirements did not significantly wane through 2022, numerous tenants began to pull-back on leasing decisions through the second half of the year to better gauge long term space needs in tandem with employment and financial requirements necessary for relocation or expansion. As starting lease rates required for developers to break-even on new construction rose due to rising supply, employment, taxes, and municipal fee costs; some companies were also faced with corporate debt expirations or renewals for revolving credit heading into 2023. Those impacts, coupled with ongoing debt market fluctuations, added further uncertainty to a leasing slowdown, relative to 2021, which could last through the first half of 2023.

SALES: Pricing Discovery Ongoing as Capital Accumulates

The Twin Cities investment market continued to work through pricing discovery as fluctuations in the debt markets persisted. Landlords with expiring debt found it challenging to secure replacement financing at favorable terms, but most assets were in a good market position due to favorable leasing and underlying market fundamentals. Private capital remained the deepest, and most active, buyer pool at year-end 2022, but institutional investors continued to accumulate capital for future acquisitions.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (OFC)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT
Northeast	118,881,296	2,832,859	2.4%	737,556	2,269,010	798,862	1,436,600	\$11.39	\$5.67	\$6.76
Northwest	83,416,155	3,059,076	3.7%	570,705	3,127,330	3,348,973	3,348,973	\$10.65	\$6.07	\$7.31
Southeast	67,070,416	1,719,308	2.6%	318,198	1,534,410	3,401,470	3,401,470	\$11.99	\$6.08	\$8.84
Southwest	74,512,307	2,778,792	3.7%	261,601	1,173,000	608,448	806,437	\$11.03	\$5.76	\$7.88
MINNEAPOLIS TOTALS	343,880,174	10,390,035	3.0%	1,888,060	8,103,750	8,157,573	6,241,247	\$11.25	\$5.85	\$7.56

*Rental rates reflect weighted net asking \$psf/year and are quoted separately by office and warehouse components of an availability in Minneapolis - St Paul

OFC = Office W/D= Warehouse/Distribution

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
I-694 & County Rd. 14, Oakdale	Northeast	Superior Logistics	199,919	New
11601 93 rd Ave. N., Maple Grove	Northwest	Confidential	174,901	New
1885 – 1985 Douglas Dr. N., Golden Valley	Northwest	Aldridge/Gunnar Electric	126,244	New
2400 N. Xenium Ln., Plymouth	Northwest	Lubrication Technologies, Inc.	114,461	New

*The Minneapolis-St. Paul industrial tracked set has changed effective Q1 2021. The new set includes multi-tenant, single-tenant and owner-occupied properties 20,000 sf and greater. Submarket boundaries have been expanded to capture a greater representation of growth and demand. Current historical metrics are representative of legacy tracked set.

MASON HARDACRE

Analyst

+1 952 225 3054 / mason.hardacre@cushwake.com

PATRICK HAMILTON

Market Director

+1 952 837 8574 / patrick.hamilton@cushwake.com

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Artis REIT Portfolio	Multiple	Artis REIT / Capital Partners	2,447,906	\$236.4M / \$97
6203 111 th St. W., Burnsville	Southwest	First Industrial Realty Trust / Orton Development	580,000	\$54.0M / \$83
100 Blue Gentian Rd., Eagan	Southeast	Spectrum Development Group / Water Street Partners	300,000	\$35.5M / \$118
11200 Hudson Rd., Woodbury	Southeast	Virtus RE Capital / CMP REIT	137,500	\$48.2M / \$351

KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
11736 Hudson Rd., Woodbury	Southeast	Amazon	517,000	Ryan Companies
7400 Hentges Way, Shakopee	Southwest	None	505,952	WPT REIT
W. French Lake Rd. & 124 th Ave. N., Dayton	Northwest	Graco	463,536	Graco
10901 Elm Creek Blvd., Maple Grove	Northwest	EJ Welch	221,549	Endeavor Development

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