

## Industrial Q2 2023

	YoY Chg	12-Mo. Forecast
<b>3.1%</b> Vacancy Rate	▼	▲
<b>299K</b> Net Absorption, SF	▲	▬
<b>\$7.73</b> Asking Rent, PSF	▲	▲

*Overall, Net Asking Rent*

### ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
<b>2.0M</b> Minneapolis Employment	▲	▲
<b>2.7%</b> Minneapolis Unemployment Rate	▲	▲
<b>3.6%</b> U.S. Unemployment Rate	▬	▲

Source: BLS

### ECONOMIC OVERVIEW

The Minneapolis-St. Paul economy remained healthy, recording an unemployment rate of 2.7%, which was 90 basis points (bps) below the U.S. average. While the region has added 37,300 jobs year-over-year (YOY), employer concerns regarding available labor pools and existing employee retention remained.

### SUPPLY: Industrial Deliveries Accelerating

At midyear 2023, just over 2.5 million square feet (msf) of new industrial space had been delivered, and an additional 9.0 msf remained under construction. Of the 9.0 msf, just over 6.3 msf was speculative product. Looking ahead to Q3 2023, a considerable amount of speculative inventory is expected to deliver highlighted by the 1.0 msf The Cubes project in the Northwest. While the additional space will add much needed new generation space to the market, developers remained prudent on new speculative starts. Due to fluctuations in the construction financing markets, existing construction pipeline underway, and increased caution by tenants related to space needs and timing; developers continued to step-back from some proposed speculative projects and pivoted to build-to-suit opportunities on previously approved industrial sites.

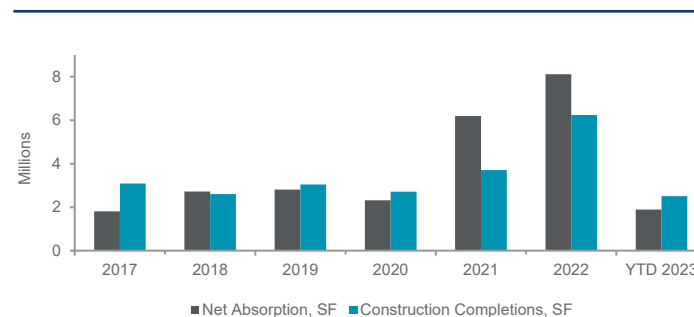
### DEMAND: Demand Stable but Tenants Looking at Renewals Earlier

The Twin Cities vacancy rate decreased 10 bps YOY to 3.1% as new leasing at midyear 2023 remained healthy at 6.5 msf. Production requirements have been a major demand driver over the past year-and-a-half as just over 43% of new leases 100,000-square feet and greater have been executed by manufacturing companies since Q1 2022. Although new leasing was steady through Q2 2023, ongoing increases to rental rates, coupled with limited functional vacancies and increases in tax and operating expenses had some tenants approaching landlords earlier regarding renewal options. In some cases, though, tenants coming out of long-term leases have encountered starting rent increases upwards of 10% - 30% in initial proposals.

### SALES: Demand Persists as Underwriting Tightens

Investor appetite for industrial assets did not wane through Q2 2023 as the limited inventory available received ample activity. However, underwriting continued to be more granular as cap rates trended with interest rates and tenants began to exhibit a more cautious approach to long term business requirements. While some buyers were willing to take on short-term negative leverage earlier in 2023, that pool of investors was limited. As credit requirements continued to tighten for commercial mortgage-backed securities, cash buyers, or investors with allocations yet to be deployed, remained the preferred buyer class for active sellers.

### 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	119,216,842	2,709,027	2.3%	99,510	515,160	1,039,919	458,763	\$11.67	\$5.69	\$6.93
Northwest	84,127,714	2,593,293	3.1%	111,347	1,120,066	3,813,186	723,093	\$11.15	\$6.06	\$7.74
Southeast	68,267,311	2,515,157	3.7%	-57,077	402,214	3,068,080	1,193,670	\$11.92	\$6.09	\$8.92
Southwest	74,667,117	3,029,841	4.1%	144,736	-146,116	1,102,880	133,000	\$10.91	\$6.07	\$7.87
<b>MINNEAPOLIS TOTALS</b>	<b>346,278,984</b>	<b>10,847,318</b>	<b>3.1%</b>	<b>298,516</b>	<b>1,891,324</b>	<b>9,024,065</b>	<b>2,508,526</b>	<b>\$11.30</b>	<b>\$5.97</b>	<b>\$7.73</b>

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

OFC = Office W/D= Warehouse/Distribution

\*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.

**KEY LEASE TRANSACTIONS Q2 2023**

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Lakeville Logistics Center, Lakeville	Southeast	Sweet Harvest	360,000	New
489 – 545 Prior Ave. N., St. Paul	Northeast	SBS Transportation	250,493	New
2800 Northwest Blvd., Plymouth	Northwest	Honeywell	163,238	New
Cottage Grove Logistics Park 1, Cottage Grove	Southeast	Van Meter	104,290	New

**KEY SALES TRANSACTIONS Q2 2023**

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
7500 Excelsior Blvd., St. Louis Park	Southwest	Japs-Olson / Angelo, Gordon & Company	692,969	\$71.2M / \$103
Minneapolis Infill Artis RET Portfolio	Multiple	Artis REIT/ Pacific Coast Capital Partners	688,178	\$71.0M / \$103
6870 21 <sup>st</sup> Ave. S., Lino Lakes	Northeast	Artis REIT / Onward Investors	404,300	\$28.9M / \$71
2800 Northwest Blvd., Plymouth	Northwest	Data Recognition Corporation / Jakobsen Properties	163,238	\$17.2M / \$105

**KEY CONSTRUCTION COMPLETIONS YTD 2023**

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
7701 100 <sup>th</sup> St. S., Cottage Grove	Southeast	None	493,242	NorthPoint Development
15401 Boulder Ave., Rosemount	Southeast	Home Depot	417,600	Seefried Industrial Properties
630 Queens Ave. NE., Ostego	Northwest	Blu Dot	401,544	Endeavor Development
10900 Fountains Dr., Brooklyn Park	Northwest	Conductive Container	221,549	Endeavor Development

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