



Minneapolis – St. Paul industrial market report

Q3 2023

**AVISON
YOUNG**

Minneapolis – St. Paul industrial market trends

4.8%

Vacancy rises despite strong absorption in Q3

Despite strong positive absorption of approximately 1.5 msf of industrial space observed in Q3, direct vacancy rates continued to increase by 80 bps due to new deliveries of large industrial spaces. This rise in vacancy is most prevalent in the fringe suburban areas that have seen significant new industrial construction, as over 29.5 msf of industrial product has delivered in the market since the end of 2020. The market continues to show strong demand from industrial users.

78.7%

Increase in big-box vacancy from 2022 quarterly average

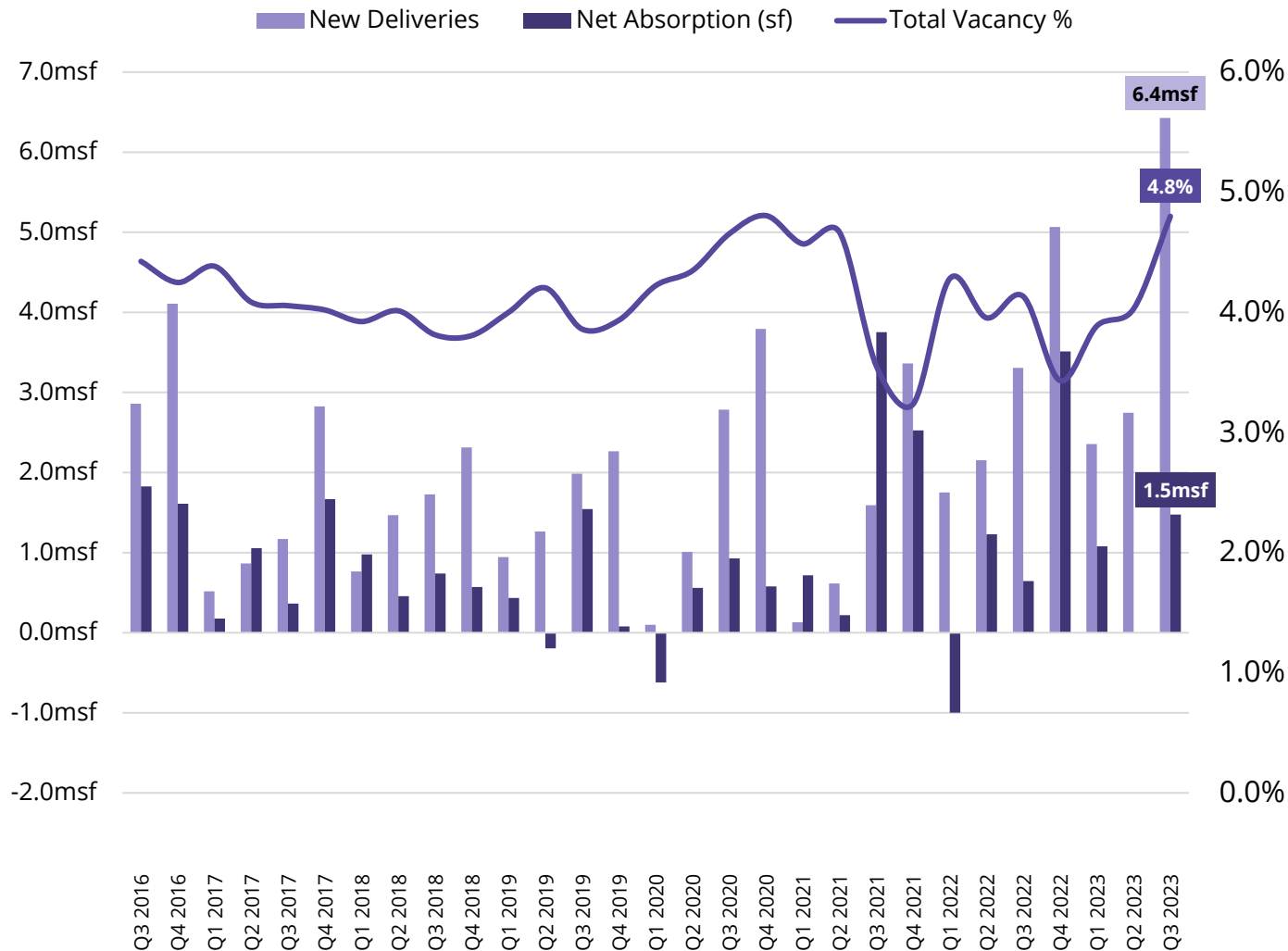
The vacancy rate for big-box properties larger than 250,000 sf has increased to 6.6% from the 2022 average quarterly vacancy rate of 3.7% for big-box properties. This surge demonstrates the recent lack of demand for large product as well as the historical theme of developing an oversupply of big-box inventory, leading to an imbalance within the market. Meanwhile, a vacancy rate decrease of (1.5%) from the 2022 quarterly average to a vacancy rate of 3.1% is seen in industrial properties under 100,000 sf while properties between 100,000 and 250,000 sf saw a decrease of (3.5%) to a vacancy rate of 4.8%.

\$262.8M

Industrial sales activity down in Q3

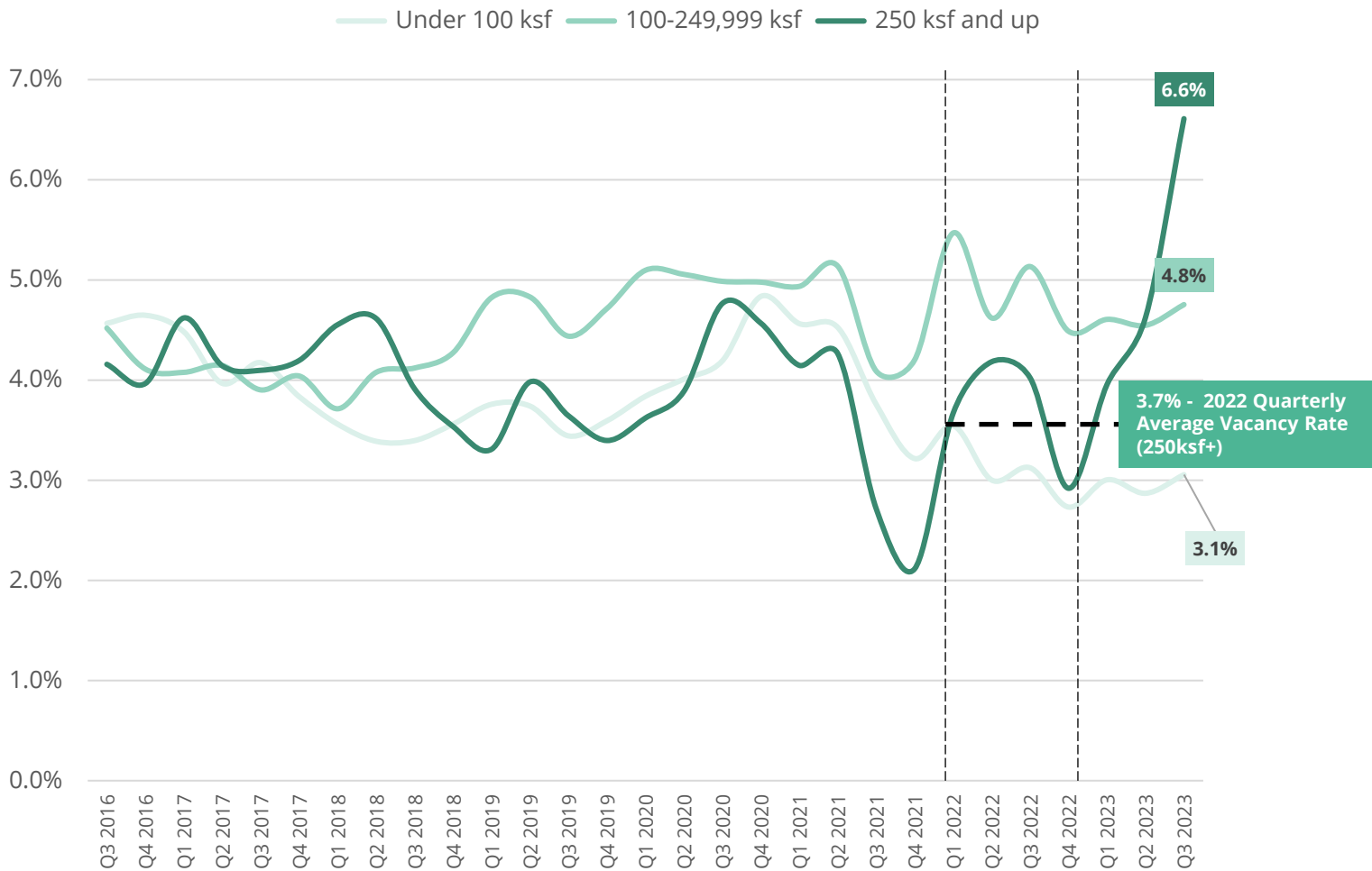
Industrial sales volume totaled \$262.8 million in Q3. This was a 27.5% decrease year-over-year, and a decrease of 25.7% from Q2 2023. The average price per square foot experienced a slight decrease in Q3, with a 2.7% decrease year-over-year and a 1.9% decrease from the previous quarter. High interest rates, an uncertain economic environment, and supply-chain delays have all contributed to the decline in sales activity, leading to longer transaction times.

Positive absorption offset by new supply



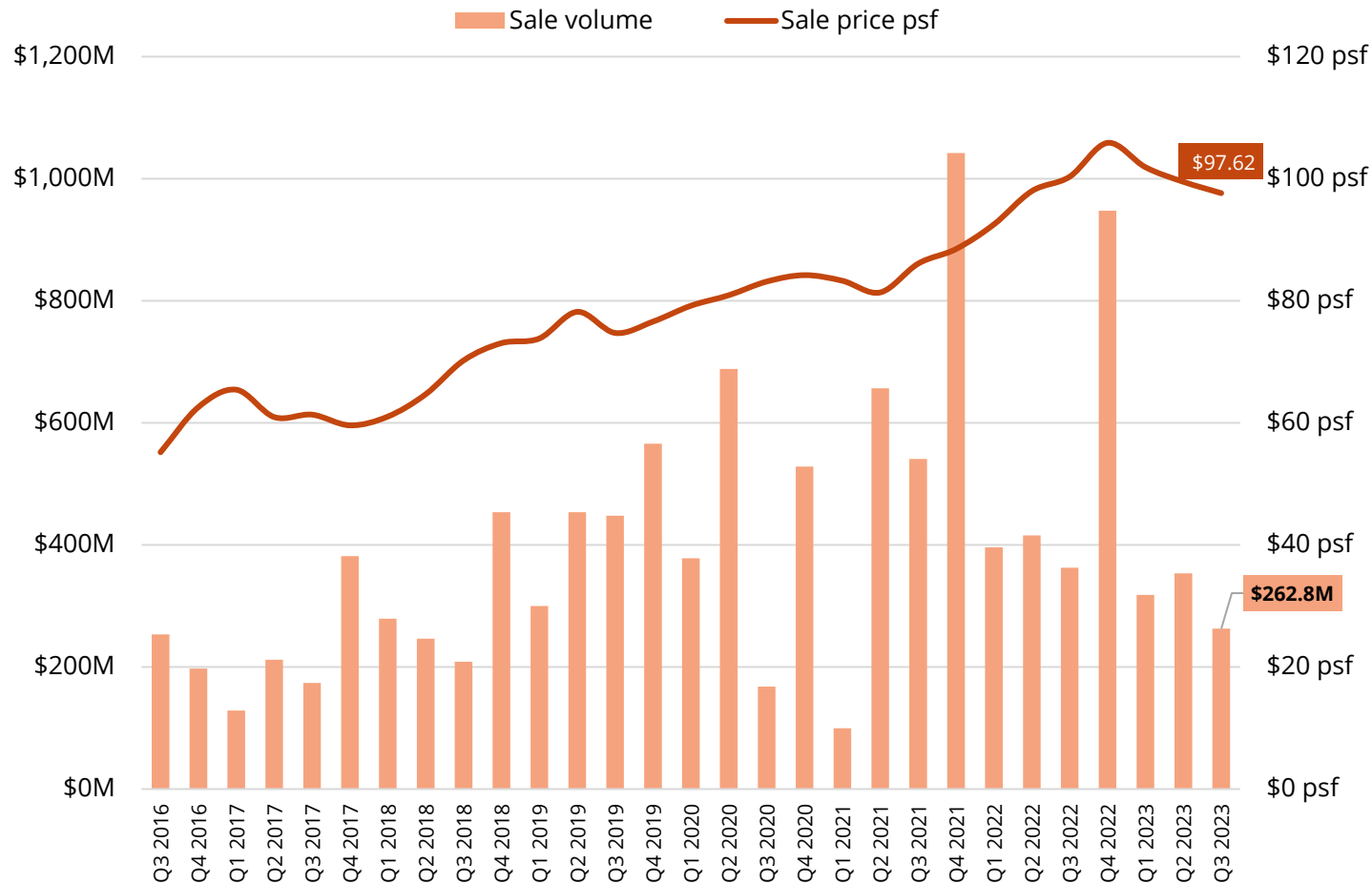
Total vacancy in the Minneapolis – St. Paul Market continued to rise despite strong absorption in Q3, spurred on by large, new industrial deliveries.

Vacancy surges in big-box product



The vacancy rate for big-box properties over 250 ksf surged up 78.7% from the 2022 quarterly average vacancy rate, demonstrating an increasing lack of demand for larger product.

Industrial sales activity continues decline

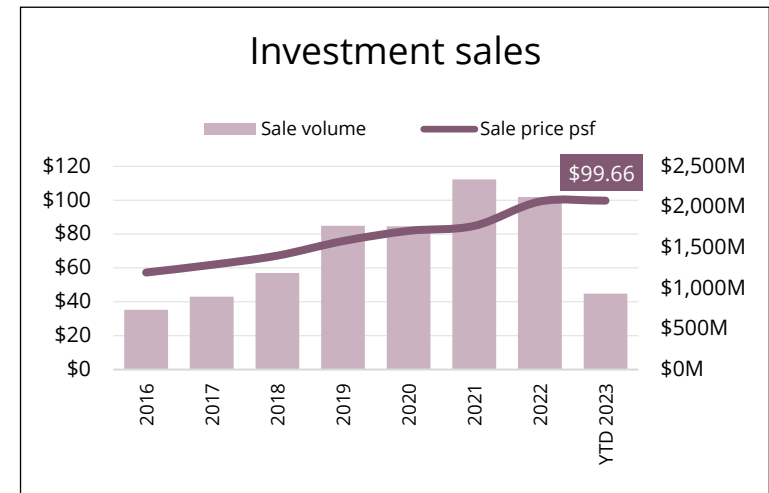
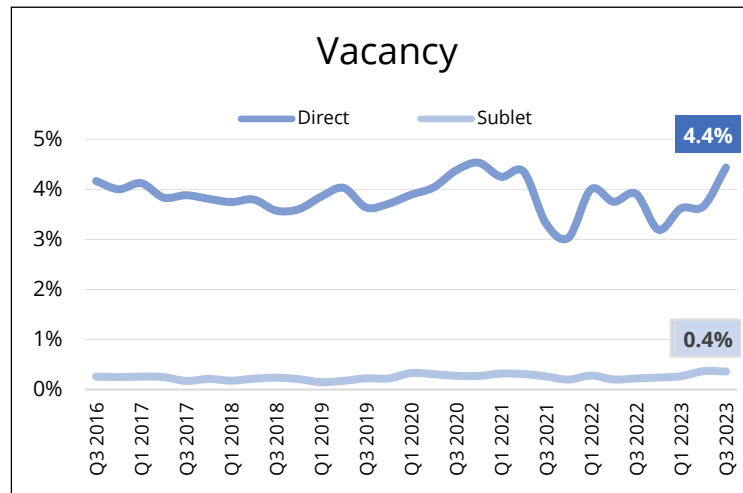
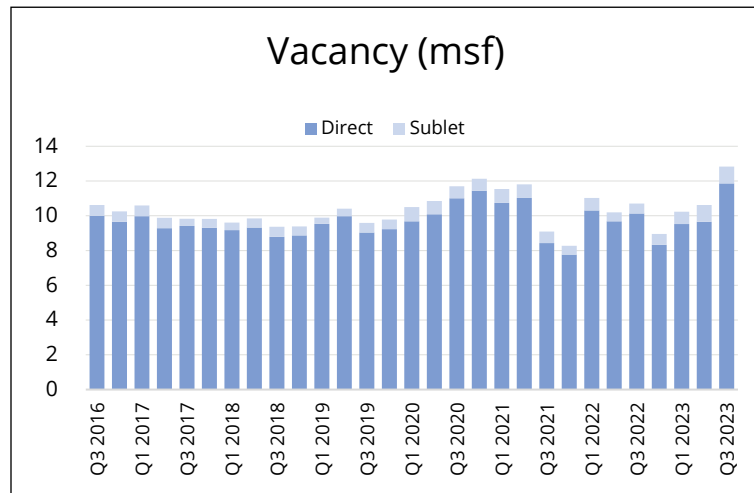
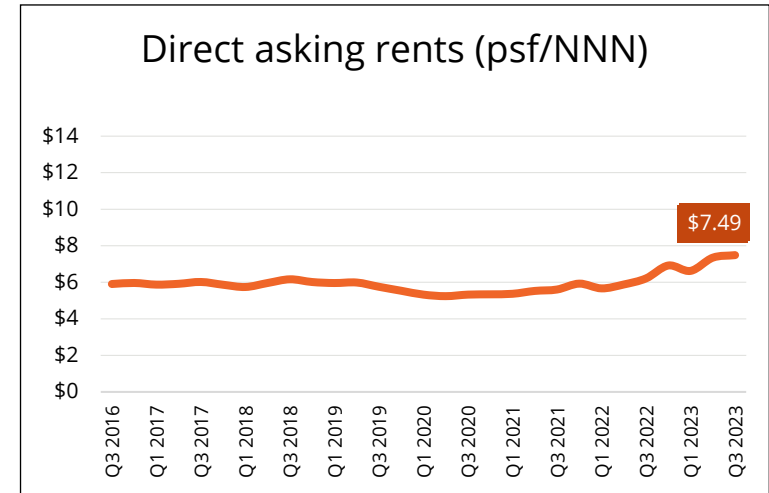
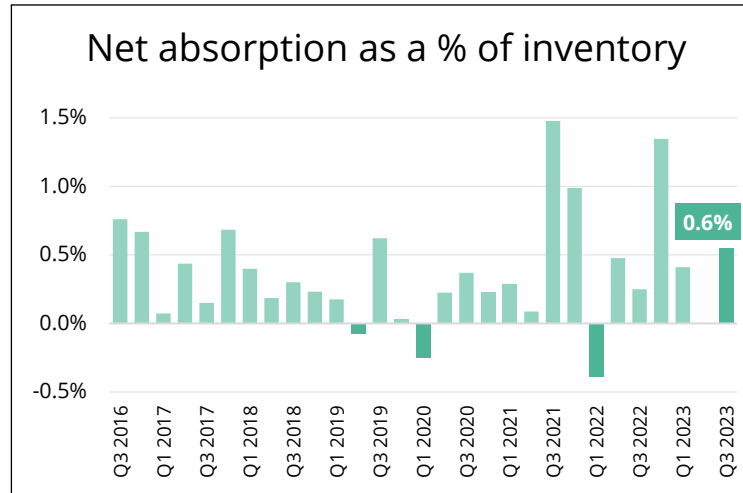
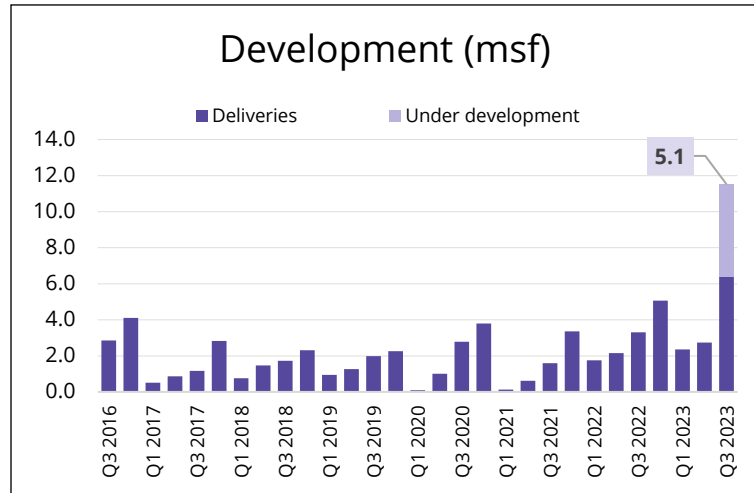


Industrial sales activity has continued to decline, with high interest rates a primary contributing factor.

Appendix



Minneapolis – St. Paul industrial market indicators



Minneapolis – St. Paul industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Hoffman Enclosures	Brockton Ln N – French Lake Distribution Center	Northwest	Aug 2023	248,000	New	Direct
MAS HVAC	10605 Fountains Dr – Arbor Lakes Business Park 6	Northwest	Jul 2023	149,316	New	Direct
Caribou Coffee	10900 Fountains Dr – Arbor Lakes Business Park 4	Northwest	Sep 2023	100,543	New	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
PCCP	9435 Winnetka Avenue North	Jul 2023	168,360	\$24,052,381	\$142.86	United Properties Corporation
Founders Properties	2400 N Xenium Ln – Xenium Business Center	Aug 2023	214,654	\$21,600,000	\$100.63	Excelsior Group
New Mountain Capital	8235 220 th St W	Jul 2023	204,548	\$18,315,736	\$89.54	C.P. Converters

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
6916 20 th Ave – Clearwater Creek Business Park Building 4	Northeast	Dec 2023	792,000	0.0%	Rehbein Properties
3855 145 th St E – FedEx	Southeast	Jul 2024	548,000	100.0%	Scannell Properties
1122X Hudson Road - Royal Gateway Commerce Center	Southeast	Aug 2024	435,050	0.0%	Greystar

Minneapolis – St. Paul industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Total vacancy change (YoY)	Net absorption % of inventory (QTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf NNN
Northeast	87,113,340	887,219	1,317,764	3.1%	0.2%	3.4%	(0.5%)	0.2%	0.5%	\$8.75
Northwest	60,569,555	2,535,309	1,711,942	5.4%	0.1%	5.6%	1.7%	0.5%	1.3%	\$6.47
Southwest	56,392,214	426,552	0	4.3%	0.9%	5.3%	0.6%	0.3%	(0.1%)	\$5.83
Southeast	49,309,735	2,528,299	2,109,830	6.0%	0.1%	6.2%	3.2%	1.6%	1.9%	\$8.75
West	13,830,020	0	0	3.1%	0.7%	3.7%	(3.8%)	0.9%	3.5%	\$10.36
Market total	267,214,864	6,377,379	5,139,536	4.4%	0.4%	4.8%	0.7%	0.6%	1.0%	\$7.49

Minneapolis – St. Paul industrial market stats by property subtype

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Total vacancy change (YoY)	Net absorption % of inventory (QTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf NNN
Warehouse & Distribution	130,166,063	5,907,837	5,139,536	5.6%	0.3%	5.9%	1.1%	1.1%	2.4%	\$8.96
Manufacturing	100,581,561	382,000	0	2.4%	0.4%	2.8%	0.4%	(0.1%)	(0.6%)	\$8.12
Flex Industrial	36,517,240	137,542	0	4.8%	0.4%	5.2%	(0.1%)	0.0%	0.4%	\$6.19
Market total	267,214,864	6,377,379	5,139,536	4.4%	0.4%	4.8%	0.7%	0.6%	1.0%	\$7.49



Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Property subtypes

- **Distribution:** properties used primarily to ship good with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

Joseph Stockman

Market Intelligence

Analyst

joe.stockman@avisonyoung.com

Tate Krosschell

Principal

Managing Director

tate.krosschell@avisonyoung.com