

Mid-Year 2020 / Industrial Market Report

Minneapolis-St. Paul

Market Overview

Early impacts of COVID-19 are far-reaching, with disruption affecting every corner of the US economy. Over 30 million Americans filed for unemployment implying a jobless rate of around 22%. US gross domestic product turned negative for the first time since 2014. Output came to a near standstill and drove a deep contraction in consumer spending.

It is likely the US will continue to see a contraction of economic activity through the remainder of 2020, but we expect some signs of recovery to begin still this year.

The industrial market has remained relatively stable thus far during the COVID-19 pandemic. Rental rate growth has stalled, but a decrease in rates has not yet been seen. Markets considered last mile are expected to rebound faster as companies such as Target, Wal-Mart, Home Depot and Lowe's continue to expand. Rental rates in these markets are anticipated to increase first as they will be in much higher demand by these essential companies.

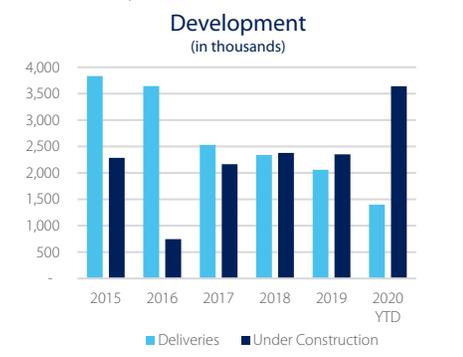
E-commerce companies continue to drive demand, particularly, for build-to-suit distribution centers that are fully automated and increase supply-chain efficiencies. The supply-chain is beginning to see a switch from "just in case" to "just in time". Proximity to their clients is more important now than ever before in order to get product back in the stores as fast as possible. Companies are seeing a surge in their inventory. For example, Amazon currently has 40% more inventory on hand than they did one month ago to keep up with the increased demand. Despite strong leasing and market indicators, the lack of available space limits the opportunity for growth. As a result, net absorption is down year-to-date. Therefore the vacancy rate within the industrial market remains relatively unchanged.

Industrial investment activity is seeing a slight decline as many investors continue their "wait and see" approach to the pandemic. Transactions that are occurring were either already close to complete before the pandemic or are properties that investors believe are essential to growing their portfolio. Some of the larger players such as Blackstone, are continuing their aggressive investing.

In Minneapolis-St. Paul, investment sales totaled \$1.0 billion in the first half of 2020. Portfolio sales accounted for more than 60% of total volume YTD, headlined by CSM Corporation's portfolio sale of 4.6 million square feet (msf) across the Twin Cities. Blackstone purchased the 42-property portfolio for \$435 million. Also worth mentioning, MetLife purchased the 820,000-sf Amazon Shakopee facility for more than \$118 million or \$145 per sf.

Across the metro area, nearly 1.4 msf of space has been delivered year-to-date, and more than 3.6 msf was under construction at the close of second quarter. More than 60% of those projects were concentrated in the Northwest submarket.

RESOURCE CENTRE
COVID-19
Click below for an up-to-date assessment of COVID-19's impact on the commercial real estate market.
[Click Here](#)



Market Indicators (arrows indicate YOY change from Q2 2019)

316,131,722 SF ↑

Market Inventory

4.2% ↑

Vacancy Rate

(475,015) SF ↑

Net Absorption

3,642,054 SF ↑

Construction

\$6.28 ↑

Average Rent

Trends to Watch



Ecommerce

Look for these key trends to continue throughout 2020 in the Minneapolis industrial market.

ECommerce is becoming more and more “we commerce” as consumers and businesses increase their online purchases. This is driving high absorption numbers and new development.



Consolidation of Ownership & Investor Interest

Bigger is better is the mantra in 2020 in industrial real estate. CRE investment companies, partnerships, and portfolios are buying, selling, and consolidating. Fueled by considerable investment interest in industrial properties across all markets in the U.S.



COVID-19 Impacts

Unfortunately COVID-19 remains a trend as we move into the second half of 2020. It's influence on our economy and on our personal and professional lives will persist into the foreseeable future.

[Link to AY's COVID-19 Resource Centre](#)

Market by the Numbers

Submarket	Inventory	Vacant	Vacancy	YTD Net Absorption	YTD Leasing	YTD Deliveries	Under Construction	Avg Ind Rate
Minneapolis	19,882,975	532,705	2.7%	(263,751)	66,003	-	76,000	\$7.58
St. Paul	11,560,825	214,702	1.9%	36,266	19,844	-	-	\$6.33
Midway	25,004,506	1,575,326	6.3%	(11,518)	249,511	-	-	\$6.17
East	18,175,990	645,458	3.6%	(91,413)	138,034	-	350,000	\$7.03
North Central	56,012,765	1,743,304	3.1%	301,420	660,738	125,480	290,000	\$6.13
Northwest	66,156,432	3,714,772	5.6%	(303,643)	1,359,549	684,120	2,336,026	\$5.10
South Central	49,774,548	1,949,211	3.9%	(248,111)	878,092	253,084	287,384	\$5.99
Southwest	69,563,681	2,783,410	4.0%	(84,708)	545,292	335,960	302,644	\$5.93
Total Market	316,131,722	13,158,888	4.2%	(665,458)	3,917,063	1,398,644	3,642,054	\$ 6.28

The data contained in this market report is obtained from The CoStar Group, Inc. and is used under licensed permission. The report is based on the seven-county metropolitan Minneapolis-St. Paul markets for all industrial buildings at least 20,000 sf in size. Current and historical data has been adjusted with corrected information after it was obtained. This may prevent comparisons to previously released reports.

Top Leases

Building Name	Subtype	Submarket	Tenant	Transaction Type	Transaction Size
Lexington Preserve I	Distribution	Northeast	Aveda Corporation	Renewal	187,238
2100 Fernbrook Ln	Warehouse	Northwest	NuAire, Inc.	New	168,974
6500 93rd Ave N	Flex	Northwest	Kurita America	New	156,000
3440 Winpark Dr	Distribution	Northwest	Fiat/Chrysler	Sublease	142,142
Arbor Lakes Corporate Center	Warehouse	Northwest	AbelConn, LLC	New	110,329

Top Sales

Building Name	Subtype	Submarket	Buyer	Building Size	Sale Price	Price PSF
Amazon Fulfillment Center	Distribution	Southwest	MetLife	820,000	\$118,700,000.00	\$145
Newport-St. Paul Cold Storage	Warehouse	East	Americold Realty Trust	217,072	\$ 57,100,000.00	\$263
Midway Stadium Business Center	Flex	Midway	Heitman	190,000	\$23,800,000.00	\$125
BlueLinX	Warehouse	Northwest	PCCP (Pacific Coast), Capital Partners (MN)	103,868	\$13,200,000.00	\$127
Westgate III	Flex	Midway	Blackstone	101,534	\$12,869,000.00	\$127

Avison Young at a Glance

- Founded: **1978**
- Total Real Estate Professionals: **5,000**
- Offices: **107**
- Countries: **14**
- Brokerage Professionals: **1,600**
- Property Under Management: **367 million sf**

Avison Young is the world’s fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its Principals. Founded in 1978, with legacies dating back more than 200 years, the company comprises approximately 5,000 real estate professionals in 107 offices in 14 countries. The firm’s experts provide value-added, client-centric investment sales, leasing, advisory, management and financing services to clients across the office, retail, industrial, multi-family and hospitality sectors.



Transaction Services

- Tenant representation, lease acquisition and disposition
- Investment acquisition and asset recapitalizations for owners and investors
- Landlord representation across all property types—office, industrial, retail, build-to-suit, land and multi-family

Investment Management

- Acquisitions
- Asset management
- Portfolio strategy
- Capital repositioning

Consulting and Advisory Services

- Portfolio review and analysis
- Valuation and appraisal
- Benchmarking
- Transaction management
- Asset rationalization
- Mergers and acquisitions
- Workplace solutions
- Acquisitions and dispositions
- Property tax services

Debt Capital Services

- Permanent & construction
- Structured finance
- Portfolio market to market
- Mezzanine & bridge

Management Services

- Project management
- Property and operations review
- Property/facility management
- Tenant relations
- Financial reporting
- Lease administration
- Operations consulting
- Asset management
- Portfolio management

Enterprise Solutions

- Integrated services coordination
- Transaction management
- Optimization strategies
- Portfolio lease administration
- Project coordination and reporting

Additional U.K. Service Offerings

- Building advisory
- Business rates liability
- Town planning
- Site assembly and regeneration
- Partnerships advisory
- Sustainability strategy and reporting
- Environmental impact assessment
- Strategic advisory



Platinum member

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