



Minneapolis -St. Paul industrial market report

Q4 2022

AVISON
YOUNG

Minneapolis-St. Paul industrial market trends

01

A wave of product is coming

Supply has struggled to keep up with demand in the Twin Cities industrial market, but this might be changing. There were 7.5 million square feet (msf) of product under construction in Q4 while the quarterly average for each of the last three years was 6.3 msf (2022), 4 msf (2021), and 2.5 msf (2020).

There is potential for over 10 msf to be delivered in 2023, which is more than the last nine quarters combined. The issue ahead is whether older, class C properties will be able to compete. The vacancy rate for those buildings will likely climb and owners will need to offer a variety of concessions.

02

Cautiousness is setting in

The industrial market appears to be cooling. The total number of lease deals in 2022 was the lowest we've seen since 2010. Additionally, the total number of lease deals in Q4 2022 was the lowest for any quarter since Q4 2010. Sales volume increased in Q4, but brokers are beginning to see investors take a step back due to rising interest rates.

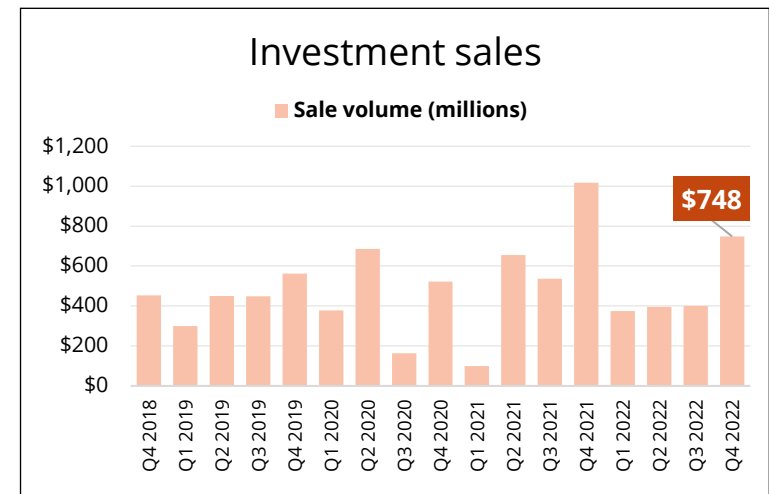
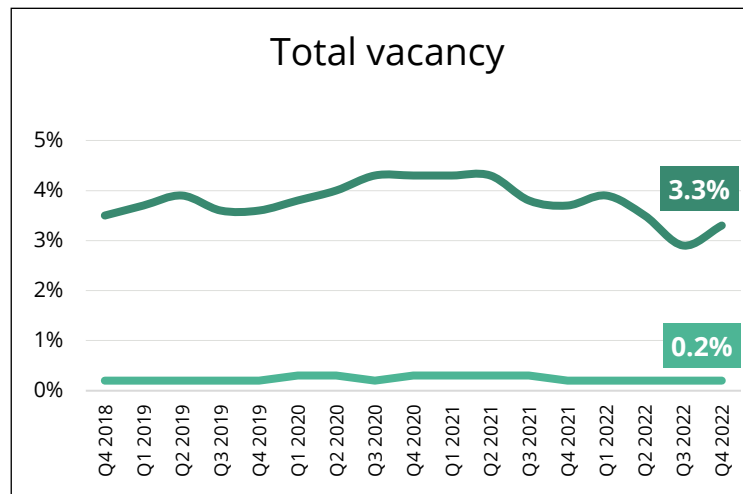
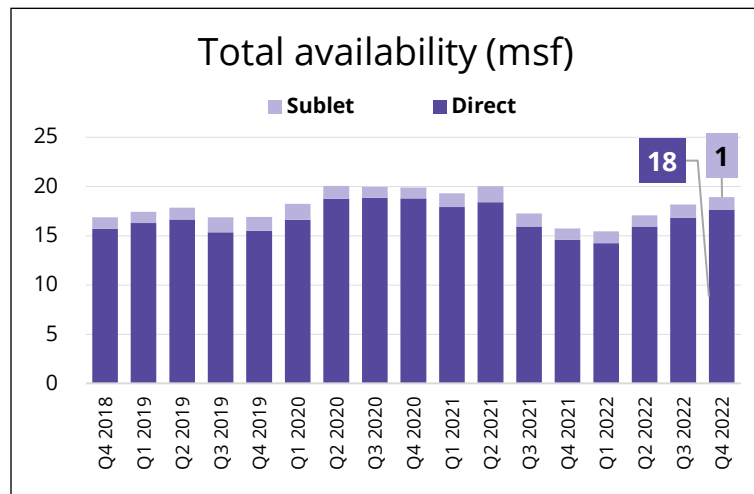
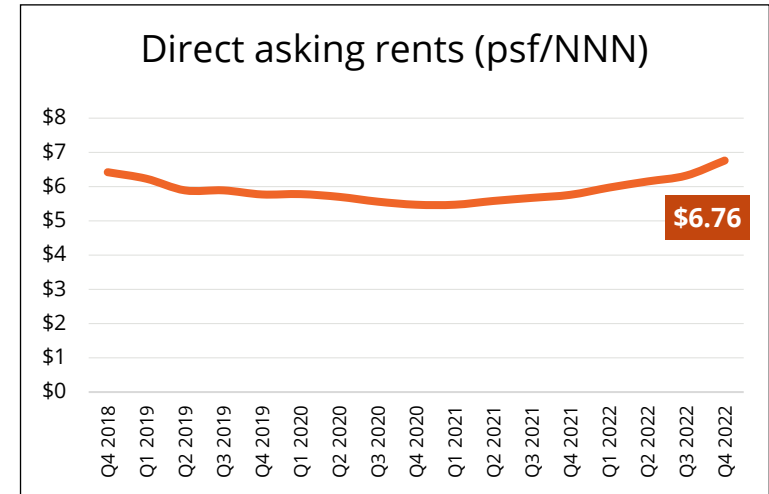
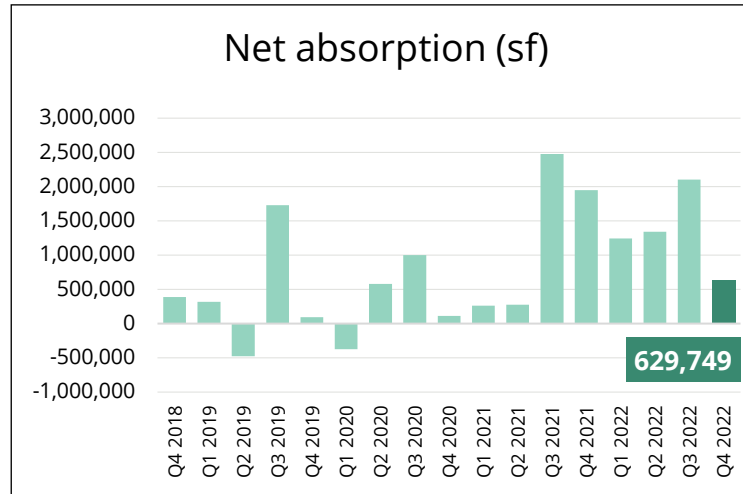
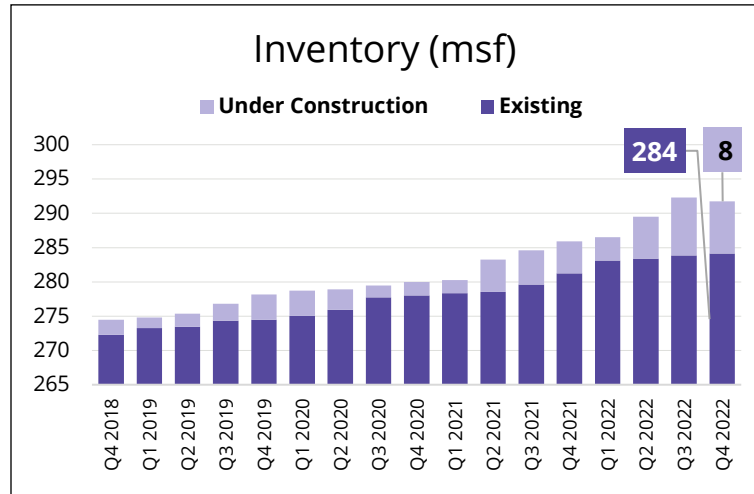
The slowdown of leasing activity combined with the flood of new deliveries coming to market will likely bring new construction starts to a crawl by 2024, especially for speculative properties.

03

Short lease terms are common

Long lease terms aren't as common as they once were. Ten-year leases were typical a decade ago, but 5–7-year deals are far more common now. Many landlords, mostly large, institutional ones, are pushing for shorter leases with the hope that rates will continue to increase, and they'll be able to close another deal with higher rent in just a few years. There are merits to this strategy, but it could backfire if the industrial market enters a downturn.

Minneapolis-St. Paul industrial market indicators



Minneapolis-St. Paul industrial market activity

Recent leasing activity

Tenant name	Address	Sign date	Size (sf)	Transaction type	Lease type	Submarket
Pepsico	6080 147 th St W	Nov 2022	117,000	New	Direct	Southeast
Lubetech	2400 N Xenium Ln	Dec 2022	114,461	New	Direct	Northwest
Daikin	2400 N Xenium Ln	Nov 2022	100,193	New	Direct	Northwest
Dedicated Networks	9400 Decatur Ave – Bldg 2	Oct 2022	94,072	New	Direct	Northwest
Sweet Harvest Foods	3747 117 th St – IGH Dist. Center	Nov 2022	87,481	New	Direct	Southeast

Recent sales activity

Buyer	Address	Sale date	Building Size (sf)	Sale price	Sale price psf	Seller
Cloud Capital	14100 Business Center Dr	Dec 2022	189,000	\$90,000,000	\$476.19	JPMorgan Chase
Creative Manufacturing Properties	11200 Hudson Rd	Oct 2022	137,897	\$48,200,000	\$349.54	Virtus Real Estate Capital
Markid Properties II	2660-2680 Arthur St	Oct 2022	34,979	\$6,000,000	\$171.53	Capital Partners Management

Top projects under development

Property	Address	Delivery Date	Building Size (sf)	% Preleased	Developer	Submarket
The Cubes at French Lake	11500 Lawndale Ln	Jul 2023	1,006,880	0%	CRG	Northwest
FedEx	3855 145 th St E	Jul 2024	548,000	100%	Scannell Properties	Southeast
Cottage Grove Logistics Park – Bldg 2	100 th St S	Jan 2023	493,242	0%	NorthPoint Development	Southeast

Minneapolis-St. Paul industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2022)	Net absorption sf (YTD)	Direct asking rent NNN
Northeast	93,930,466	1,002,254	887,219	3.3%	0.1%	3.5%	116,528	451,657	\$6.77
Northwest	63,331,728	2,214,232	2,908,059	2.4%	0.1%	2.5%	189,355	3,132,560	\$5.83
Southeast	51,732,823	942,420	3,360,540	2.5%	0.5%	3.0%	298,640	1,076,968	\$6.64
Southwest	60,203,303	1,038,728	427,552	4.2%	0.2%	4.4%	124,617	1,139,421	\$7.64
West	14,953,662	0	0	6.2%	0.6%	6.8%	(99,391)	(142,589)	\$6.18
Overall	284,151,982	5,197,634	7,583,370	3.3%	0.2%	3.5%	629,749	5,658,017	\$6.76

Minneapolis-St. Paul industrial market stats by type and class

Type

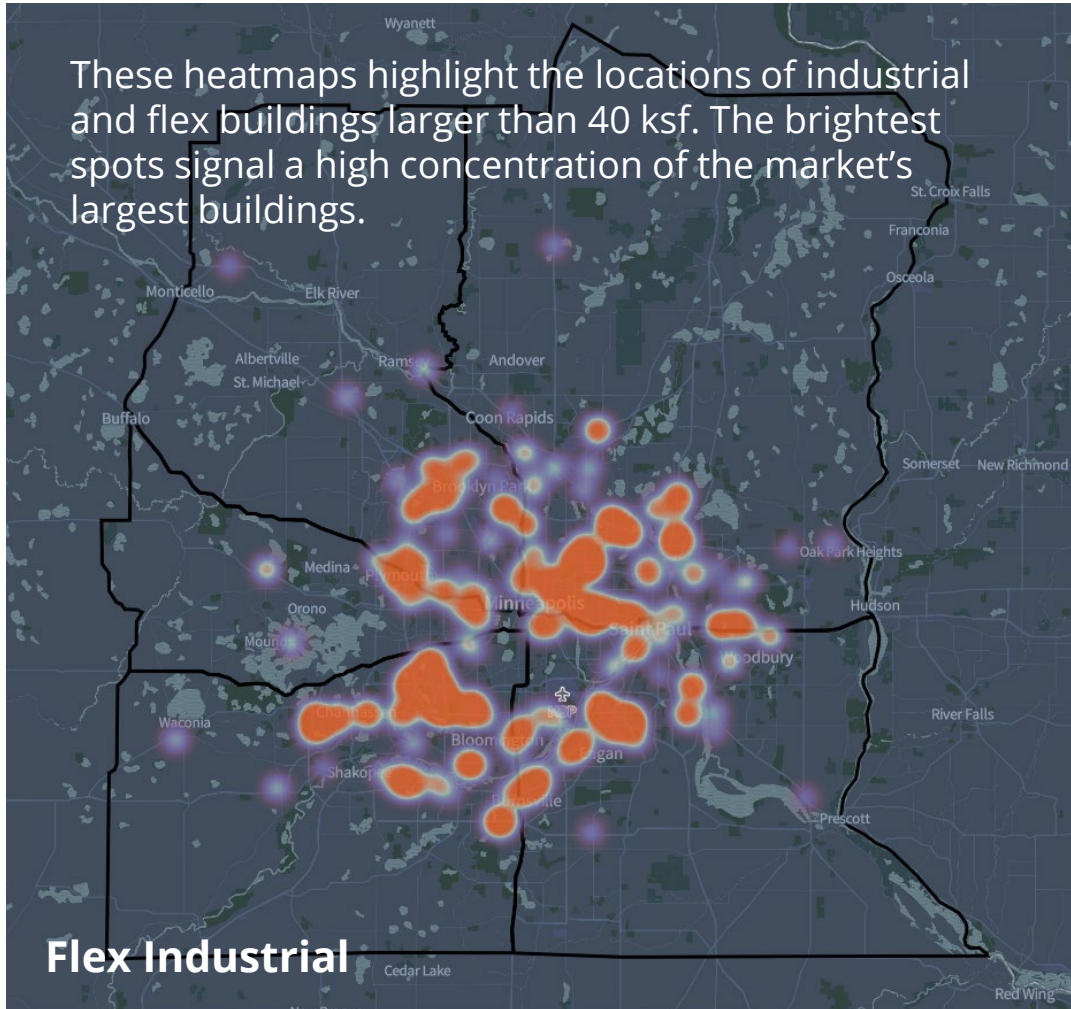
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2022)	Net absorption sf (YTD)	Direct asking rent NNN
Manufacturing	113,887,944	108,000	382,000	1.8%	0.1%	1.9%	21,314	512,107	\$6.88
Warehouse / Distribution	130,532,436	4,597,743	7,088,583	3.8%	0.4%	4.2%	545,816	4,483,214	\$5.96
Flex Industrial	39,731,602	491,891	112,787	6.0%	0.1%	6.1%	62,619	662,696	\$10.80
Market total	284,151,982	5,197,634	7,583,370	3.3%	0.2%	3.5%	629,749	5,658,017	\$6.76

Class

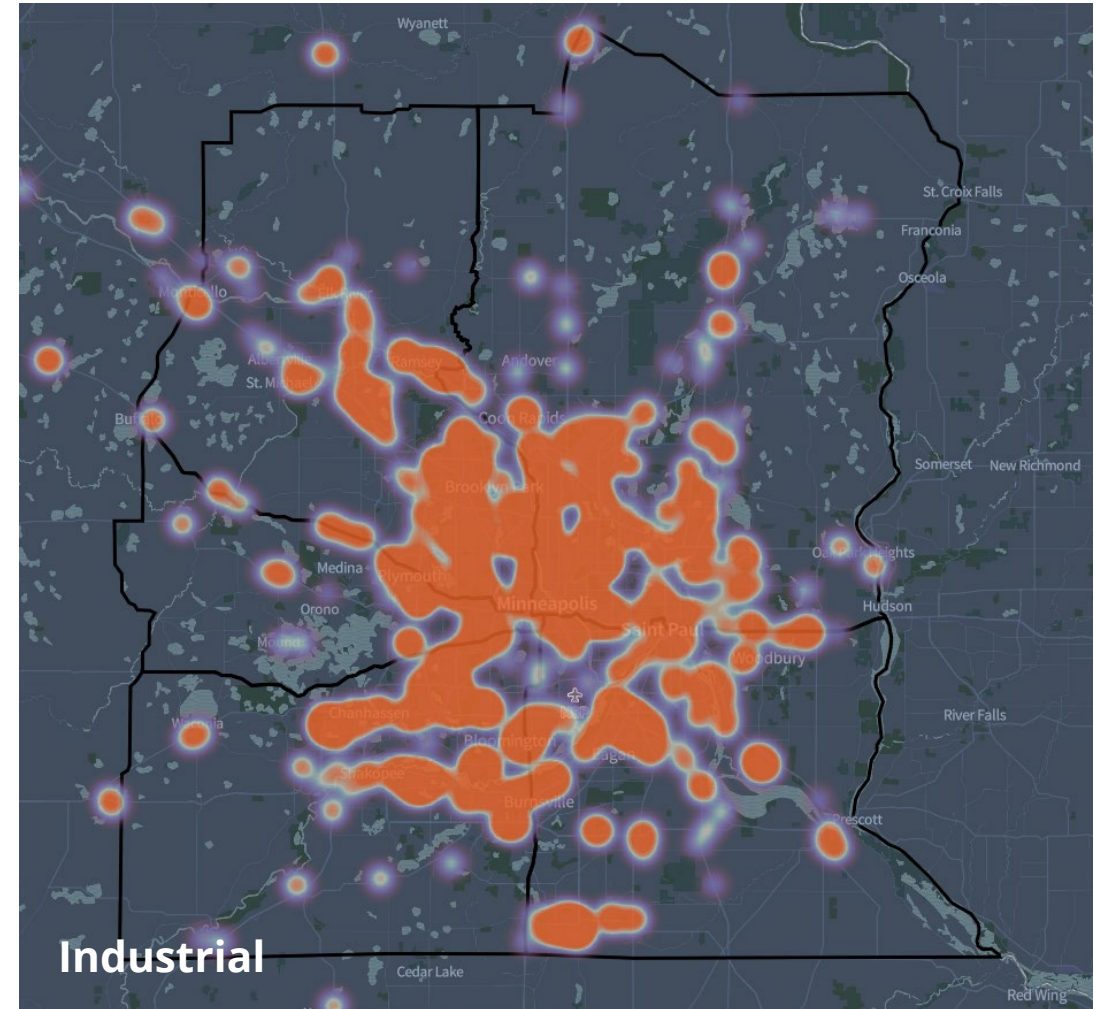
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2022)	Net absorption sf (YTD)	Direct asking rent NNN
Class A	32,292,596	4,403,355	6,032,472	8.3%	0.1%	8.3%	815,654	3,497,020	\$6.22
Class B	110,923,481	794,279	1,550,898	2.6%	0.3%	2.9%	182,316	2,094,570	\$7.49
Class C	140,935,905	0	0	2.7%	0.2%	2.9%	(368,221)	66,427	\$6.42
Market total	284,151,982	5,197,634	7,583,370	3.3%	0.2%	3.5%	629,749	5,658,017	\$6.76

Minneapolis-St. Paul submarket map

These heatmaps highlight the locations of industrial and flex buildings larger than 40 ksf. The brightest spots signal a high concentration of the market's largest buildings.



Flex Industrial



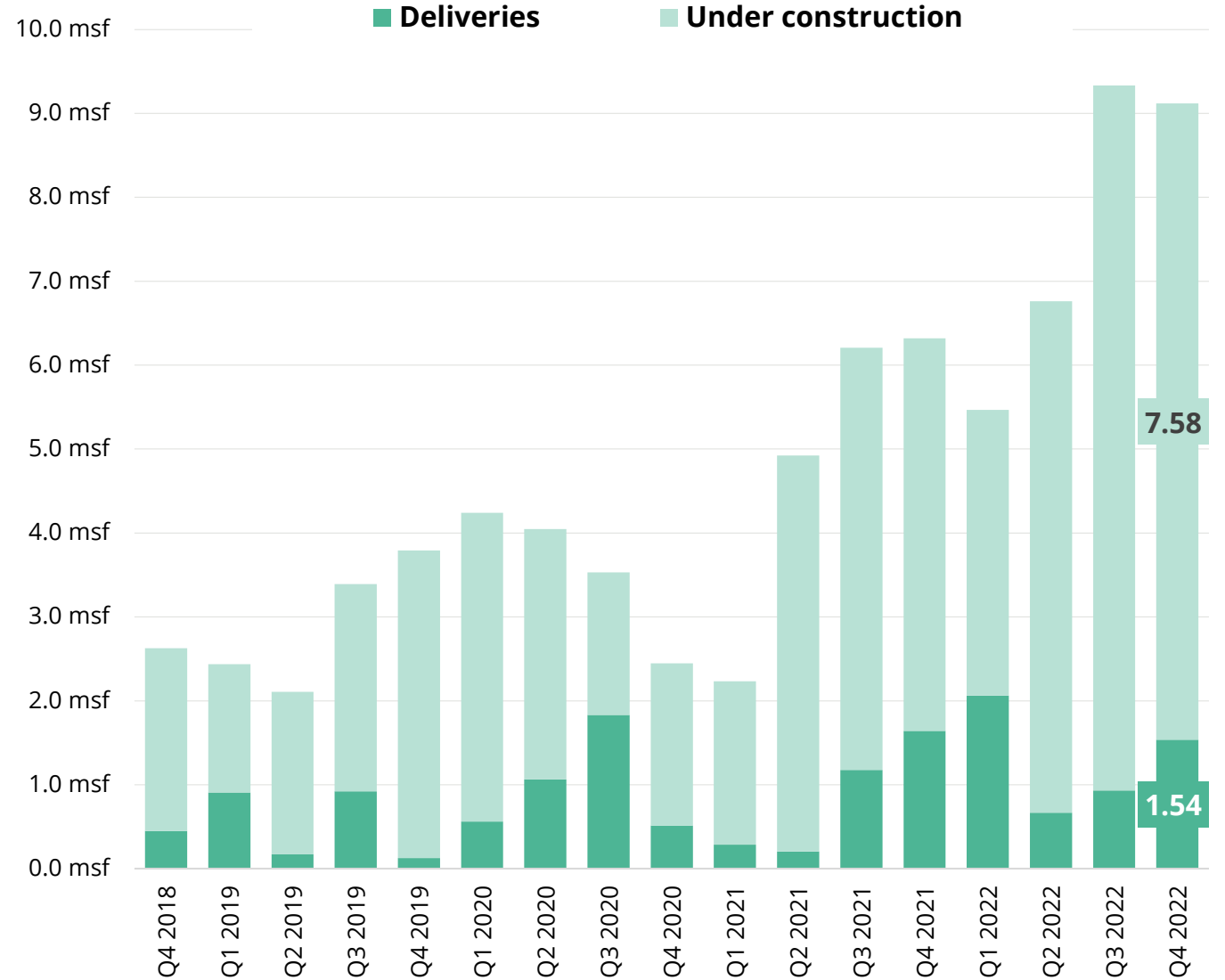
Industrial

Development activity

7.58 msf

In Q4, 7.58 msf of industrial product was under construction and 1.54 msf was delivered.

Industrial construction is booming. The Twin Cities averaged 6.37 msf of product under construction per quarter in 2022, which is 271% higher than 2018's quarterly average of 1.71 msf. This is setting up the market for a flood of new deliveries, which have already been growing. 5.19 msf of product was delivered in 2022—134% more than the 2.22 msf delivered in 2018.



Vacancy rate changes by submarket

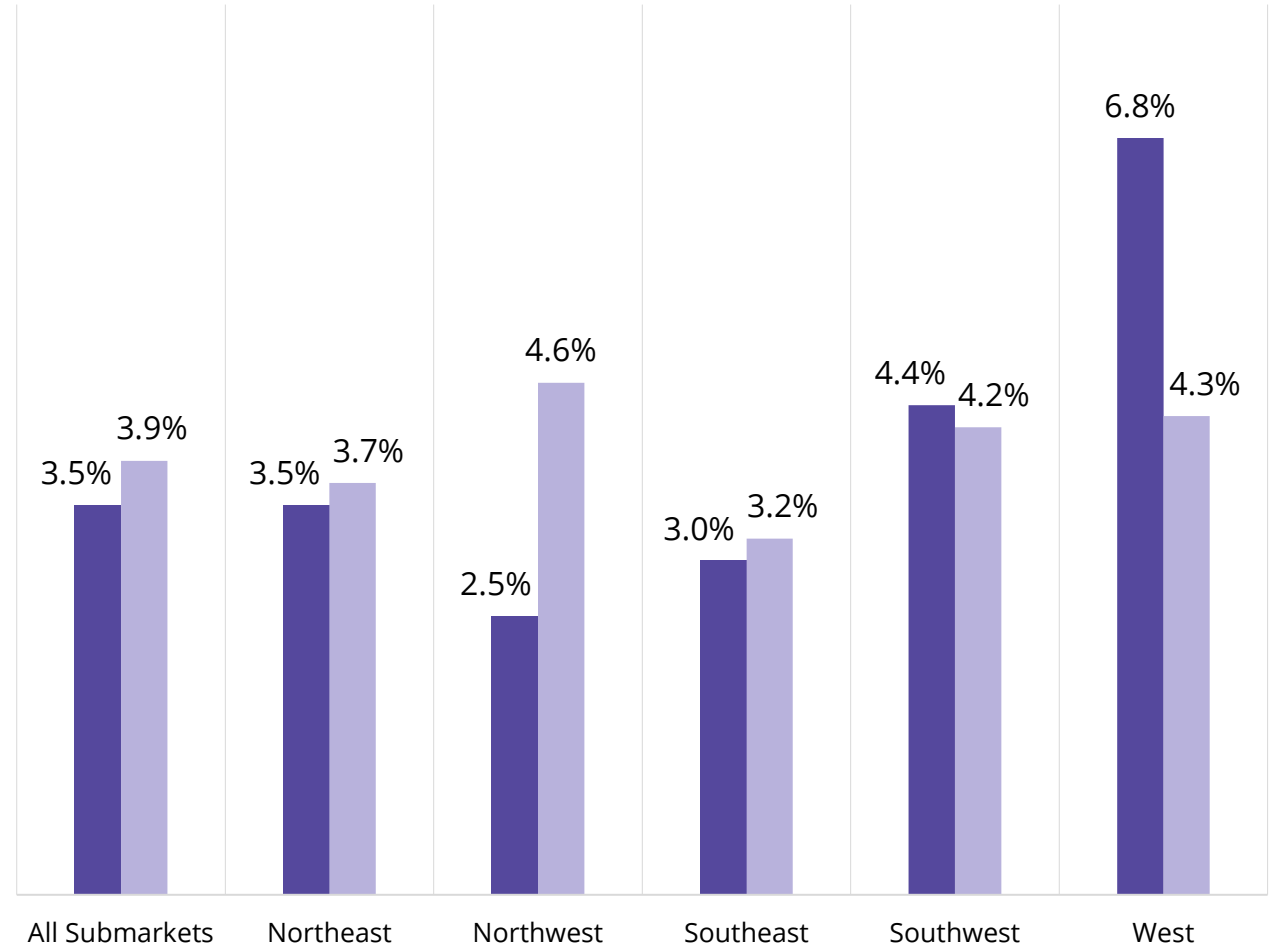
-40 bp

The market-wide vacancy rate is 40 basis points lower than the 2018 Q1–2022 Q3 average.

Vacancy has been slowly declining across the Twin Cities industrial market, but the same can't be said for every submarket. Outliers include the northwest submarket which has a vacancy rate 210 basis points (bp) lower than its 2018-2022 average. Meanwhile, the western submarket's vacancy rate in 2022 Q4 was 250 bp higher than its 2018-2022 average.

Submarket Vacancy Compared to Historical Average

■ 2022 Q4 ■ 2018 Q1-2022 Q3 Avg.



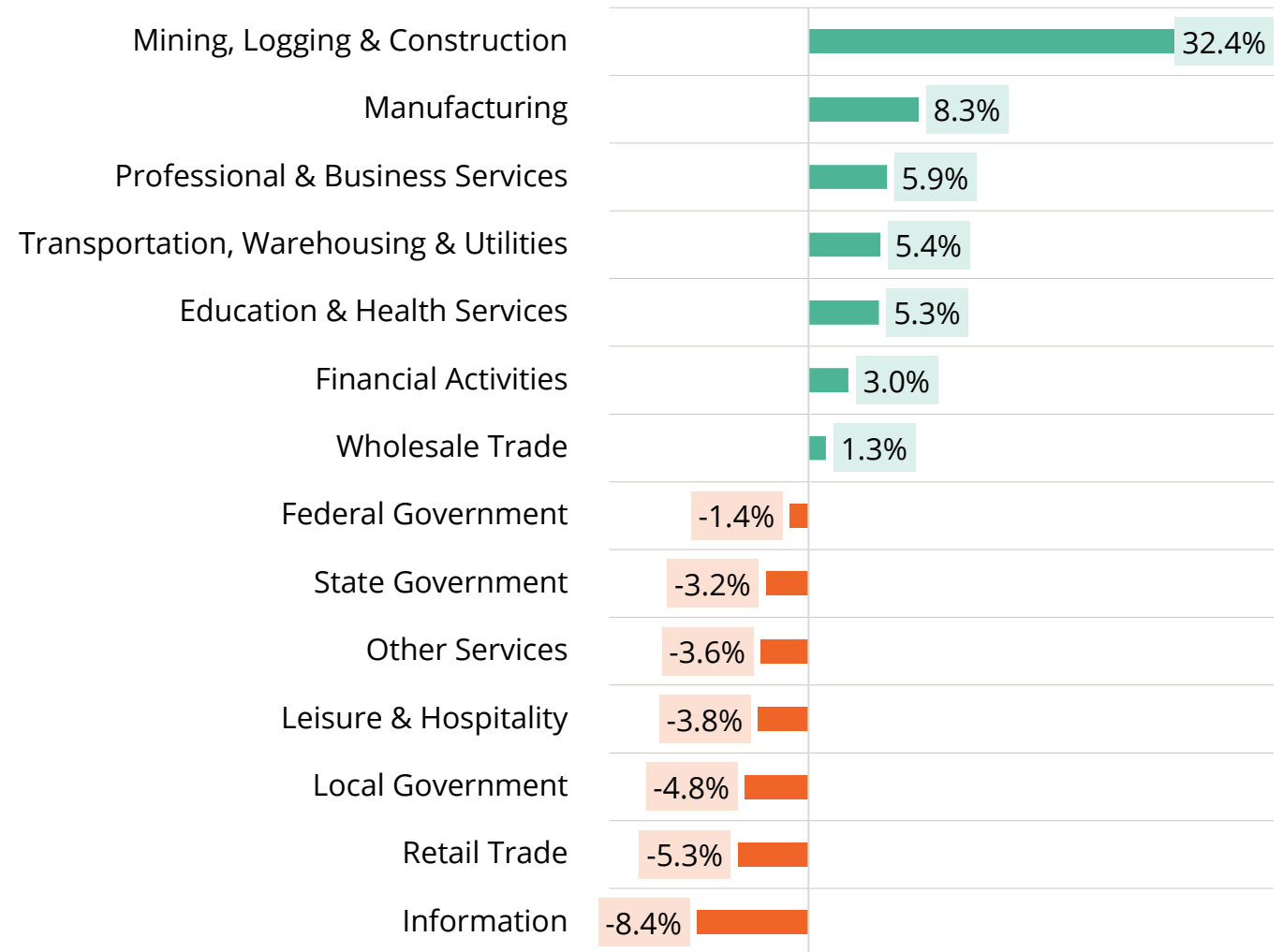
Employment changes by industry

+4.2%

Twin Cities employment increased 4.2% from Oct. 2021 to Oct. 2022, reaching 2,042,200.

The Twin Cities haven't seen this many people employed since December 2019. As of October, employment levels were 1.1% higher than they were in February 2020, showing a slow but steady recovery since the start of the pandemic.

Employment Growth Since Jan 2018



Employment changes by property type

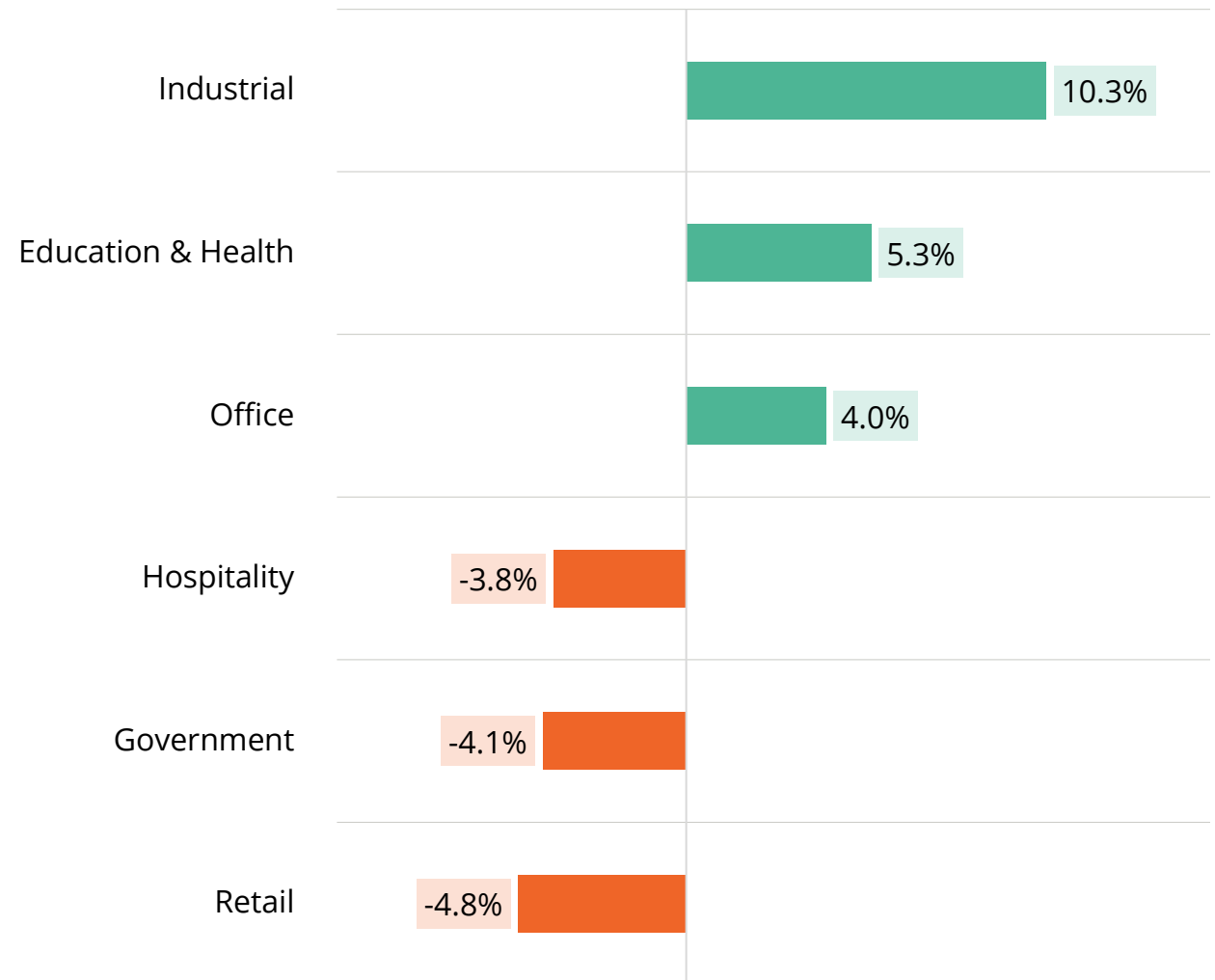
+4.6%

Twin Cities employment in industrial properties increased 4.6% from Oct. 2021 to Oct. 2022.

As of October 2022, employment levels for industrial-related jobs were 7.4% higher than they were in February 2020. Even when excluding mining, logging and construction, which experienced the most growth of industrial jobs, employment levels in other industrial sectors were 4.2% higher than they were in February 2020.

Since January 2018, industrial-related employment has grown 10.3%, leading all industries in the Twin Cities. 478,300 people were employed, which is the largest amount since December 2001.

Employment Growth Since Jan 2018



Employment changes by industrial sectors

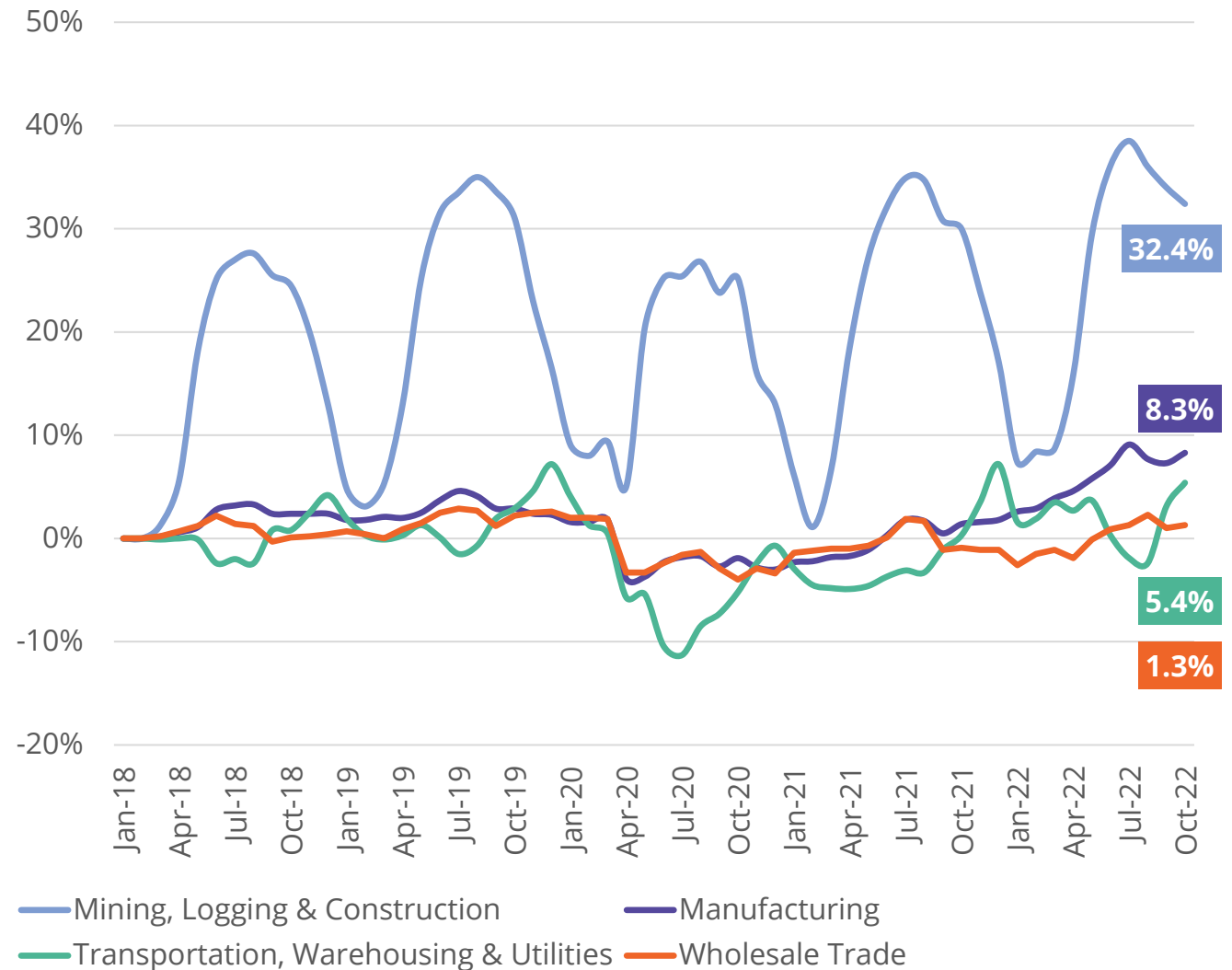
+32.4%

Employment growth in mining, logging, and construction has outpaced all industrial sectors.

Employment in mining, logging, and construction industry grew 32.4% since January 2018, leading all industries in the Twin Cities. While it's a very cyclical industry, its lowest level of growth in 2022 was still an impressive 7.4%.

Manufacturing has seen the steadiest growth since the start of the pandemic, while transportation, warehousing, and utilities have made the biggest comeback from their -11.3% low in July 2020. Wholesale trade has been rather stable over time but seen the least growth.

Employment Growth Since Jan 2018



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)

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

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Putting people and the planet first

There is a vital role for our sector to create healthy, productive workplaces for employees, cities that are centers of prosperity for their citizens, and built spaces and places that create a net benefit to the economy, the environment and the community.

Global ESG Report



Manufacturing in motion

Reshoring and nearshoring are not new topics in the U.S., but they do have new life – and perhaps for good cause. In the past it's only produced inconsistent results across industries and is continuing to ebb and flow over time and within the American psyche.

U.S. reshoring and nearshoring



Tracking U.S. employment trends

Rising layoffs and declining job postings are also indicating that the economy is becoming distressed. Employment data and industries are analyzed across cycles for a real-time and historical look at economic conditions.

U.S. Employment Overview

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