

Minneapolis/St. Paul Industrial, Q1 2017

# Strong construction propels market to stay hot

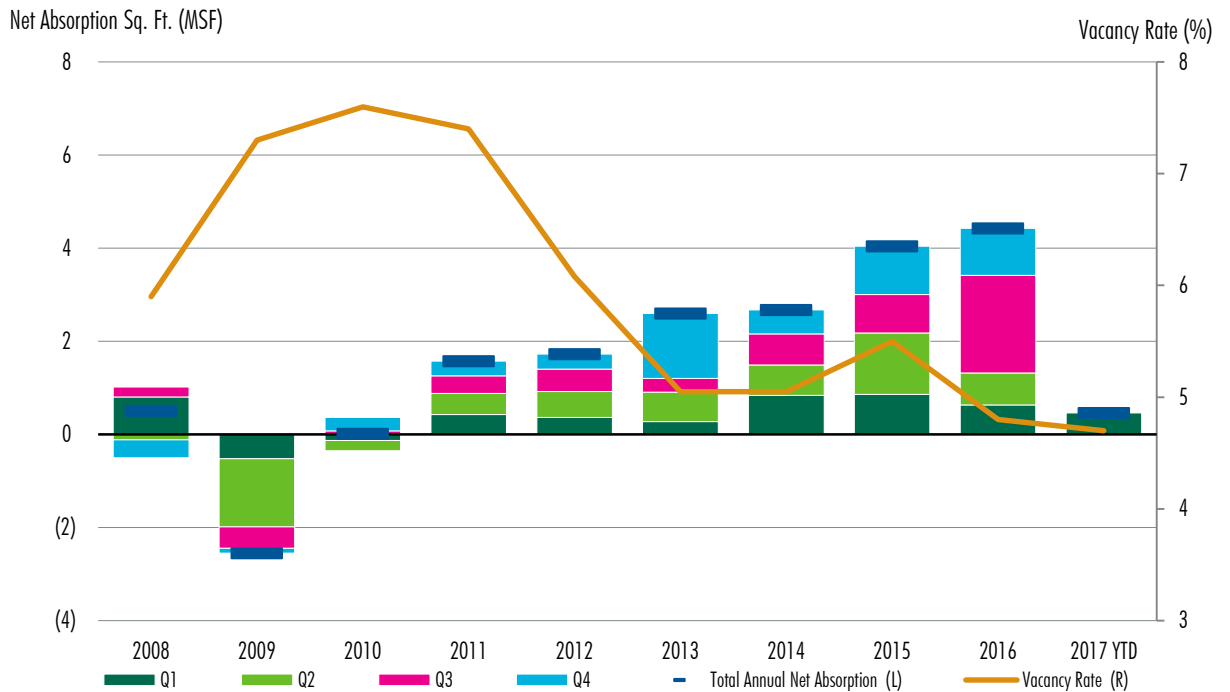
**Vacancy Rate**  
4.7%

**Lease Rate**  
\$5.85 PSF

**Net Absorption**  
458,276 SF

Figure 1: Historical Net Absorption vs Vacancy Rate

\*Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2017.

- The largest lease transaction of Q1 2017 was Dakota Supply, occupying 135,447 SF at 845 Berkshire Ln.
- The largest sale transaction of Q1 2017 was the purchase of Lake Point Distribution Center for \$8.2 million by Haleakala Ranch Co.
- Q1 2017 marked the 27<sup>th</sup> consecutive quarter of positive net absorption for the Minneapolis/St. Paul industrial market.

**MARKET OVERVIEW**

The Minneapolis/St. Paul industrial market has yet to see a disruptive force present itself to derail this train of 27 consecutive quarters of positive net absorption. Backed by a strong numbers of new construction, both build-to-suit (BTS) and speculative (spec), completion in Q1 2017. The market finished with 458,276 sq. ft. of positive net absorption.

**MARKET OVERVIEW CONT'D**

Direct vacancy rates for Q1 2017 ended at 4.7%, which is up 40 basis points (bps) quarter-over-quarter. This change in vacancy reflects the trend of companies downsizing space into newer, more modern locations. For those that did need additional space, the standard has shifted. New construction is the method of choice to fulfill the needs of the tenant, resulting in 1,057,173 sq. ft. of completed construction in Q1 2017 being BTS.

Average net asking rates of the industrial market have had a year-over-year increase of 1.1%, ending at \$5.85 per sq. ft. in Q1 2017.

**ABSORPTION BUILDS ON ITS HOT STREAK**

Q1 2017 absorption numbers continued the streak of positive net absorption, counting 27 consecutive positive quarters. While 458,276 sq. ft. maintained the streak, it is a year-over-year decrease due, in part, to some large tenants downsizing their operations. Single tenant BTS was the largest driver to push the absorption positive. For those not downsizing, when it was time to expand, BTS construction was the preferred method of expansion.

Dakota Supply had the largest lease transaction, occupying 135,447 sq. ft., followed by MVP Logistics with 108,988 sq. ft. and V-Star Entertainment Group rounding out the top three with 104,818 sq. ft.

Figure 2: Top Lease Transactions

Tenant	Size (Sq. Ft.)	Address	Transaction Type
Dakota Supply	135,447	845 Berkshire Ln.	Renewal/Expansion
MVP Logistics	108,988	14600 N 21 <sup>st</sup> . Ave	Renewal
V-Star Entertainment Group	104,818	44 E Northern Stacks Dr.	New
Ceva Freight, LLC.	103,407	3169 Dodd Rd.	Relocation
Cojo	88,000	201 Armour Ave.	Renewal

Source: CBRE Research, Q1 2017

**CONSTRUCTION**

Q1 2017 was a big quarter for construction completions. With ten projects wrapping up, 1,353,231 sq. ft. were added to the market with 89.9% pre-leased upon completion. Many of the projects that finished were BTS, which accounted for the high percentage of pre-leased space.

The largest construction completion in the market was a 192,000 sq. ft. BTS in the bustling town of Hopkins, within the Southwest submarket. Japs-Olson Company was the sole tenant of this project.

The next largest completion also happens to be the largest spec project of the ten finished buildings, at 189,000 sq. ft. Upon completion, the Midway Stadium Business Center was 28% leased. Other Spec completions include Northern Stacks II and Chanhassen West Business Center III.

Ten projects are currently under construction in the market, with half BTS and the other half spec. When all is complete, another 1,368,016 sq. ft. of industrial space will be added with approximately 40% uncommitted and available.

**SINGLE PROPERTY SALES DOMINATE Q1**

Q1 2017 sales activity consisted of all single tenant transactions totaling \$69 million in total volume. The largest was Lake Point Distribution Center in Plymouth at 15300 25<sup>th</sup> Ave., which sold for \$83 per sq. ft. between United Properties and private capital source.

Southeast Corporate Center, 2250 Pilot Knob Road in Mendota Heights, was the second largest sale in terms of price. The 58,333-sq.-ft. building sold for \$126 per sq.-ft. to Spectrum Development Group by Alidade Capital.

Of the 14 sales during Q1 2017, half were purchased for occupancy by owner/users. As a comparison, Q1 2016 saw only one third of purchased by users.

**INVESTMENT EXPECTATIONS**

CBRE expects 2017 industrial sale velocity to increase in Q3 and Q4 with several offerings currently in the market or under contract. Pricing on core industrial offering will continue to be competitive and achieve record high pricing through the first three quarters of 2017.

Figure 3: Southeast Corporate Center



Source: CBRE Research, Q1 2017.

Figure 4: Top Investment Sale Transactions

Property	Buyer	Sale Price (\$) / Size (Sq. Ft.)	City	Transaction Type
Lake Point Distribution Center	Haleakala Ranch Co	8,185,500 / 97,446	Plymouth	Property
Southeast Corporate Center	Spectrum Dev Group	7,350,000 / 58,333	Eagan	Property
2500 County Road C West	Stan Koch & Sons Trucking Inc.	7,020,000 / 60,000	Roseville	Property
20240 South Diamond Lake Rd	Commercial Partners Exchange	7,000,000 / 154,821	Rogers	Property
8650 109 <sup>th</sup> Ave North	Crown Equipment Inc.	5,350,000 / 82,307	Champlin	Property

Source: CBRE Research, Q1 2017.

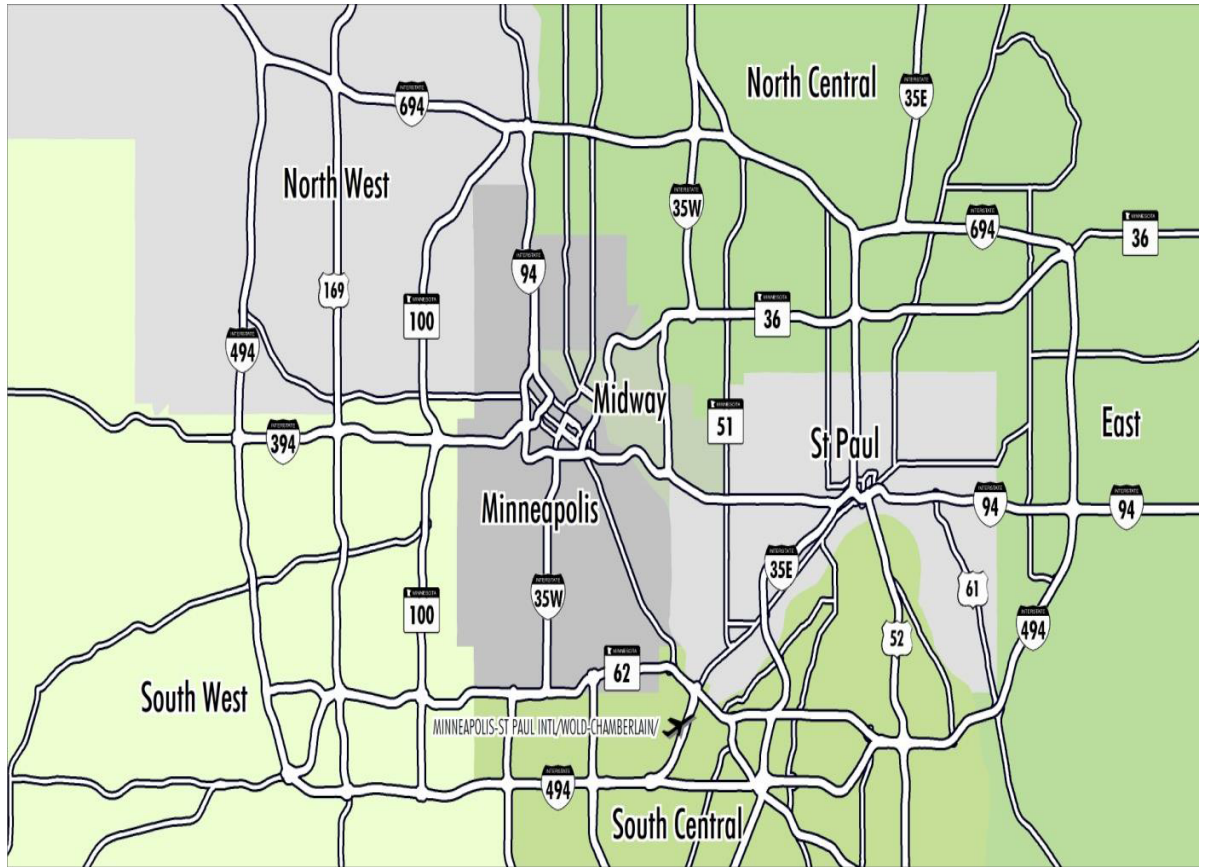
Figure 5: Minneapolis/St. Paul Industrial Market Statistics

Submarket	Rentable Area (Sq. Ft.)	Total Vacancy Rate (%)	Y-o-Y Vacancy Trend	Average Net Asking Rate (\$/Sq. Ft./Yr)	Q4 Net Absorption (Sq. Ft.)	Y-o-Y Net Absorption Trend	YTD Net Absorption (Sq. Ft.)	Under Construction Spec (Sq. Ft.)	Under Construction BTS (Sq. Ft.)
<b>Metro Overall</b>	333,156,356	4.7	↓	5.85	458,276	↓	458,276	415,200	952,816
Bulk Warehouse	70,624,965	5.5	↓	4.62	(233,852)	↑	(233,852)	142,000	402,000
Office Warehouse	144,312,347	4.5	↓	5.64	378,025	↑	378,025	273,200	467,816
Office Showroom	36,776,391	8.5	↓	7.64**	(24,045)	↓	(24,045)	-	-
<b>Northwest</b>	67,708,868	8.1	↑	5.54	(261,041)	↓	(261,041)	142,000	96,000
Bulk Warehouse	17,884,165	12.4	↑	4.71	(200,823)	↓	(200,823)	142,000	-
Office Warehouse	31,685,714	5.6	↓	5.13	304,057	↑	304,057	-	96,000
Office Showroom	7,880,331	11.4	↓	7.53**	(29,696)	↓	(29,696)	-	-
<b>Southwest</b>	72,028,053	4.4	↓	6.25	731,109	↑	731,109	-	-
Bulk Warehouse	14,848,374	4.4	↓	5.97	(73,045)	↓	(73,045)	-	-
Office Warehouse	31,994,142	4.1	↓	5.15	68,405	↓	68,405	-	-
Office Showroom	12,814,707	8.2	↓	8.17**	14,740	↑	14,740	-	-
<b>South Central</b>	52,442,202	3.1	↓	5.62	57,484	↑	57,484	140,000	206,000
Bulk Warehouse	12,113,801	1.2	↓	4.87	111,489	↑	111,489	-	-
Office Warehouse	24,210,105	3.5	↓	4.92	(24,600)	↑	(24,600)	140,000	206,000
Office Showroom	7,148,740	7.6	↓	7.63**	(7,404)	↓	(7,404)	-	-
<b>St. Paul</b>	15,751,362	2.2	↓	5.99	-	↑	-	-	-
Bulk Warehouse	2,850,253	2.7	↓	3.75	-	→	-	-	-
Office Warehouse	6,067,398	3.0	↓	8.25	-	↑	-	-	-
Office Showroom	1,303,721	6.6	→	8.12**	-	→	-	-	-
<b>Minneapolis</b>	27,845,438	2.7	↓	5.74	68,000	↑	68,000	-	-
Bulk Warehouse	2,221,360	6.0	↑	3.87	-	→	-	-	-
Office Warehouse	11,021,281	3.8	↓	7.80	68,000	↑	68,000	-	-
Office Showroom	182,266	5.5	↓	-	-	→	-	-	-
<b>North Central</b>	49,885,447	4.1	↓	5.98	20,000	↓	20,000	133,200	650,816
Bulk Warehouse	10,889,171	1.0	↓	3.87	135,000	↑	135,000	-	402,000
Office Warehouse	23,671,693	5.5	↓	4.90	(154,458)	↓	(154,458)	133,200	248,816
Office Showroom	5,210,370	7.6	↓	7.76**	(1,685)	↓	(1,685)	-	-
<b>East</b>	15,030,875	1.9	↓	5.56	125,000	↑	125,000	-	-
Bulk Warehouse	2,470,518	0.2	↓	4.50	-	→	-	-	-
Office Warehouse	5,614,857	2.0	↓	4.71	-	→	-	-	-
Office Showroom	1,500,977	5.9	↓	8.51**	-	→	-	-	-
<b>Midway</b>	32,464,111	5.8	↓	6.15	(269,852)	↓	(269,852)	-	-
Bulk Warehouse	7,347,323	7.1	↑	4.59	(206,473)	↓	(206,473)	-	-
Office Warehouse	10,077,157	5.8	↓	4.25	116,621	↑	116,621	-	-
Office Showroom	735,279	5.7	↓	7.25**	-	↓	-	-	-

Source: CBRE Research, Q1 2017.

\* Single Tenant &amp; Multi Tenant. \*\* Represents a blended rate of 50% office and 50% warehouse. Total Vacancy Rate May Not Add Up Due To Rounding.

Figure 6: Minneapolis/St. Paul Industrial Submarket Map



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