

Minneapolis/St. Paul Retail, Q1 2017

Outlook positive for 2017 despite higher vacancy



Vacancy Rate
8.1%



Net Asking Rate
\$16.75



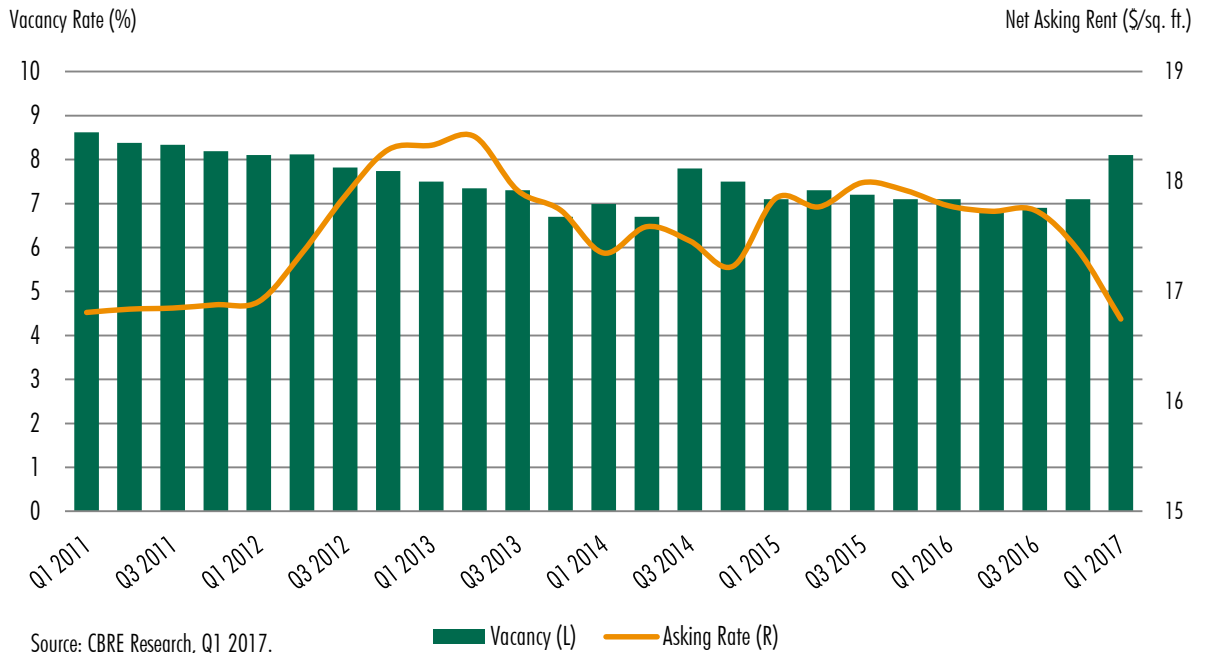
Net Absorption
(380,765) SF



Under Construction
679,893 SF

Figure 1: Direct Vacancy Rate and Lease Rate

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2017.

■ Vacancy (L) — Asking Rate (R)

MARKET OVERVIEW

- Macy's sold its flagship building in downtown Minneapolis and vacated 361,655 sq. ft.
- Grocers continued their push in the Minneapolis/St. Paul retail market, with another Hy-Vee completed in Savage and another set to break ground in Q2 2017.
- Scheels, a sporting goods company, signed the largest lease of Q1 2017, an expansion at Eden Prairie Center totally 204,566 sq. ft.
- Two of the top five sales of Q1 2017 had Walgreens as a tenant, demonstrating the attractiveness of long term leases to investors.

While net asking rates and absorption are down quarter-over-quarter and vacancy rates are up, positive indicators in sales and leasing activity in the Minneapolis/St. Paul retail market signal a robust 2017.

Two large retailers, Macy's and Sears, accounted for the majority of the negative absorption in Q1 2017. Macy's left its flagship store at 700 Nicollet Mall in downtown Minneapolis and Sears vacated Riverdale Village at Round Lake Blvd and Highway 10 in Coon Rapids. However, Hobby Lobby's future occupancy in Riverdale Village will offset some of the negative absorption seen Q1 2017.

TOP LEASE TRANSACTIONS

The top lease of Q1 2017 was Scheels sporting goods executing a 204,566-sq.-ft. lease for the former Sears space in Eden Prairie Center, 8301 Flying Cloud Dr. The retailer has a smaller space in the mall already, so its occupancy is expected in 2019. The former Sears space was vacated in 2016 and sold in Q3 2016 to the owner of Eden Prairie Center, Cypress REIT LLC. At the time, Sears had occupied 130,800 sq. ft. meaning the mall was able to lease additional vacancy to Scheels.

New-to-market trampoline park franchiser, Urban Air, leased 40,319 sq. ft. in Coon Rapids. The Texas-based company is one of many entertainment and adventure companies to enter the Minneapolis/St. Paul market over the last few years. Urban Air plans to open in Q2 2017.

In 2013, Macy’s vacated a 360,000-sq.-ft. building and the St. Paul Port Authority had been working with partners to redevelop the building. It was renamed in Q1 2017 “Treasure Island Center” after the Prairie Island Sioux Community bought the naming rights and Walgreens signed a 24,928 sq. ft. lease. Treasure Island Center will also be home to the practice facility for the Minnesota Wild hockey team for 15 years. Tria Sports Medicine clinic bought the naming rights of the practice facility and will also open a clinic in 2017.

The fourth largest lease transaction of Q1 2017 was PetSmart leasing 20,700 sq. ft. at Westlake

Center at 112 12th St. in Forest Lake. Westlake Center had been mostly vacant since 2013 when Rainbow Foods vacated. ALDI later filled a portion of the vacancy in 2014.

TOP SALE TRANSACTIONS

The top sale transaction of Q1 2017 the former Macy’s store in downtown Minneapolis. New York-based 601W Cos. bought the building for \$59 million, or \$51 per sq. ft. The retail store vacated towards the end of Q1 2017 but the sale was finalized in January. The new owner plans to redevelop the building and has partnered with Minneapolis-based United Properties on the renovation. Preliminary plans include retail in the new iteration of the building but office and multifamily are also options.

The second largest sale was a Walgreens that sold at 1055 Wayzata Blvd in Wayzata that sold for \$762 per sq. ft. It was sold 20 months after Doran Companies purchased the building.

The Shops at Southwest station was a former Greek-themed restaurant in Eden Prairie that had been closed since 2014. Minnesota-based Venture Pass Partners purchased the building in 2016 from Minnwest Bank and redeveloped it, leasing all available space. A private investor paid \$612 per sq. ft. for the building in Q1 2017, making it the third highest sale.

Figure 2: Notable Retail Lease Transactions

Tenant	Location	City	Size (Sq. Ft.)	Type
Scheels	Eden Prairie Center	Eden Prairie	204,566	New/
Urban Air	Northtown Village Shopping Center	Coon Rapids	40,319	New
Walgreens	Treasure Island Center	St. Paul	24,928	New
PetSmart	Westlake Center	Forest Lake	20,700	New

Source: CBRE Research, Q1 2017.

Figure 3: Top Retail Sales Transactions

Property	Size (Sq. Ft.)	City	Buyer	Price
Macy's	1,161,655	Minneapolis	601W Cos.	\$59,000,000
Walgreens	15,374	Wayzata	POMCO LLC	\$11,720,000
Shops at Southwest Station	10,975	Eden Prairie	Naper Corner TRP LLC	\$6,720,849
Walgreens	14,490	St. Paul	1180 Arcade LLC	\$6,500,000
South Pond Center	12,655	Champlin	Wallingford Properties	\$6,175,000

Source: CBRE Research, Q1 2017.

TOP SALE TRANSACTIONS, CONTINUED

The fourth highest sale was another Walgreens but this time in St. Paul. Located at 1180 Arcade St., it traded to a California-based investor for \$449 per sq. ft. It sold for 10.2% more than it did in 2011 and Walgreens has a long-term, triple net lease in the building.

Rounding out the top five was the sale of South Pond Center in Champlin. The retail center was constructed in 2015 and is currently fully leased to tenants including Pacific Dental, Chipotle and Leann Chin. TOLD Development sold the property for \$488 per sq. ft. to Minnesota-based Wallingford Properties.

NOTABLE CONSTRUCTION PROJECTS AND 2017 EXPECTATIONS

According to the 2016 Midwest Trends report by CBRE Research, mixed-use projects (developments where there is more than one primary use) are the dominant form of development across the Midwest with over 40 completed in 2016 and over 90 are currently underway.

In Minneapolis/St. Paul, developers are favoring

mixed-use developments in the form of both lifestyle-type centers (like Central Park Commons in Eagan) and ground floor retail of multifamily and commercial development (like the currently under construction Rex 20 Apartments in Minneapolis). Of the current large construction projects noted in Figure 4, The Village at Arbor Lakes fits the trend.

Figure 4: Notable Twin Cities Retail Construction Projects

Project	Sq. Ft.	Submarket
Woodbury Costco	164,000	Woodbury
The Village at Arbor Lakes	150,000	Maple Grove
Schneiderman's Furniture	122,000	A.V./Lakeville
Grove Plaza Hy-Vee	95,700	Cottage Grove

Source: CBRE Research, Q1 2017.

Figure 5: Minneapolis/St. Paul Retail Market Statistics

Submarket	Rentable Area (Sq. Ft.)	Direct Vacancy Rate(%)	Average Net Asking Rate (\$/Sq. Ft./Yr)	Q1 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Active Construction (Sq. Ft.)
A.V. — Lakeville	3,499,383	6.1	20.65	3,155	3,155	122,000
Brookdale	3,510,557	14.6	15.70	(24,210)	(24,210)	
Burnsville	3,549,950	4.4	26.08	111,877	111,877	
Calhoun	1,258,636	9.2	29.04	(7,758)	(7,758)	55,707
Coon Rapids	4,168,306	2.5	8.01	(103,376)	(103,376)	
Eagan	2,960,668	6.3	10.90	(11,528)	(11,528)	
Eden Prairie	3,794,209	10.6	17.16	9,162	9,162	
Maple Grove	5,425,652	3.0	20.51	(8,395)	(8,395)	150,000
Maplewood	3,563,352	4.7	18.63	3,860	3,860	20,600
Minneapolis CBD	2,238,390	14.4	25.68	(331,014)	(331,014)	
Northtown	3,063,899	17.0	7.58	(15,964)	(15,964)	48,500
Ridgedale	5,502,483	3.2	14.23	(2,018)	(2,018)	
Rosedale	5,316,025	9.4	15.69	(12,676)	(12,676)	71,665
Southdale	6,848,416	4.4	19.91	(12,676)	(12,676)	
St. Paul Highlands	1,413,147	4.4	16.52	25,741	25,741	
West St. Paul	1,305,502	10.5	13.91	7,095	7,095	
Woodbury	4,821,267	9.5	13.72	(12,170)	(12,170)	259,921
Total (Metro)	62,239,842	8.1	16.75	(380,765)	(308,765)	679,893

Source: CBRE Research, Q1 2017.

* Note: In Q1 2017, the Mall of America was removed from the tracked set.

SUNDAY FUNDAY: MINNESOTA APPROVES SUNDAY WINE AND SPIRIT SALES

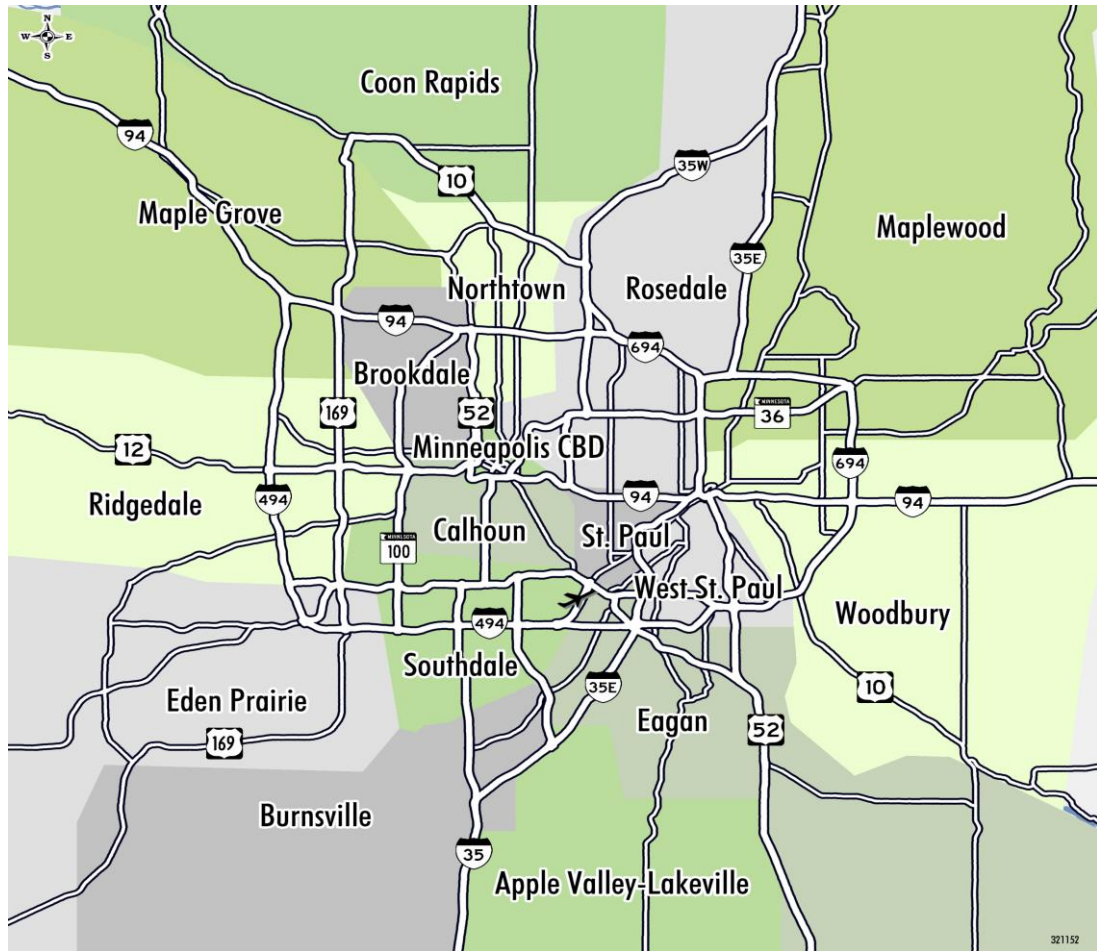
Ending a decades old ban, a March legislative decision abolished the ban on Sunday liquor sales in the State of Minnesota. Beginning in July, retailers will be allowed to open for business on Sundays for the first time since Prohibition. Years in the making, this repeal opens the door to boost retail sales instead of losing out to neighboring states that allowed for Sunday sales.

Figure 6: Wine and Spirit Sale Image



Source: CBRE Research, Q1 2017.

Figure 7: Q1 2017 Submarket Map



Source: CBRE Research, Q1 2017.

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