

FIGURES | MINNEAPOLIS INDUSTRIAL | Q3 2021

Absorption and construction at decade highs and matched by leasing activity

▼ 4.2%
Vacancy Rate

▲ 2.0M
SF Net Absorption

▲ 5.1M
SF Under Construction

▼ \$6.53 PSF
Average Asking Rate (NNN)

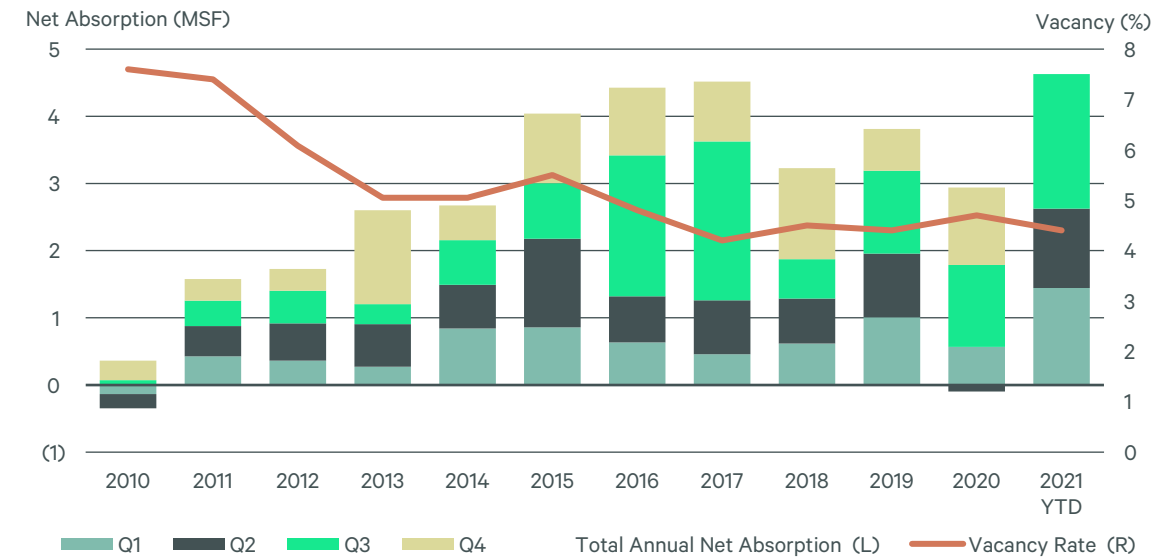
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Q3 2021 absorption was nearly 2 million sq. ft, with nearly 6 million sq. ft. under construction.
- Leasing activity was up 25% over Q2 with a balance across industry type including Retail, Manufacturing, Life Sciences, and Transportation/Warehousing.
- New investors continue to be attracted to the Minneapolis market, as evidenced by Nicola Wealth Real Estate’s \$225 million purchase of the Blackstone Minneapolis Industrial Infill Portfolio.

Vacancy continues to decline amidst increased leasing volume and an all-time high of nearly 15 million sq. ft. of demand from tenants in the market. This has led to a boom in speculative development, with 3.5 million sq. ft. under construction for delivery in 2021 and 2022 and an additional 3 million sq. ft. planned that could be delivered in 2022.

FIGURE 1: Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q3 2021.

Absorption, Vacancy and Construction

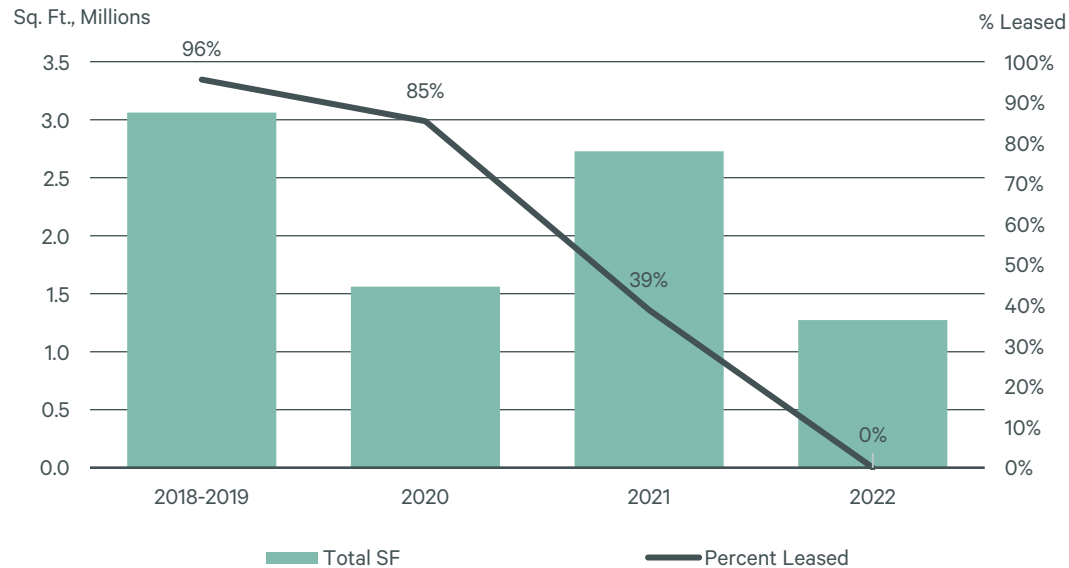
Q3 absorption was nearly 2.0 million sq. ft., more than any single quarter since 2017. Absorption year-to-date is 2021 over 4.6 million sq. ft., more than any year in the past decade, with one quarter remaining.

There are currently 5.9 million sq. ft. of new industrial development under construction in the Minneapolis market. Of that, 4.6 million sq. ft. is speculative development.

Speculative Development Boom

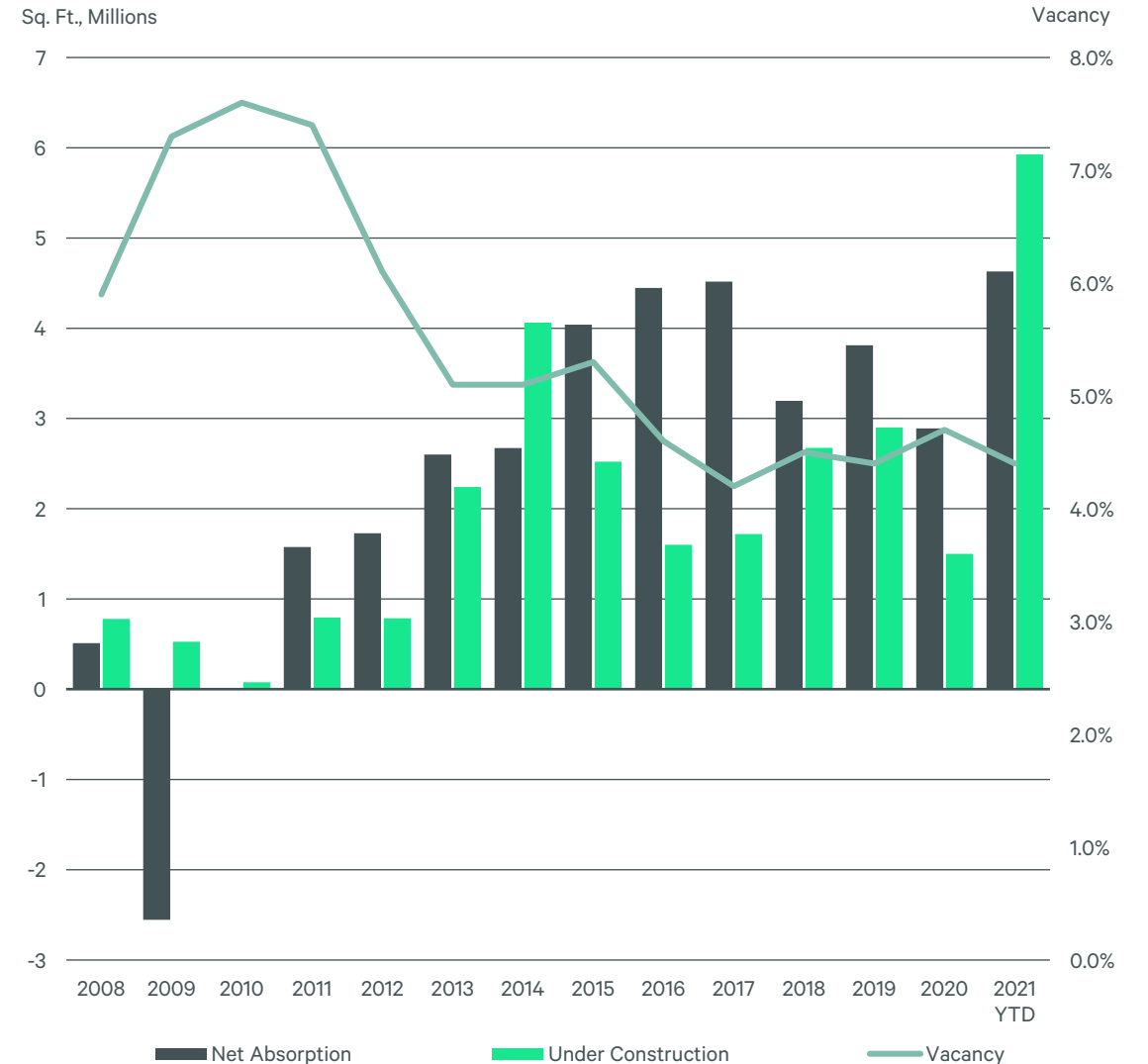
There is currently a boom in speculative industrial development. Of the total 2.7 million sq. ft. of speculative development expected to be completed in 2021, 39% has been preleased.

FIGURE 2: Speculative Development by Year Built and Percentage Leased



Source: CBRE Research, Q3 2021.

FIGURE 3: Minneapolis/St. Paul Industrial Net Absorption and Under Construction Vs. Direct Vacancy



Source: CBRE Research, Q3 2021.

Leasing

Strong Q3 2021 leasing and user sale activity was led by the Northwest submarket. Overall Q3 activity was up 25% over Q2, topping 5 million sq. ft.

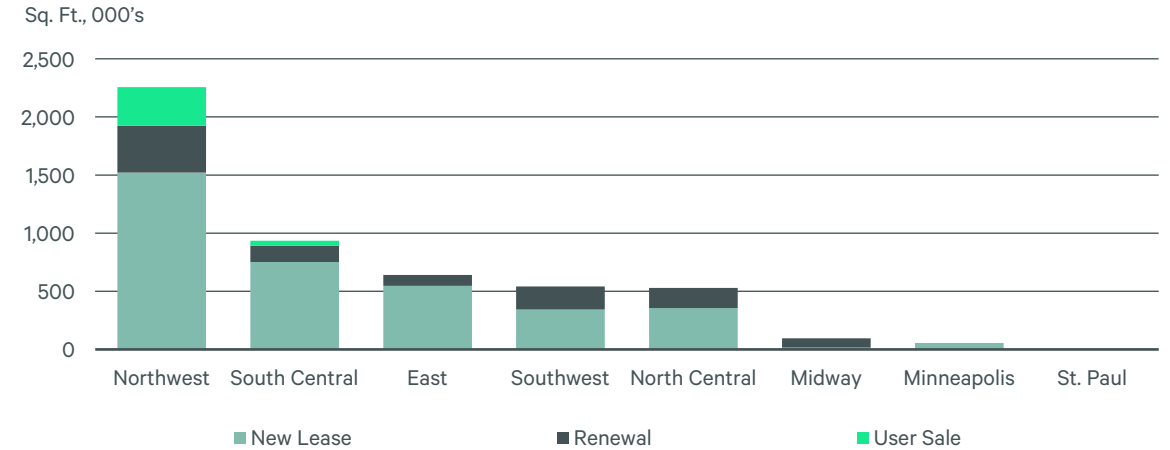
- New leases and expansions accounted for 71% of all market activity in Q3, with renewals at 22% and Use Sales at 7%.
- The Northwest submarket led the Minneapolis Industrial market with 45% of all Q3 activity, with more than 2.2 million sq. ft. transacted. The South Central (18%), East (13%), Southwest (11%) and North Central (10%) shared the remaining activity.
- Retail, driven by E-commerce, accounted for nearly one third of all Q3 activity, with Manufacturing following closely behind at 29%. Each saw numerous new leases and expansions across the market.
- Life Sciences, Business Services, Wholesale and Transportation/Distribution represented a balanced share of the additional industrial demand in the Minneapolis market.

FIGURE 4: Top Transactions

Tenant	Size (Sq. Ft.)	Address	Submarket	Transaction Type	Industry
Confidential E-commerce	517,000	xxxx Hudson Rd.	East	New Lease	Retail
Confidential E-commerce	297,094	10650 89th Av N	Northwest	New Lease	Retail
Room & Board	221,000	6601 Queens Av	Northwest	Expansion	Manufacturing
Bunzl Distribution	155,313	10100 89th Av N	Northwest	Renewal	Wholesale
Omnetics	123,729	8840 Evergreen Blvd	North Central	New Lease	Manufacturing

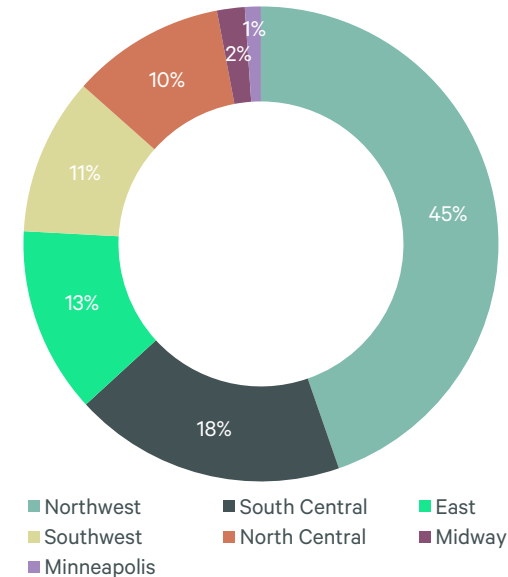
Source: CBRE Research, Q3 2021.

FIGURE 5: Top Transaction Type by Submarket and Sq. Ft.



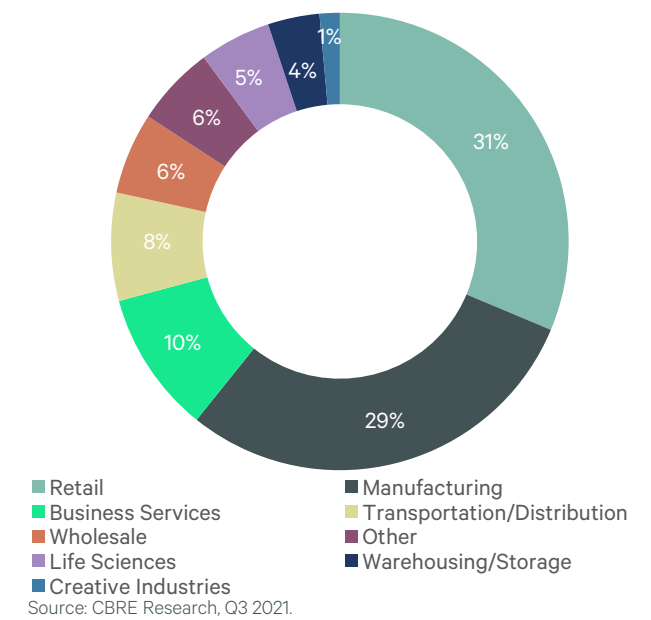
Source: CBRE Research, Q3 2021.

FIGURE 6: Top Transactions by Sq. Ft. by Submarket



Source: CBRE Research, Q3 2021.

FIGURE 7: Top Transactions by Industry Type



Source: CBRE Research, Q3 2021.

Investment Sales

The Minneapolis Industrial market continues to be attractive to domestic and cross-border capital. Total sale volume for 2021 could approach the all-time high of \$1.76 billion set in 2020.

Nicola Wealth Real Estate entered the Minneapolis market in Q3 with the \$225 million purchase of the Blackstone Minneapolis Industrial Infill Portfolio.

CBRE represented the seller in the sale of Chanhassen Lakes I & II to Summerhill Commercial Real Estate.

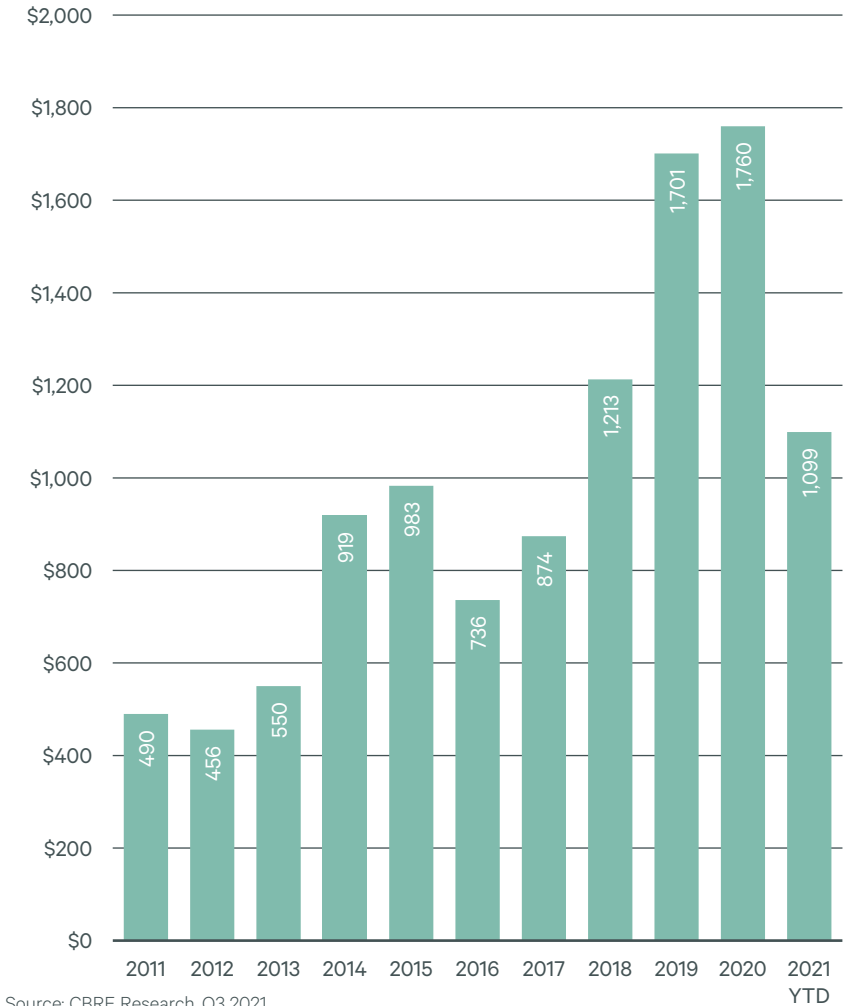


FIGURE 8: Q3 2021 Top Investment Sales

Property	Location	Buyer	Sale Price (\$)	Size (Sq. Ft.)	Price Per Sq. Ft. (\$)
Blackstone Minneapolis Industrial Infill Portfolio	Various	Nicola Wealth Real Estate	225,750,000	1,915,637	118
Capitol Beverage Sale/Leaseback	Rogers	WP Carey REIT	26,500,000	187,243	142
Rankin Business Center	St. Paul	Big River Real Estate	10,575,000	107,000	100
Energy Park Corporate Center	St. Paul	Lincoln Property Company	9,150,000	100,364	91
Chanhassen Lakes I & II	Chanhassen	Summerhill Commercial Real Estate	9,020,000	106,359	85

Source: CBRE Research, Q3 2021.

FIGURE 9: Minneapolis/St. Paul Industrial Investment Volume (thousands)



Source: CBRE Research, Q3 2021.

FIGURE 10: Minneapolis/St. Paul Industrial Market Statistics

Submarket	Rentable Area (Sq. Ft.)	Total Availability Rate (%)	Direct Vacancy Rate (%)	Average Warehouse Net Asking Rate (\$/Sq. Ft./Yr)	Average Office Net Asking Rate (\$/Sq. Ft./Yr)	Average Net Blended Asking Rate (\$/Sq. Ft./Yr)	Q3 2021 Net Absorption (Sq. Ft.)	2021 YTD Net Absorption (Sq. Ft.)
Metro Overall	343,780,326	6.0%	4.2%	\$5.06	\$9.51	\$6.53	1,987,303	4,610,516
Northwest	74,789,405	7.1%	5.1%	\$4.85	\$9.60	\$6.92	439,128	1,423,903
Southwest	70,471,080	6.9%	5.1%	\$5.31	\$9.56	\$6.38	644,393	881,663
North Central	53,165,857	5.4%	3.7%	\$5.38	\$9.67	\$6.93	40,753	831,680
South Central	52,725,403	6.4%	4.5%	\$5.08	\$9.49	\$6.30	742,539	1,270,053
Midway	31,291,663	5.0%	3.4%	\$4.55	\$8.76	\$6.45	(92,725)	(20,601)
Minneapolis	25,626,879	3.3%	2.0%	\$4.37	\$10.77	\$5.53	35,440	8,868
East	19,480,469	5.5%	3.2%	\$5.34	\$9.38	\$6.19	177,775	123,093
St. Paul	16,229,570	5.2%	4.0%	\$5.02	\$9.16	\$5.47	0	91,857

Source: CBRE Research, Q3 2021.

FIGURE 11: Minneapolis/St. Paul Industrial Construction Statistics

Submarket	Construction Starts	Starts Preleased	Spec Under Construction	BTS Under Construction	Total Under Construction	Spec Completed	BTS Completed	Construction Completed
Metro Overall	947,624	19	3,760,666	1,354,936	5,115,602	-	1,024,500	1,024,500
Southwest	301,000	-	806,952	-	806,952	-	-	-
Northwest	394,224	-	1,637,224	1,174,536	2,811,760	-	75,000	75,000
South Central	140,400	100	549,250	140,400	689,650	-	812,000	812,000
North Central	112,000	36	646,240	40,000	686,240	-	-	-
Midway	-	-	-	-	-	-	-	-
Minneapolis	-	-	-	-	-	-	-	-
St. Paul	-	-	-	-	-	-	-	-
East	-	-	121,000	-	121,000	-	137,500	137,500

Source: CBRE Research, Q3 2021.



Economic Overview

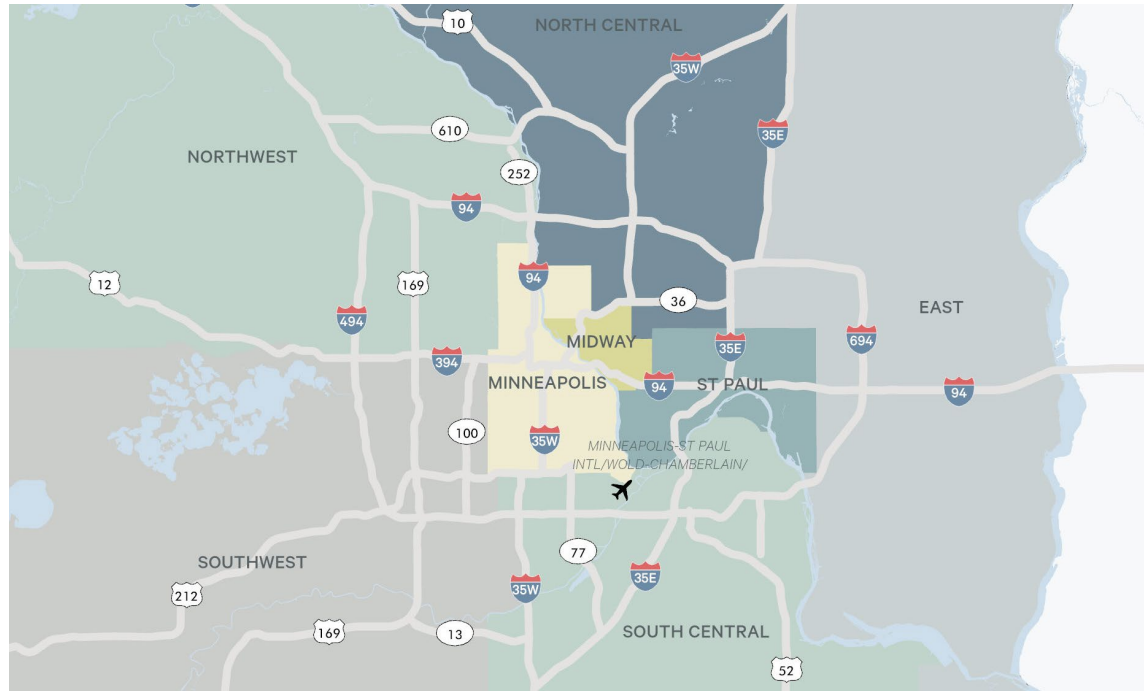
The summer of 2021 began with a surge, only to ease back as the Delta variant forced many consumers to rethink their holidays and restaurant visits. Consequently, we pared back our GDP growth outlook for this year by an entire percentage point, to 6%, followed by nearly 4% year-on-year growth in 2022. The labor market has also been volatile, primarily due to a reversal in hiring within the Accommodation & Food Services sector, reflecting uncertainty in the space. But demand for labor remains high and most signals suggest the key problem firms face is finding workers. Thus, employment growth should remain above 3% through 2022. Longer-term hiring in the U.S. will be restrained by a shrinking labor force.

Shortages are not just limited to people. Key economic inputs ranging from raw materials to microchips pushed consumer prices up by 5% year-on-year. Some supply bottlenecks have proven transitory and annual price increases are stalling. Inflation should ultimately settle into the low-2% range next year. The Fed is responding to these labor market and price developments by announcing it might begin tapering its quantitative easing program as soon as this November.

A plausible outlook is that waves of COVID-19 continue but the U.S. economy and health system learn to manage these disruptions. This will allow room for 5% GDP growth in 2022, as business investment and consumer activity normalize. Upside risks include the prospect of greater infrastructure spending, albeit the political dynamics are fluid. Also, the construction of more housing units to correct a historic shortage—estimated at 3.8 million units, per FreddieMac—would also be material tailwind for growth.



Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. **Availability Rate:** Total Available Sq. Ft. divided by the total building Area. **Average Asking Lease Rate:** A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. **Building Area:** The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. **Gross Activity:** All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. **Gross Lease Rate:** Rent typically includes real property taxes, building insurance, and major maintenance. **Net Absorption:** The change in Occupied Sq. Ft. from one period to the next. **Net Lease Rate:** Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. **Occupied Sq. Ft.:** Building Area not considered vacant. **Vacancy Rate:** Total Vacant Sq. Ft. divided by the total Building Area. **Vacant Sq. Ft.:** Space that can be occupied within 30 days.

Survey Criteria

Includes all industrial buildings 10,000 sq. ft. and greater in size in the Minneapolis/St. Paul market. Buildings which have begun construction as evidenced by site excavation or foundation work.

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