

FIGURES | MINNEAPOLIS INDUSTRIAL | Q3 2022

9M sq. ft. of new construction underway with 2M delivered in the third quarter

▼ 3%
Vacancy Rate

▲ 2.6M
SF Net Absorption

▲ 9M
SF Under Construction

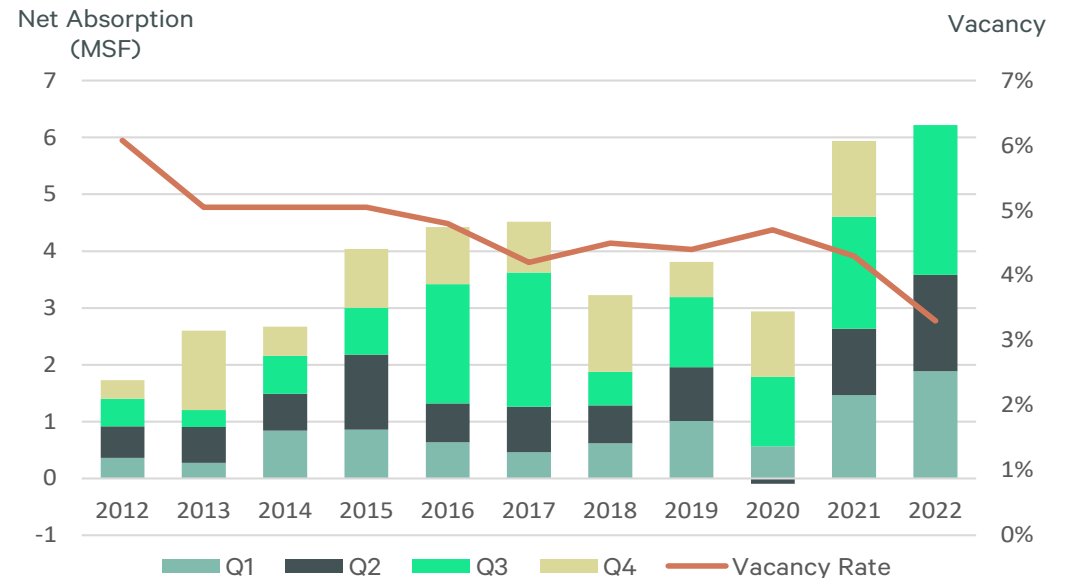
▲ \$7.26 PSF
Average Asking Rate (NNN)

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- In Q3, the Minneapolis industrial market absorbed 2.6 million sq. ft., bringing the 2022 year-to-date total up to 6.2 million sq. ft.
- Vacancy rates were 3%, a decrease of 120 basis points year-over-year.
- The construction pipeline remained strong, with 8.9 million sq. ft. under construction and 8 buildings delivered this quarter adding 2 million sq. ft.
- Speculative deliveries this quarter include the 610 Broadway Business Center in Brooklyn Park, Arbor Lakes Business Park III in Maple Grove, Chaska Creek 1, and the Nordeast Business Center in Minneapolis.
- Strong Q3 2022 leasing activity was led by the Northwest and Southwest submarkets. Overall, Q3 leasing activity totaled just over 3 million sq. ft
- New leases and expansions accounted for 67% of all market activity in Q3,. In the Northwest submarket, 81% of Q3 activity was with new leases.

FIGURE 1: Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q3 2022.

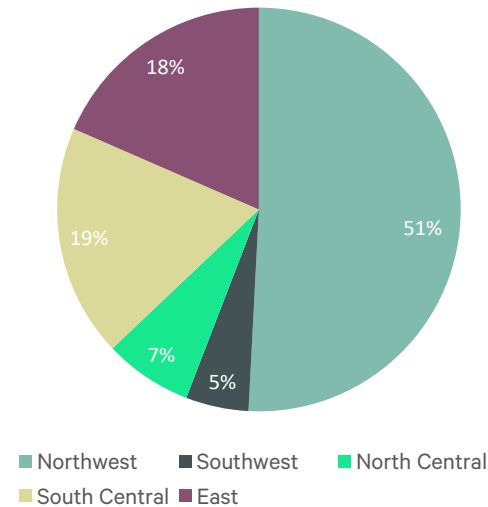
Absorption, Vacancy, and Construction

In Q3, the Minneapolis industrial market absorbed 2.6 million sq. ft., bringing the 2022 year-to-date total up to 6.2 million sq. ft. The Northwest and East submarkets experienced the strongest positive absorption with 1.1 million sq. ft. and 573,971 sq. ft. respectively. Following such strong activity, vacancy rates this quarter dropped to 3%, a decrease of 50 basis points year-over-year.

There are currently 8.9 million sq. ft. of new industrial development under construction in the Minneapolis market. Of that, 69% is speculative development with 37% percent pre-leased. Several large speculative projects underway include the 1M sq. ft. Cubes at French Lake in Dayton, the Cottage Grove Logistics Park 2, and the I-94 East Logistics Center in Woodbury.

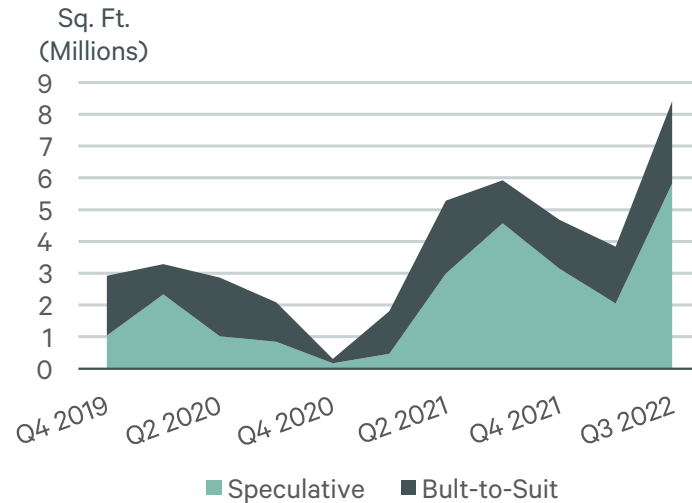
In Q3, there was 2 million sq. ft. of new construction delivered including the 610 Broadway Business Center in Brooklyn Park, Arbor Lakes Business Park III in Maple Grove, Chaska Creek 1, and the Nordeast Business Center in Minneapolis.

FIGURE 2: Current Construction by Submarket



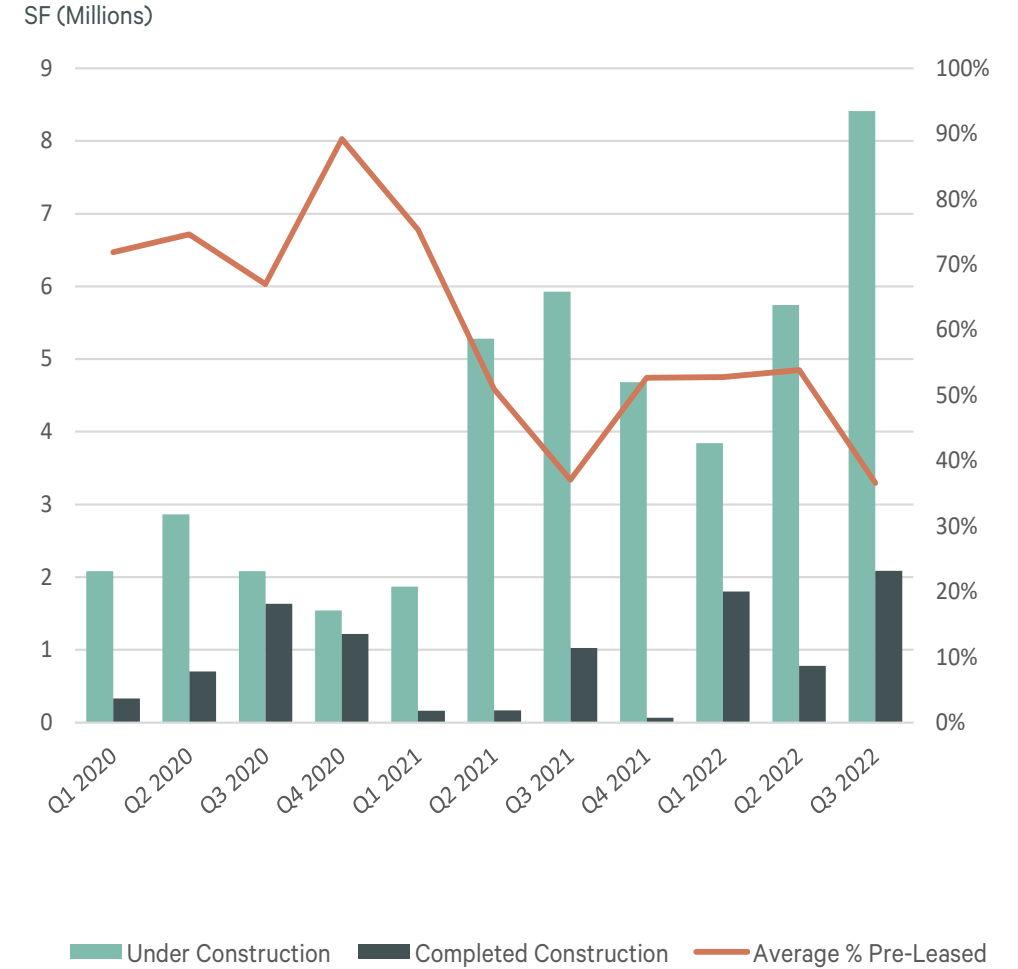
Source: CBRE Research, Q3 2022.

FIGURE 3: Speculative and Built-To-Suit Under Construction



Source: CBRE Research, Q3 2022.

FIGURE 4: Historic Construction Activity and Percentage of Buildings Pre-Leased



Source: CBRE Research, Q3 2022.

Leasing

Strong Q3 2022 leasing activity was led by the Northwest and Southwest submarkets which together accounted for 59% of leasing activity. Overall, Q3 activity totaled 2.9 million sq. ft.

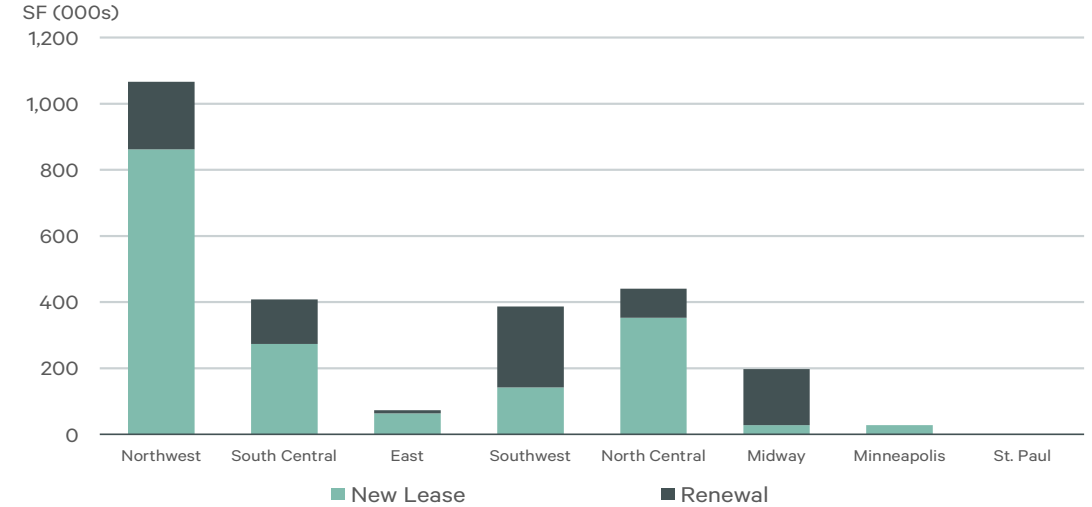
- New leases and expansions accounted for 59% of all market activity in Q3. In the Northwest submarket, 81% of Q3 activity was with new leases.
- The Northwest submarket led the Minneapolis market with 38% of all Q3 activity and 1.1 million sq. ft. transacted. The Southwest (21%), North Central (17%), and South Central (14%) submarkets shared the bulk of remaining activity.
- Manufacturing users accounted for the largest share of activity at 32% of all Q3 activity, followed by Wholesale users at 24%..

FIGURE 5: Top Transactions

Tenant	Size (Sq. Ft.)	Property	Submarket	Transaction Type	Industry
Anagram	218,643	Bloomington Distribution Center	Southwest	New Lease	Manufacturing
FedEx	172,057	Roseville Distribution Center	North Central	New Lease	Transportation/Distribution
Viking Electric Supply	162,618	Mid City Business Center West	Midway	Renewal	Wholesale
Border States Electric	125,112	Zachary Distribution Center	Northwest	New Lease	Wholesale

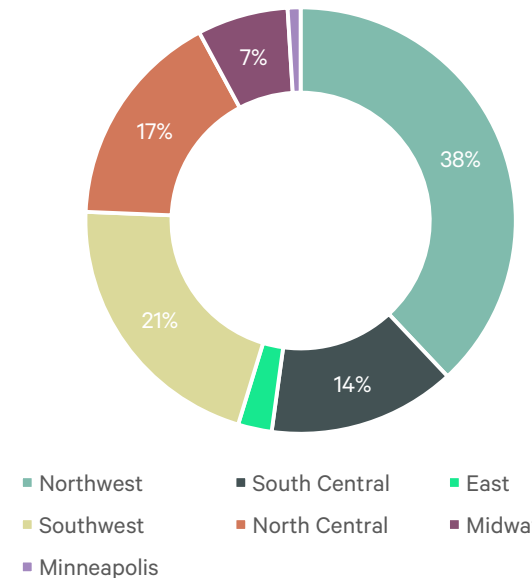
Source: CBRE Research, Q3 2022

FIGURE 6: Top Transaction Type by Submarket and Sq. Ft.



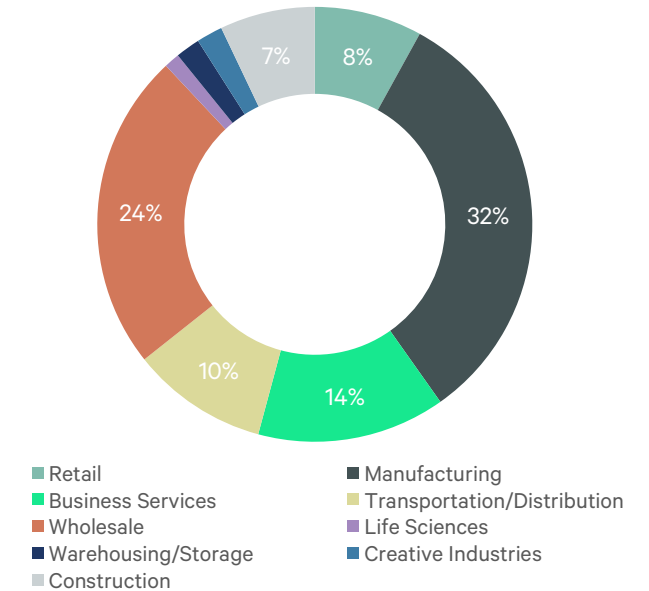
Source: CBRE Research, Q3 2022.

FIGURE 7: Top Transactions by Sq. Ft. by Submarket



Source: CBRE Research, Q3 2022.

FIGURE 8: Top Transactions by Industry Type



Source: CBRE Research, Q3 2022.

Investment Sales.

- **Volume:** Investment sales volume totaled \$305 million in Q3, bringing the 2022 year-to-date total volume to \$1.06 billion. This is a 22% increase year-over-year.
- **Buyer Composition:** Private sales account for the largest percentage of Q3 activity at 48% followed by Listed/REIT buyers with 26% and institutional buyers at 21% of all sales.
- **Product Type:** Q3 sales were predominantly for flex properties representing 58% of the total sales volume.

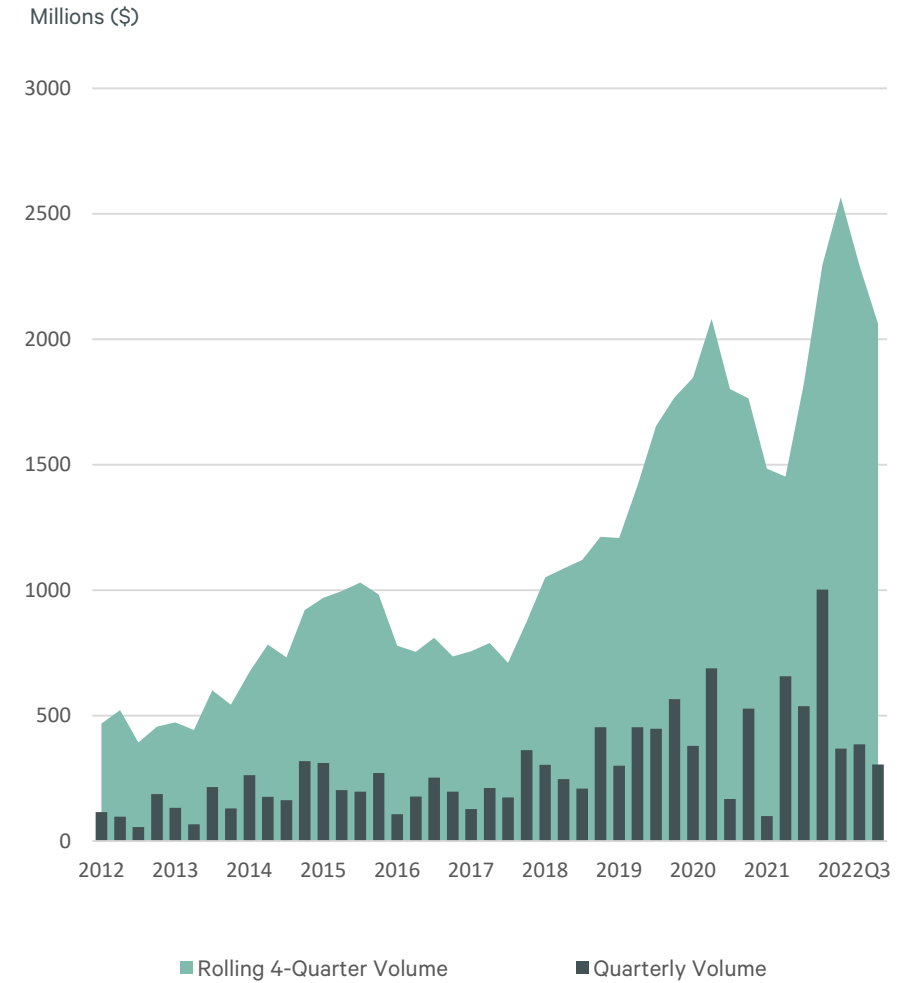
Of the largest deals this quarter, CBRE represented the seller in the sale of 4 properties as part of the Abbott Laboratories Life Sciences Campus deal and the sale of 4835 White Bear Parkway. In total, CBRE transacted \$110M of total industrial sales this quarter, representing 36% of the market activity.

FIGURE 9: Q3 2022 Top Investment Sales

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
Abbott Laboratories Life Sciences Campus	Minnetonka	Virus RE Capital	53,000,000	280,000	189
Blackstone Waters Business Center Portfolio	Eagan	Hyde Development	37,100,000	328,546	113
Alidade Capital MI Industrial Portfolio	Various	Westmount Realty	33,200,000	314,553	106
4835 White Bear Parkway	White Bear Lake	Norman Properties	21,500,000	117,518	183
Times Venture MN Industrial Portfolio	Various	Capital Partners	19,800,000	159,530	124

Source: CBRE Research, Q3 2022.

FIGURE 10: Minneapolis Industrial Investment Sales Volume, 2012 – Q3 2022



Source: Real Capital Analytics.

FIGURE 11: Minneapolis/St. Paul Industrial Market Statistics

Submarket	Inventory (Sq. Ft.)	Total Availability Rate	Total Vacancy Rate	Q3 2022 Net Absorption (Sq. Ft.)	Avg. Net Blended Asking Rate (\$/Sq. Ft./Yr.)
Metro Overall	348,189,534	3.9%	2.9%	2,636,672	\$7.26
East	20,102,090	3.4%	3.0%	573,971	\$6.10
Northwest	77,355,601	4.4%	3.3%	1,153,991	\$7.75
Southwest	71,085,032	5.3%	4.3%	257,956	\$6.94
South Central	53,336,797	3.4%	2.5%	(89,267)	\$7.08
North Central	53,759,440	2.8%	2.3%	500,864	\$6.48
Minneapolis	25,546,336	3.2%	1.9%	95,499	\$6.23
St Paul	16,068,037	2.3%	1.6%	117,787	\$9.11
Midway	30,936,201	3.4%	1.4%	25,871	\$9.25

Source: CBRE Research, Q3 2022.

FIGURE 12: 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 Completions
Metro Overall	2,504,218	540,250	5,817,248	2,592,851	8,410,099	629,919	1,458,536	2,088,455
East	199,919	0	1,552,753	0	1,552,753	0	517,000	517,000
Northwest	2,304,299	540,250	2,764,145	1,510,251	4,274,396	331,419	941,536	1,272,955
Southwest	0	0	423,448	0	423,448	168,000	0	168,000
South Central	0	0	494,600	100,000	594,600	0	0	0
North Central	0	0	582,302	982,600	1,564,902	0	0	0
Minneapolis	0	0	0	0	0	130,500	0	130,500
St Paul	0	0	0	0	0	0	0	0
Midway	0	0	0	0	0	0	0	0

Source: CBRE Research, Q3 2022.

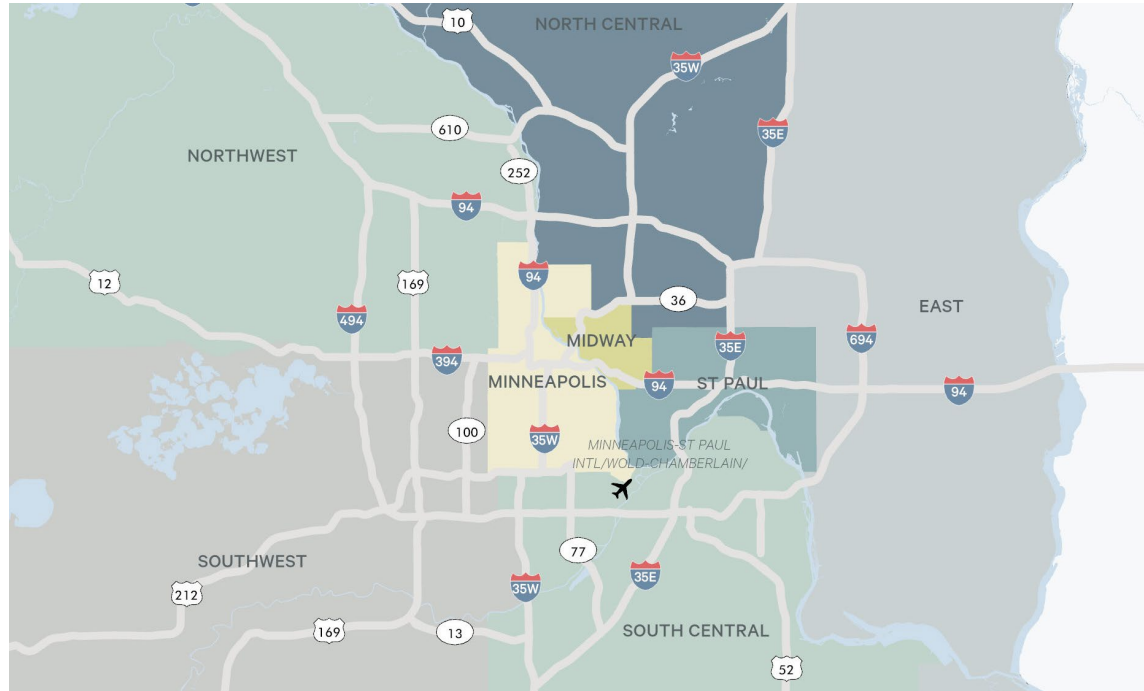
Economic Overview

The problems associated with inflation continue to run their course. Although the pace of inflation may have started to plateau, the Federal Reserve’s hawkish response has been unequivocal in a way that caught markets by surprise. Aggressive rate hikes and Fed balance sheet reductions have successfully resulted in a strong dollar and higher mortgage rates, and the beginning of a slowdown in the U.S. economy.

Higher rates are not just impeding household decisions; a higher corporate cost of capital is forcing firms to rethink hiring plans. So far resilient consumers have driven further economic growth but now the realities of lower savings rates and chronically poor sentiment suggest excess spending is coming to an end. Consequently, we expect the economy to contract early next year, and unemployment to rise. This should push inflation down toward 3% by year-end 2023. It is possible the Fed may be able to reduce inflation and maintain the unemployment rate below 5%, but we should not bank on that. Once inflation is tamed, both capital and real estate markets will become more predictable again.



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.

Contact

Maggie Parra

Senior Field Research Analyst
 +1 612 215 1268
 maggie.parra@cbre.com