

FIGURES | MINNEAPOLIS INDUSTRIAL | Q3 2023

Construction starts begin to slow with increasing vacancy rates

▲ 3.6%

Direct Vacancy Rate

▲ 2,216,790

SF Net Absorption

▼ 5.1M

SF Under Construction

▲ \$9.23 PSF

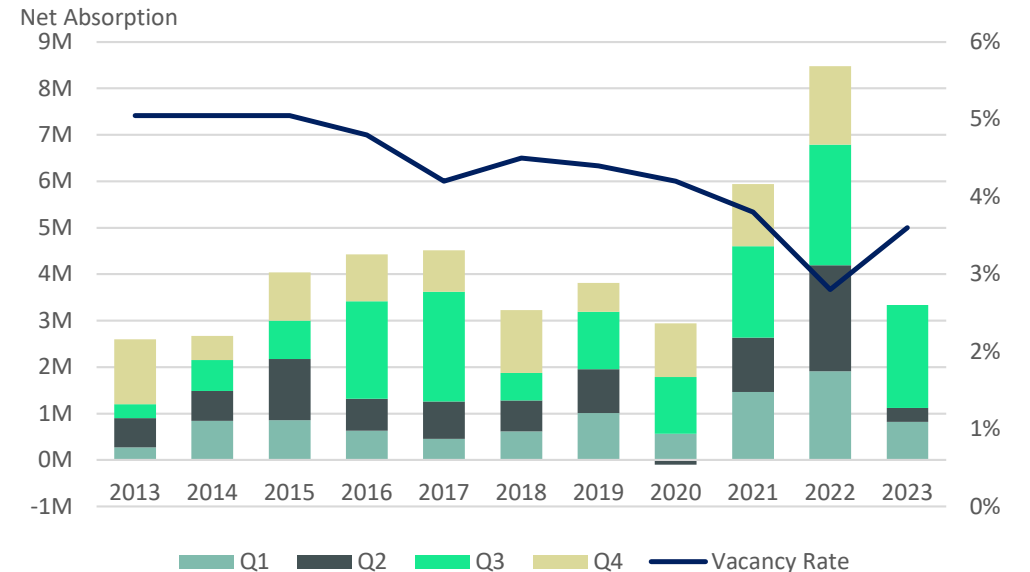
Net-Blended Asking Rate (NNN)

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- In Q3, the Minneapolis industrial market absorbed more than 2.2M sq. ft. bringing the 2023 year-to-date total to 3.3M.
- Q3 leasing activity remained high with 4.2M sq. ft transacted. Year-to-date, the market leased over 13.3M sq. ft. of industrial space, which represents 95% of the total leasing volume from 2022.
- There is currently 5.1M sq. ft. of new industrial development under construction. Of that, just under half at 49% is speculative development with 10.7% pre-leased.
- Speculative starts slowed significantly and there were five new build to suit construction starts in Q3, totaling an additional 790,800 sq. ft. underway.
- There was 4.8M sq. ft. of new construction delivered in Q3. Of that, 3.4M sq. ft. was speculative construction where 21% has been leased.
- By the end of year, 15 new properties for an additional 1.9M sq. ft. of speculative development and 631,364 sq. ft. of build to suit development are expected to deliver.

FIGURE 1: Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q3 2023.

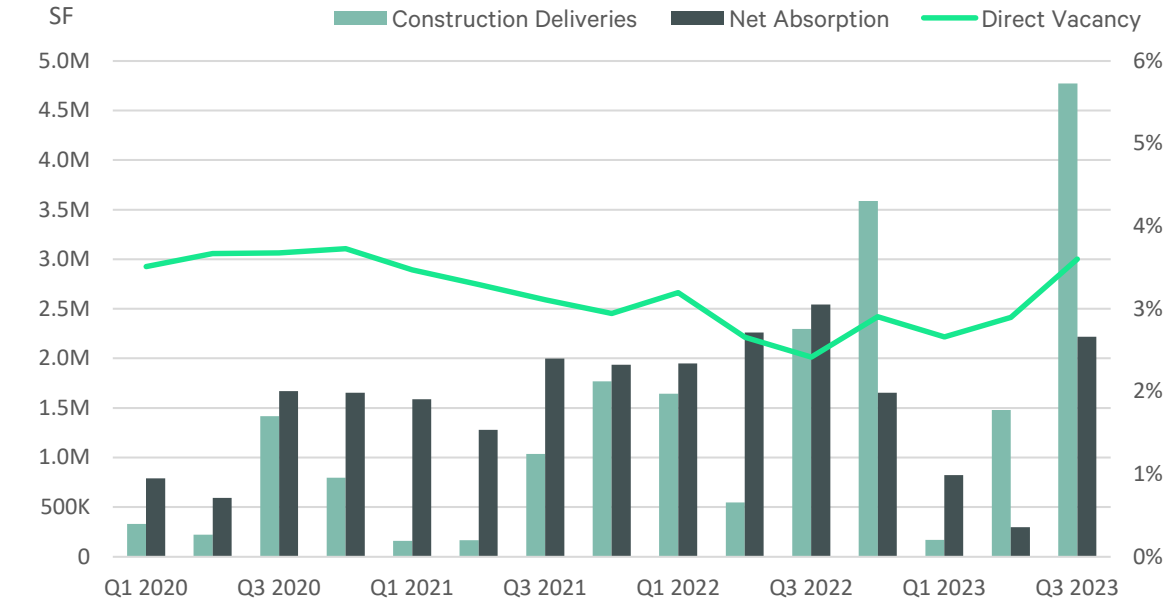
Absorption

In Q3, the Minneapolis industrial market absorbed 2,216,790 sq. ft., a 67% increase over the trailing 4-quarter average absorption. For 2023 year-to-date, the market absorbed over 3.3M sq. ft.

With a high volume of new construction delivered this quarter, direct vacancy increased to 3.6% in Q3, an increase of 60 bps from the previous quarter. Similarly, direct availability increased by 50 bps quarter-over-quarter while sublease availability decreased by 10 bps.

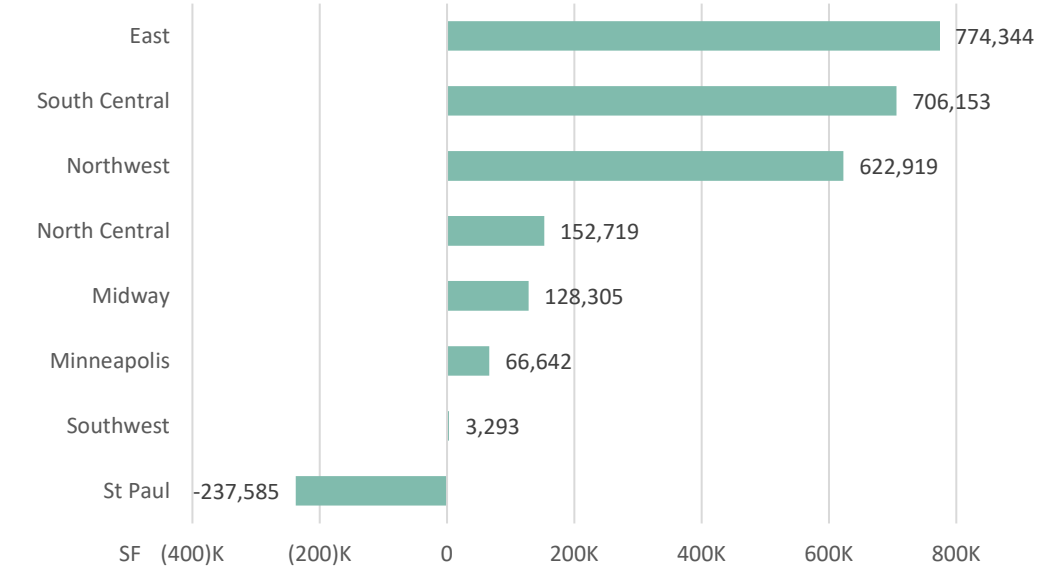
From Q1 2020 to Q3 2022, net absorption exceeded total construction deliveries. In Q3, 2023, the total sq. ft. absorbed represented 47% of the total sq. ft. of new construction delivered. The total availability rate on all industrial product built since 2020 was 26% in Q3, where 72% of speculative construction delivered in 2022 has been leased.

FIGURE 2: Direct Vacancy and Construction Deliveries, 2020-2023



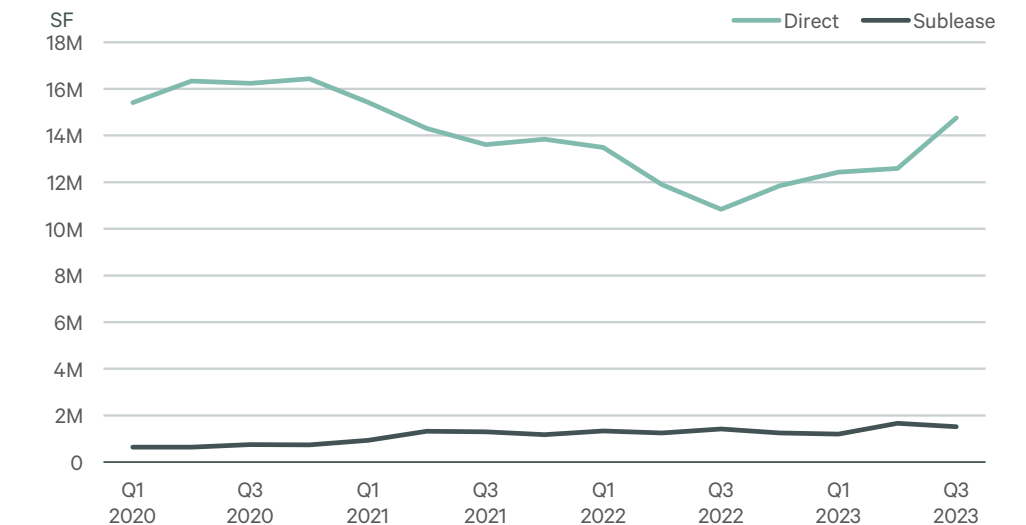
Source: CBRE Research, Q3 2023.

FIGURE 3: Q3 2023 Net Absorption by Submarket



Source: CBRE Research, Q3 2023.

FIGURE 4: Direct vs. Sublease Available SF, 2020-2023



Source: CBRE Research, Q3 2023.

Leasing

Overall, Q3 leasing activity in Minneapolis remained strong with a volume of 4.2M sq. ft., a 25% increase year-over-year. 2023 year-to-date, leasing volume reached 13.3M sq. ft., already 95% of the total leasing volume from 2022.

There was robust renewal activity in Q3, representing 46% of the market’s total leasing activity. The Southwest submarket had the highest volume of renewal activity with renewals representing 82% of leasing activity this quarter. Overall, the Northwest submarket saw the highest velocity of leasing activity with 1.7M SF transacted in Q3. Of this, new leases accounted for 87% of total activity.

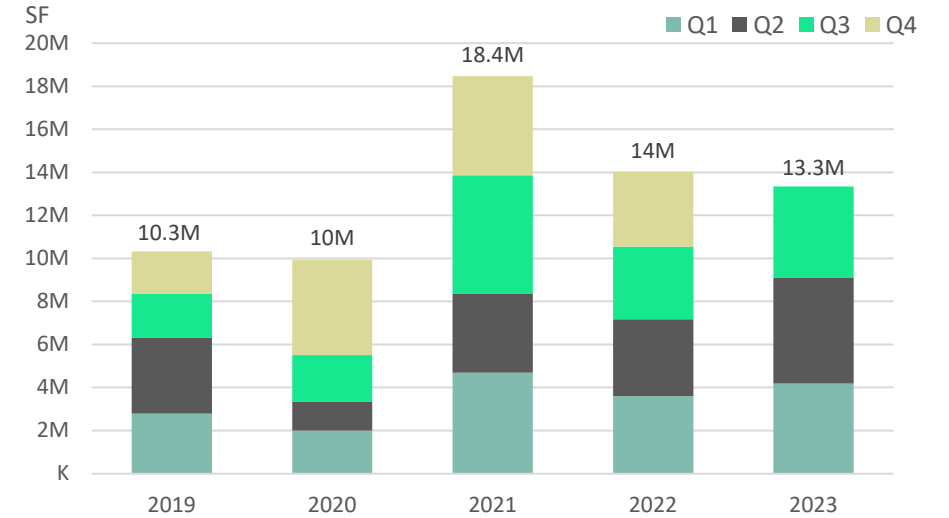
Leasing activity on new construction remains high. Leasing on buildings built since 2022 accounted for 30% of total leasing activity in Q3. In the Northwest submarket, leasing on new speculative construction accounted for 44% of the submarket’s total leasing activity this quarter.

FIGURE 5: Q3 2023 Top Lease Transactions

Tenant	Size (SF)	Property	Submarket	Transaction Type	Industry
Amentum Services	282,100	First Park Lakeville	South Central	Renewal	Admin & Support Services
BAE Systems	250,000	Build to Suit - Maple Grove	Northwest	New Lease	Manufacturing
nVent Hoffman	248,000	French Lake Distribution Center	Northwest	New Lease	Manufacturing
AmerisourceBergen	215,900	500 Innovation Blvd II	Southwest	Renewal	Pharmaceutical Wholesale
CommScope	176,648	Valley View Business Center	Southwest	Renewal	Telecommunications
Apothecary Products	150,000	11750 12th Avenue S	South Central	Renewal	Wholesale
MAS HVAC	149,316	Arbor Lakes Business Park VI	Northwest	New Lease	Manufacturing

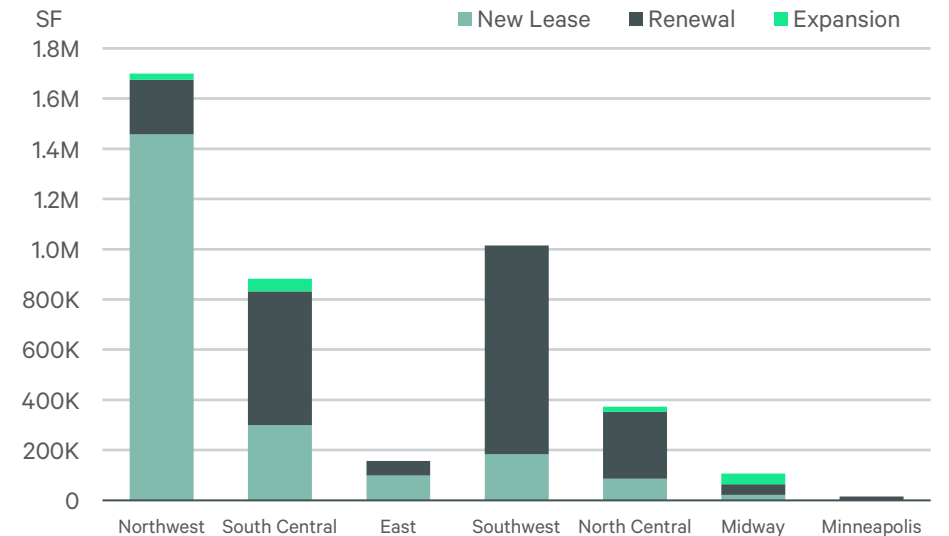
Source: CBRE Research, Q3 2023

FIGURE 6: Historic Annual Leasing Velocity 2019-2023



Source: CBRE Research, Q3 2023.

FIGURE 7: Q3 2023 Leasing Activity by Submarket



Source: CBRE Research, Q3 2023.

Construction

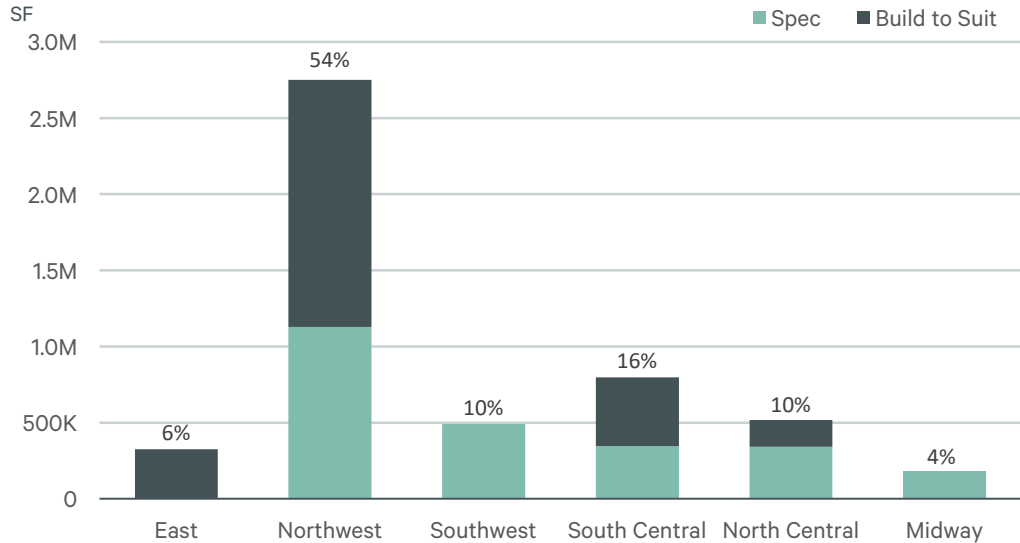
There is currently 5.1 million sq. ft. of new industrial development under construction in the Minneapolis market. Of that, just under half at 49% is speculative development with 10.4% overall pre-leased.

In Q3, speculative starts slowed and the build to suit pipeline remained steady with five new developments started for an additional 790,800 sq. ft. underway. Starts this quarter include Arbor Lakes VIII in Maple Grove and an expansion for Spectro Alloys in Rosemount.

There was 4.8M sq. ft. of construction delivered in Q3. Of the Q3 speculative deliveries, 21% has been leased. Q3 deliveries include I-94 East Logistics Center in Woodbury, Nathan Lane Business Center in Plymouth, and Rich Valley Business Center in Rosemount.

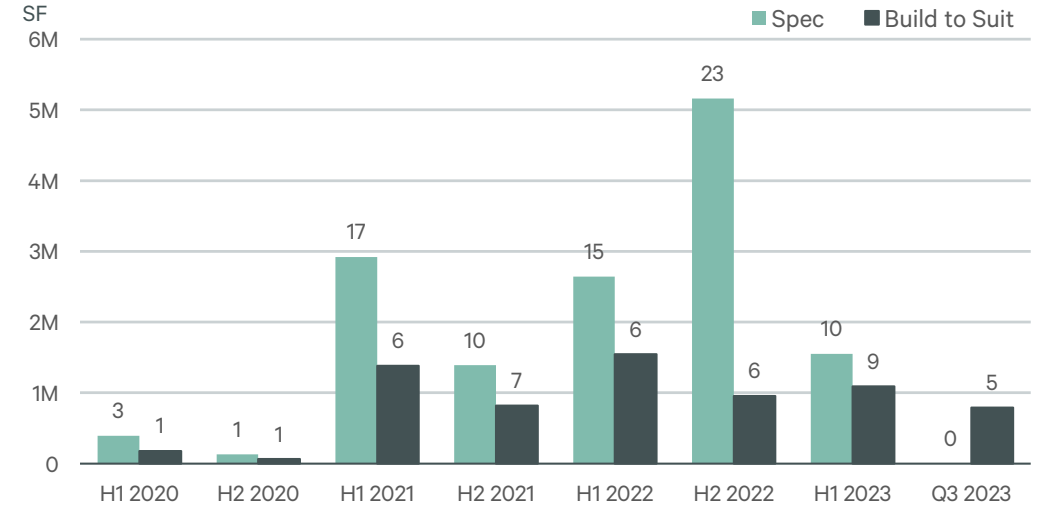
By the end of year, 15 new properties for an additional 1.9M sq. ft. of speculative development and 631,000 sq. ft. of build to suit development are expected to deliver. With speculative starts slowing, there are just three additional projects expected to deliver in the next six months for an additional 588,000 sq. ft.

FIGURE 8: Current SF Under Construction by Submarket



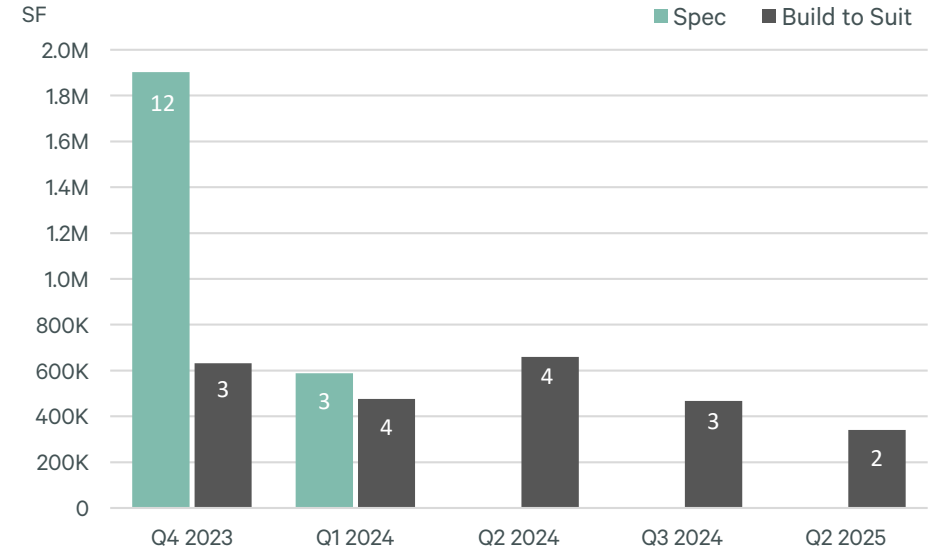
Source: CBRE Research, Q3 2023.

FIGURE 9: Construction Starts 2020-2023



Source: CBRE Research, Q3 2023.

FIGURE 10: 2023-2025 Expected Industrial Deliveries



Source: CBRE Research, Q3 2023.

Industrial Sales

Industrial sales volume totaled \$235 million in Q3. This was a 35% decrease year-over-year. Individual property volume decreased 10% year-over-year along with an 18% decrease in portfolio volume.

Q3 sales were predominantly for warehouse properties representing 54% of the total sales volume. Year-over-year warehouse sales volume decreased 32% and flex sales volume decreased 38%.

The average price per square feet experienced a slight decrease in Q3, with a 3% decrease year-over-year and 2% decrease from the previous quarter. Pricing on top quartile assets decreased by 12.6% quarter-over-quarter and 10% year-over-year.

Of the top sales this quarter, CBRE represented in the sale of Xenium Business Center, Nathan Lane Business Center, and Shady Oak Business Center B-C-F. Overall, CBRE’s market share was 25% of total sales volume in Q3.

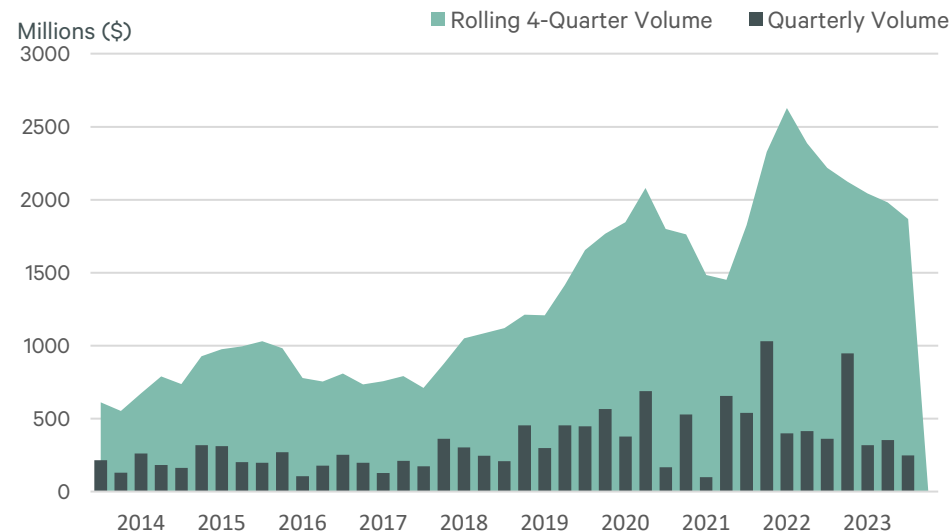
FIGURE 11: Q3 2023 Top Industrial Sales

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
North Cross Business Center 2-3	Brooklyn Park	PCCP	35.2M	239,000	147
Endeavor 3-Pack	Various	Artemis RE Partners	31.7M	263,000	121
Xenium Business Center	Plymouth	Founders Properties	21.6M	215,000	100
8840-8800 Evergreen Boulevard	Coon Rapids	CIRE Equity	18.7M	262,000	71
8235 220th Street West	Lakeville	New Mountain Capital	18.3M	205,000	90
*Nathan Lane Business Center	Plymouth	CF Moto Powersports	18.1M	90,000	202
*600 Lakeview Point Dr	New Brighton	Pioneer Industries International	13.8M	111,000	125
Shady Oaks Business Ctr B-C-F	Eden Prairie	Encompass Properties	13.5M	103,000	131

*Indicates Owner User Sale

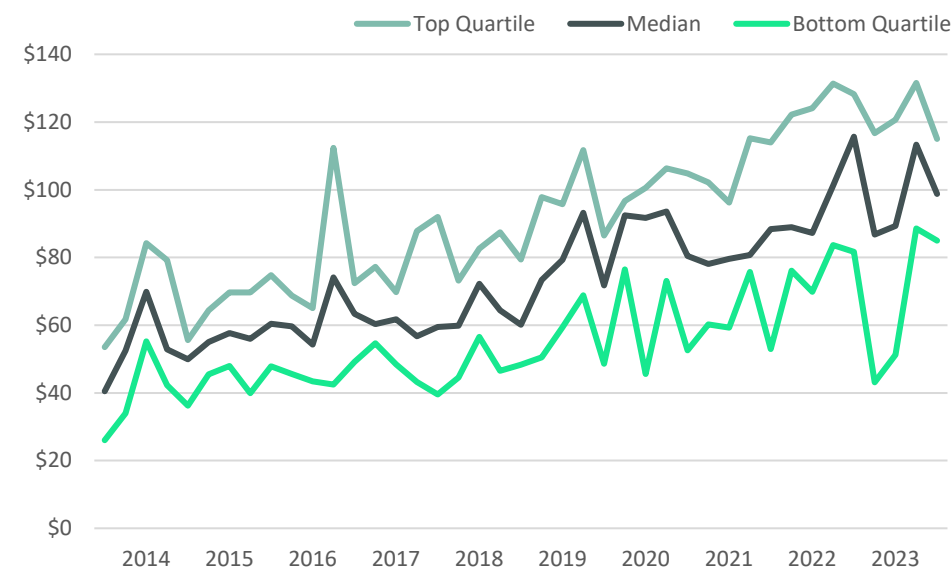
Source: CBRE Research, Q3 2023.

FIGURE 12: Minneapolis Industrial Sales Volume, 2013 – Q3 2023



Source: Real Capital Analytics, CBRE Research, Q3 2023.

FIGURE 13: Minneapolis Industrial Price per Sq. Ft., 2013 – Q3 2023



Source: Real Capital Analytics.

FIGURE 14: Minneapolis/St. Paul Industrial Market Statistics

Submarket	Inventory (SF)	Total Availability Rate	Direct Vacancy Rate	Q3 2023 Net Absorption (SF)	Rolling 4 Quarter Net Absorption (SF)	Avg. Net Blended Asking Rate (\$/SF/Year)
Metro Overall	357,691,218	4.6%	3.6%	2,216,790	4,992,339	\$9.23
East	23,104,279	11.9%	10.7%	774,344	963,133	\$9.99
Northwest	80,865,957	5.3%	4.4%	622,919	(269,623)	\$9.31
Southwest	71,782,794	5.8%	4.3%	3,293	(204,615)	\$8.26
South Central	55,483,643	3.5%	2.6%	706,153	1,065,184	\$9.93
North Central	54,717,227	1.8%	1.8%	152,719	2,361,564	\$8.34
Minneapolis	25,456,564	2.8%	1.5%	66,642	1,527,804	\$8.71
St Paul	15,965,489	4.3%	2.2%	(237,585)	(302,732)	\$9.11
Midway	30,315,265	2.9%	2.1%	128,305	(148,376)	\$9.71

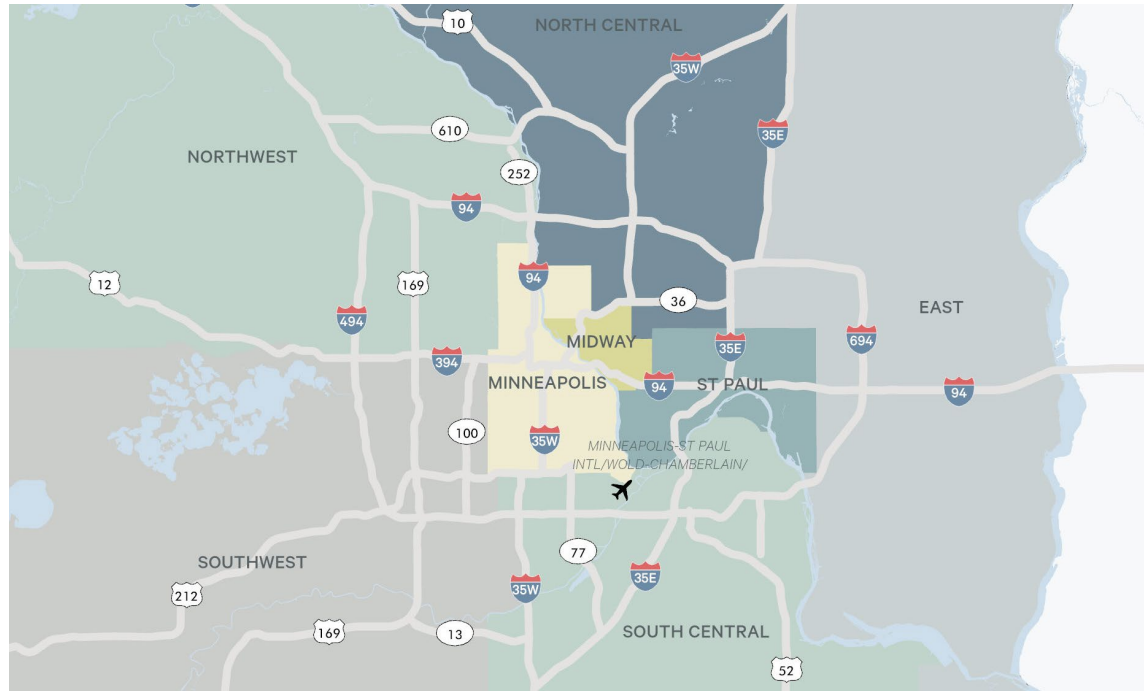
Source: CBRE Research, Q3 2023.

FIGURE 15: Minneapolis/St. Paul Industrial Construction Statistics

Submarket	Construction Starts	Spec Under Construction	BTS Under Construction	Total Under Construction	Spec Completed	BTS Completed	Spec Under Construction Released
Metro Overall	790,800	2,490,484	2,573,765	5,064,249	3,419,319	1,352,537	10.4%
East	160,000	0	326,364	326,364	1,359,897	412,830	-
Northwest	540,800	1,128,364	1,621,401	2,749,765	1,636,880	129,707	23%
Southwest	0	491,340	0	491,340	0	104,000	0%
South Central	90,000	346,780	450,000	796,780	422,542	565,000	0%
North Central	0	342,000	176,000	518,000	0	141,000	0
Minneapolis	0	0	0	0	0	0	-
St Paul	0	0	0	0	0	0	-
Midway	0	182,000	0	182,000	0	0	0

Source: CBRE Research, Q3 2023.

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. (includes direct and sublease space) 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 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.
- Net-Blended Rate: Rent average includes the warehouse asking rate blended with the office asking rate.
- Net Absorption: The change in Occupied Sq. Ft. from one period to the next.
- Occupied Sq. Ft.: Building Area not considered vacant.
- Vacant Sq. Ft.: Space that can be occupied within 30 days.
- Direct Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area where subtenant space is excluded.

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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