

MARKETBEAT

Minneapolis/St. Paul

Industrial Q2 2017



MINNEAPOLIS/ST. PAUL INDUSTRIAL

Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
Minneapolis Employment	1.9M	2.0M	▲
Minneapolis Unemployment	3.5%	3.4%	▼
U.S. Unemployment	4.9%	4.4%	■

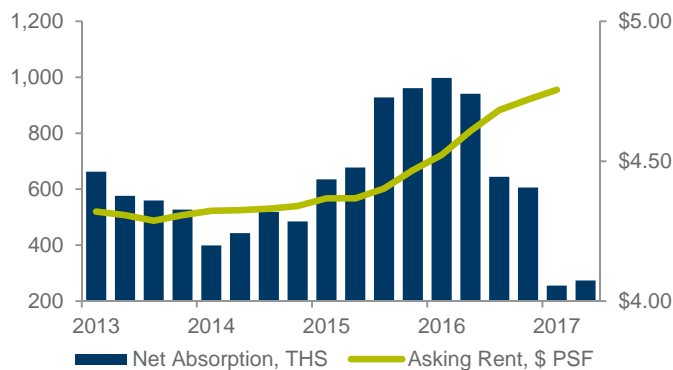
Market Indicators (Overall, All Classes)

	Q2 16	Q2 17	12-Month Forecast
Vacancy	8.5%	8.7%	▼
YTD Net Absorption (sf)	1.4M	116k	▲
Under Construction (sf)	2.4M	2.3M	■
Average Asking Rent*	\$4.67	\$4.80	▲

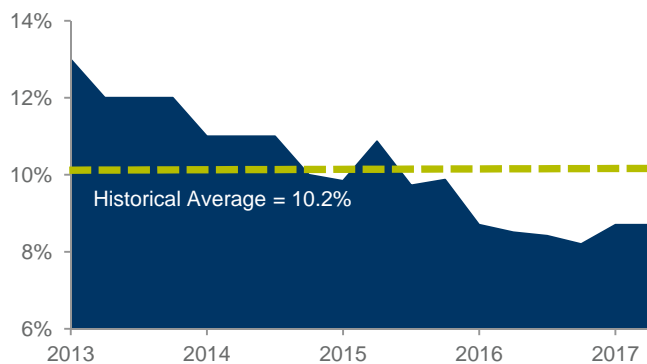
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Over the past year, the state has added 48,068 jobs, a gain of 1.7% compared to the national average of 1.5%. The Twin Cities economy, specifically, continues to churn as it has added over 200,000 jobs since the end of second quarter 2009, and the labor market continues to tighten as job vacancy postings have increased. According to the Minnesota Department of Employment and Economic Development, the Twin Cities had less than one unemployed persons for every one job vacancy as of April 2017.

Market Overview

The industrial market took something of a breather in the first half of 2017 as absorption was well below expectations. There was evidence that rising labor costs and uncertainty about where we are in the economic and real estate cycles has resulted in users becoming more cautious about leases. The story in most of the Twin Cities metro was a pronounced lack of availability of high-quality product, especially for users in the market looking for larger spaces.

Users are increasingly basing their location decisions on the cost and availability of labor. The arrival of Amazon.com in Shakopee has raised the bar on pay for warehouse employees, and users are increasingly taking local pay rates into account.

There is little speculative multi-tenant new construction either ongoing or on the drawing boards. Developers were constrained by a lack of land positions within the metro's core, and most tenants want to be as close to the urban core as possible. This is resulting in significantly more build-to-suit (BTS) projects.

Potential buyers were plentiful in the Twin Cities market, but their preference for high-quality product was mostly frustrated by a lack of supply. When such assets did reach the market, they fetched envelope-pushing prices. However, the opposite held true for buildings judged to be obsolete, such as those with clear heights of 20 feet or less. Those assets proved hard to move.

Outlook

Despite the first-half dip in absorption numbers, the industrial market could report over 1 million square feet of absorption in the second half of 2017 as a significant number of closed deals are expected to occupy. Demand for industrial product close to the urban core will likely continue, with the beneficiaries mostly in the Northwest and Northeast submarkets, such as Northern Stacks in Fridley and the various developers who have staked out positions in Brooklyn Park and surrounding areas. BTS projects will likely become an increasingly popular option for users who are willing to pay for high construction costs in order to obtain a modern facility at a closer-in location.

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SUBMARKET	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT (HT)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (WD)
Northeast	33,150,504	411,241	7.5%	-363,774	1,023,000	\$5.10	\$4.70	\$4.20
Northwest	29,257,074	362,333	11.5%	314,218	330,200	\$5.11	\$5.52	\$4.60
Southeast	17,585,335	62,666	7.2%	278,828	412,000	\$4.97	\$4.69	\$4.83
Southwest	25,829,654	84,000	8.2%	-113,745	489,342	\$5.42	\$4.54	\$4.70
MINNEAPOLIS/ST. PAUL TOTALS	105,822,567	920,240	8.7%	115,527	2,254,542	\$5.19	\$4.95	\$4.52

*Rental rates reflect asking \$psf/year

SUMMARY BY TYPE	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT
High Tech	315	20,444,653	0	9.8%	-66,726	0	\$5.19
Office Service/Flex	687	48,405,539	649,496	6.7%	60,345	1,174,980	\$4.95
Warehouse/Distribution	218	36,972,375	270,744	10.8%	121,908	1,079,562	\$4.52

Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Lovell Rd. & Hamline Ave.	250,000	Arrowhead Electrical	BTS	Northeast
2101 4 th Ave. E	174,000	My Pillow	BTS	Southwest
215 th St. & Cedar Ave.	150,000	Menasha Packaging	New	Southeast
312 Lake Hazeltine Dr.	125,724	Goodwill	New	Southwest
15175 25 th Ave. N	96,470	US Auto Force	New	Northwest

Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
330 University Ave. SE	366,600	General Mills / Doran Companies	\$15,800,000 / \$43	Northeast
13201 Wilfred Ln. N	341,040	Gramercy / Scannell	\$10,900,000 / \$32	Northwest
1080 Park Pl.	299,600	United Properties / Meritex	\$18,700,000 / \$63	Southwest
3700 Williston Rd.	278,064	Eagle Ridge Partners / Syndicated Equities	\$22,300,000 / \$80	Northwest
7101 Winnetka Ave. S	233,682	First Industrial / Second Harvest Heartland	\$13,400,000 / \$57	Northwest

Cushman & Wakefield
3500 American Blvd W, Ste 200
Bloomington, MN 55431
www.cushmanwakefield.com

For more information, contact:
Patrick Hamilton
Director of GIS & Market Analytics
Tel: +1 952 837 8574
patrick.hamilton@cushwakenm.com

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