

COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market



INDUSTRIAL MARKET

Rogers Regains its Luster as Strong Demand Once Again Buys Industrial Market in First Half

Led by the resurgent Northwest sector, the Twin Cities industrial market's long-standing positive momentum kept up its steady pace during the first half of 2018 with 1.59 msf of absorption, nearly equaling the high expectations set at the end of last year.

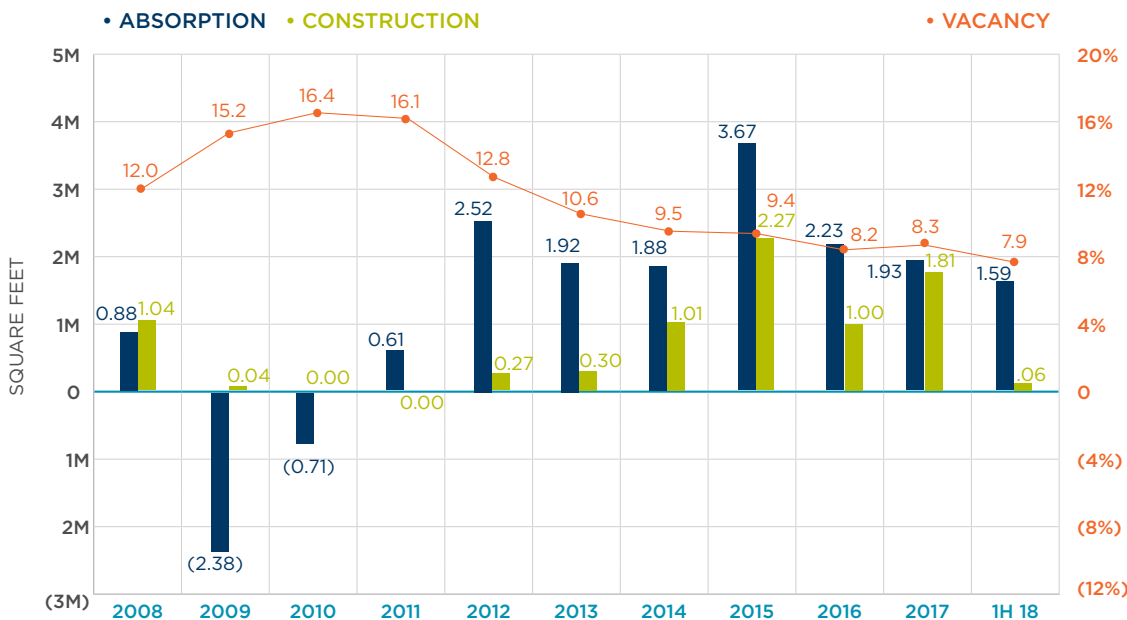
The charge was led by strong leasing activity in Rogers, which continued its transformation from the Twin Cities' most overbuilt industrial venue to its most active. The city's roster of industrial properties racked up 500,000 sf of absorption in the first half; the Northwest submarket as a whole logged 607,347 sf of absorption to lead the Twin Cities metro.

SOUTHWEST TOO CRAMPED TO COPE?

In the key Southwest submarket, leasing activity was steady at 402,049 sf of absorption, but that total could have been much greater if not hampered by a lack of options to satisfy the persistent demand for large spaces.

INDUSTRIAL ABSORPTION, CONSTRUCTION & VACANCY

Source: Cushman & Wakefield



607,347 SF
NW absorption
in 1H 2018



1.1M SF
overall absorption
projected in 2H

INDUSTRIAL VACANCY & ABSORPTION

Source: Cushman & Wakefield

SUBMARKET	TOTAL # OF BLDGS	NRA	VACANT SPACE	% VACANT	% VACANT W/SUBLEASE	1Q 2018 ABSORPTION	2Q 2018 ABSORPTION	1ST HALF 18 ABSORPTION
Northeast	401	32,249,788	2,874,641	8.4%	8.8%	246,120	167,173	413,293
Northwest	327	30,461,612	2,948,840	9.7%	10.6%	112,955	494,392	607,347
Southeast	228	18,394,783	1,197,201	6.5%	7.6%	111,263	58,799	170,062
Southwest	312	27,071,993	1,724,586	6.4%	7.2%	104,114	297,935	402,049
Total Market	1,268	110,178,176	8,745,268	7.9%	8.7%	574,452	1,018,299	1,592,751

MORE INDUSTRIAL CONSTRUCTION ON THE WAY

The already strong pace of new construction picked up even more as 2018 progressed and is expected to result in more than 1 msf of new industrial space by the end of year. This includes major new multi-tenant projects in the Southeast and Northwest, such as Duke Realty's 264,000-sf Arbor Lakes Business Park office-warehouse project in Maple Grove and the 94,500-sf Burnsville Industrial Center from developer John Allen.

OFFICE-WAREHOUSE MARKET REMAINS TIGHT

The overall Twin Cities office-warehouse market clocked in with a tight vacancy rate of 5.8% as the first half ended. The situation was especially pronounced in the Northeast, which carried a 4.7% rate. Those conditions put something of a damper on deal flow, but the Northeast will see a surge of new construction coming online in the next 12 months, including new product at the popular Northern Stacks in Fridley.

SELF-STORAGE USERS STAYING AGGRESSIVE

The sales market for industrial buildings remained scorching hot in the first half, with even poorly located and obsolete facilities changing hands and, in some cases, fetching eye-popping prices. One of the most aggressive buyers is self-storage users, who are repositioning long-dormant industrial buildings for the quickly expanding storage market driven by downsizing Baby Boomers moving into smaller homes or apartments.

OUTLOOK

With few signs that user demand is slowing down in a healthy economy, the lengthy industrial up-cycle is expected to continue into the second half of 2018 with 1.1 msf of absorption predicted. If realized, that would produce total 2018 absorption of 2.69 msf, making it Twin Cities' best year since 2015 and marking a 25 percent increase over 2017.

The tight vacancy situation for office-warehouse in the most popular submarkets will likely push rental rates higher in the second half, perhaps accelerating the stubbornly slow upward trend demonstrated during the currently lengthy up-cycle.

ABOUT THE AUTHOR

THE COMPASS REPORT

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