

MARKETBEAT

Minneapolis/St. Paul

Industrial Q3 2018



MINNEAPOLIS/ST. PAUL INDUSTRIAL

Economic Indicators*

	Q3 17	Q3 18	12-Month Forecast
Minneapolis Employment	2.0M	2.0M	▲
Minneapolis Unemployment	3.1%	2.7%	▼
U.S. Unemployment	4.4%	3.9%	▼

*Numbers above are quarterly averages; Q3 2018 data based on July values

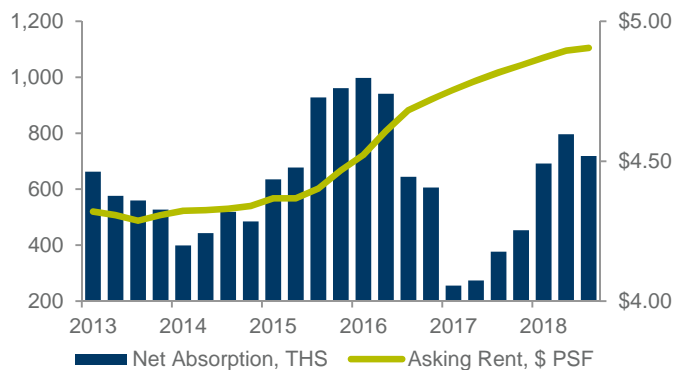
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	8.0%	7.9%	▼
YTD Net Absorption (sf)	988k	2.0M	▲
Under Construction (sf)	2.4M	2.1M	■
Average Asking Rent*	\$4.90	\$4.94	▲

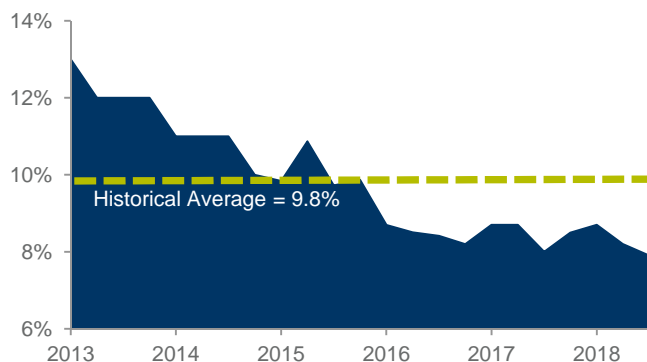
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Twin Cities business environment continued to strengthen in the third quarter of 2018, as more than 33,000 jobs were added year-over-year. According to the Bureau of Labor Statistics, the Twin Cities had the lowest unemployment rate of 51 metropolitan areas with a population of 1.0 million or more.

Market Overview

Twin Cities industrial market fundamentals remained strong throughout the third quarter of 2018, with tenant activity levels showing no signs of regression in the near term. Overall vacancy decreased 30 basis points from second quarter 2018 as competition for limited large blocks of modern bulk warehouse and office service/flex product in the high-demand Northwest and Southwest submarkets intensified. Overall absorption year-to-date has exceeded 2.0 million square feet (msf), which is more than double the absorption levels through third quarter 2017. Overall asking rates continued a slow upward trajectory across the metro. However, landlords continued to push rates more aggressively in assets located in areas with immediate access to transit, social amenities and housing.

Development activity remained healthy as vacancy tightened across the market. Over the next nine months, build-to-suit and pre-leased projects totaling more than 870,000 square feet (sf) will be completed for companies such as Illume Candle, LKQ, Prototab Engineering and Curtis 1000. New speculative deliveries will add an additional 1.3 msf to the market over the same period. Hyde Development will continue to expand its Northern Stacks development after purchasing a 177,000-sf property adjacent to the existing Northern Stacks VI building. Investment sale activity remained competitive as demand outweighed market supply. Cap rate compression has been most notable in the office service/flex property asset class. Owners continued to capitalize on attractive pricing as yields have compressed throughout 2018. Although the resurgence of stabilized assets brought to market persisted, investors continued to search for value-add or in-fill redevelopment sites.

Outlook

With over 2.0 msf of absorption year-to-date, the Twin Cities industrial market is well positioned to realize, or outperform, the projected 2.5 msf of absorption for 2018. New speculative deliveries in the fourth quarter of 2018 are expected to add more than 900,000 sf of modern bulk and office service/flex space to the market. The additional inventory is projected to lease quickly as tenant demand continues to exceed available space in high demand submarkets. On the investment front, professionals will continue to watch existing Minneapolis assets tied to national portfolio deals. Those assets will become likely opportunities for acquisition post portfolio sales.

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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	34,293,516	519,220	8.1%	470,704	1,078,000	\$5.13	\$5.22	\$4.25
Northwest	30,771,460	284,907	10.5%	830,097	820,622	\$5.03	\$5.26	\$4.62
Southeast	18,314,352	341,042	6.1%	233,406	238,534	\$5.46	\$5.33	\$4.77
Southwest	27,171,901	414,683	6.0%	514,602	0	\$5.70	\$5.15	\$5.09
MINNEAPOLIS/ST. PAUL TOTALS	110,551,229	1,559,852	7.9%	2,048,809	2,137,156	\$5.36	\$5.24	\$4.50

*Rental rates reflect asking \$psf/year

HT = High Tech OS = Office Service/Flex W/D = Warehouse/Distribution

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	332	20,928,447	137,402	9.3%	220,257	0	\$5.36
Office Service/Flex	711	50,391,702	672,526	6.0%	925,626	1,270,156	\$5.24
Warehouse/Distribution	232	39,231,080	749,924	9.6%	902,926	867,000	\$4.50

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
335 8 th St. E., St. Paul	166,000	Murphy Warehouse	New	Northeast
4837 Azelia Ave. N., Brooklyn Center	116,000	JSI Logistics	New	Northwest
13098 George Weber Dr., Rogers	85,925	TriMark	New	Northeast
8401 Eagle Creek Pkwy., Savage	80,724	Hydra-Flex	New	Southwest
9200 75 th Ave. N., Brooklyn Park	60,000	Napco	New	Northwest

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
60 51 st Way N.E., Fridley	182,600	Alltemp Distribution Company / Hyde Development	\$6,875,000 / \$38	Northeast
2800 Vicksburg Ln. N., Plymouth	150,294	Eagle Ridge Partners / QT Commercial, Capital Partners (MN)	\$17,700,000 / \$118	Northwest
12450 Oliver Ave. S., Burnsville	118,700	United Properties / James Campbell Company	\$10,100,000 / \$85	Southwest
9800 13 th Ave. N., Plymouth	111,980	Charal Properties LLC / STAG Industrial	\$8,185,000 / \$73	Northwest
4600 Nathan Ln. N., Plymouth	85,528	Artemis RE Partners, Eagle Ridge Partners / Waitt Company	\$12,750,000 / \$149	Northwest

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

For more information, contact:
Patrick Hamilton, Market Director
Tel: +1 952 837 8574
patrick.hamilton@cushwake.com

Sara Peterson, Senior Analyst
Tel: +1 952 465 3356
sara.peterson@cushwake.com

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