MINNEAPOLIS-ST. PAUL

EXECUTIVE SUMMARY

- Landlords continue to renovate class B and C office buildings to keep up with demand for premium amenities that office tenants are expecting.
- The retail market continues to evolve, yet vacancy should remain stable. As some traditional retail tenants downsize due to e-commerce, other service-type retailers are occupying the space.
- Demand in the Minneapolis-St. Paul industrial market is being driven by a scarcity of large blocks of space, which is spurring construction activity.
- Minneapolis-St. Paul continues to attract investors from around the globe in search of yield.

Economic drivers continue to lift commercial real estate activity in Minneapolis-St. Paul. Both the state's labor force participation rate of 70.3% and the percentage of prime-age workers (ages 25-54) are among the highest in the nation. The Twin Cities are home to 18 Fortune 500 companies which comprise a diverse group of industries led by Professional Services. Employment growth is predicted to rise in 2020 bringing it in-line with national growth and outpacing other markets in the region. With a robust economy and high quality of life standards, the Minneapolis-St. Paul metro expects continued growth in all sectors during 2020.

The office market in Minneapolis-St. Paul is forecasted to remain stable in 2020 with some submarkets faring better than others. Developers are also exhibiting some degree of confidence. In the Minneapolis CBD, The Dayton's Project will open in the spring of 2020, delivering 850,000 square feet (sf) of new speculative space. An additional 343,000 sf is under construction on the I-394 corridor. The project is called 10 West End, and it represents the first new speculative class A building in the suburbs in 18 years. Historically high vacancy rates in the St. Paul CBD linger, which could spur additional mixed-use projects as developers look to follow the global trend of 'placemaking'; creating vibrant, places to live, work, and shop. Landlords are following the national trend of renovating/repositioning class B and C properties to attract new tenants. Rents could move upward as owners invest heavily in renovations and in some new construction. Low vacancy rates exist in premier properties located in the "hot spots" around the metro area. Overall, confidence in the Twin Cities' office market is expected to remain positive in the year ahead, supported by good market fundamentals.

The retail market in Minneapolis-St. Paul is expected to maintain a steady course in 2020. After a flurry of activity in recent years, competition for grocery-anchored sites will likely taper off in the coming year. Vacancy is expected to experience little change as many of the big box spaces vacated due to national closures/bankruptcies have since been absorbed. Development of infill sites has slowed, and moderate levels of speculative construction are expected. The "rebirth of retail", a global trend taking hold locally, is changing the retail landscape as retailers work to attract consumers by increasing their online presence, via experiential retail, and the refreshing of stores to enable a sense of community and human connection. The rise of destination/experiential retailing, which integrates a mixed use of retail, workspace and leisure with residential and transit, represents the return of the traditional 'town square' and is forecasted to increase in 2020.

The Twin Cities' industrial market has been the most active commercial real estate sector since the economic downturn in 2009. Demand is expected to remain steady in the year ahead. New construction is anticipated due to a scarcity of large blocks of space; particularly in the Southwest submarket. This new speculative development will expand into secondary submarkets and into outer communities in the metro area, due mainly to the lack of available land sites in the urban core and inner ring suburbs. There was a large volume of portfolio sales in 2019. With low vacancy rates and increased value in assets, rents are expected to rise in the coming year. Amazon's fulfilment center in the Southwest metro and similar developments in the Northwest submarket are fueling e-commerce and will continue to drive growth in the warehouse sector in the foreseeable future. There is conjecture that the volume of online purchasing could spur the need for 'return centers' in the local metro as reverse logistics rises.

Minneapolis-St. Paul's economic fundamentals are forecasted to remain stable in 2020, and developers are exhibiting some degree of confidence. The office market will deliver over 1.1 million sf of new speculative space.

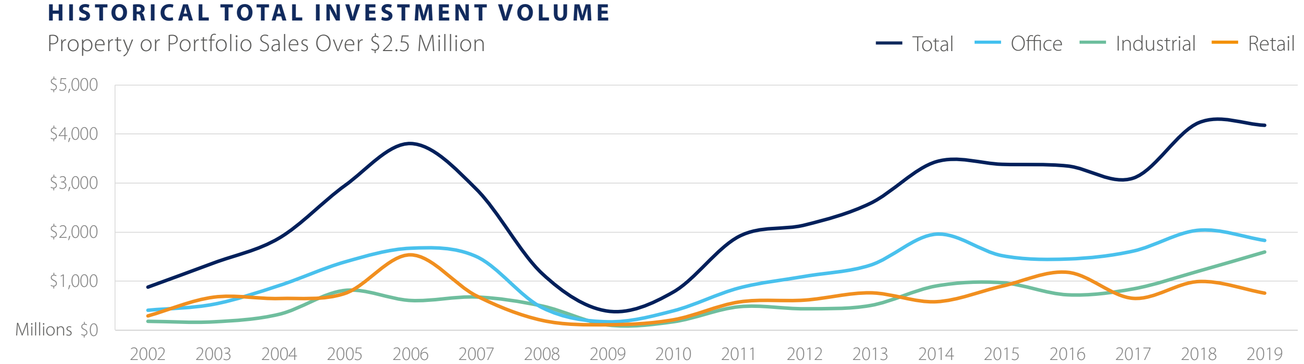
KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↓	↑
Vacant Space	→	→	→
Construction Levels	↓	↑	↑
Leasing Volume	↓	→	↑
Investment Volume	↑	↑	→

HISTORICAL TOTAL INVESTMENT VOLUME

Property or Portfolio Sales Over $2.5 Million



Source: Real Capital Analytics