



Fourth Quarter 2019 / Industrial Market Report

Minneapolis-St. Paul

Market Overview

The Minneapolis-St. Paul industrial market ended 2019 with another strong quarter. The overall vacancy rate was 3.7% at year's end. More than 1.9 million square feet (msf) was delivered in 2019 and the market enters 2020 with 2.3 msf of space under construction. This additional space is needed, particularly in the Southwest and Northwest, where, despite adding a combined 838,237 msf in 2019, vacancy rates remained at 2.5% and 3.6%, respectively.

Emerging markets and the need for last mile delivery have contributed to the low vacancy rates. There will be a continuation of new construction and interest from out-of-state investors to enter the market. AmazonFresh started offering grocery delivery with same day two-hour delivery in the Minneapolis area. The delivery service operates out of a newly completed build-to-suit flex building in the Northwest submarket. In the Southwest submarket, Canterbury Distribution Center is currently under construction. The 302,644-sf property is the only large-scale bulk distribution space currently under construction in the Minneapolis-St. Paul market.

Investors ended the year still showing interest in the Minneapolis-St. Paul market. STAG Industrial, from Boston, invested \$59.3 million in the fourth quarter of 2019 for four buildings in the Northwest and Southwest submarkets. This brings their 2019 investment to just over \$99 million. Investment sales totaled just over \$437 million for the quarter.

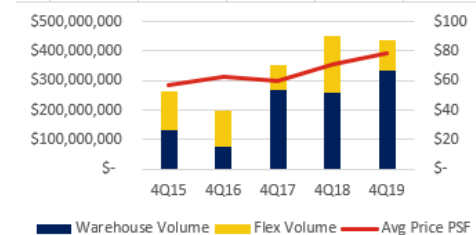
The Minneapolis cost index for construction was flat for 2019, according to the Mortenson Cost Index. Construction costs increased 3.3% year-over-year (YOY) nationwide but Minneapolis-St. Paul saw less than a 1.0% increase YOY. Employment and materials costs are predicted to remain steady in the near future; which should contribute to a stable construction industry in 2020.



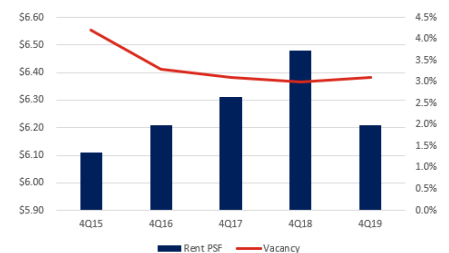
Labor Force Participation Rate MNDEED 2019

Minnesota ranks #2 at 70.2% compared to the national rate of 63.2%

Industrial Investment Sales (Rolling 12-Month)

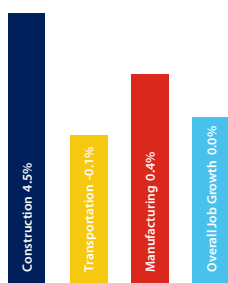


Industrial Net Rent vs. Vacancy



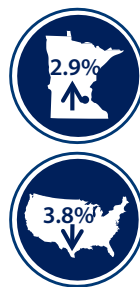
Metro Minneapolis-St. Paul Employment Update

Industrial-Using Employment Growth



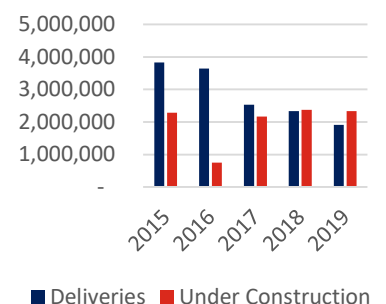
December 2018 – December 2019

December 2019 Unemployment Rate



Arrows indicate YOY change from December 2018

Industrial Development



Market Indicators (arrows indicate YOY change from Q4 2018)

Positive Negative Stable



Market by the Numbers

Submarket	Inventory	Vacant	Vacancy	4Q 19 Net Absorption	Net Absorption YOY	YTD Leasing Activity	YTD Deliveries	Under Construction	Avg Whse Rate	Avg Flex Rate
Minneapolis	18,895,874	470,016	2.5%	-20,170	▼	184,223	-	76,000	\$4.70	\$9.21
St. Paul	11,152,057	580,818	5.2%	125,002	▲	162,777	86,632	-	\$5.59	\$7.73
Midway	23,598,256	1,597,321	6.7%	38,042	▲	526,813	-	-	\$5.89	8.33
East	17,433,801	525,619	3.0%	16,013	▼	357,093	144,000	-	\$5.99	\$6.02
North Central	41,785,788	1,482,709	3.1%	250,288	◀	2,005,475	631,500	415,480	\$5.80	\$7.51
Northwest	53,382,128	1,910,286	3.6%	298,834	▲	1,959,187	419,002	888,306	\$5.28	\$7.29
South Central	49,359,058	1,773,166	3.6%	-11,740	▲	897,092	645,000	333,584	\$5.02	\$10.20
Southwest	47,256,079	1,180,778	2.5%	-457,139	▼	903,197	175,000	302,644	\$4.81	\$10.47
Total Market	313,544,156	11,692,803	3.7%	954,720	◻	7,434,401	1,909,354	2,337,073	\$5.78	\$10.34

The data contained in this market report is obtained from The CoStar Group, Inc. and is used under licensed permission. The report is based on the seven-county metropolitan Minneapolis-St. Paul markets for all industrial buildings at least 20,000 sf in size. Current and historical data has been adjusted with corrected information after it was obtained. This may prevent comparisons to previously released reports.

Top Leases

Building Name	Submarket	Tenant	Transaction Type	Transaction Size
6105 Trenton Lane N	Northwest	Undisclosed	New	51,648
651 Campus Drive	North Central	Undisclosed	Sublease	34,314
44 Northern Stacks Drive	North Central	Undisclosed	New	32,250
6450 Wedgewood Road	Northwest	Midwest Innovations	New	25,085
1771 Energy Park Drive	Midway	ePac Flexible Packaging	New	24,087

Top Sales

Building Name	Submarket	Buyer	Building Size	Sale Price	Sale Price PSF
3355 Discovery Road	South Central	STAG Industrial Holdings, LLC	262,722	\$23,300,000	\$88.69
1451 Dean Lakes Trail	Southwest	STAG Industrial Holdings, LLC	136,589	\$17,550,000	\$128.49
Minnesota Valley Distribution Park	Southwest	AEW Capital Management	232,000	\$16,400,000	\$70.69
20600 County Road 81	Northwest	The Opus Group	133,791	\$6,390,000	\$99.76
Eagle Creek Commerce Center West	Southwest	AEW Capital Management	132,000	\$7,859,600	\$83.33

Trends to Watch

Look for these key trends to continue throughout 2020 in the Minneapolis industrial market.



Land availability pushing further out of core markets



Rising raw material costs due to tariffs and trade tensions

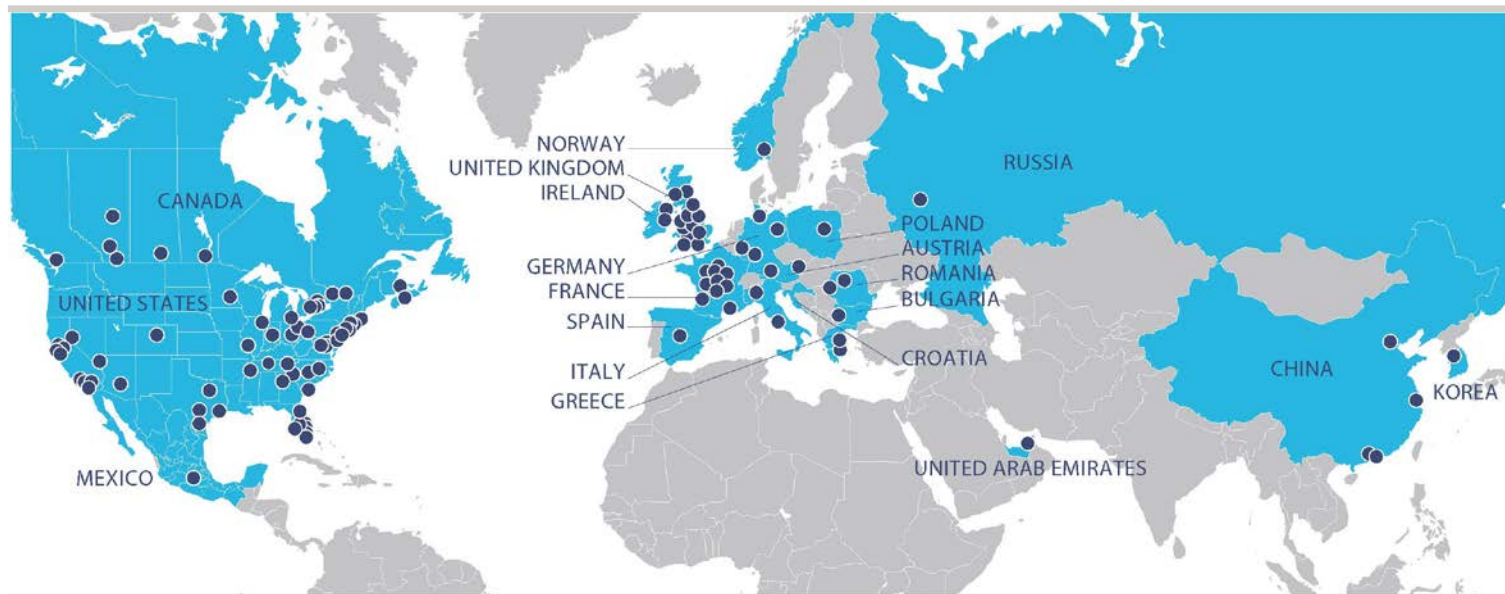


Increased investor appetite for urban industrial opportunities

Avison Young at a Glance

Founded:	1978
Total Real Estate Professionals:	5,000
Offices:	124
Countries:	20
Brokerage Professionals:	1,600+
Property Under Management:	290 msf

Avison Young is one of the world's fastest growing commercial real estate firms, and we are expanding globally. This growth is a testament to the commitment we've made to our clients and our employees. We're different. We've designated our organization to be highly collaborative and focused on one thing: creating the best solutions for our clients to deliver long-term success. And because of the value we deliver, our culture and our unique approach, clients and talent are joining us every day. Our experts provide value-added, client-centric investment sales, leasing, advisory, management and financing services to clients across the office, retail, industrial, multi-family and hospitality sectors.



Transaction Services

- Tenant representation, lease acquisition and disposition
- Investment acquisition and disposition for owners and occupiers
- Landlord representation – all property types – office, industrial, retail, build-to-suit, land and multi-family

Consulting & Advisory Services

- Portfolio review and analysis
- Valuation and appraisal
- Benchmarking
- Transaction management
- Asset rationalization
- Mergers and acquisitions
- Workplace solutions
- Acquisitions and dispositions
- Property tax services

Management Services

- Project management
- Property and operations review
- Property/facility management
- Tenant relations
- Financial reporting
- Lease administration
- Operations consulting
- Asset management
- Portfolio management

Enterprise Solutions

- Integrated services coordination
- Transaction management
- Optimization strategies
- Portfolio lease administration
- Project coordination and reporting

Investment Management

- Acquisitions
- Asset management
- Portfolio strategy
- Capital repositioning

Debt Capital Services

- Permanent & construction
- Structured finance
- Portfolio market to market
- Mezzanine & bridge



Platinum member

For further information:

Rebecca Pedersen, *Research Coordinator*
612-509-2363
rebecca.pedersen@avisonyoung.com

Mark Evenson, *Principal & MD*
612.913.5641

mark.evenson@avisonyoung.com

avisonyoung.com