

# COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market



## INDUSTRIAL MARKET

### Sustained Demand Leaves Industrial Vacancies Below Historical Averages

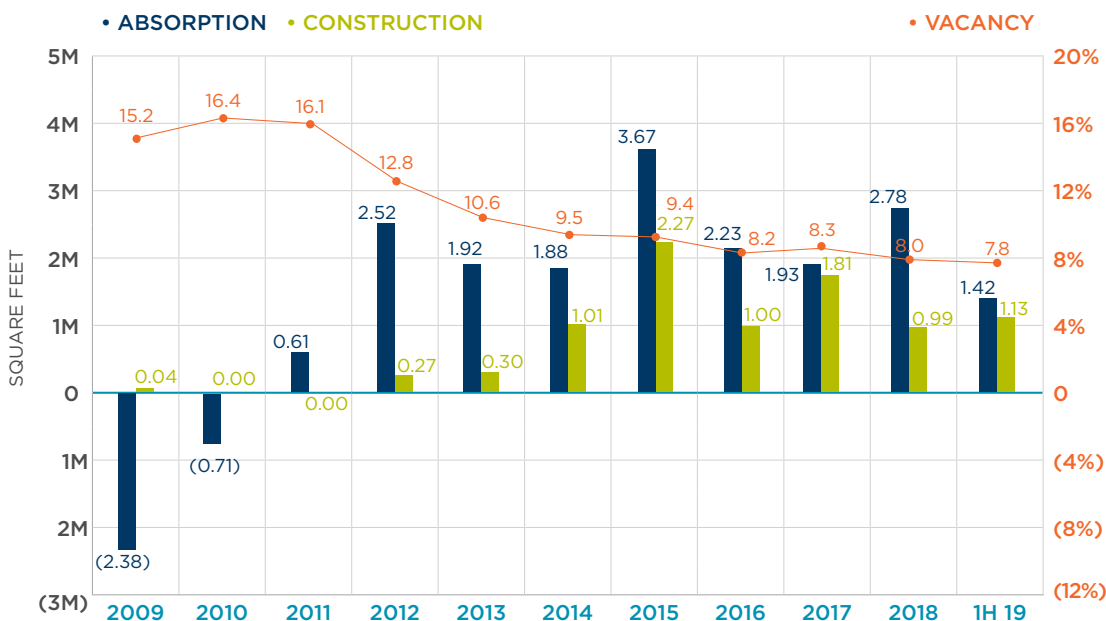
With a strong local economy creating sustained demand for space, the Twin Cities metro industrial market recorded another vacancy rate well below the 10-year average of 10.7 percent. At the halfway point of the year, the Twin Cities' overall vacancy rate stood at 7.8%, a slight drop from the 7.9% recorded at the same point in 2018 and lower than the average even over the past five years, which has been 8.7%.

Absorption was strong in the first half, and so far is on pace to break last year's mark. Nearly 1.42 million square feet (msf) was absorbed during the first six months of 2019, led by the booming Northwest submarket, while the traditionally strong Southwest submarket was constrained only by the lack of sufficient bulk warehouse product to satisfy the sharp demand.

The new industrial construction scene remained healthy and active in the first half, with 1.8 msf in new construction currently underway and a further 711,000 sf planned to commence later in the year. The list of current projects was

#### INDUSTRIAL ABSORPTION, CONSTRUCTION & VACANCY

Source: Cushman &amp; Wakefield



**1.8 MSF UNDER  
CONSTRUCTION**



**INFILL PROPERTIES  
WITH OUTDOOR  
STORAGE IN HIGH  
DEMAND**

### INDUSTRIAL VACANCY & ABSORPTION

Source: Cushman & Wakefield

SUBMARKET	TOTAL # OF BLDGS	NRA	VACANT SPACE	% VACANT	% VACANT W/SUBLEASE	1Q 2019 ABSORPTION	2Q 2019 ABSORPTION	1ST HALF 19 ABSORPTION
Northeast	416	36,481,370	3,553,747	9.7%	10.50%	149,135	109,496	258,631
Northwest	341	31,744,264	2,750,094	8.7%	9.50%	84,647	700,598	785,245
Southeast	236	19,139,999	1,305,051	6.8%	7.40%	62,395	28,012	90,407
Southwest	318	27,554,013	1,324,239	4.8%	5.60%	207,902	77,017	284,919
<b>Total Market</b>	<b>1,311</b>	<b>114,919,646</b>	<b>8,933,131</b>	<b>7.8%</b>	<b>8.50%</b>	<b>504,079</b>	<b>915,123</b>	<b>1,419,202</b>

led by 954,886 sf underway in the Northwest submarket. That total included a pair of speculative multitenant bulk warehouse projects (one each from Scannell Properties and Opus) as well as a single-tenant effort from Duke Realty in Maple Grove.

Pricing for all types of industrial real estate is up, but perhaps none moreso than infill properties with outdoor storage functionality. The first half saw sky-high demand and record-setting prices for such properties in the Twin Cities market. Driving the demand is a desire by users such as retailers and e-commerce suppliers for “last-mile” locations close to core urban markets which can also provide outdoor storage for equipment such as fleet vehicles, trailers and construction gear.

With an extremely low first-half unemployment rate of 2.7%, the Twin Cities market is experiencing a labor shortage and local employers are increasingly taking that into account when making their decisions on industrial real estate. There is some reluctance by employers to locate too far out from the urban core as it would negatively affect labor recruiting efforts. However, this poses a dilemma because new industrial land opportunities mainly exist on the outer fringes of the metro area.

Thanks to a still-booming industrial real estate market and relentless demand inexorably pushing rates higher, potential tenants are taking noticeably longer to pull the trigger on their leasing decisions. Many companies grappling with real estate decisions are also faced with higher costs for materials and labor, as well as uncertainties over the future of the ongoing economic expansion. This is resulting in employers instituting a longer “wait-and-see” period before signing long-term leases.

### OUTLOOK

The uninterrupted industrial market up-cycle experienced during the last several years seems likely to reach another new high in 2019. With nearly 1.42 msf of absorption already logged in the first half, a further 1.79 msf is predicted in the second half, based on existing commitments and continuing sharp demand in all submarkets.

## ABOUT THE AUTHOR

### THE COMPASS REPORT

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Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of \$8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

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