

COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market



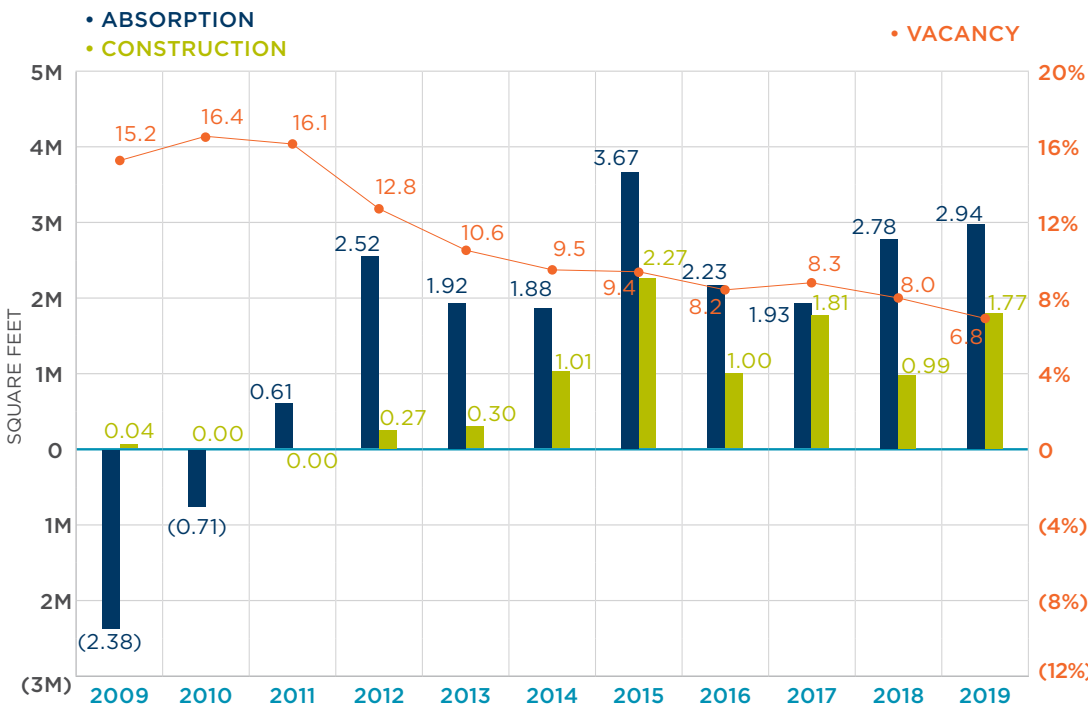
INDUSTRIAL MARKET

Industrial Vacancies Plunge to New Lows as Absorption Again Impresses

With the lowest vacancy rate since at least 2009 and a sparkling absorption total of 1.52 million square feet (msf) in the second half, the Twin Cities industrial market once again showed no signs of slowing down as 2019 drew to a close. The direct vacancy rate of 6.8% in the fourth quarter represented a sharp drop from the year-earlier figure of 8.0% and was among the lowest ever recorded in the Twin Cities.

The industrial market also finished the year extremely strong on the absorption side. Combined with a similarly impressive first-half absorption figure of 1.42 msf, the full-year 2019 total of 2.94 msf was the best since 2015 and second highest of the entire post-recession recovery period, stretching back to 2009. Both office warehouse and bulk warehouse asking rates continued their steady climb, and in some cases jumped considerably.

INDUSTRIAL ABSORPTION, CONSTRUCTION & VACANCY Source: Cushman & Wakefield



LOWEST VACANCY RATE SINCE 2009

WELL-LOCATED, FUNCTIONAL BUILDINGS PRICES CLIMB TO RECORD LEVELS

INDUSTRIAL VACANCY & ABSORPTION

Source: Cushman & Wakefield

SUBMARKET	TOTAL # OF BLDGS	NRA	VACANT SPACE	% VACANT	% VACANT W/SUBLEASE	1ST HALF 2019 ABSORPTION	2ND HALF 2019 ABSORPTION	2019 ABSORPTION
Northeast	420	36,730,903	3,044,969	8.30%	8.70%	258,631	631,074	889,705
Northwest	344	31,831,415	2,206,808	6.90%	8.10%	785,245	598,465	1,383,710
Southeast	239	19,302,394	1,313,639	6.80%	7.30%	90,407	59,171	149,578
Southwest	321	27,742,699	1,244,952	4.50%	5.20%	284,919	235,701	520,620
Total Market	1,324	115,607,411	7,810,368	6.80%	7.50%	1,419,202	1,524,411	2,943,613

The ownership landscape is changing in the Twin Cities industrial market and can generally be described as the big getting bigger. Two relatively new entrants to the local market, Capital Partners/DRA Advisors and Link, have bought up dozens of existing properties in recent months and in some areas now control as much as 50% of the vacancies, giving them strong pricing leverage. Some established owners, meanwhile, are consolidating dominant positions within geographic niches and are also pushing rates.

On the sales side, prices for well-located and functional industrial buildings continued to climb to new levels due to record demand and chronically short supply. Multiple offers were common for such properties, most of which quickly found buyers once listed, or changed hands in off-market transactions. Some examples from the Southeast submarket included a 30,000-sf building in Mendota Heights selling for \$89 per sf and a 55,000-sf property in Eagan changing hands at \$83 per sf.

Nearly 2.0 msf in new industrial construction was underway as 2019 concluded, including 1.0 msf in the northwest. The building surge in Brooklyn Park, Maple Grove and elsewhere in the northwest was led by new speculative projects from Scannell, Liberty Property Trust and Opus. Meanwhile, some 804,000 sf were underway in the southwest, where bulk warehouse vacancy rates were extremely tight at 3.8%. The most notable new project there was the 303,000-sf Canterbury Business Center from United Properties.

OUTLOOK

With economic indicators including interest rates and unemployment remaining positive, the strong industrial market seems poised to continue its long up-cycle into 2020, although one wild card could be political uncertainties heading into a hotly contested U.S. presidential election in November. With those factors in mind, 1.3 msf of absorption is predicted for the first half.



**NEARLY 2.0 MSF IN
NEW INDUSTRIAL
CONSTRUCTION WAS
UNDERWAY AS 2019
CONCLUDED**

ABOUT THE AUTHOR

THE COMPASS REPORT

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ABOUT CUSHMAN & WAKEFIELD

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