

FIGURES | MINNEAPOLIS INDUSTRIAL | Q1 2024

Construction pipeline slows in Q1 despite steady leasing on new product

▼3.7%

Direct Vacancy Rate

▼1,748,112

SF Net Absorption

▼2.25M

SF Under Construction

▼\$7.35 PSF

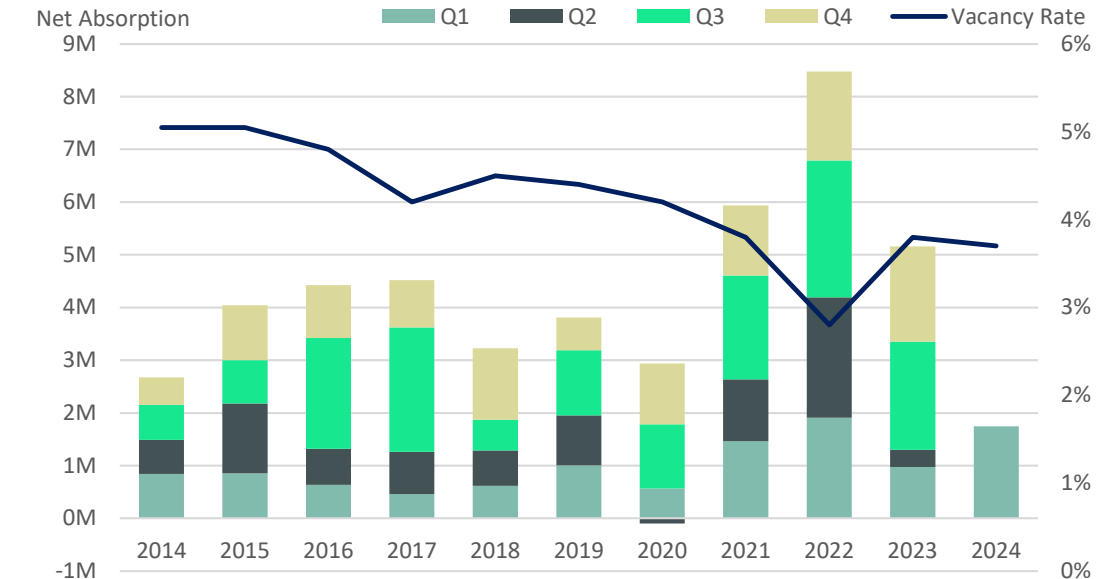
Warehouse Asking Rate (NNN)

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- In the Minneapolis market, there was 1.7M sq. ft. of positive net absorption in Q1 2024. This represents a 79% increase in absorption year-over-year and for the first time in a year, the quarterly net absorption exceeded the total sq. ft. of new construction delivered in Q1.
- For the third straight quarter, leasing activity in the Northwest submarket accounted for the largest share of total market activity in Q1 with over 1M sq. ft. transacted.
- Preleasing and leasing on new construction built since 2022 held steady in Q1 representing 40% of the quarter’s total lease volume. Nearly half all speculative construction completed since 2022 has been leased.
- The construction pipeline continued to decline with 2.25M sq. ft. currently underway. There was 1.6m sq. ft. delivered in Q1, of which 62% was speculative with 29% preleased.
- Q1 industrial sales saw an increase in Owner/User activity accounting for 58% of total sales volume, the highest percent of volume since Q1 2017.

FIGURE 1: Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q1 2024.

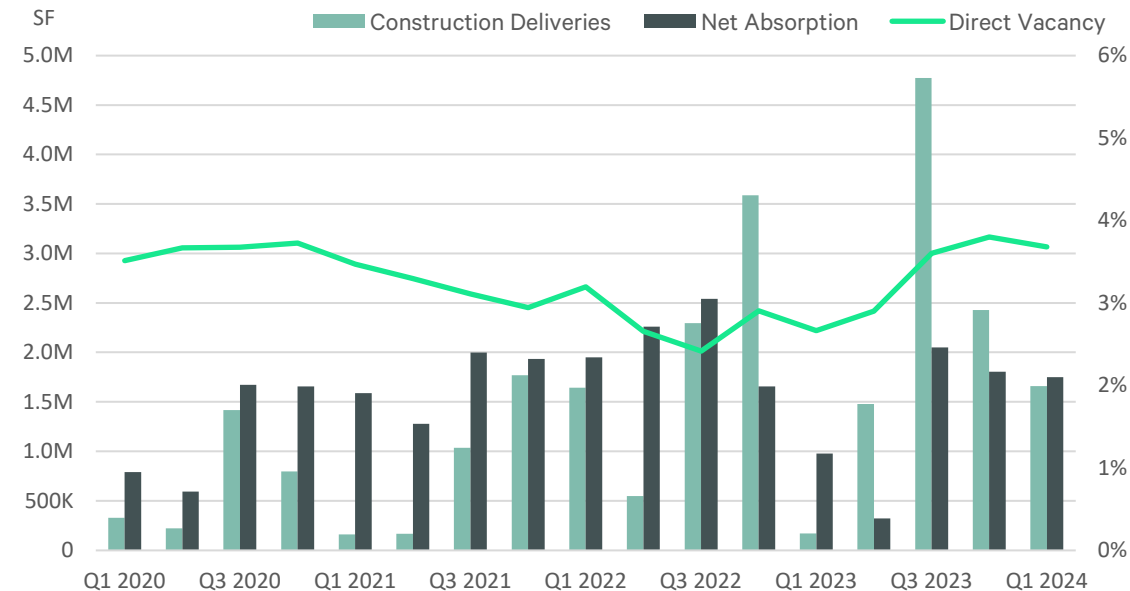
Absorption & Vacancy

In Q1, the Minneapolis industrial market absorbed 1.7M sq. ft. This represents an increase of 79% year-over-year. Since 2019, the average quarterly absorption rate was 1.35M sq. ft. The Q1 2024 absorption figure was 30% higher than this five-year average.

For the first time in a year, the Q1 net absorption exceeded the total sq. ft. in new construction delivered. The average quarterly rate of construction deliveries since 2020 was 1.4M sq. ft., where Q1 deliveries marked a 13% increase over this average. However, the expected rate of new deliveries into 2025 is expected to drop below the previous four-year average as the pipeline slows.

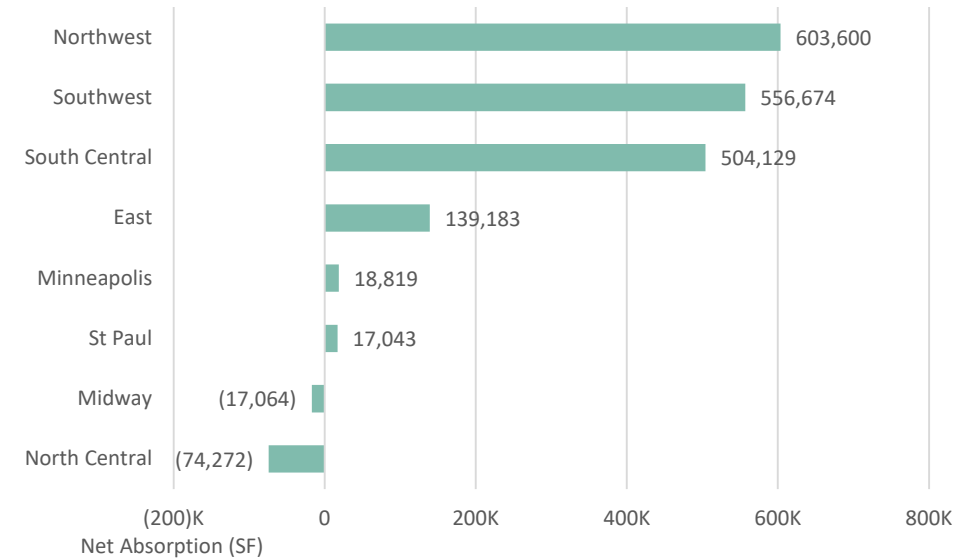
In Q1, the direct vacancy rate was 3.7% representing a 36% increase year-over-year. Buildings greater than 125,000 sq. ft. in size provided the largest gain in market vacancy corresponding with new construction deliveries of this size. Buildings less than 100,000 sq. ft. in size experienced a modest decrease in total vacancy year-over-year.

FIGURE 2: Direct Vacancy and Construction Deliveries, Q1 2020-Q1 2024



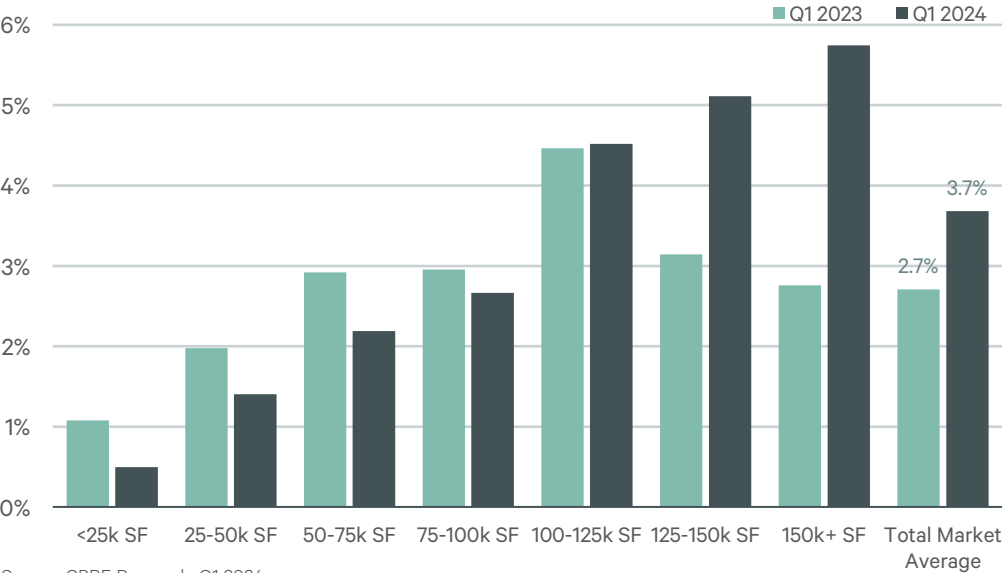
Source: CBRE Research, Q1 2024.

FIGURE 3: Q1 2024 Net Absorption by Submarket



Source: CBRE Research, Q1 2024.

FIGURE 4: Year-over-Year Vacancy by Building Size, Q1 2023-Q1 2024



Source: CBRE Research, Q1 2024.

Leasing

In the Minneapolis market, there was 2.9M sq. ft. of industrial lease transactions completed in Q1. The average quarterly leasing volume since Q1 2019 was 3.5M sq. ft. transacted. The Q1 total is -17% below the five-year average.

For the third straight quarter in a row, leasing activity in Q1 was led by the Northwest submarket with over 1M sq. ft. transacted., accounting for 36% of the quarter’s total leasing volume. New leases outpaced renewal activity in both the Northwest and the total market broadly, constituting 75% of all market leasing activity in Q1.

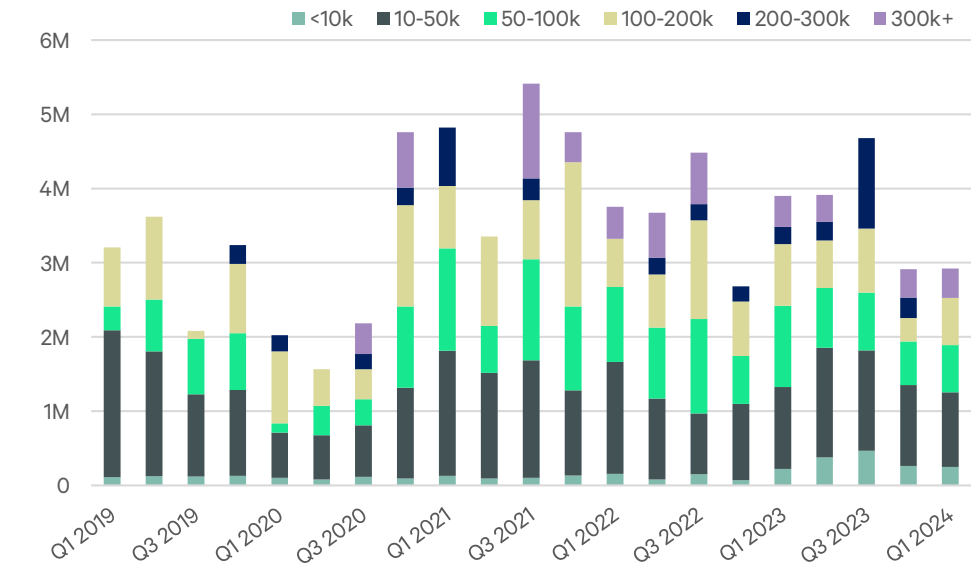
Preleasing and leasing on new construction built since 2022 represented 40% of the total market activity in Q1. For the top three submarkets with the highest transaction volume, new construction and preleasing made up 47% of the Q1 activity. The largest lease transaction in Q1 was for the Bernard Group preleasing two sites at Audubon Business Park in Chanhassen, a planned development not yet underway in Q1.

FIGURE 5: Q1 2024 Top Lease Transactions

Tenant	Size (SF)	Property	Submarket	Transaction Type	Industry
The Bernard Group	394,000	Audubon Business Park I & II	Southwest	New Lease	Printing/ Manufacturing
Confidential	182,000	Golden Valley Business Center I	Northwest	New Lease	Warehousing
Yardbird	167,800	Mid City Business Center	Midway	Renewal	Retail
Fairview Health	156,200	Seven Lakes III	North Central	New Lease	Life Sciences
Vireo Health	131,300	10700 165th Ave NW	Northwest	New Lease	Life Sciences
Revo Brands	96,000	Arbor Lakes Business Park V	Northwest	New Lease	Manufacturing
Pella Windows	85,800	Crosstown North 9100	Northwest	New Lease	Manufacturing

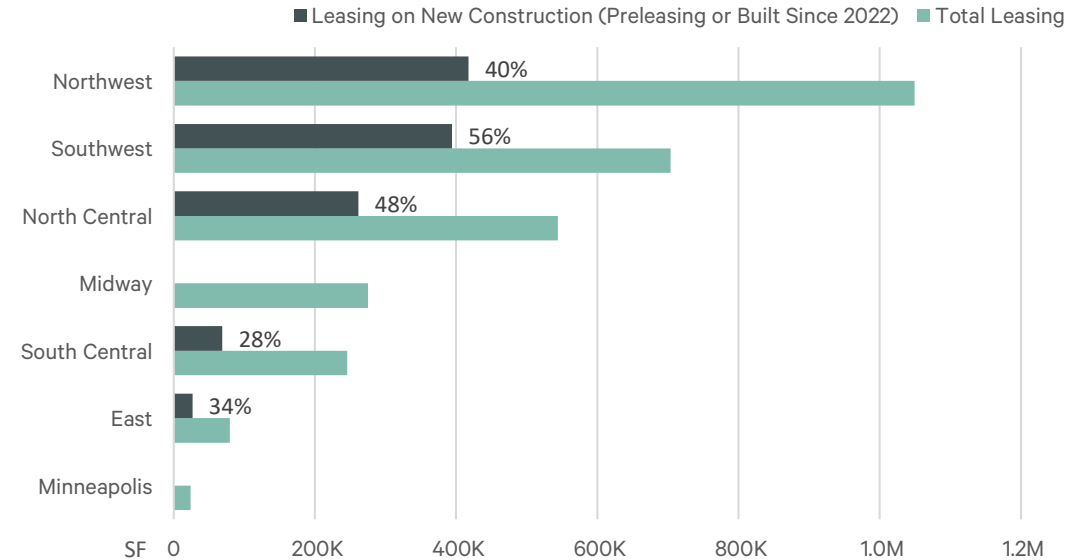
Source: CBRE Research, Q1 2024

FIGURE 6: Quarterly Leasing Volume by Size, Q1 2019-Q1 2024



Source: CBRE Research, Q1 2024.

FIGURE 7: Q1 2024 Leasing Activity by Submarket



Source: CBRE Research, Q1 2024.

Construction

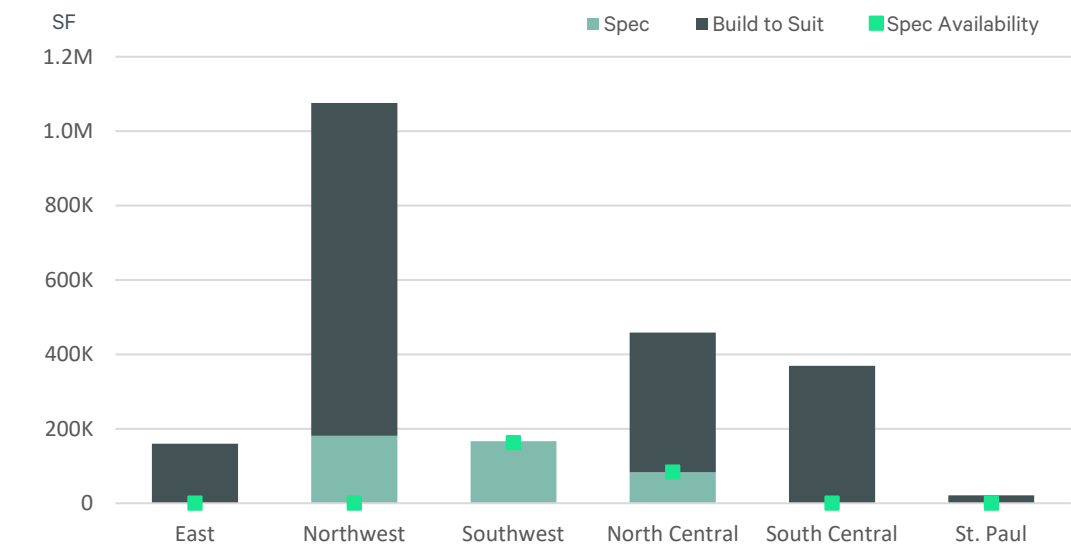
In Q1, there was 2.25M sq. ft. of new industrial development under construction in the Minneapolis market. Of that, 19% was speculative development with 43% pre-leased. The Northwest submarket had the largest concentration of developments in the market, representing 48% of the total construction underway.

There were nine projects completed in Q1 2024 for 1.6M sq. ft. of construction delivered. Of Q1 deliveries, 62% were speculative projects with 29% preleased. Deliveries this quarter included Arbor Lakes V, VI, and VII (delivery for Nextern) in Maple Grove, River Valley A and B in Shakopee, and The Broadway in Midway.

There were two notable construction starts in Q1 accounting for 282,000 sq. ft. of new developments underway. These included the Canterbury Industrial Center in Shakopee and Seven Lakes III in Shoreview.

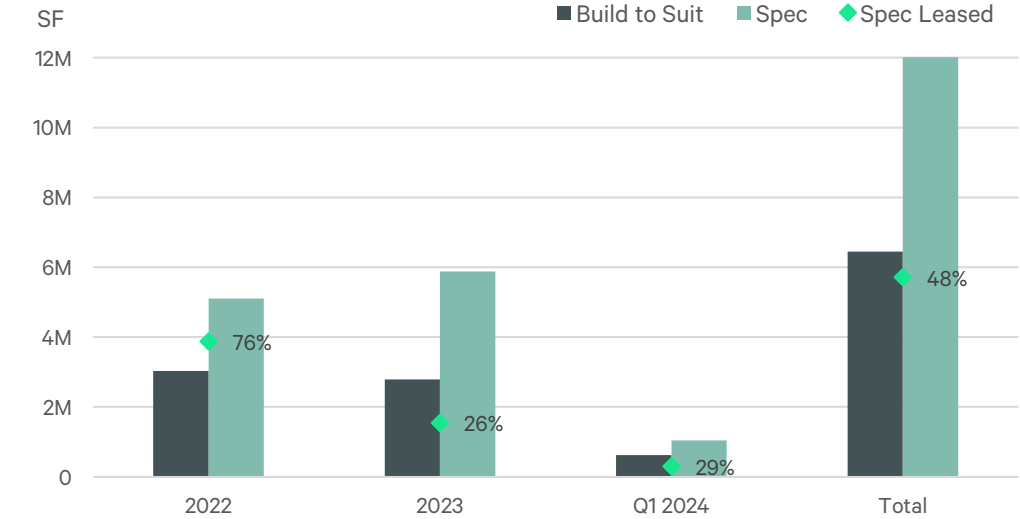
Despite the slowdown on speculative construction starts, leasing on new construction remained active. In Q1, there was over 550,000 sq. ft. of pre-leasing activity on planned projects not yet underway. Likewise, 48% of all speculative construction completed since 2022 has been leased.

FIGURE 8: Current SF Under Construction by Submarket



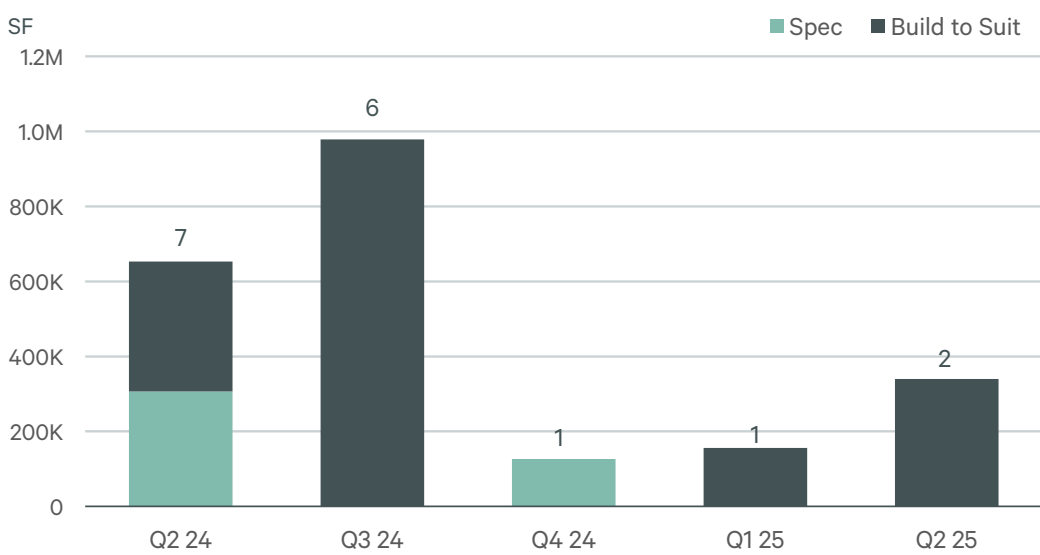
Source: CBRE Research, Q1 2024.

FIGURE 9: Construction Deliveries 2022-Q1 2024



Source: CBRE Research, Q1 2024.

FIGURE 10: 2024-2025 Expected Industrial Deliveries



Source: CBRE Research, Q1 2024.

Industrial Sales

In Minneapolis, Industrial sales volume totaled \$242 million in Q1, bringing the rolling 4-quarter sales volume to approximately \$1.26 billion. This represents a 29.5% decrease quarter over quarter and a 24% decrease year over year.

Q1 Industrial sales were predominantly Owner/User transactions representing 58% of the total sales volume for the quarter, the highest percent of volume since Q1 2017. The market has experienced a steady increase in Owner/User transactions since the beginning of 2023, showing a 263% increase in Q1 Owner/User sales volume year-over-year.

Of the top Investment sales transacted this quarter, CBRE represented the sale of the Lakeville Net Lease Manufacturing Center. Of the top Owner/User sales transacted this quarter, CBRE represented the sale of 1400 Washington Ave N.

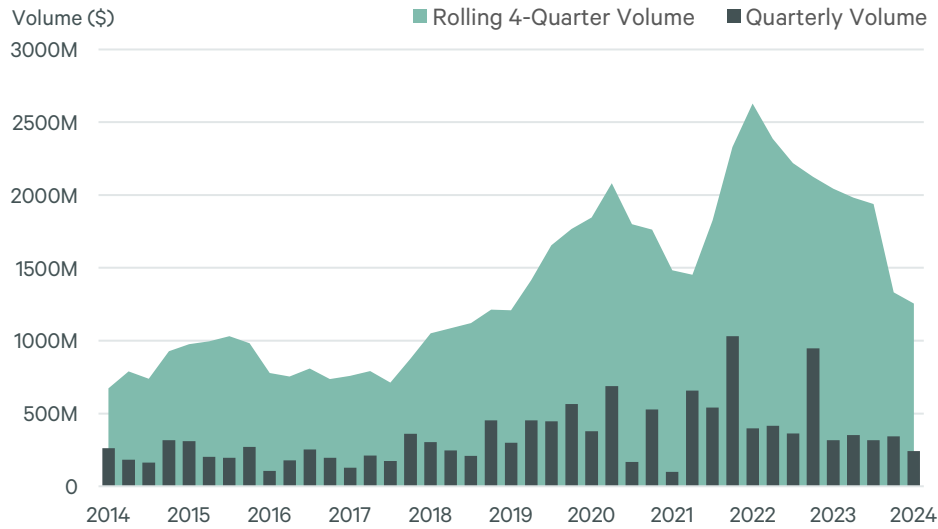
FIGURE 11: Q1 2024 Top Industrial Sales

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
*Stream Data Center Minneapolis	Chaska	LightEdge	\$31M	75,675	410
Burnsville Flex Portfolio	Burnsville	Wixon Properties, LLC	\$20.9M	121,988	171
6850 Sunwood Drive Northwest	Ramsey	Three Leaf Partners	\$16.5M	183,752	90
Sanctuary Business Center	Blaine	Capital Partners	\$15.4M	137,179	112
*Jefferson Business Center	Maple Grove	H.B. Fuller Company	\$14.7M	104,262	141
Atlas Cold Storage	Saint Paul	Americold Realty Trust	\$13.3M	219,664	61
*322 Lake Hazeltine Dr	Chaska	Beckman Coulter	\$13.1M	84,000	156
*1400 Washington Ave N	Minneapolis	George Modular Holdings	\$11.8M	82,785	143
*7401 N Kilmer Ln	Maple Grove	CJK Group	\$11.5M	315,819	36
*2330 Ventura Dr (Hohenstein's)	Woodbury	Kraft Mechanical	\$10.75M	86,950	124
Lakeville Net Lease Manufacturing Center	Lakeville	Realty Income Corporation	\$9.5M	144,076	66

*Indicates Owner User Sale

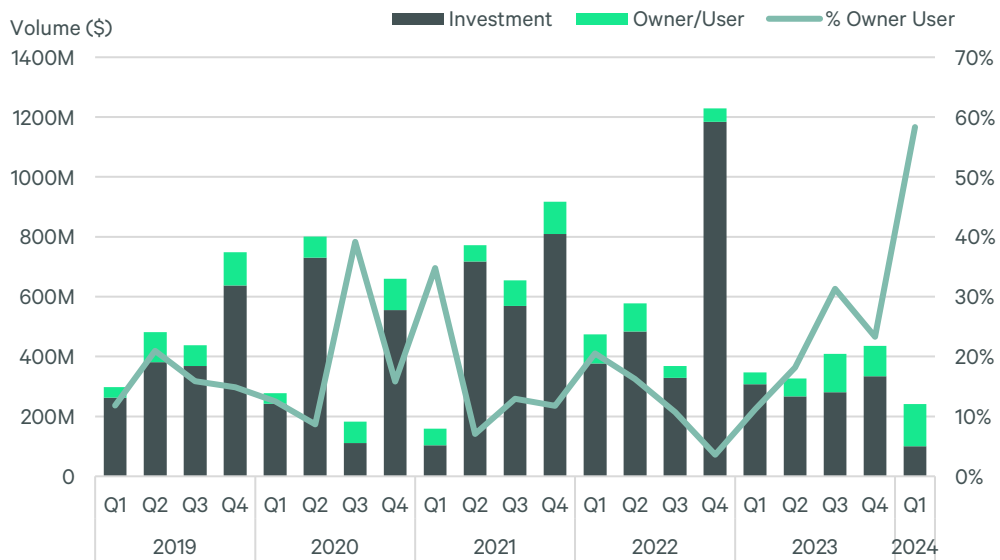
Source: CBRE Research, Q1 2024

FIGURE 12: Minneapolis Industrial Sales Volume, Q1 2014–Q1 2024



Source: Real Capital Analytics, CBRE Research, Q1 2024.

FIGURE 13: Investment vs. Owner User Sales Volume, Q1 2019–Q1 2024



Source: CoStar, CBRE Research, Q1 2024

FIGURE 14: Minneapolis/St. Paul Industrial Market Statistics by Submarket

Submarket	Inventory (SF)	Direct Vacancy Rate	Total Availability Rate	Q1 2024 Net Absorption (SF)
Metro Overall	354,705,335	3.7%	5.0%	1,748,112
East	22,017,433	11.1%	13.0%	139,183
Northwest	82,263,668	4.6%	6.1%	603,600
Southwest	71,860,107	3.9%	5.8%	556,674
South Central	56,033,525	2.6%	3.7%	504,129
North Central	54,559,012	1.8%	2.7%	(74,272)
Minneapolis	23,714,010	1.5%	2.5%	18,819
St Paul	15,522,610	2.7%	1.8%	17,043
Midway	28,734,970	2.7%	4.3%	(17,064)

Source: CBRE Research, Q1 2024.

FIGURE 16: Minneapolis/St. Paul Industrial Construction Statistics

Submarket	Construction Starts	Spec Under Construction	BTS Under Construction	Total Under Construction	Spec Under Construction Preleased	Q1 Spec Completions	Q1 BTS Completions	2024 Completions
Metro Overall	282,414	432,900	1,820,577	2,253,477	42.9%	1,038,472	620,424	1,658,896
East	0	0	160,000	160,000	-	0	0	0
Northwest	0	182,000	893,677	1,075,677	100%	405,872	232,424	638,296
Southwest	126,160	166,900	0	166,900	2%	450,600	0	450,600
South Central	0	0	369,965	369,965	-	0	388,000	388,000
North Central	156,254	84,000	375,254	459,254	0%	0	0	503,000
Minneapolis	0	0	0	0	-	0	0	0
St Paul	0	0	21,681	21,681	-	0	0	0
Midway	0	0	0	0	-	182,000	0	182,000

Source: CBRE Research, Q1 2024.

FIGURE 15: Minneapolis/St. Paul Industrial Market Statistics by Product Type

Product Type	Inventory (SF)	Direct Vacancy Rate	Total Availability Rate	Q1 2024 Net Absorption (SF)
All Product Types	354,705,335	3.7%	5.0%	1,748,112
Bulk Warehouse	72,484,522	11.1%	12.5%	1,276,960
Office Warehouse	144,459,313	1.6%	2.9%	279,946
Office Showroom	39,977,138	4.2%	6.9%	154,945
Other	97,784,362	1.1%	1.7%	36,261

Source: CBRE Research, Q1 2024.

Economic Overview

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%.

Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services.

With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered.

Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.



Minneapolis/St. Paul Employment Update

▲ 3.3%
Unemployment Rate

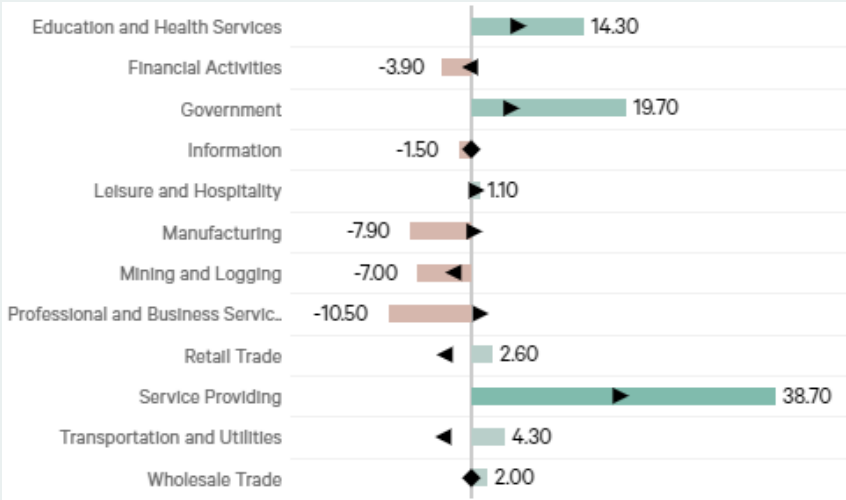
▲ 2.0M
Labor Force

▲ 461.3k
Office Using Jobs

▼ 544.1k
Industrial Using Jobs

▼ 261.9k
Retail Using Jobs

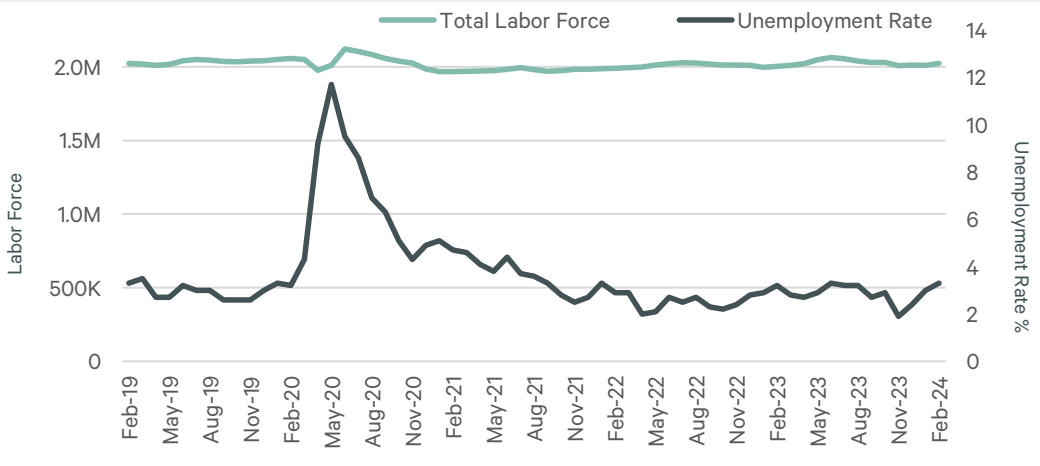
Employment Change by Sector – Yearly + Monthly
Bars indicate yearly trend, arrows indicate monthly trend



Note: Arrows indicate month-over-month change.

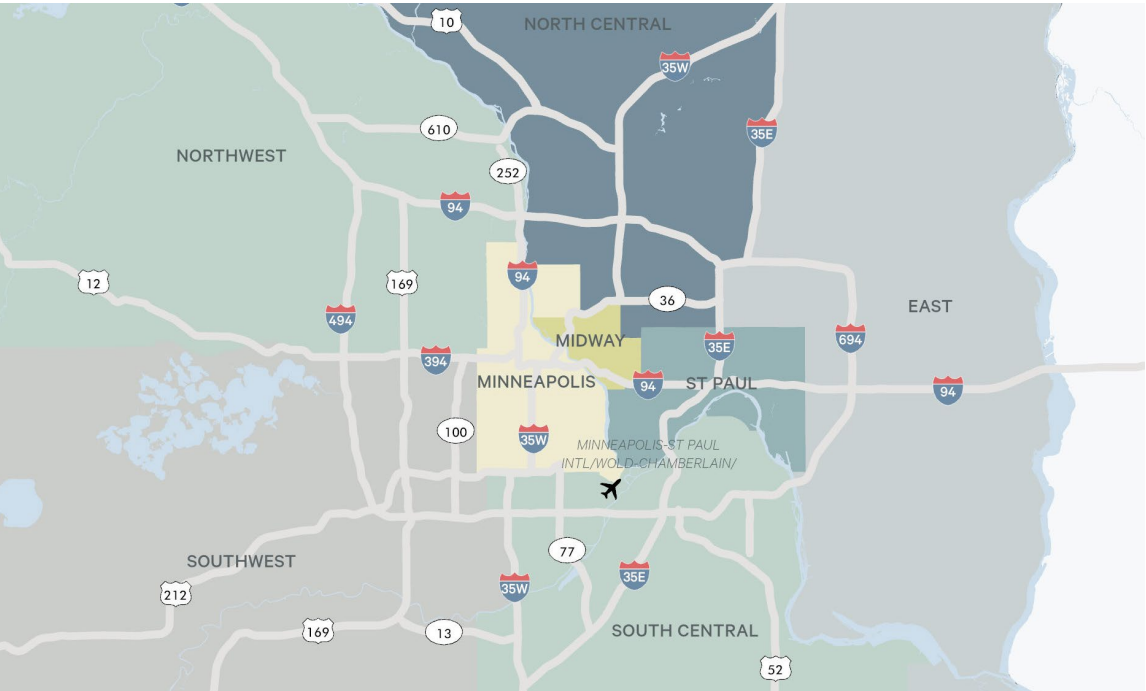
Source: US BLS, February 2024

Minneapolis/St. Paul Unemployment Rate and Labor Force Trends



Source: US BLS, February 2024

Market Area Overview



Definitions

- Building Area: The total floor area Sq. Ft. of the building, typically taken at the “drip line” of the building.
- Occupied Sq. Ft.: Building Area not considered vacant.
- Net Absorption: The change in Occupied Sq. Ft. from one period to the next.
- Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant.
- Total Availability Rate: Available Sq. Ft. (includes direct and sublease space) divided by the total Building Area.
- Direct Availability Rate: Available Sq. Ft. (excluding sublease space) divided by the total Building Area.
- Vacant Sq. Ft.: Space that can be occupied within 30 days.
- Total Vacancy Rate: Vacant Sq. Ft. divided by the total Building Area.
- Direct Vacancy Rate: Vacant Sq. Ft. divided by the total Building Area where subtenant space is excluded.
- Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage.
- Warehouse Rate: A calculated average of the lowest marketed value asking rate representing warehouse space.
- Office Rate: A calculated average of the highest marketed value asking rate representing office space.
- Net-Blended Rate: A calculated average of the warehouse asking rate blended with the office asking rate.
- Gross Activity: All sale and lease transactions completed within a specified time period.

Survey Criteria

Includes all industrial buildings 10,000 sq. ft. and greater in size in the Minneapolis/St. Paul market. Buildings which have begun construction as evidenced by site excavation or foundation work.

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