

FIGURES | MINNEAPOLIS INDUSTRIAL | Q3 2024

Industrial vacancy stabilizes against reduced construction pipeline

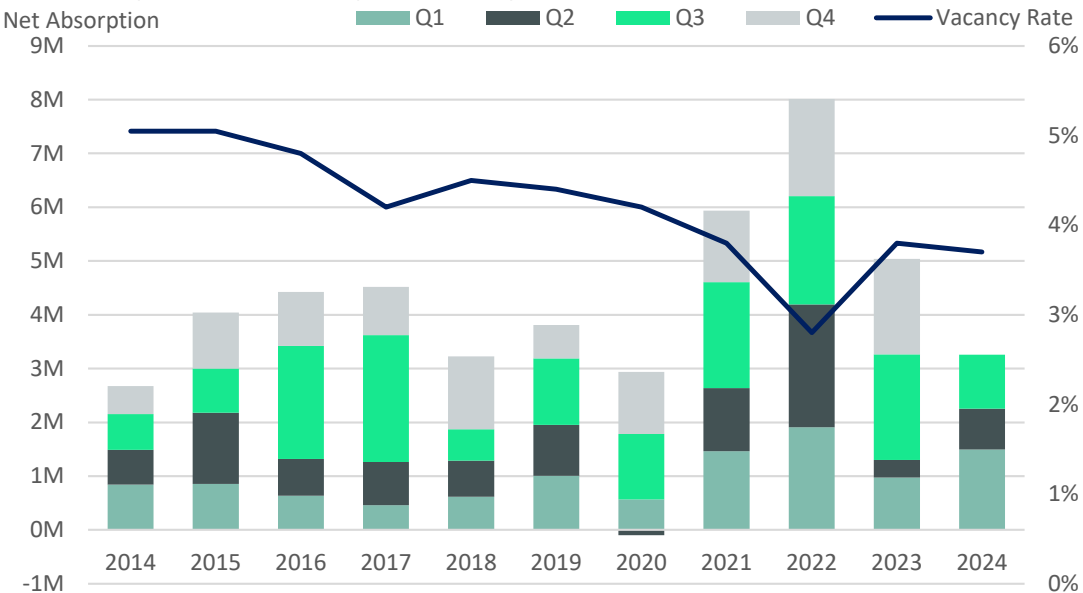


Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- In the Minneapolis market, there was 1,002,369 sq. ft. of positive net absorption in Q3, an increase of 32% from the previous quarter. Year-to-date, the market has absorbed 3.3M sq. ft. which is in line with the ten-year historical average.
- For the first quarter in two years the vacancy rate for Bulk Warehouse product declined by 0.7% as the total market vacancy stabilizes for the third consecutive quarter at 3.7%.
- Q3 leasing volume exceeded 3.1M sq. ft. transacted, a 14% increase from the previous quarter with an uptick of large transactions leasing space greater than 200,000 sq. ft.
- The total volume of construction anticipated to deliver by year-end represents a 61% decrease from the previous year with speculative construction down 73% and BTS projects decreased by 36% compared to 2023.
- CBRE participated in the sale marketing of Link Logistics' *Minneapolis High Growth* portfolio which contributed \$130M in total sales volume for Q3 and was the largest industrial transaction of the quarter.

FIGURE 1: Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q3 2024.

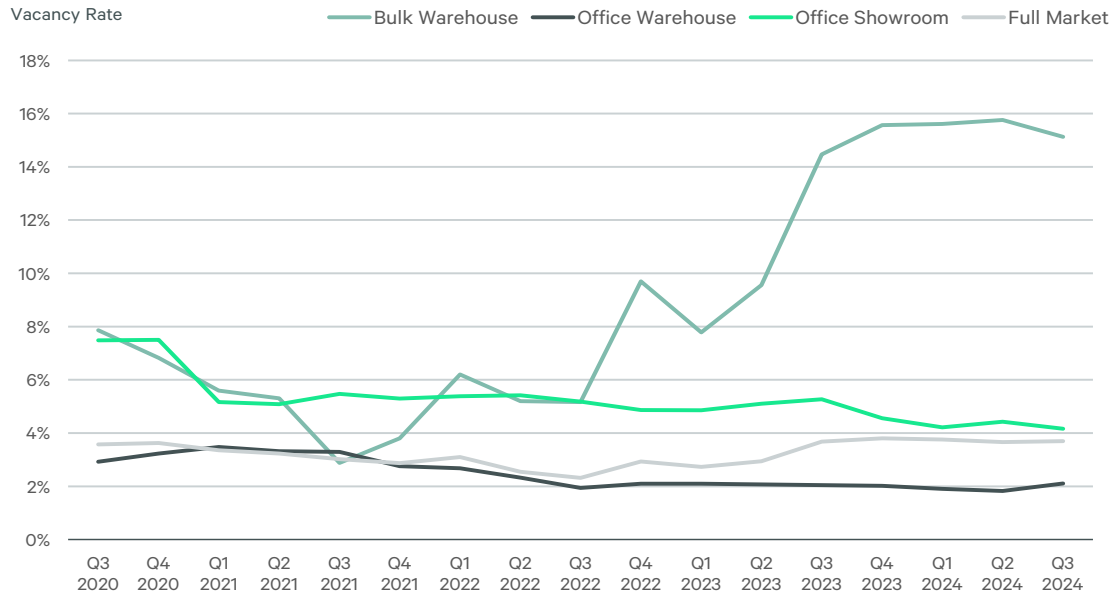
Absorption & Vacancy

In Q3, the Minneapolis industrial market absorbed 1.0M sq. ft., an increase of 32% from the previous quarter. Year-to-date in 2024, the market absorbed 3.3M sq. ft. which is within 1% of the ten-year historical average absorption total between Q1-Q3.

For the third consecutive quarter, the market vacancy rate maintained at 3.7% and the vacancy rate on Bulk Warehouse product decreased by 0.7% from the previous quarter. Market vacancy reached a historic low in 2022. Since then, vacancy for Office Showroom and Office Warehouse product continues to decrease. With the supply pipeline contracted and as bulk product availability declines, the market vacancy rate will continue to drop.

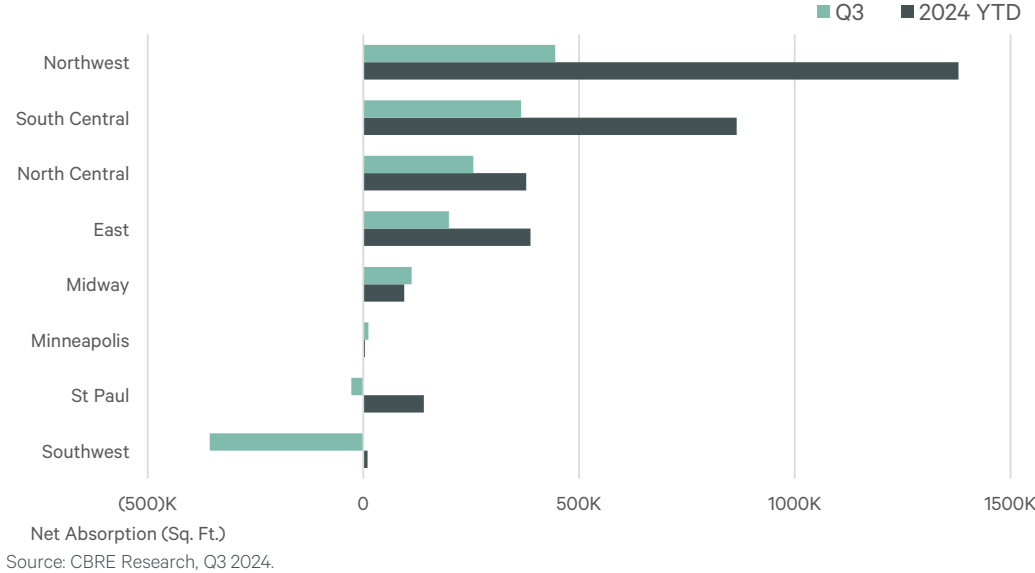
Bulk Warehouse product accounted for half of the total market absorption in Q3. The Northwest submarket experienced the most positive absorption in both Q3 and year-to-date, having absorbed 1.4M sq. ft. in 2024 and making up 42% of the total market absorption this year.

FIGURE 2: Direct Vacancy by Product Type, Q3 2020-Q3 2024



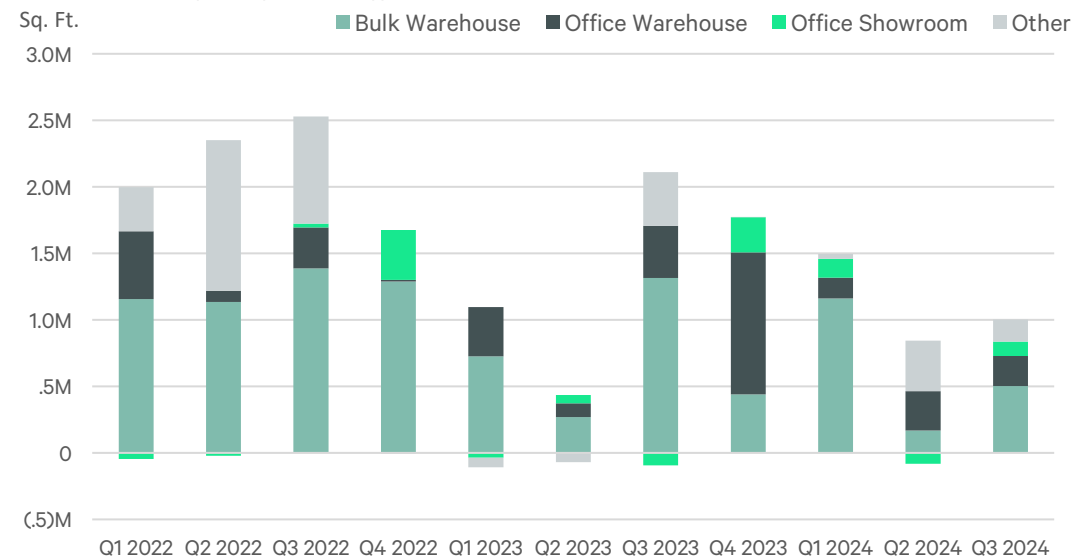
Source: CBRE Research, Q3 2024.

FIGURE 3: Q3 2024 Net Absorption by Submarket



Source: CBRE Research, Q3 2024.

FIGURE 4: Net Absorption by Product Type, Q1 2022-Q3 2024



Source: CBRE Research, Q3 2024.

Leasing

In the Minneapolis market, there were 3.1M sq. ft. of industrial lease transactions completed in Q3, bringing the 2024 year-to-date leasing volume to 9.2M sq. ft. This represents a 14% increase from the previous quarter and a 16% decrease in volume compared to the five-year Q1-Q3 average.

In Q3, the market saw a return of leasing activity for large transactions greater than 200,000 sq. ft. in size, with the three largest transactions of the quarter exceeding that size contributing 11% towards the total leasing volume in Q3. Leases between 50,000-100,000 sq. ft. had the highest total volume of transactions in Q3, accounting for 32% of leasing this quarter.

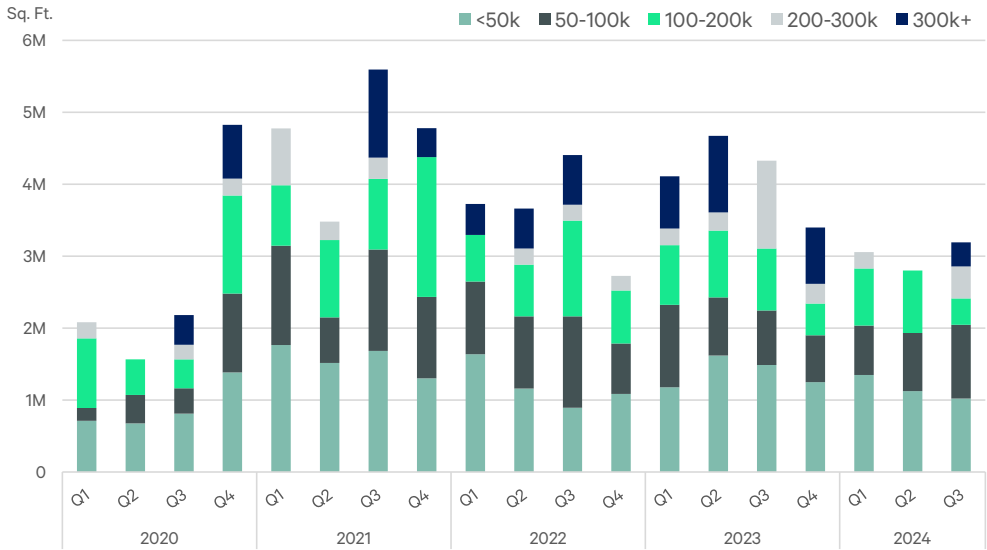
The Northwest submarket had the highest volume of lease transactions with 1.4M sq. ft. transacted in Q3 and 3.2M sq. ft. transacted year-to-date in 2024. Leasing on new construction (built since 2022) represented 28% of the total leasing volume in the Northwest submarket this quarter.

FIGURE 5: Q3 2024 Top Lease Transactions

Tenant	Size (Sq. Ft.)	Property	Submarket	Transaction Type
Confidential	334,750	Dayton 94	Northwest	New Lease
Helene	227,054	Diamond Lake Distribution Center III	Northwest	New Lease
GN Resound	217,000	5005 Dean Lakes	Southwest	New Lease
Mission Foods	157,082	1565 1st Ave NW	North Central	Renewal
Entourage	99,531	Royalston City Market	Minneapolis	New Lease
Sonny's	95,612	Eagle Creek Commerce West	Southwest	Renewal
Bell Labs	95,439	Highway 55 Distribution Center	South Central	New Lease

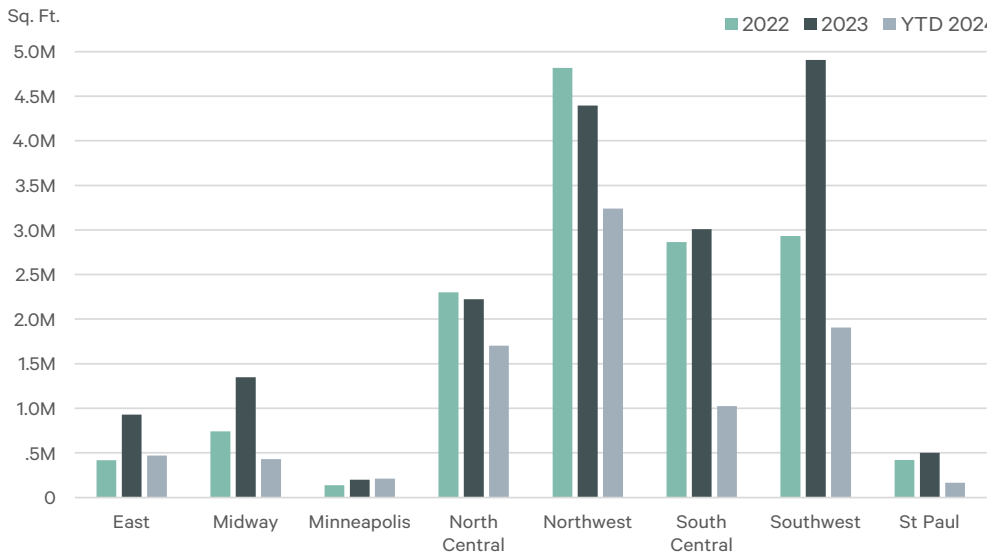
Source: CBRE Research, Q3 2024

FIGURE 6: Quarterly Leasing Volume by Size, Q1 2020-Q3 2024



Source: CBRE Research, Q3 2024.

FIGURE 7: Annual Leasing Activity by Submarket, 2022-2024



Source: CBRE Research, Q3 2024.

Construction

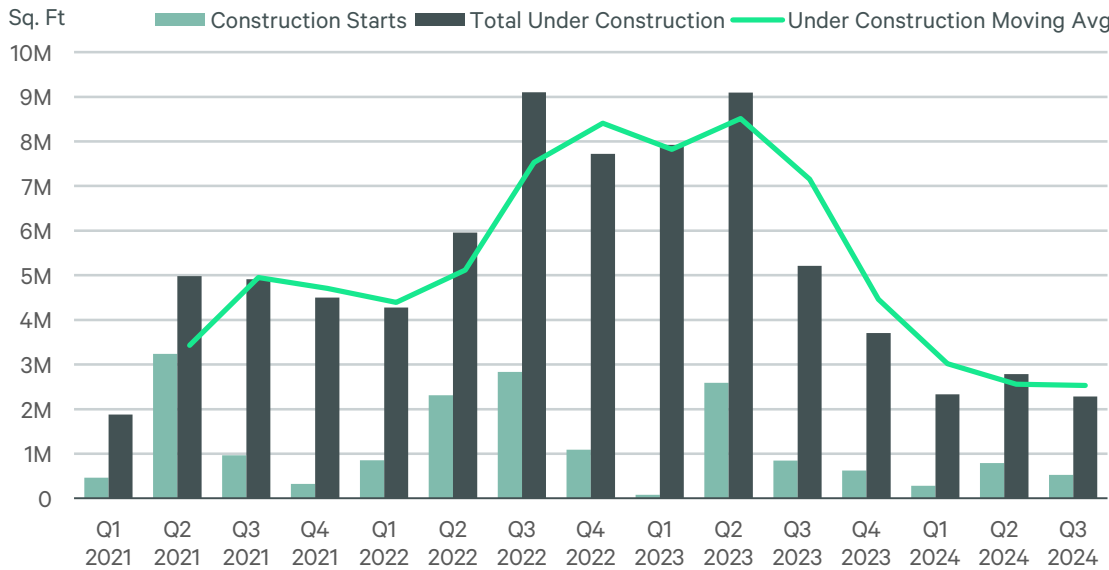
In Q3, there was 2.3M sq. ft. of new industrial development under construction in the Minneapolis market. Of that, 20% are being built on a speculative basis and 80% are build to suit (BTS) developments.

Construction starts in Q3 amounted to 526,038 sq. ft. of new development underway, including one speculative start at the Dayton Parkway Business Center. Of speculative construction currently underway, 45% has been preleased.

There was 1.1M sq. ft. of new construction delivered in Q3, bringing the year-to-date delivery total to 3.2M sq. ft. Speculative deliveries this quarter included the Canterbury Industrial Center in Shakopee and 8500 Bunker Lake Blvd in Ramsey.

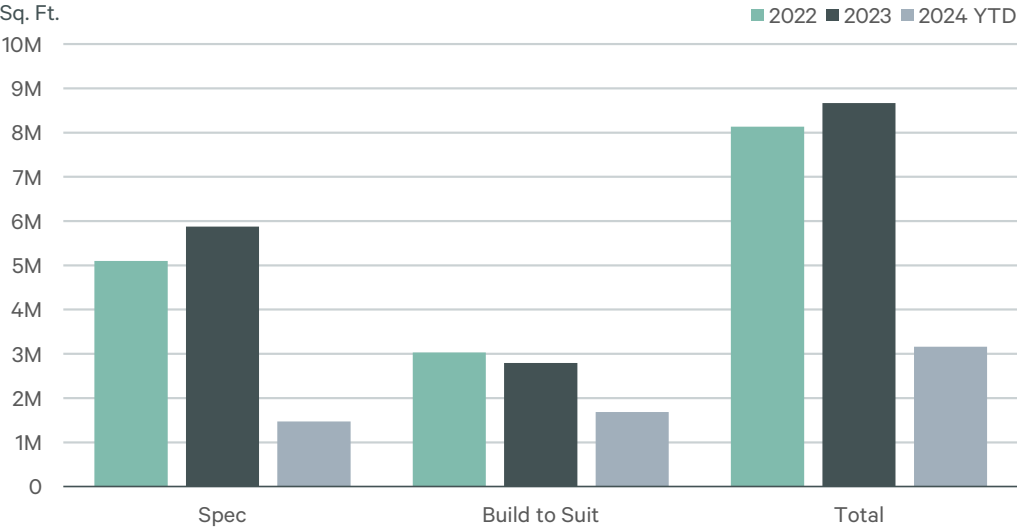
By the end of 2024, it is expected that 3.4M sq. ft. of property will be delivered in total, marking a 61% decrease from the 2023 total of 8.6M sq. ft. Anticipated speculative deliveries in 2024 (1.6M sq. ft.) represent a 73% decrease from the previous year whereas anticipated BTS deliveries (1.8M sq. ft.) represent a 36% decrease from the 2023 delivery volume.

FIGURE 8: Construction Starts vs. Total Underway, Q1 2021-Q3 2024



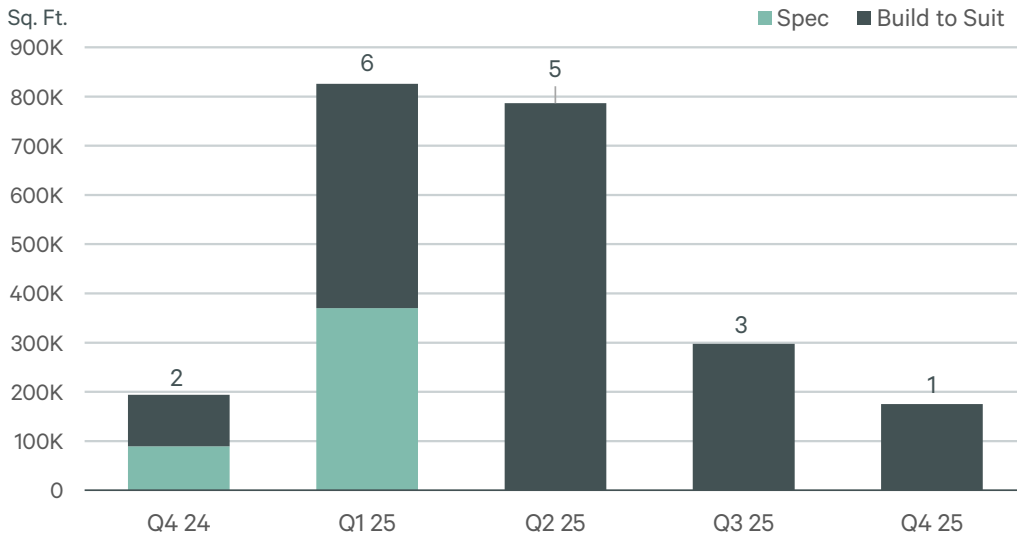
Source: CBRE Research, Q3 2024.

FIGURE 9: Construction Deliveries 2022-Q3 2024



Source: CBRE Research, Q3 2024.

FIGURE 10: Forecast of Expected Deliveries Q4 2024-Q4 2025



Source: CBRE Research, Q3 2024.

Industrial Sales

In Minneapolis, Industrial sales volume totaled over \$460 million in the third quarter of 2024, bringing the rolling 4-quarter volume to approximately \$1.81 billion. Quarterly volume represented a 12.5% increase year over year. The Link Logistics' *Minneapolis High Growth Portfolio* sale contributed over \$130M to the total sales volume and was the largest Industrial transaction of the quarter.

Q3 Industrial sales were predominantly investment transactions representing over 70% of the total sales volume for the quarter and 71% of the total sales volume year-to-date. Office Warehouse properties accounted for 51% of the quarter's total sales volume, followed by Bulk Warehouse at 39%.

Of the top Industrial sales transacted this quarter, CBRE participated in the sale marketing of the Minneapolis High Growth Portfolio, Eagan Innovation Center, I-94 Logistics Center and the Minneapolis Value Add Light Portfolio bringing our total market share to over 53% for the quarter.

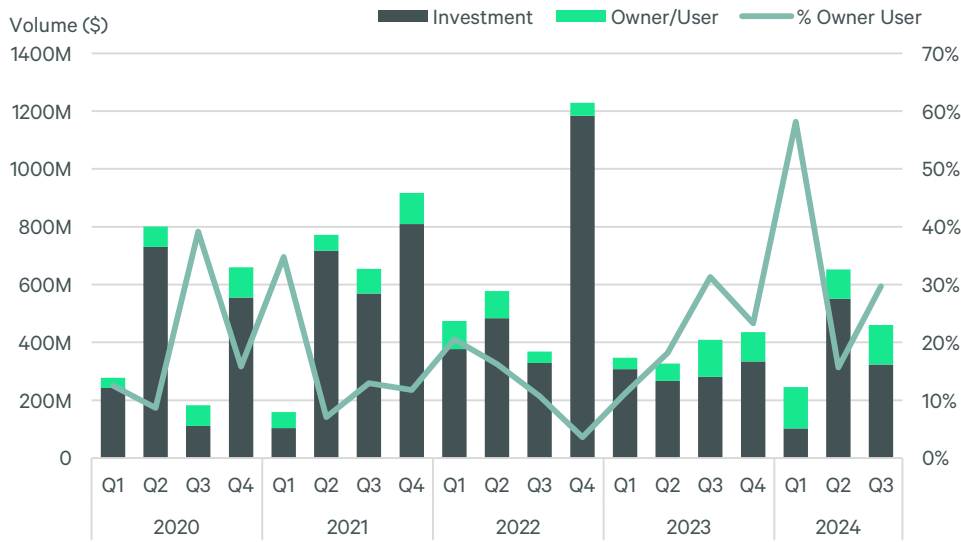
FIGURE 11: Q3 2024 Top Industrial Sales

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
Minneapolis High Growth Portfolio	Various	Centaur Capital Partners	\$130.3M	1,198,270	\$109
Blaine 35 Industrial Park	Blaine	EQT Exeter	\$45.7M	317,646	\$144
*Eagan Innovation Center	Eagan	Hunt Electric Corporation	\$44M	300,000	\$147
I-94 Logistics Center	Rogers	MDH Partners	\$28.5M	263,775	\$108
Zachary Distribution Center	Maple Grove	Altus Properties	\$21.625M	172,224	\$126
*Amazon - Park 81	Maple Grove	Amazon	\$16.7M	75,704	\$221
Minneapolis Value Add Light Portfolio	Various	Saber Hall Partners	\$15.1M	170,528	\$89

*Indicates Owner User Sale

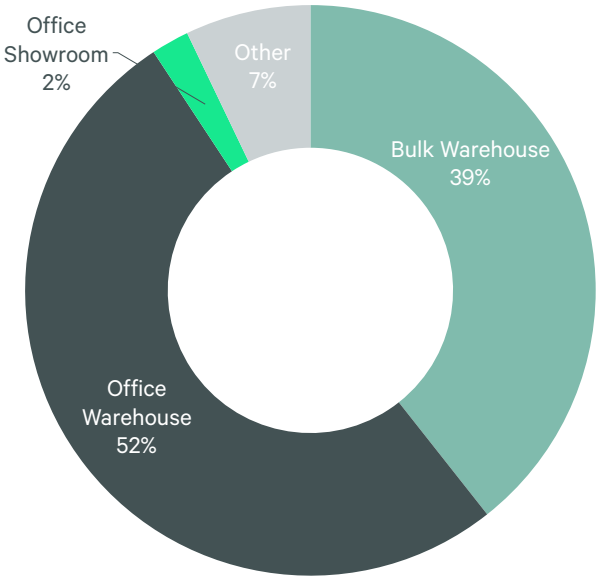
Source: CBRE Research, Q3 2024

FIGURE 12: Investment vs. Owner User Sales Volume, 2020-Q3 2024



Source: Real Capital Analytics, CoStar, CBRE Research, Q3 2024.

FIGURE 13: Q3 2024 Investment Sales by Product Type



Source: Real Capital Analytics, CoStar, CBRE Research, Q3 2024

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

Submarket	Inventory (Sq. Ft.)	Direct Vacancy Rate	Total Availability Rate	Q3 2024 Net Absorption (Sq. Ft.)	2024 YTD Net Absorption (Sq. Ft.)
Metro Overall	357,004,317	3.7%	5.1%	1,002,369	3,258,339
East	22,275,487	10.6%	12.9%	198,466	387,165
Midway	28,799,948	2.2%	4.0%	111,719	94,910
Minneapolis	23,662,733	1.6%	2.3%	11,639	3,891
North Central	54,959,170	1.6%	2.7%	254,750	377,770
Northwest	83,482,492	4.6%	5.6%	444,768	1,379,631
South Central	56,055,206	2.0%	4.4%	365,315	865,244
Southwest	72,027,007	5.0%	6.2%	(356,233)	9,779
St Paul	15,742,274	2.2%	2.5%	(28,055)	139,949

Source: CBRE Research, Q3 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	Q3 Spec Completions	Q3 BTS Completions	2024 YTD Completions
Metro Overall	526,038	459,258	1,820,205	2,279,463	45%	210,160	881,481	3,159,154
East	0	0	0	0	-	0	160,000	160,000
Northwest	351,038	222,219	593,595	815,814	39%	0	500,800	1,463,973
Southwest	0	0	525,391	525,391	-	126,160	0	617,500
South Central	0	89,039	369,965	459,004	0%	0	23,000	411,000
North Central	0	148,000	156,254	304,254	80%	84,000	176,000	303,000
Minneapolis	0	0	0	0	-	0	0	0
St Paul	175,000	0	175,000	175,000	-	0	21,681	21,681
Midway	0	0	0	0	-	0	0	182,000

Source: CBRE Research, Q3 2024.

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

Product Type	Inventory (Sq. Ft.)	Direct Vacancy Rate	Total Availability Rate	Q3 2024 Net Absorption (Sq. Ft.)
All Product Types	357,004,317	3.7%	5.1%	1,002,369
Bulk Warehouse	72,977,682	11.1%	12.0%	502,103
Office Warehouse	144,779,652	1.8%	3.4%	226,019
Office Showroom	39,977,138	4.2%	7.0%	107,480
Other	99,269,845	0.8%	1.6%	166,767

Source: CBRE Research, Q3 2024.

National Economic Overview

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is steady and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a downturn in the labor market, although the recent bump in unemployment appears mainly driven by an increase in participation.

One reason for concern is the decline in the share of private industries that are creating jobs. The labor market has slowed but it is not slumping, and companies are not letting workers go at a particularly high rate.

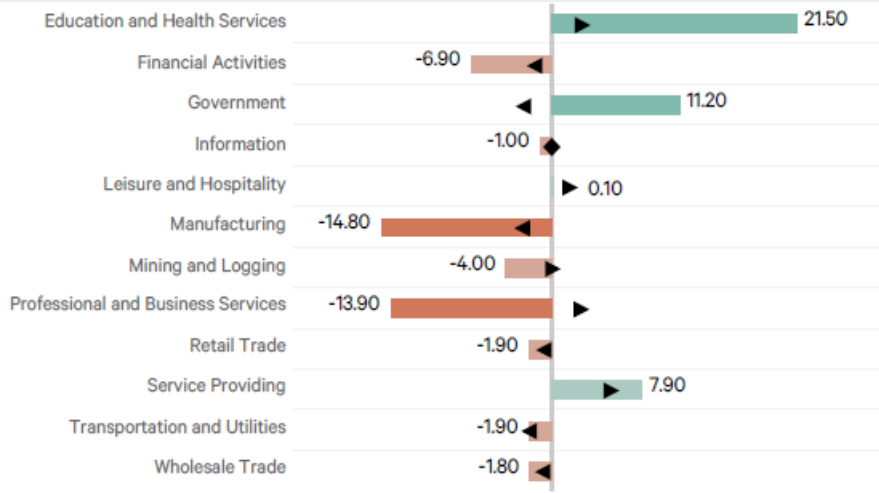
While many are focused on November’s election, the most consequential policy lever has already been pulled via the FOMC’s 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.



Minneapolis/St. Paul Employment Update

- ▲ 3.9%
Unemployment Rate
- ▼ 2.0M
Labor Force
- ▲ 458.4k
Office Using Jobs
- ▲ 543.7k
Industrial Using Jobs
- ▼ 260.7k
Retail Using Jobs

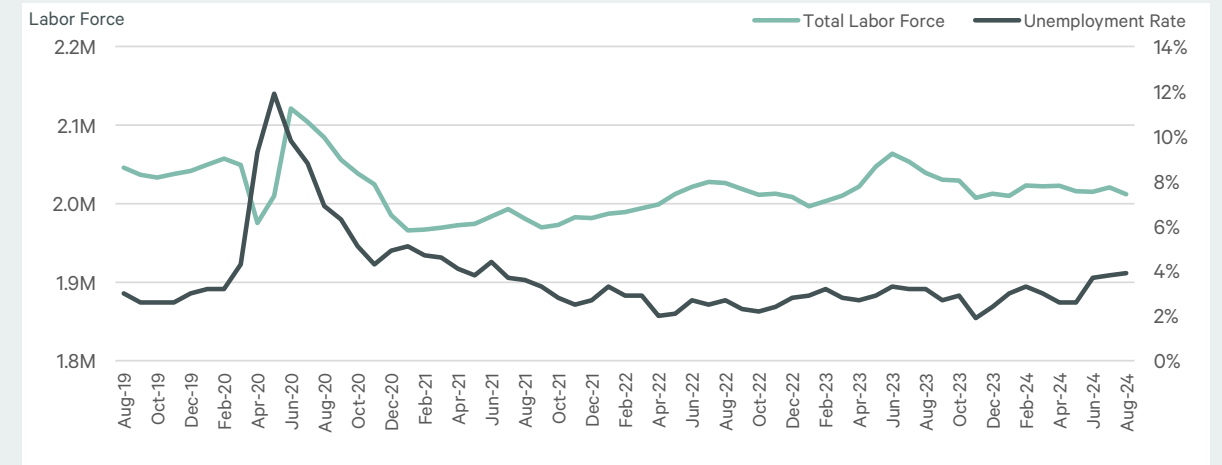
Employment Change by Sector – Yearly + Monthly
Bars indicate yearly trend, arrows indicate monthly trend



Note: Arrows indicate month-over-month change.

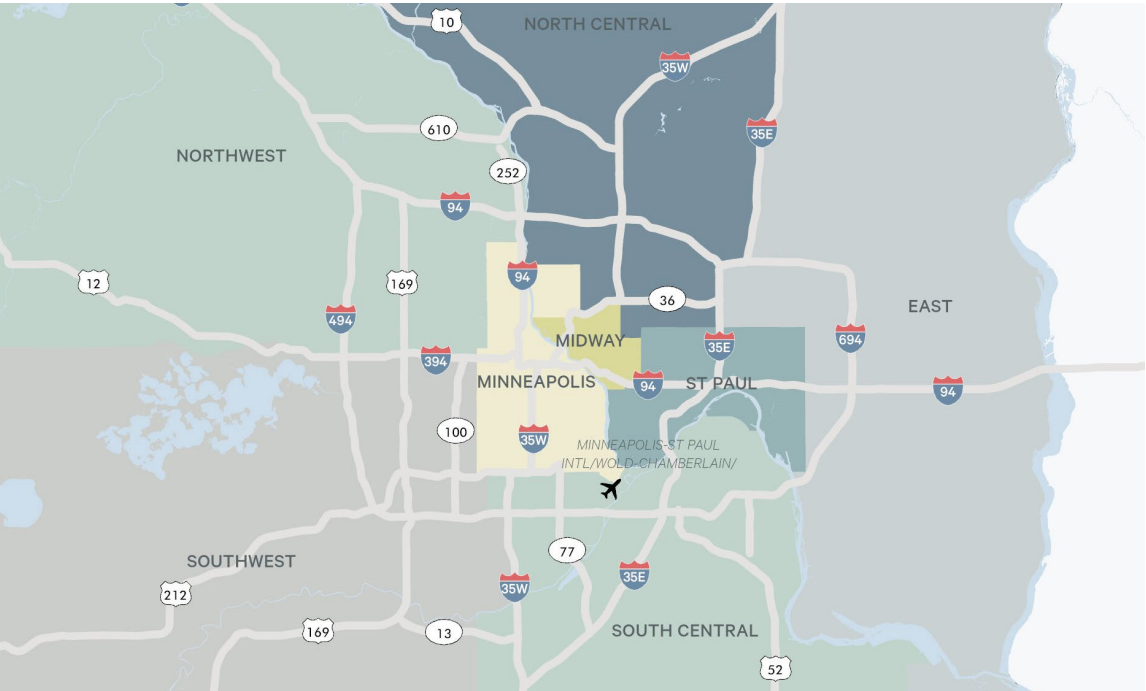
Source: US BLS, August 2024

Minneapolis/St. Paul Unemployment Rate and Labor Force Trends



Source: US BLS, August 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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