

FIGURES | MINNEAPOLIS INDUSTRIAL | Q4 2022

2022 Year-end closes with another record of positive net absorption

◀ 3%
Vacancy Rate

▼ 1.6M
SF Net Absorption

▼ 7M
SF Under Construction

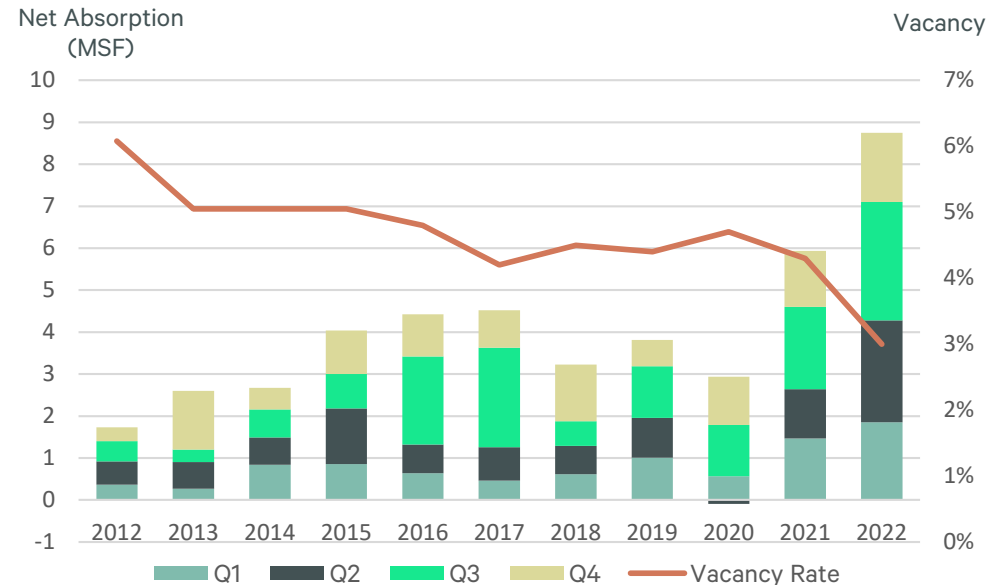
▼ \$6.88 PSF
Average Asking Rate (NNN)

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- In Q4, the Minneapolis industrial market absorbed 1.6 million sq. ft., bringing the 2022 year-to-date total up to 8.7 million sq. ft., a 47% increase over 2021 total absorption and the strongest annual performance on record.
- Overall vacancy was 3%, a decrease of 1.3% year-over-year and the lowest in recorded history.
- The construction pipeline remained strong, with 7 million sq. ft. under construction. Of that, 73% is speculative development with 14% percent pre-leased.
- Q4 new construction deliveries added 3.6 million sq. ft. from 21 buildings. 2.8 million sq. ft. of speculative construction was completed with 28% currently leased.
- Speculative deliveries this quarter include the I-94 Logistics Center, InverPoint II, Cottage Grove Logistics Park I/II, Bunker Lake Business Park I/II, Capstone 35 North/South, Blaine 35 B, Chaska Creek II, and North Central Commerce Center.
- Strong Q4 2022 leasing activity was led by the Northwest submarket. Overall, Q4 leasing activity in the market exceeded 2.5 million sq. ft.

FIGURE 1: Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q4 2022.

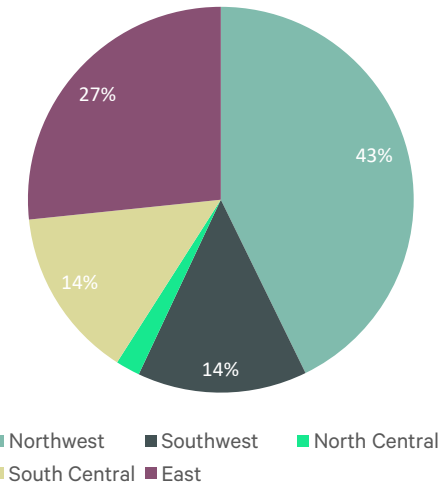
Absorption, Vacancy, and Construction

In Q4, the Minneapolis industrial market absorbed 1.6 million sq. ft., bringing the 2022 year-to-date total up to 8.7 million sq. ft., a 47% increase over 2021 total absorption and the strongest performance on record. The Northwest saw the strongest positive absorption with 1.1 million sq. ft. absorbed in Q4 and nearly 4 million sq. ft. absorbed YTD. Vacancy rates held this quarter at 3%, a decrease of 1.3% year-over-year and lowest in recorded history.

There are currently 7 million sq. ft. of new industrial development under construction in the Minneapolis market. Of that, 73% is speculative development with 14% percent pre-leased. Q4 construction starts include the speculative River Valley Business Park A/B sites in Shakopee and the Build to Suit Amazon development in Centerville.

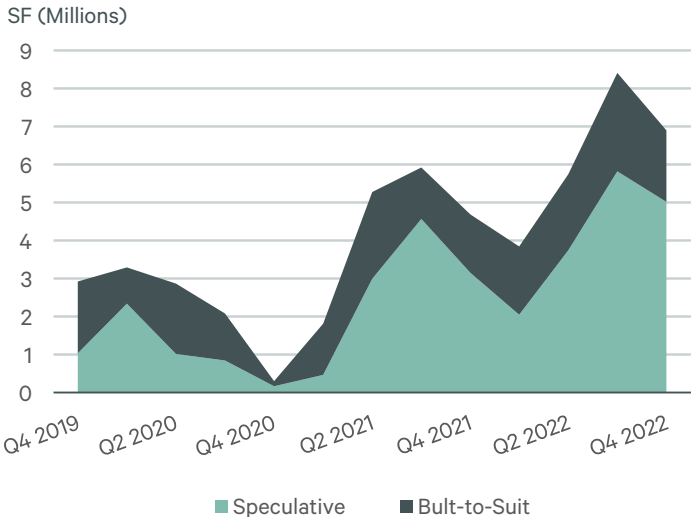
In Q4, there were 21 new developments with 3.6 million sq. ft. delivered including I-94 Logistics Center, InverPoint II, Cottage Grove Logistics Park I/II, Bunker Lake Business Park I/II, Capstone 35 North/South, Blaine 35 B/C, Chaska Creek II, and North Central Commerce Center. In total, over 8M sq. ft. of new construction was delivered in 2022.

FIGURE 2: Current SF Under Construction by Submarket



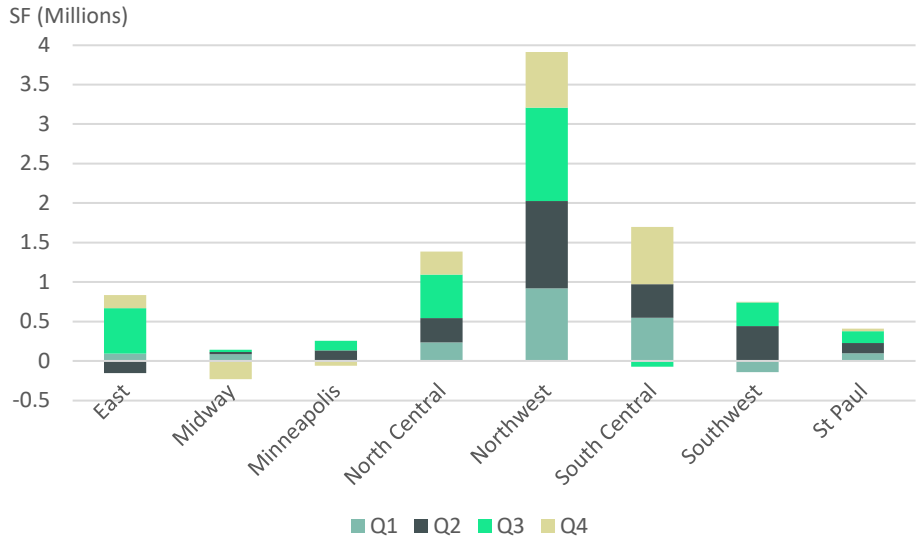
Source: CBRE Research, Q4 2022.

FIGURE 3: Speculative and Built-To-Suit Under Construction



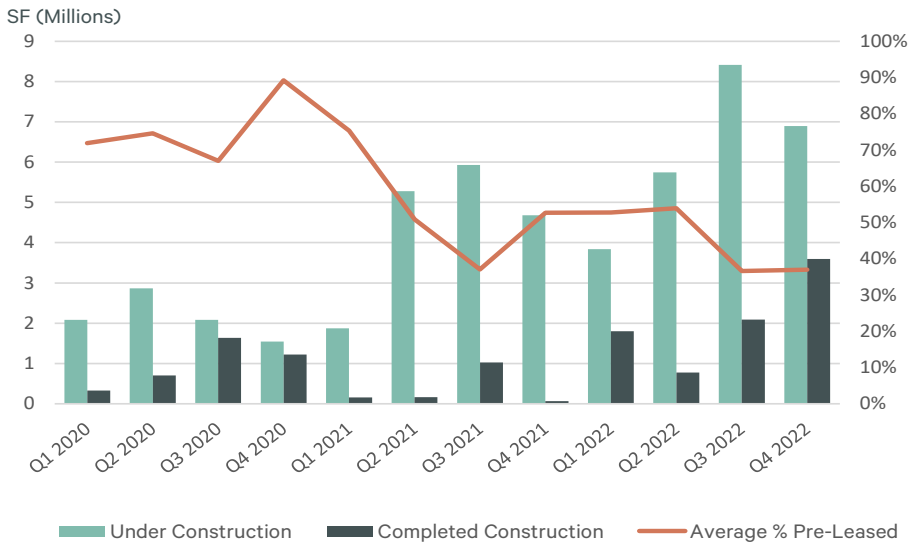
Source: CBRE Research, Q4 2022.

FIGURE 4: 2022 Net Absorption by Submarket



Source: CBRE Research, Q4 2022.

FIGURE 5: Historic Construction Activity and Percentage of Buildings Pre-Leased



Source: CBRE Research, Q4 2022.

Leasing

Strong Q4 2022 leasing activity was led by the Northwest submarket which accounted for 42% of leasing activity and 1.04 million sq. ft. transacted. Overall, Q4 activity totaled 2.5 million sq. ft., a 24.8% decrease from the previous quarter.

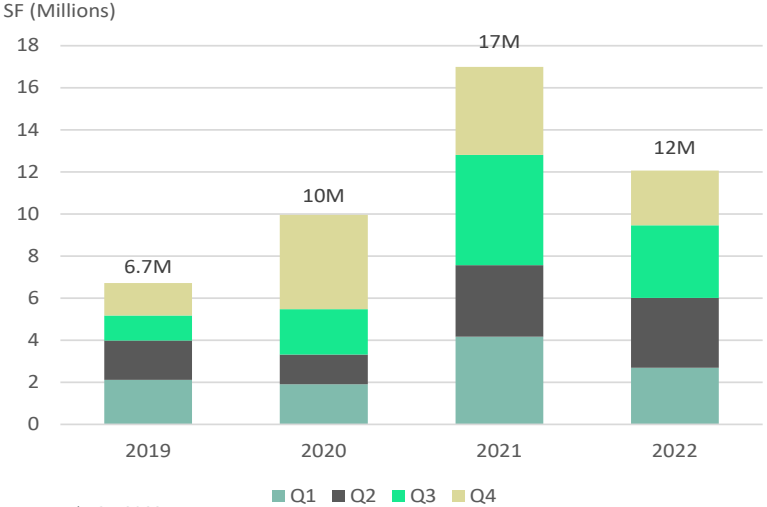
- 2022 YTD leasing velocity exceeded 12 million sq. ft. transacted. This is a 29% decrease from 2021 total leasing velocity and 79% increase compared to 2019 overall leasing.
- New leases and expansions accounted for 57% of all market activity in Q4. In the Northwest submarket, 63% of Q4 activity was with new leases.
- Manufacturing users accounted for the largest share of activity at 31% of all Q4 activity, followed by Transportation/Distribution users at 25%..

FIGURE 6: Top Transactions

Tenant	Size (Sq. Ft.)	Property	Submarket	Transaction Type	Industry
Superior 3PL	199,919	4Front Industrial Park	East	New Lease	Transportation/Distribution
Confidential	175,000	Maple Grove Industrial	Northwest	New Lease	Transportation/Distribution
General Dynamics Mission Systems	145,000	Bloomington Corporate Center	Southwest	Renewal	Manufacturing
Midland Paper	133,000	University Industrial Park III	Midway	Renewal/Expansion	Wholesale/Distribution
LubeTech	114,461	Xenium Business Center	Northwest	New Lease	Manufacturing
Daikin	100,000	Xenium Business Center	Northwest	New Lease	Manufacturing
Dedicated Networks	94,072	610 Junction - Spec 2	Northwest	New Lease	Technology
Xcel Products	93,000	Elk Creek Commerce Center II	Northwest	Renewal	Manufacturing

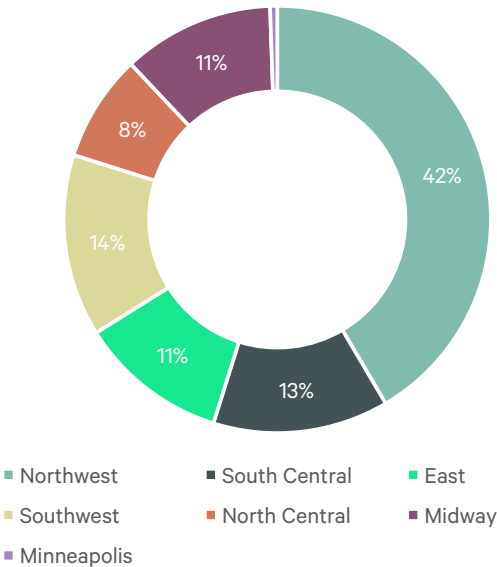
Source: CBRE Research, Q4 2022

FIGURE 7: Historic Annual Leasing Velocity 2019-2022



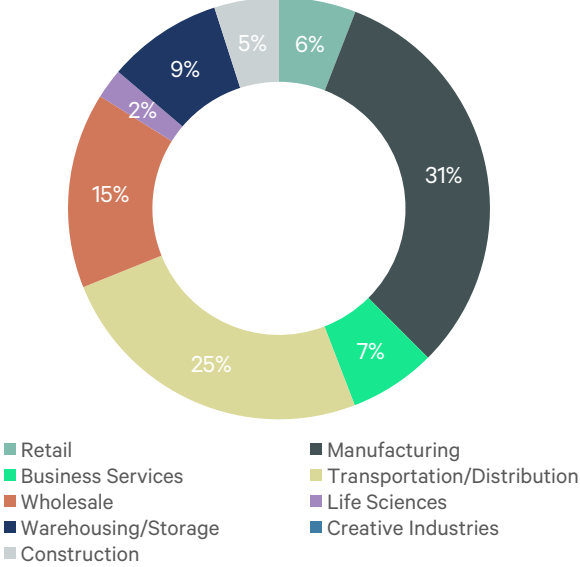
Source: CBRE Research, Q4 2022.

FIGURE 8: Top Transactions by Sq. Ft. by Submarket



Source: CBRE Research, Q4 2022.

FIGURE 9: Top Transactions by Industry Type



Source: CBRE Research, Q4 2022.

Investment Sales.

- **Volume:** Investment sales volume totaled \$777 million in Q4, bringing the 2022 year-to-date total volume to \$1.95 billion. This is a 94% increase from Q3 2022 volume, but a 15.6% decrease year-over-year.
- **Buyer Composition:** Private sales account for the largest percentage of Q4 activity at 55% followed by institutional buyers at 16% of all sales and cross-border buyers at 14%.
- **Product Type:** Q4 sales were predominantly for warehouse properties representing 66% of the total sales volume. Overall, warehouse sales volume for 2022 annually decreased 22% compared to 2021. Flex sales volume in 2022 increased 3% year-over-year.

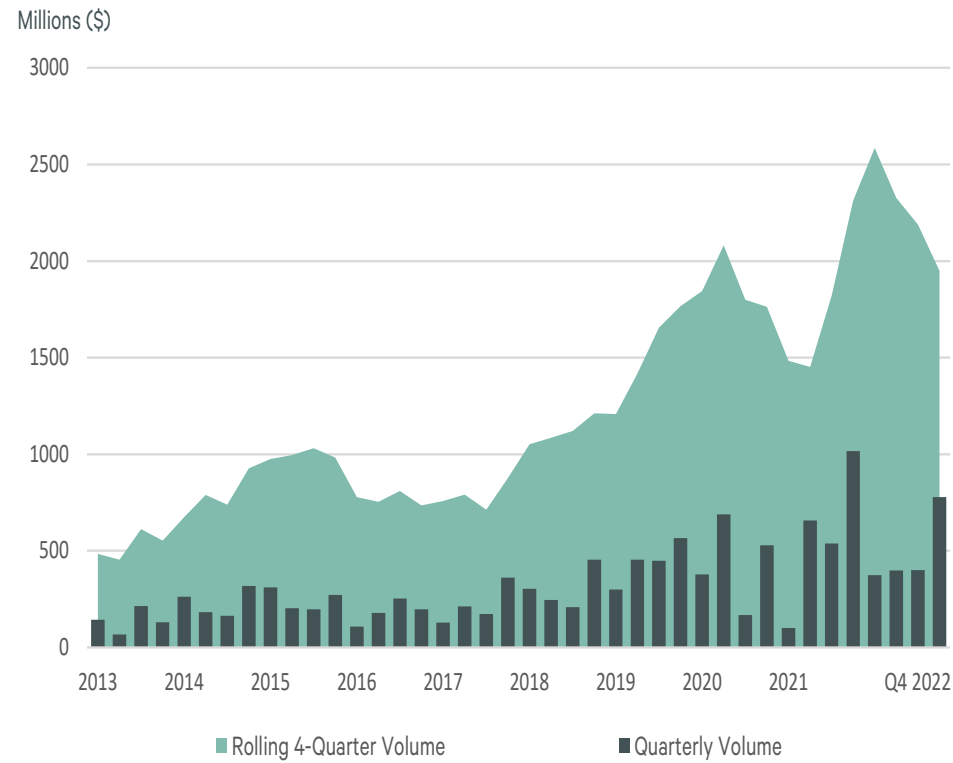
CBRE represented the seller in the sale of the Best Buy Distribution Center and the portfolio CP Industrial Dev Opp. In total, CBRE transacted \$201.5M of industrial sales this quarter, representing 26% of the market activity.

FIGURE 10: Q4 2022 Top Investment Sales

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
Artis REIT Twin Cities Industrial Portfolio 2022	Various	Investcorp, Capital Partners	249M	2.45M	102
CP Industrial Dev Opp	Various	Eagle Realty Group JV CP	102.5M	795,000	129
UnitedHealth	Elk River	CloudHQ	90M	239,000	377
Best Buy Distribution Center	Bloomington	Orton Development	54M	580,000	93
Kindeva US HQ	Woodbury	CMP REIT	48.2M	137,500	351
Blackstone MN Industrial Portfolio 2022	Various	Biynah Industrial Partners	38.2M	375,500	102

Source: CBRE Research, Q4 2022.

FIGURE 11: Minneapolis Industrial Investment Sales Volume, 2013 – Q4 2022



Source: Real Capital Analytics.

FIGURE 12: Minneapolis/St. Paul Industrial Market Statistics

Submarket	Inventory (Sq. Ft.)	Total Availability Rate	Total Vacancy Rate	Q4 2022 Net Absorption (Sq. Ft.)	2022 Full-Year Net Absorption (Sq. Ft.)	Avg. Net Blended Asking Rate (\$/Sq. Ft./Yr.)
Metro Overall	350,772,837	3.7%	3.0%	1,643,808	8,747,370	\$6.88
East	20,878,160	5.5%	5.1%	165,648	683,558	\$6.38
Northwest	78,489,845	3.6%	3.5%	706,333	3,914,715	\$6.96
Southwest	70,987,275	5.1%	4.0%	11,067	611,552	\$6.84
South Central	54,056,085	2.9%	2.2%	722,139	1,628,071	\$7.76
North Central	54,417,769	3.0%	2.8%	293,638	1,387,775	\$6.49
Minneapolis	25,455,292	2.9%	1.7%	(58,885)	197,261	\$5.79
St Paul	15,896,717	1.2%	0.9%	31,737	409,162	\$8.64
Midway	30,591,694	2.7%	2.1%	(227,869)	(84,724)	\$6.94

Source: CBRE Research, Q4 2022.

FIGURE 13: Minneapolis/St. Paul Industrial Construction Statistics

Submarket	Construction Starts	Spec Under Construction	BTS Under Construction	Total Under Construction	Spec Completed	BTS Completed	Q4 22 Construction Completions	2022 YTD Construction Completions
Metro Overall	591,600	5,017,954	1,879,544	6,763,298	2,799,621	793,600	3,593,221	8,087,992
East	0	1,837,660	0	1,837,660	776,070	0	776,070	1,293,070
Northwest	0	2,048,136	901,544	2,949,680	812,371	221,000	1,033,371	3,181,050
Southwest	450,600	877,616	104,000	960,416	133,000	0	133,000	806,952
South Central	0	254,542	733,000	874,542	583,580	472,600	1,056,180	1,354,400
North Central	141,000	0	141,000	141,000	494,600	100,000	594,600	1,322,020
Minneapolis	0	0	0	0	0	0	0	130,500
St Paul	0	0	0	0	0	0	0	0
Midway	0	0	0	0	0	0	0	0

Source: CBRE Research, Q4 2022.

Economic Overview

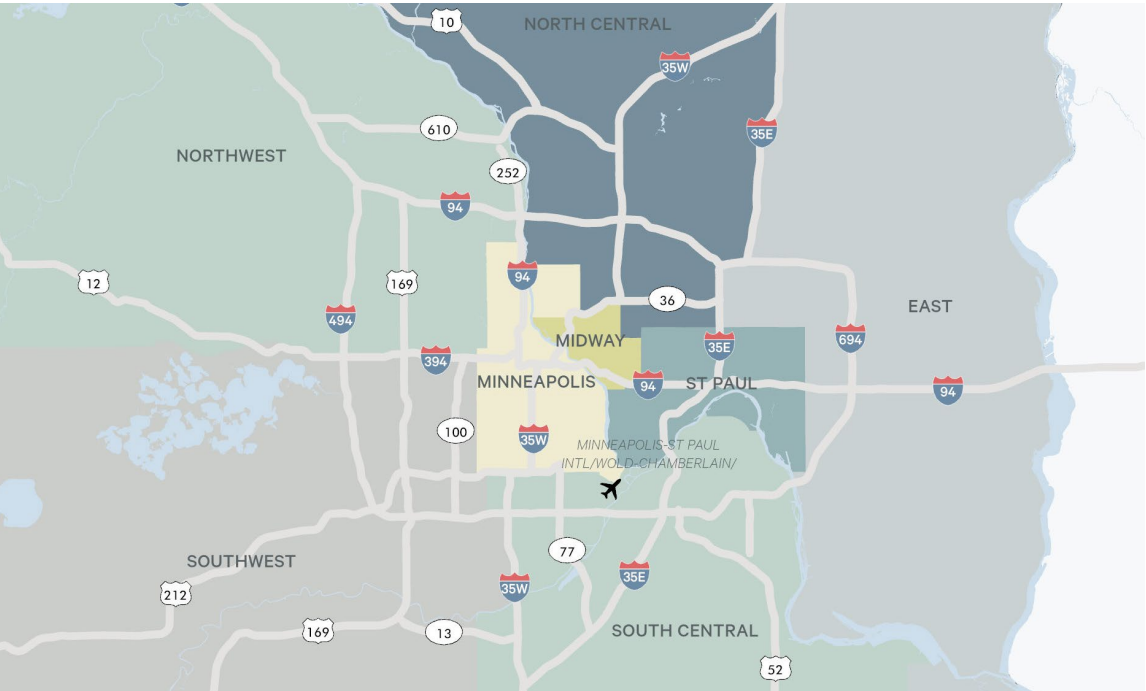
Everybody from Jerome Powell to single parents and Wall Street banks have been laser focused on inflation during the past year. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates, which are curtailing demand for housing and autos. Despite this good news inflation remains a menace. Food and shelter prices are heightened, and fears persist that inflation is embedded in the labor market.

Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent rate hikes has been the most dramatic in decades and this has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023, means that firms are looking to cut costs, helping to fulfill recessionary prophecies.

Some positive signals can be found in monthly payroll gains, but other labor market metrics are not so sanguine. Data from Challenger, Gray & Christmas shows that the current level of layoff announcements is consistent with past recessions. This is paired with business surveys exhibiting deteriorating activity and consumers grappling with eroding savings. The upshot is we believe the economy will face a moderate recession in 1H 2023.



Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

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.

Contact

Maggie Parra

Senior Field Research Analyst
+1 612 215 1268
maggie.parra@cbre.com