

FIGURES | MINNEAPOLIS INDUSTRIAL | Q2 2023

Strong leasing activity and declining absorption in Q2

▲ 2.9%

Direct Vacancy Rate

▼ 318,581

SF Net Absorption

▲ 8.8M

SF Under Construction

▲ \$9.02 PSF

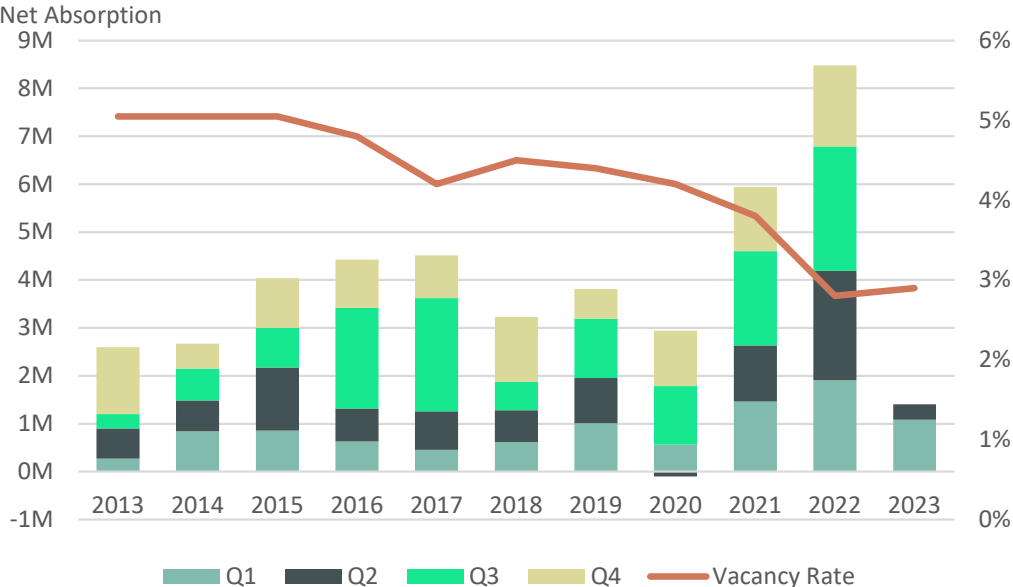
Average Asking Rate (NNN)

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- In Q2, the Minneapolis industrial market absorbed 318,581 sq. ft. bringing the 2023 year-to-date total to 1.4M.
- Q2 leasing activity totaled 4.3M sq. ft. and was the strongest leasing quarter recorded since 2021. In the first half of the year, leasing volume reached 8.4M sq. ft., a 24% increase over the volume of H1 2022.
- There are currently 8.8 million sq. ft. of new industrial development under construction. Of that, 67% is speculative development with 5.4% pre-leased.
- There were nine new speculative and seven build to suit construction starts in Q2, totaling an additional 2.4M sq. ft. underway. There was 1.5M sq. ft. of new construction delivered in Q2.
- By the end of year, 33 new properties for an additional 5.3M sq. ft. of speculative development and 2M sq. ft. of build to suit development are expected to deliver.

FIGURE 1: Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q2 2023.

Absorption

In Q2, the Minneapolis industrial market absorbed 318,581 sq. ft. bringing the 2023 year-to-date total to 1.4M. The Northwest saw the strongest positive absorption with 321,001 sq. ft. absorbed and the largest new occupancy from Blu Dot with the delivery of a new warehouse in Otsego.

Sublease vacancies accounted for the largest group of negative absorption in Q2 with (220,433) sq. ft. in movement. In contrast, there was 539,014 in direct absorption. Absorption on new speculative construction remained high this quarter, with 487,595 sq. ft. absorbed on speculative construction built since 2022.

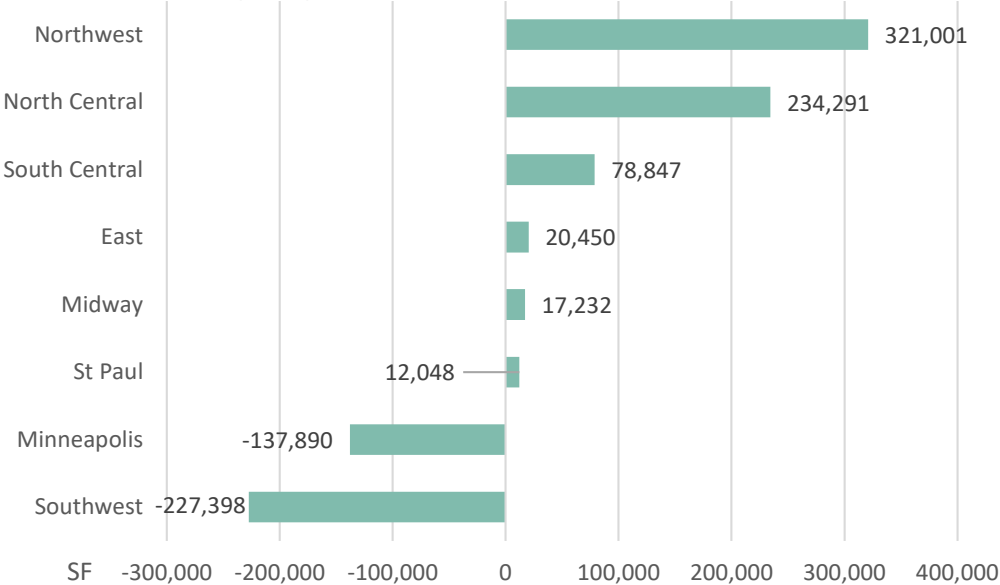
Direct vacancy remained steady at 2.9% in Q2, an increase of just 0.2% from the previous quarter. The blended average asking rate across all product types was \$9.01, with office/warehouse averaging \$8.69 and office/showroom with an average of \$10.48

FIGURE 2: Q2 2023 Top Lease Transactions

Tenant	Size (Sq. Ft.)	Property	Submarket	Transaction Type	Industry
Japs-Olson	704,000	7500 Excelsior	Southwest	Sale/Leaseback	Manufacturing
Sweet Harvest Foods	360,000	Lakeville Logistics Center	South Central	New Lease	Wholesale
SBS Transportation	250,493	MSP Midway Industrial Park #10	Midway	New Lease	Transportation & Warehousing
iMedia	139,190	Shady Oak Industrial	Southwest	Sale/Leaseback	Technology
Omnetics	123,729	8840 NW Evergreen Boulevard	East	Renewal	Manufacturing
Van Meter	104,290	Cottage Grove Logistics Park 1	Midway	New Lease	Wholesale
Murphy Warehouse Co	101,795	MSP Midway Industrial Park #9	Midway	Renewal	Transportation & Warehousing

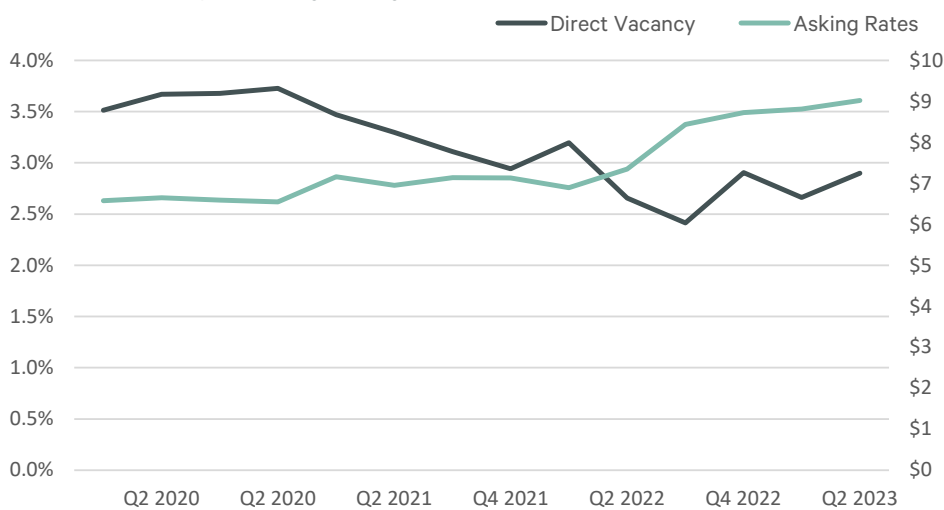
Source: CBRE Research, Q2 2023.

FIGURE 3: Q2 2023 Net Absorption by Submarket



Source: CBRE Research, Q2 2023.

FIGURE 4: Direct Vacancy and Average Asking Rates 2020-2023



Source: CBRE Research, Q2 2023.

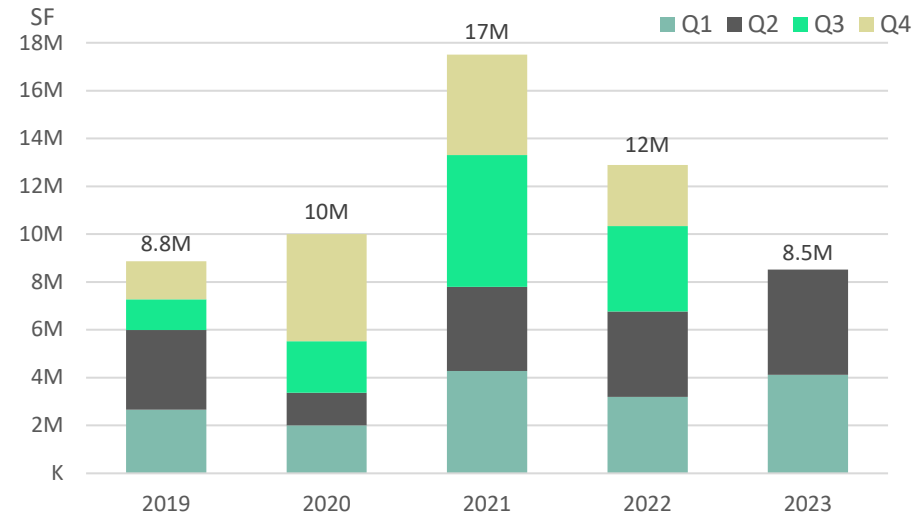
Leasing

Overall, Q2 leasing activity in Minneapolis totaled 4.4M sq. ft., a 23% increase year-over-year. Q2 was the strongest leasing quarter recorded since 2021. In the first half of the year, leasing volume reached 8.5M sq. ft., a 26% increase over H1 2022.

The largest share of activity in Q2 was represented by manufacturing users, with the largest deal of the quarter being the sale/leaseback for the Japs-Olson facility in St. Louis Park. There were several large deals over 200,000 sq. ft. in size which accounted for 56% of total leasing activity in Q2.

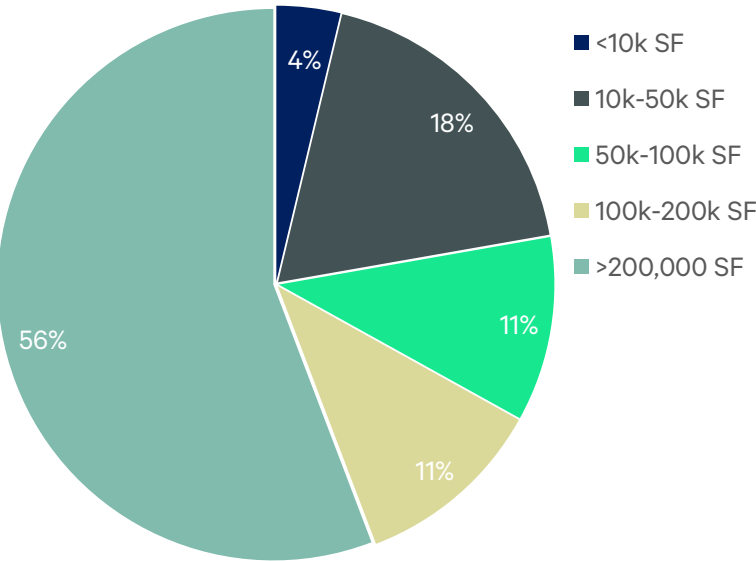
Leasing activity on new construction remains high. Of existing new speculative construction built since 2022, 60% has been leased. Leasing on speculative buildings accounted for 16% of total leasing activity in Q2.

FIGURE 7: Historic Annual Leasing Velocity 2019-2023



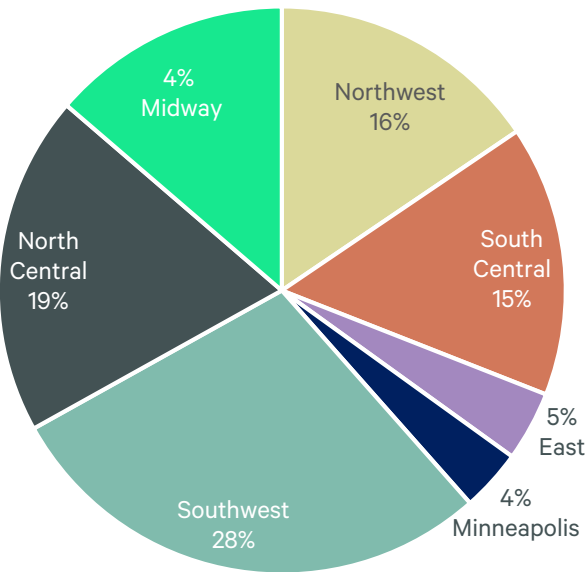
Source: CBRE Research, Q2 2023.

FIGURE 5: Q2 2023 Transactions by Size Range



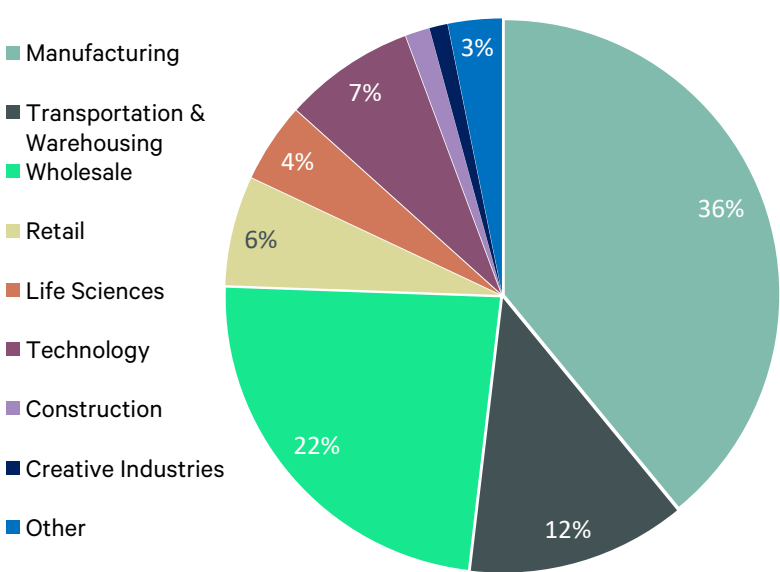
Source: CBRE Research, Q2 2023

FIGURE 6: Top Transactions by Sq. Ft. by Submarket



Source: CBRE Research, Q2 2023.

FIGURE 8: Top Transactions by Industry Type



Source: CBRE Research, Q2 2023.

Construction

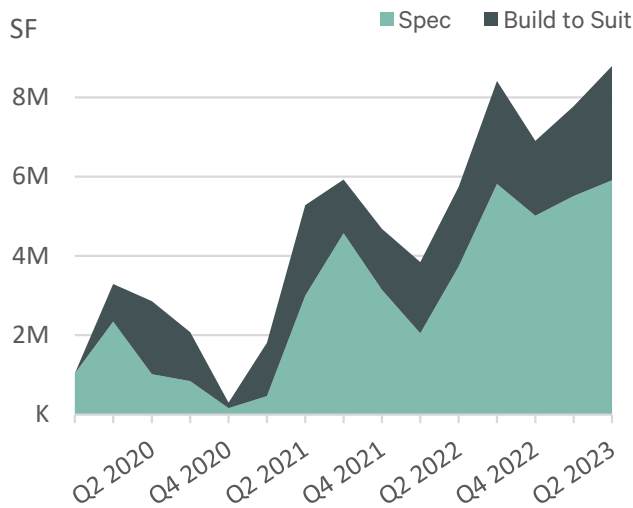
There are currently 8.8 million sq. ft. of new industrial development under construction in the Minneapolis market. Of that, 67% is speculative development with 5.4% overall pre-leased.

In Q2, there were nine new speculative and seven build to suit construction starts totaling an additional 2.4M sq. ft. underway. Speculative starts include 610 Zane East and West in Brooklyn Park, Inverpoint Business Park IV and V in Inver Grove Heights, and Arbor Lakes Business Park V and VI in Maple Grove.

There was 1.5M sq. ft. of construction delivered in Q2. Of the Q2 speculative deliveries, 18% has been leased. Q2 deliveries include Arbor Lakes Business Park IV in Maple Grove and a new 400k sq. ft. build to suit facility for Blu Dot in Otsego.

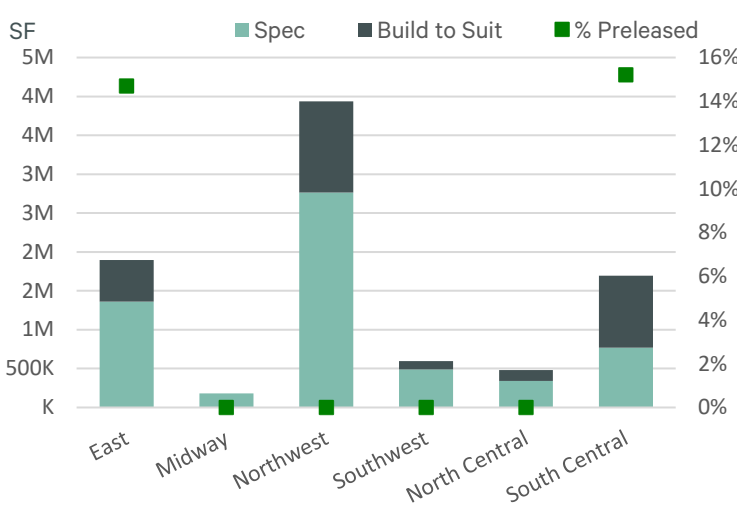
By the end of year, 33 new properties for an additional 5.3M sq. ft. of speculative development and 2M sq. ft. of build to suit development are expected to deliver. Absorption year to date in 2023 on speculative properties has nearly matched the rate of delivery. The availability rate on existing speculative construction in Q2 was 15%, a decrease of 34% since 2019 with 8.8M absorbed in that time.

FIGURE 9: Speculative and Build-To-Suit Under Construction



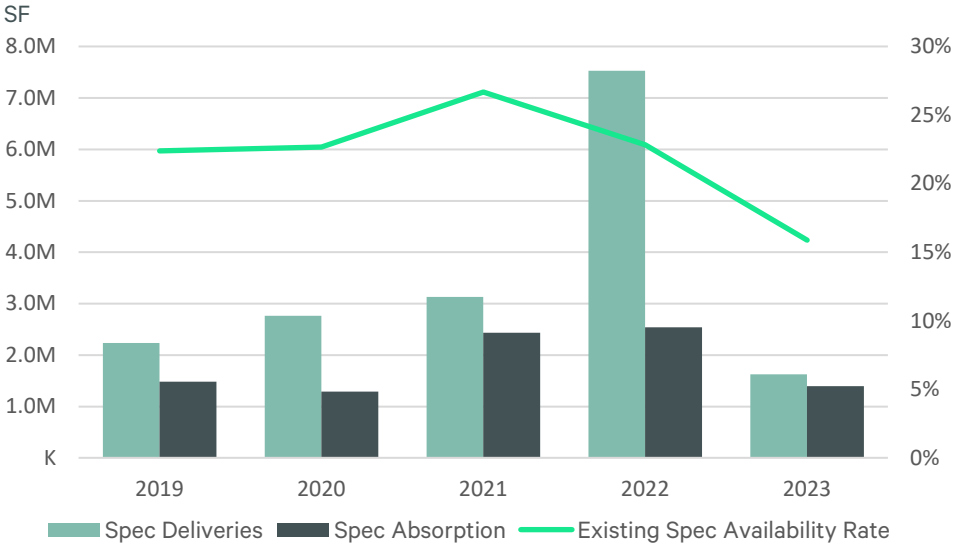
Source: CBRE Research, Q2 2023.

FIGURE 10: Current SF Under Construction by Submarket



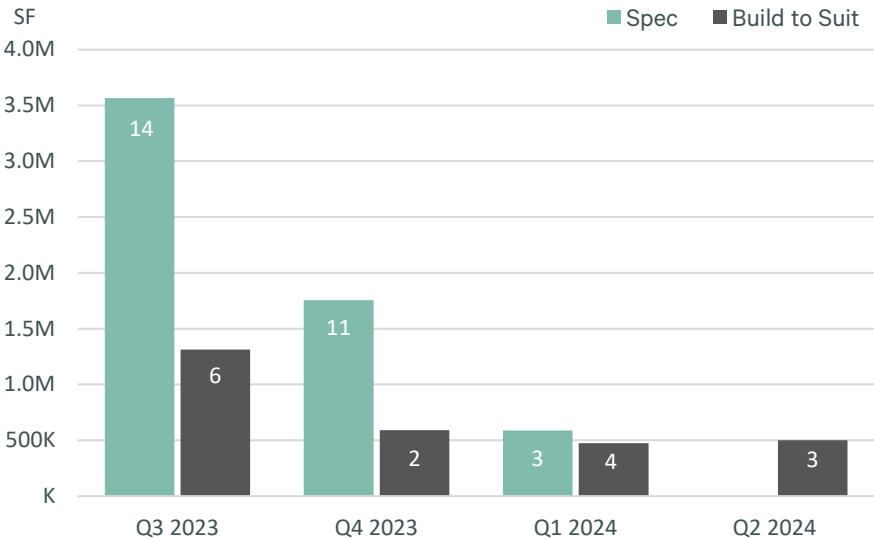
Source: CBRE Research, Q2 2023.

FIGURE 11: Deliveries, Absorption, and Availability Rate for Existing Speculative Construction



Source: CBRE Research, Q2 2023.

FIGURE 12: 2023-2024 Expected Industrial Deliveries



Source: CBRE Research, Q2 2023.

Investment Sales

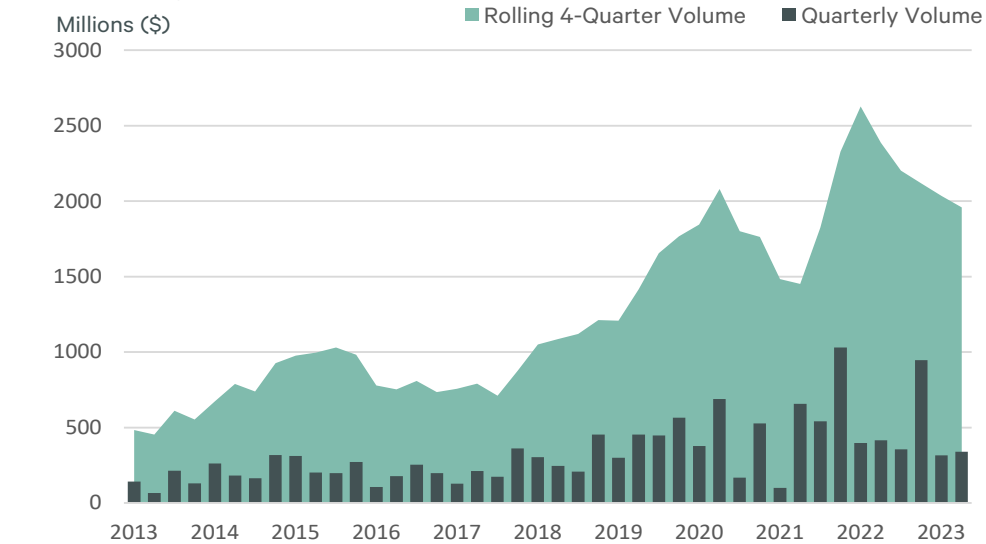
- **Volume:** Investment sales volume totaled \$339 million in Q2. This was a 15% decrease year-over-year and 8% increase from the previous quarter. Individual property volume decreased 14% year-over-year along with a 28% decrease in portfolio volume.
- **Buyer Composition:** Private sales account for the largest percentage of Q2 activity at 68% followed by institutional buyers with 19%, cross-border buyers with 7%, and REITs with 6%.
- **Product Type:** Q2 sales were predominantly for warehouse properties representing 64% of the total sales volume. Year-over-year warehouse sales volume decreased 55% and flex sales volume decreased 48%.
- **Pricing:** The price per square feet on top quartile assets increased by 11% quarter over quarter and 2% year over year. The median and bottom quartile pricing increased 3% year over year, with 18% and 80% growth quarter over quarter, respectively.

FIGURE 13: Q2 2023 Top Investment Sales

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
Japs-Olson Sale/Leaseback	Saint Louis Park	Angelo Gordon & Co.	71.2M	701,062	102
Minneapolis Core Industrial Portfolio	Various	Capital Partners	71M	690,742	103
North Cross Business Park II & III	Brooklyn Park	PCCP	35.2M	239,000	147
Clearwater Creek Business Park	Lino Lakes	Onward Investors	28.9M	404,300	71
Penn Avenue Business Center	Bloomington	Buligo Capital Partners	15.4M	218,899	70
iMedia Sale/Leaseback	Eden Prairie	Pontus Capital	13.1M	139,190	94

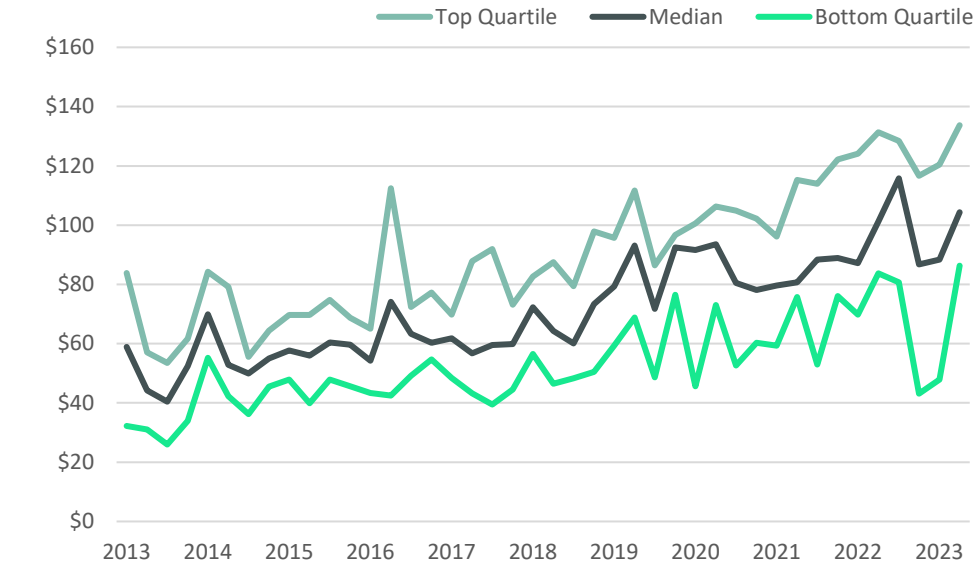
Source: CBRE Research, Q2 2023.

FIGURE 14: Minneapolis Industrial Investment Sales Volume, 2013 – Q2 2023



Source: Real Capital Analytics.

FIGURE 15: Minneapolis Industrial Price per Sq. Ft., 2013 – Q2 2023



Source: Real Capital Analytics.

FIGURE 16: Minneapolis/St. Paul Industrial Market Statistics

Submarket	Inventory (Sq. Ft.)	Total Availability Rate	Direct Vacancy Rate	Q2 2023 Net Absorption (Sq. Ft.)	Rolling 4 Quarter Net Absorption (Sq. Ft.)	Avg. Net Blended Asking Rate (\$/Sq. Ft./Yr.)
Metro Overall	352,662,980	4.1%	2.9%	318,581	5,690,658	\$9.02
East	21,330,664	7.0%	6.6%	20,450	840,862	\$9.58
Northwest	79,099,370	3.8%	3.0%	321,001	2,986,089	\$9.27
Southwest	71,400,277	5.7%	4.1%	(227,398)	40,474	\$8.48
South Central	54,399,385	4.3%	2.3%	78,847	692,921	\$9.83
North Central	54,698,314	2.2%	1.8%	234,291	1,466,553	\$7.63
Minneapolis	25,456,564	2.7%	1.8%	(137,890)	(130,801)	\$8.06
St Paul	15,965,489	4.2%	0.6%	12,048	209,926	\$8.58
Midway	30,312,917	2.8%	2.7%	17,232	(415,366)	\$9.80

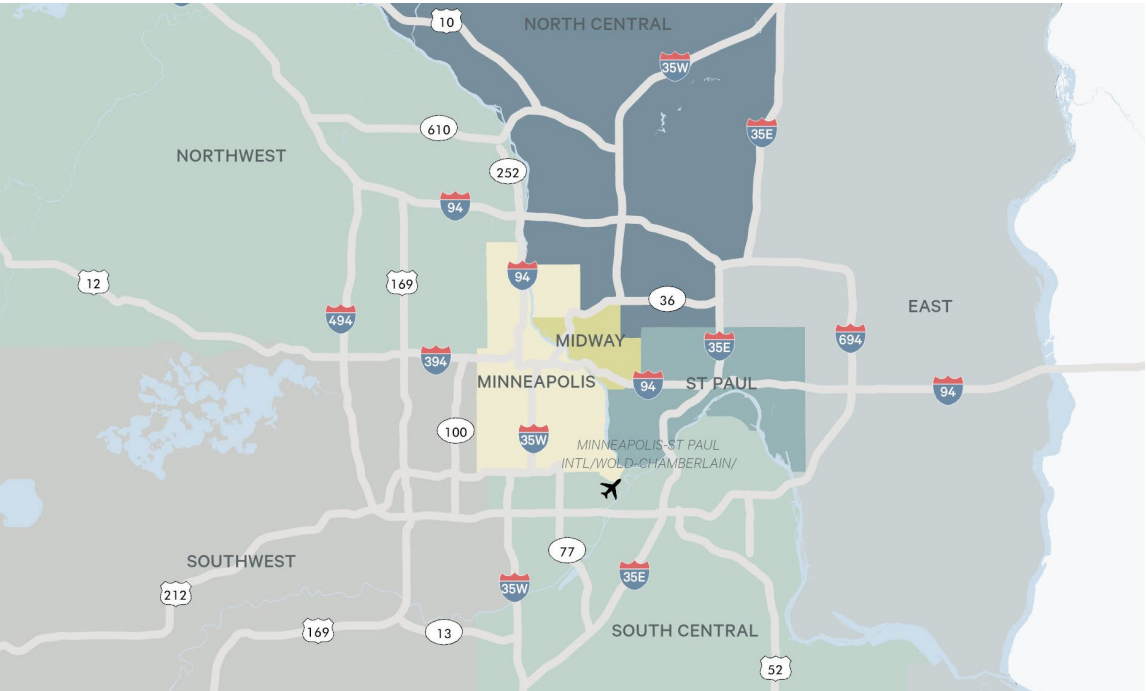
Source: CBRE Research, Q2 2023.

FIGURE 17: Minneapolis/St. Paul Industrial Construction Statistics

Submarket	Construction Starts	Spec Under Construction	BTS Under Construction	Total Under Construction	Spec Completed	BTS Completed	Spec Under Construction Preleased
Metro Overall	2,381,265	5,909,803	2,878,138	8,787,941	1,077,329	401,544	5.4%
East	125,000	1,359,897	537,830	1,897,727	328,764	0	15%
Northwest	1,194,665	2,765,244	1,170,308	3,935,552	321,549	401,544	0%
Southwest	0	491,340	104,000	595,340	427,016	0	0%
South Central	537,600	769,322	925,000	1,694,322	0	0	15%
North Central	342,000	342,000	141,000	483,000	0	0	0
Minneapolis	0	0	0	0	0	0	-
St Paul	0	0	0	0	0	0	-
Midway	182,000	182,000	0	182,000	0	0	0

Source: CBRE Research, Q2 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.

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