EXECUTIVE SUMMARY

OVERALL MARKET TRENDS
Vacancy Rate, Absorption and New Construction Strongest in a Decade

VACANCY RATE
10.6%
Lowest multi-tenant rate across all property types since 2000

ABSORPTION
5.54 million square feet
2x the amount last year, most since 2006

NEW CONSTRUCTION
3.36 million square feet
Most multi-tenant space delivered since 2007

SECTOR HIGHLIGHTS

RETAIL: Premier retail space hitting $40 psf rents

INVESTMENT & CAPITAL MARKETS: Sales top $3.4B, highest since 2006

HOTELS: Development boom drives crunch for new flags

INDUSTRIAL: Demand pushing rental rates and record construction

LAND: Prices, demand soar for industrial sites

MEDICAL OFFICE: Off-campus development drives evolution

OFFICE: Shifting corporate strategies temper growth

MULTI-FAMILY: Insatiable renter appetite meets new completions

READ MORE INSIDE
FOR PROPERTY TYPE & SUBMARKET REPORTS, VIDEO AND MORE, PLEASE VISIT NORTHMARQCOMPASS.COM
Grocery-anchored centers and regional malls fueled activity. Grocers are aggressively competing for sites in a crowded market while several regional malls are expanding and re-tenanting.

Small-shop space in prime centers remains scarce. Rents are escalating to new threshold of $40-psf range for new small-shop space at top-performing properties. This is “pricing out” some retailers and forcing them to get creative to find space.

Mixed-use development remains hot in urban markets but is also moving into sought-after suburban markets.

Sales of office, industrial and retail properties topped the $3.4 billion mark by November 2015, which is the highest since 2006, proof that the Twin Cities is a strong draw for institutional investors eager for quality assets. There is more capital chasing properties than available deals. However, investors are very selective in acquiring assets that fit their specific criteria and strategies.

Mixed-use development remains hot in urban markets but is also moving into sought-after suburban markets.

Office sales were healthy at $1.36 billion through November 2015.

Retail center sales should reach $800 million-plus by year end.

Industrial faces challenges as there is significantly more investor demand than available product for sale.

It was full steam ahead for the industrial market, resulting in a stellar year with 3.6 msf of absorption, a 9.4% vacancy rate and competitive lease rates. Developers achieved rates that supported record levels of new construction—approximately 1.77 msf was under way by year end.

A lack of good development sites in desirable markets and a tightening supply could limit absorption in 2016.

Solid demand by large industrial users is projected to result in more than 1 msf of build-to-suit development in 2016.

Hotel sales and development are strong, fueled by historically high occupancy, solid room rates, low interest rates and an abundance of available capital. Several big sales closed in second-half 2015, although transaction volume could slow in 2016 as the competition has increased prices beyond what some buyers are willing to pay.

More than 1,000 rooms coming to downtown Minneapolis.

Trends to watch include industry consolidation and the impact of short-term rentals like Airbnb.
EXECUTIVE SUMMARY

LAND
Industrial Is ‘Star’ of Land Market

10% rise in prices for industrial land in second half

The big land story is the demand and soaring prices for industrial sites. Industrial developers continued to compete for prime land to take advantage of the current cycle and stake out long-term positions.

- Multi-family developers also competed for the best sites, and record-high land prices were reported in downtown Minneapolis.
- Retail land appetite was strong as developers claimed positions to keep up with suburban housing expansion.

OFFICE
Office Continues Healthy Pace of Recovery

981,615 sf absorption for 2015

The office market is benefiting from healthy job growth. Class B space, in particular, reported increasing leasing activity, helping to push absorption past 981,615 sf for 2015 and pushing down the vacancy rate.

However, this healthy business growth has been tempered by shifting real estate strategies such as companies reducing their footprints even as they continue to add employees.

With more employees in less space, companies are increasingly focused on locations served by mass transit to resolve parking challenges, and many are moving into the Minneapolis CBD.

MEDICAL OFFICE
Off-Campus Medical Office Development Evolves

800,000 sf of 2015 projects were delivered

Medical office construction remains robust. Many of the 800,000 sf of projects underway at the beginning of 2015 were delivered. Much of this new construction was single-tenant properties.

- The big story is that off-campus development is evolving as strategies shift.
- Replacing the former multi-tenant buildings are developments that are either integrated care models executed by a system or large private practice or “system-sponsored” developments that include additional space for specialists affiliated with the system.
- This leaves traditional medical office buildings in uncertain territory long-term as tenants begin moving to this new space.

MULTI-FAMILY
Apartments Experience Insatiable Renter Appetite

14,000 market-rate units completed over the past 4 years

The metro’s apartment market reports one of the lowest vacancy rates nationally at 2.3%, despite an influx of new development.

- The development pipeline remains strong; however, construction is starting to move farther from the urban core into the suburbs.
- Another 4,000 units are expected to be delivered in 2016.
- Rents continue increasing at newly developed buildings, while landlords of class B and C properties are making improvements in an effort to gain leverage to raise rents.

WANT MORE MARKET INSIGHTS? READ THE FULL COMPASS REPORT AT NORTHMARQCOMPASS.COM
Navigating the Minneapolis/St. Paul Commercial Real Estate Market

EXECUTIVE SUMMARY

PROJECTIONS FOR 2016

NEW CONSTRUCTION
4.4 msf multi-tenant space underway

ABSORPTION
2 msf expected in first half of 2016

MORE NEW CAPITAL
Debt and equity

MARKET QUICK FACTS

TWIN CITIES METRO DEFINITION
The “Twin Cities” of Minneapolis and St. Paul form the core of a metropolitan region encompassing 6,046 square miles and consisting of 13 counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington, Isanti, Chisago, Sherburne and Wright in Minnesota, as well as Pierce and St. Croix counties in Wisconsin.

HOUSING PRICES ARE UP
The Twin Cities median single-family home price (as of fourth-quarter 2015) is $190,000, up 6% compared with $179,000 in fourth-quarter 2014.

Source: Minnesota Association of Realtors

UNEMPLOYMENT RATE IS DOWN
As of November 2015, the Twin Cities unemployment rate is the lowest it’s been since 2000

*Not seasonally adjusted

LABOR FORCE MIX IS CONSISTENTLY SOLID

BUSINESS STRENGTHS
Major business strengths in the Twin Cities include a highly educated workforce, excellent transportation services, a diverse economic base and available capital. The metro area is home to 16 Fortune 500 companies representing a broad spectrum of industries. The Minneapolis-St. Paul area’s employment base does not rely on any single industry, which allows it to weather recessions and economic downturns in specific industries.

More per capita Fortune 500 companies than any other US metro region

Greater MSP

Workforce is one of the most qualified in the nation, #1 in workforce participation

Greater MSP

The 6th most inventive city worldwide

Bloomberg Businessweek

North Loop ranks as a Top 25 Destination in the World

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ABOUT

THE COMPASS REPORT
The report was created by experts using Twin Cities commercial property data from the last six months of 2015. The data used for this report has been obtained from sources which we deem reliable. While every effort has been made to report accurate data, Cushman & Wakefield / NorthMarq cannot guarantee the accuracy of this market report. Furthermore, we cannot assume responsibility for any omission of data which may occur. It is our intent to provide the best possible information regarding the office, industrial, land, retail, multifamily and investment markets while leaving the reader the responsibility of further verification before using this report for business and/or financial decisions.

The Compass report includes information for multi-tenant office, industrial and retail projects greater than 20,000 sq. ft. and multi-family for-rent properties. Not included are owner occupied, government or single-tenant buildings. Not all information and insights we’ve collected can be published in any given volume.

CUSHMAN & WAKEFIELD/NORTHMARQ
Cushman & Wakefield / NorthMarq operates the Minnesota business of Cushman & Wakefield, a leading global real estate services firm that helps clients transform the way people work, shop, and live. The firm offers innovative solutions to its occupier and investor clients within the Minneapolis/St. Paul region and around the world. A recognized leader in real estate research, the firm publishes a broad array of proprietary reports.

Ranked #1 Commercial Real Estate Brokerage Firm & Commercial Property Management Firm by Minneapolis/St. Paul Business Journal

More than $1 billion transactions annually

42 msf of assets under management

Top Places to Work by Star Tribune

Employs nearly 500 professionals

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