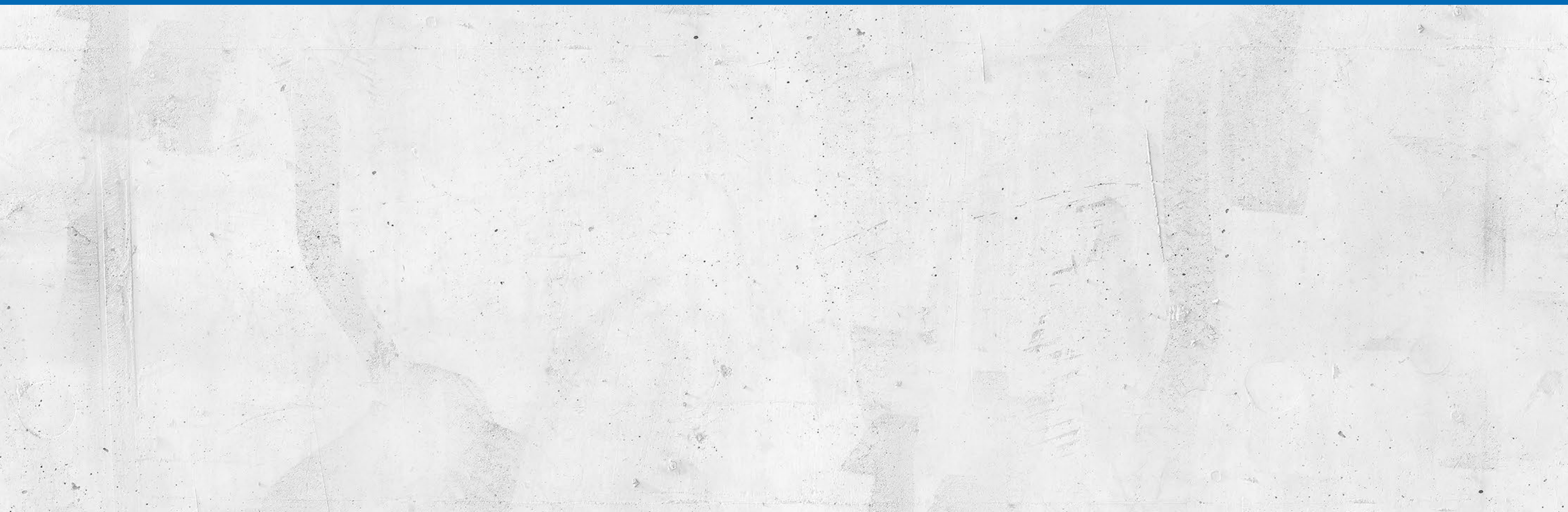


Minneapolis Industrial Market Overview



Market Observations



Economy

- Minneapolis's strong headquarters economy, home to 15 Fortune 500 companies, leads the U.S. in Fortune 500 firms per capita for a major metropolitan area. Additionally, over 320 Fortune 1000 companies maintain a local presence.
- The region's workforce is highly committed, boasting the highest labor force participation rate among major metropolitan areas at 72%. Minneapolis-St. Paul is also a global leader in biotechnology and biomedical research, with strong connections to agriculture, food exports, and water technology. Moreover, it has one of the largest concentrations of banks and financial expertise among major metros.
- Minneapolis consistently has a low unemployment rate, standing at 3.8% as of August 2024, compared to the national rate of 4.2%. However, as of April, the area's 12-month job growth was minimal, with a 0.1% increase, while nationally, nonfarm employment rose by 1.5%.



Major Transactions

- GN Group, a global hearing aid manufacturer, is relocating its headquarters from Bloomington to Shakopee, moving over 550 jobs to a former Shutterfly Inc. facility. The company has secured a 12-year lease for the 218,437 SF site, which will be converted into space for its manufacturing, repair, and shipping operations.
- Hunt Electric, based in Bloomington, purchased the Spectrum Commerce Center, a flex property in Eagan, from Water Street Partners for \$44 million. The property last sold in November 2022 for \$35.5 million.
- EQT Exeter acquired three warehouse buildings in Blaine totaling over 1.2 MSF for \$45.7 million from Artis REIT. Built in 2021, these warehouses are strategically located near Interstate 35W, providing excellent access.



Leasing Market Fundamentals/Outlook

- The Minneapolis-St. Paul industrial market continues to show strong demand, despite challenges in 2024. While leasing activity picked up in the third quarter, overall absorption has slowed compared to the robust period from 2021-2023.
- Vacancy rates have edged up slightly, yet demand for quality industrial space remains high. The vacancy rate increased marginally to 5.4% in 3Q24, up from 5.3% in 2Q23. Absorption was more than 500,000 SF after slowing to 228,024 SF in 2Q24 from 950,498 SF in 1Q24. Sublease availabilities surged by 32%, reaching over 3.4 MSF, while direct space availability decreased.
- Asking rents increased to \$8.90/SF, marking a 4.5% rise from \$8.52 at year-end 2023. This follows a 9.2% jump in 2023, building on 2022's 8.6% growth. Since 2020, industrial asking rents have risen by 27.1%, and while further increases are anticipated, they are expected to occur at a slower pace.
- Absorption began to decelerate in the second half of 2023, with YTD 3Q24 absorption totaling 1.7 MSF, compared to 4.2 MSF in 2023 and 6.0 MSF in 2022. Construction activity peaked in 2023 and is tapering. Outside of current projects under construction, few speculative deliveries are planned for the remainder of 2024, aside from occasional build-to-suit projects.
- Demand for big-box distribution centers remains robust, as evidenced by new developments like the 557,000-SF FedEx facility in Rosemount. Smaller industrial spaces, particularly those under 100,000 SF in urban areas, are also seeing reduced vacancy and increased activity.
- With interest rates decreasing, sales activity is expected to gain momentum through year-end, setting the stage for improved borrowing conditions in 2025. Despite some headwinds, the Minneapolis-St. Paul industrial market remains strong, with moderate rent growth projected into 2025.

1. Economy
2. Leasing Market Fundamentals

3Q24

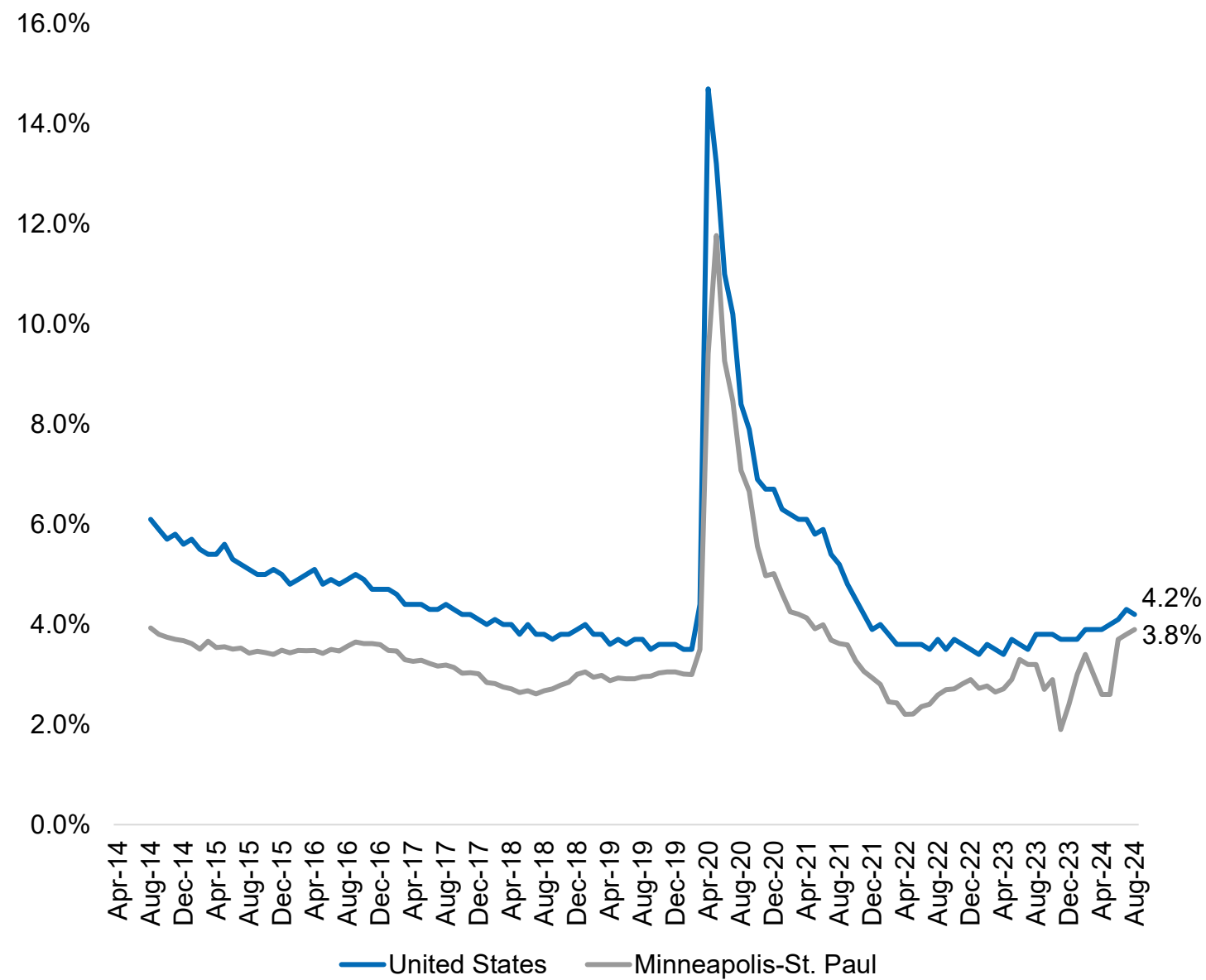
Economy



Local & National Employment Up Versus Previous Year

The unemployment rate in Minneapolis-St. Paul rose slightly from 3.8% in July to 3.9% in August, up from 3.2% in August 2023. Nationally, the U.S. unemployment rate stands at 4.2%, an increase from 3.8% in August 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

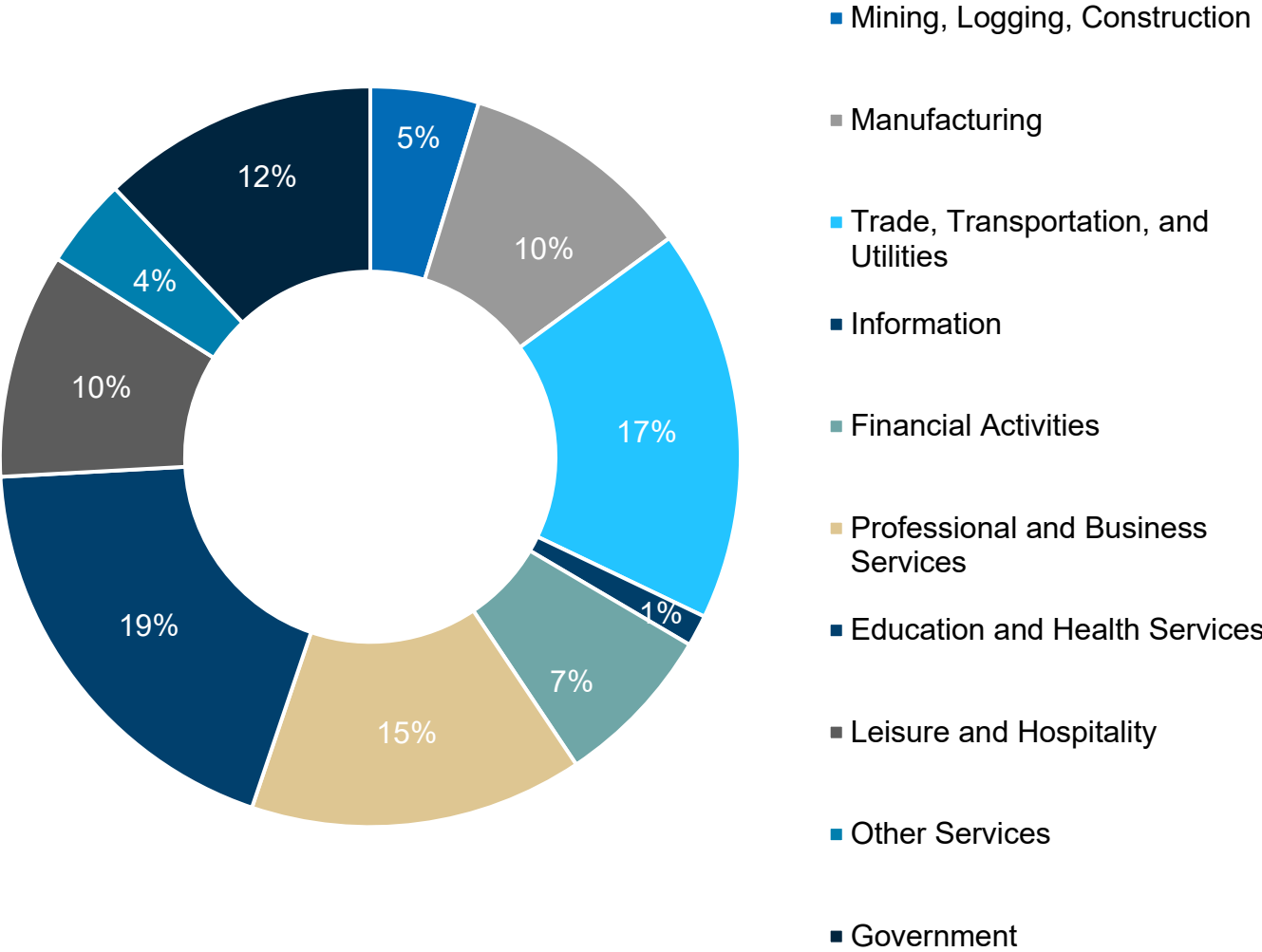


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

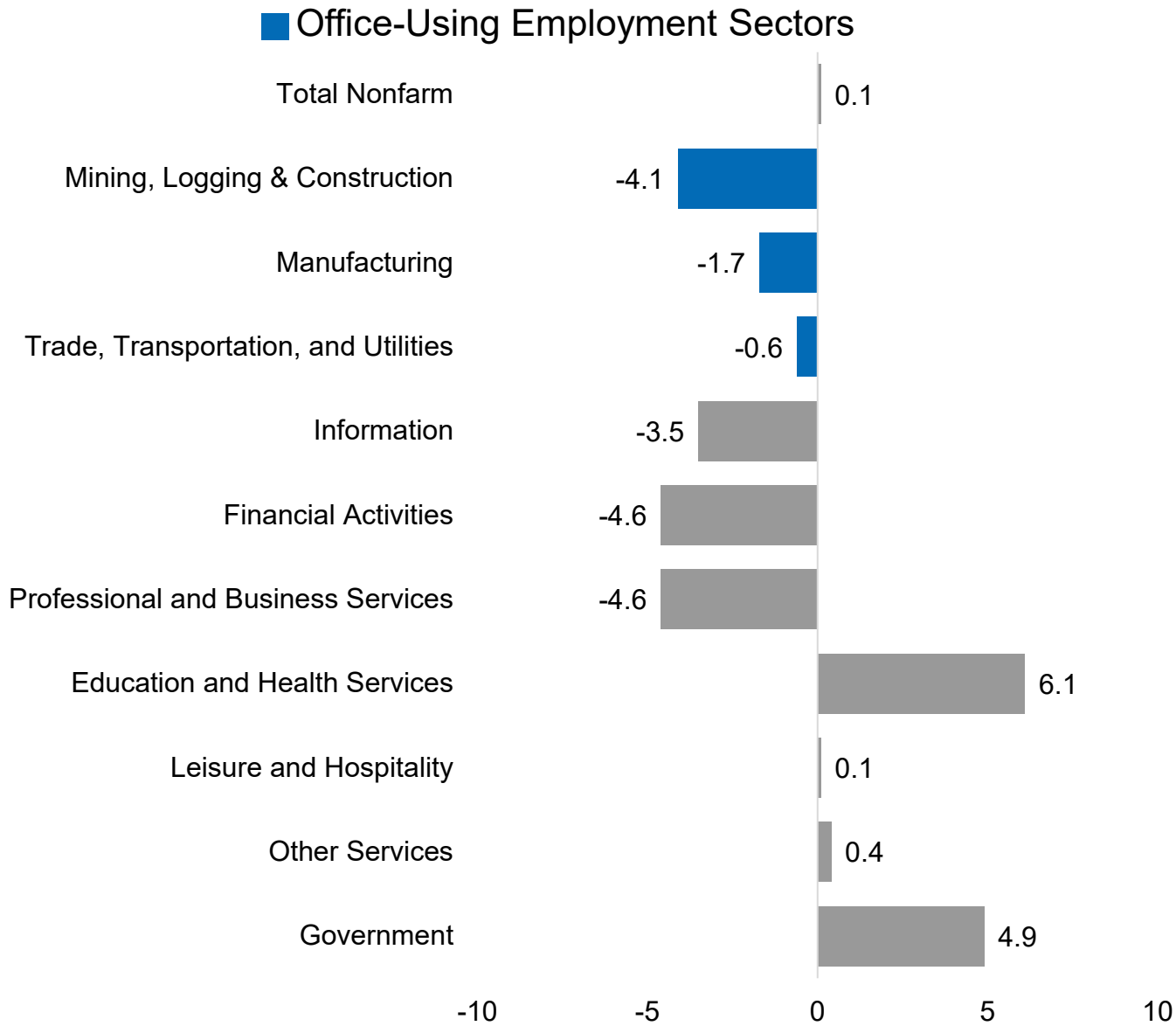
12-Month Industrial Employment Declines

Education and Health Services saw a 6.1% growth, while Government increased by 4.9%, making them the only sectors with notable 12-month growth. All industrial sectors, however, posted declines.

Employment by Industry, August, 2024



Employment Growth by Industry, 12-Month % Change, August, 2024

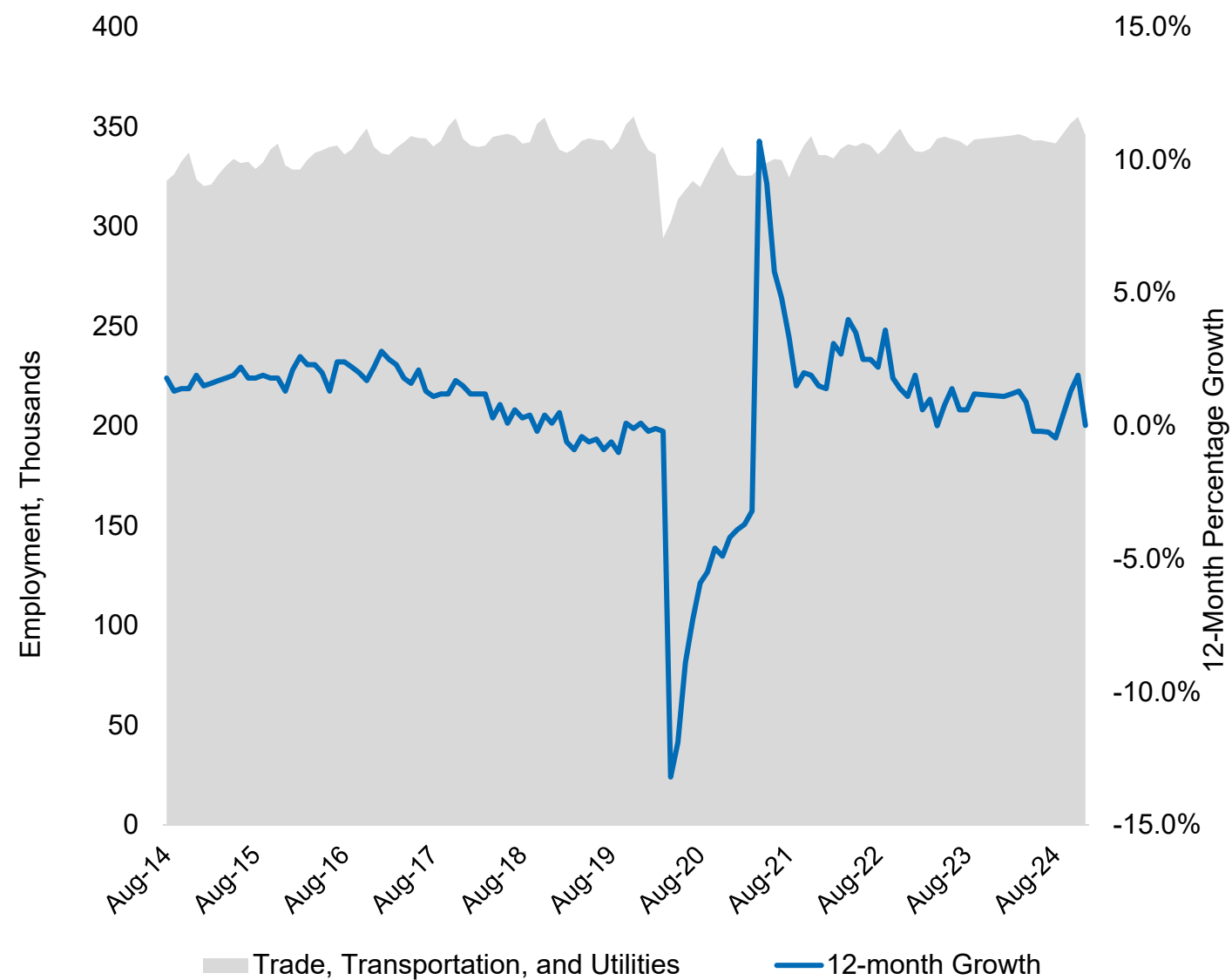


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

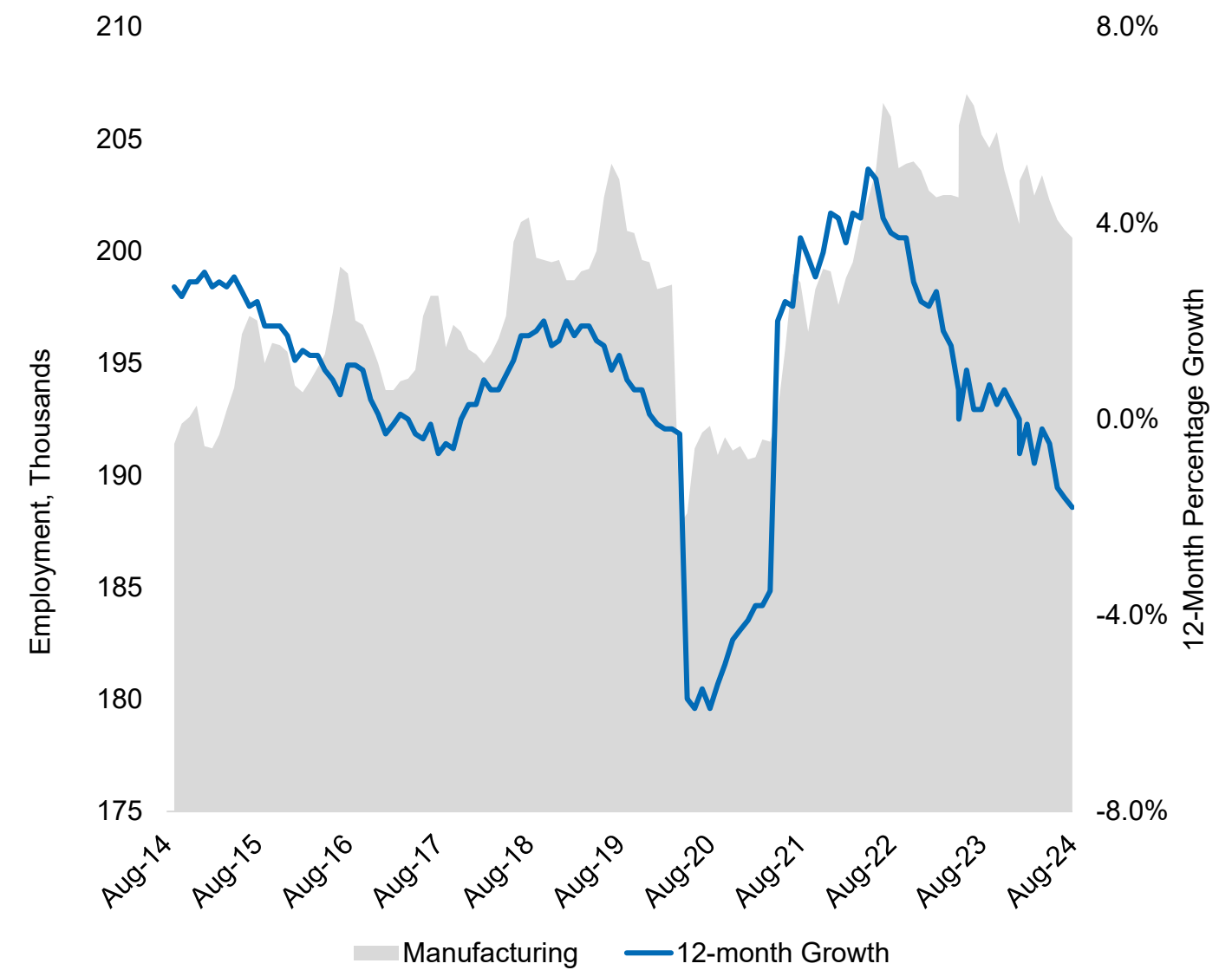
Industrial Employment Conditions Soften

Employment in Trade, Transportation, Utilities, and Manufacturing, decreased slightly in July and August.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

3Q24

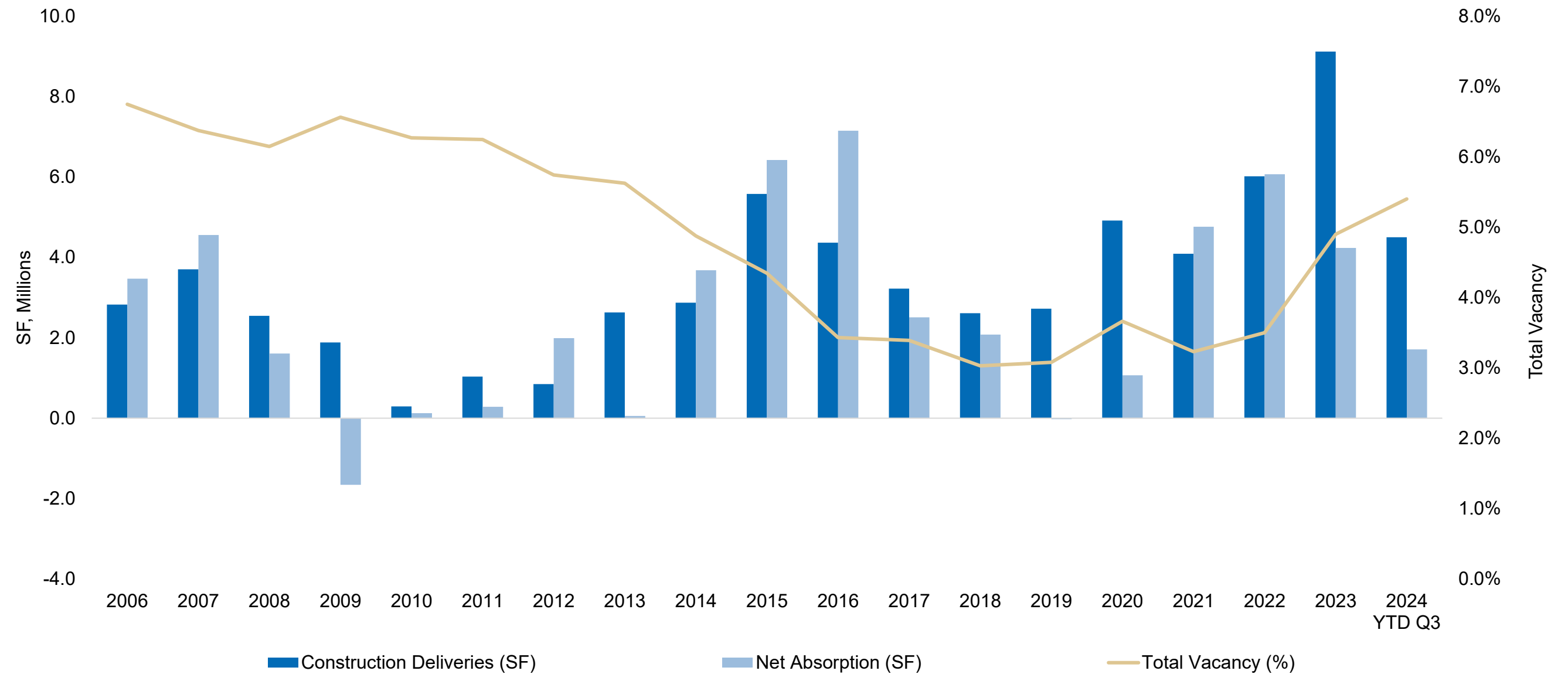
Leasing Market Fundamentals



Vacancy Rises As Construction Deliveries Outpace Net Absorption

The vacancy rate increased slightly to 5.4% in 3Q24, compared to 5.3% in 2Q23. Absorption began to slow in the second half of 2023, with YTD 3Q24 absorption at 1.7 MSF and 2023 absorption totaling 4.2 MSF, down from 6.0 MSF in 2022.

Historical Construction Deliveries, Net Absorption, and Vacancy

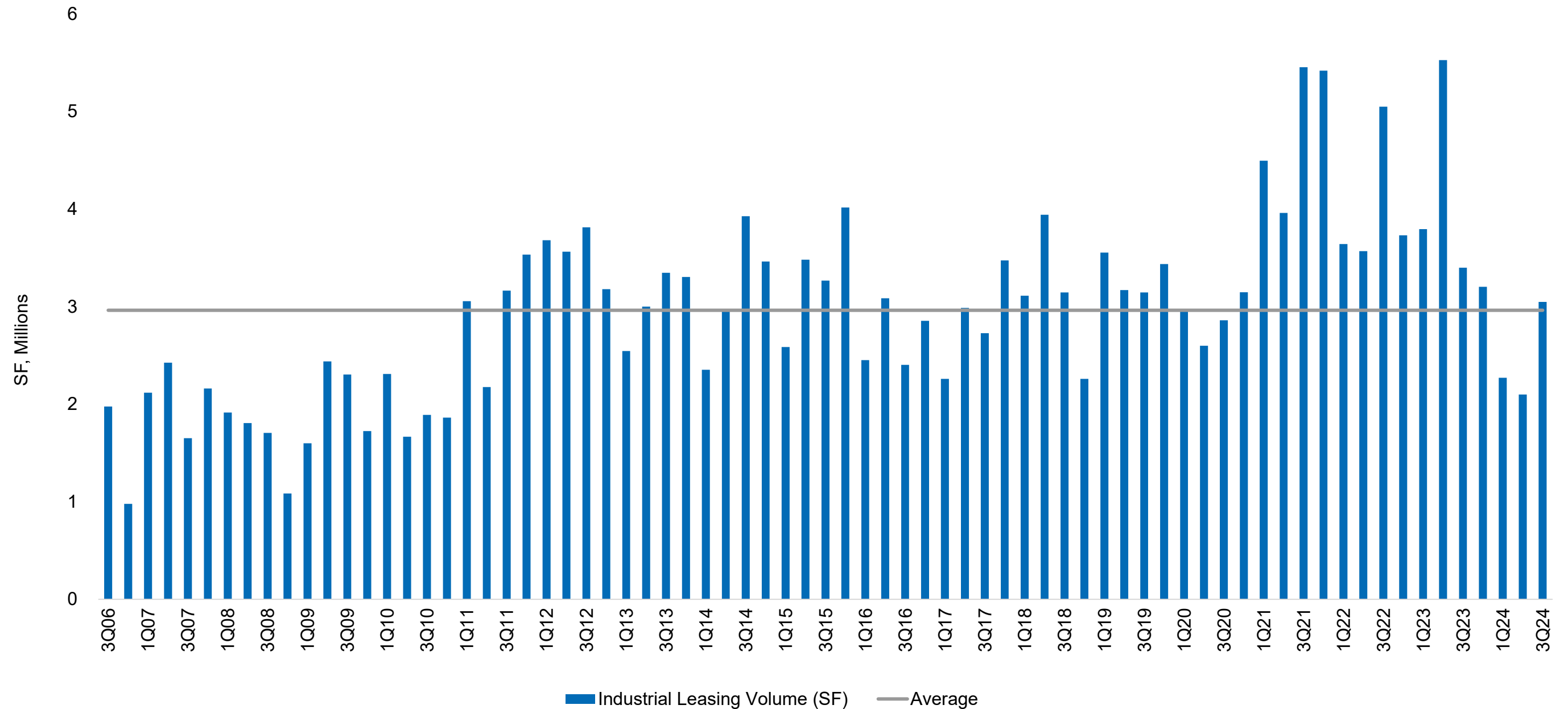


Source: Newmark Research, Costar, MNCAR

Industrial Leasing Picks Up During 3Q24

Industrial leasing rose to 3 MSF in 3Q24 after a slowdown in the first two quarters of the year. While demand for big-box spaces remains strong, there has been a notable increase in activity in the urban core, particularly for spaces under 100,000 SF.

Total Leasing Activity (SF)

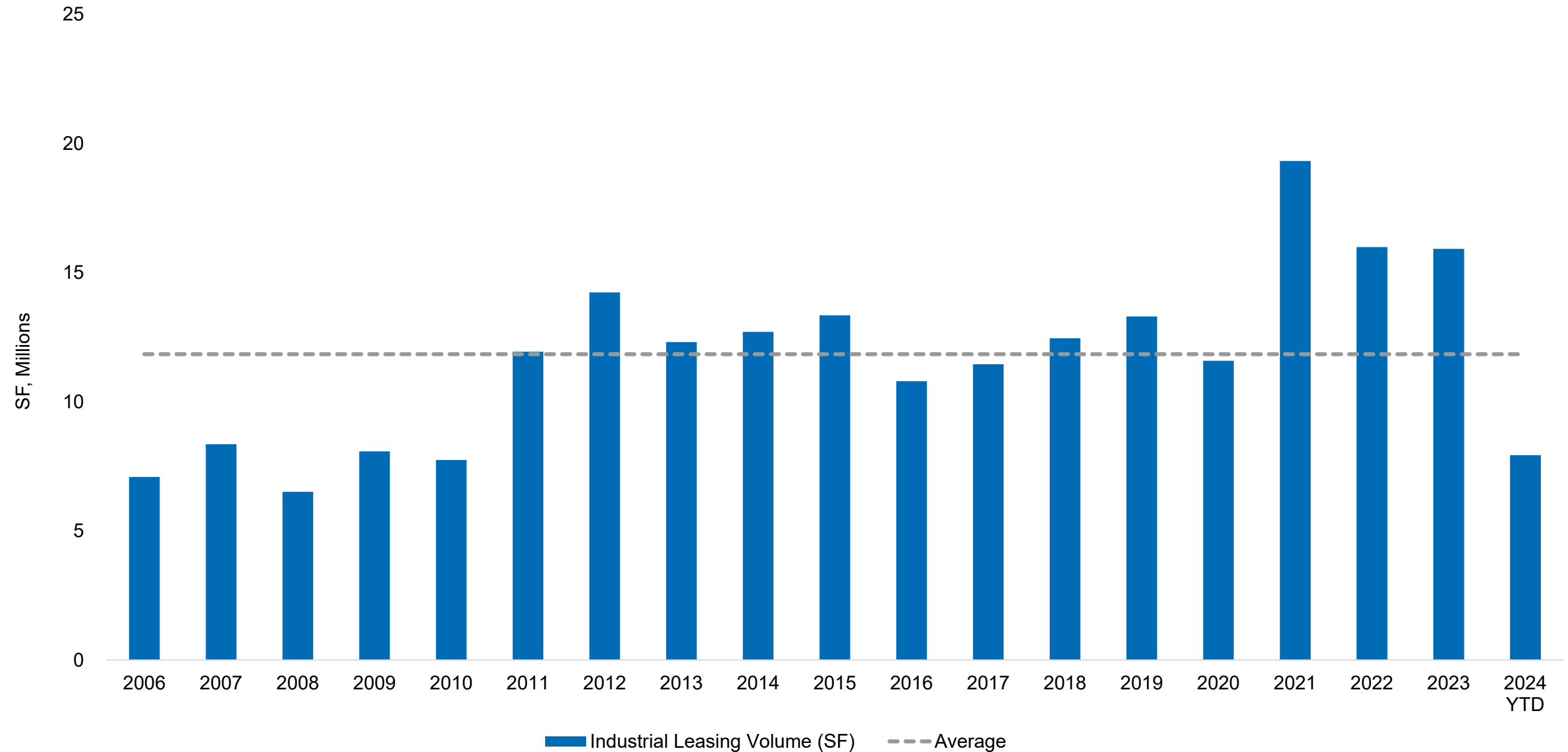


Source: Newmark Research, CoStar

Leasing Activity At Historical Average

Increased activity in 3Q24 has positioned the market to meet the historical average for the year, though it is expected to fall below levels seen since 2020. Large single-tenant properties, such as the 557,000-SF FedEx distribution facility in Rosemount and Graco's 176,000-SF expansion in Ramsey, saw strong demand.

Total Leasing Activity (SF)

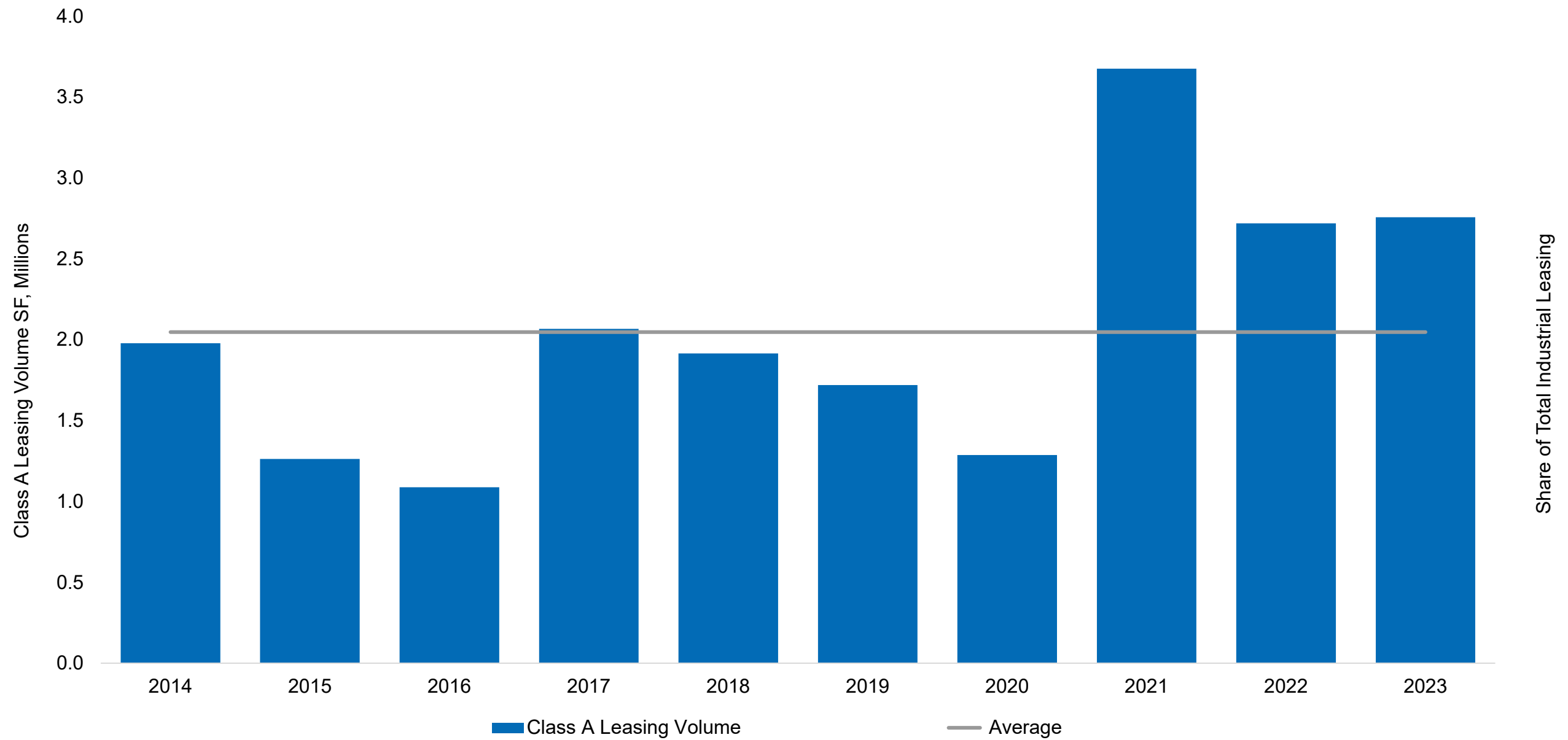


Source: Newmark Research, CoStar

Class A Warehouse Leasing Above Long-Term Average

Class A warehouse leasing volume peaked in 2021 and remained steady through 2022 and 2023, with volumes consistently exceeding historical averages.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

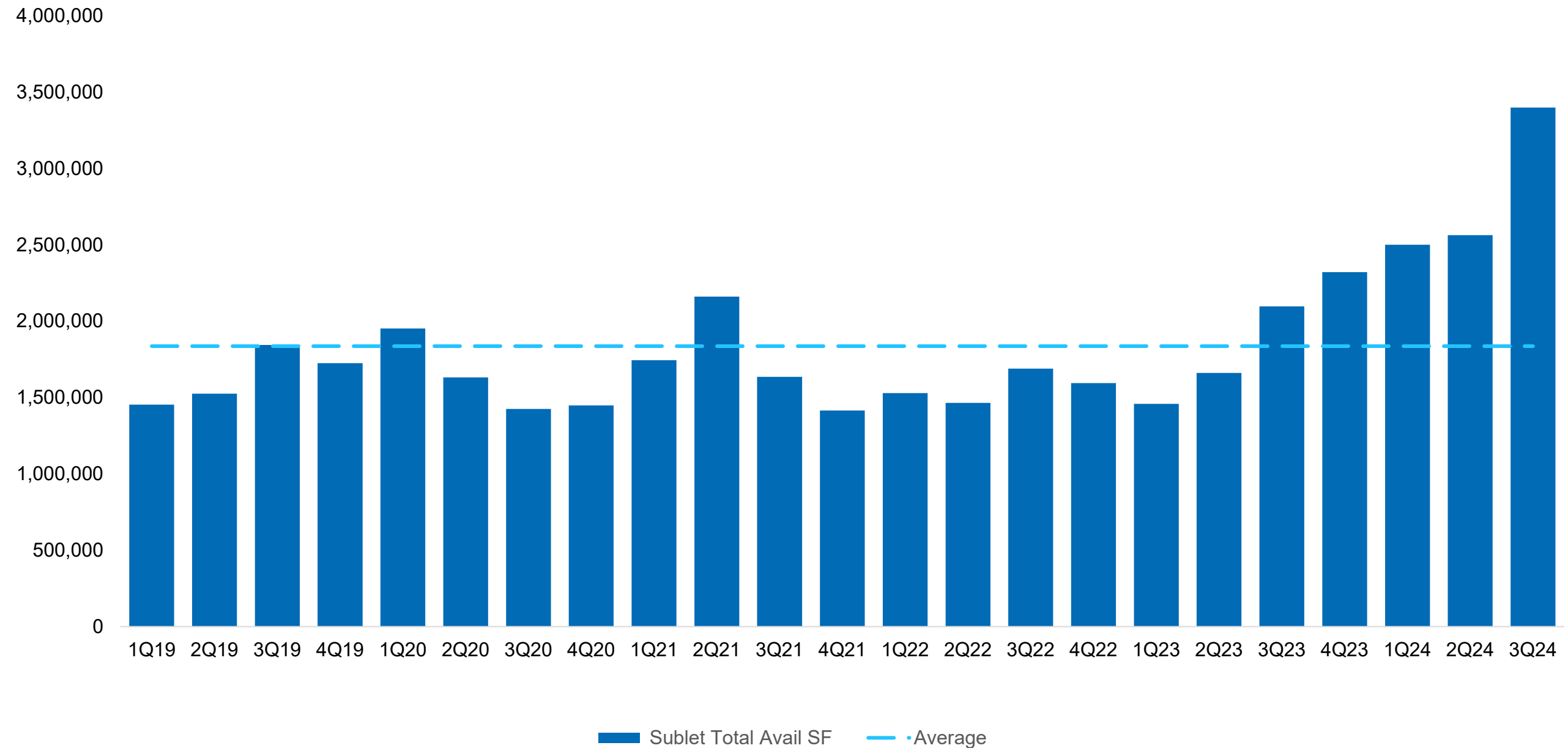


Source: Newmark Research, CoStar

Industrial Sublease Availability Peaks

The pace of sublease additions continues to accelerate, reaching 3.4 MSF in 2Q24, significantly above the quarterly average of 1.8 MSF.

Available Industrial Sublease

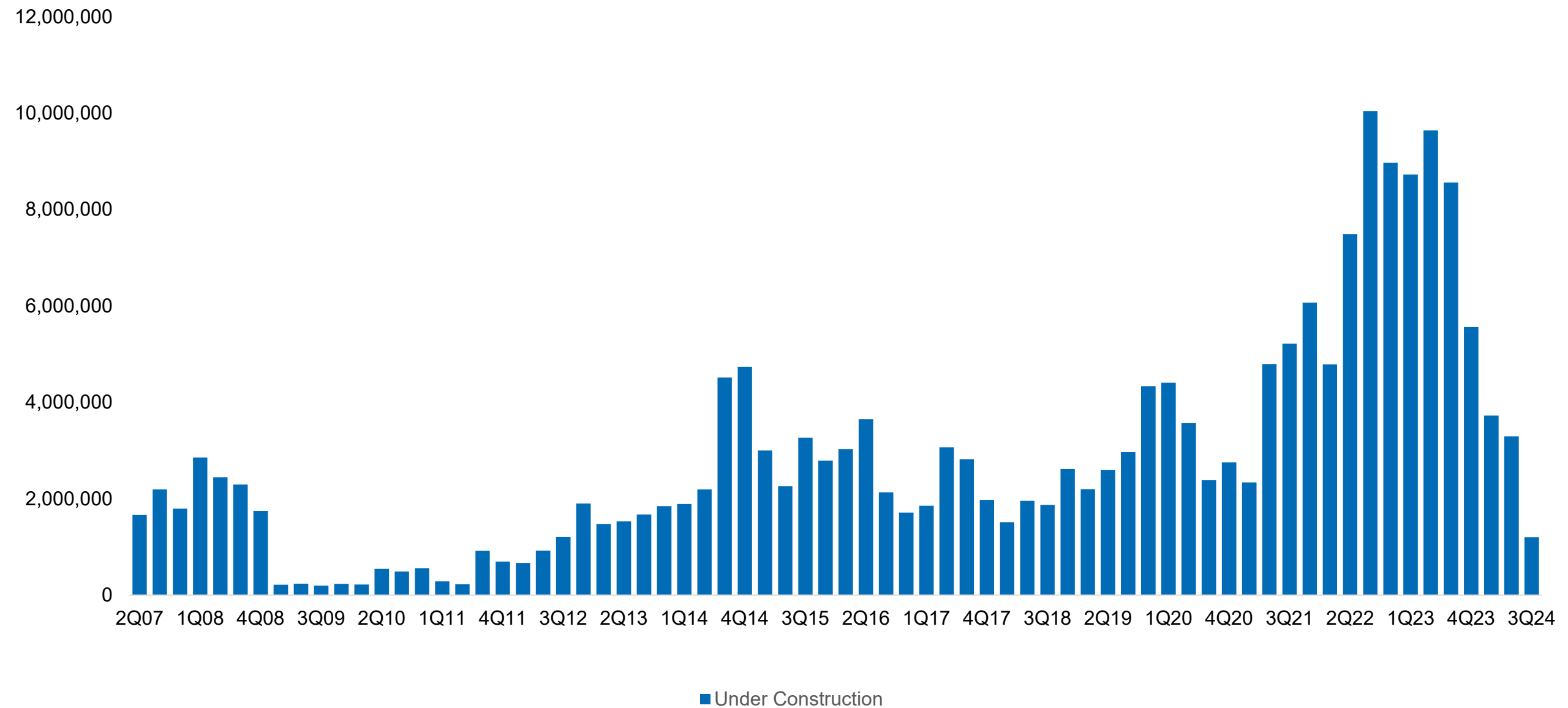


Source: Newmark Research, CoStar

Industrial Construction Pipeline Shrinks As New Starts Decline

The construction pipeline declined after hitting a historic peak of 10.0 MSF in 3Q22. Beyond projects currently under construction, speculative deliveries for the remainder of 2024 are minimal, with few new completions expected outside of occasional build-to-suit developments.

Industrial Under Construction

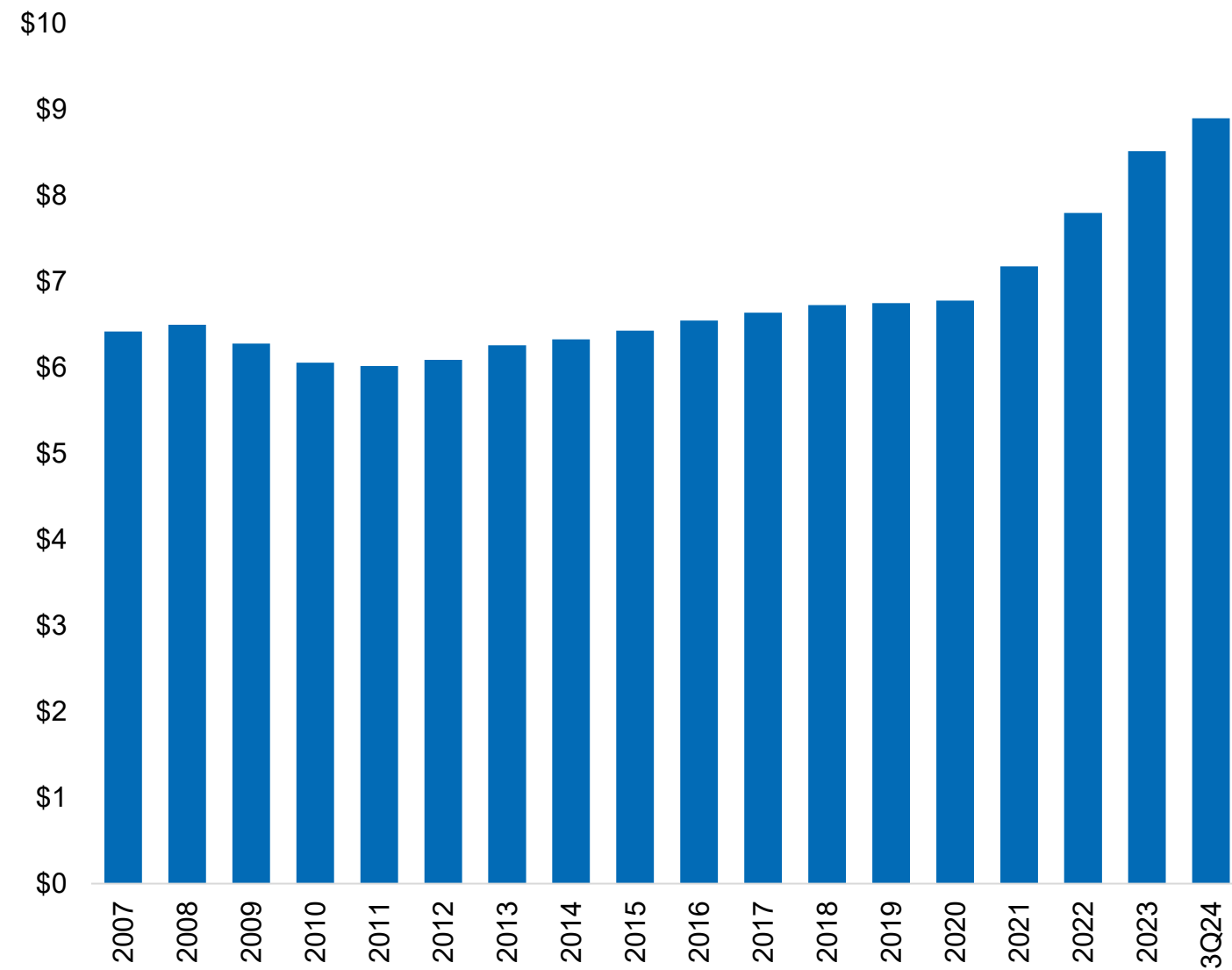


Source: Newmark Research, CoStar

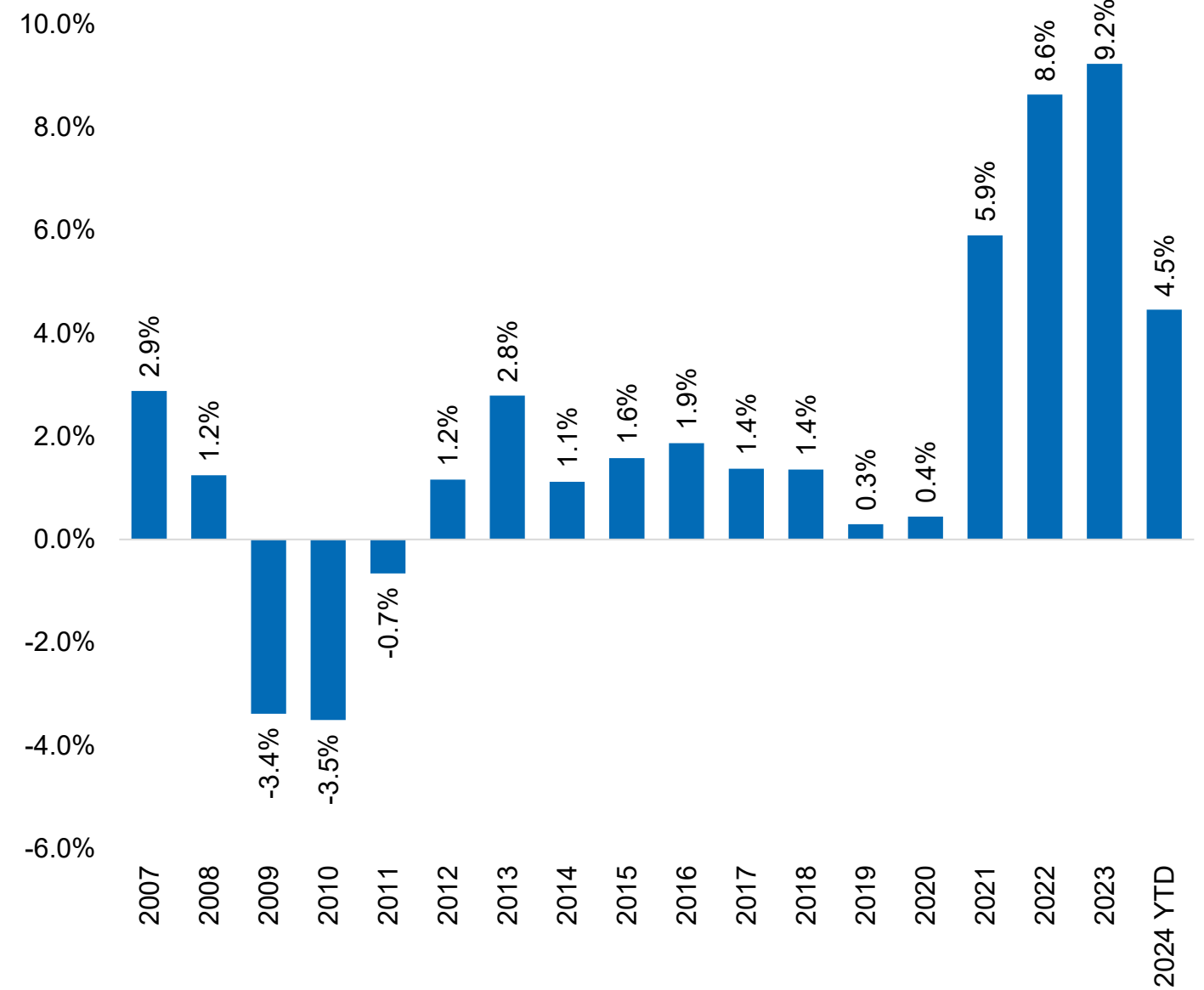
Industrial Asking Rent Growth Continues Through 3Q24

Asking rents rose to \$8.90/SF, a 4.5% increase from \$8.52 at year-end 2023. This follows a 9.2% surge in 2023, building on 2022's 8.6% growth. Since 2020, industrial asking rents have increased by 27.1%, with both new construction and second-generation spaces expected to see continued growth in 2024, albeit at a slower pace.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change

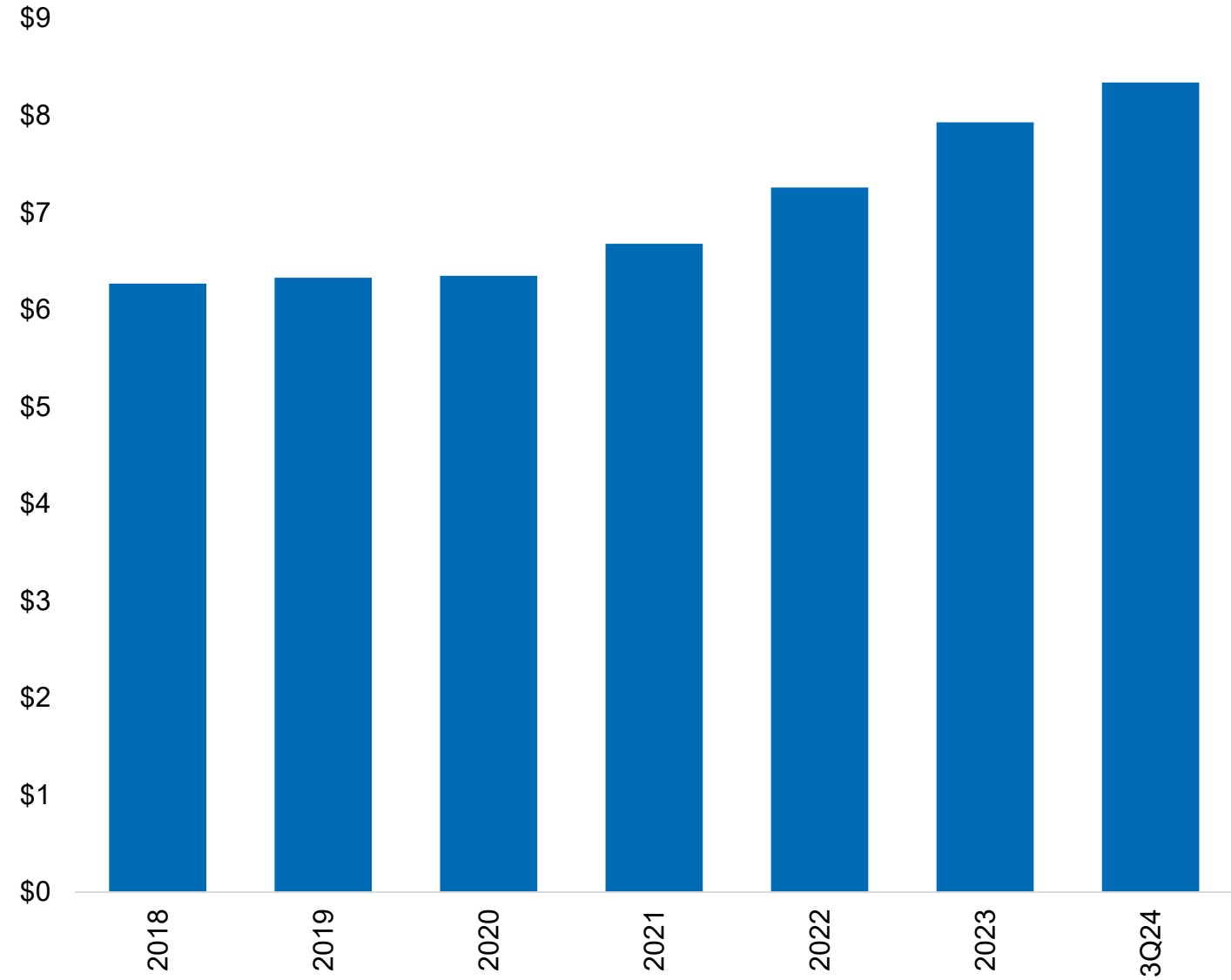


Source: Newmark Research, CoStar

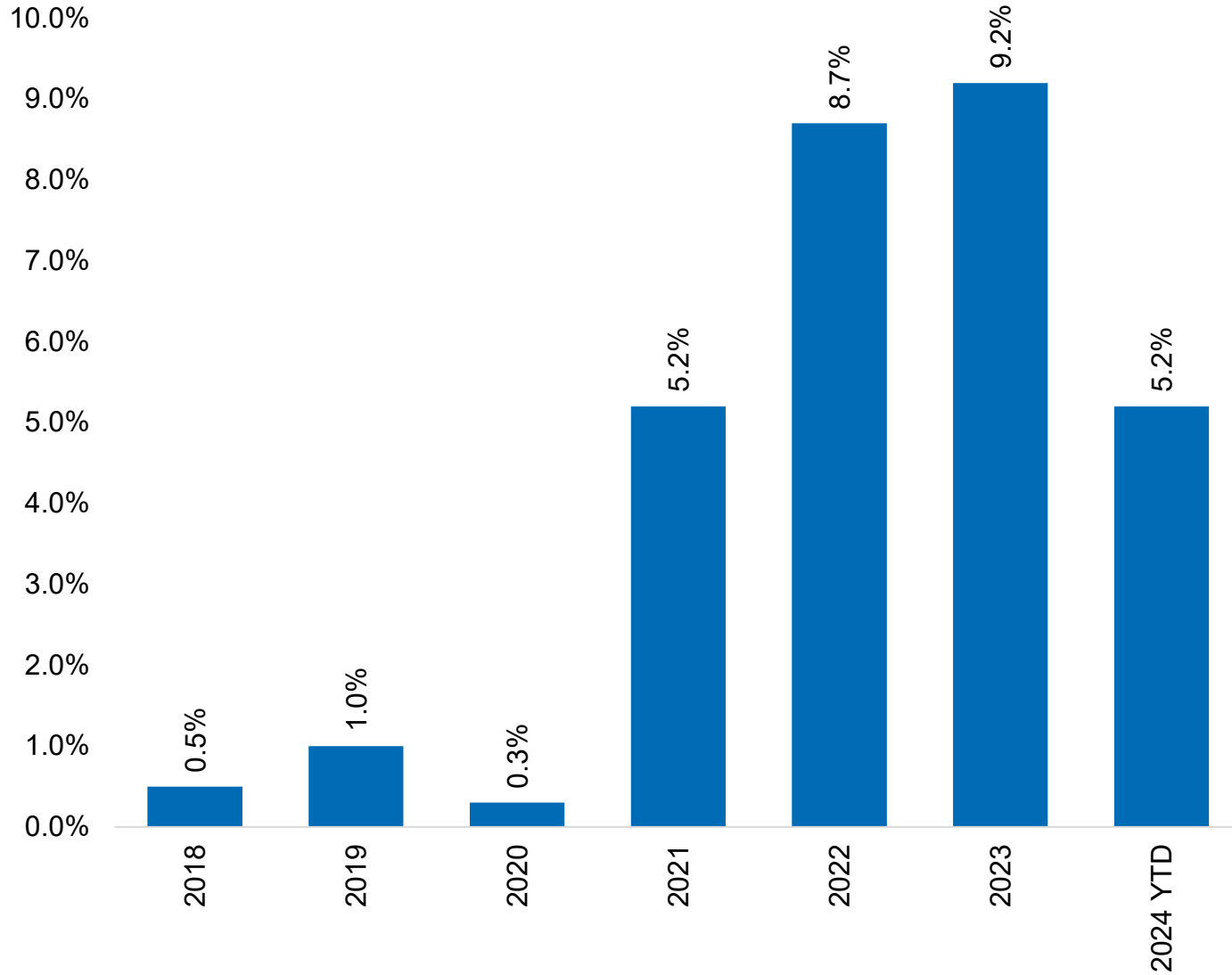
Warehouse/Distribution Rent Growth Slows

Since 2018, average asking rents for warehouse and distribution spaces have risen by 33.01%, with rapid growth from 2021 to 2023. However, growth is slowing. In 3Q24, 12-month rent growth reached 6.4%, down from over 8% in 2022 and 2023. Strong demand, low vacancy, and new construction drove previous increases. Looking ahead, limited new construction will moderate rent growth, though steady demand and low availability will still support moderate increases.

Average Asking Rent, \$/SF, NNN



12 month Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Statistics



Please reach out to your
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Forecast

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at www.nmrk.com.

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