

# INVESTMENT FORECAST

Industrial  
Minneapolis-St. Paul

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Manufacturers and Biotech Among Growing Area Firms; Investment Epicenter Gravitates Westward

**Economic tailwinds test industrial users' space requirements.** Employment in the metro's manufacturing sector began the year ahead of pre-pandemic levels, and other predominantly industrial-space-using segments are rapidly approaching full job recoveries. Despite nationwide labor shortages, a local unemployment rate above previous cyclical lows shows there is still room for growth. Further economic recovery should be a boon for industrial space demand as companies expand operations. Minneapolis is also benefiting local biotech expansion. Life science firms are actively leasing existing space and account for a notable percentage of the build-to-suit projects currently underway. At 3.7 million square feet, 2022's expected delivery total surpasses the prior five-year average by 1.2 million square feet. Elevated development and a year-end vacancy rate in the low-3 percent range will enable rents to culminate in new highs this year.

**Higher returns and logistics trends drive buyers to the suburbs.** Ample leasing demand in the wake of pandemic-accelerated trends, such as the e-commerce boom, put investment activity at an all-time high last year. Deal flow surged in the metro's Northwest and Southwest submarkets, as investors pursued assets in Minneapolis' first-ring suburbs. These regions have become increasingly popular with local investors in the sub-\$10 million range, where assets can be secured for higher yields than in the urban core. Furthermore, a growing need for last-mile shipping facilities, as e-commerce titans expand their logistics capabilities, is being met with intense bidding activity for warehouses and distribution centers. Warehouses are trading at cap rates in the mid-3 percent range, more than 300 basis points under the metro average. Elevated development activity may push up bidding prices as investors search through a selection of more recent builds.

### 2022 Market Forecast

- Employment** up 2.8%

Following 2021's job recovery surge, hiring velocity moderates as area employers tack on 55,000 new positions.
- Construction** 3.7 million sq. ft.

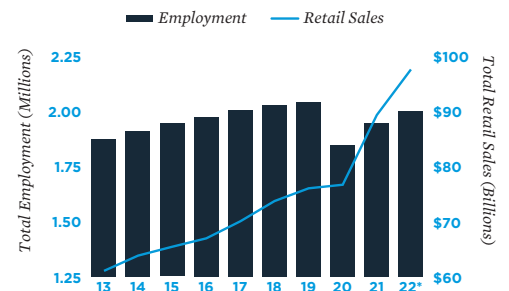
Construction activity accelerates after 2.1 million square feet was delivered in 2021. This year marks a decade-long span of annual stock enlargement exceeding 1 million square feet.
- Vacancy** down 20 bps

Vacancy drops further after a 60-basis-point compression was observed last year. Availability ends 2022 at 3.1 percent, just 10 basis points above the previous cyclical low.
- Rent** up 4.9%

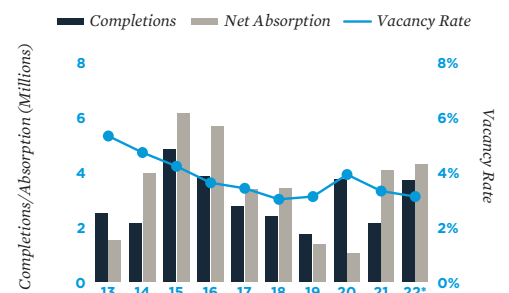
Rents will post a 14.2 percent two-year gain, recovering all ground lost in 2019 and 2020. The average asking rent hits a new high at \$6.45 per square foot.
- Investment**

Investors looking for upside potential may look to St. Croix County, where availability has fallen below 1 percent. While marketed rents here have fallen sharply since 2018, presently tight vacancy has the potential to reverse this trend.

### Economic Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.