

INVESTMENT FORECAST

Retail
Minneapolis-St. Paul

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Market Availability is the Tightest in the Upper Midwest; Residential Growth in Suburbs Cultivates Investment

Multifaceted momentum to drive vacancy below pre-pandemic mark. Metro fundamentals have improved substantially, and the enhancement has been widespread. Last year, 13 of the 17 largest submarkets posted vacancy declines. Of that grouping, more than half of the locations registered moderations in availability, exceeding 50 basis points. Marketwide, multi-tenant vacancy realigned with the 2019 measure and single-tenant availability approached the 3 percent threshold. A scant pipeline will reduce pressure from new supply and allow headway to carry into this year. Expected completions in 2022 will bring the running two-year total to 525,000 square feet added, an inventory expansion smaller than 0.5 percent. As such, many retailers are opting to lease existing spaces, exemplified by a 133,000-square-foot planned move-in by Schneiderman's Furniture in June at a former Sears near Coon Rapids. Tenants' willingness to backfill vacant space contributes to Minneapolis-St. Paul's stake as the tightest market in the region. The year-end vacancy rate is projected to be at least 100 basis points below Milwaukee and more than 200 basis points under Chicago and Detroit.

Buyers reassess landscape as household formation trends shift. During the health crisis, multifamily metrics indicated that living preferences in the Twin Cities are recalibrating. The suburbs are garnering a larger share of rental demand relative to prior periods, while single-family housing construction is also operative in these corridors. New residents in outlying areas and the consumer spending they generate boost the outlook of retail assets in adjacent neighborhoods. Many investors are cognizant of these trends and are adjusting their search criteria. South of Minneapolis, buyers are deploying capital in places like Burnsville, Eagan and Eden Prairie. Here, investors accept single-tenant yields in the mid-5 percent to mid-6 percent band. Sub-50,000-square-foot shopping centers trade in these suburbs as well, with cap rates up to 200 basis points higher obtainable.

2022 Market Forecast

- Employment**
up 2.8%

The jobs recovery pushes forward as firms add 55,000 staff this year. Still, the count will be 46,000 roles short of the prior peak.
- Construction**
375,000 sq. ft.

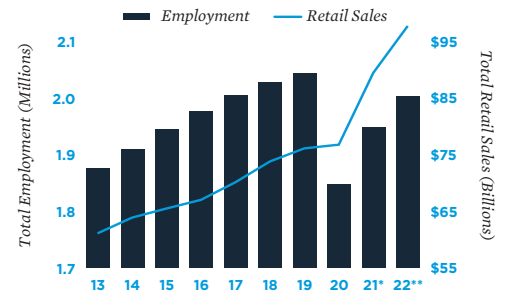
Developers finalize fewer than 400,000 square feet for the second straight year. This is a notable divergence, following more than 700,000 square feet added each year from 2011-2020.
- Vacancy**
down 30 bps

Net absorption trails the 2021 total by one-third, yet is the second-highest measure since 2017. This drops vacancy to 3.4 percent, within 50 basis points of the past-decade trough.
- Rent**
up 3.3%

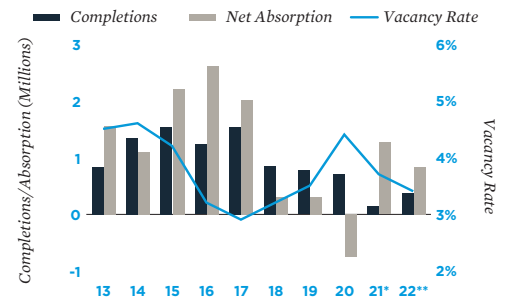
Annual rent growth has been above 2 percent in each of the past three years, a trend that will be sustained in 2022 as the average asking rent reaches \$17.05 per square foot.
- Investment**

Northwest expansion in Wright and Sherburne counties could accelerate in the coming decade. Opportunistic buyers are paying more attention to suburbs like Elk River and Big Lake.

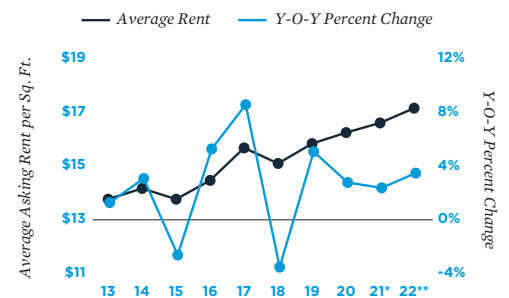
Economic Trends



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.