

MARKET REPORT

Retail

Minneapolis-St. Paul Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2Q/22

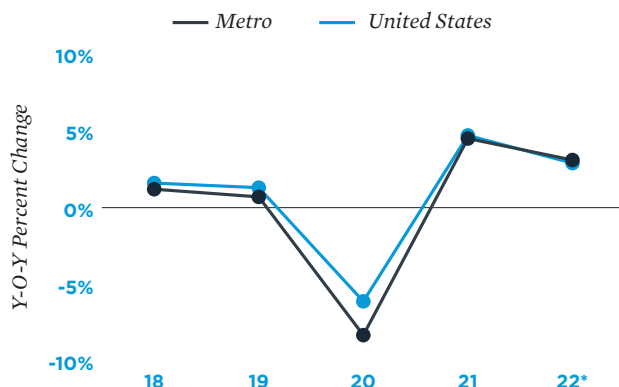
Stretch of Positive Multi-Tenant Absorption Enables Steep Vacancy Drop

Seven-quarter multi-tenant absorption streak propels segment.

Going back to July 2020, net absorption in the multi-tenant sector has measured positive in every quarter through March of this year. This is the longest consecutive stretch of positive multi-tenant absorption since 2012-2013, showcasing the momentum driving retail performance in the Twin Cities. In just the past six months, a net of 520,000 square feet of multi-tenant space became newly occupied, dropping segment vacancy 110 basis points below the pre-pandemic benchmark. Leasing activity at shopping centers is most pronounced in first-ring suburbs, where household formation accelerated during the pandemic. The Maple Grove and Ridgedale submarkets — encompassing west suburbs like Maple Grove, Plymouth, Wayzata and Minnetonka — each recorded year-over-year multi-tenant vacancy declines of at least 500 basis points.

Available space absent from 2022 projects. Not only is the construction pipeline small by historical standards, measuring at just half of the trailing five-year average, it is also highly pre-leased. As of April, more than 70 percent of the space scheduled to finalize had secured a tenant commitment. With fewer than 200,000 square feet of available space set to come online, expanding retailers will indulge the metro's existing stock, pressing down on vacancy. This trend is materializing as Dick's Sporting Goods announced it will move into a former Sears in Minnetonka this June, while Planet Fitness inked a lease at a pre-2000-built center in Brooklyn Park.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**61,000
JOBS**

will be created

EMPLOYMENT:

Employment recovery has been comparatively sluggish in the Twin Cities, entering this year still 93,000 jobs shy of the pre-pandemic peak. The rebound has recently picked up the pace, however, with 43,000 roles added during the past two quarters.



**540,000
SQ. FT.**

will be completed

CONSTRUCTION:

Annual deliveries exceed 2021's total by about 55,000 square feet, as metro inventory expands by 0.3 percent for the second straight year. Nevertheless, the amount of space added is roughly 600,000 square feet below the trailing 10-year average.



**70
BASIS POINT**

decrease in vacancy

VACANCY:

Buoyed by a very strong first quarter, net absorption surpasses 1.6 million square feet in 2022 — the highest annual measure in five years. This drops market vacancy to 3.2 percent, approaching the past decade low of 2.8 percent achieved in 2017.



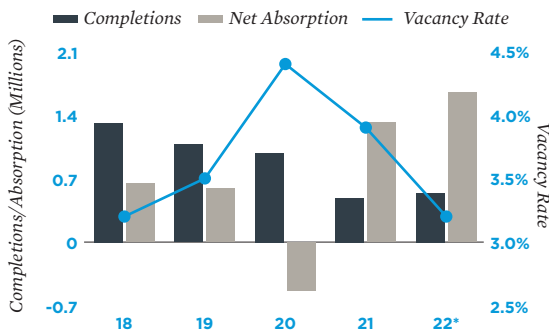
**2.7%
INCREASE**

in asking rent

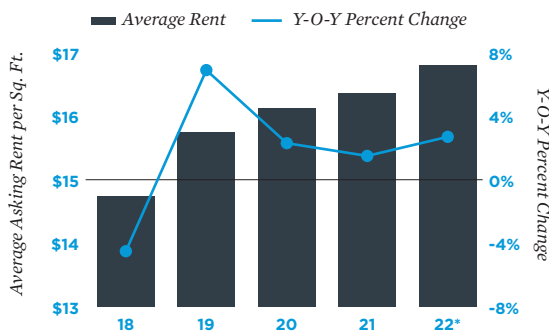
RENT:

Minneapolis-St. Paul's average asking rent elevates at the quickest clip since the onset of the health crisis, moving up to \$16.80 per square foot. The depletion of available stock, as net absorption triples completions, facilitates this rise in market rates.

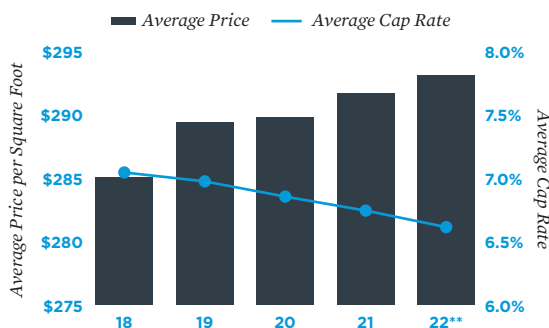
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

571,000 sq. ft. completed

- Deliveries during the past 12 months ended in the first quarter trailed the prior yearlong total by about 400,000 square feet. The slowdown will persist, with only 480,000 square feet underway as of late April.
- Northtown was the only submarket to add more than 100,000 square feet during the past year, as a Hy-Vee reached completion in Spring Lake Park.



VACANCY

70 basis point decrease in vacancy Y-O-Y

- Following an 80-basis-point surge from April 2020 through March 2021, vacancy dropped by nearly the same margin in the subsequent yearlong period to 3.6 percent in the first quarter of 2022.
- Entering the second quarter, multi-tenant vacancy is more than 100 basis points below the year-end 2019 rate at 5.3 percent.



RENT

1.6% increase in the average asking rent Y-O-Y

- Retail asking rates are climbing as performance and demand drivers improve. The average single-tenant rent moved up 1.8 percent, while the multi-tenant mean advanced at half that pace over the past 12 months.
- Of the six submarkets where average asking rents exceed \$20 per square foot, rates moved up the fastest in St. Paul, Eden Prairie and Eagan.

Investment Highlights

- The average multi-tenant sale price inched up 2 percent during the four-quarter period ended in March to \$230 per square foot, hanging between \$225 and \$235 per square foot since 2018. Likewise, the average multi-tenant cap rate has stayed in the low-7 percent area.
- Buyers of multi-tenant properties of all varieties are looking north and south of the city centers. South suburbs, such as Burnsville and Bloomington, are recording trades involving sub-20,000-square-foot strip centers up to 100,000-square-foot-plus regional malls. Similar trades occur in north suburbs proximate to and above Interstate 694 as well.
- Single-tenant assets commanded an average sale price of \$368 per square foot during the 12-month span ended in the first quarter, rising marginally since 2019. The mean single-tenant cap rate receded to 6.2 percent. Prior to the health crisis, the Twin Cities and Chicago had comparable single-tenant cap rates; now, Minneapolis-St. Paul is 30 basis points lower.
- Eden Prairie and Woodbury, two distant suburbs near curves of Interstate 494, logged twice as many single-tenant deals during the past 12 months as in the prior year. Yields in the mid-5 to 6 percent range are common here.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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