

MARKET REPORT

Retail

Minneapolis-St. Paul Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

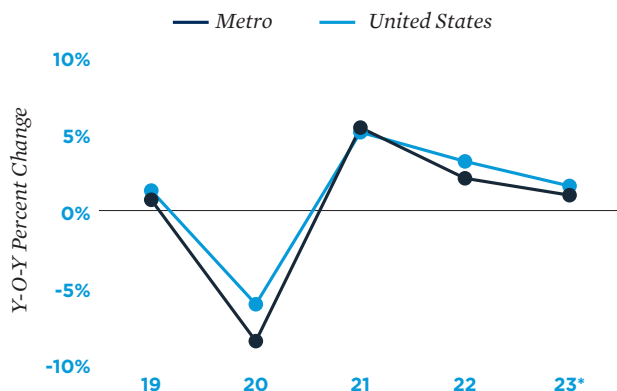
4Q/23

Improved Economic Drivers and Record-Low New Supply Aid the Twin Cities' Fundamentals

Population growth trends back retail demand. By August, Minneapolis-St. Paul's employment base had climbed within 1 percent of its year-end 2019 measure, helping hold the metro's unemployment rate below 3 percent. This growing labor market is partially contributing to more net in-migration, as this year the metro welcomes its largest influx of new residents since 2017. A notable portion of this migration could be linked to millennials returning to the metro during family formation years. Amid this age cohort recording its fastest acceleration in more than a decade, household formation exceeds 15,000 for the third consecutive year in 2023, a boon for retail space demand. By year-end, metro vacancy will match its March 2020 measure, the lowest figure among major Midwestern markets.

Growing suburban areas benefit from marginal construction. Apple Valley-Lakeville, Coon Rapids, Eden Prairie and Woodbury each expanded occupied apartment stock by more than 7 percent between 2019 and June 2023. The pace of multifamily supply growth in these areas was at or above the metro average, indicating attractive residential options are enticing move-ins. In conjunction with population growth trends, local retail operators likely benefit from 2023's minimal delivery slate, most of which is accounted for by auto-centric businesses and local restaurants. With tenants directed to existing spaces, vacancies in these submarkets compressed over the first half of the year, each holding below the market average.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**20,000
JOBS**

will be created

EMPLOYMENT:

Through August, job gains have been most pronounced within the fields of education, health services, leisure and hospitality. These additions will contribute to a 1.0 percent overall growth rate for 2023.



**330,000
SQ. FT.**

will be completed

CONSTRUCTION:

For a third straight year, deliveries reach a more than decade-low, falling nearly 1 million square feet short of the metro's long-term average in 2023. This minimal construction lifts overall stock by just 0.2 percent.



**20
BASIS POINT**

decrease in vacancy

VACANCY:

Tenants absorb nearly double the amount of space set to complete in 2023, prompting metro vacancy to compress to 3.4 percent. This will be the metro's lowest measure since immediately before the pandemic.



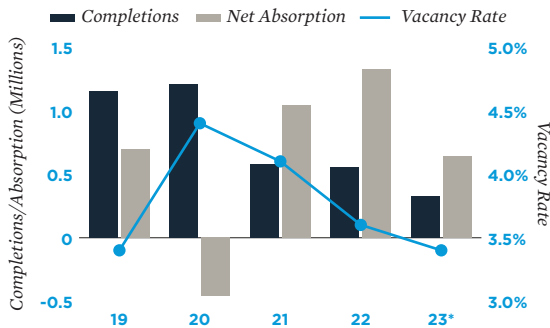
**2.9%
INCREASE**

in asking rent

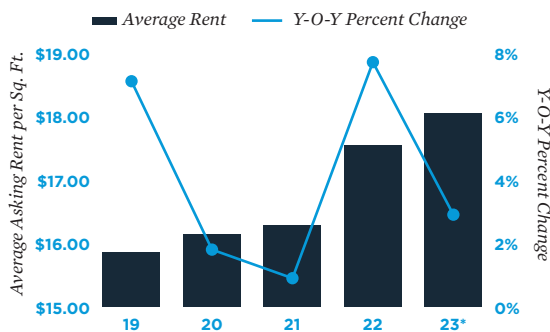
RENT:

Downward vacancy movement promotes above-average rent growth this year, far exceeding the metro's 0.9 percent long-term mean. This raises the local average asking rate to \$18.05 per square foot by December.

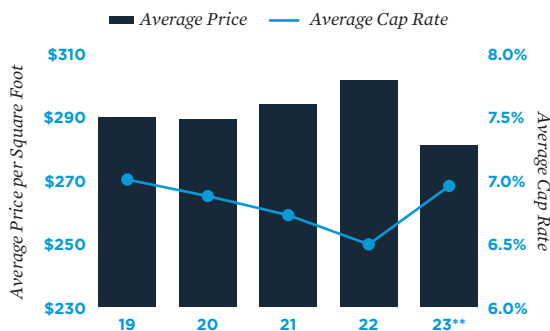
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

410,000 sq. ft. completed

- The addition of 115,000 square feet in the first half of 2023 was Minneapolis-St. Paul's smallest six-month influx of space since at least 2007.
- More than 95 percent of completions during the 12-month interval ended in June was single-tenant space. Nearly one-fourth of these deliveries were in Coon Rapids and Eden Prairie.



VACANCY

20 basis point decrease in vacancy Y-O-Y

- Although multi-tenant vacancy increased 90 basis points year-over-year in June to 5.8 percent, this was slightly below its immediate pre-pandemic measure and 20 basis points under its long-term average.
- Single-tenant vacancy dropped 40 basis points over the same time frame to 2.9 percent, its lowest measure since March 2020.



RENT

3.5% increase in the average asking rent Y-O-Y

- Tight conditions allowed the metro's overall average asking rate to elevate to \$17.82 per square foot entering July.
- The multi-tenant segment recorded 13.1 percent rent growth year-over-year in June to \$19.05 per square foot. Meanwhile, the single-tenant rate lifted marginally to \$17.46 per square foot entering the midyear.

Investment Highlights

- Over the first half of 2023, transaction velocity ebbed more than 30 percent relative to the final six months of last year amid higher lending costs. Preliminary data for the third quarter indicates this reduced level of trading was sustained through September. Nevertheless, velocity in recent quarters was above the pre-pandemic average. The Federal Reserve's decision to hold the overnight borrowing rate flat in August may help stabilize lending costs, which could re-engage some investors moving forward.
- Trades through the initial nine months of the year were rather dispersed, with more than 60 percent of activity distributed among nine metro sub-markets. A number of multi-property sales in Roseville and Uptown were recorded amid below market average vacancy rates here. Considerable rent growth in White Bear Lake was also a draw for active buyers locally.
- A higher percentage of out-of-state buyers have been active in the Minneapolis-St. Paul metro this year. These investors are benefiting from regionally tight vacancy, minimal supply-side pressure, and local multi- and single-tenant cap rates that stand 50 basis points and 30 basis points above their respective national averages.

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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