

INVESTMENT FORECAST

Industrial

Minneapolis-St. Paul Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2024

Major Industrial Corridors Retain Historically Tight Conditions, Despite Vacancy Rising Marketwide

Northern submarkets headline local performance. Minneapolis-St. Paul's industrial vacancy rate trended up 70 basis points last year. Decreasing vacancy, however, was recorded across the Northwest and North Central submarkets, which account for one-third of marketwide stock. Considerable absorption prompted these areas' vacancy rates to decline to record lows. Recent tenant demand here is headlined by Amazon's move-in to a 140,000-square-foot distribution facility in Centerville, while MAS HVAC and Caribou Coffee are set to occupy a collective 430,000 square feet in Maple Grove this year, exhibiting this ongoing trend. Conditions in the Southern corridor, encompassing Eagan, Farmington and Randolph, are also tight, with a local vacancy rate that held stable in 2023 following two straight years of compression. Sweet Harvest Foods occupying a new facility in Lakeville this May emphasizes the area's connectivity to the central U.S. Supply pressure east of St. Paul and space relinquishment between the Twin Cities, however, is weighing on marketwide fundamentals.

Rising rents and an improving financing outlook aid investment sales. Strong property performance should continue to bolster investor sentiment in the North and Northwest areas. Last year, these submarkets combined to account for roughly one-third of overall velocity, while preliminary data for early 2024 indicates this trend is carrying forward. Investors targeting manufacturing and distribution centers should also remain active in the South and Southwest areas. Proximity to metros south of here along Interstate 35 is a boon for logistics demand. Metrowide, velocity has been improving. In the second half of 2023, activity accelerated and prospects for lower borrowing costs this year should help sustain this momentum.

2024 MARKET FORECAST

+0.8%



EMPLOYMENT: Local employers add a net of 15,000 roles in 2024, bringing the metrowide workforce total above its pre-pandemic measure for the first time.

4 million
sq. ft.



CONSTRUCTION: This year's delivery slate measures 1.6 million square feet less than in 2023. Still, a 1.1 percent inventory growth rate stands in-line with the market's trailing 10-year average.

+50 bps



VACANCY: Metrowide vacancy will trend up again in 2024, albeit at a slower pace than last year's bump. This brings the market's overall rate to 4.0 percent, the fifth lowest among major U.S. metros.

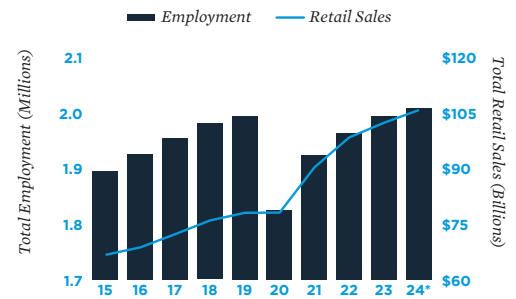
+6.9%



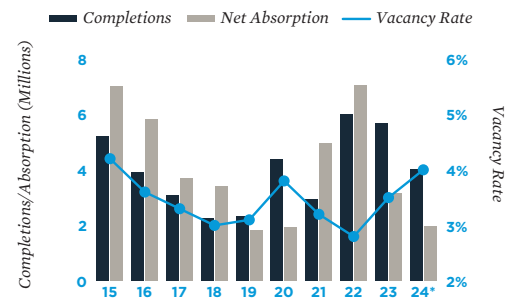
RENT: Tight conditions assist Minneapolis-St. Paul in registering the sixth-fastest rent growth rate among major U.S. metros in 2024. The market's average asking rate lifts to \$9.17 per square foot.

INVESTMENT: Higher yields may draw in more national investors. The metro's average cap rate rose to 7.2 percent entering 2024, among the highest across major metros, despite pricing per square foot holding steady.

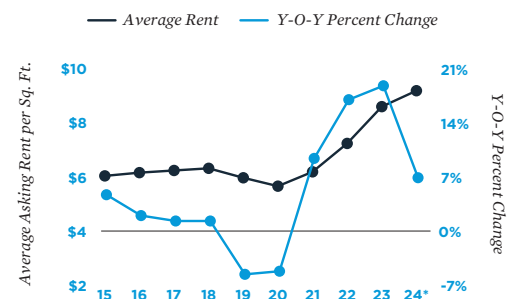
Economic Trends



Supply and Demand



Rent Trends



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

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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 December 2023. Effective rent is equal to asking rent less concessions. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth 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.