INVESTMENT FORECAST

INDUSTRIAL

Minneapolis-St. Paul Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2019

Robust Economy, Low Vacancy Generate Demand for Industrial Space; Investor Interest Heats Up

Vacancy tightens to cyclical low as rent reaches new high. The Minneapolis-St. Paul market began 2019 with one of the tightest vacancy rates among Midwest metros, a trend that will be maintained throughout the year as the pace of deliveries slows. Warehouses less than 250,000 square feet will account for the majority of the projects in 2019. The largest portion of new inventory will be located along the Interstate 94 corridor in the northern suburbs and near Interstates 35E and 35W in the south metro. The escalation of e-commerce is generating demand for large suburban distribution space as well as smaller warehouse space close to the urban core for last-mile delivery. As available space gets harder to find, developers are poised to increase production with a number of warehouse and distribution projects waiting for a tenant to get underway. The tight vacancy rate will drive the average rent above $7.00 per square foot for the first time this year.

Investors moving to suburbs for higher yields. The market's vibrant economy, strong operations and potential for greater returns are drawing a wider range of investors to the metro with more buyers coming from larger Northeast markets. Assets close to the downtown cores and nearby suburbs are especially sought after. A rise in competition and a desire for higher yields have increased investment activity in Washington and Dakota counties. Exchange buyers are also more active, many targeting Class B/C multi-tenant buildings with less than 100,000 square feet. Older suburban assets built during the 1980s can produce outsized returns for these investors. The average metro cap rate climbed 10 basis points during 2018 but remains in the low-7 percent range after dropping to a 17-year low in the prior year.

2019 Market Forecast

Employment up 1.5% — A lack of available workers will slow hiring in 2019, as 30,000 new positions are created, down from a 1.7 percent hike last year.

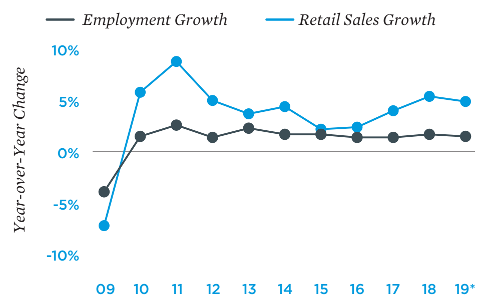
Construction 1.5 million sq. ft. — After the finalization of 1.6 million square feet last year, deliveries in 2019 remain below the previous five-year average, although more speculative projects are underway.

Vacancy down 20 bps — A slower construction pace will tighten vacancy to 3 percent in 2019, following a 30-basis-point decline last year. Vacancy in all but two submarkets begin 2019 resting below 4 percent.

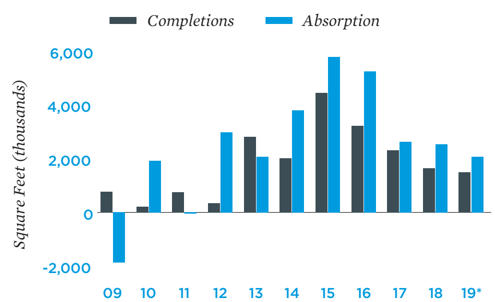
Rent up 3.8% — The average asking rent has jumped more than 16 percent since 2015 and this year will reach a cyclical high of $7.14 per square foot. During 2018, a 6.8 percent gain was posted.

Investment — Investors with a steady cash-flow strategy may find opportunity in the southwestern suburbs. Vacancy in the area is less than 2 percent and asking rent sits above the metro average.

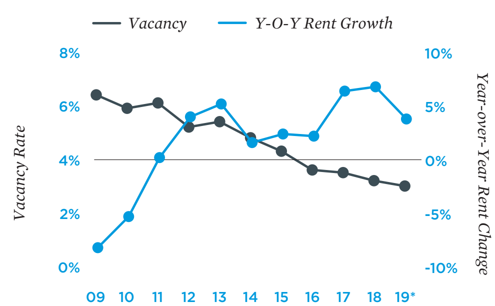
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



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

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