MARKET TRENDS

2Q 2017 | Mpls-St Paul | Industrial

Economic Overview

According to the Bureau of Labor Statistics, the unemployment rate increased 0.1 percentage point from 3.1% in May 2016 to 3.2% in May 2017. The unemployment rate decreased 1% percent compared to February 2017. This current rate compares favorably to Minnesota (3.7%) and the US (4.3%). The Mpls-St Paul metropolitan statistical area nonfarm job creation totaled 38,500 over the past year. Industrial using jobs (industries include manufacturing and trade transportation and utilities) added 6,400 jobs during the past year.

Market Overview

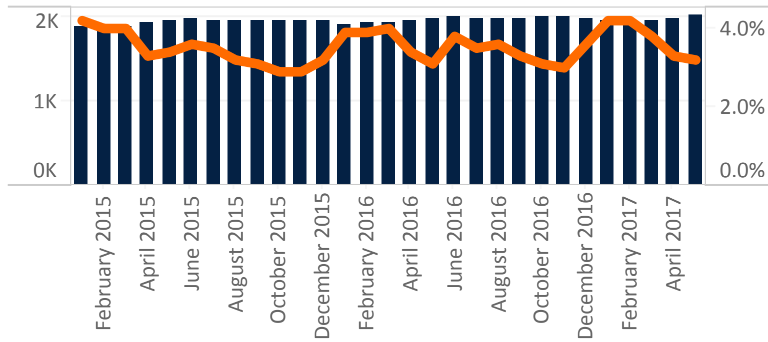
The Mpls-St Paul industrial market recorded 419,483 square feet (sf) of positive absorption during 2Q 2017. Absorption increased compared to 287,482 sf recorded during 2Q 2016. The total vacancy rate has not changed compared to 2Q 2016 posting 9.4% at the close of 2Q 2017. Direct vacancy rates decreased 0.1 percentage point from 9.0% to 8.9% during the same time period. Weighted average rent growth continued to improve during 2Q 2017 especially in flex properties in the Southwest market. Weighted average asking rents increased 2.2% recording $6.80 per square foot (psf) at the close of 2Q 2017.

Market Highlights

The Mpls-St Paul market rebounded nicely compared to last quarter. The Northwest had the majority of the activity for the quarter with MVP Logistics leasing 109,000 sf and Crosstown Properties purchasing a 90,000 sf building. The Southeast market was a close second with Sojo leasing 88,000 sf. Goodwill leased 125,000 sf in the Southwest market posting the largest single transaction for all the markets. Koch Logistics was the largest vacancy of 77,000 sf in the Northeast market. Express Scripts vacated 70,000 sf of sublease space in the Southwest market. Bulk warehouse space recorded 349,000 sf of positive absorption and flex recorded 141,000 sf positve absorption. Warehouse distribution and light industrial had minimal negative absorption.

Mpls-St Paul Employment

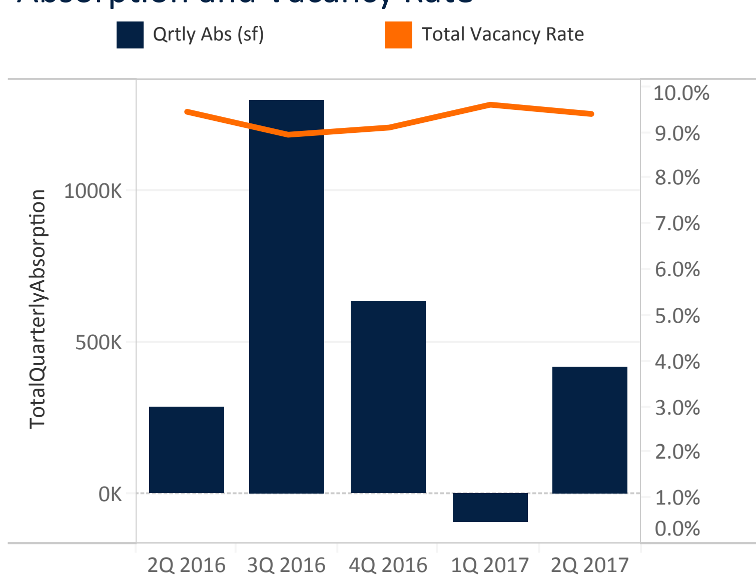
Source: BLS



Market Recap

Inventory (sf)	117,072,578
# of Bldgs	1,367
Qrtly Abs (sf)	419,483
Total Avail Rate	12.3%
Total Vacancy Rate	9.4%
U/C Inventory (sf)	1,992,662
Delivered (sf)	260,880
Weighted Average Asking Rate (NNN)	$6.80

Absorption and Vacancy Rate



Overview by Specific Use (Total)

Specific Use	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
Bulk Whse	25,918,582	3,199,191	2,864,633	11.1%	349,044	208,784
Flex	30,203,025	4,956,157	3,649,082	12.1%	141,477	-118,723
Lt Ind	43,888,553	4,184,760	2,713,704	6.2%	-4,663	-199,019
Whse/Dist	17,062,418	2,097,383	1,795,029	10.5%	-66,375	433,314
Overall	117,072,578	14,437,491	11,022,448	9.4%	419,483	324,356

Overview by Market (Total)

Market Name	Specific Use	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
Northeast	Bulk Whse	6,033,207	586,660	172,398	2.9%	73,441	83,091
	Flex	8,068,120	1,228,557	1,037,803	12.9%	2,152	5,175
	Lt Ind	17,444,509	1,612,319	1,073,841	6.2%	-61,355	-63,894
	Whse/Dist	4,608,847	587,709	649,720	14.1%	-98,491	-111,372
	Subtotal	36,154,683	4,015,245	2,933,762	8.1%	-84,253	-87,000
Northwest	Bulk Whse	11,687,833	2,101,310	2,253,442	19.3%	117,639	-60,771
	Flex	7,562,722	1,416,682	1,154,108	15.3%	122,050	-67,964
	Lt Ind	10,261,547	940,180	639,947	6.2%	47,457	-15,003
	Whse/Dist	5,766,866	1,068,214	831,964	14.4%	-51,611	275,966
	Subtotal	35,278,968	5,526,386	4,879,461	13.8%	235,535	132,228
Southeast	Bulk Whse	4,042,377	40,238	0	0.0%	12,000	40,500
	Flex	5,036,629	729,775	582,904	11.6%	108,576	47,784
	Lt Ind	5,913,181	523,919	336,218	5.7%	17,184	-42,890
	Whse/Dist	3,279,203	179,184	173,459	5.3%	83,480	269,872
	Subtotal	18,271,390	1,473,116	1,092,581	6.0%	221,240	315,266
Southwest	Bulk Whse	4,155,165	470,983	438,793	10.6%	145,964	145,964
	Flex	9,535,554	1,581,143	874,267	9.2%	-91,301	-103,718
	Lt Ind	10,269,316	1,108,342	663,698	6.5%	-7,949	-77,232
	Whse/Dist	3,407,502	262,276	139,886	4.1%	247	-1,152
	Subtotal	27,367,537	3,422,744	2,116,644	7.7%	46,961	-36,138
Overall		117,072,578	14,437,491	11,022,448	9.4%	419,483	324,356

MARKET TRENDS

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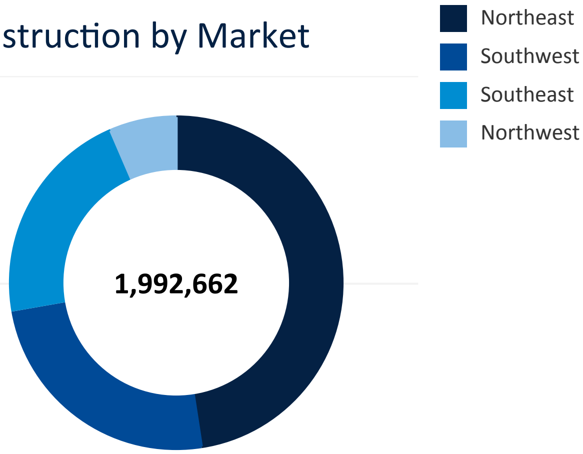
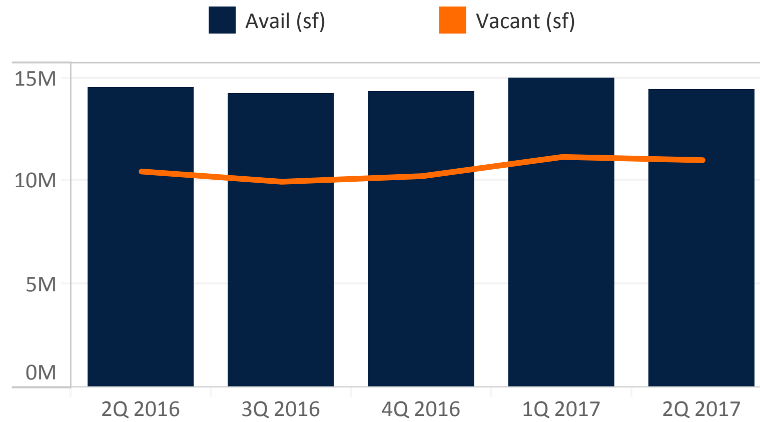
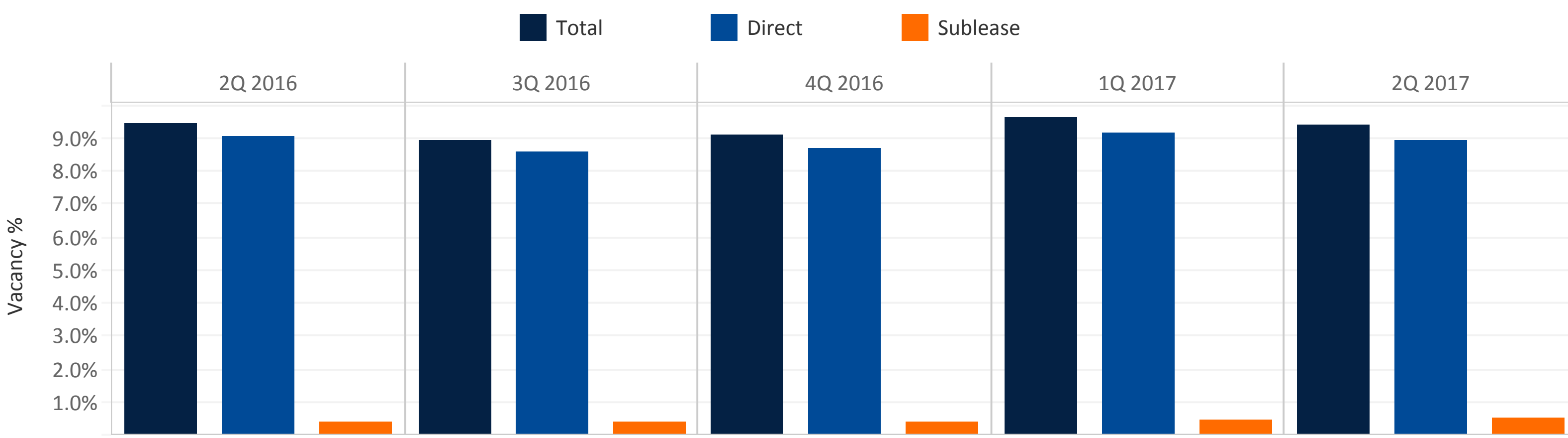
Construction by Market



Total Available and Vacant



Vacancy Rate



Overview by Specific Use (Direct)

Specific Use	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
Bulk Whse	25,918,582	2,807,782	2,498,845	9.6%	349,044	439,119
Flex	30,203,025	4,610,036	3,491,300	11.6%	194,442	-42,995
Lt Ind	43,888,553	4,082,569	2,675,263	6.1%	-18,327	-215,887
Whse/Dist	17,062,418	2,077,933	1,775,579	10.4%	-66,375	433,314
Overall	117,072,578	13,578,320	10,440,987	8.9%	458,784	613,551

Overview by Specific Use (Sublease)

Specific Use	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
Bulk Whse	25,918,582	391,409	365,788	1.4%	0	-230,335
Flex	30,203,025	346,121	157,782	0.5%	-52,965	-75,728
Lt Ind	43,888,553	102,191	38,441	0.1%	13,664	16,868
Whse/Dist	17,062,418	19,450	19,450	0.1%	0	0
Overall	117,072,578	859,171	581,461	0.5%	-39,301	-289,195

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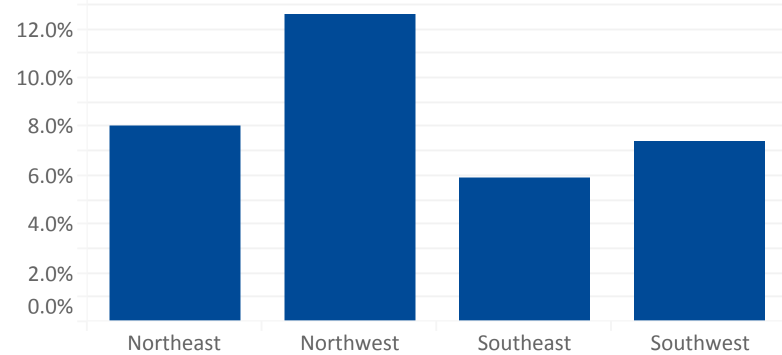
Direct Vacancy Rates

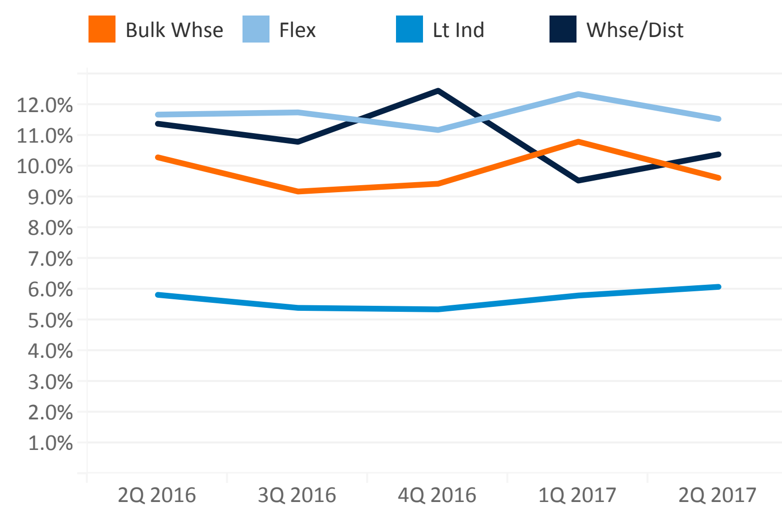
By Market and Specific Use

Market Name	Specific Use	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017
Northeast	Bulk Whse	6.3%	4.3%	3.6%	3.3%	2.9%
	Flex	12.1%	12.5%	11.5%	13.1%	12.8%
	Lt Ind	6.9%	6.6%	6.6%	5.7%	6.1%
	Whse/Dist	8.1%	5.3%	11.3%	11.5%	13.7%
Northwest	Bulk Whse	14.3%	14.5%	13.5%	17.2%	16.2%
	Flex	12.7%	14.7%	14.6%	16.6%	14.7%
	Lt Ind	3.4%	3.9%	3.7%	5.8%	6.0%
	Whse/Dist	29.0%	28.9%	26.0%	13.9%	14.4%
Southeast	Bulk Whse	6.4%	2.3%	1.8%	0.3%	0.0%
	Flex	14.9%	13.0%	12.1%	13.0%	11.2%
	Lt Ind	5.8%	4.5%	4.7%	5.7%	5.7%
	Whse/Dist	1.2%	5.4%	8.1%	5.0%	5.3%
Southwest	Bulk Whse	8.6%	8.2%	14.1%	14.1%	10.6%
	Flex	8.9%	8.2%	8.0%	8.1%	8.2%
	Lt Ind	6.4%	5.4%	5.3%	6.1%	6.4%
	Whse/Dist	5.5%	4.2%	4.2%	4.1%	4.1%
Overall		9.1%	8.6%	8.7%	9.2%	8.9%

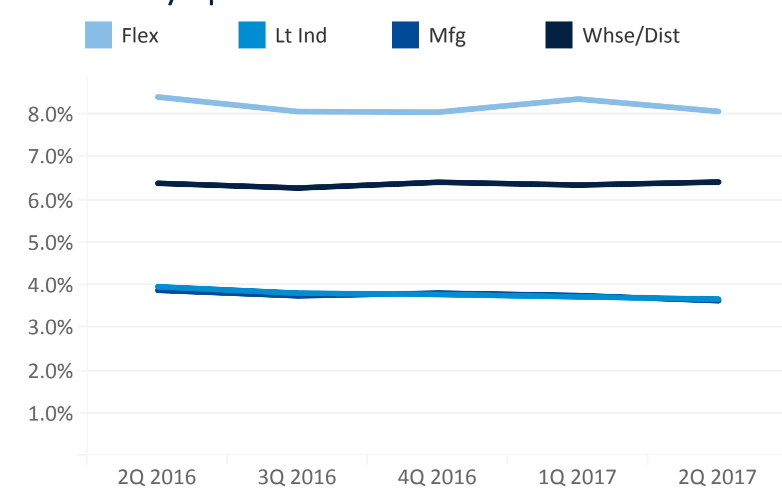
By Market



Mpls-St Paul By Specific Use



National by Specific Use

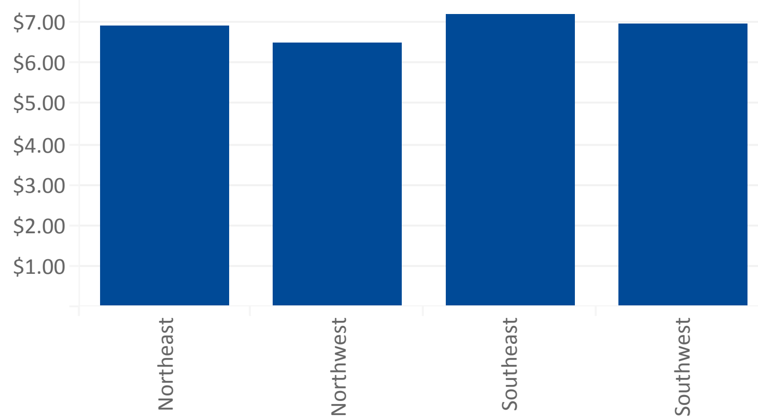


Direct Weighted Average Asking Rates (NNN)

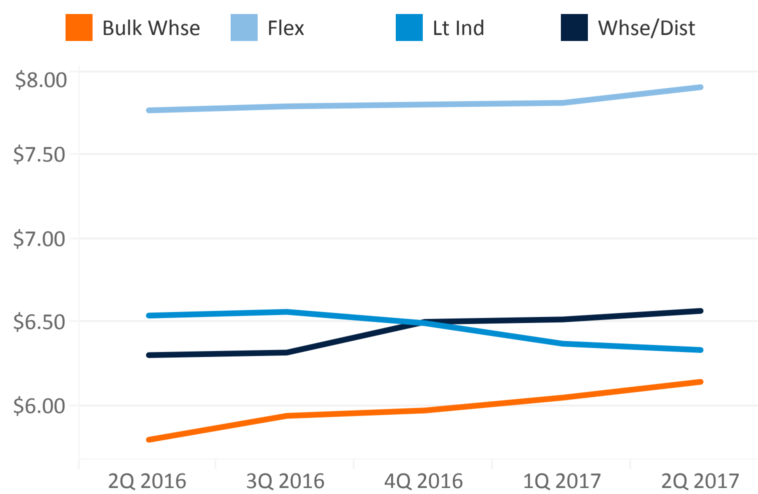
By Market and Specific Use

		Quarter Year				
Market Name	Specific Use	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017
Northeast	Bulk Whse	$6.85	$6.44	$6.49	$6.53	$6.63
	Flex	$7.89	$8.05	$7.92	$8.24	$8.63
	Lt Ind	$6.55	$6.58	$6.49	$6.44	$6.26
	Whse/Dist	$6.47	$6.51	$6.10	$6.13	$6.06
Northwest	Bulk Whse	$5.85	$6.08	$5.98	$6.08	$5.86
	Flex	$7.76	$7.76	$7.84	$7.43	$7.44
	Lt Ind	$6.34	$6.40	$6.43	$6.53	$6.52
	Whse/Dist	$6.24	$6.05	$6.54	$6.54	$6.60
Southeast	Bulk Whse	$4.97	$5.31	$4.11	-	$7.25
	Flex	$7.38	$7.55	$7.60	$7.44	$7.54
	Lt Ind	$6.49	$6.50	$6.44	$6.39	$6.50
	Whse/Dist	$7.36	$7.98	$7.85	$7.89	$8.05
Southwest	Bulk Whse	$5.25	$5.32	$5.89	$5.70	$6.47
	Flex	$7.87	$7.71	$7.80	$8.08	$8.02
	Lt Ind	$6.70	$6.72	$6.60	$6.10	$6.20
	Whse/Dist	$5.89	$6.05	$6.37	$6.37	$6.39
Overall		$6.71	$6.75	$6.76	$6.76	$6.80

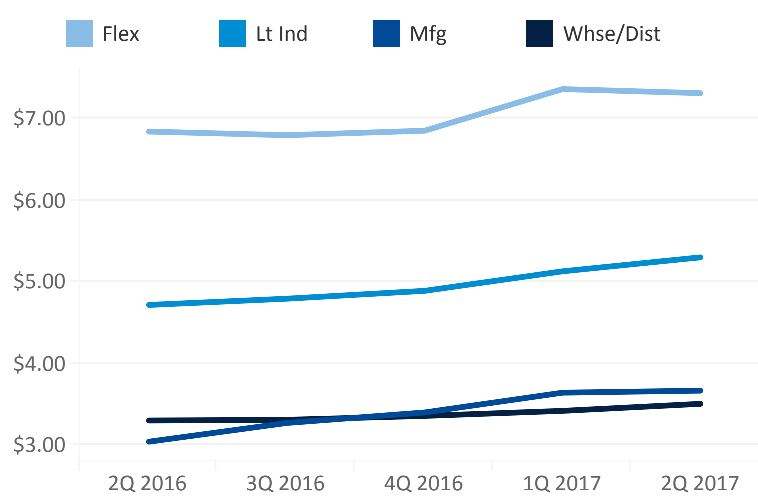
By Market



Mpls-St Paul by Specific Use



National by Specific Use



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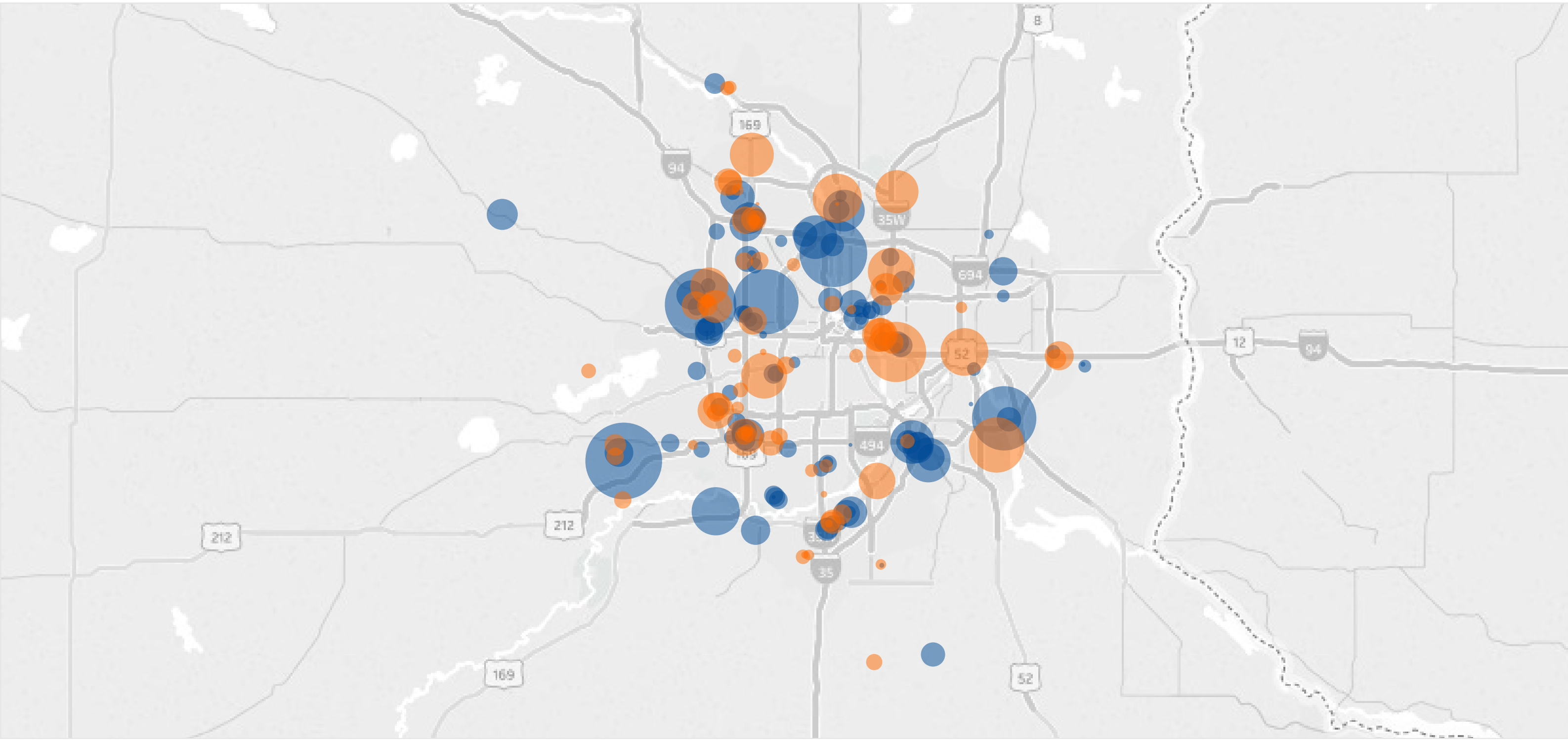
Absorption Map

Negative Positive



Largest Positives (Total)

PropertyName	Significant Transactions	Market Name	Specific Use	
Lake Hazeltine Building	Goodwill leased 125,724 SF	Southwest	Bulk Whse	125,724
Nilfisk Building	MVP Logistics leased 108,988 SF	Northwest	Flex	108,988
Northern Stacks III	Everlast Climbing Industries, INC/Dero Bike Racks leased 97,984 SF	Northeast	Bulk Whse	97,320
2701-2715 Nevada Ave N	Crosstown Properties purchased the property	Northwest	Bulk Whse	90,000
Bridge Point Business Park Bldg III	Sojo leased 88,000 SF	Southeast	Flex	88,000
Valley Park Business Center Bldg III	Fountain Industries leased 48,990 SF	Southwest	Bulk Whse	48,990
Corporate Square Bldg A	Manna Freight Systems leased 41,898 SF	Southeast	Lt Ind	41,898
Adhesive Systems Technology	Adhesive Systems Technology purchased property	Northwest	Lt Ind	40,000

Largest Negatives (Total)

PropertyName	Significant Transactions	Market Name	Specific Use	
MSP Midway Industrial Park #10	Koch Logistics vacated 77,063 SF	Northeast	Lt Ind	-77,063
6301 Cecilia Circle	Express Scripts vacated 70,614 SF on a sublease.	Southwest	Flex	-70,614
6085 Claude Way E	North Country Produce vacated 65,232 SF	Southeast	Lt Ind	-65,232
Fridley Industrial Park II	Packaging Corporation of America vacated 50,820 SF	Northeast	Whse/Dist	-50,820
Lafayette Park Distribution Center	Recall vacated 48,000 SF	Northeast	Whse/Dist	-48,000
St Paul Industrial Properties #32	Lynch vacated 46,284 SF	Northeast	Lt Ind	-46,284
Wellington Windows	Wellington Home Improvements vacated 44,369 SF	Southwest	Lt Ind	-44,369
Elm Creek Professional Building	Patriot Converting vacated 40,000 SF	Northwest	Whse/Dist	-40,719

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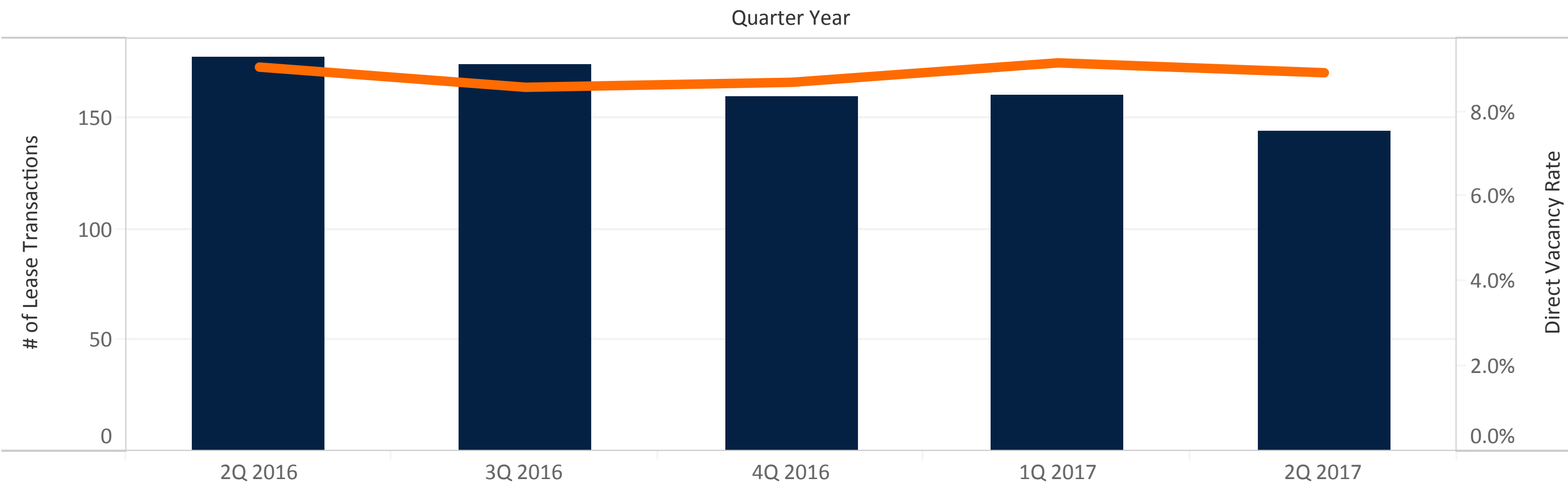
Leasing Activity Trends

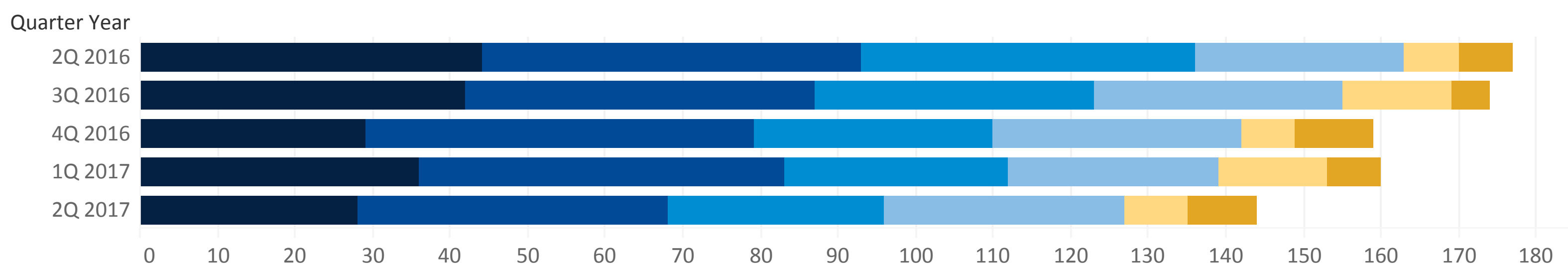
Direct Vacancy Rate   Lease Transactions



Leasing Activity (# of New Deals)

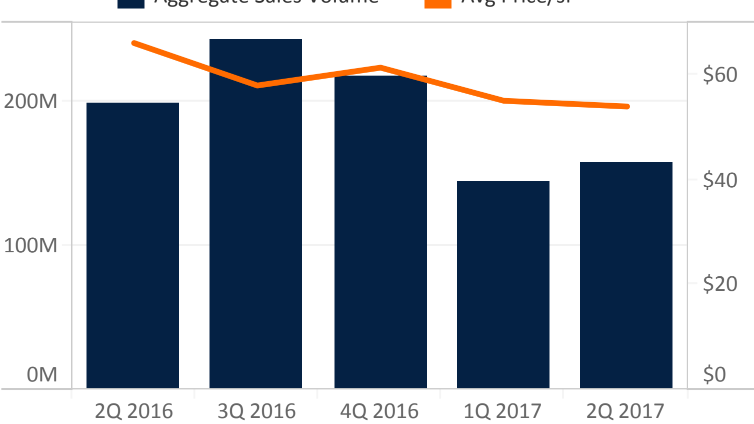
Size Range (sf)

<2.5K   2.5K - 5K   5K - 10K   10K - 25K   25K - 50K   >50K SF



Sales Volume vs. Price/SF

Aggregate Sales Volume   Avg Price/sf



Top Sales

Property	Sale Date	Buyer	Sale Price
1080 Park Pl	05/09/2017	Meritex	$18,725,000
FirstPark Distribution Center	06/21/2017	Rob Zeaske, CEO of Second Harvest	$13,400,000
Wedgwood Commerce Centre III	05/03/2017	Neptune Properties Inc	$12,425,000
Wilfred Distribution Center	05/10/2017	Scannell Properties, Robert Scannell, President/Found..	$10,872,050
River Road Business Center IV	06/01/2017	Q. T Holdings, Jason Quilling	$8,375,000

Terminology

Term	Definition
Direct Vacant (sf)	The total of the vacant square footage in a building that is being marketed by an agent representing the landlord.
Inventory	The total square feet (sf) of existing multi-tenant buildings greater than 20,000 sf or are part of a complex that totals greater than 20,000 sf located in Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington and Wright Counties.
Net Absorption	The net change in occupancy from quarter to quarter, expressed in square feet.
Sublease Space	Space that is offered for lease by a current tenant, or his agent, within a property. Whether the tenant is paying rent or not, the space is considered vacant only if it is unoccupied.
Total Available (sf)	All of the available leasable space within a building, whether it is occupied or vacant, for direct lease or sublease space. Space can be available but not vacant, for example, if the landlord, or his agent, is marketing space that will be coming available at a future date because a tenant is planning to move.
Total Vacant (sf)	The total of all the vacant square feet within a building including both direct and sublease space.
Weighted Average Rents	The weighted average of all direct asking lease rents expressed as a full service/gross rental rate and weighted on total direct available square feet. Non-full service rents (such as NNN) have been grossed up to reflect a full service/gross rate.
Xceligent Partner	MNCAR

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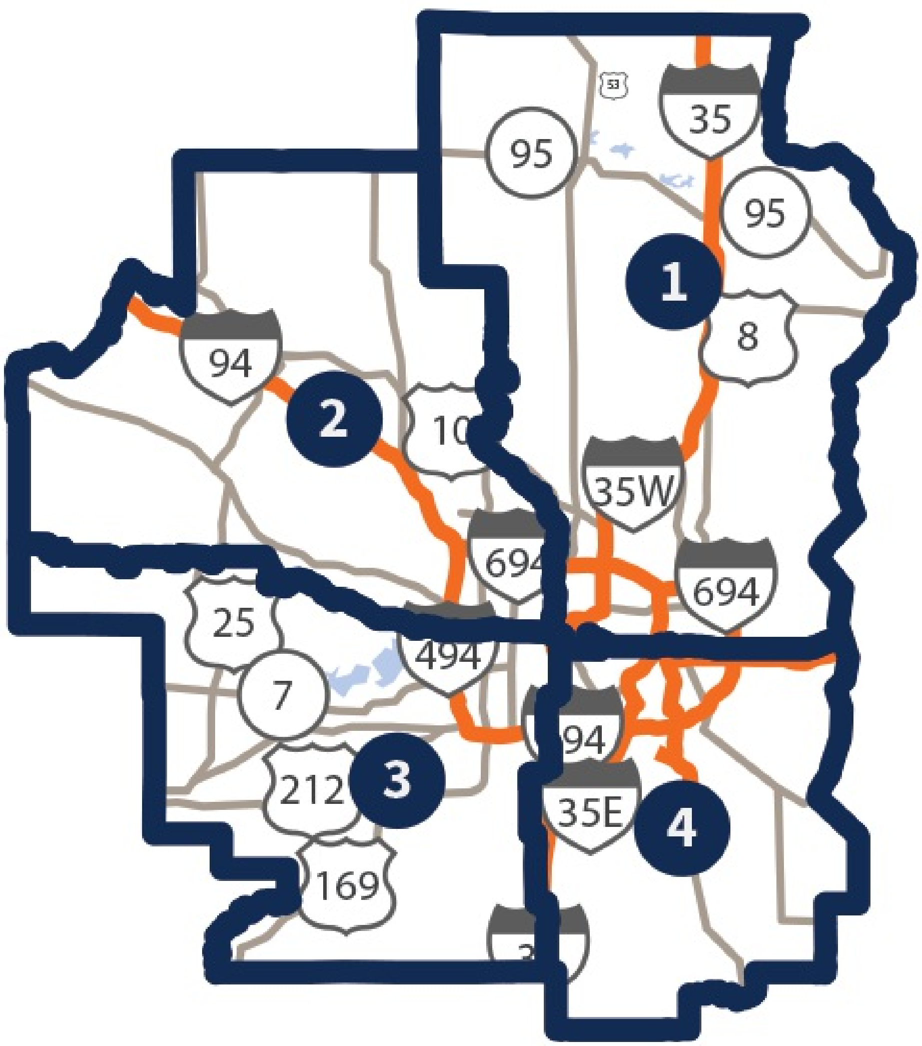

1 **Northeast**

2 **Northwest**

3 **Southwest**

4 **Southeast**

