

COMPASS

Navigating the Minneapolis/St. Paul Commercial Real Estate Market



Demand for Industrial Sites Continues to Drive Land Market

The boom in demand and prices for industrial sites continued to be the leading story in land during the second half of 2015, with no signs of a looming market correction as of yet. Industrial developers continued to compete for the best sites to take advantage of the current cycle, as well as to gain long-term positions for the future.

Industrial was followed closely by multi-family, where developers also competed for the best sites during the past six months. Land prices for multi-family projects in downtown Minneapolis have reached record high prices as the majority of buildable sites have been put into production in the face of continued demand from both renters and multi-family investors.

Retail land demand was also strong as builders sought out new land positions to keep pace with the expansion of single-family housing development in the suburban areas.



**INDUSTRIAL
MULTI-FAMILY
AND RETAIL**
in high demand

INDUSTRIAL

- Within the hottest land sector, the majority of activity was related to industrial parks—either the creation of entirely new ones or new development within existing ones. A new park was created in November when Liberty Property Trust purchased 188 acres in Dayton and Rogers for the French Lake Industrial Center. And an example of robust demand within existing parks was United Properties' announcement of plans to build a third **200,000-sf** building at Blaine Preserve and construction of a **100,000-sf** speculative building.
- Other new business parks are in various stages of planning. Ryan Companies is working on a new industrial park in Elko, and another new park near I-35E in Lino Lakes is in the preliminary stages. Projects are also in the planning stages in Arden Hills and Shoreview.
- Industrial land prices continued to climb, up an additional **10%** in the second half of 2015. Meanwhile, more land deals are progressing to closing, with an estimated **70%** chance of transactions now reaching the closing stage.

10% rise in prices
for industrial land in second half

MULTI-FAMILY

- Land prices for the best-located multi-family projects continued to soar as demand for new, high-amenity apartments remained strong. Prices in downtown Minneapolis, for instance, reached as high as **\$160 per square foot (psf)** as the easily-buildable sites have all but disappeared, leaving only more complicated and expensive sites.
- Some sites that had formerly been planned for office development are now switching over to multi-family uses. Some examples of this include Norman Pointe in Bloomington and the West End in St. Louis Park.

\$160 psf
in downtown Minneapolis

RETAIL

- The grocery sector continues to expand as relative market newcomer Hy-Vee continues to look for new store sites. Another sign of retail strength is robust land demand for neighborhood-scale, in-line retail strips—which are generally **10,000- to 15,000-sf**, one-story multi-tenant buildings. For the first time in recent memory, developers of this product type are very active.
- Meanwhile, retail is also getting a boost by the coming of major mixed-use redevelopment projects such as Central Park Commons in Eagan and CityPlace in Woodbury.

OUTLOOK



Industrial land transactions are expected to continue their hot pace, likely for the next 24 months, as will land deals for affordable and market-rate multi-family projects in “class A” locations.



Potential developers of new office product, meanwhile, are jockeying for land positions in and around top suburban locations, leading to the likelihood that at least some new speculative office will emerge in the near future. Likely locations include the southwest metro market, the Interstate 394 corridor and the West End area of St. Louis Park.



Land appetite for retail development will also likely remain robust as developers continue to keep up with housing expansion further out into the suburbs. This retail development will likely follow new housing development.



Meanwhile, some metro-area cities that have remained resistant to opening up land for market-driven demand such as industrial and single-family home development will likely remain under pressure to do so. For instance, Lake Elmo has recently moved to allow more development and Dayton has approved warehouse-distribution land uses and more single-family residential developments within its borders.

ABOUT

THE COMPASS REPORT

The report was created by experts using Twin Cities commercial property data from the last six months of 2015. The data used for this report has been obtained from sources which we deem reliable. While every effort has been made to report accurate data, Cushman & Wakefield / NorthMarq cannot guarantee the accuracy of this market report. Furthermore, we cannot assume responsibility for any omission of data which may occur. It is our intent to provide the best possible information regarding the office, industrial, land, retail, multifamily and investment markets while leaving the reader the responsibility of further verification before using this report for business and/or financial decisions. The Compass report includes information for multi-tenant office, industrial and retail projects greater than 20,000 sq. ft. and multi-family for-rent properties. Not included are owner occupied, government or single-tenant buildings. Not all information and insights we've collected can be published in any given volume.

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43 msf of assets under management



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CUSHMAN & WAKEFIELD
NorthMarq

3500 American Blvd W Suite 200
Minneapolis, MN 55431
952 831 1000 / info@cushwakenm.com
cushwakenm.com