

COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market



LAND MARKET

Residential, Industrial Remain Hottest Twin Cities Land Markets

The Twin Cities land market remains highly active as 2018 begins, with values in many cases reaching post-recession highs and deals proceeding to closings at a rapid pace, especially in the residential and industrial markets.

Leading the way is the single-family residential market, where homebuilders are particularly desperate to lock down large positions in suburban cities boasting well-regarded public school districts. In a switch from previous strategy, builders are now willing to compete and bid up prices to obtain the best parcels.

Activity also is up in the multifamily and industrial land markets. Demand and pricing are especially strong for desirable urban infill apartment locations within walking distance of popular amenities. Industrial users, meanwhile, are seeking larger sites suitable for the burgeoning space needs of e-commerce distribution and fulfillment businesses.

TRENDS TO WATCH

Subdivision Evolution

The composition of the suburban subdivision is evolving to favor a mix of housing types, price ranges and lot widths, all located within the same development. This is being driven by a surge in popularity of townhome-style product among first-time homebuyers and single-level “villas” for aging baby boomers, both of which require areas of narrow lots mixed into traditional single-family developments. Homebuilders are seeking larger positions in order to include these different product types all within the same project.



SINGLE-FAMILY
market dominates
land activity

Industrial Boom Continues

The long-running surge in demand for industrial land is continuing unabated with prices remaining strong, although seemingly leveled off. Cities are looking for significant levels of finish for new industrial buildings, while developers are pushing for more design flexibility to accommodate e-commerce and distribution users.

Got Groceries?

Owners of urban infill locations within walking distance of Whole Foods Market stores or other popular retailers and amenities are attracting top-flight prices from multifamily developers, who show few signs of slowing their building surge in well-located markets known for good school districts.

The Amazon Effect

Retail land demand is limited to convenience stores such as Wisconsin-based Kwik Trip, which is in expansion mode, and neighborhood-scale “inline” projects as the effect of e-commerce giant Amazon.com continues to be felt. Retailers have scaled back their strategy, waiting for new developments to establish themselves before adding retail amenities to the mix of new housing.

Stow Your Gear

Self-storage developers, primarily from out-of-state, are making big inroads into the Twin Cities land market. These builders are scouting more and more locations and are paying prices for land higher than those fetched for industrial users and approaching levels paid for lower-end retail development. Storage companies frequently look to locate near new multifamily product.

OUTLOOK

Abundant access to capital will keep single-family homebuilders in the hunt for plus-sized suburban tracts of land in cities with access to quality public schools, with no sign that the prices they’re willing to pay will come down anytime soon. Highest demand will not be in “fringe” or exurban areas, but in closer-in suburbs such as Lake Elmo, Cottage Grove, Plymouth and Woodbury, where builders feel confident the time between purchase and new construction will be predictably short.

The multifamily housing market, which is in a years-long up cycle, continues to defy predictions of slowing down. Developers will likely remain on the lookout for prime urban infill locations, as well as for suburban redevelopment areas where cities are willing to change planned land uses from office to residential.

Prices fetched by land sellers will remain strong in 2018, but will level off in all markets with the exception of residential.

Developers will have an eye in 2018 on cities updating their “comprehensive plans” for land use, which are required in to the Metropolitan Council by the end of 2018. The plans, updated once a decade, act as long-range guides for cities in determining where residential, industrial and other land uses should be located. Changes made to those plans, especially in the face of real market conditions versus expectations from 10 years ago, could unlock further development and drive interest in new land positions across the metro.

ABOUT THE AUTHOR

THE COMPASS REPORT

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3500 American Blvd W Suite 200
Minneapolis, MN 55431
952 831 1000 | cushmanwakefield.com