CUSHMAN & WAKEFIELD

JULY 2019

COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market

INVESTMENT & CAPITAL MARKETS

CRE Investors Remain Active and Hungry for Twin Cities Assets

The current economic expansion hit a major milestone July 1, when it officially became the longest running period of growth on record. For those keeping track, it's now 10 years and counting. That growth in the national and local economies continues to provide a solid foundation for the investment sales market.

Investors have not taken the foot off the gas on acquisitions, and there is abundant capital targeting commercial real estate across the board. In fact, new capital sources are still entering the market. Both domestic and foreign capital like the fundamentals and demand drivers in the Twin Cities, which includes a diverse economy, business expansion, job growth, healthy consumer spending and new supply that is well controlled.

MULTIFAMILY MOMENTUM CONTINUES

The Twin Cities is garnering more attention as one of the top performing apartment markets in the country. The apartment market continues to fire on all cylinders, and investors like the strong dynamics that are producing some of the best risk-adjusted returns in the country. Current sales volume for the first half is hovering at $450 million with another $300 million or more under contract or on the market. There is record pricing across the board in all classes with out-of-state buyers continuing to outbid local investors. Buyers are finding value-add assets that have been improved, but still have "a little meat on the bone" for added improvements and higher values. Some value-add properties are trading for the second or even third time this cycle. The multifamily market is on pace to surpass $1 billion in sales volume for the sixth consecutive year.

PORTFOLIO DEALS DRIVE INDUSTRIAL SALES

The industrial sector is coming off a big fourth quarter of transactions, and there continues to be a tremendous amount of capital in the market looking for acquisition opportunities. Portfolio sales are driving trading velocity, with three large transactions that especially fueled sales volume in the first half. Blackstone was behind two of those deals and is now the biggest industrial landlord in the market. A number of the one-off sales that occurred in first half were also tied to prior portfolio sales with new owners culling assets that aren't the best fit with their overall portfolio. The metro is seeing new high-water marks on price per square foot. Investors are starting to pay more of a premium for in-fill locations

TWIN CITIES INVESTMENT SALES Source: Real Capital Analytics

PROPERTY TYPE	2018 SALES VOLUME	2019 SALES VOLUME	PSF/UNIT
	In Millions (Rolling 12 Month Total)		1ST HALF 2019
Multifamily	$1,848.10	$1,833.63	$166,777.37
Industrial	$1,062.12	$1,369.42	$77.34
Office	$2,349.39	$1,892.96	$157.29
Retail	$571.97	$1,017.87	$176.28
TOTAL	**$5,831.58**	**$6,113.87**	**$115.94**

that offer true last-mile accessibility to customers. The flex sector has experienced a dramatic shift over the past few years, going from a property type that was difficult to sell to one that is now in high demand.

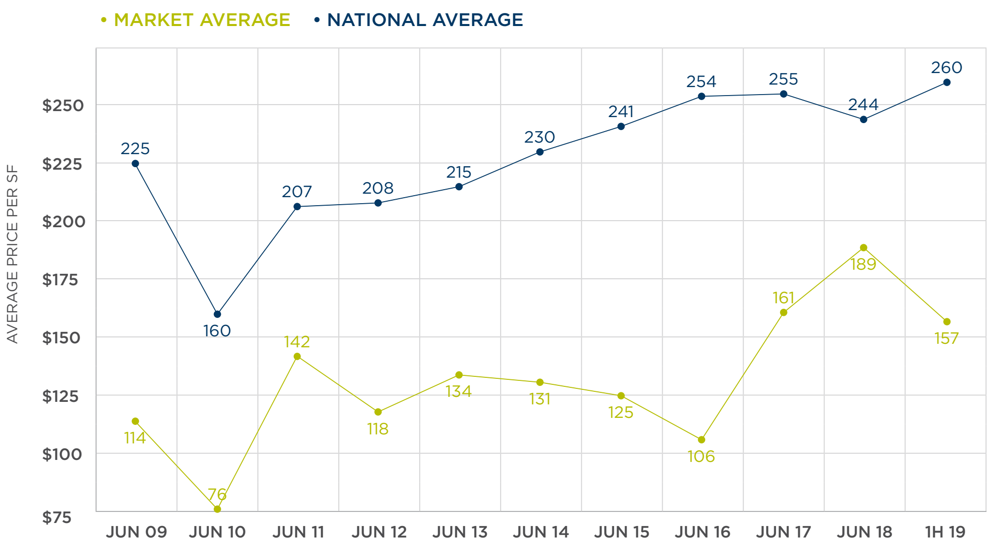
OFFICE SALES VELOCITY POISED TO INCREASE IN SECOND HALF

Office sales have gotten off to a slower start in the first half of the year, which is a common theme across the Midwest. Activity is poised to pick up in the second half of the year with several large CBD and suburban properties that are set to hit the market. Minneapolis-St. Paul also could benefit from investors who are searching for alternatives to Chicago. Uncertainty surrounding property tax assessments in Cook County is prompting some buyers to hit the pause button on Chicago, and Minneapolis is seeing its stock rise as an attractive alternative given its stable economy and strong employment base. Creative office buildings are in the spotlight. Owners of recently rehabbed projects are the beneficiaries of significant rent growth, investor and tenant demand.

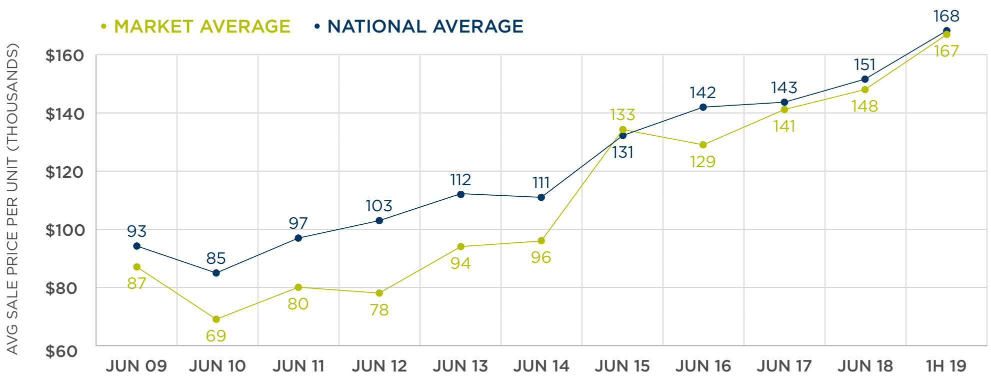
MEDICAL OFFICE BUYERS GET CREATIVE

There continues to be a big appetite for medical office properties, but there are limited buying opportunities. In fact, there were only two small medical office buildings on the market at mid-year. Investors continue to watch to see if Harrison Street may sell off some of the assets it acquired in the Twin Cities from a late 2017 acquisition from IRET. That $400 million deal included 28 properties, 16 of which were located in the Twin Cities. Buyers also are getting creative to find deals by identifying office properties with some medical presence where there is an opportunity to increase medical tenancy and reclassify the asset as a medical office building.

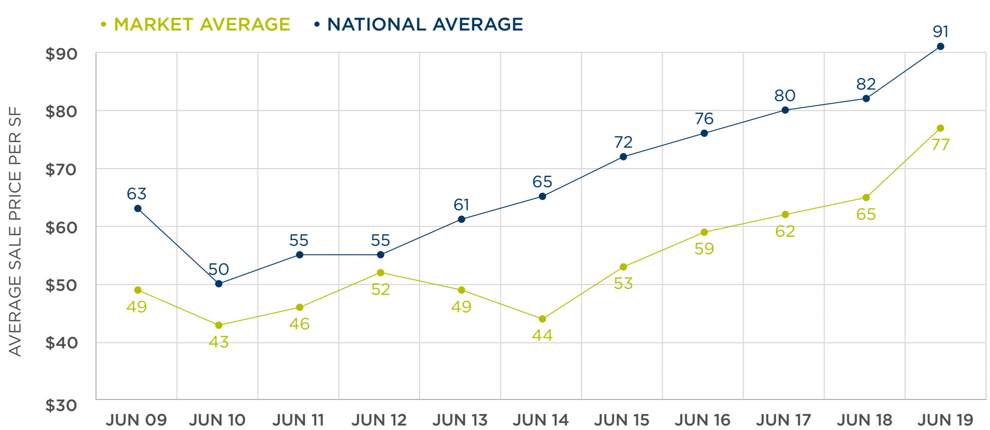
OFFICE SALE MARKET Source: Real Capital Analytics



MULTIFAMILY SALE MARKET Source: Real Capital Analytics



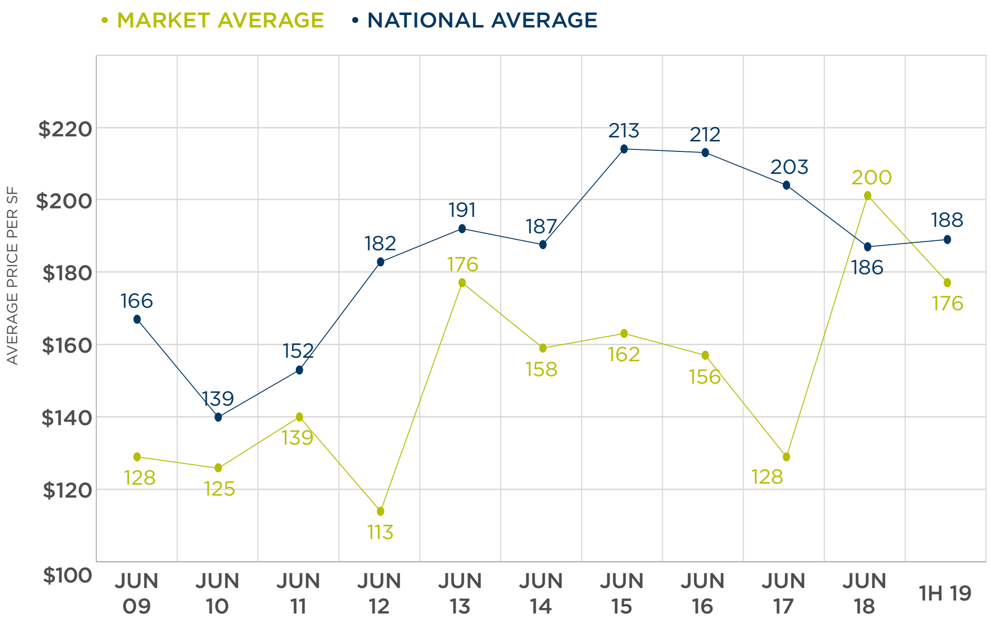
INDUSTRIAL SALE MARKET Source: Real Capital Analytics



ABUNDANT CAPITAL CHASES SINGLE-TENANT ASSETS

There is significant capital targeting the single-tenant net lease sector with a broad pool of investors that include high net worth individuals, REITs and private equity funds. Buyers like the characteristics of net lease properties, which include good cash flowing yield backed by the stability of long-term leases and low turnover costs. Long-term occupiers are often reluctant to move and give up investment they have made on building infrastructure. Strong demand and competition for assets has resulted in downward pressure on cap rates. Some investors are targeting assets with shorter lease terms – less than 10 years – where they tend to find a less crowded pool of bidders and higher yields.

RETAIL SALE MARKET Source: Real Capital Analytics



RETAIL INVESTORS GET COMFORTABLE WITH RISK

The retail investment sales market is less constrained than it was a year or two ago. Investors are becoming more comfortable with the transformation occurring in the sector. They are aware of the risks in certain categories, but they also recognize that brick-and-mortar retail is changing and adapting – not disappearing. Year-to-date multi-tenant sales are up about 20% to $148 million compared to first half 2018. Core-plus and value-add properties are in high demand as investors want properties with upside potential where they can achieve higher yields than what stabilized assets can provide. Investors are widening parameters on what they are willing to buy in terms of market or property type in order to find that right deal.

OUTLOOK

Transaction volume is expected to pick up across the board in second half of the year.

If the 10-year treasury remains low, it could cause some further downward pressure on cap rates for high demand assets.

ABOUT THE AUTHOR

THE COMPASS REPORT

 The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. It is our intent to provide the best possible information while leaving the reader the responsibility of further verification before using this report for business and/or financial decisions. The report was created by experts using Twin Cities commercial property data from 2019. The Compass report includes information for multi-tenant office, industrial and retail projects greater than 20,000 SF and multifamily 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 issue.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

ABOUT THE MINNEAPOLIS-ST. PAUL OFFICE

#1 Commercial Real Estate Brokerage Firm by *Minneapolis/St Paul Business Journal*

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80+ brokers

300+ properties managed

30MSF of assets under management

Employs nearly **500 professionals**

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