



COMPASS

Navigating the Minneapolis/St. Paul Commercial Real Estate Market



RETAIL MARKET

Retail Market Fundamentals Continue to Improve; Grocers and Regional Malls Lead Activity

As the economy continues to strengthen, more retailers are expanding, which is driving down the vacancy rate and driving up both absorption and rental rates. At **6.6%**, the market boasts the lowest vacancy rate since pre-recession levels of 2006. Led by activity at grocery-anchored centers and regional malls, the market reported **886,055 square feet (sf)** of absorption in 2015. Construction activity has picked up but remains well below pre-recession levels.



VACANCY RATE
6.6% - lowest since 2006



ABSORPTION
886,055 sf in 2015

RETAIL	VACANCY & ABSORPTION							
SUBMARKET	TOTAL # OF BLDGS	NRA	VACANT SPACE	% VACANT	% VACANT W/SUBLEASE	1ST HALF 2015	2ND HALF 2015	2015 ABSORPTION
Community	124	31,597,239	1,650,496	5.2%	6.6%	3,563	100,193	103,756
Mpls CBD	16	1,297,703	253,044	19.5%	20.4%	12,431	7,857	20,288
Neighborhood	307	20,090,759	1,642,724	8.2%	8.6%	111,018	271,635	382,653
Outlet Mall	4	1,197,440	70,350	5.9%	5.9%	0	0	0
Regional	8	10,981,097	543,217	4.9%	4.9%	69,630	242,669	312,299
Specialty	22	2,342,341	291,248	12.4%	12.4%	-4,929	74,292	69,363
St. Paul CBD	9	368,737	12,596	3.4%	3.4%	0	-2,304	-2,304
Total Market	490	67,875,316	4,463,675	6.6%	7.4%	191,713	694,342	886,055

Source: Cushman & Wakefield/NorthMarq

RATES: '\$40s IS THE NEW \$30s'

A lack of new construction has made it difficult for retailers to find quality space. Newer small-shop space in top-performing "A" centers is becoming scarce and rates are escalating. Landlords can draw rents in the **\$40-per-square-foot (psf)** range for the best locations in the top trade areas—a new threshold. This is "pricing out" some retailers and forcing them to get creative with existing space that may need more tenant improvements or is in a secondary location. Meanwhile, landlords are getting creative themselves by renovating old, tired space or repurposing it for non-traditional tenants.

GROCERY TURF WAR UNDERWAY

Grocers are "front and center" as they compete in a very crowded Twin Cities market. Although Rainbow Foods pulled out in 2014, plenty of grocer concepts are fervently competing to snag their market share. Lunds & Byerly's and Cub Foods, among other grocers, are backfilling Rainbow space. More deals are in the works for the five remaining Rainbows that were not initially purchased.

Active grocers include Hy-Vee, Cub Foods, Fresh Thyme Farmers Market, Aldi, Jerry's Foods, Whole Foods, Trader Joe's and Kowalski's. Also, newcomers Lucky's Market, 365 by Whole Foods and Meijer's are reputed to be seeking sites.

OUTLOOK

Approximately **375,000 sf** of positive absorption is anticipated for the first half of 2016. Rates should continue an upward trend.



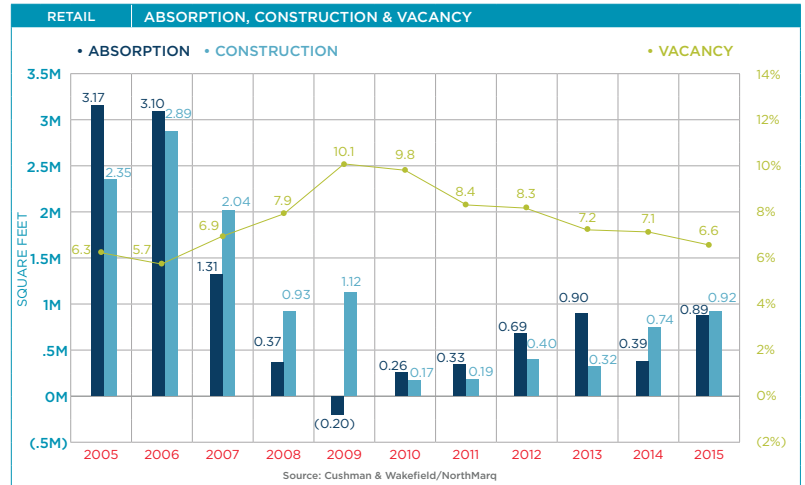
Prime small-shop space will likely continue to be constrained, forcing retailers to **think outside the box** to get deals done. The market may need to see more recycling of older concepts to free up space for retailers wanting to expand or enter the market. Examples may be **Sears**, which is looking at right-sizing its stores, and **Office Max, Office Depot** and **Kmart** have closed locations that are being repurposed. Creativity is required on all facets of the business.



E-commerce will continue to be a growing component of bricks-and-mortar retailers' profits, and they will continue to find ways to compete.



While Eagan and Woodbury have **large developments** slated to open in third-quarter 2016, the market is lacking the next big retail development.



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.

CUSHMAN & WAKEFIELD/NORTHMARQ

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Ranked #1 Commercial Real Estate Brokerage Firm & Commercial Property Management Firm by *Minneapolis/St Paul Business Journal*



More than \$2.3 billion transactions annually



43 msf of assets under management



Top Places to Work by *Star Tribune*



Employs nearly 500 professionals



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