

ECONOMIC INDICATORS

National

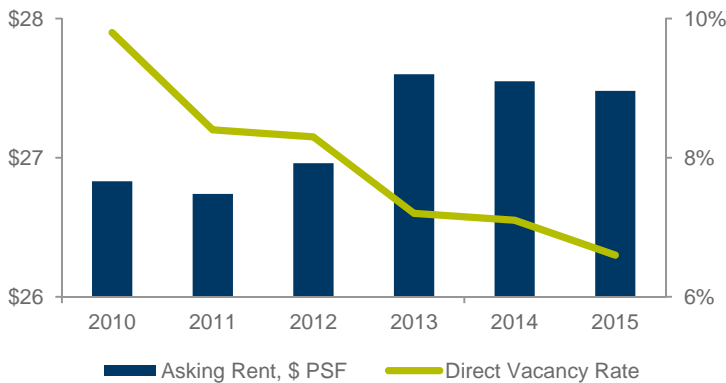
	2014	2015	12-Month Forecast
GDP Growth	2.4%	2.4%	▲
CPI Growth	1.6%	0.1%	▲
Consumer Spending Growth	2.7%	3.1%	▲
Retail Sales Growth	3.9%	2.2%	▲

Regional

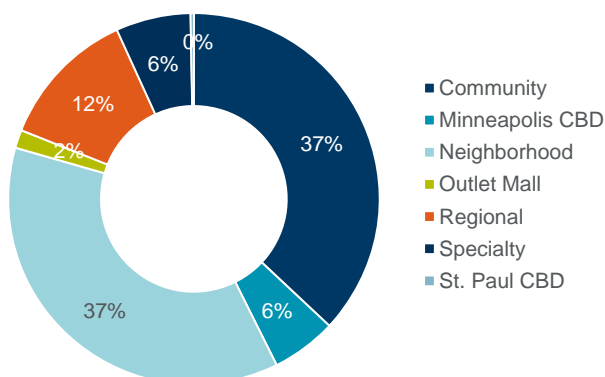
	2014	2015	12-Month Forecast
Household Income	\$69,110	\$70,174	▲
Population Growth	1.0%	1.1%	■
Unemployment	3.9%	3.6%	▼

Source: Moody's Analytics

Rental Rate vs. Direct Vacancy



Availability by Submarket



Economy

The Minneapolis/St. Paul labor market continued to tighten as unemployment hit a 15-year low and continued to trend significantly below the national rate. The market gained more than 30,000 jobs over the year.

Market Overview

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. The Minneapolis/St. Paul retail market currently boasts the lowest vacancy rate since pre-recession levels of 2006. Led by grocery-anchored centers and regional malls, the market reported 886,000 square feet (sf) of direct net absorption in 2015.

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 range for the best locations in the top track 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.

Outlook

Looking to 2016, approximately 375,000 sf of positive absorption is anticipated in the first half and rates are expected to 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 to right-size 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 the third quarter of 2016, the market is lacking the next big retail development.

MARKETBEAT

Retail Snapshot Q4 2015

Minneapolis/St. Paul



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	DIRECT VACANCY RATE	DIRECT CURRENT NET ABSORPTION (SF)	DIRECT YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT (NNN)
Community	124	31,597,239	5.2%	100,193	103,756	504,142	\$18.64
Minneapolis CBD	16	1,297,703	19.5%	7,857	20,288	26,500	\$24.31
Neighborhood	307	20,090,759	8.2%	271,635	382,653	165,200	\$15.88
Outlet Mall	4	1,197,440	5.9%	0	0	0	\$33.74
Regional	8	10,981,097	4.9%	242,669	312,299	0	\$62.69
Specialty	22	2,342,341	12.4	74,292	69,363	177,100	\$31.88
St. Paul CBD	9	368,737	3.4%	-2,304	-2,304	0	\$16.42
MINNEAPOLIS/ST. PAUL	490	67,875,316	6.6%	694,342	886,055	872,942	\$27.16

Key Lease Transactions Q4 2015

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Central Park Commons	93,000	Hy-Vee	Lease	Community
Bergen Plaza	87,561	Cub Foods	Lease	Community
Oak Park Plaza I	45,700	Cub Foods	Lease	Neighborhood
Central Park Commons	42,000	Marshalls	Lease	Community
City Place	25,000	Nordstrom Rack	Lease	Community
9010 Jamaica Ave S	20,027	Office Max	Lease	Neighborhood
Village Square Shopping Center	14,827	Harbor Freight	Lease	Neighborhood

Key Sales Transactions Q4 2015

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Becker Furniture World Home Center	261,000	Becker Furniture World/REIT	\$10,000,000 / \$38	Community
Life Time Fitness	145,896	Gramercy/Chambers Street Properties	\$38,046,325 / \$261	Specialty
North Branch Marketplace	152,895	Solomon Real Estate Group/ Slate Asset Management	\$20,900,000 / \$137	Neighborhood
Normandale Village	140,400	MLG Capital/Phillips Edison	\$19,650,000 / \$142	Neighborhood
Heritage Commons	138,690	Sentinel/Epic Real Estate Partners	\$12,090,000 / \$87	Neighborhood

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