CUSHMAN & WAKEFIELD

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COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market

INVESTMENT & CAPITAL MARKETS

Deep Buyer Pool Continues to Pursue Commercial Real Estate Properties

Investors are wielding plenty of dry powder along with a general sense of optimism that commercial and multifamily investments will continue to perform. With memories of the last economic downturn still fresh in their minds, investors continue to approach potential purchases with caution, and stick to their criteria.

Many investors are keenly focused on predictable cash flow. In addition, the buyer pool for best-in-class assets is both deep and well balanced across private equity funds, institutions and foreign capital. Investors are exhibiting a tremendous appetite for apartments and industrial assets. One consistent theme is that investors are willing to aggressively bid on properties that check all of the boxes matching their investment strategies.

SUPER BOWL CREATES BRIGHT SPOTLIGHT

Minneapolis will host Super Bowl LII on February 4. The event is expected to bring hordes of football fans along with heightened awareness and higher visibility to the Twin Cities. Barring a blizzard, the event could produce positive PR benefits for years to come. More directly, the Super Bowl has been an important catalyst to infrastructure improvements. Notably the City of Minneapolis completed a $50 million-plus renovation of the Nicollet Mall streetscape, which will benefit the many retail, restaurant and office buildings that line the busy pedestrian and transit corridor in the CBD.

MULTIFAMILY SALES REACH YET ANOTHER HIGH

In 2015, it looked like the multifamily market had reached its peak, as sales flattened. It turns out that investors were only stopping for a breather, and sales surged to record high levels in 2016 and again in 2017. Multifamily sales reached nearly $1.8 billion in 2017, which is also the fourth straight year transactions have hit or surpassed the $1 billion mark. Class B

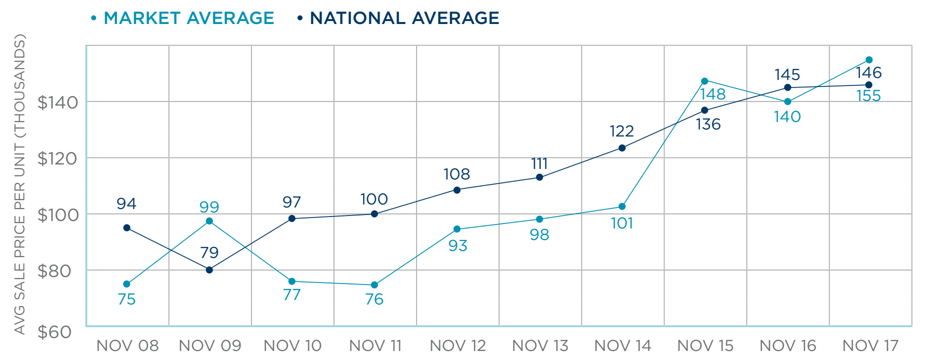
TWIN CITIES INVESTMENT SALES Source: Real Capital Analytics, Inc.

PROPERTY TYPE	2016 SALES VOLUME	2017 SALES VOLUME	PSF/UNIT
	In Millions (Rolling 12 Month Total)		2ND HALF 2017
Multifamily	$1,618.31	$1,779.00	$155,221
Industrial	$746.99	$751.73	$59.00
Office	$1,466.34	$1,363.81	$169.00
Retail	$1,175.51	$643.29	$143.00
TOTAL	**$5,007.14**	**$4,537.83**	**$109.00**

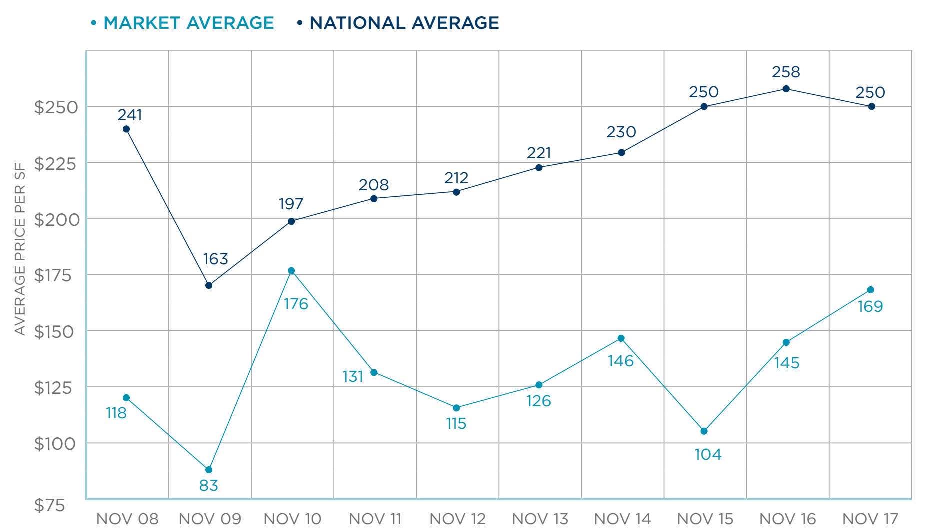
Multifamily
Class A Cap Rate
4.7%

Office
NEARLY $1.4B
sales closed in 2017

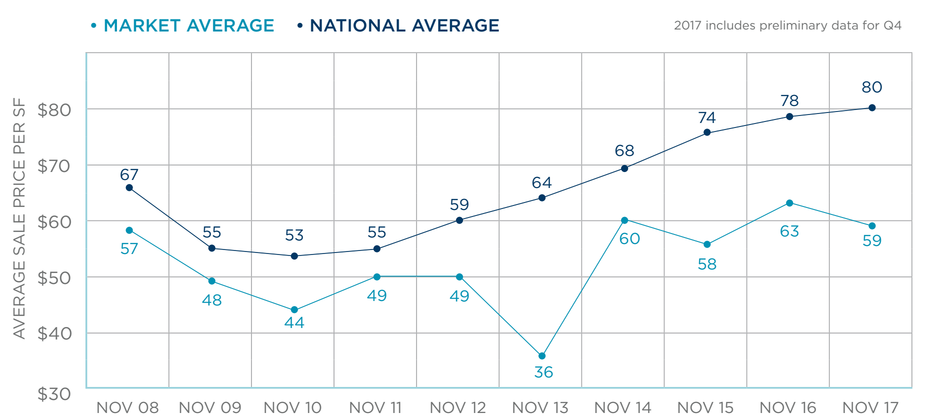
MULTI-FAMILY SALE MARKET Source: Real Capital Analytics



OFFICE SALE MARKET Source: Real Capital Analytics



INDUSTRIAL SALE MARKET Source: Real Capital Analytics



and C sales continue to be white-hot thanks to strong buyer appetite for assets that fit value-add repositioning strategies. Class A property sales rebounded in 2017, with roughly $500 million in Class A properties trading hands, primarily because the newest apartment projects have cleared their initial lease-up period. Even more Class A properties could trade in 2018.

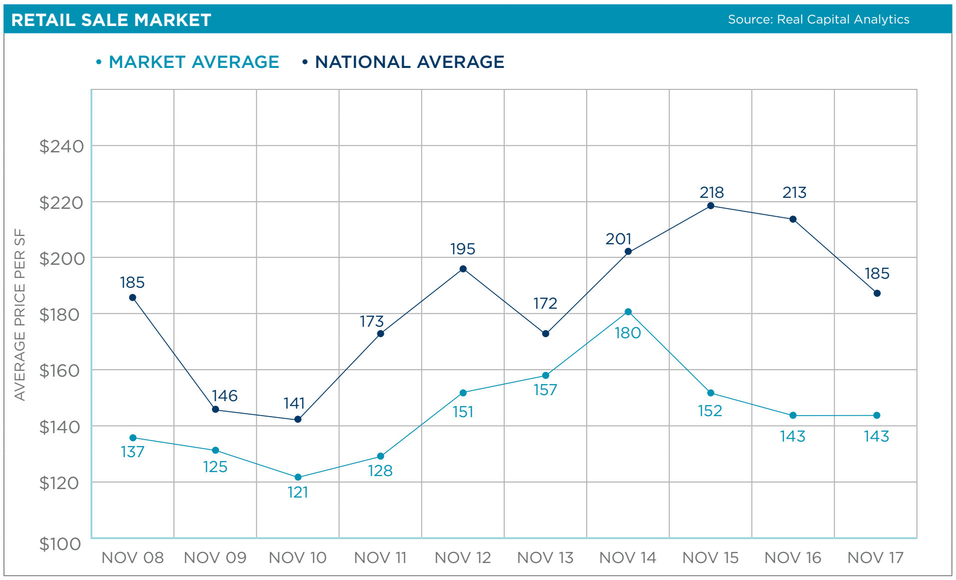
OFFICE INVESTORS TARGET "HOT" SUBURBAN MARKETS

Strong economic and job growth is fueling buyer demand for office properties. Sales are projected to reach just under $1.4 billion in 2017. Although that represents a consistent pace of activity for Minneapolis-St. Paul, it doesn't tell the whole story - there are a several pending deals that are not expected to close until early 2018.

Most investors still prefer to buy in downtown Minneapolis, but more and more capital is migrating to the suburbs. Many investors are highly selective when buying suburban assets, and there is a bigger gap emerging between desirability and pricing for close-in "urban" suburbs versus more farther-out suburbs. The smart money is paying attention to the hottest leasing submarkets and properties that are more successful in attracting today's tenants and are seeing continued rent growth.

YEAR OF PRICING DISCOVERY SLOWS RETAIL SALES

Retail investment sales dropped by about 35% in 2017 for both multi-tenant and single-tenant properties. Year-to-date, there have been an estimated $650 million in investment sales including $355 million for multi-tenant properties and $295 million for single-tenant properties. The main reason for that lull is a shortage of inventory with fewer owners listing properties for sale amid pricing uncertainty. Owners are hesitant to sell in a market where it is more challenging to find reinvestment opportunities.



Industrial
$751M
12-month sales volume

Retail
$650 YTD
Investment Sales

INDUSTRIAL BUYERS CHALLENGED BY SHORTAGE OF FOR-SALE ASSETS

Everything about e-Commerce that threatens brick and mortar retail seems to have an opposite positive effect on the industrial sector. Investors like the fundamentals and the dynamics that are driving increased demand for warehouse, distribution and fulfillment of online orders. The challenge is a crowded buyer pool that is competing for too few industrial assets. Transaction volume is steady, but subdued with the 12-month sales volume at $751 million. That interest has created a highly competitive marketplace and aggressive bidding for both on and off-market deals. Buyers are willing to pay above replacement cost on quality assets with prices that have exceeded $80 and $90 psf.

OUTLOOK

Underwriting remains disciplined, which bodes well for a prolonged, sustainable cycle and steady flow of investment sales transactions across all property types.

Speculation about rising rates has given way to a perception that rates may stay on cruise control, with only gradual and moderate increases in the near term. Given that backdrop, investors believe they still have enough margin in the spreads to maintain current investment strategies.

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 the first six months of 2017. 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 is a leading global real estate services firm with 45,000 employees in more than 70 countries helping occupiers and investors optimize the value of their real estate. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $6 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

ABOUT THE MINNEAPOLIS-ST. PAUL OFFICE

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

Winner - Best of Business, *Twin Cities Business*

Winner - Reader Rankings, *Finance & Commerce*

More than $2.3 billion annual transactions

30MSF of assets under management

Employs nearly **500 professionals**

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