

MARKETBEAT

Retail Snapshot Q4 2016

Minneapolis/St. Paul



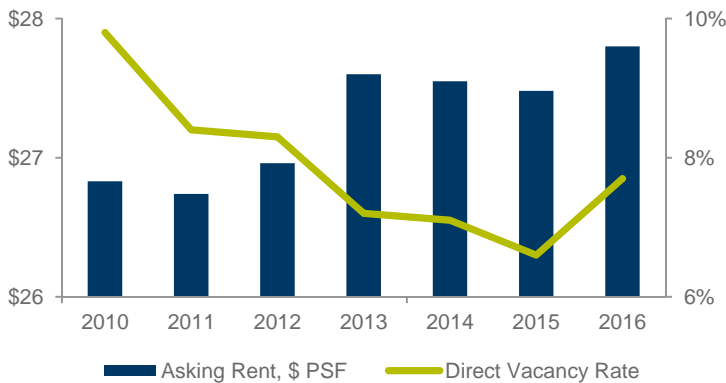
ECONOMIC INDICATORS

National	2015	2016	12-Month Forecast
GDP Growth	1.9%	1.8%	▲
CPI Growth	0.4%	1.6%	▲
Consumer Spending Growth	2.6%	2.8%	▼
Retail Sales Growth	2.0%	4.0%	▲

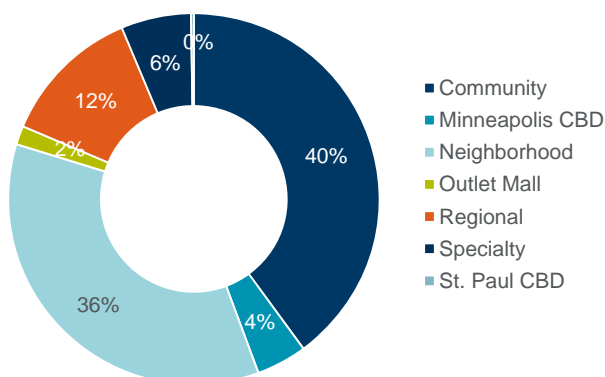
Regional	2015	2016	12-Month Forecast
Household Income	\$71,432	\$73,433	▲
Population Growth	0.9%	1.1%	■
Unemployment	3.3%	3.3%	▼

Source: Moody's Analytics

Rental Rate vs. Direct Vacancy



Availability by Submarket



Economy

The overall economy in the Twin Cities is firing on all cylinders with healthy job growth and low unemployment. Employers added an estimated 10,000 jobs in the finance, information and professional and business services sectors in 2016.

Market Overview

For new retailers and those looking to expand, the Twin Cities offers attractive opportunities. While there has been little new construction delivered and the market has been very tight for quality space, multiple store closings across all types of centers occurred—and there may be more to come. But the key is many are in prime trade areas and retailers are competing to scoop them up.

Discount retailers continue driving much of the demand while grocers like Fresh Thyme and Hy-Vee continue vying for attractive sites. Meanwhile, coffee wars began heating up as Tim Hortons and Dunkin' Donuts announced several locations.

The market is seeing more ground leases by strong-credit national retailers/restaurants, in which the tenant builds the building with their own cash. The owner/landlord gains a steady stream of income from the tenant while retaining ownership of the property. However, less deep-pocketed retailers cannot compete for these sites.

Once Central Park Commons in Eagan and CityPlace in Woodbury are complete, there are no approved large-scale developments in the pipeline. While the cost of land, labor and materials are factors, there just may not be enough new single-family home construction to push that next big development yet.

Outlook

Approximately 600,000 to 650,000 square feet (sf) of absorption is projected in the next six months, assuming no additional major closings occur.

The unprecedented high rental rates will likely continue to impact landlords' ability to fill space. There is not a very deep pool of retailers that can pay these escalated rates.

The recycling of older concepts will likely continue. Value-add retailers, grocers, fitness and medical concepts and restaurants will continue to drive activity. There is a lot of vacancy to fill with the potential of more to come.

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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	175	31,882,990	5.2%	55,331	222,375	247,000	\$19.05
Minneapolis CBD	18	1,319,301	19.5%	-43,549	41,545	32,000	\$24.65
Neighborhood	311	20,333,758	8.2%	88,428	65,505	501,915	\$16.37
Outlet Mall	4	1,197,440	5.9%	2,000	-2,000	0	\$33.74
Regional	8	10,981,097	4.9%	-183,779	-115,574	0	\$62.99
Specialty	21	2,322,341	12.4	-164	-30,291	171,929	\$32.41
St. Paul CBD	9	368,737	3.4%	0	0	33,000	\$16.42
MINNEAPOLIS/ST. PAUL	506	68,405,664	7.7%	-81,733	181,560	985,844	\$27.80

Key Lease Transactions Q4 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1200-1400 CR 42 W	50,019	Hobby Lobby	Lease	Community
80 S 8 th St	40,000	Nordstrom Rack	Lease	Minneapolis CBD
8100 24 th Ave S	35,000	CMX	Lease	Regional
411 Cedar St	23,000	Walgreens	Lease	St. Paul CBD
4500 Centerville Rd	20,600	Goodwill	Lease	Neighborhood
Krueger Ln & S Frontage Rd	20,600	Goodwill	Lease	Neighborhood
3000 White Bear Ave	18,375	Aldi	Lease	Community

Key Sales Transactions Q4 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1935 Levi Griffin Rd	270,006	KKR/Davidson Kempner	\$28.3M / \$105	Community
8400 Lakeland Ave N	246,891	KKR/Davidson Kempner	\$38.5M / \$156	Community
10250 Lexington Ave NE	245,575	KKR/Davidson Kempner	\$25.7M / \$105	Community
5635 Hadley Ave N	236,711	KKR/Davidson Kempner	\$24.8M / \$105	Community
250 57 th Ave NE	145,121	Tri-Land/Sterling	\$26.8M / \$184	Community

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