

# COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market



## RETAIL MARKET

### Amid Store Closings, Retail Markets Hold Steady; Expanding Retailers Snatch Prime Vacancies

Retailers, landlords, and developers continue to grapple with a retail market that is in transition, facing shifting consumer behaviors, e-commerce competition, store closings/downsizings, and fewer new concepts entering the market. Despite the challenges, the Twin Cities retail market continued at a steady pace. The vacancy rate held firm, absorption increased over first-half 2017, and rental rates remain high, although they are leveling off.

#### STORE CLOSINGS CONTINUE, BUT OPPORTUNITIES ARISE

Nationally, more than 300 retailers filed bankruptcy in 2017. Notable chains include The Limited, Gander Mountain, Rue 21, J. Crew, Charming Charlie, RadioShack, Gordmans, and Toys “R” Us. Other retailers are struggling and have closed underperforming locations including department stores such as J.C. Penney, Macy’s, and Sears, which announced in early January plans to close more than 100 stores, although none are in Minnesota. There is a significant amount of space to fill and likely more to come.

But vacancies in the Twin Cities are opening up desirable space in prime trade markets for expanding retailers. Demand so far is strong, and attractive big-box space is being snapped up quickly. Most of the boxes are being subdivided for smaller users who can use the space to offer a unique experience to consumers.

#### FITNESS AND VALUE-ADD CONCEPTS DOMINATE ACTIVITY

The majority of activity is being driven by value-add and fitness concepts. Hobby Lobby, Burlington Stores, Five Below, Total Wine & More, and TJX’s concepts are among the retailers expanding. Hot fitness concepts include Xperience Fitness, Orange Theory Fitness, and PureBarre.

For example, Hobby Lobby backfilled the former Sports Authority in Burnsville. Burlington Coat Factory backfilled the former Sports Authority in Oakdale and signed a lease for the Sports Authority in Richfield. Petco opened in a portion of the old Hancock Fabrics in Bloomington. Xperience Fitness and Five Below are backfilling the former Gordmans in Coon Rapids. Xperience is also backfilling the Gordmans in Roseville and a former Rainbow Foods in Apple Valley. Life Time Fitness will open

RETAIL VACANCY & ABSORPTION						Source: Cushman & Wakefield		
SUBMARKET	TOTAL # OF BLDGS	NRA	VACANT SPACE	% VACANT	% VACANT W/SUBLEASE	1ST HALF 17 ABSORPTION	2ND HALF 17 ABSORPTION	2017 ABSORPTION
Community	137	32,030,870	2,290,106	7.1%	7.9%	(126,180)	136,662	10,482
Mpls CBD	18	1,319,301	179,119	13.6%	13.9%	13,557	43,184	56,741
Neighborhood	317	20,452,197	1,687,772	8.3%	8.3%	201,926	143,618	345,544
Outlet Mall	4	1,197,440	164,782	13.8%	13.8%	(12,000)	(34,194)	(46,194)
Regional	8	10,981,097	1,003,124	9.1%	9.1%	(83,411)	(262,514)	(345,925)
Specialty	22	2,322,728	296,017	12.7%	13.2%	(17,486)	42,977	25,491
St. Paul CBD	9	369,029	60,798	16.5%	16.5%	0	23,132	23,132
Total Market	515	68,672,662	5,681,720	8.3%	8.7%	(23,594)	92,865	69,271



**FAST-CASUAL**  
concept thrives

a club in the former JC Penney space at Southdale Center. And a long-vacant Home Depot in Cottage Grove is being divided for three or four national retailers this year.

### OTHER EXPANDING CONCEPTS ARE HUNGRY FOR SITES

Fast-casual restaurants are expanding including Café Zupas, Portillo's, Panera Bread, and Piada Italian Street Food. Coffee concepts are competing for sites, and entertainment concepts like Sky Zone and Urban Air are leasing space. Medical concepts are active. Nail/hair salons, cell phone retailers, banks and daycare concepts are seeking locations, as service retail categories are more protected from the impact of e-commerce.

### DEMAND IS DRIVEN BY 'EXPERIENCE'

More mall landlords are backfilling vacancies with restaurants, entertainment, and other unconventional tenants to create "experiences" for shoppers. For example, Scheels is redeveloping the former Sears at Eden Prairie Center into a "shopping destination." Traditionally, department stores have owned their real estate, but landlords see the opportunity to buy these spaces, modernize them, increase rates, and find more attractive users. Malls are also replacing outdated retailers with fresh concepts. For example, clicks-to-bricks retailers such as Untuckit and Indochino opened at the Mall of America.

### MARKET SEES LOW NEW CONSTRUCTION LEVELS

No approved, large-scale projects are in the pipeline. Most of the construction is one-off or small mixed-use projects in urban and first-ring suburbs. This lack of new development will impact the future market, as it will become more challenging for retailers to find good space. At 8.3 percent vacancy, the market is already tightening.

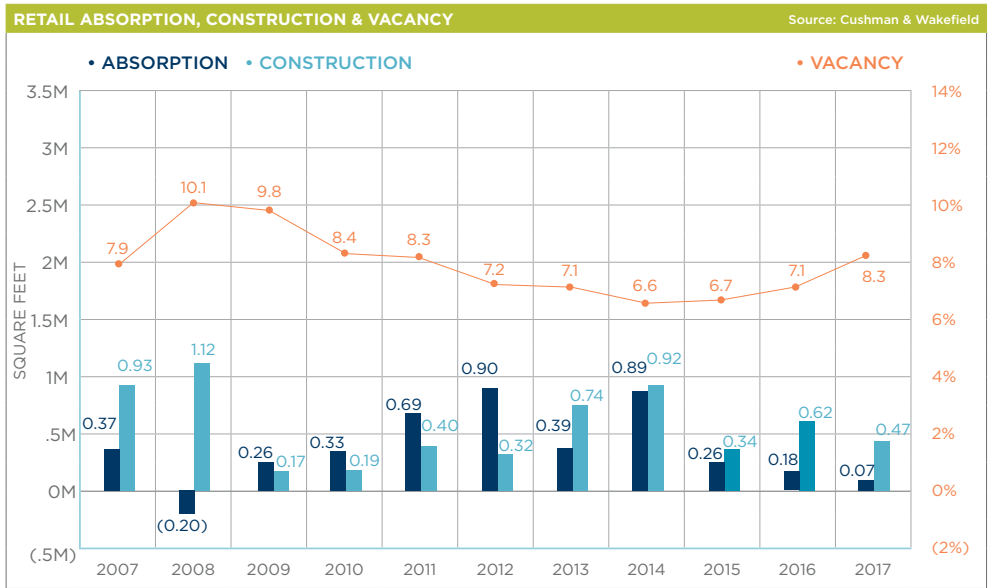
### GROCEER ACTIVITY IS SLOWING; REMAINS COMPETITIVE MARKET

Activity by Hy-Vee, Aldi, Trader Joe's, Fresh Thyme Farmers Market, and other grocers is slowing. The market is becoming saturated, so grocers are becoming more selective, with sites more difficult to find and expensive.

### OUTLOOK

The "watch list" of retailers filing bankruptcy and shuttering stores across the country is projected to continue at the same level as 2017, and will likely include some big-box retailers like Sears. However, this is somewhat offset by a significant number of store openings by retailers with smaller footprints. The Twin Cities market will be impacted by these national openings and closings, but the mood here is of less uncertainty, with activity projected to continue at a steady pace.

Minimal, but positive absorption is projected in the next six months.



## ABOUT THE AUTHOR

### THE COMPASS REPORT

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