

MINNEAPOLIS/ST. PAUL INDUSTRIAL MARKET 2023 YEAR-END UPDATE



OVERVIEW

After two consecutive years of record absorption, strong rent growth and booming development activity, the industrial market showed signs of moderating in 2023. While absorption remained strong at 4.2 million Square Feet (SF), this is down from nearly 6 million SF of absorption in 2022. New construction deliveries have helped vacancy rates tick up to 4.9% from a record a low of just 3.5%, though the new construction pipeline has dwindled as financing remains difficult and developers focus on filling existing vacancies.

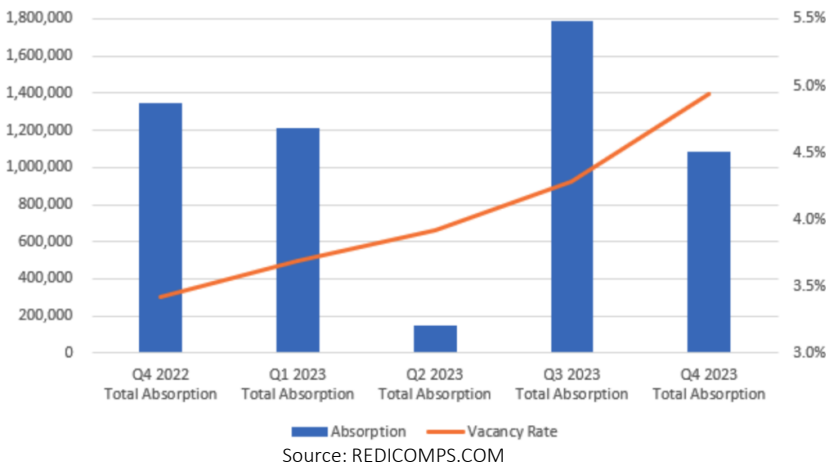
Sales for owner-occupiers remain challenging due to pricing gaps between buyers and sellers, along with limited inventory in select markets.

- While inventory remains limited in prime infill locations, there are large-block space opportunities in secondary suburban markets. For example, Woodbury offers more than 1 million square feet of space available and Dayton has 1 million square feet vacant in a single facility.
- New construction prices for a warehouse shell increased by approximately 35% from 2021-2023. Material lead times have normalized and material prices have softened, though we do not foresee a significant decline in construction costs in 2024.
- If absorption levels remain consistent, the uptick we saw in vacancy rates in 2023 may be erased due to the slowdown in new development.
- We saw an increase in buildings that were under contract for sale coming “back on the market” in Q4. Reasons include financing challenges and building issues uncovered during due diligence. This is a sign of some softening in the market, and some sellers may need to adjust price expectations as we have passed a peak in pricing.

SNAPSHOT

Overall Vacancy	4.9%	▲
Under Construction	4.7M SF	▼
YTD Total Absorption	4.2M SF	▼
Rental Rates	Increasing	▲
Concessions	Increasing	▲
 Market Size	289M SF	
 Total Vacancy	14.3M SF	

ABSORPTION & VACANCY RATE



FOR MORE INFORMATION
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