Research & Forecast Report

RETAIL MARKET REPORT

MINNEAPOLIS-ST. PAUL | Q4 2018

Colliers INTERNATIONAL

Accelerating success.

Creative Backfills and New Deliveries Create Positive Outlook for 2019

VACANCY AND ABSORPTION TRENDS

The second half of 2018 experienced 56,000 square feet of negative absorption in the multi-tenant retail market, negating the positive absorption that occurred in the first half of the year. This negative absorption was due to closings of Toys 'R' Us, Herberger's and Sears big box and junior box stores in the latter half of the year. As a result of the negative market absorption at the close of 2018, the Q4 vacancy rate rose to 6.3%, which is the highest rate since Q3 2017.

The Southwest market had the largest amount of negative absorption totaling to negative 50,000 square feet in the second half of 2018, due to the 61,000-square-foot Toys 'R' Us closure at Ridgedale Festival Center. The Northeast submarket, specifically in Maplewood, experienced a number of closures: Sears in the Maplewood Mall for 60,000 square feet, Rainbow Foods for 54,000 square feet in the Mapleridge Shopping Center and Herberger's for 27,000 square feet in Birch Run Station. The absorption figures in the Northeast were offset by the exciting opening of the Von Maur, a new 141,000-square-foot department store in Rosedale Center.

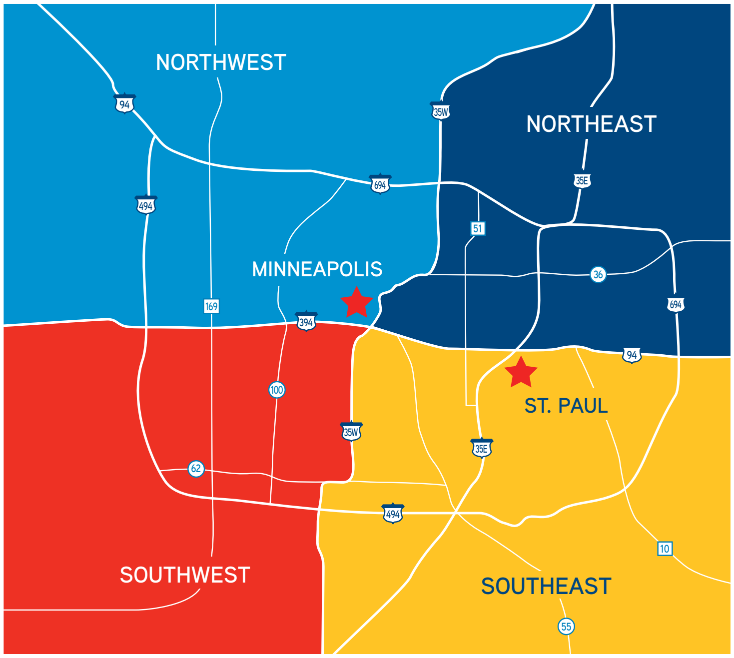
Of the retail submarkets that had positive absorption, the Southeast made a nominal gain of 2,000 square feet and the Northwest submarket absorbed 29,000 square feet. Fitness centers and new grocery stores were the retailers who stabilized these two submarkets. In the Northwest, Hy-Vee absorbed 52,000 square feet in Plymouth Station Shopping Center and Xperience Fitness moved into 45,500 square feet at Riverdale Commons. For the Southeast submarket, Planet Fitness, TJMaxx and HomeGoods occupied 60,000 square feet in Grove Plaza Shopping Center and a new Alamo Drafthouse Cinema was constructed in Woodbury Lakes, adding to the overall absorption figures.

Retail construction was limited in the second half of the year, especially multi-tenant developments. There were two notable projects that were delivered in the latter part of 2018: the aforementioned Rosedale Center anchor tenant, Von Maur and the 86,500-square-foot Hy-Vee in Robbinsdale that was redeveloped in place of a Rainbow Foods and movie theater. 2019 expects to see more deliveries, as there are planned redevelopments in the Minneapolis CBD and big box vacancies at regional malls.

Q4 Market Indicators

Relative to prior period

MSP RETAIL SUBMARKETS



PRODUCT TYPE RECAPS

MINNEAPOLIS CBD

Small vacancies occurred in the Minneapolis CBD office towers, leading to an increased vacancy of 10.7%. Retail leasing in the CBD cooled slightly. Due to increasing total occupancy costs, tenants are looking to landlords to negotiate flexible lease terms. The spike in vacancy is predicted to be short-lived. The retail market isn't overbuilt and there is potential money for investors to redevelop. Construction is on the horizon, notably The Dayton's Project, which will headline growth and future absorption.

REGIONAL CENTERS

Regional Centers have been through a string of redevelopment projects to attract new shoppers, after large block closures by Sears and JCPenney. For example, when Sears closed in the Eden Prairie regional center, an uncertainty about large vacancies was a concern for buyers and sellers alike. However, not long after the closure, Scheels announced redevelopment plans for the Sears vacancy with a brand-new store and exciting, fresh amenities. Another example of regional center redevelopment is Edina's Southdale Center, where Life Time Fitness converted a former 120,000-square-foot JCPenney into a fitness and wellness center packed with amenities. Although regional centers are continuing to lose anchor tenants, owner investments made to reposition and redevelop regional centers like these with new, exciting tenants have helped restore investor confidence in this asset class.

COMMUNITY CENTERS

The best performing retail product type in 2018 were community centers with a positive absorption of nearly 85,000 square feet on the year. Occupied spaces in community centers brought in new, unique tenants to the market from a handful of big box vacancies. Fitness centers and new grocers backfilled closures in community centers that attract a high number of consumers. The vacancy rate ended the year at the same point it began in 2018 at 4.4%.

NEIGHBORHOOD CENTERS

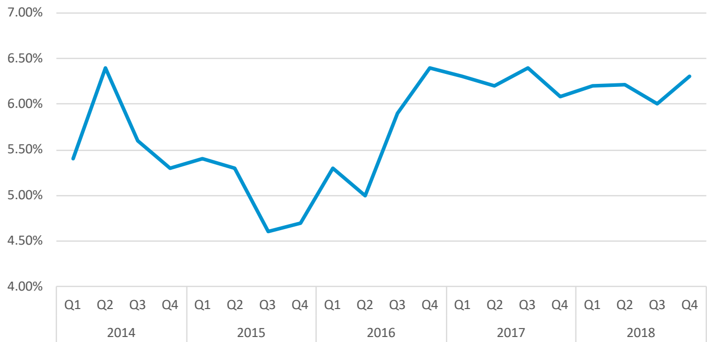
The product type affected the most by retail closures were neighborhood centers, recording negative absorption of 60,000 square feet at the close of 2018. A number of department stores and Toys 'R' Us locations have increased the vacancy rate in neighborhood centers to 8.7%. It's possible landlords may find it more difficult to attract qualified tenants, due to rental rate increases and assets available in less-than-desirable locations.

Retail Lease Activity – Second Half of 2018

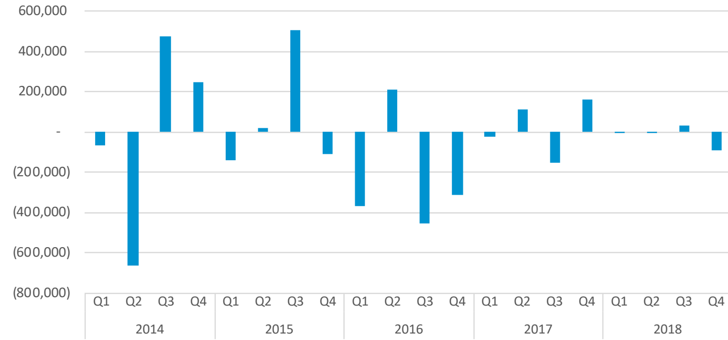
TENANT	PROPERTY	ADDRESS	CITY	LEASED SF	SUBMARKET
Hobby Lobby	Ridgedale Festival	14200 Wayzata Boulevard	Minnetonka	61,369	Southwest
The Dayton's Project Food Hall	The Dayton's Project	700 Nicollet Mall	Minneapolis	40,000	Minneapolis CBD
Aldi	Shops at Lyndale East	710-900 78th Street W	Richfield	23,210	Southeast
Aldi	Knollwood Village	8906 Highway 7	Saint Louis Park	20,000	Southwest
Planet Fitness	Country Village Shopping Center	11301-11400 Highway 7	Minnetonka	18,563	Southwest
Sierra Trading Post	Shops at Lyndale East	710-900 78th Street W	Richfield	18,458	Southeast
Planet Fitness	"Grove Plaza Shopping Center	7210 SE Point Douglas Road	Cottage Grove	18,008	Southeast
Barnes & Noble	CityPlace	375 Radio Drive	Woodbury	14,000	Southeast
Cargo Food Authority	Target Center	900 Nicollet Mall	Minneapolis	9,000	Minneapolis CBD

RETAIL ACTIVITY

Vacancy



Absorption



INVESTMENT INSIGHT

The retail investment market in the Twin Cities saw strong fundamentals across the board in 2018—low vacancy, steady rent growth, ample supply and strong, good-credit tenant activity. However, this is not the case in other larger markets where the aforementioned fundamentals are trending in the other direction. This is typical of Minneapolis-St. Paul because of the conservative approach to bringing new retail product into the market.

A related trend is the flood of investment offerings across the country. Due to an increasing concern of the future of retail, there has been a decrease in capital flows into REITs and larger syndicates, which creates pressure to sell larger properties. Given the large number of opportunities abroad, we have seen less activity from national buyers looking to place capital in Minneapolis-St. Paul, where few value-add opportunities exist. We expect this to change in 2019, as local fundamentals have held strong and the market has not been overbuilt over the past development cycle.

The ebb and flow of capital markets across different U.S. markets has caused a misalignment on pricing expectations from investors outside of Minnesota. Returns in Minneapolis-St. Paul are often lower than what is targeted by the value-add funds searching across the country.

However, there is still a strong appetite from local, private investors, particularly in movement across asset classes. With the stable, strong liquidity in the market, many portfolio owners are taking the opportunity to reconfigure their portfolio into assets where they see future fundamentals staying strong, whether it be industrial, retail, office, multifamily or even specialized uses.

-25K Square Feet
YTD NET ABSORPTION

572K Square Feet
YTD COMPLETIONS

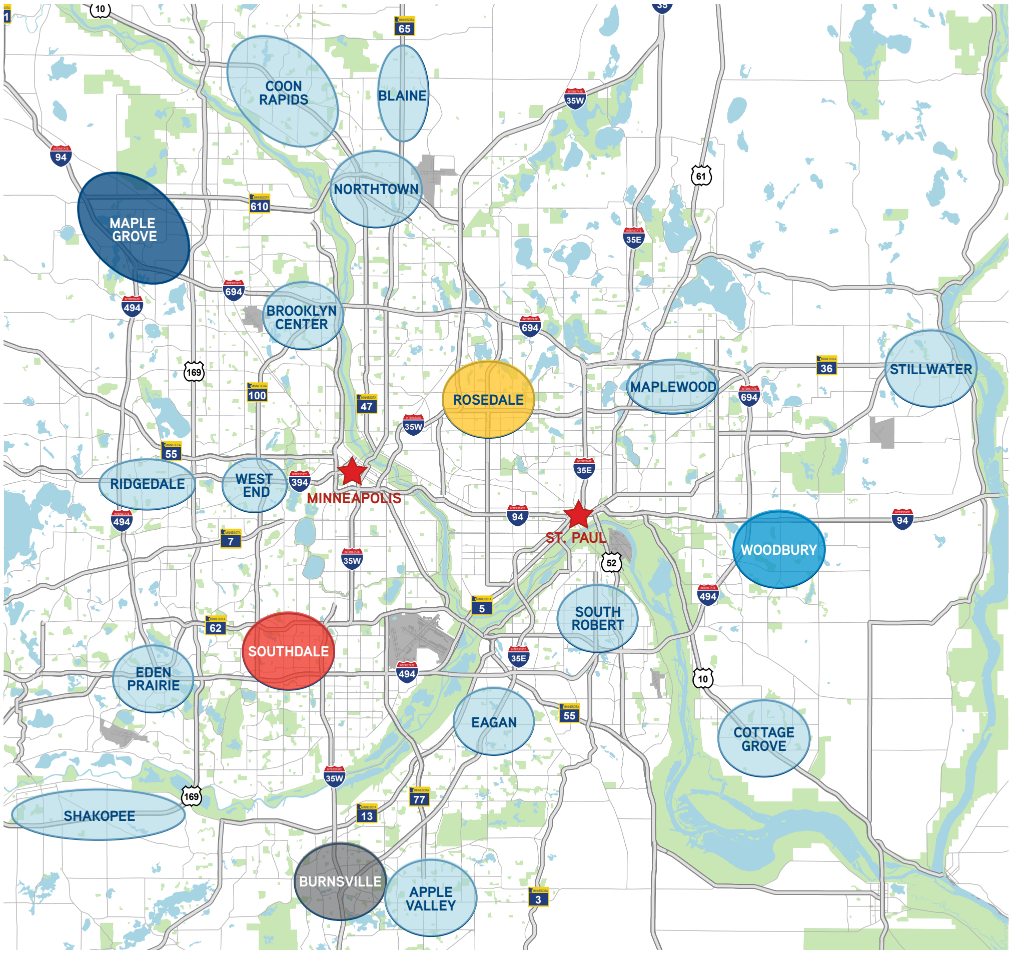
6.3 Percent
VACANCY RATE

357K Square Feet
UNDER CONSTRUCTION

Retail Sales Activity – Second Half of 2018

PROPERTY	ADDRESS	CITY	SF	SALE PRICE ($)	$/SF	BUYER	SELLER
CityPlace Shopping Center	325 Radio Drive	Woodbury	185,000	77,800,000	420	Inland RE Group	Elion Partners, Kraus-Anderson
Crystal Center	99 Willow Bend	Crystal	214,062	27,650,000	129	Rivercrest Realty Investors	Paster Properties
Life Time Fitness	6233 Baker Road	Eden Prairie	145,896	23,616,853	162	Spirit Realty Capital	Gramercy
Village Ten Center	2100 Northdale Boulevard NW	Coon Rapids	211,568	22,300,000	105	Sterling Organization	IRC Retail Centers
Shannon Square Shoppes	3673 Lexington Avenue N	Arden Hills	97,638	19,400,000	199	Sterling Organization	IRC Retail Centers
Fresh Thyme Shopping Center	2100 W 80th 1 2 St	Bloomington	58,379	19,000,000	325	Sara Investment	United Properties
Plymouth Station	16705 County Road 24	Plymouth	106,924	18,100,000	169	Slate Retail REIT	Hans Hagen Homes
Fire Barn & Shoppes at St. Anthony Village	24 University Avenue NE	Minneapolis	42,266	16,400,000	388	Falcon Ridge Partners	Daniel E. Hunt
Zanebrook Shopping Center	7628 Brooklyn Boulevard	Brooklyn Park	80,586	6,725,000	83	Mark Haymaker	The Goodman Group

MSP RETAIL TRADE AREAS



YTD ABSORPTION
5 LARGEST RETAIL TRADE AREAS

SOUTHDALE
5,958 SF

MAPLE GROVE
-18,338 SF

WOODBURY
35,447 SF

ROSEDALE
35,549 SF

BURNSVILLE
-72,276 SF

Retail Trade Area Summary

TRADE AREA	# OF BUILDINGS	SF	AVAILABLE SF	VACANT SF	% VACANT	AVERAGE RATE ($)	YTD ABSORPTION
Apple Valley	50	2,054,496	70,950	70,950	3.45%	$23.90	62,516
Maple Grove	81	5,037,849	126,012	104,259	2.07%	$24.00	-18,378
Blaine	49	1,746,553	191,359	146,186	8.37%		-9,475
Brooklyn Center	19	1,061,525	7,072	85,678	8.07%	$21.00	1,833
Burnsville	22	3,020,067	176,828	169,828	5.62%	$13.00	-72,276
Coon Rapids	47	3,064,431	189,330	183,901	6.00%		71,769
Cottage Grove	26	1,198,091	100,974	86,191	7.19%	$14.00	74,414
Eagan	35	1,578,281	48,107	35,067	2.22%	$17.50	-779
Eden Prairie	28	2,500,285	156,146	344,588	13.78%	$27.00	3,535
Maplewood	45	1,875,383	193,321	185,634	9.90%		-113,263
Northtown	37	2,049,446	240,387	291,123	14.20%		-15,124
Plymouth	37	1,976,620	21,489	0	0.00%		0
Ridgedale	15	1,399,376	81,496	115,763	8.27%		833
Rosedale	18	3,135,700	140,617	98,804	3.15%	$13.00	38,549
Shakopee	43	2,480,645	101,114	91,102	3.67%	$9.00	19,761
South Robert	59	2,204,097	292,449	246,518	11.18%	$17.20	1,463
Southdale	32	5,239,323	215,031	215,522	4.11%		-38,360
Stillwater	57	2,549,847	90,023	62,006	2.43%	$13.75	14,022
West End	14	1,248,008	97,379	94,379	7.56%		-15,904
Woodbury	35	3,371,769	233,455	148,956	4.42%		37,934

SPOTLIGHT TREND: Self-Care Trend Positively Affecting Retail Leasing

The term "self-care" has recently emerged in popular culture to refer to an individual taking steps to ensure that they are carving out time and energy to take care of themselves; whether it be mentally, emotionally, spiritually or physically. The idea has caught on like wildfire on social media and in the self-help categories, but interestingly, the trend is also affecting commercial real estate retail leasing in a big way.

At the close of 2018, the retail industry in the Minneapolis-St. Paul market has seen a surge in the number of leases signed by beauty, health and wellness retailers, specifically specialty brands that fill a niche. Because part of the self-care trend is the freedom of the individual to curate a personalized menu of what this "care" means to them, new and unique concepts have been coming to market and are quickly expanding.

For example, an individual's self-care regime could include: barre class twice a week, a massage and lash extensions once a month, a manicure every two weeks and spin class on the weekends, followed by a UV sauna. Wisely, these retailers and service providers have capitalized off of this consumer's established routine and many are offering monthly "membership packages" that provide access or services at a reduced rate. Rather than paying one-time, a la carte rates, the consumer receives a discount for essentially buying in bulk and the retailer now has this consumer on retainer; they know that they can count on monthly revenue.

This membership pricing structure is one of the driving factors that has led to the abundance of new-to-market concepts and expanding existing specialty service providers in the metro. The guaranteed income from memberships help these groups confidently sign leases in retail leasing markets that can be affected by rising rents, operating costs, taxes and labor.

Some fitness examples include: Orange Theory, Club Pilates, Pure Barre, Title Boxing, Cycle Bar, Row House and Core Power Yoga, all of which have monthly memberships, ranging from single classes to unlimited access. These boutique shops are unlike traditional gym memberships in that they specialize, or some could argue, excel, at one, highly-specific, niche type of workout catering to the individual. More traditional gym models are also thriving in the Twin Cities, for example the expansion of Xperience Fitness and Lifetime Fitness into vacant big boxes across the metro.

The expansion of specialty beauty concepts are also taking up small and mid-size vacancies in both urban and suburban submarkets and include: lash extension boutiques, nail salons, waxing centers and blow dry bars, many of which offer membership pricing for a certain number of services per month.

There are also hybrid concepts that match fitness and beauty with medical wellness such as: vein clinics, laser hair removal, stretch labs, spas that offer accupuncture, massage and UV sauna or even cool sculpting or other weight loss methods. Again, many of these concepts are creating spinoffs or expanding into new markets every day, due to the success they are experiencing with their membership pricing structures and well-located assets.

Not unlike the giants of membership, Amazon and Netflix which were founded on this structure, these smaller boutique groups have caught on to the economic benefit that monthly membership pricing structures offer them and have found success both locally and nationally, as consumers are notably spending more time, energy and money on living their best lives through the self-care trend.

EXPERT INSIGHT

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TENANT TRACKER

Expanding

ALDI, Chipotle Mexican Grill, AT&T, Valvoline, Freddy's Frozen Custard & Steakburgers, Rustica, verizon, sleep number, planet fitness, Sola Salon Studios, Sierra Trading Post, Fresh Thyme Farmers Market, Hobby Lobby, T-Mobile, Marshalls, Raising Cane's Chicken Fingers, Nordstrom rack, Total Wine & More, Burlington Coat Factory, Chick-fil-A, five BELOW, TJ·maxx, noodles & company, Floyd's 99 Barbershop, HomeGoods, Taco Bell, MyBurger, Tide, Sprint, Hy-Vee Employee Owned, Aspen Dental, Panera Bread, Caribou Coffee, Jersey Mike's Subs, SportClips Haircuts, The Original Mattress Factory, Café Zupas, Punch Pizza, boost mobile, ULTA, Xperience Fitness, Crave Fresh • Vibrant • American, Bank of America, Title Boxing Club, Mainstream Boutique, Pancheros Mexican Grill, Advance Auto Parts, The Home Depot, Dunkin', Starbucks, PetSmart, Learning Care Group, Tim Hortons Cafe & Bake Shop, Lucky's 13 Pub, Red's Savoy Pizza, Circle K, Portillo's Beef • Burgers • Salads, Arby's, L&B, Mattress Firm, Club Pilates, Chase, Crisp & Green, Ideal Image Laser Hair Removal, Alamo Drafthouse Cinema, Phenix Salon Suites, Shake Shack

New to Market

profile Sanford, UNTUCKit, PXG, Drive Shack, Paul Mitchell schools, sundance, Lady Jane's Haircuts for Men, Warby Parker eyewear, wahlburgers, avenue Love Yourself, Aloha Poké Co, F45, Everbrook Academy, Rah'mn Freshnoodles-Soups-Salads, Shoe Show, Sensation, Wag N' Wash natural food & bakery, 365 by Whole Foods Market, Eat Fit Go, rōti Mediterranean Grill, grabbagreen, Noah's Event Venue, EnduranceHouse Redefine Your Possible, Vein Clinics of America, Heartland Dental, Retro Fitness, smart choice MRI, Prose, Old Southern BBQ Smokehouse, freshii, Paint A Luxury Nail Affair Nail Bar, Topgolf, Modern Acupuncture, Outdoor Voices, MOD speed • style • pizza

MULTI-TENANT MARKET STATISTICS

SUBMARKET	# BLDGS	BUILDING SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	% DIRECT VACANT	W/ SUBLEASE VACANT SF	% VACANT W/ SUB"	ASKING RENTAL RATES LOW	ASKING RENTAL RATES HIGH	AVERAGE OPERATING	ABSORPTION	YTD ABSORPTION
Minneapolis CBD												
Minneapolis CBD	10	960,984	124,419	141,886	14.76%	158,642	16.51%	17.00	22.33	13.31	-11,147	-45,829
Totals:	**10**	**960,984**	**124,419**	**141,886**	**14.76%**	**158,642**	**16.51%**	17.00	22.33	**13.31**	**-11,147**	**-45,829**
Northeast												
Community Center	19	4,187,322	180,812	161,276	3.85%	177,262	4.23%			8.10	-14,742	-6,655
Neighborhood Center	78	5,061,033	482,903	482,118	9.53%	486,246	9.61%	12.67	14.50	7.04	-72,909	-118,410
Regional Center	5	2,914,077	83,384	61,627	2.11%	61,627	2.11%				0	-13,650
Totals:	**102**	**12,162,432**	**747,099**	**705,021**	**5.8%**	**725,135**	**5.96%**	**12.67**	**14.50**	**7.26**	**-87,651**	**-138,715**
Northwest												
Community Center	46	5,350,901	260,698	218,682	4.09%	218,682	4.09%	23.00	25.00	7.31	39,594	87,631
Neighborhood Center	127	9,040,556	728,593	815,100	9.02%	820,067	9.07%	14.06	14.57	7.40	15,169	33,281
Outlet Mall	1	430,000	0	0	0.0%	0	0.0%				0	0
Regional Center	20	3,827,114	190,711	183,649	4.8%	183,649	4.8%			10.15	-2,712	-13,711
Totals:	**194**	**18,648,571**	**1,180,002**	**1,217,431**	**6.53%**	**1,222,398**	**6.55%**	**14.95**	**15.88**	**7.49**	**52,051**	**107,201**
Southeast												
Community Center	33	4,810,163	273,723	264,939	5.51%	264,939	5.51%	14.67	22.00	7.75	5,875	4,465
Neighborhood Center	112	7,422,994	923,210	742,698	10.01%	751,186	10.12%	15.49	16.99	7.14	-92,737	-53,716
Outlet Mall	1	114,701	4,968	4,968	4.33%	4,968	4.33%				0	0
Regional Center	11	6,015,202	62,240	83,031	1.38%	83,031	1.38%			11.58	-7,004	51,118
Totals:	**157**	**18,363,060**	**1,264,141**	**1,095,636**	**5.97%**	**1,104,124**	**6.01%**	**15.36**	**17.99**	**7.46**	**-93,866**	**1,867**
Southwest												
Community Center	21	3,550,912	160,155	146,660	4.13%	149,660	4.21%	8.00	10.00	10.59	-2,503	33,697
Neighborhood Center	94	6,836,669	459,227	440,120	6.44%	453,626	6.64%	18.69	25.67	9.99	53,137	21,397
Regional Center	7	5,237,679	210,896	404,892	7.73%	404,892	7.73%			12.62	-1,113	-4,229
Totals:	**122**	**15,625,260**	**830,278**	**991,672**	**6.35%**	**1,008,178**	**6.45%**	**17.50**	**23.43**	**10.19**	**49,521**	**50,865**
Total All Markets												
Minneapolis CBD	10	960,984	124,419	141,886	14.76%	158,642	16.51%	17.00	22.33	$13.31	-11,147	-45,829
Community Center	119	17,899,298	875,388	791,557	4.42%	810,543	4.53%	15.00	20.20	$8.08	28,224	119,138
Neighborhood Center	411	28,361,252	2,593,933	2,480,036	8.74%	2,511,125	8.85%	15.19	17.45	$7.90	-97,340	-117,448
Outlet Mall	2	544,701	4,968	4,968	0.91%	4,968	0.91%				0	0
Regional Center	43	17,994,072	547,231	733,199	4.07%	733,199	4.07%			$11.30	-10,829	19,528
Totals:	**585**	**65,760,307**	**4,145,939**	**4,151,646**	**6.31%**	**4,218,477**	**6.41%**	**15.28**	**18.14**	**8.22**	**-91,092**	**-24,611**

The above table is summarized data on multi-tenant office buildings greater than 20,000 square feet. Not included are single-tenant, owner-occupied, medical or government buildings.

Local Expertise

Comprised of **84** Licensed CRE Agents	Leased in Metro Area **10M** (square feet)	Sold in Metro Area **15M** (square feet)	Years in Business **42**	Sale Transactions **200**	Total Transactions **1,100**

Global Reach

Comprised of **15,400** professionals	Revenue **$2.7B** (US$)	Managing **2B** (square feet)	Established in **69** countries	Lease/sale transactions **68,000**	Transaction value **$116B** (US$)

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