LEE & ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES

Q4 2023 MARKET REPORTS

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FEATURED MARKET REPORTS


INDUSTRIAL


OFFICE


RETAIL


MULTIFAMILY

THE LEE ADVANTAGE

Every Lee & Associates office delivers world-class service to an array of regional, national, and international clients - from small businesses and local investors to major corporate users and institutional investors. Our professionals combine the latest technology, resources, and market intelligence with their experience, expertise, and commitment to superior service to optimize client results.

WHAT SETS US APART?

Since 1979, Lee & Associates has reimagined the way that commercial real estate companies should be structured. Each Lee & Associates office is owned and operated by its professionals. As shareholders of the company, this separates us from our competition and creates one common goal; to provide seamless, consistent execution and value-driven market-to-market services to our clients.

SERVICES TO MEET THE NEEDS OF OUR CLIENTS

Lee & Associates' offices offer a broad array of real estate services tailored to meet the needs of the company's clients in each of the markets it operates, including commercial real estate brokerage, integrated services, and construction services.

With specialty practice groups in each of these disciplines, our professionals regularly collaborate to make sure they are providing their clients with the most advanced, up-to-date market technology and information.

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INTERNATIONAL REACH

With offices in 75+ markets across North America, Lee & Associates has the ability to deliver first-class services to our clients both locally and internationally.

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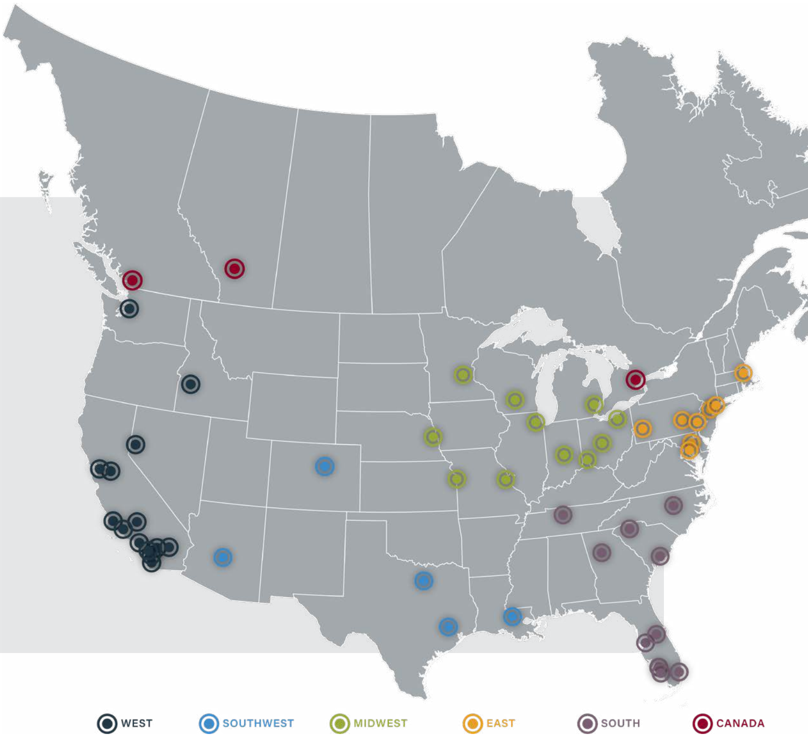

Q4 2023
INDUSTRIAL OVERVIEW

INDUSTRIAL OVERVIEW: RENT GROWTH REMAINS STRONG DESPITE SPUTTERING DEMAND

Demand for industrial space in North America sputtered in 2023, hobbled by a host of post-pandemic economic and supply-chain issues. Among them were declining imports, retailers caught with surplus inventories and slumping receipts for furniture, appliances and building materials from a 12-year low in home sales. Additionally, there were wide expectations for an economic recession.

Net absorption totaled 164.8 million SF in the United States in 2023, a 61% drop from the 422.7 million SF of tenant growth in 2022 and a 69% decline from the record 524.7 million SF in 2021. It was 32% less than the 242-million-SF average of the five years prior to the pandemic.

It was a similar story in Canada, but the reduced demand was less acute as Canadian landlords realized stronger rent growth, 11.2% compared to 7.4% in the U.S. Canadian net absorption of 25.1 million SF in 2023 was down 12% from the 25.2 million SF of growth in 2022. It was 44.4% off the 39.9-million-SF record in 2021. The nation's low 1.7% vacancy rate is a record. There are 48.7 million SF in the construction pipeline, 46.2% of which are in the Greater Toronto Area. About 70% of the 6.1 million SF underway in Vancouver is pre-leased.

In the U.S. there are recent signs of stabilizing tenant demand as a record 528.7 million SF were delivered in 2023. The increasing supply is expected to push up the vacancy rate through the first half of 2024, but construction starts have fallen to a 10-year low. Across the 87 markets in the Lee & Associates survey, there are 451 million SF of projects under construction and most remain unleased. New product has driven up the U.S. industrial vacancy rate from a record low 3.9% in mid-2022, to 5.9% at the end of 2023. That is still comfortably below the market's 20-year average vacancy rate of 7.3%. The stock of industrial properties in the U.S. is set to grow by more than 3% in 2023, the fastest pace of growth in more than 30 years.

The recent slowdown in demand has been broad-based, but Los Angeles, the Inland Empire and Seattle recorded outsized increases in space available for lease. While U.S. imports have been declining since November 2022, the slowdown has been most pronounced at major West Coast ports. But after year-long contract talks, dockworkers recently agreed to a six-year deal that should help stabilize tenant demand.

In the majority of major coastal markets including Los Angeles, South Florida, Richmond, Northern New Jersey and Lehigh Valley, the current pipeline of projects underway is barely large enough to meaningfully ease the distribution space shortages that developed during the pandemic. Markets including Tampa, Jacksonville, Milwaukee and Detroit have bucked the national trend and recorded tightening availability rates through most of 2023.

Jacksonville and Tampa have been direct beneficiaries of rapid in-migration and the continued diversion of Asian imports through the Panama Canal to East Coast and Gulf Coast ports. Milwaukee and Detroit also have benefitted from limited or fast-declining levels of speculative construction, coupled with continued expansions by manufacturing tenants and distributors.

LOWEST VACANCY RATE	
BC, Vancouver	1.7%
ON, Toronto	1.9%
NE, Omaha	2.3%
CA, Orange County	3.3%
FL, Miami	3.3%
U.S. Index	5.8%
Canada Index	2.2%

HIGHEST MARKET RENT / SF ANNUAL	
CA, San Diego	$22.44
FL, Miami	$20.16
CA, Orange County	$19.68
NY, New York	$19.56
CA, Los Angeles	$19.08
U.S. Index	$11.88
Canada Index	$12.96 CAD

HIGHEST MARKET SALE PRICE / SF	
BC, Vancouver	$443 CAD
CA, Orange County	$346
CA, San Diego	$338
CA, Los Angeles	$325
ON, Toronto	$276
U.S. Index	$151
Canada Index	$234 CAD

MOST SF UNDER CONSTRUCTION SF	
AZ, Phoenix	44,983,474
TX, Dallas-Fort worth	43,180,736
CA, Inland Empire	28,390,284
ON, Toronto	22,504,396
TX, Houston	22,018,691
U.S. Index	450,101,565
Canada Index	47,788,465

LARGEST INVENTORY BY SF	
IL, Chicago	1,402,664,411
TX, Dallas-Fort Worth	1,146,601,616
CA, Los Angeles	956,577,491
NY, New York	874,965,627
ON, Toronto	871,930,812
U.S. Index	18,775,853,735
Canada Index	1,861,099,968

LOWEST MARKET CAP RATE	
BC, Vancouver	4.1%
ON, Toronto	4.3%
CA, Inland Empire	4.4%
CA, Los Angeles	4.8%
CA, Orange County	5.0%
U.S. Index	7.0%
Canada Index	5.1%

** Please note that the statistics represented in these tables are based on CoStar defined market territories and may not all represent the geographic area the label depicts.*

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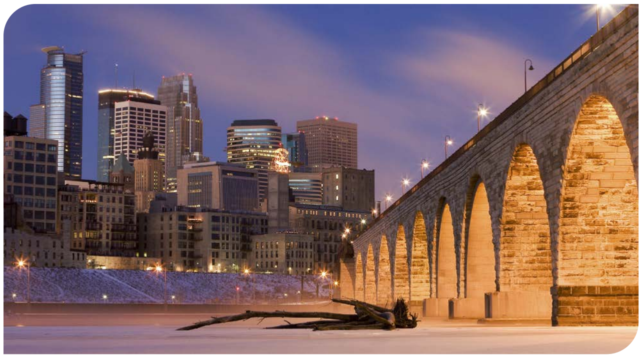
Q4 2023
TWIN CITIES, MN



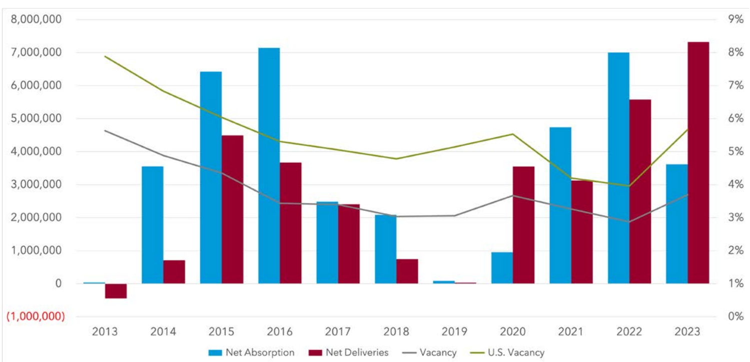
INDUSTRIAL MARKET OVERVIEW

NATHAN ARNOLD, CCIM, *Principal*

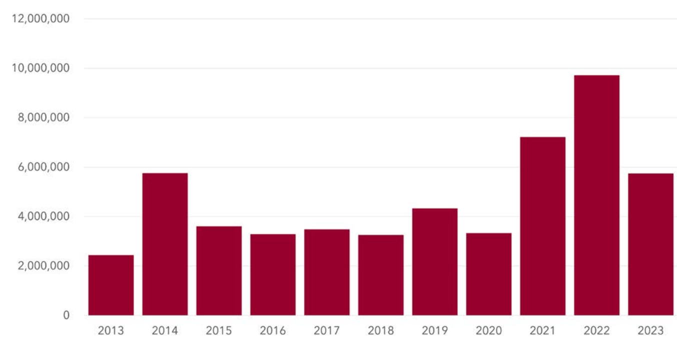
The Minneapolis industrial real estate sector is currently experiencing heightened demand, particularly in the realm of distribution centers and logistics facilities. Recent data suggests a tightening of vacancy rates, indicative of a robust leasing environment. There is a noticeable surge in transactions related to e-commerce, reflecting the ongoing evolution of the retail landscape. Rental rates have shown a consistent upward trajectory, suggesting sustained confidence among investors. The market's resilience is underscored by its ability to navigate economic fluctuations, attributed to strategic location advantages and a diverse tenant base. Overall, the Minneapolis industrial real estate market remains dynamic and responsive to evolving trends.

MARKET INDICATORS		Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
▼	12 Mo. Net Absorption SF	3,615,180	3,678,457	5,856,935	8,280,019	7,003,218
▲	Vacancy Rate	3.7%	3.5%	3.1%	2.9%	2.9%
▲	Avg NNN Asking Rate PSF	$8.55	$8.25	$8.13	$8.00	$7.83
▼	SF Under Construction	5,746,183	8,620,615	9,138,073	7,853,051	8,688,702
▲	Inventory SF	422,448,005	418,471,655	416,705,228	416,211,355	414,358,729

NET ABSORPTION, NET DELIVERIES, & VACANCY



UNDER CONSTRUCTION



TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	BUILDING CLASS
6870 21st Avenue S Lino Lakes, MN	402,522 SF	$28,900,000 $71.80 PSF	Onward Investors Artis REIT	Class A
1280 Disc Drive Shakopee, MN	397,477 SF	$36,000,000 $90.57 PSF	CIRE Equity Seagate Technology	Class A
905 Yankee Doodle Road Eagan, MN	358,532 SF	$25,000,000 $69.73 PSF	Schafer Richardson Murphy Logistics	Class B

TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
7400 Hentges Shakopee, MN	365,552 SF	Private Owner	Sams Club	Retail Distribution
905 Yankee Doodle Road Eagan, MN	358,532 SF	Private Owner	Murphy Logistics	3PL
429 Prior Avenue N St. Paul, MN	250,493 SF	Capital Partners	SBS Transportation	3PL

Q4 2023
OFFICE OVERVIEW

OFFICE OVERVIEW: TENANT EFFICIENCIES HEIGHTENS TROUBLE FOR LANDLORDS

The drop in demand for North American office space deepened in 2023. Tenants in the United States shed 71 million SF in 2023, slightly more than in the Covid lockdown year 2020, as a renewed focus on efficient use of space led to further footprint reductions and higher overall vacancy. Demand for space in Canada also closed the year in the red.

Since the beginning of 2020, U.S. net absorption has contracted by 188.6 million SF. By comparison, absorption losses associated with the Great Recession totaled about 50 million SF. Negative net absorption was 15,798,403 in Q4 and negative 71,081,718 SF for the year. The U.S. vacancy rate is at a record 13.7%, up 420 basis points since the pandemic hit. A recent Wall Street Journal headline summed it up: 'The Office Market Had It Hard in 2023. Next Year Looks Worse.'

Given the clear trend that tenants are reducing footprints when choosing to renew their leases or relocate, the outlook is sobering. Since nearly half of office leases signed prior to the lockdown remain unexpired, the rate of vacant space could grow more than three percentage points by 2026. Leasing volume is down nearly 20% from its average in the late 2010s, driven by deal sizes that are 20% smaller. Sublease inventory is at 206 million SF, down from its recent peak of 215 million SF but more than double its previous highs.

In Canada, as in the U.S., office use by workers remains down an estimated 50% since the pandemic. The leasing volume of 3.6 million SF in 2023 was off the long-term average of 6%. Available sublease space reached more than 20 million, a record. At the current subdued leasing levels, new deliveries scheduled in Greater Toronto, downtown Vancouver and other key markets will push the vacancy rate to nearly 16% by the end of 2025.

The implications for property values are obvious. Currently, values are down 10-15% since the end of 2021. A small portion of the loss can be tied to the rising rates affecting all commercial property sectors. The remainder is the result of income loss due to vacancy. With higher vacancy rates and deteriorating rents, an added 25% value decline is in the forecast.

About 53 million SF in new inventory was delivered in 2023 with about 15 million SF being demolished or converted. The resulting 37-million-SF of deliveries were the least since 2014. The 30 million SF in new starts in 2023 were the fewest since 2000.

Many landlords have been able to extend their loans, but many are losing hope that occupancy rates will begin to rebound. There will be pressure on landlords to pay off their mortgages, sell their properties at steep discounts or hand over the keys to their creditors.

With more than half of pre-2020 leases yet to roll and a steady stream of low-rate loans maturing into a high-rate environment, the office sector in most markets looks to be in for a protracted correction.

LOWEST VACANCY RATE	
CA, Inland Empire	6.1%
BC, Vancouver	6.1%
FL, Miami	8.6%
FL, Orlando	8.8%
NY, Long Island	9.0%
U.S. Index	13.4%
Canada Index	8.9%

HIGHEST MARKET RENT / SF ANNUAL	
NY, New York	$56.28
CA, San Francisco	$55.20
FL, Miami	$48.72
MA, Boston	$42.24
CA, Los Angeles	$41.52
U.S. Index	$35.04
Canada Index	$26.64 CAD

HIGHEST MARKET SALE PRICE / SF	
CA, San Francisco	$596
NY, New York	$573
BC, Vancouver	$503 CAD
WA, Seattle	$432
MA, Boston	$413
U.S. Index	$298
Canada Index	$270 CAD

MOST SF UNDER CONSTRUCTION SF	
MA, Boston	16,460,810
ON, Toronto	11,361,788
WA, Seattle	9,534,397
NY, New York	9,290,989
TX, Dallas-Fort Worth	7,937,750
U.S. Index	114,664,588
Canada Index	17,020,751

LARGEST INVENTORY BY SF	
NY, New York	978,671,221
DC, Washington	524,519,901
IL, Chicago	511,448,122
CA, Los Angeles	440,824,283
TX, Dallas-Fort Worth	424,517,294
U.S. Index	8,421,746,724
Canada Index	688,722,947

LOWEST MARKET CAP RATE	
BC, Vancouver	4.1%
ON, Toronto	5.9%
CA, San Francisco	6.0%
NY, New York	6.5%
CA, Los Angeles	6.7%
U.S. Index	8.0%
Canada Index	6.8%

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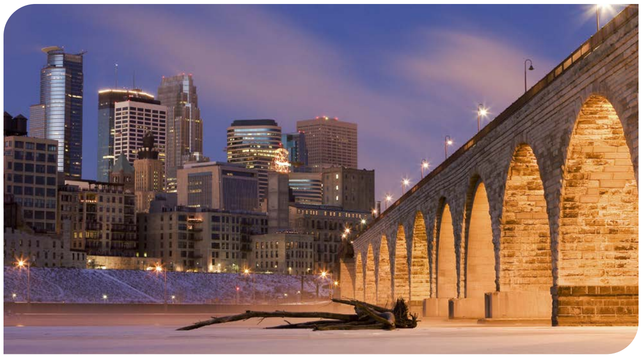
Q4 2023
MINNEAPOLIS, MN



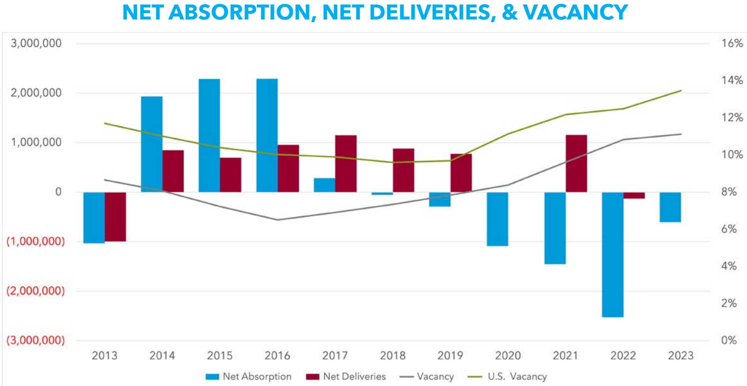
OFFICE MARKET OVERVIEW

LUKE SCHAMMEL, *Associate*

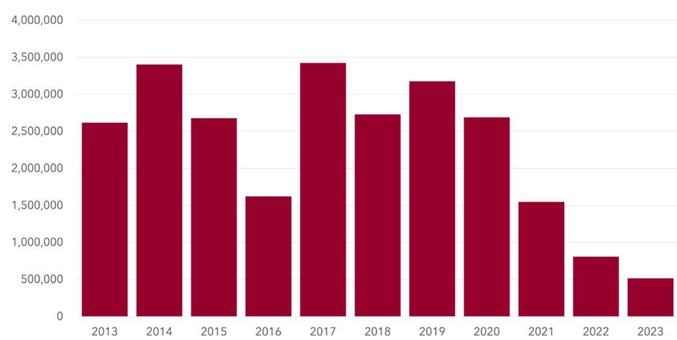
The Twin Cities commercial real estate market, as of Q4 2023, shows a challenging trend with negative 12-month net absorption and a gradual increase in vacancy rates over the last four quarters. The average NNN asking rate remains stable at $26.71 PSF annually. The market witnessed notable lease transactions, such as Periscope leasing to the McKnight Foundation. In sales, DLR Group acquired the Barrel House property, reflecting a price of $87.79 PSF. Despite a history of fluctuations, the under-construction space increased, indicating ongoing development. Tenants must monitor market dynamics closely as the Twin Cities market navigates challenges while presenting opportunities to growing companies.

MARKET INDICATORS		Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
▲	Net Absorption SF	(607,493)	(1,695,610)	(1,736,446)	(2,324,206)	(2,526,131)
▼	Vacancy Rate	11.13%	11.17%	10.84%	10.94%	10.83%
▼	Avg Asking Rate PSF	$26.71	$26.75	$26.69	$26.48	$26.30
▼	SF Under Construction	516,811	791,624	801,621	804,624	777,178
▲	Inventory SF	201,756,665	201,368,218	201,358,221	201,367,451	201,664,856

NET ABSORPTION, NET DELIVERIES, & VACANCY



UNDER CONSTRUCTION



TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	BUILDING CLASS
111 3rd Avenue S - Barrel House Minneapolis, MN	96,824 SF	$8,500,000 $87.79 PSF	DLR Group ICM Realty Group	Class B
13305 12th Avenue N Plymouth, MN	31,780 SF	$7,750,000 $243.86 PSF	ISD 284 Solutran, Inc.	Class B
7807 Creekridge Circle Bloomington, MN	42,303 SF	$4,300,000 $101.65 PSF	Ernie Rose Juno Investments	Class C

TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
921 Washington Avenue S Minneapolis, MN	45,904 SF	Periscope	McKnight Foundation	Foundation
2900 Ames Crossing Road Eagan, MN	45,000 SF	Artis Reit	Undisclosed	Undisclosed
1601 Utica Avenue S St. Louis Park, MN	34,967 SF	Bridge Investment Group	HMA Holdings	Consulting

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GLOSSARY OF TERMS

ABSORPTION
Refers to the change in occupancy over a given time period. Lease renewals are not factored into absorption unless the renewal includes the occupancy of additional space. (In that case, the additional space would be counted in absorption.) Pre-leasing of space in non-existing buildings (e.g., Proposed, Under Construction, Under Renovation) is not counted in absorption until the actual move-in date.

CAP RATE
The income rate of return for a total property that reflects the relationship between one year's net operating income expectancy and the total price or value. Calculated by dividing the net operating income by the sale price or value.

CLASS A OFFICE
In general, a class A building is an extremely desirable investment-grade property with the highest quality construction and workmanship, materials and systems, significant architectural features, the highest quality/expensive finish and trim, abundant amenities, first rate maintenance and management; usually occupied by prestigious tenants with above average rental rates and in an excellent location with exceptional accessibility. They are most eagerly sought by international and national investors willing to pay a premium for quality and are often designed by architects whose names are immediately recognizable. A building meeting this criteria is often considered to be a landmark, either historical, architectural or both. It may have been built within the last 5-10 years, but if it is older, it has been renovated to maintain its status and provide it many amenities. Buildings of this stature can be one-of-a-kind with unique shape and floor plans, notable architectural design, excellent and possibly outstanding location and a definite market presence.

CLASS B OFFICE
In general, a class B building offers more utilitarian space without special attractions. It will typically have ordinary architectural design and structural features, with average interior finish, systems, and floor plans, adequate systems and overall condition. It will typically not have the abundant amenities and location that a class A building will have. This is generally considered to be more of a speculative investment. The maintenance, management and tenants are average to good, although, Class B buildings are less appealing to tenants and may be deficient in a number of respects including floor plans, condition and facilities. They therefore attract a wide range of users with average rents. They lack prestige and must depend chiefly on lower price to attract tenants and investors. Typical investors are some national but mostly local.

CLASS C OFFICE
In general, a class C building is a no-frills, older building that offers basic space. The property has below-average maintenance and management, a mixed or low tenant prestige, and inferior elevators and mechanical/electrical systems. As with Class B buildings, they lack prestige and must depend chiefly on lower price to attract tenants and investors.

GROSS ABSORPTION
For existing buildings, the measure of total square feet occupied (indicated as a Move-In) over a given period of time with no consideration for space vacated during the same time period. Sublet space and lease renewals are not factored into gross absorption. However, in a lease renewal that includes the leasing of additional space, that additional space is counted in gross absorption. Preleasing of space in non-existing buildings (Planned, Under Construction or Under Renovation) is not counted in gross absorption until actual move in, which by definition may not be any earlier than the delivery date.

Source: CoStar Group and NAIOP Research Foundation

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GLOSSARY OF TERMS

INDUSTRIAL GROSS RENT

A type of Modified Gross lease where the tenant pays one or more of the expenses in addition to the rent. Exact details must be confirmed for each lease.

INVENTORY

Existing inventory refers to the total square footage of buildings that have received a certificate of occupancy and are able to be occupied by tenants. It does not include space that is either planned, or under construction.

MODIFIED GROSS

Modified Gross is a general type of lease rate where typically the tenant will be responsible for their proportional share of one or more of the expenses. The Lessor (landlord) will pay the remaining expenses. For example: Plus Electric means the tenant pays rent plus their own electric expense, or Plus Janitorial means the tenant pays the rent plus their own janitorial expense. Both of these are types of Modified Gross Leases, which may vary from tenant to tenant.

NET ABSORPTION

For existing buildings, the measure of total square feet occupied (indicated as a Move-In) less the total space vacated (indicated as a Move-Out) over a given period of time. Lease renewals are not factored into net absorption. However, in a lease renewal that includes the leasing of additional space, that additional space is counted in net absorption. Pre-leasing of space in non-existing buildings (Planned, Under Construction or Under Renovation) is not counted in net absorption until actual move in, which by definition may not be any earlier than the delivery date.

TRIPLE NET (NNN)

A lease in which the tenant is responsible for all expenses associated with their proportional share of occupancy of the building.

UNDER CONSTRUCTION

Buildings in a state of construction, up until they receive their certificate of occupancy. In order for CoStar to consider a building Under Construction, the site must have a concrete foundation in place.

VACANCY RATE

Expressed as a percentage - it identifies the amount of New/Relet/Sublet space vacant divided by the existing RBA. Can be used for buildings or markets.

COMMON LEASE TYPES MATRIX

LEASE TYPE	RESPONSIBILITY FOR EXPENSES	OTHER
Gross (full service)	Landlord pays all or most of the operating expenses and taxes.	Costs of operation must be disclosed in lease.
Modified Gross	Expenses are divided between tenant and landlord.	Costs can be double or triple net depending on terms of lease.
Net	Tenant pays all operating expenses.	Landlord must disclose tenant responsibility in lease.
Triple Net (Net-net-net, or NNN)	Tenant pays all operating expenses, taxes and insurance.	Landlord is responsible for structure, roof and maybe parking lot.

Source: CoStar Group and NAIOP Research Foundation

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