



22<sup>nd</sup> Annual  
**Sioux Falls  
Market Outlook  
2019**

**February 21, 2019**

[illegible]

# Economic Overview

Michael Bender, CCIM, SIO



# Top 6 Trends

---

Commercial Real Estate  
Trends to Dominate into  
2020 and Beyond



# Top 6 Trends



Opportunity Zone

\$6 Trillion unrealized capital gains



Hipsturbias or Urban-burbs

The rise of the 18 hour city  
(2.6 million relocated)



Online Retailers

Physical foot prints – omni  
channel shopping experience



Industrial Boom

Result of online explosion



Work Force Housing

Local cities in Crisis Mode



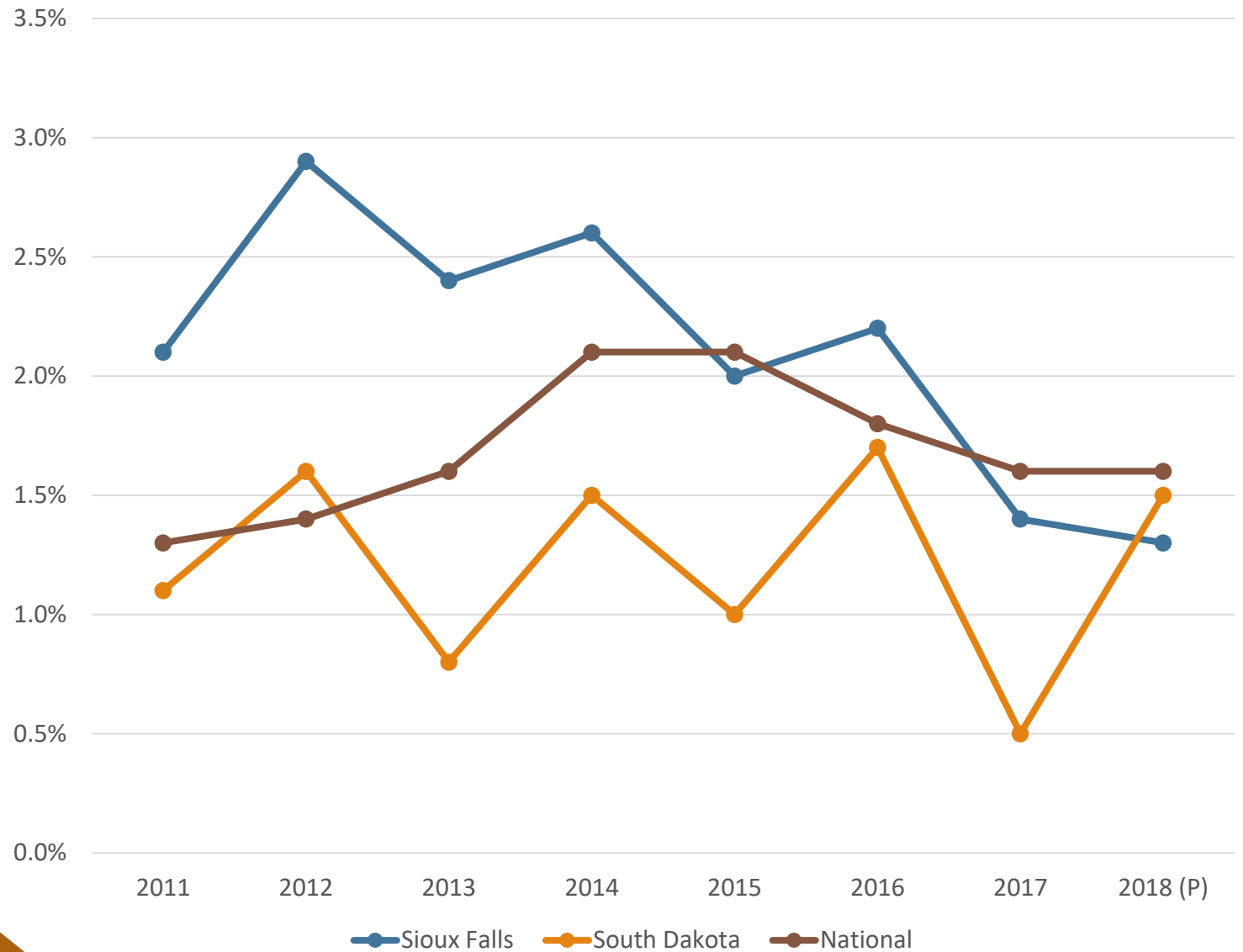
Construction

#1 Threat to Growth – Labor  
Shortage

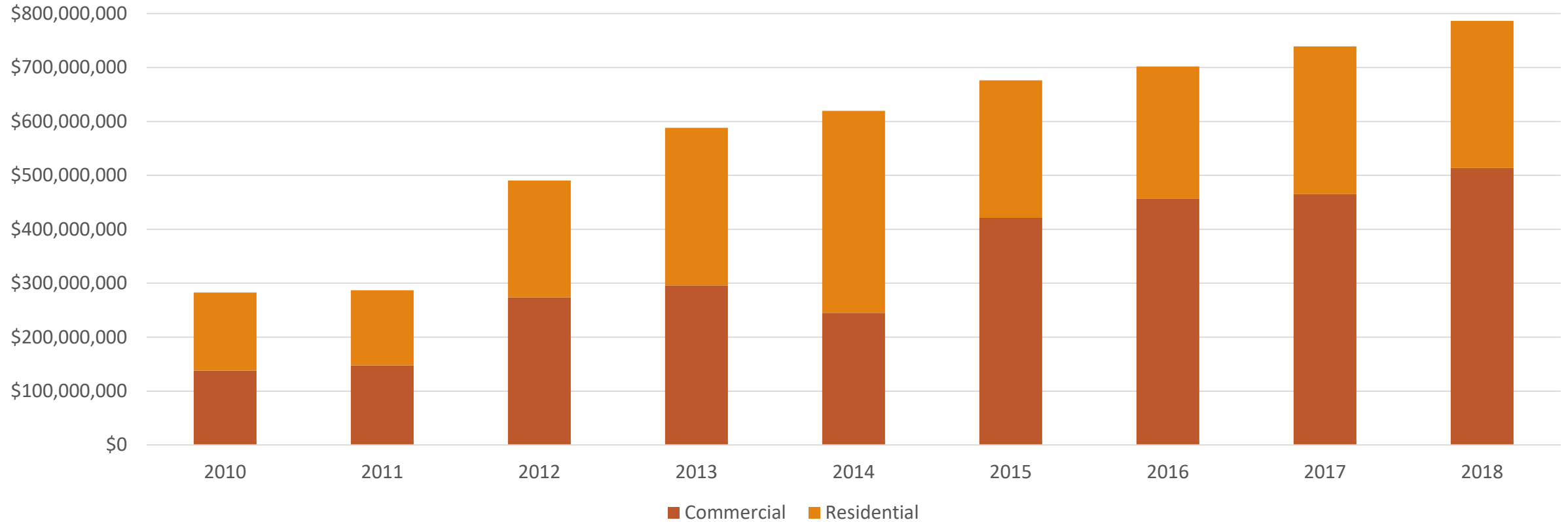
# Sioux Falls Employment Growth

1.3%

2,000 new jobs

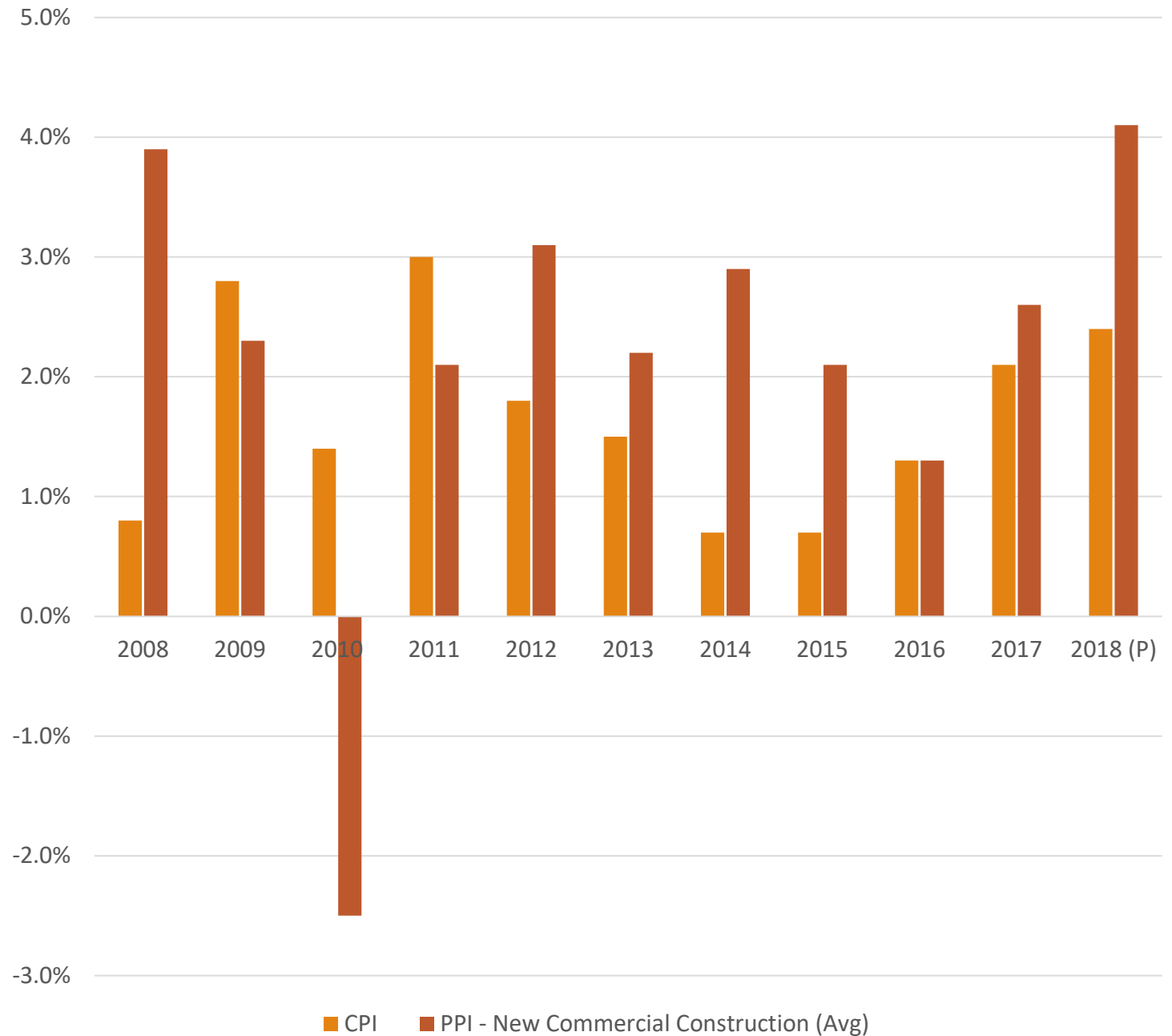


# Total Building Permits



# Construction Inflation

CPI vs. Producer Price Index - National



Source: U.S. Bureau of Labor Statistics

# Commercial Construction

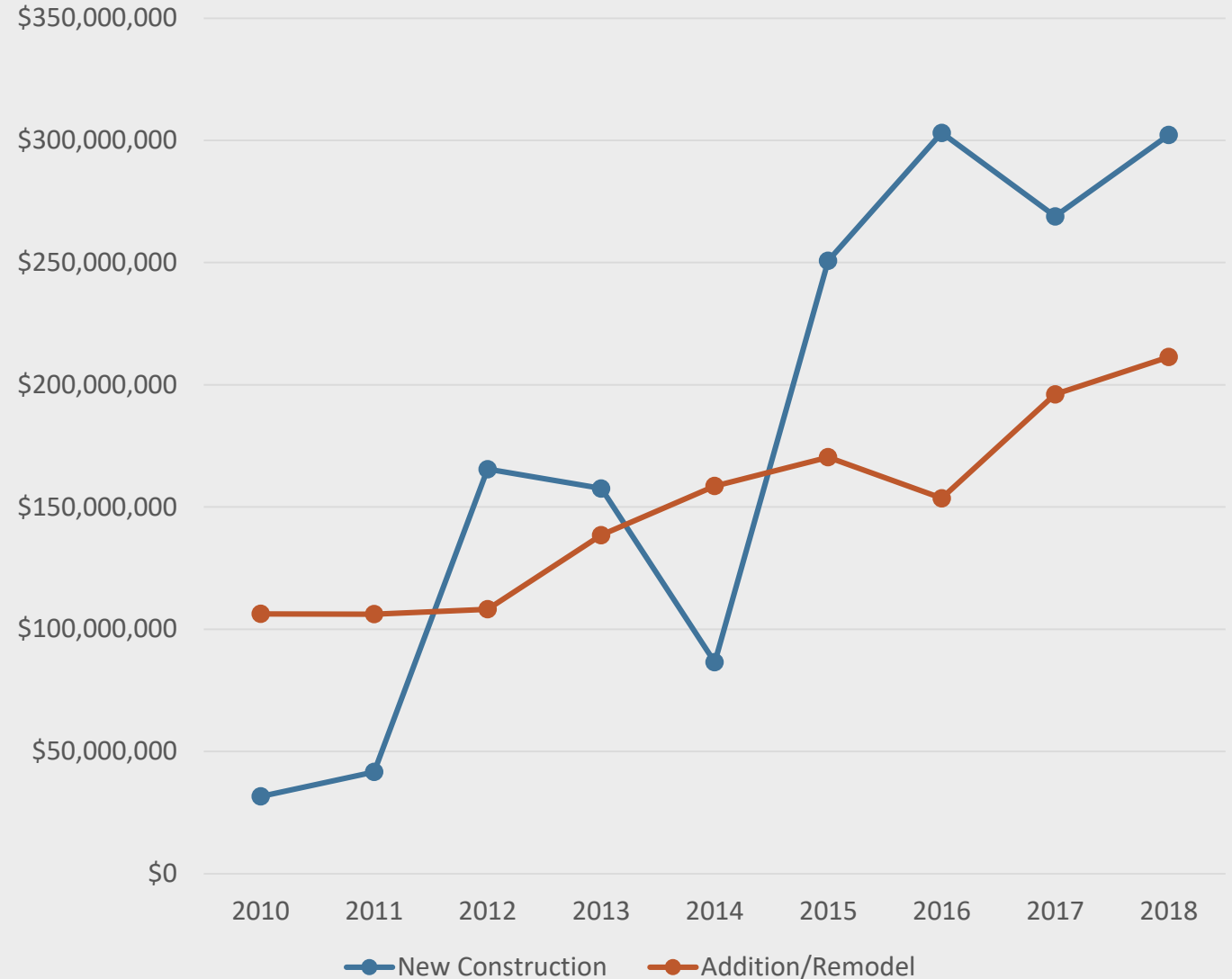
(New vs. Addition/Remodel)

## New Construction:

- Avera on Louise - \$54.5M
- Citibank Campus - \$26.8M
- Village on the River - \$18.2M
- Fleet Farm - \$15.9M
- SF Lutheran School - \$10.5M

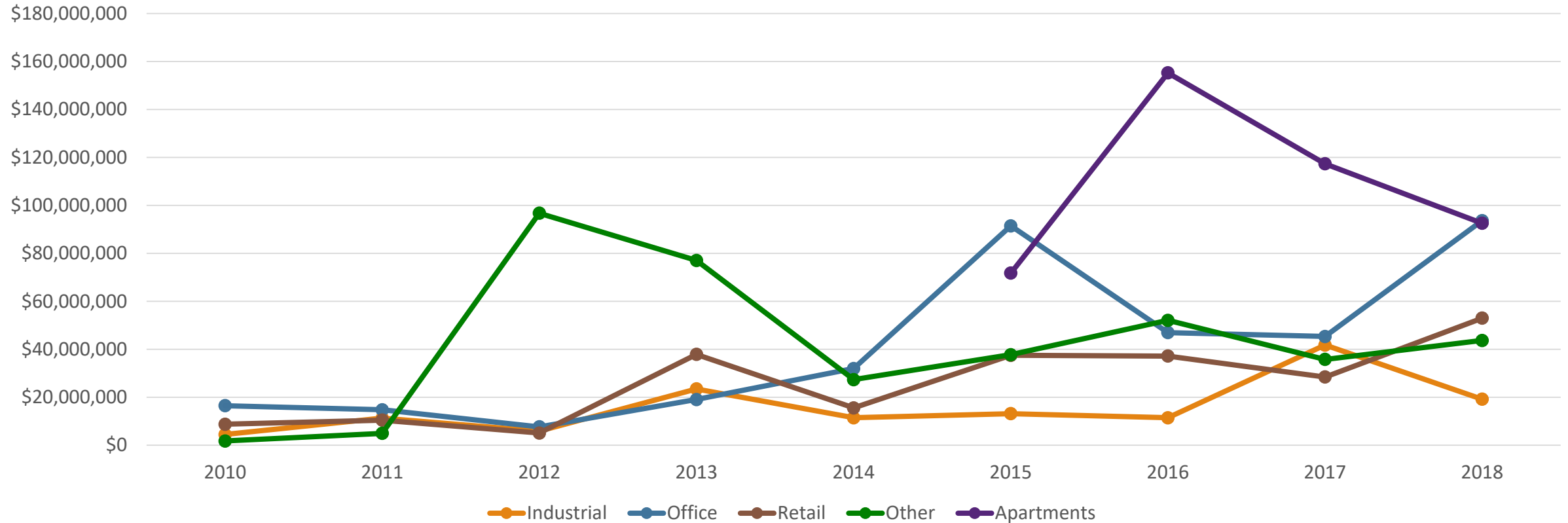
## Addition/Remodel:

- Minnehaha Jail - \$40.7M
- John Morrell - \$14.5M
- Kelly Hotel (Phillips) - \$8.4M
- Graco - \$5.2M





# New Commercial Construction





# Regional Comparison

City	Permits Issued	Total Value of Permits
Sioux Falls	6,873	\$786,599,655
Fargo	2,131	\$515,094,243
Rochester	2,305	\$587,794,238
Lincoln	3,832	\$573,891,927
Des Moines	3,270	\$506,966,665
Rapid City	3,706	\$313,435,765

# Economic Wrap-up

Late Cycle of Expansion



Employment Growth Moderating



Construction Inflation will continue to outpace CPI



Construction Predictions:

Multi-family ↔

Retail ↓

Office ↔

Industrial ↗

Find out where the people are going and buy the land before they get there.

**WILL ROGERS**



## Sioux Falls Land Market

Reggie Kuipers, SIOR

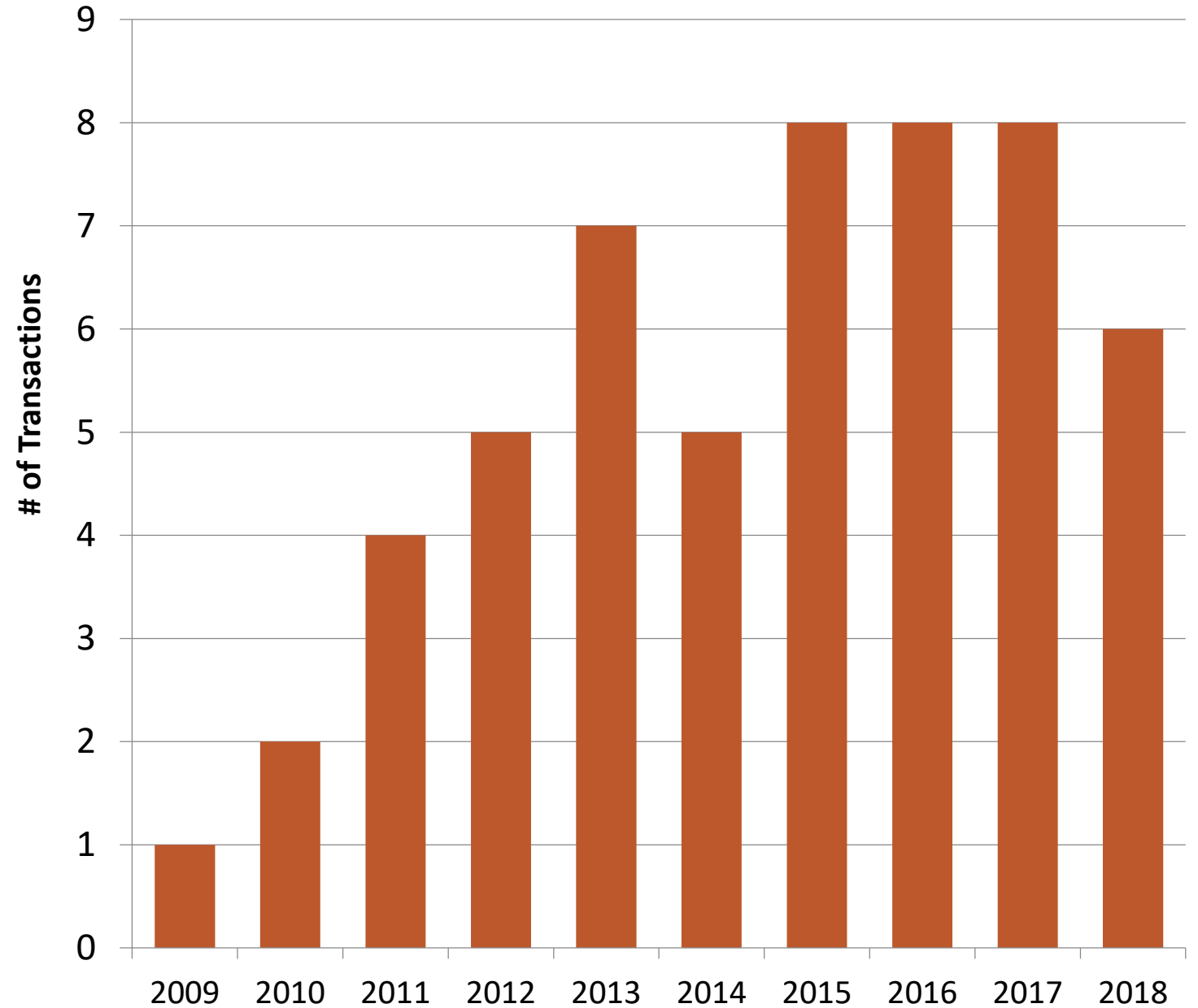
Triple

H



# Unimproved Land Sales

---





# Unimproved Land Transactions





# Unimproved Land Transactions

- 2017
- 2016
- 2015
- 2014
- 2013
- 2012





# Unimproved Land Transactions

- 2017
- 2016
- 2015
- 2014
- 2013
- 2012

47.84 acres  
\$87,115/AC

28.43 acres  
\$27,787/AC

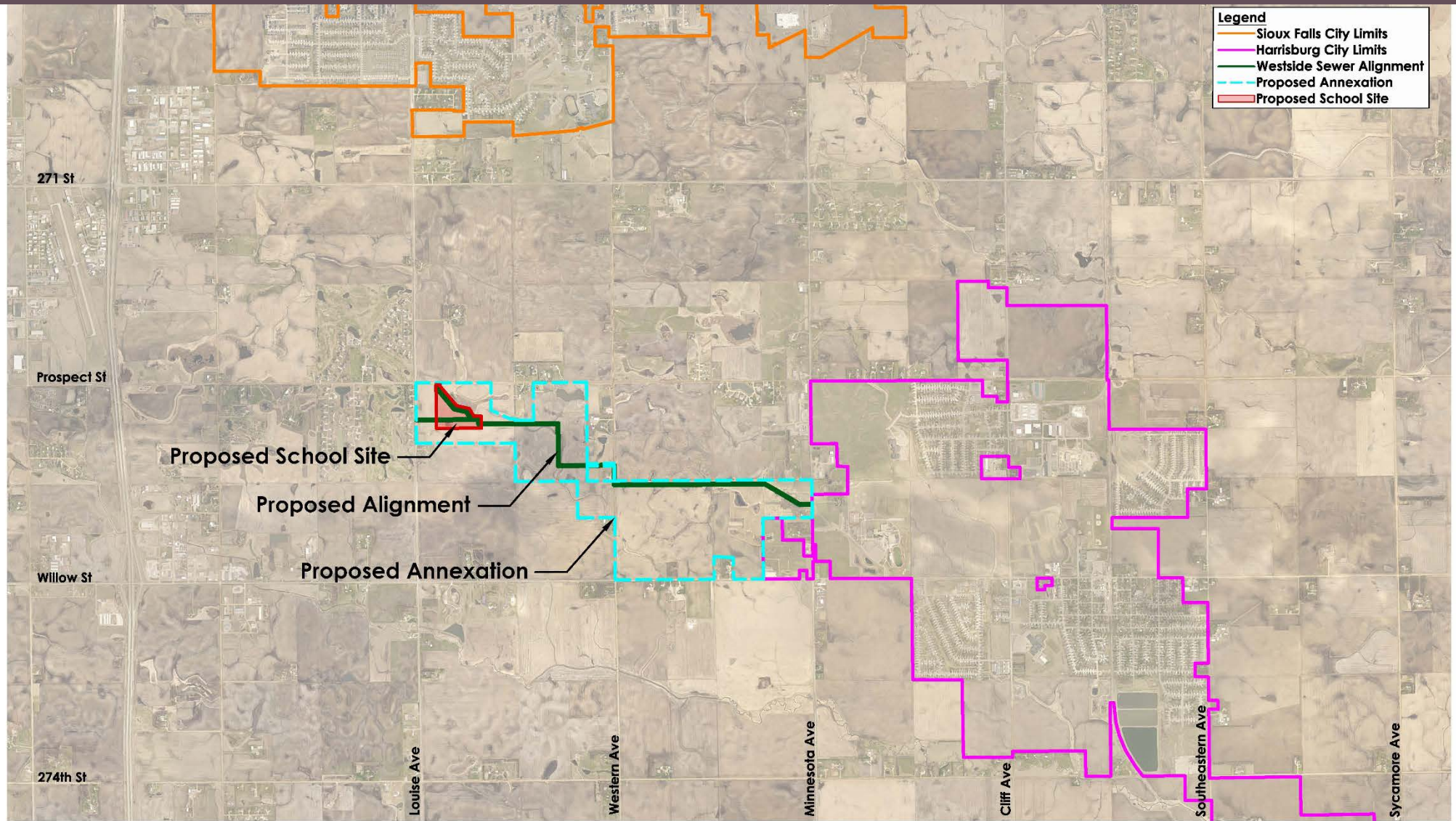
23 acres  
\$98,010/AC

40 acres  
\$17,966/AC

40 acres  
\$40,000/AC

57 acres  
\$47,264/AC





**Westside Trunk Sewer Extension**  
Harrisburg, SD



**STOCKWELL**  
2/14/2019 SEI No. 18193



6/1/19 - 5/1/2019 by Robert Schweg

# Infrastructure



DIRT WORK



CURB &  
GUTTER



WATER



UTILITIES

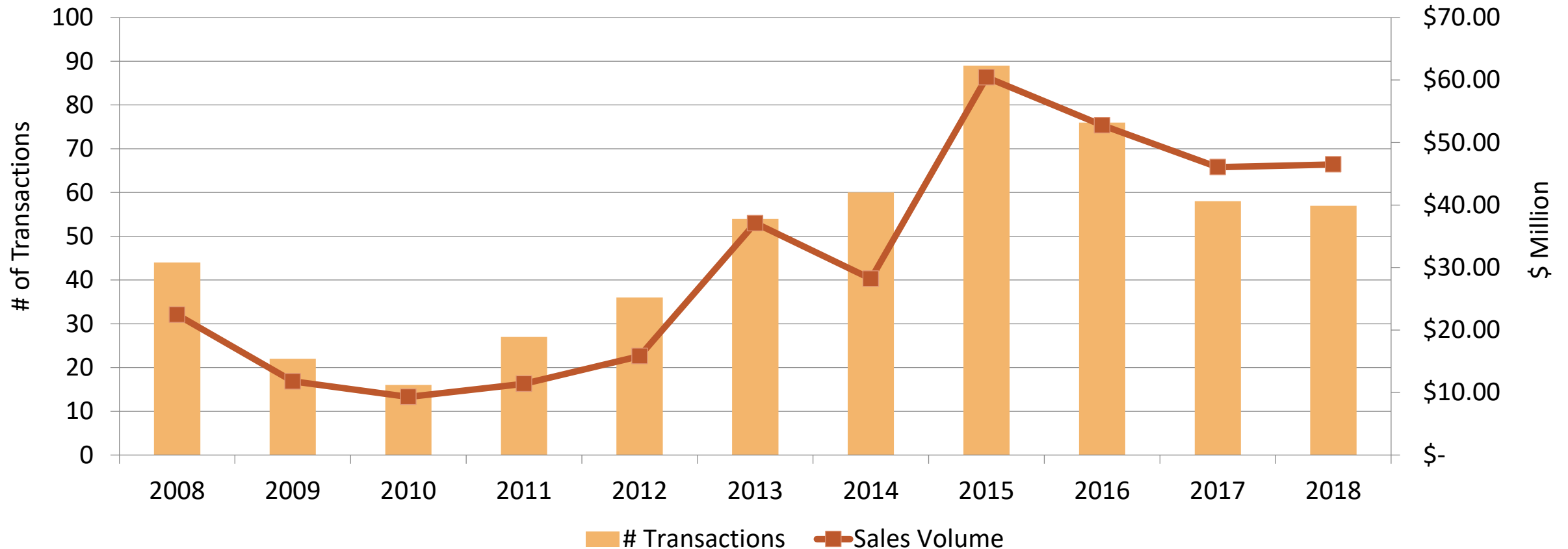


STREET

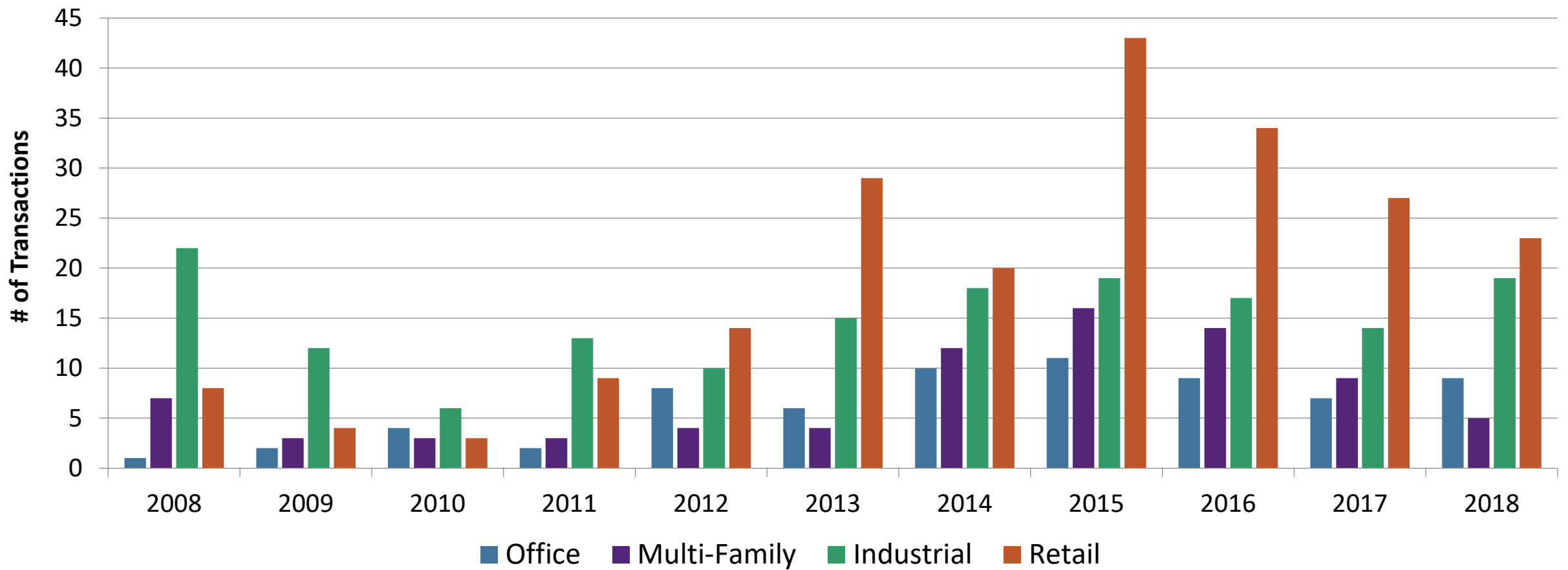


DETENTION  
PONDS

# Improved Land Transactions







# Transactions By Land Use

	Low	High	2017 Mean	2018 Mean
Retail	\$5.00	\$33.40	\$10.68	\$11.49
Office	\$3.73	\$15.00	\$8.54	\$7.01
Industrial	\$1.48	\$4.62	\$3.50	\$2.54
Multi-Family	\$1.54	\$3.00	\$2.92	\$2.47

# Land Pricing

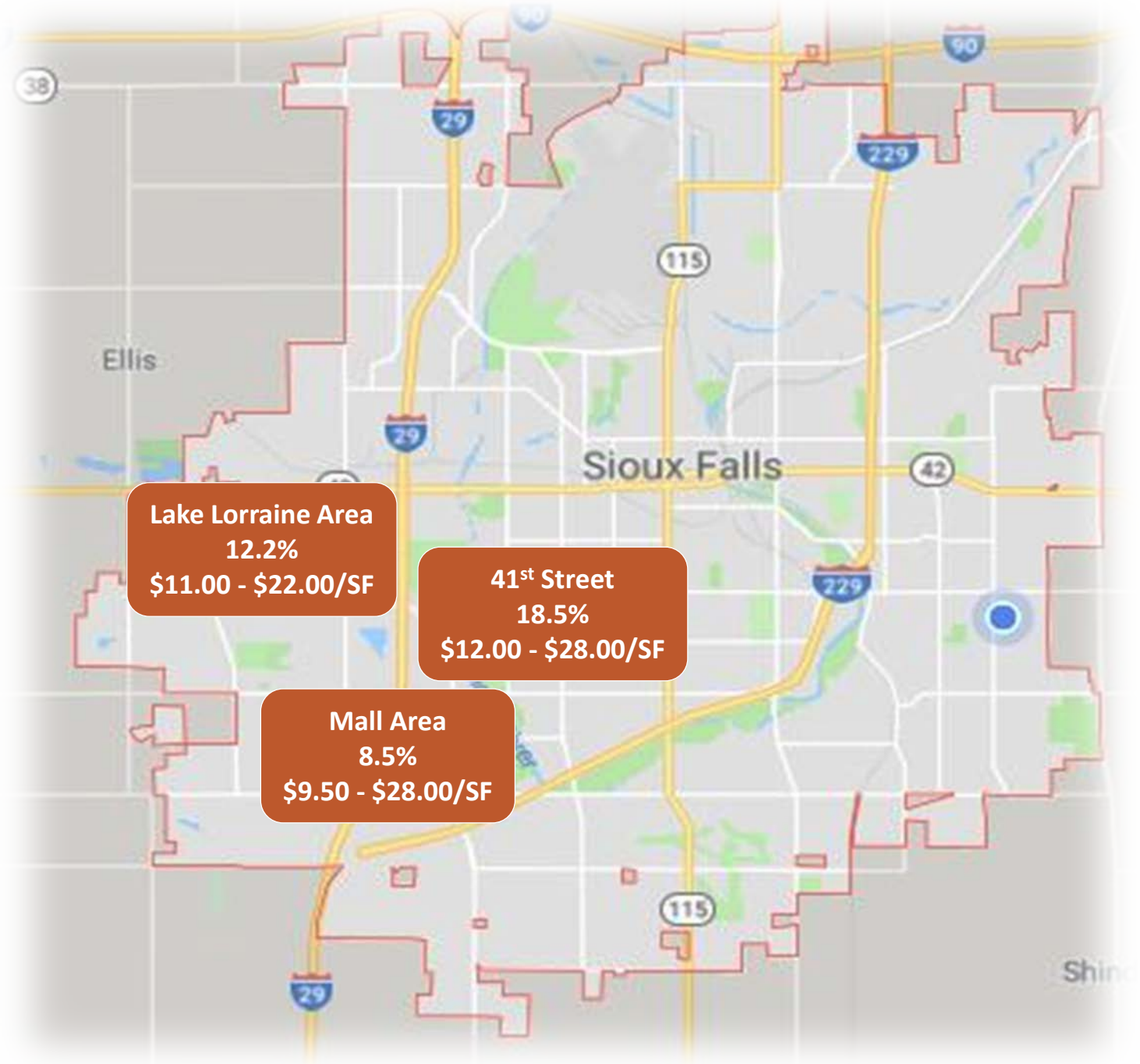


# Retail Market

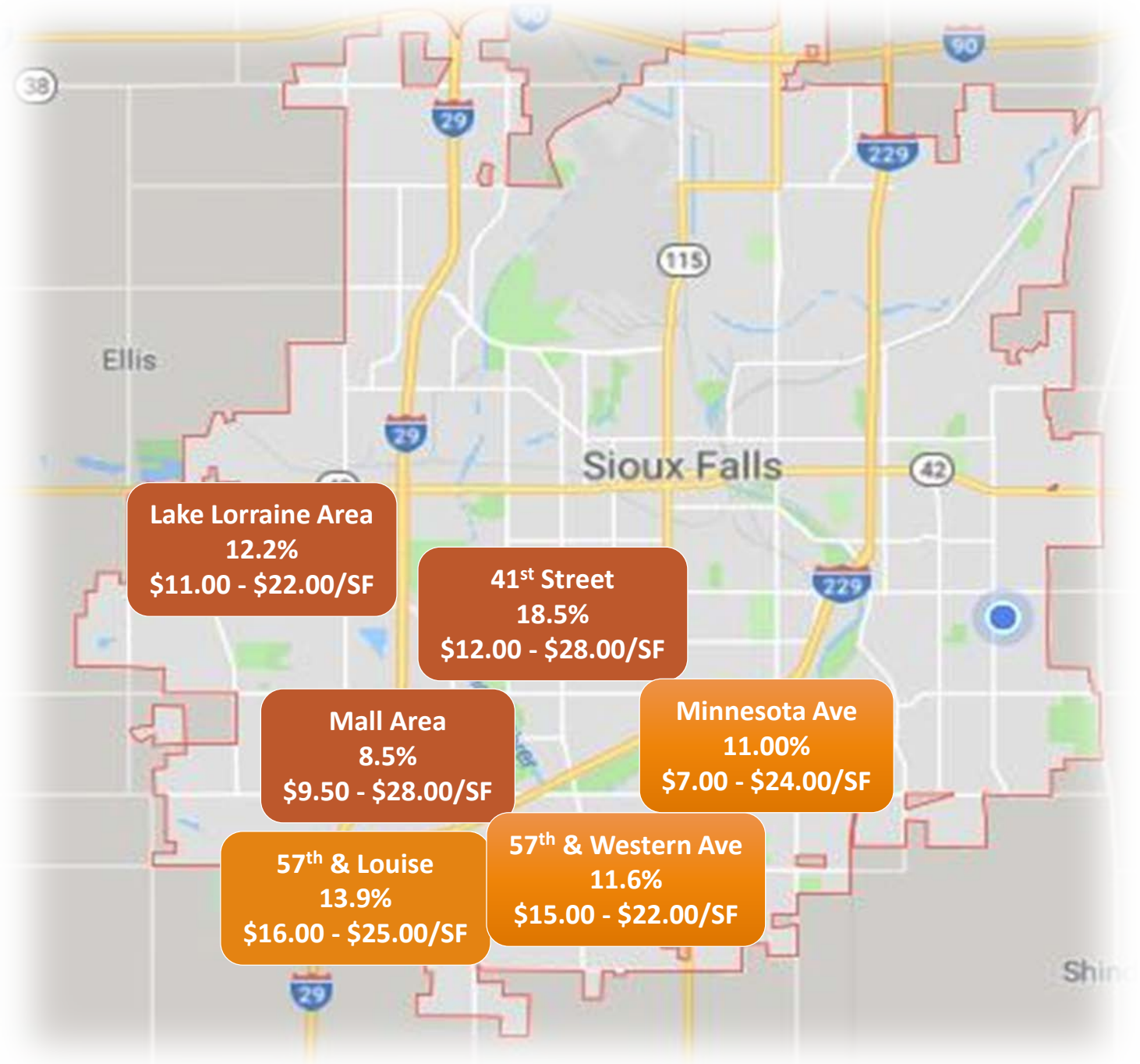
Reggie Kuipers, SIOR

# Sioux Falls Retail Market

15.5% Vacancy  
(16.7% in 2017)

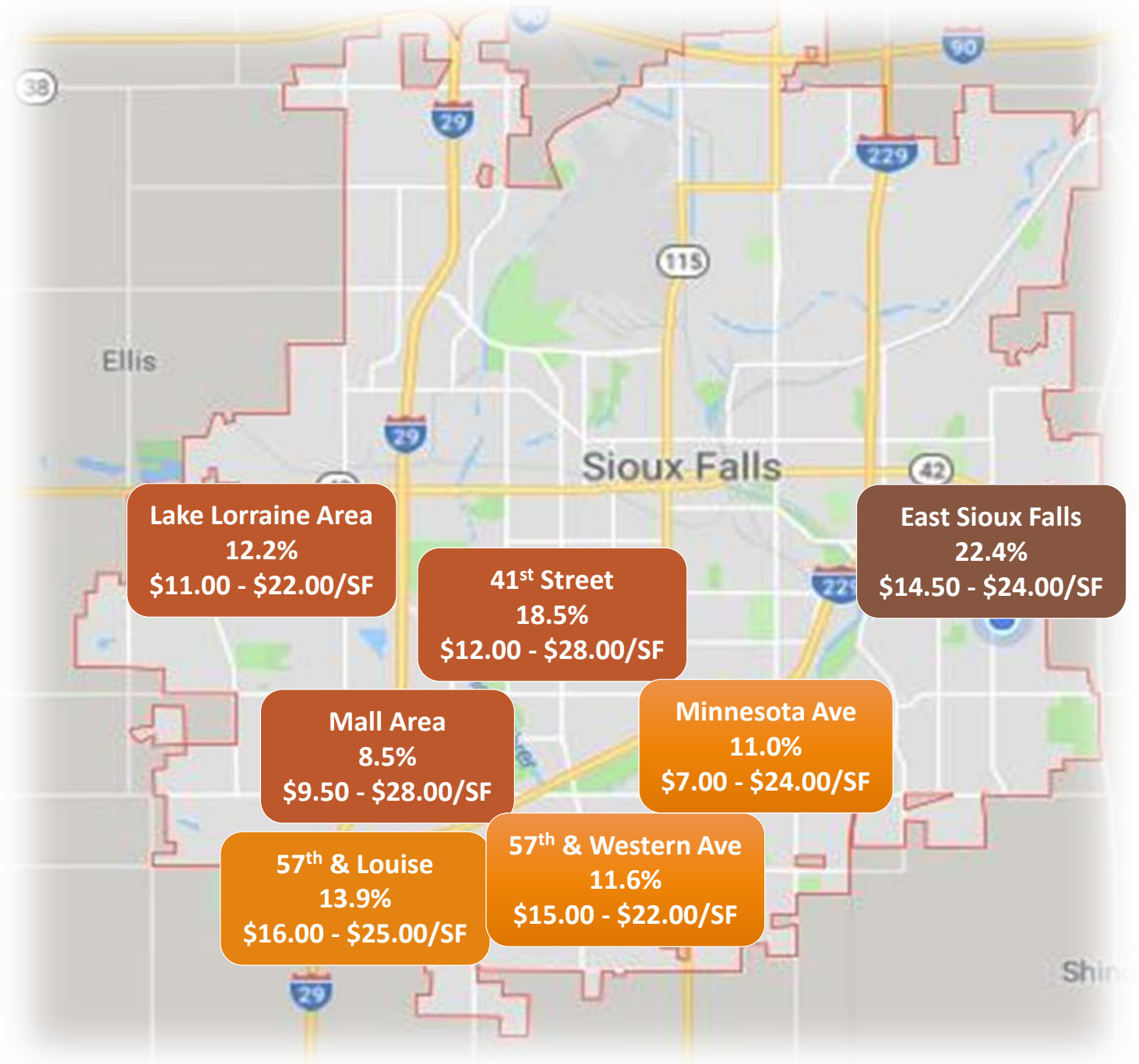


# Sioux Falls Retail Market





# Sioux Falls Retail Market







COFFEE

“You walk into a retail store, whatever it is, and if there's a sense of entertainment and excitement and electricity, you wanna be there.”

– Howard Schultz

# Retail Trends

---

- Experiential Purchasing
- “Retailtainment”
  - lululemon – Yoga Classes
  - DSW – in-store mani/pedi
  - Nike – basketball courts
  - Scheels – Ferris Wheel

# Big Box Availability



JCPenney

TOYS R US



Younkers

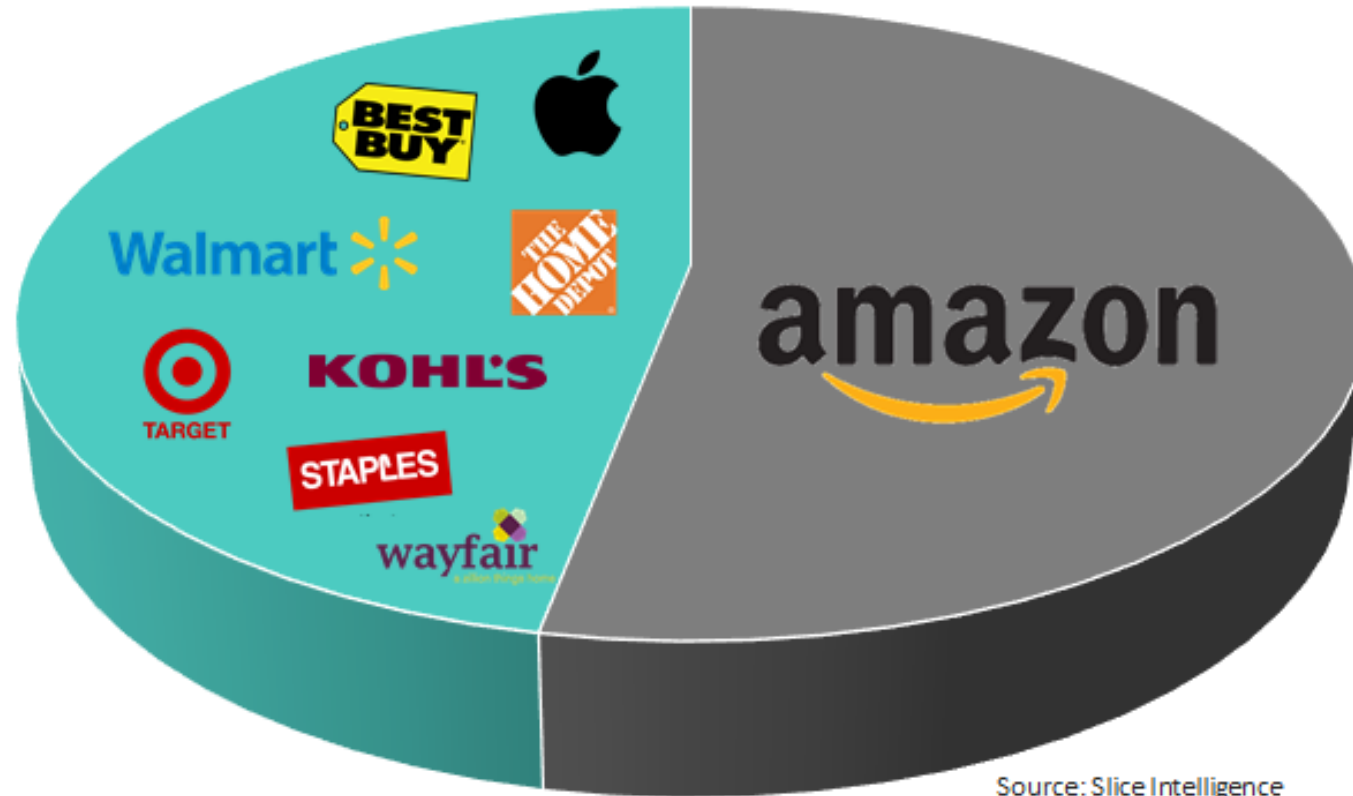
sears

SHOPKO  
my life. my style. my store.™

LOWE'S

# Online Retailers

Amazon - 100M Prime Members

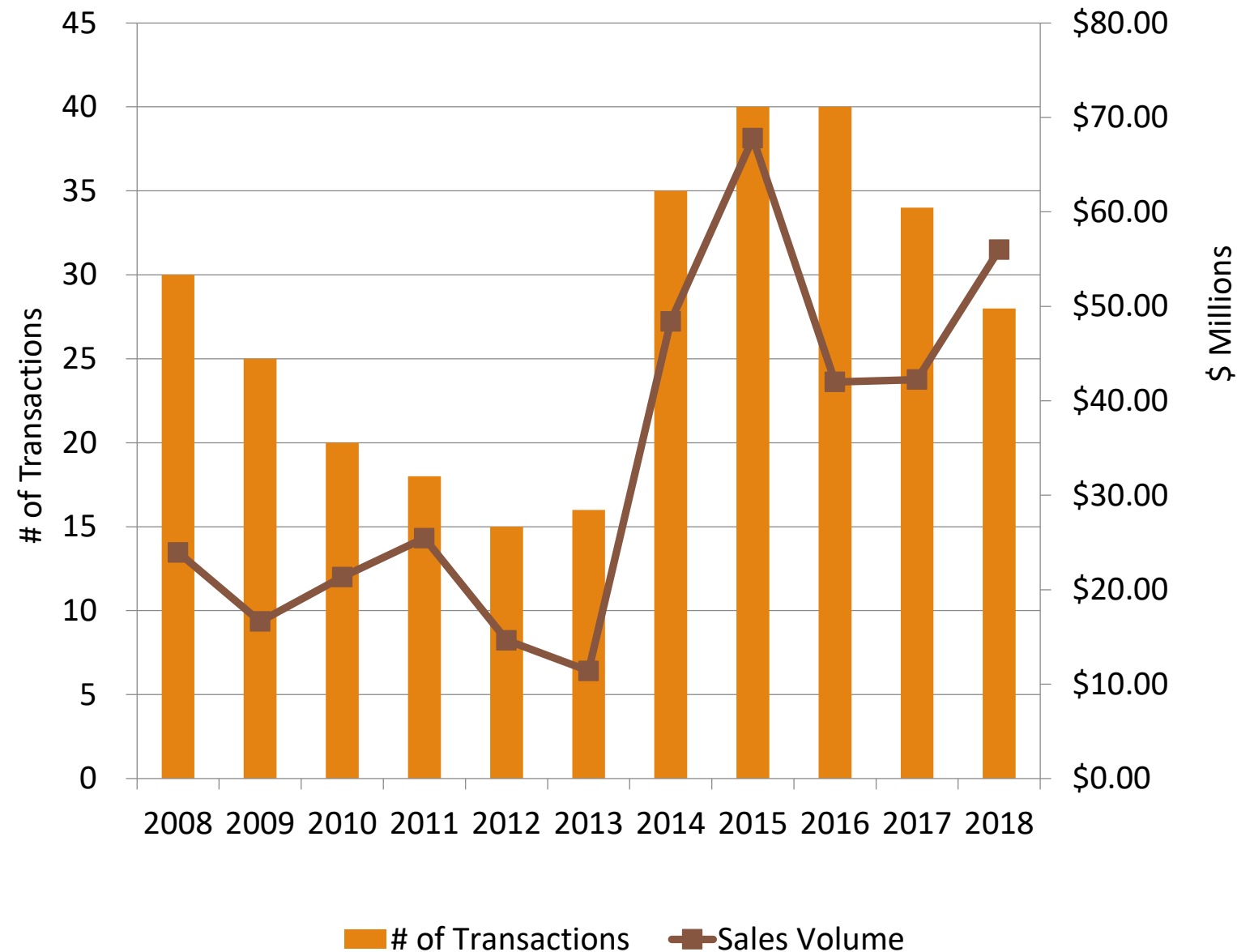


Source: Slice Intelligence

■ Amazon ■ Other Merchants

# Retail Property Sales

---



# Predictions



CAR WASHES ↑



DAWLEY FARM GROWTH  
→ SD HIGHWAY 100



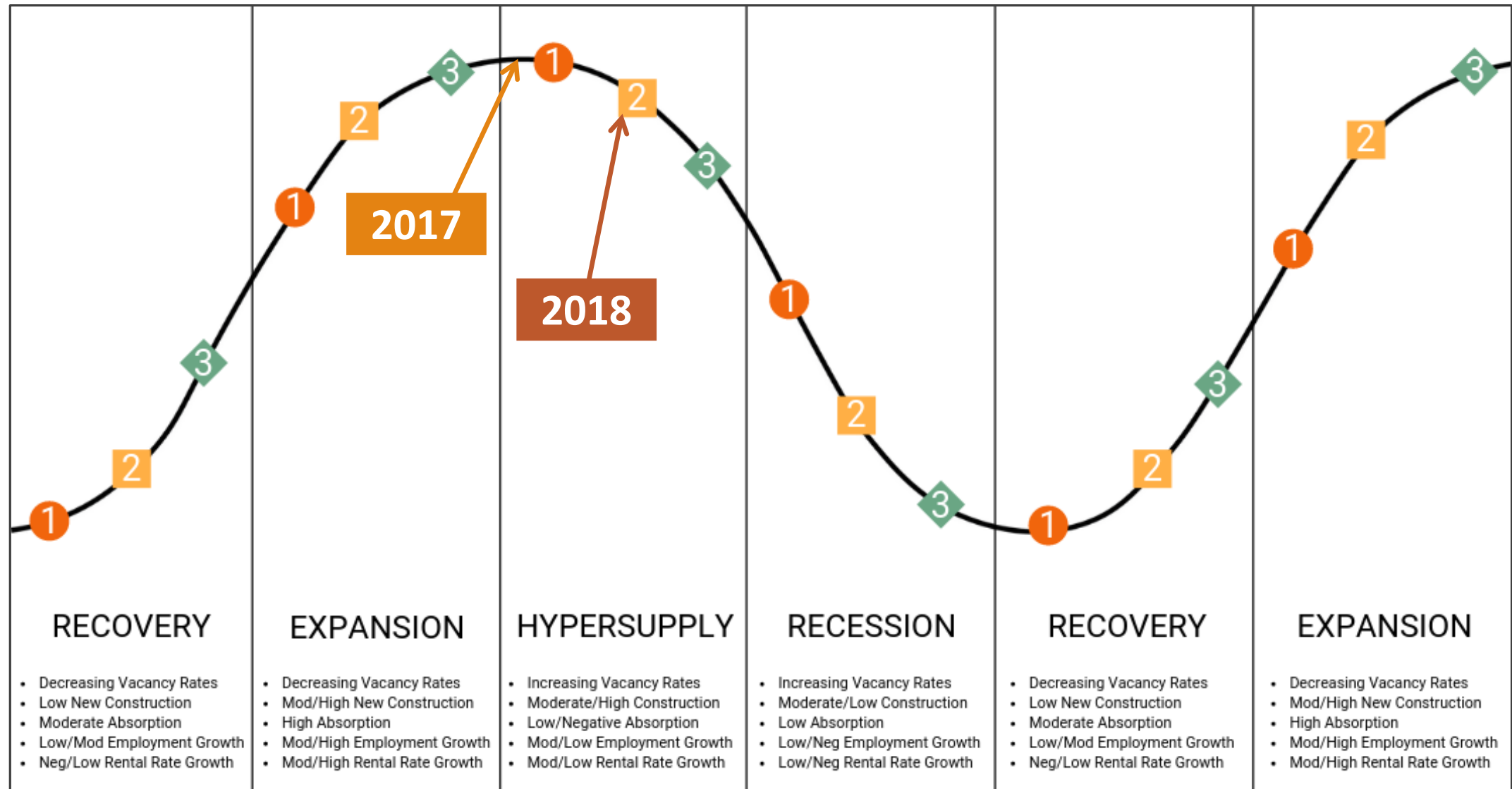
RETAIL  
CONSTRUCTION ↓



VACANCY ↔



RENTAL RATES ↓



# Retail Real Estate Cycle





# Industrial Market

Rob Fagnan, SIOR

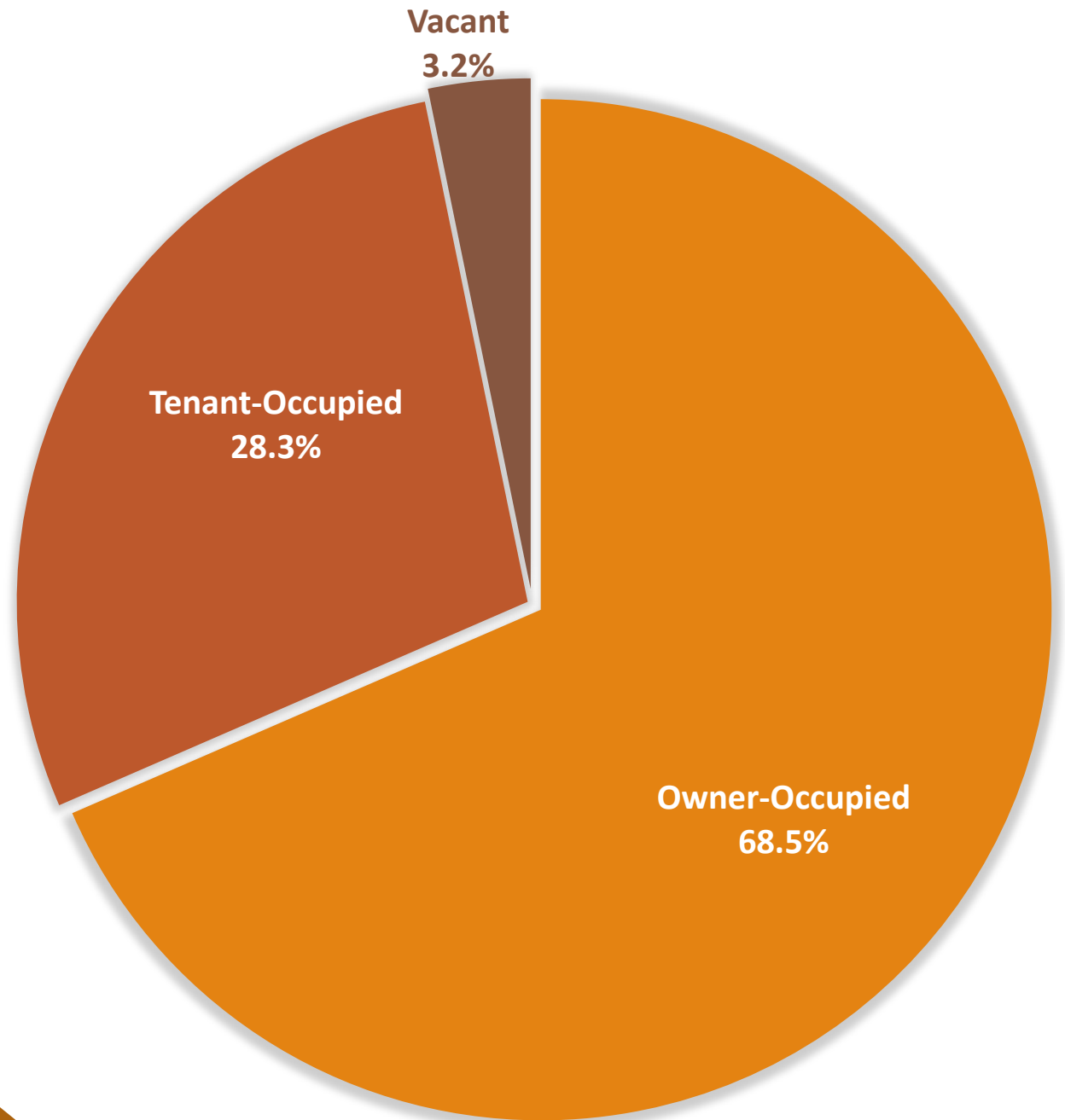


Industrial Universe

24,376,440 SF

---

# Industrial Universe





# Industrial Construction

693,287 SF

(↓ 11% from 2017)

36 New Buildings

11 Additions



## Net Absorption

2018

698,275 SF

2017

491,035 SF

## Vacancy Rate

2018

3.23%

2017

3.58%

## Industrial Sales

44 transactions

(↑ from 23)

\$40.8M (↑ from \$33.4M)

Average Price - \$53.75/SF

(↓ from \$60.66/SF)

\$16.58 - \$121.97/SF

## Asking Rental Rates

Class A

\$6.00 - \$7.50/SF

Class B

\$4.50 - \$5.75/SF

Class C

\$3.25 - \$4.25/SF

# Industrial Market



# Tale of 2 Property Types



# Contractor Shops

*It was the Best  
of Times*

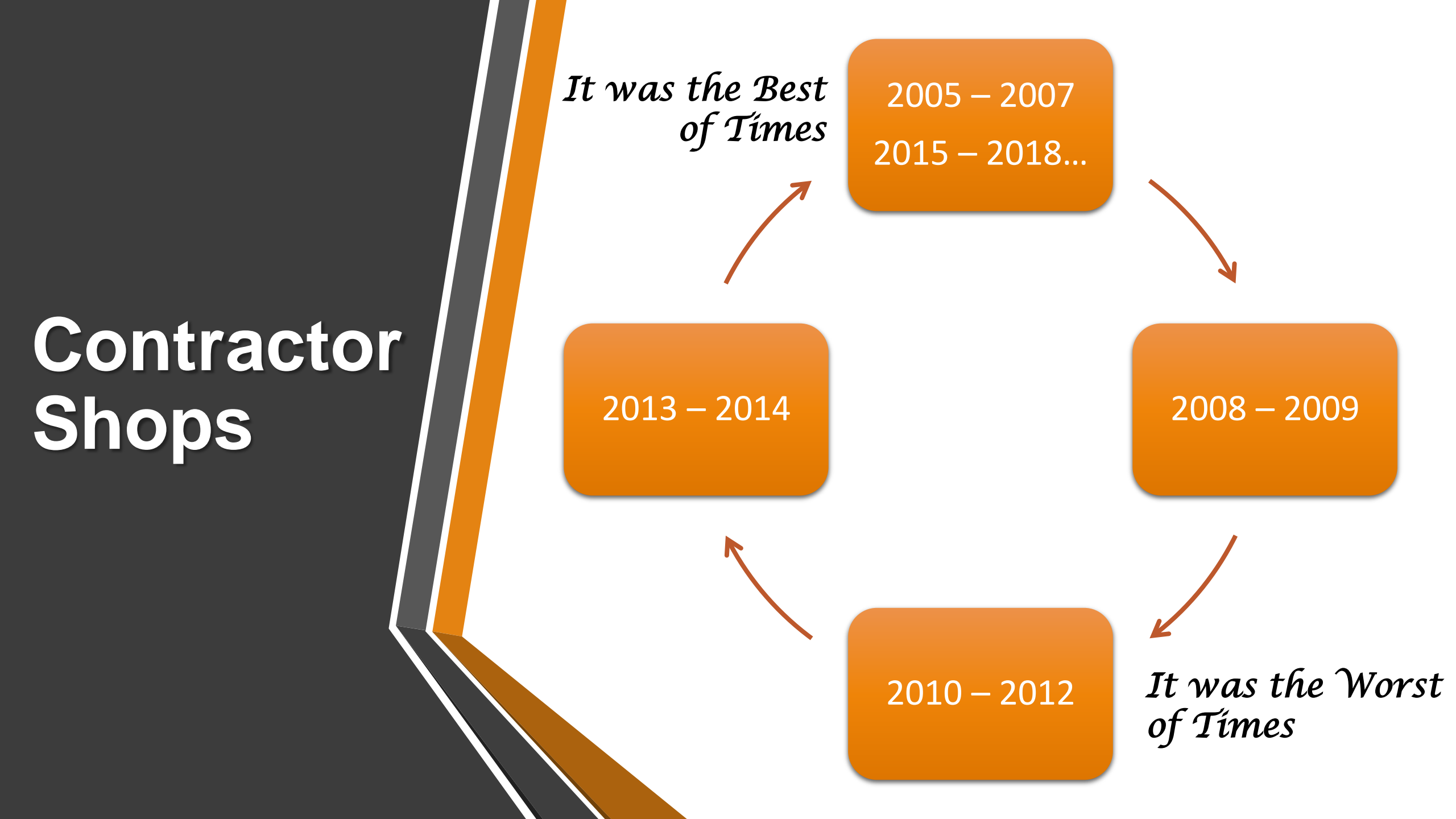
2005 – 2007  
2015 – 2018...

2013 – 2014

2008 – 2009

2010 – 2012

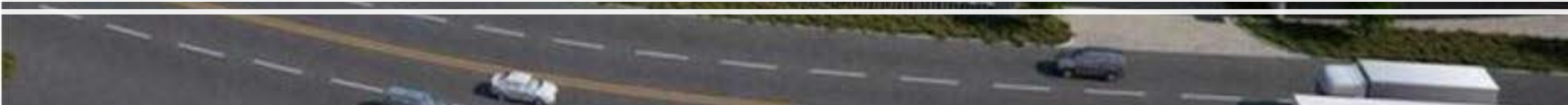
*It was the Worst  
of Times*







**Warehouse / Distribution**







Logistics



**DRIVER'S DAILY LOG**

NAME: \_\_\_\_\_ ADDRESS: \_\_\_\_\_ ADDRESS: \_\_\_\_\_

1. OFF DUTY  
2. SLEEPER BERTHS  
3. DRIVING  
4. ON DUTY (not driving)

REMARKS: \_\_\_\_\_

SHIPPING DOCUMENTS: \_\_\_\_\_

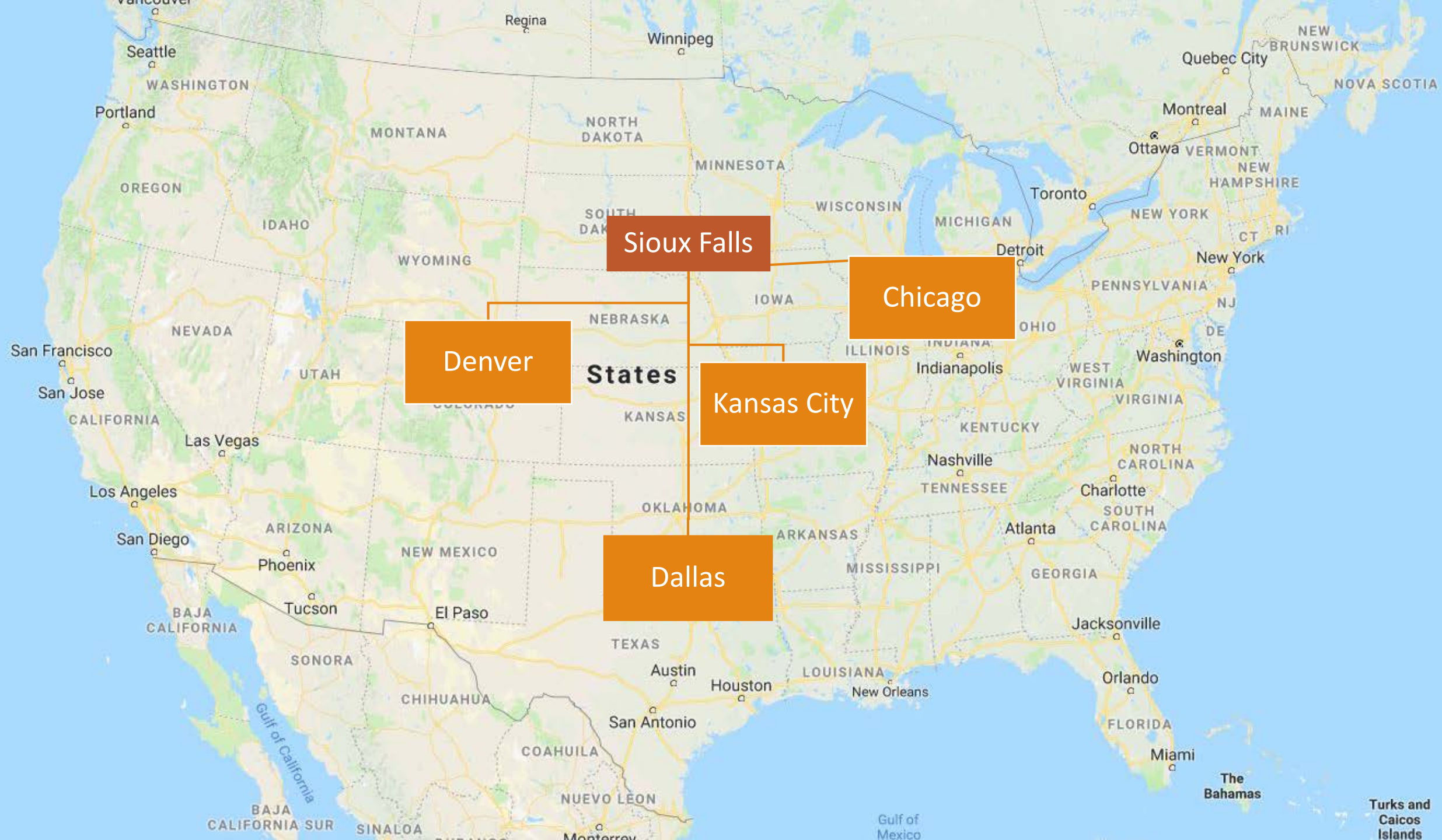
Driver's Name: \_\_\_\_\_ To: \_\_\_\_\_

USE TIME STANDARDS AT DRIVING TERMINAL.



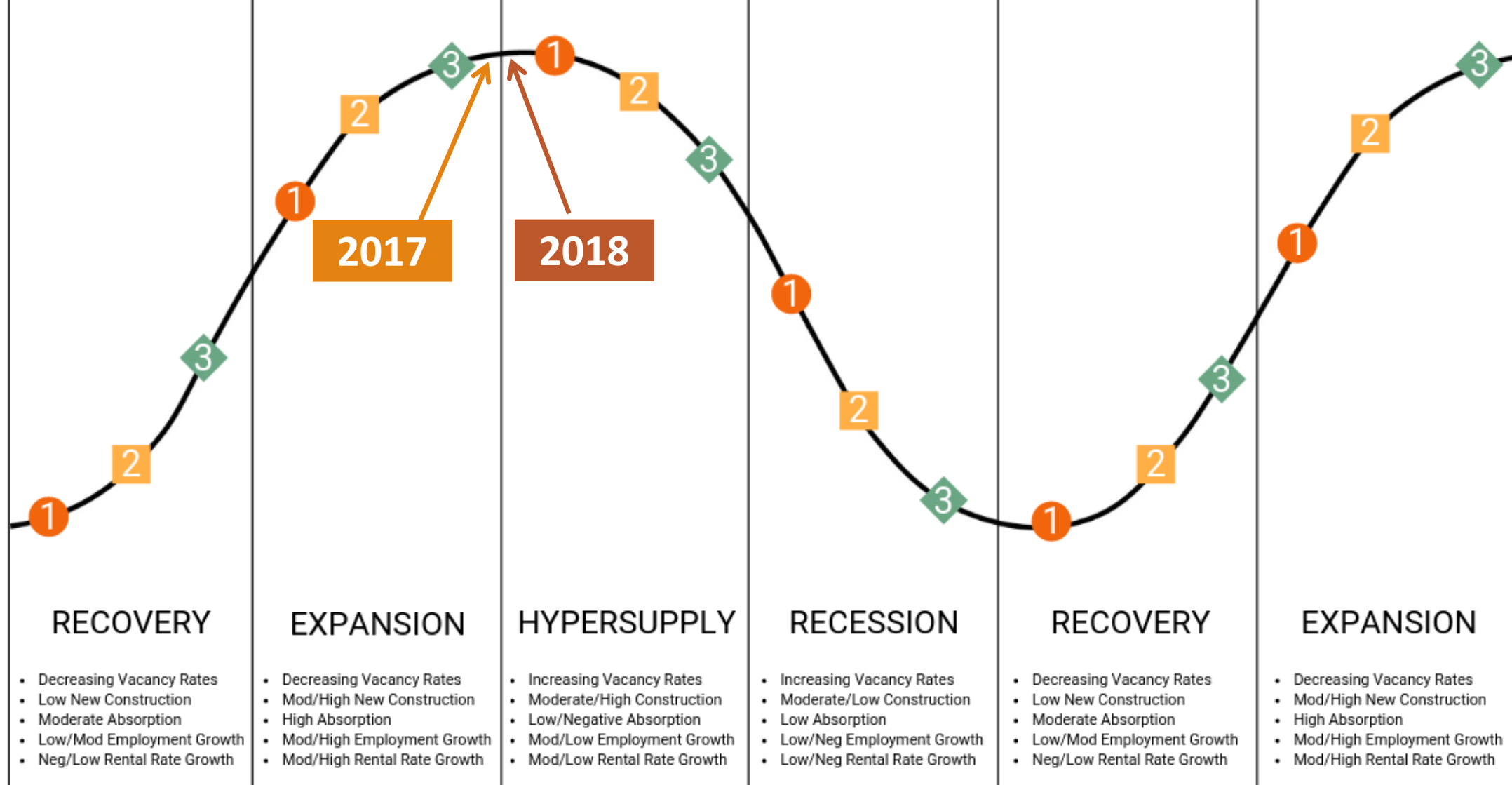
# Log Book vs. E-Logs





A person in a red shirt and black shorts stands on a rocky outcrop, arms raised, overlooking a vast blue lake or fjord. The scene is captured from a high angle, showing the steep, forested slopes of the surrounding mountains. A white circular overlay is positioned on the right side of the image, containing the word "Predictions" in a bold, black, sans-serif font. Below the word is a short horizontal line.

# Predictions



# Industrial Real Estate Cycle





# Investment Market

Nick Gustafson, CCIM

# Investment Market Overview



**2018**

Review

- National Market
- Sioux Falls Market
- Notable Trends



**2019**

Predictions



# Real Estate competes with many Asset Classes

---



# 2018 Investment Score Card



Dow Jones

-5.6%



S & P 500

-6.2%



Nasdaq

-3.9%



Gold

-4.4%



Oil

-15.7%

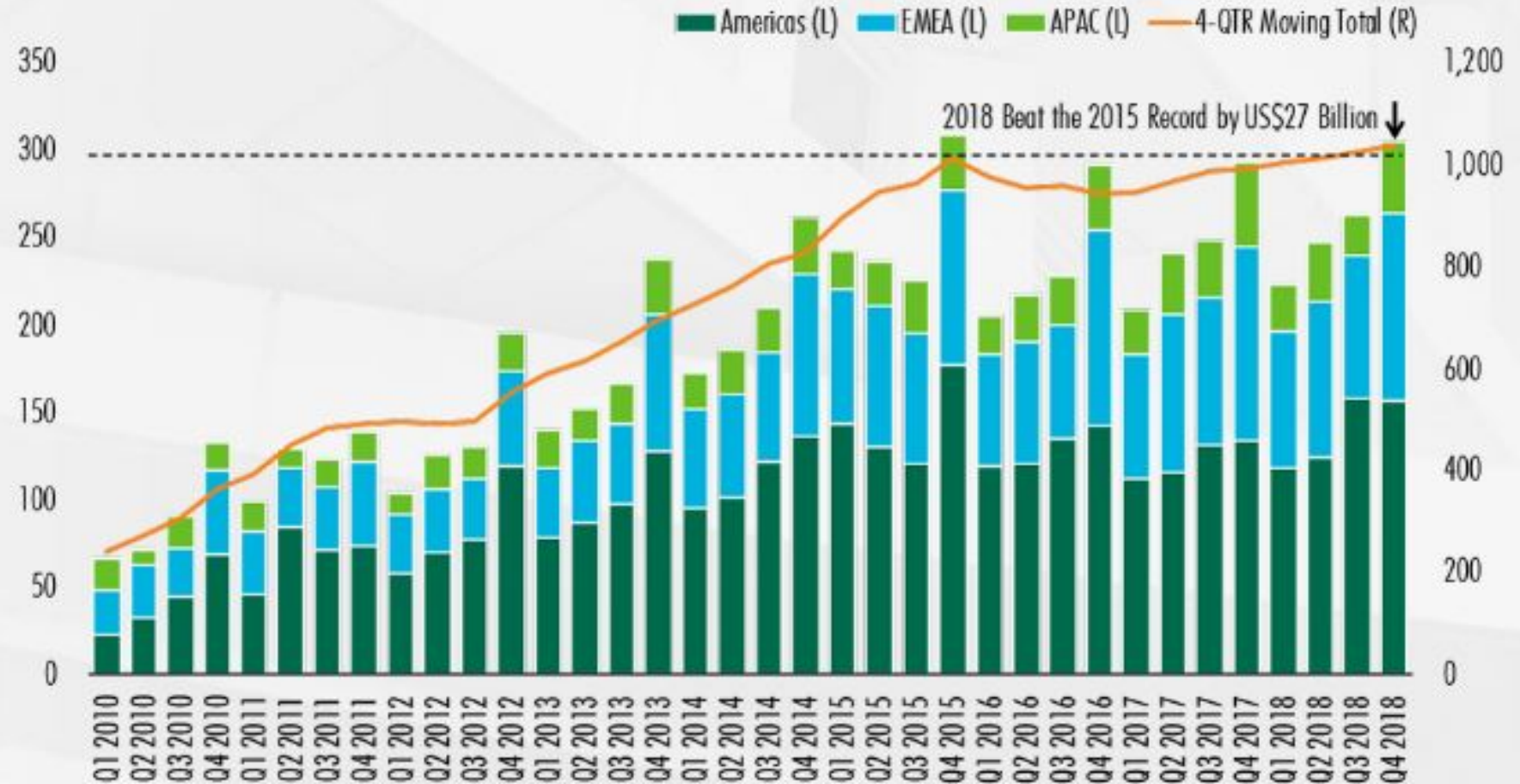


1<sup>st</sup> Growth Bordeaux

-0.95%

# Global Real Estate Investment Breaks 2015 Record

Figure 1: Global Commercial Real Estate Investment (US\$ Billions - Fixed FX)



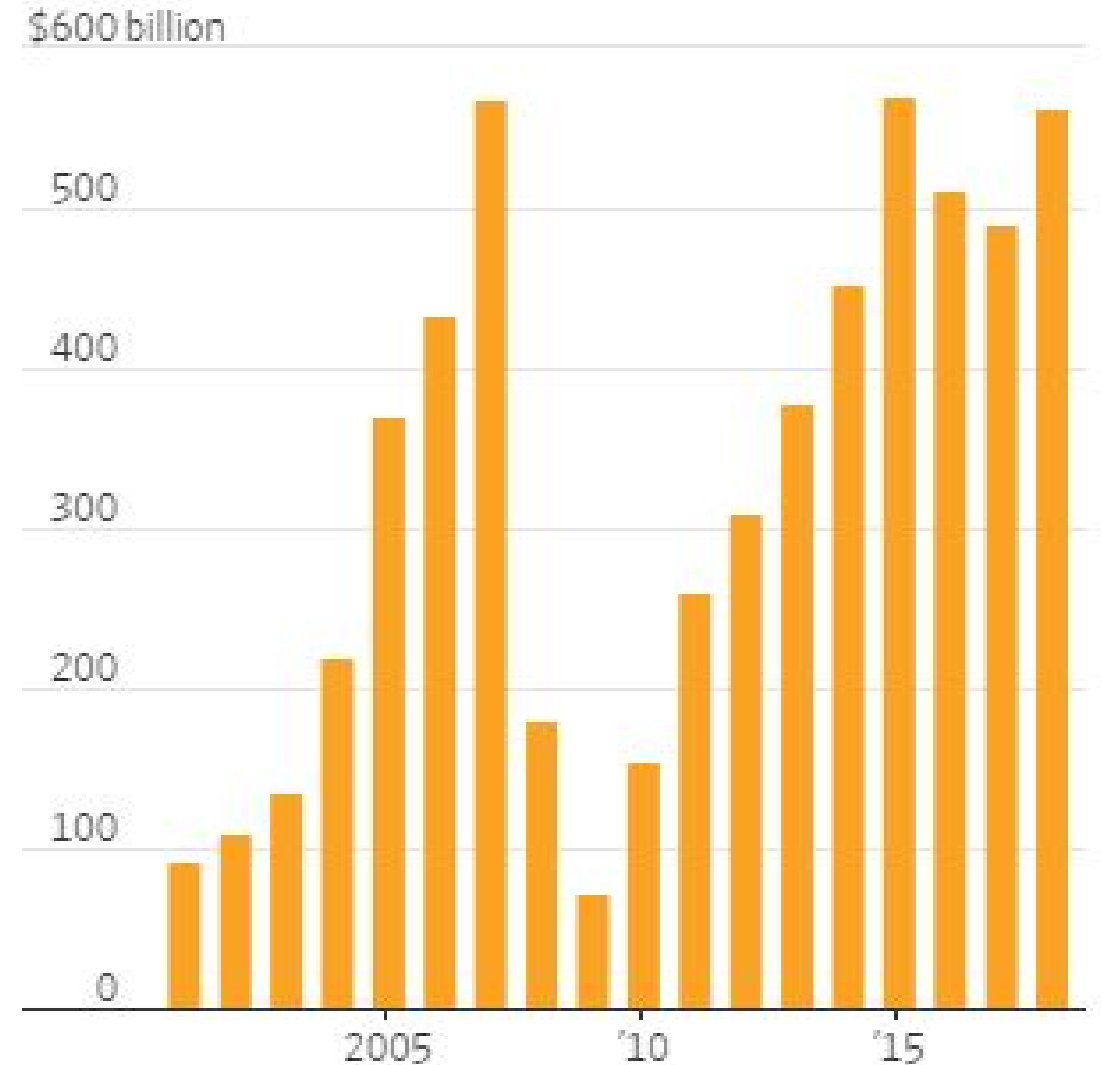
Source: CBRE Research, RCA (Americas), Q4 2018.

# U.S. Commercial Real Estate Sales Volume

---

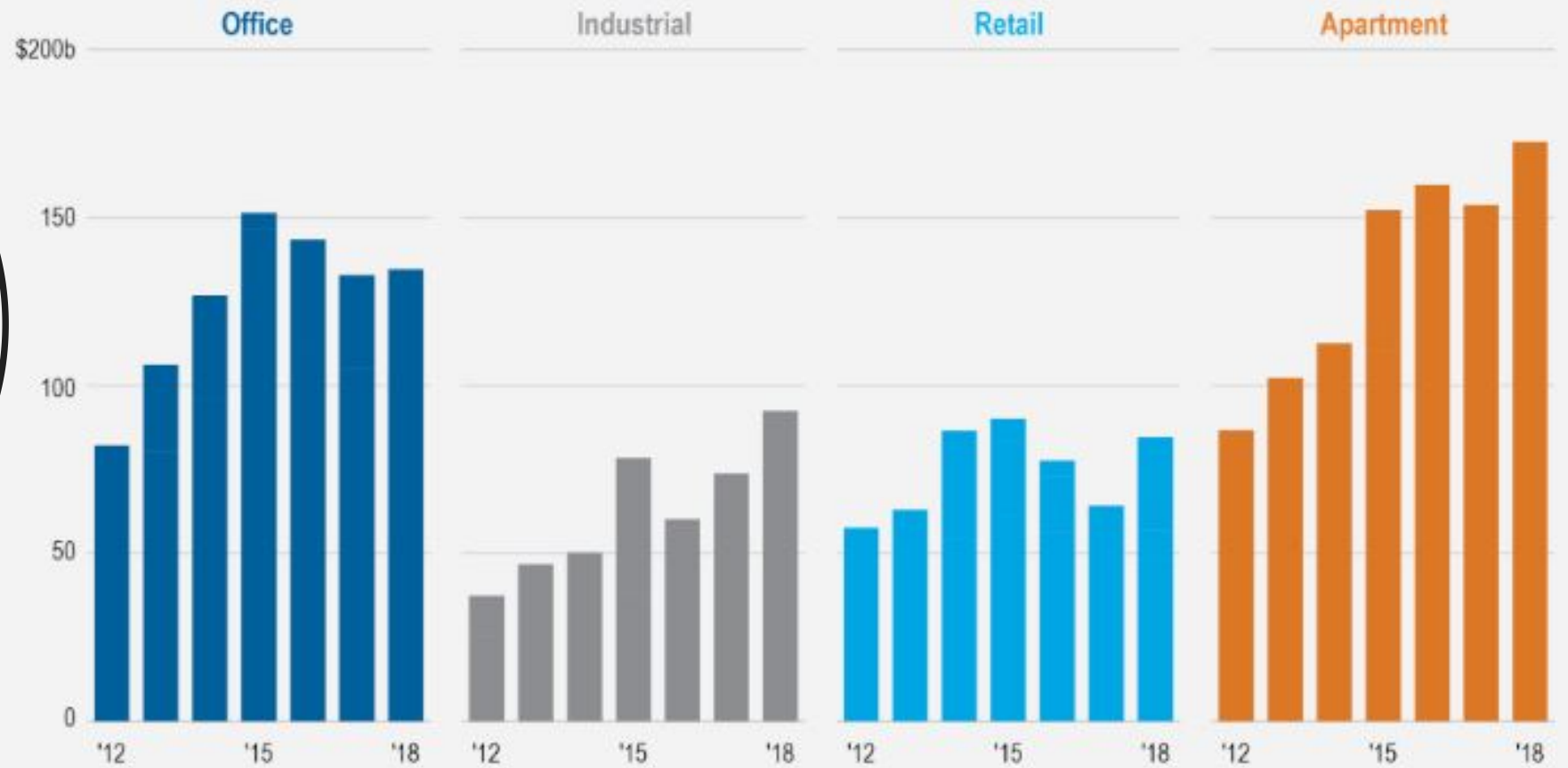
## Bounce-Back Year

U.S. commercial-property sales rose to near-record highs in 2018.



# US Deal Volume

## US Deal Volume Grows Across Major Sectors in 2018



Source: Real Capital Analytics

# National Cap Rates in Relationship to Employment

Figure 1: Employment and real estate cycles are strongly correlated



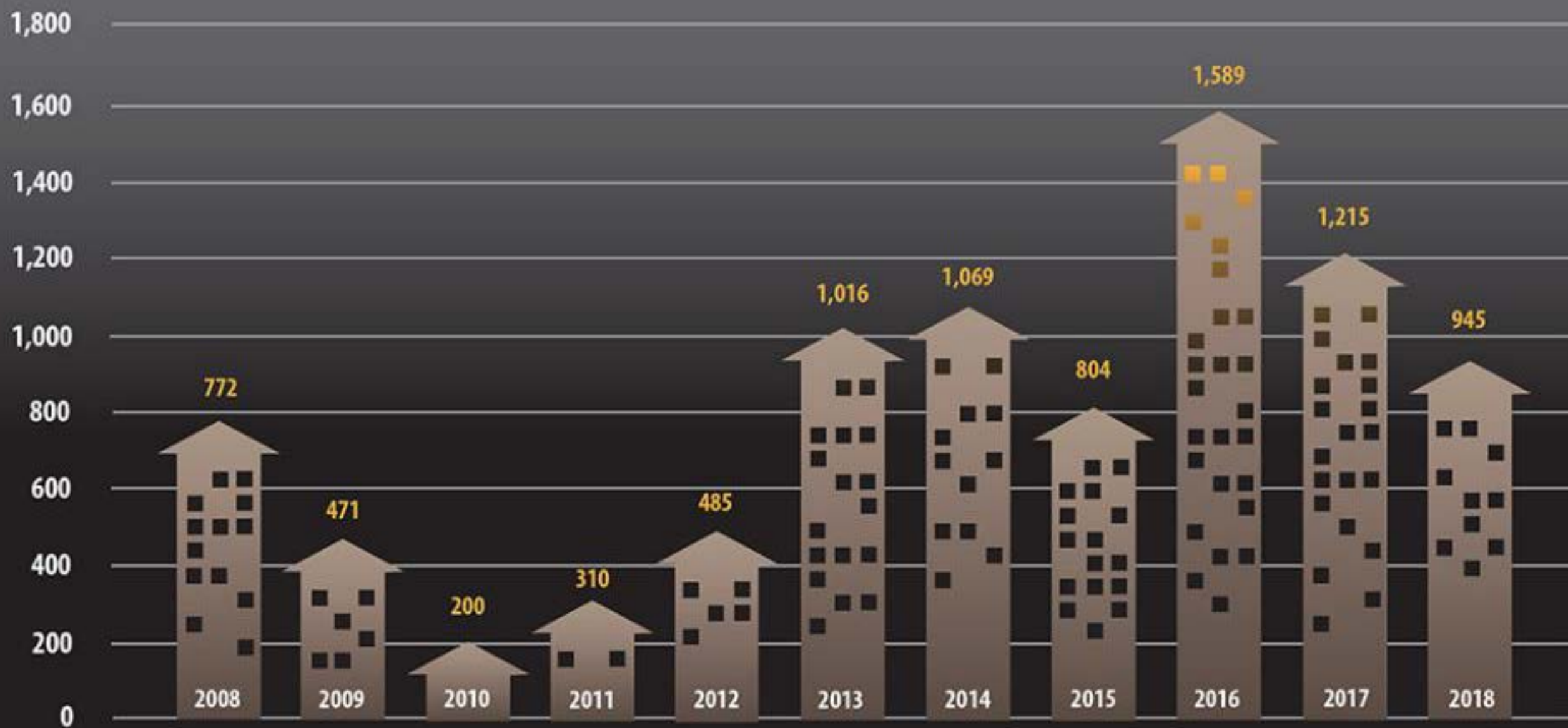
Note: Employment data is seasonally-adjusted. Cap rate data is the quarterly average for all property types.  
Source: CBRE Research, BLS, RCA, October 2018.

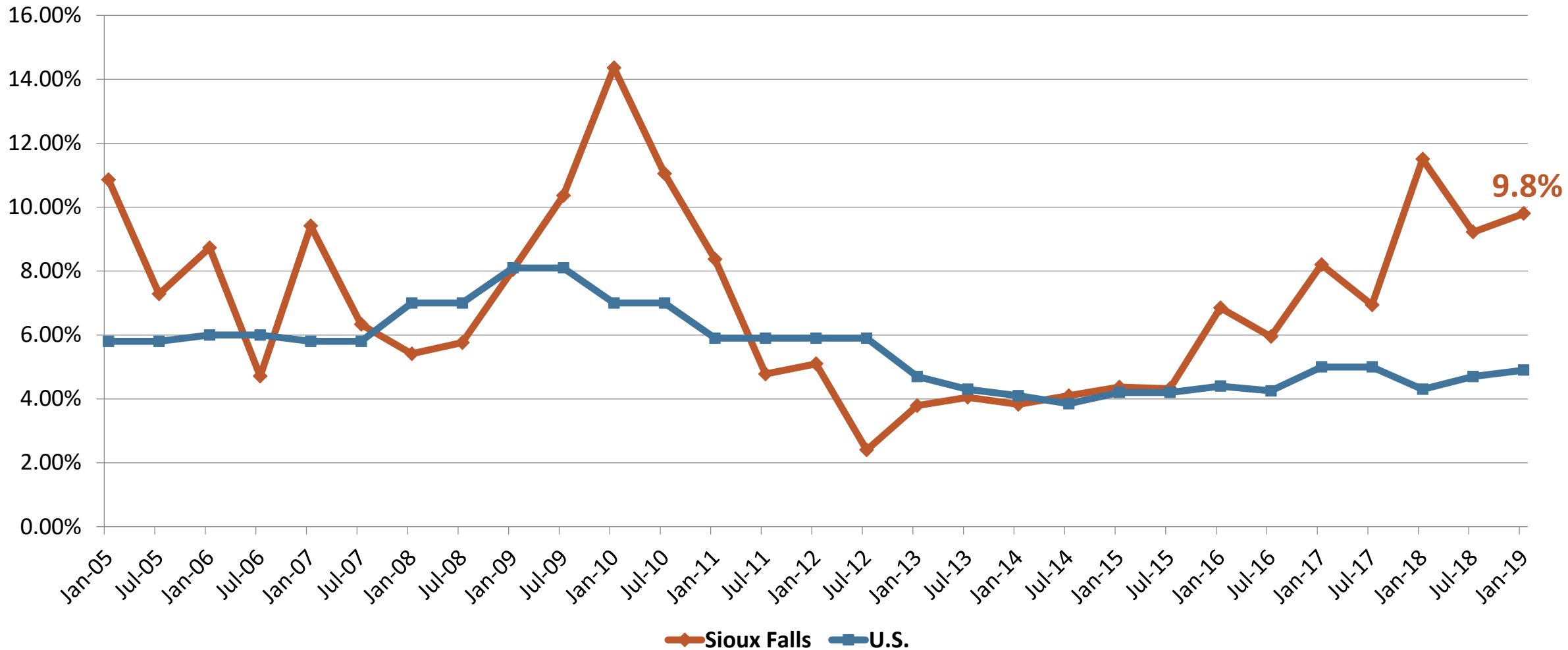
## National vs. Sioux Falls Cap Rates

	Multi Family	Office	Retail
National	5.3%	6.1%	6.5%
Sioux Falls	7.75%	8.0%	7.0%



## MULTIFAMILY DWELLINGS, 2008 TO 2018

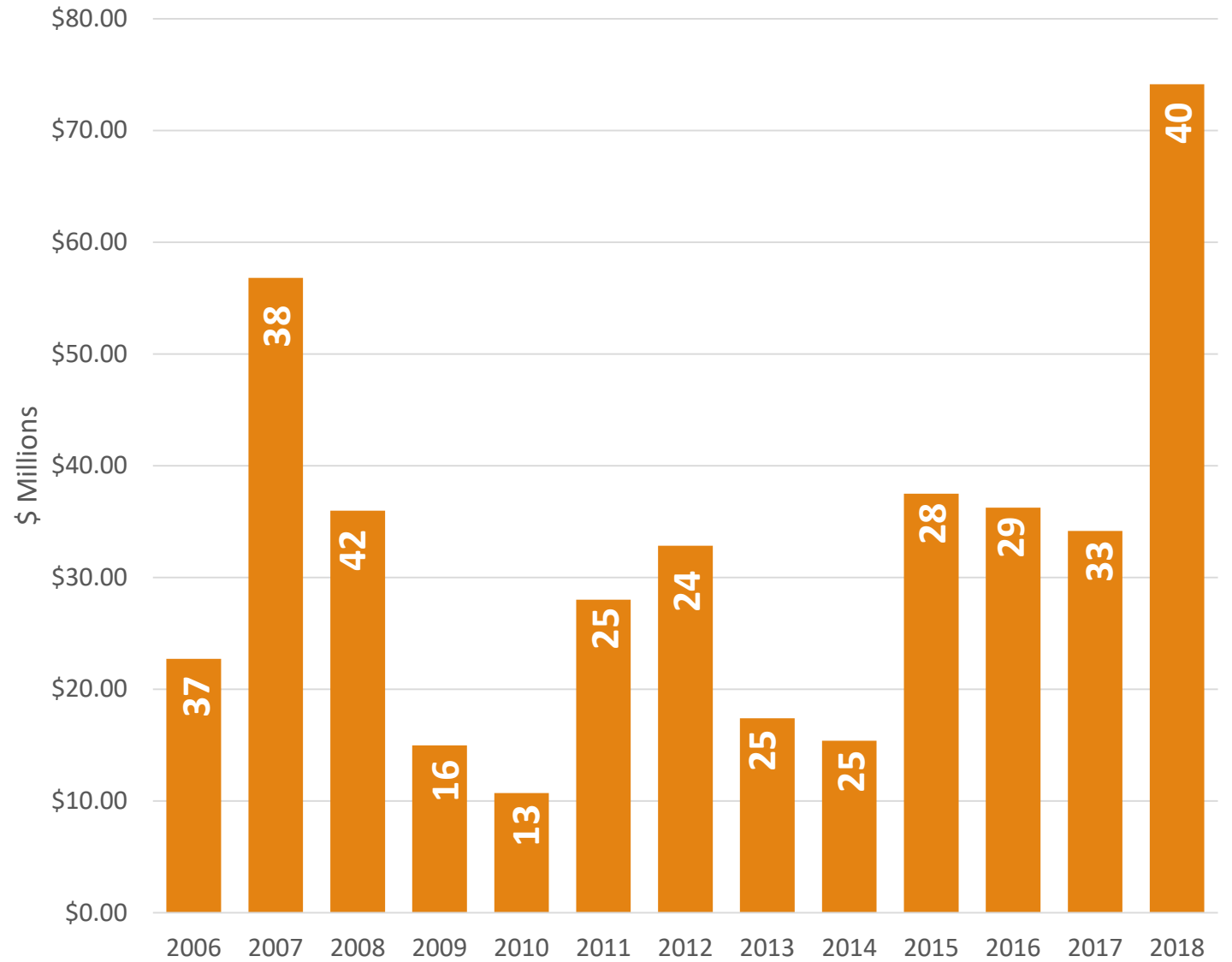




# Projected Multi-Family Vacancy Rate

# Multi-Family Sales Volume

10-Year Average  
\$30.13M



# Tzadik Sioux Falls Portfolio, LLC Acquisitions

---

\$41,849,350 (56%) Total Acquisitions

579 Units (39%)







## Eagle's Nest

### South Louise Avenue / Tennis Lane

- \$6,140,000
- Built in 1977
- 80 Units
- 7.25% Cap Rate



## Arnold's Park

### North Prairie / Bailey Street

- \$9,010,000
- Built in 1972
- 162 Units
- 7.75% Cap Rate





## West Mesa Apartments

### 3700 South Sertoma Avenue

- \$3,428,000
- Built in 1975
- 56 Units
- 8.38% Cap Rate



## Imperial Apartments

### 638 South Main Avenue

- \$1,015,000
- Built in 1961/2018
- 21 Units
- 8.66% Cap Rate





## East Ridge Mall

## 1602 South Sycamore Avenue

- 20,400 SF
- \$3,050,000
- \$149.50/SF
- 7.22% Cap Rate





## Westside Plaza

### 1800 South Marion Road

- 22,920 SF
- \$3,600,000
- \$157.07/SF
- 7.0% Cap Rate



## 3817 South Elmwood Avenue

- 14,780 SF
- \$1,350,000
- \$91.34/SF
- 7.4% Cap Rate

Elmwood Office Building





## 6001 South Sharon Avenue

- 15,260 SF
- \$1,750,000
- \$114.68/SF
- 8.92% Cap Rate

Sharon Avenue Office  
Building

# Investment Sales Volume Report Card

	Multi-Family	Office	Retail
2018	↑	↓	↔
2019	↓	↑	↔
Cap Rates	7.75%	8.0%	7.0%



# Observations & Conclusions

---

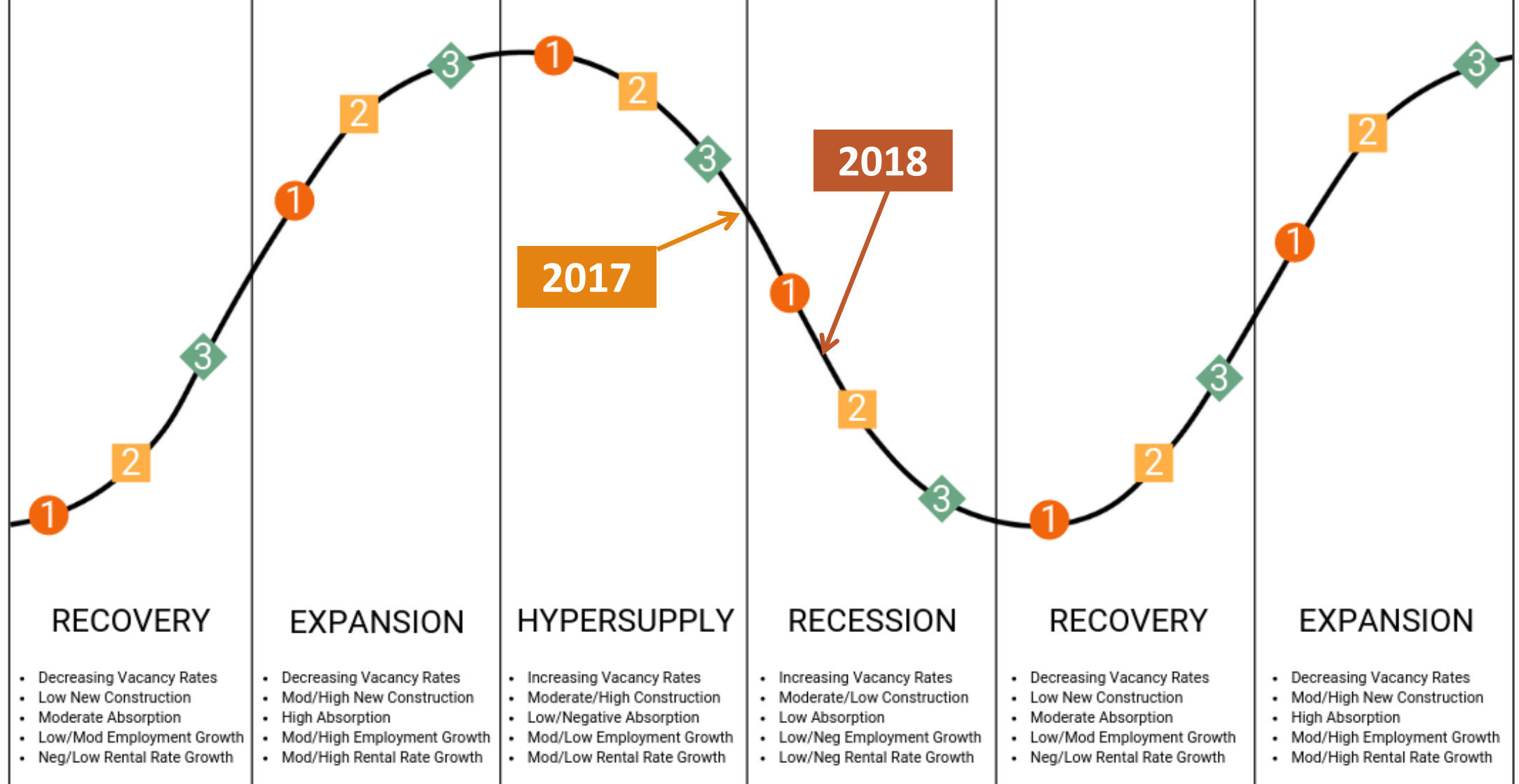
Sellers sense 2019 is a transition year,  
possible a market top.

Time to Sell?

Investors eye rising cost of borrowing,  
will attempt to lock down long term  
debt, exercise caution on projections

Equity Markets will increase volatile  
behavior

Health of national and local real estate  
markets rest on employment and  
business community health



# Multi-Family Real Estate Cycle



# Office Market

Michael Bender, CCIM, SIOR



# Overall Office Market



Inventory

7.9M SF



Vacancy Rate

Class A

Class B/C

**11.5%** ↑

8.4%

12.8%



Net Absorption

22,220 SF ↑



Lease Rate

Class A

Class B/C

**\$12.75/SF NNN** ↔

\$15.00/SF

\$12.05/SF



Office Sales

25 transactions

\$18.3M ↓



# Central Business District



# CBD Office Market



Inventory

2.3M SF



Vacancy Rate

**7.2%** ↑

Class A

3.2%

Class B/C

9.0%



Net Absorption

(20,444 SF) ↓



Lease Rate

**\$14.00/SF NNN** ↑

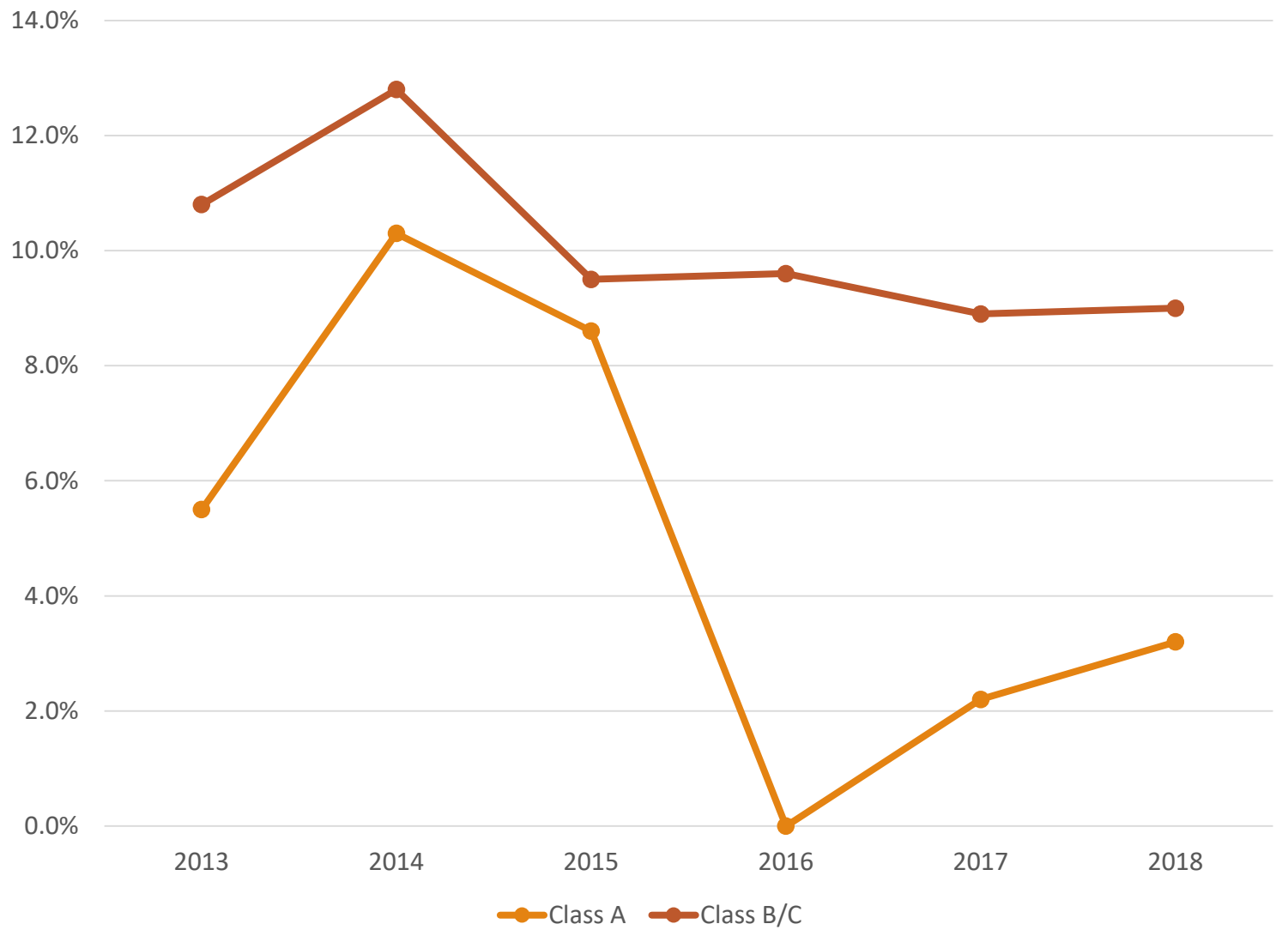
Class A

\$17.60/SF NNN

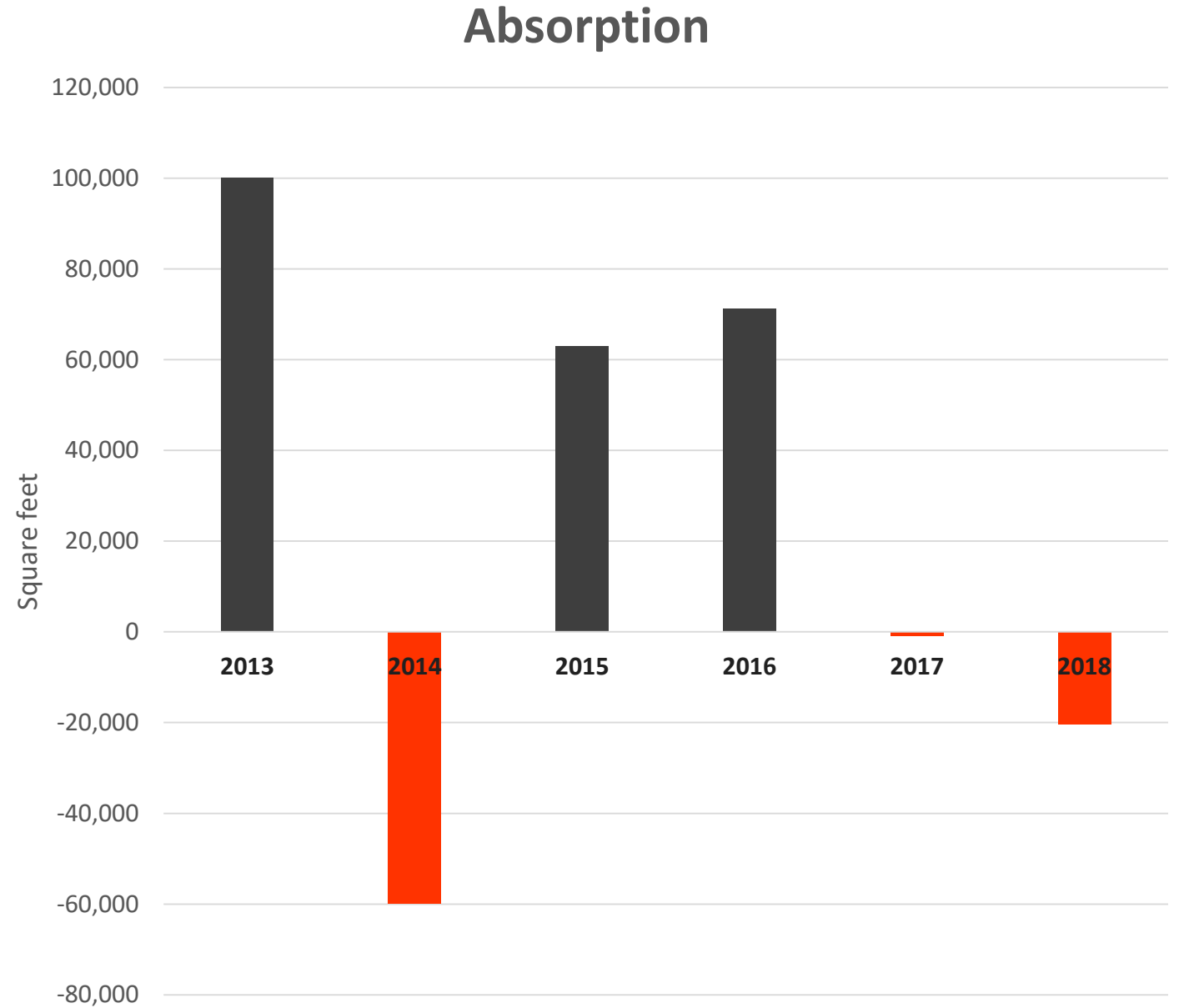
Class B/C

\$13.35/SF NNN

# CBD Vacancy



# CBD Negative Absorption





# Suburban Office Market



Inventory

5.68M SF



Vacancy Rate

**13.2%** ↑

Class A

10.6%

Class B/C

14.3%



Net Absorption

42,664 SF ↑



Lease Rate

**\$12.50/SF NNN**

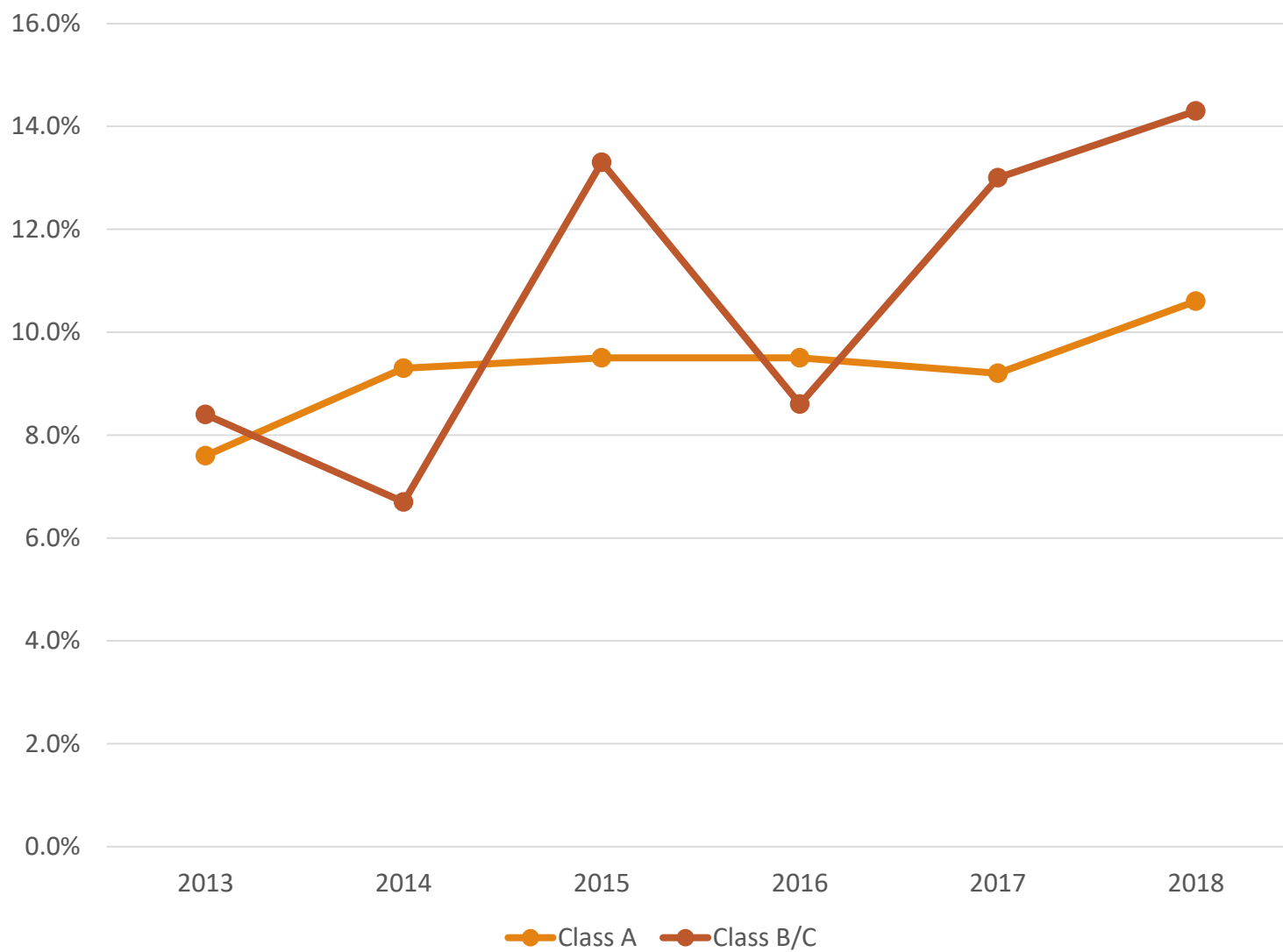
Class A

\$15.00/SF NNN

Class B/C

\$11.85/SF NNN

# Suburban Vacancy

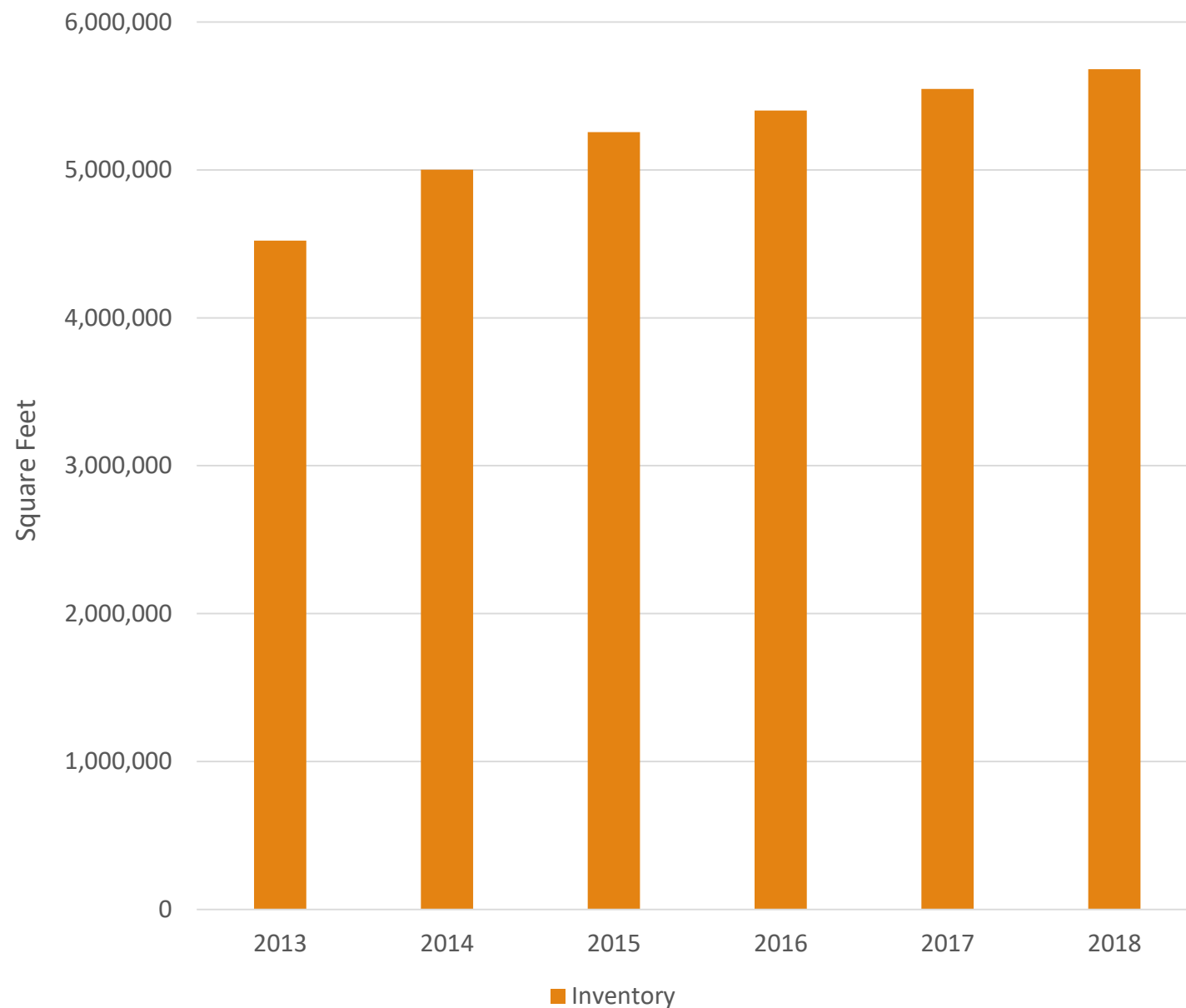


# Suburban Inventory

14 New Buildings = 90,893 SF  
3 Conversions = 54,198 SF



Suburban Office Inventory



# Conclusions & Predictions

Construction –  
Spec Building

Smaller dual  
tenancy

Downtown

Who will be  
the first?

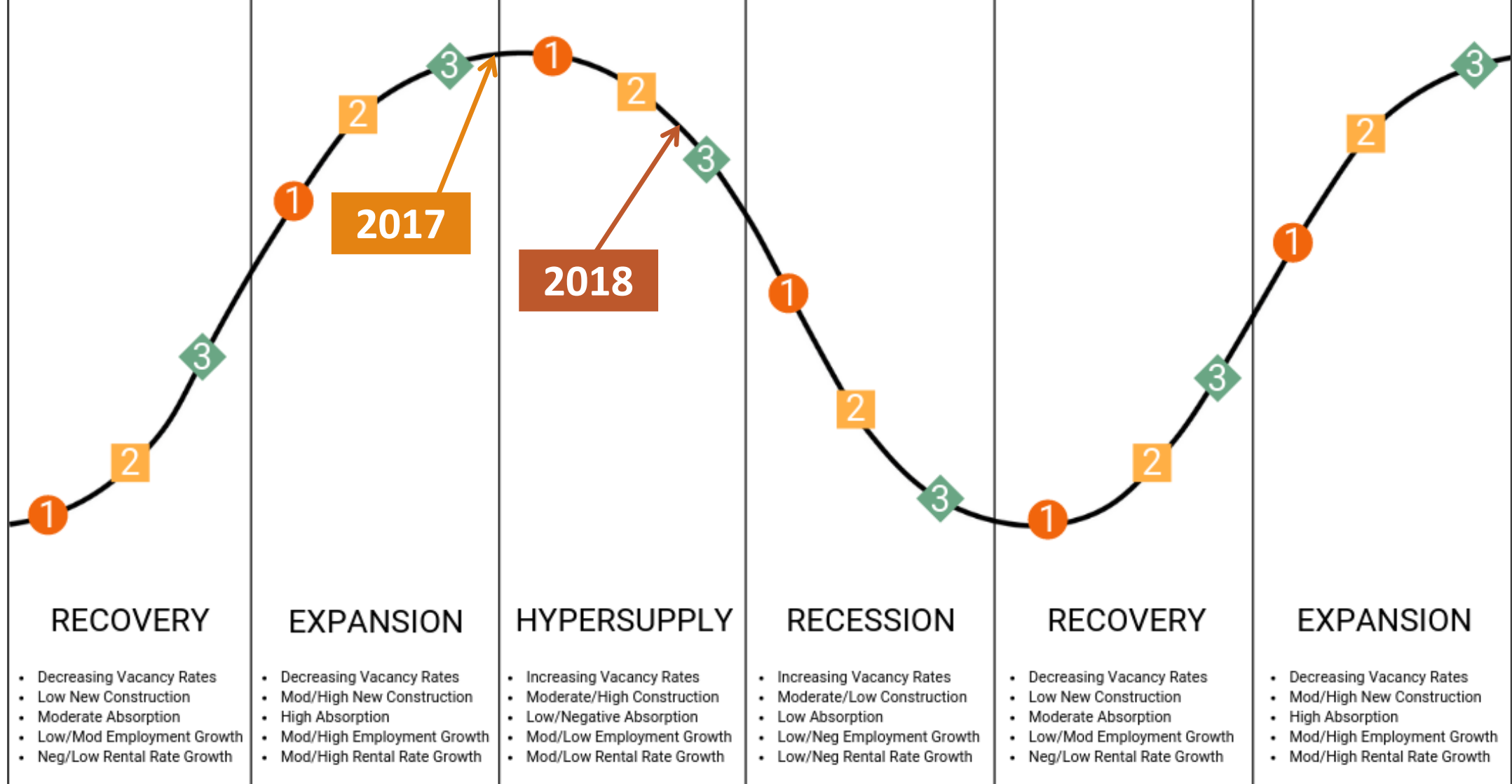
Vacancy

Slight Increase

Rental Rates

Flat





# Office Real Estate Cycle



22<sup>nd</sup> Annual  
**Sioux Falls  
Market Outlook  
2019**

**February 21, 2019**