



# MARKET OUTLOOK REPORT

SIoux FALLS, SOUTH DAKOTA

MID-2019

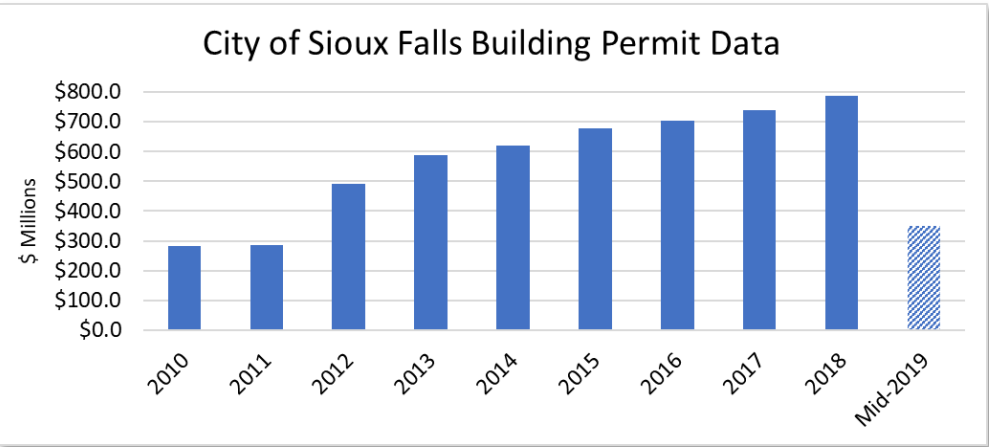
Bender  
COMMERCIAL

As South Dakota’s largest city, Sioux Falls has a vibrant economy. Located at the intersection of I-90 and I-29, the city is the perfect place for retail, healthcare, education and manufacturing industries. Sioux Falls has a current population of 187,200 and a metro population of 267,515. The Sioux Falls metro area is comprised of four counties: Minnehaha, Lincoln, McCook and Turner. The largest employers in Sioux Falls include Sanford Health, Avera Health, the Sioux Falls School District, Smithfield Foods, Hy-Vee Food, Wells Fargo and Citi.

Some accolades that Sioux Falls has recently received include:

- #1 on Forbes’ 2018 list of Best Small City for Business and Careers. Sioux Falls has placed in the top 5 on this list for 14 consecutive years.
- WalletHub ranked Sioux Falls as one of the Best Large Cities to Start a Business in 2018.
- #7 in Livability’s Top 100 for Best Places to Live

Sioux Falls continues to see record breaking building permits within it’s city limits. At midyear, there has already been over \$350 million worth of construction, above last year’s midyear figures.



**Michael Bender, CCIM, SIOR**  
Principal  
(605) 782-1662  
michael@benderco.com

**Bender Commercial Real Estate Services**  
122 South Phillips Avenue, Suite 350  
Sioux Falls, South Dakota 57104  
(605) 336-7600 | [www.benderco.com](http://www.benderco.com)

**City of Sioux Falls Building Permit Data—January through June 2019**  
**Source: Building Service Division, City of Sioux Falls**

2019	
Number of Permits Issued	3,547
Total Value of Permits Issued	\$350,541,020
New Residential	\$108.1M
Residential Addition & Remodel	\$32.1M
New Commercial	\$114.6M
Commercial Addition & Remodel	\$95.7M
Total	\$350.5M
New Commercial	
Manufacturing	\$6.6M
Office, Institutional	\$6.9M
Retail	\$12.9M
Apartments	\$36.9M
Other Commercial	\$51.3M
Total	114.6M
New Residential	
Single Family Units	340
Duplex Units	2
Townhouse Units	155
Multi-Family Units	338
Total	835

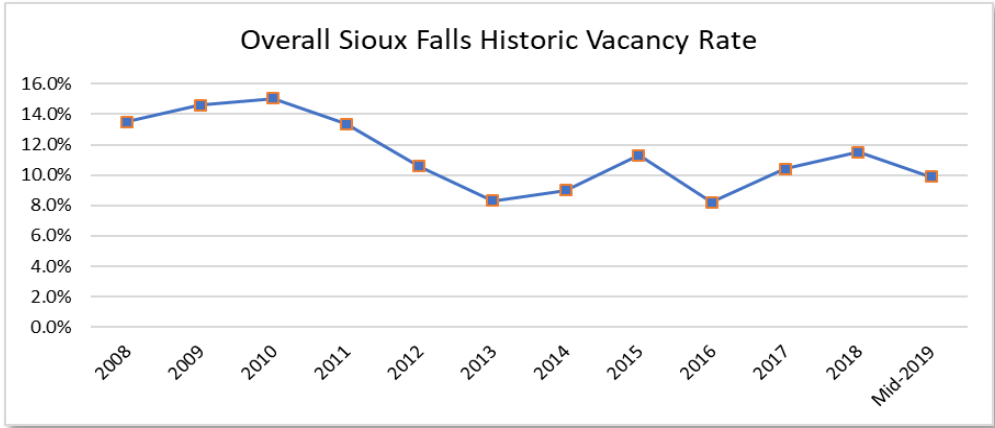
The top construction projects in the first half of 2019 include:

- Encompass Health Rehabilitation Hospital—\$15.5M
- Avera Hospital-Operating Room Remodel—\$12.0M
- Avera Human Performance Center—\$11.65M
- Village Cooperative of Sioux Falls—\$10.3M
- Hyatt Place Lake Lorraine—\$9.0M
- Jefferson High School—\$9.0M
- Hillcrest Heights Apartment—\$7.91M



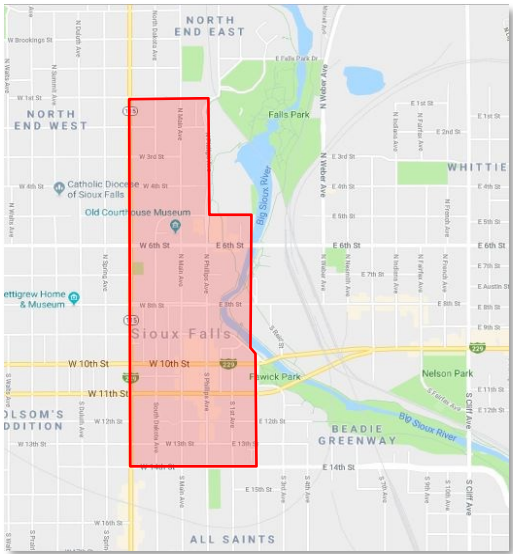


By midyear of 2019, Sioux Falls’ entire office market consisted of 14,946,927 square feet of space. This figure includes both owner and non-owner occupied buildings. However, buildings that are not entirely leased by an owner do not truly affect the market’s rental rates, so this report excludes those properties. This criteria left 8,031,474 sq. ft. of tenant-occupied space, an increase of approximately 93,000 sq. ft. in the past six months. The overall vacancy of the Sioux Falls office market decreased slightly from 11.5% at the end of 2018 to 9.9% by mid-2019.



Central Business District

The Central Business District (CBD) can be defined as the area east of Minnesota Avenue , past the Big Sioux River to now include what is known as the East Bank with 2nd Street marking the northern boundary and 14th Street as it’s southern boundary. The CBD’s inventory increased by approximately 5,000 square feet due to a building renovation adding office space to it’s second floor. The vacancy rate stayed relatively the same with a slight 0.1% increase from 13.2%. At the end of 2018, the CBD had a negative net absorption of over 20,000 square feet. At mid-2019, that net absorption crept up to 2,008 square feet. With little change in the CBD in the first part of the year, rental rates remained stable around \$12.75 per square foot triple net.



Central Business District Key Facts

	CBD	Class A CBD	Class B/C CBD
Inventory (SF)	2,319,803	739,029	1,580,774
Vacant Space (SF)	169,093	33,243	135,850
Vacancy Rate	7.3%	4.5%	8.6%
Net Absorption (SF)	2,008	(9,703)	11,711
Asking Average Rental Rate	\$12.75/SF	\$16.00/SF	\$12.00/SF





	Suburban	Class A Suburban	Class B/C Suburban
Inventory (SF)	5,711,671	1,746,387	3,965,284
Vacant Space (SF)	626,709	114,224	512,485
Vacancy Rate	10.1%	6.5%	12.9%
Net Absorption (SF)	154,162	93,278	60,884
Asking Average Rental Rate (NNN)	\$12.50/SF	\$15.00/SF	\$12.00/SF

Suburban Sector

The remaining office space outside of the defined CBD sector comprises the Suburban Market. This segment contains a wide range of properties including Class A office/technology buildings with high-end finishes to older buildings in the northern part of the city. The suburban market added approximately 30,000 square feet to it’s inventory in the form of three newly constructed buildings in the southwest area of Sioux Falls and two smaller buildings converted from owner-occupied status.



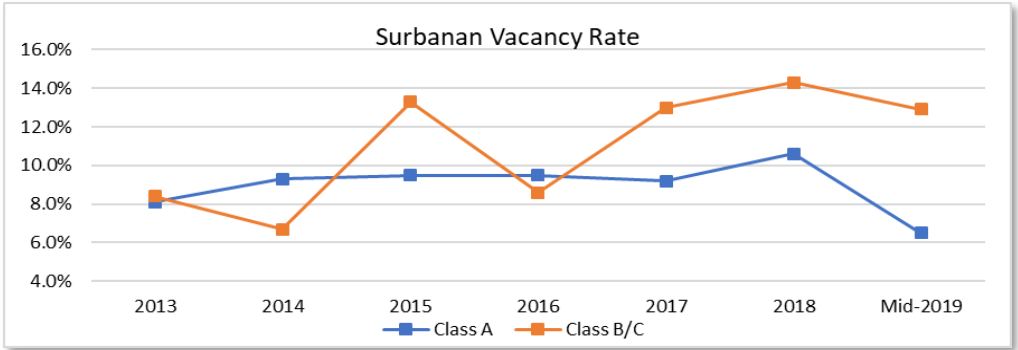
In addition to the growth of it’s inventory, the suburban market had a significant drop in it’s vacancy rate from 13.2% in 2018 to 10.1% at midyear. As it has for the past two years, the availability of the CitBank campus continues to affect the suburban market. With the decrease in vacancy, accordingly the net absorption increased over 100,000 square feet since the end of 2018. Despite the decrease in its vacancy and increased absorption, rental rates did not change much in the past six months, sitting around \$12.50 per square foot triple net.

Notable Office Transactions

Address	Building Size	Price	Sale Date
2500 W. 49th St.	16,214 SF	\$1,700,000	February 2019
6209 & 6221 E. Silver Maple Cir.	16,448 SF	\$2,375,000	March 2019
4101 W. 38th St.	43,021 SF	\$5,100,000	June 2019

Address	Tenant	Space Size	Lease Type
2300 E. 54th St N.	Avera McKennan	19,930 SF	NNN
3241 E. Bison Trl.	Infrastructure Design	3,881 SF	NNN
3817 S. Elmwood Ave.	MedVantx	7,377 SF	Sublease
3811 W. Technology Cir.	ACLU	2,495	NNN



Andi Anderson, SIOR  
Principal  
(605) 782-1660  
andi@benderco.com



“It’s a great sign for the market when we see vacancy rates dropping in the Suburban Market”

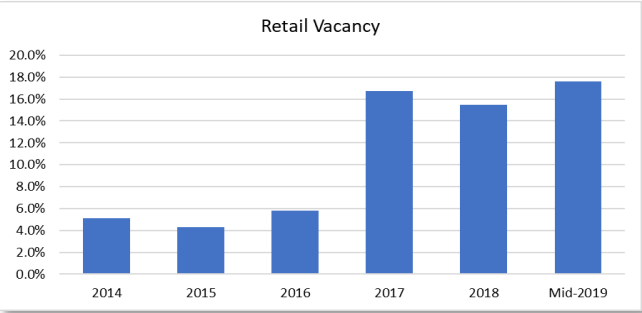




Retail is in constant flux, with many properties (and their owners) benefitting from the transitioning of old concepts to new, and existing brands re-positioning from old school to new. The Sioux Falls retail market has reacted well and continues to churn out fresh concepts and new development. With the continued success and growth of our new community, this trend will continue.

Vacancy

At the end of 2018, the citywide vacancy rate was 15.5%. We predicted that it would hold steady as 2019 progressed even with big box stores coming available in early 2019. The current vacancy is 17.6%. Despite additional big box availability so far in 2019, the market has absorbed a fair amount of space. The highlight of 2019 was the announcement of At Home taking over the former Shopko space (nearly 100,000 square feet) on 41st Street. As it currently sits, we have 2 big box stores available - Shopko and Kmart, both on East 10th Street. If we remove those two from the market study, our overall vacancy is reduced to 11.1%.



41st Street

As Toby Keith said, “I’m not as good as I once was...”. The prestige about leasing space on 41st Street has certainly lost some cachet. However, with traffic patterns, available space at reduced rates and landlords willing to negotiate, it will remain an option for tenants. At year end, the vacancy was an astounding 18.6%. As of mid-year, it has dropped to 15.0% and I’d look for that to continue to drop a little as we approach year end.

Notable Retail Sales



**4501 E. Arrowhead Pkwy**  
Johnson Properties, LLC  
94,302 SF  
\$7,900,000



**500 E. 69th Street**  
Looks Meat Market  
21,670 SF  
\$3,600,000

New Developments

Well-located retail centers (69th & Western / 85th & Minnesota) remain attractive to tenants and will continue to be viable and push rents to the upper limits. The class B/C will continue to struggle.

Big Box

So far, Sioux Falls has reacted well to the big box retail transition. However, it remains to be seen what will happen on East 10th Street with both Shopko and Kmart spaces available.



Market Cycle

Retail sector has many forces working against it (increased construction costs, high vacancy, reduced retail rates, low new construction). I believe we are in **hypersupply** in the real estate cycle and will need to absorb a significant amount of space in the next 12-24 months to push us into recovery.

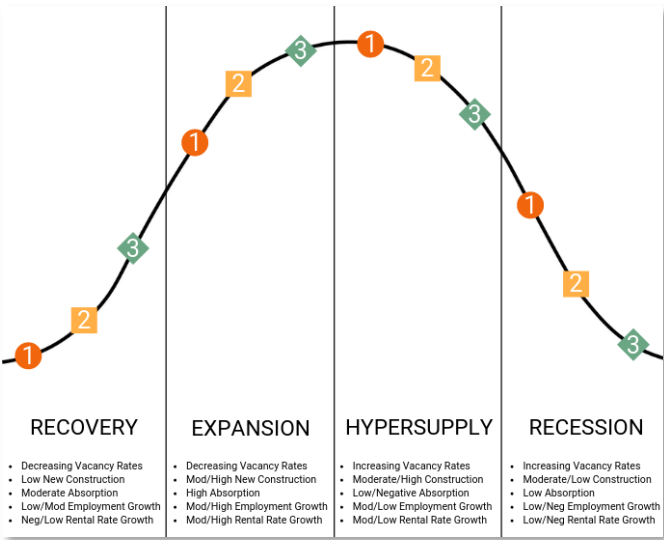
Predictions:

- Vacancy should decrease to 15-16% by year end.
- Construction: \$12.9M as of midyear—we should be down considerably compared to last year.
- Rental rates: Class B/C are going to continue to decrease. If well located, I’d encourage landlords of strip centers to reinvest in the aesthetics of their buildings to attract tenants.

**Reggie Kuipers, SIOR**  
Principal  
(605) 782-1663  
reggie@benderco.com



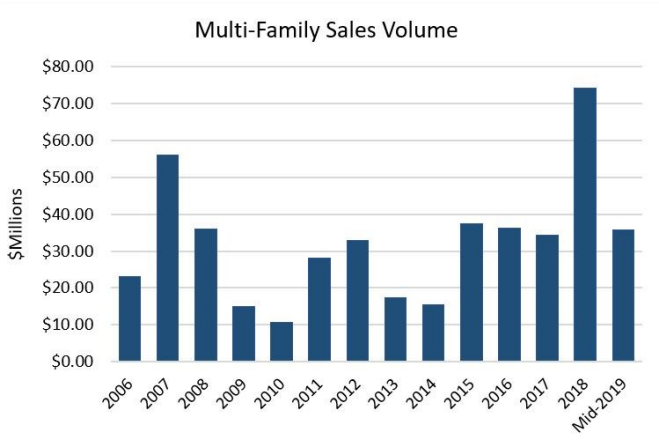
**“The Sioux Falls retail market has reacted well and continues to churn out fresh concepts and new developments.”**



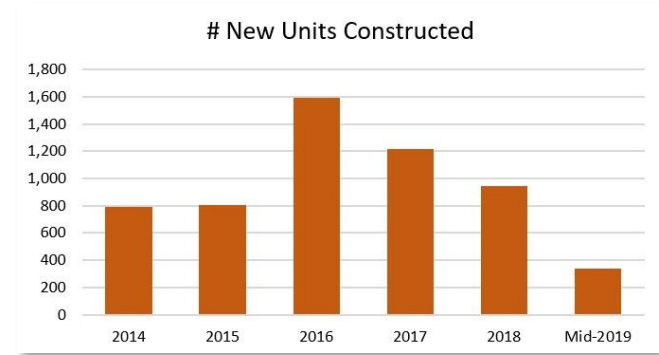


Multi-Family

Multifamily sale volume through May reported a blistering hot \$36,930,260 with 13 sales. The majority of these transactions were out of state buyers with Tzadik from Florida along acquiring nearly \$27 million of additional units.



Developers continue to exercise restraint in building new projects as only 334 multi-family permits were pulled during the first six months of the year.



We are predicting vacancy levels to slowly drop through the course of the year based on moderate new unit construction and Sioux Falls’ continued job and population growth.

It’s worth noting that after many years of very little multi-family inventory on the open market, we are seeing more listings. While many of these new listings are overpriced, we may see an uptick in sales activity with new option for investors.



Office Investment Market

Office Investment transactions have been slightly sluggish starting out the year, but we expect this to change by year’s end. Some notable transactions include:

- Western Valley sold for \$3,365,000 to a North Dakota investor.
- Two office building on Silver Maple sold for \$2,375,000



Based on some of the positive fundamentals and some of the inventory we are seeing on the market, I predict it will be a very good year for the office market.

Retail Investment Market:

Retail investment transactions also seem to be a little slow out of the gate this year according to our internal database and Lincoln and Minnehaha Counties. A handful of smaller transactions take a back seat to the Shopko Shopping Plaza transactions this spring on East Arrowhead and Sycamore Avenue for \$7,900,000.



Retail fundamentals have been slightly soft in the last year or so. That said, retail investment transactions have been a strong asset class for investors for the last decade and we expect that to continue.

**Nick Gustafson, CCIM**  
Principal/Investment  
(605) 782-1668  
nick@benderco.com

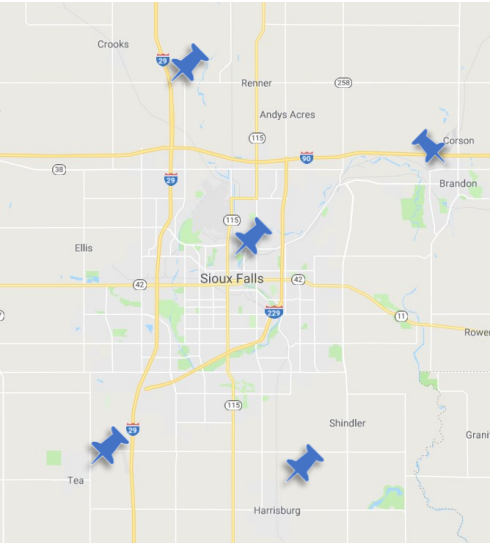


**“As we have passed the midpoint of 2019, it’s clear the Sioux Falls Investment Market is in decent shape.”**



Industrial Market Overview

The Sioux Falls industrial market is made up of those properties used for manufacturing, warehouse, distribution, transportation, and a large part in this area, contractor shops, which are bound together throughout five cities - Sioux Falls, Tea, Harrisburg, Brandon and Renner. Currently, the industrial market encompasses a total of 1,369 buildings, equating to approximately 24.8 million square feet of space. In contrast to the office market, both owner and tenant-occupied space is included within this report. Of the nearly 25 million square feet of space, 68% is owner-occupied with 29% being tenant occupied.



Pricing

Average rental rates have remained stable over the past several years. With construction costs on the rise, tenants must decide if they are willing to accept potential rent increases or settle for Class B/C space. Sales transactions are trending on the same path as mid-year 2018. Due to the increase in construction costs, some of the newer functional buildings have been selling at a premium. Whereas, pricing for Class B/C buildings – due to functional obsolescence, capital improvements requirements and time decay – are starting to drop.



Rob Fagnan, SIOR
Principal
(605) 782-1672
rob@benderco.com

Vacancy, Absorption & New Construction

The first half of 2019 held steady by carrying over some of the momentum from the end of 2018. The vacancy rate fell ever so slightly from 3.23% in 2018 to 3.16% in 2019 YTD. As the market continues to absorb space at the same rate of new construction, vacancy rates will remain steady around its 10-year average of 3.65%. The overwhelming majority of available product in the market are warehouses in the 5,000 to 20,000 square foot range, along with the several 1,500 to 3,000 square foot contractor shops. At mid-year, the market has already absorbed 343,311 square feet, with new construction reaching 338,900 square feet. Two notable construction projects to be completed in 2019 is the 120,000 square foot Dell Arneson spec building near Cliff Avenue and I-90, and the 199,500 square foot warehouse being built by Nordica Warehouses in the Sioux Falls Development Foundation's new Foundation Park.

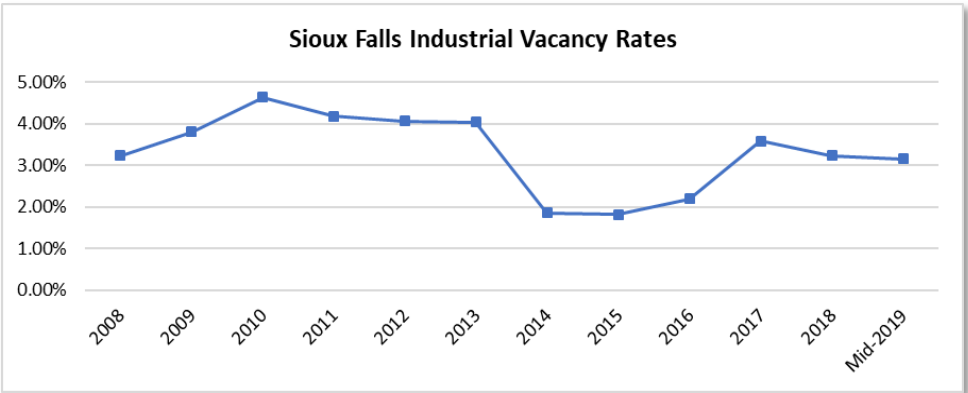


Table with 3 columns: Class A Rental Rates, Class B Rental Rates, Class C Rental Rates. Includes a sub-table for Notable Sale Transactions with columns: Buyer, Property Address, Size, Transaction Amount.

Outlook

Both national and locally, industrial markets have been the best kept secret. Increased efficiencies in manufacturing and transportation continue to grow and shape the industrial landscape. Through the remainder of the year, vacancy should remain steady with an increase in absorption and new construction. However, it's important to note that over the past 3 years, the Sioux Falls industrial market has in effect become a teeter-totter, bouncing back and forth between expansion and hyper supply. As companies continue to grow and expand with historically low interest rates, 2020 may be the year we reenter hyper supply and extend our stay.