

MARKET OUTLOOK 2021



Bender
COMMERCIAL



Economic Overview

Michael Bender, CCIM, SIOR

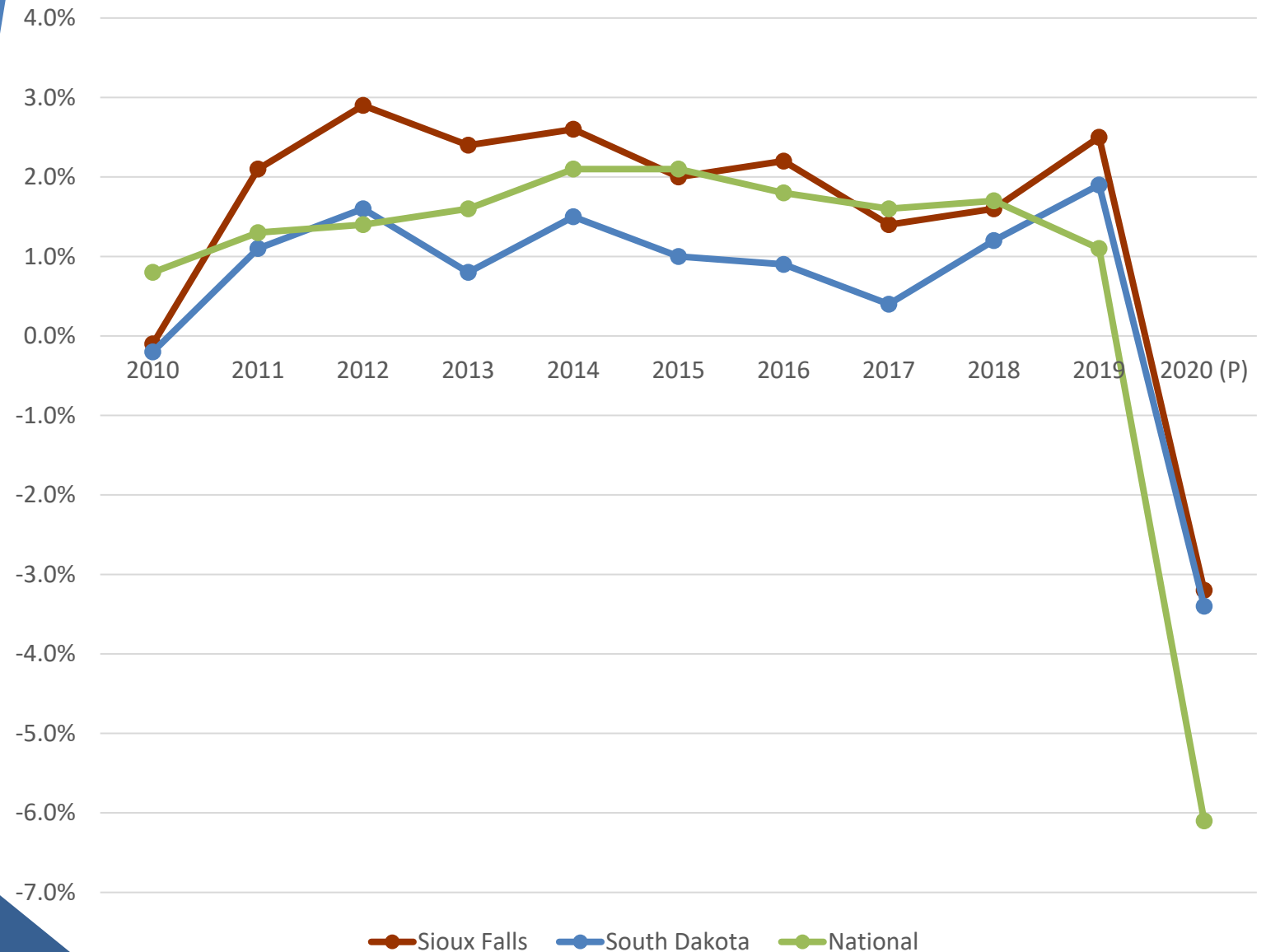
Employment Growth

Sioux Falls MSA: -3.2%

South Dakota: -3.4%

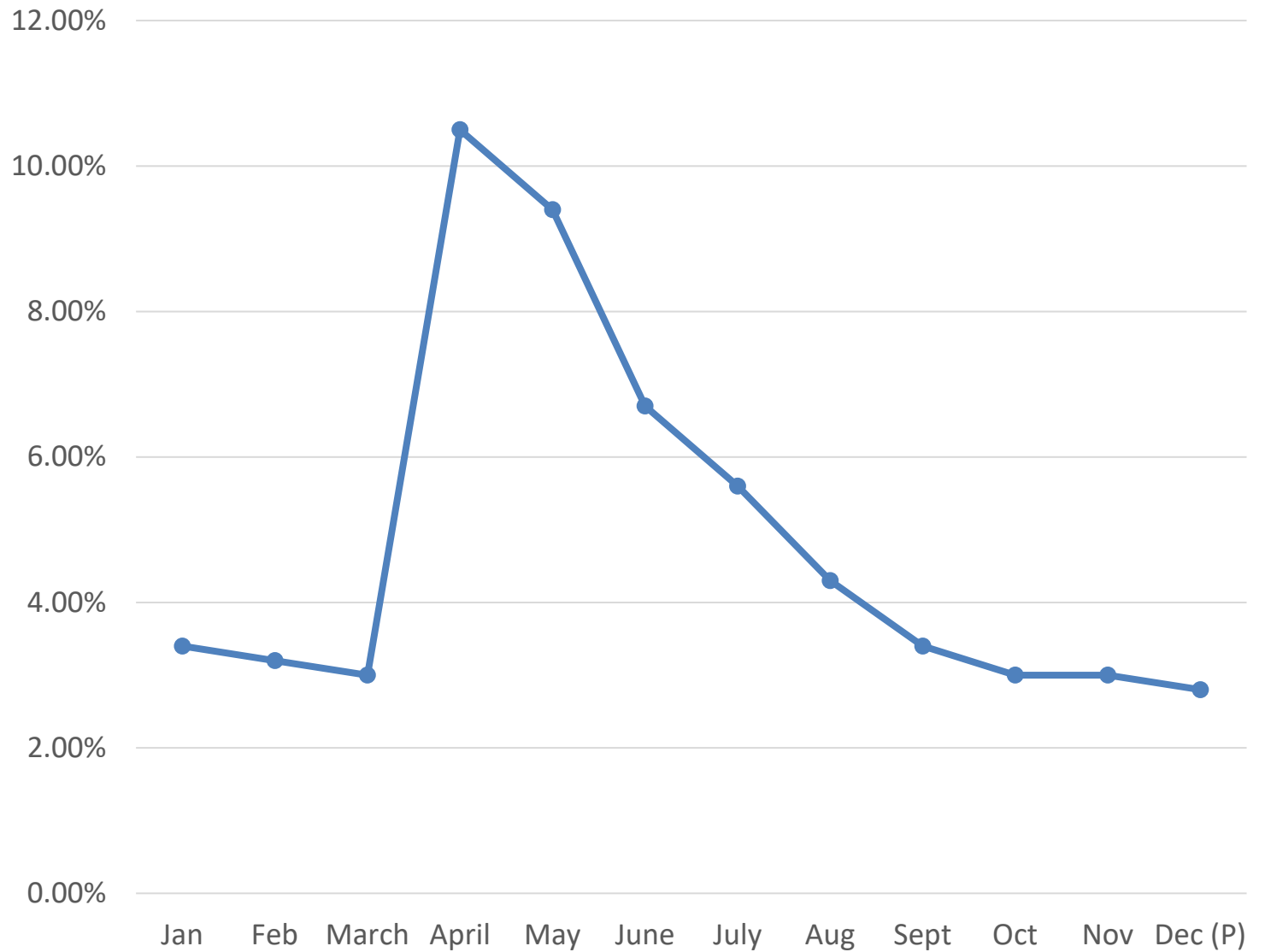
National: -6.1%

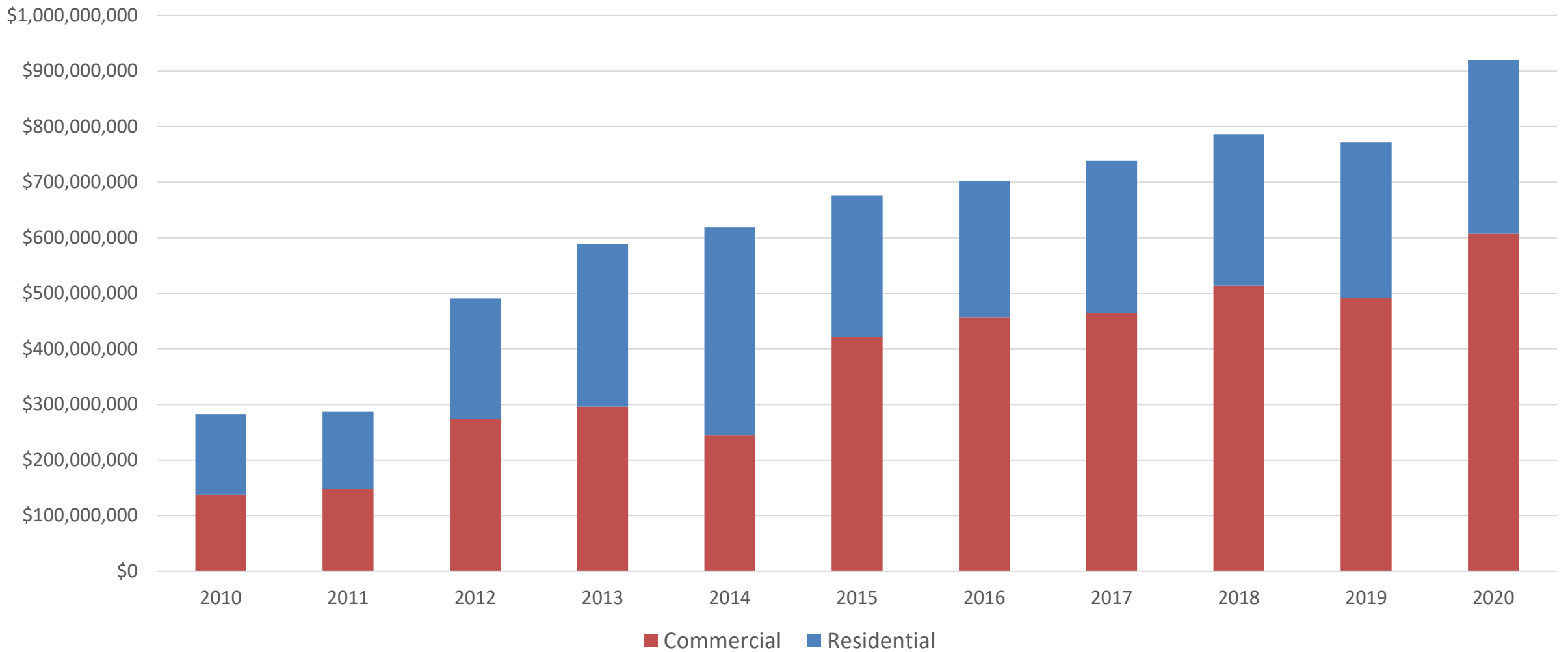
(Annualized Figures)



Monthly Unemployment Rate

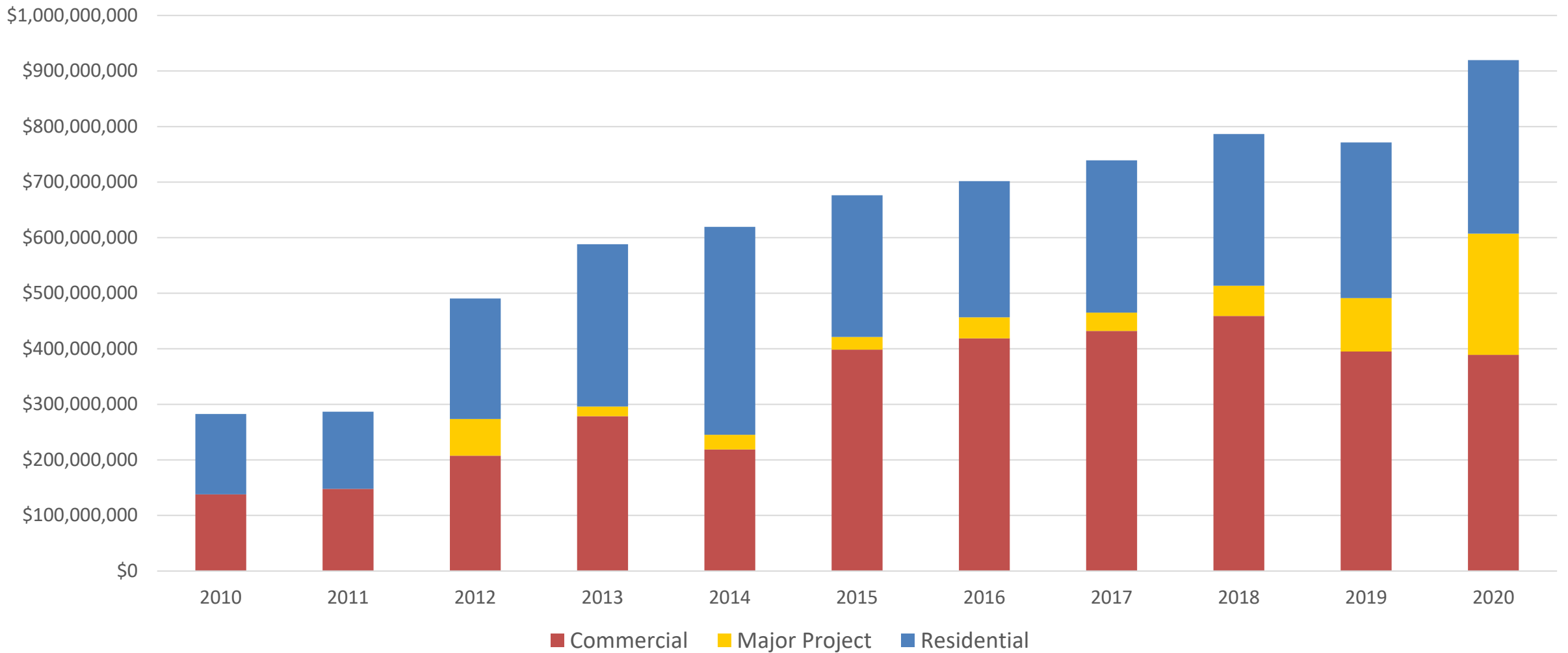
Sioux Falls MSA





Source: City of Sioux Falls, Planning

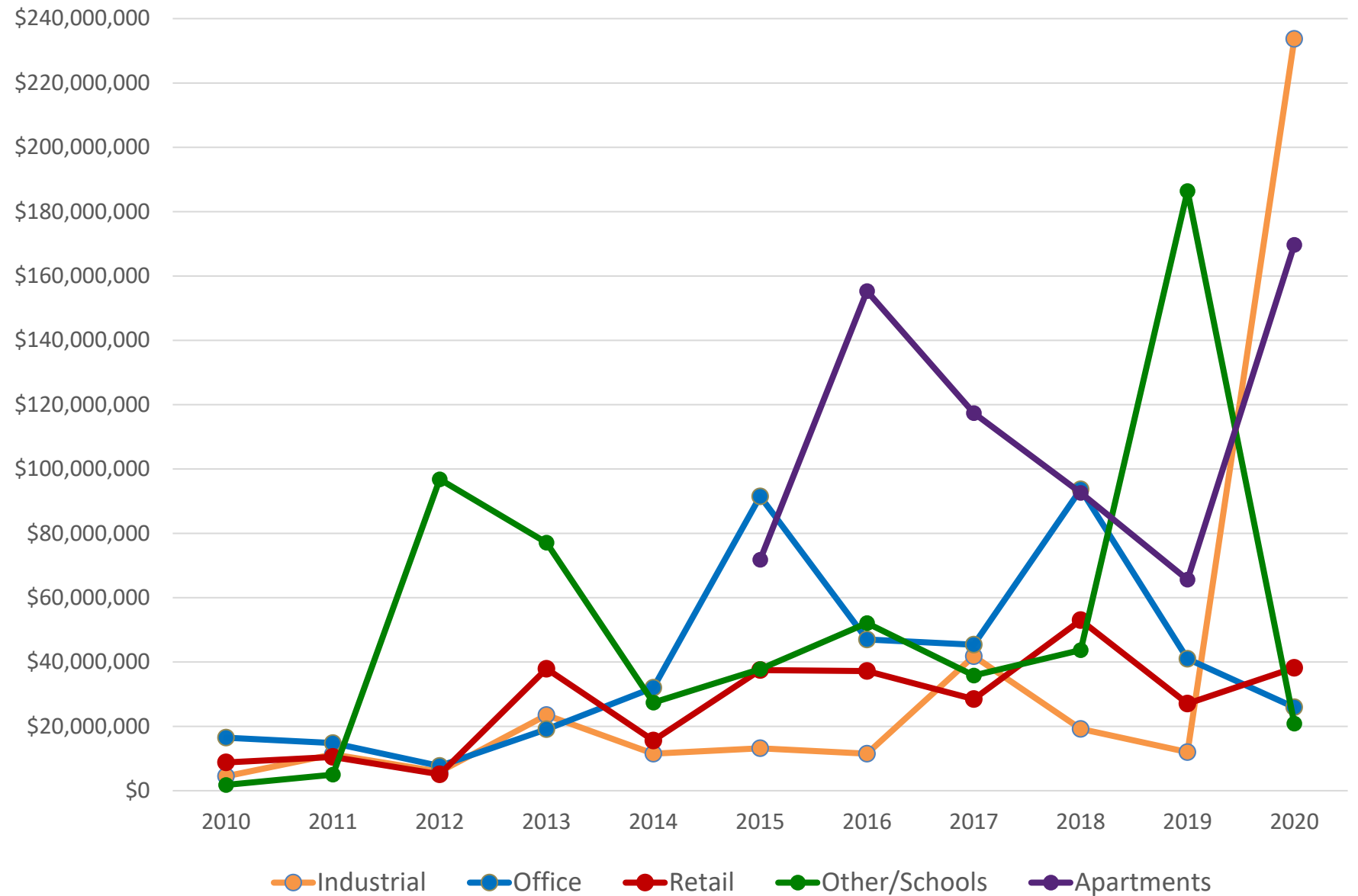
Total Building Permits



Source: City of Sioux Falls, Planning

Total Building Permits

New Commercial Construction



Commercial Construction

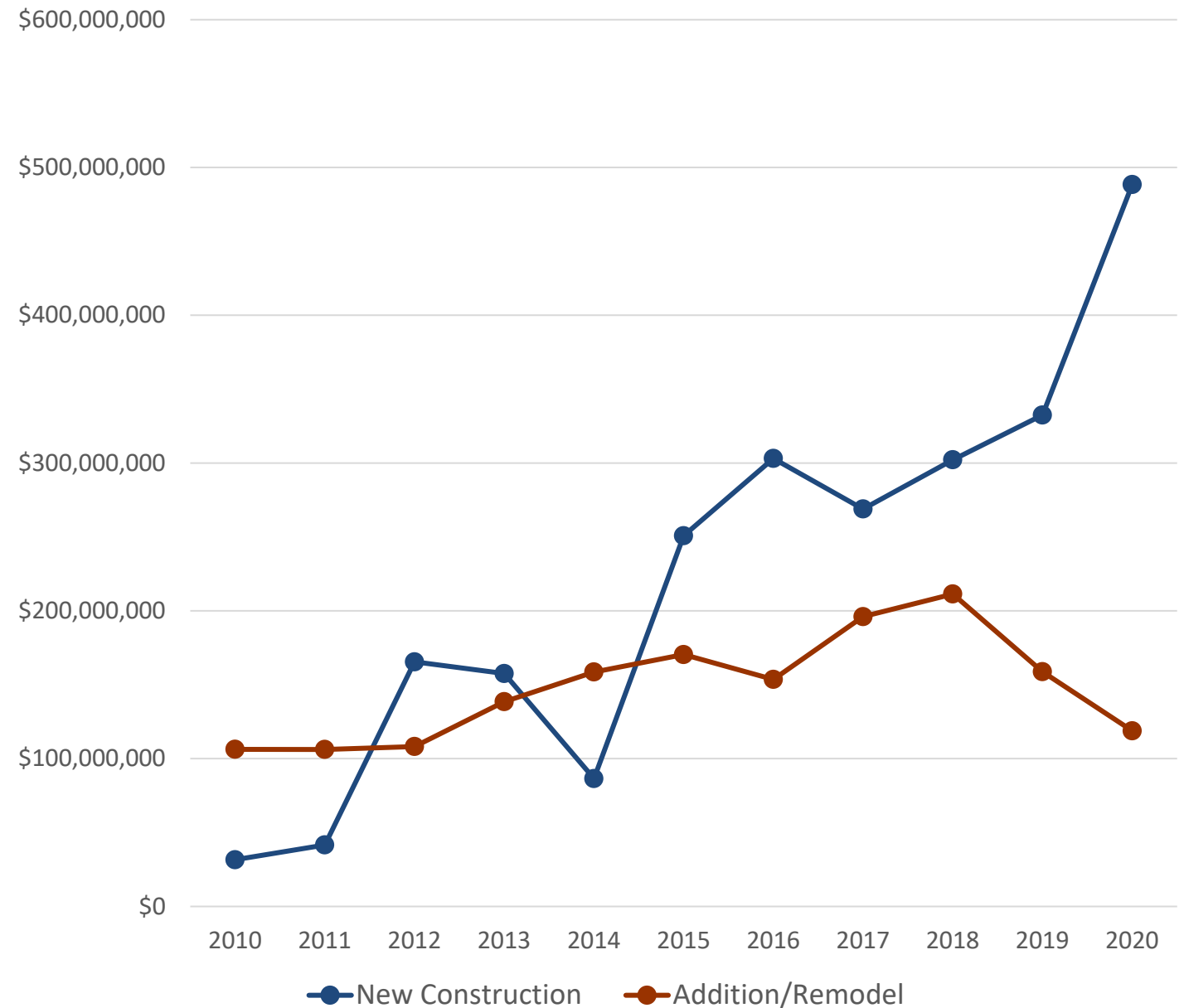
(New vs. Addition/Remodel)

New Construction:

- Amazon - \$218.2M
- Westview Heights Apts - \$27.4M
- The Flats at Prairie Point - \$22.1M
- Sparta Elementary – 14.0 M
- Capital Services - \$8.8M

Addition/Remodel:

- Sanford Van Demark Bldg - \$11.5M
- Boyer Trucks - \$6.7M
- First National Bank - \$4.3M
- Avera Inpatient Remodel - \$3.9M



Regional Comparison

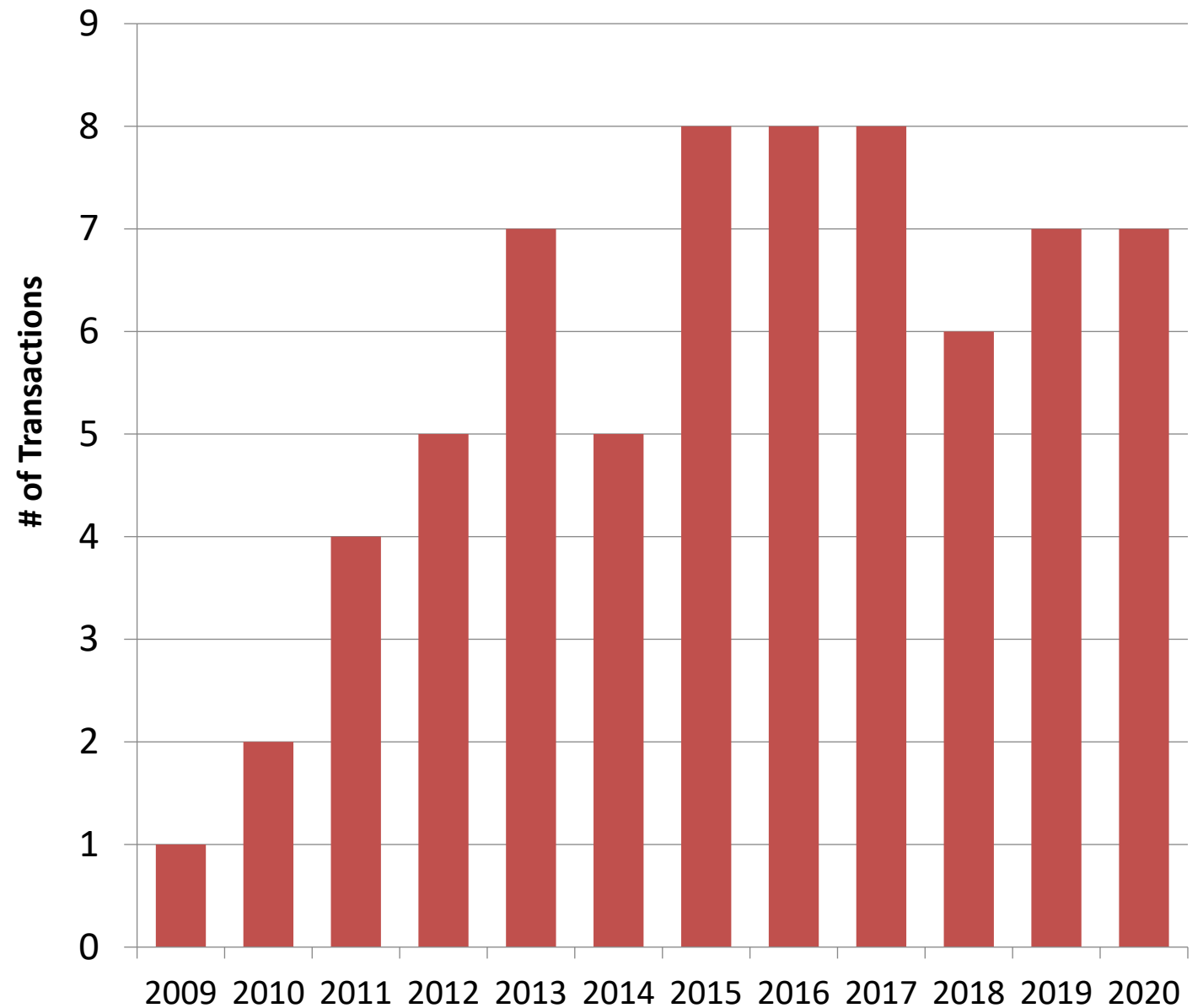
City	Permits Issued	Total Value of Permits
Sioux Falls	7,222	\$919,602,112
Fargo	2,144	\$720,247,192
Rochester	11,717	\$557,050,772
Lincoln	3,038	\$649,550,361
Des Moines	2,909	\$351,932,146
Rapid City	5,598	\$275,254,668



Land Market

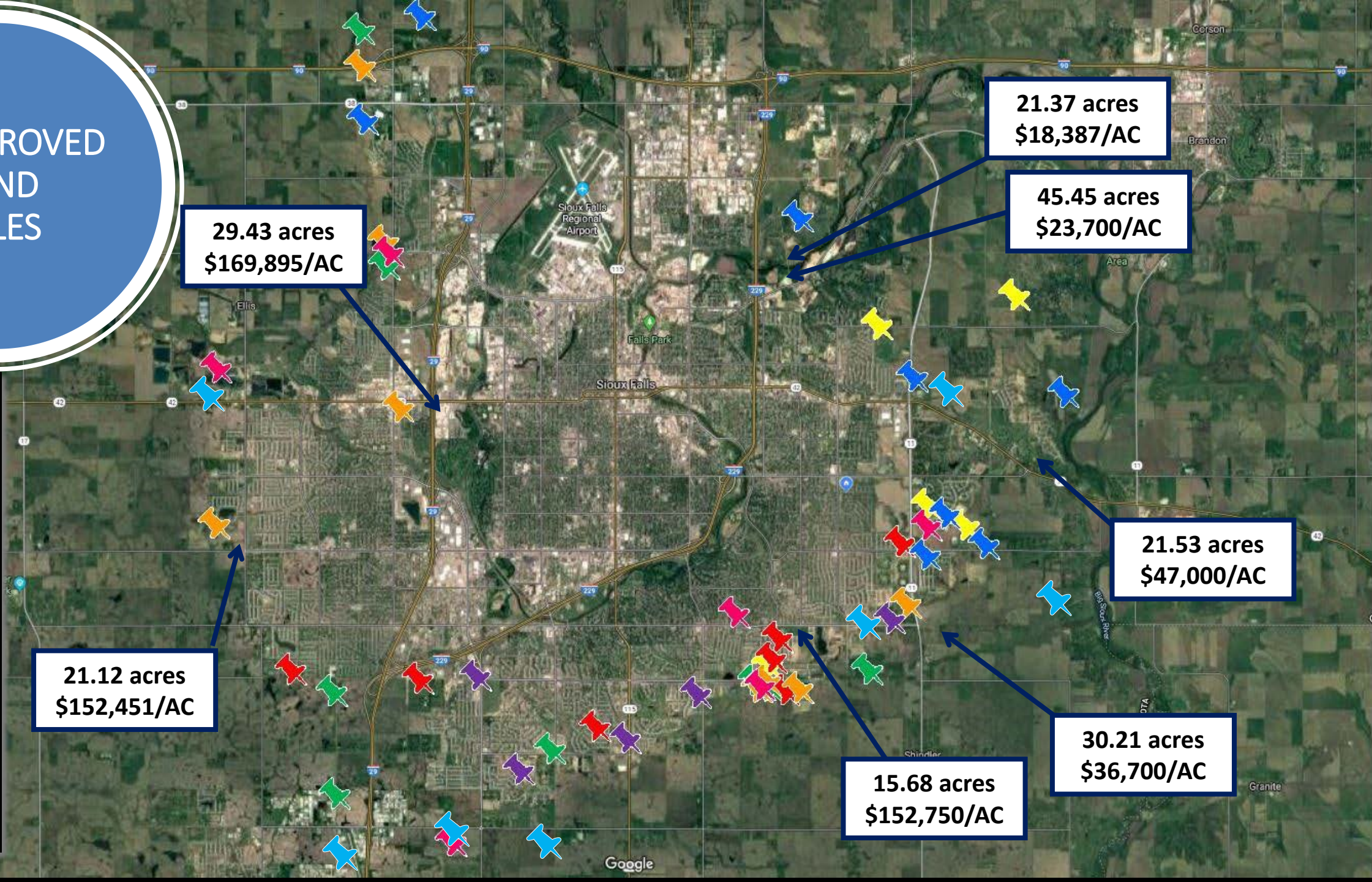
Bradyn Neises
SIOR Member Associate

Unimproved Land Sales



UNIMPROVED LAND SALES

- 2019
- 2018
- 2017
- 2016
- 2015
- 2014
- 2013
- 2012



UNIMPROVED LAND SALES

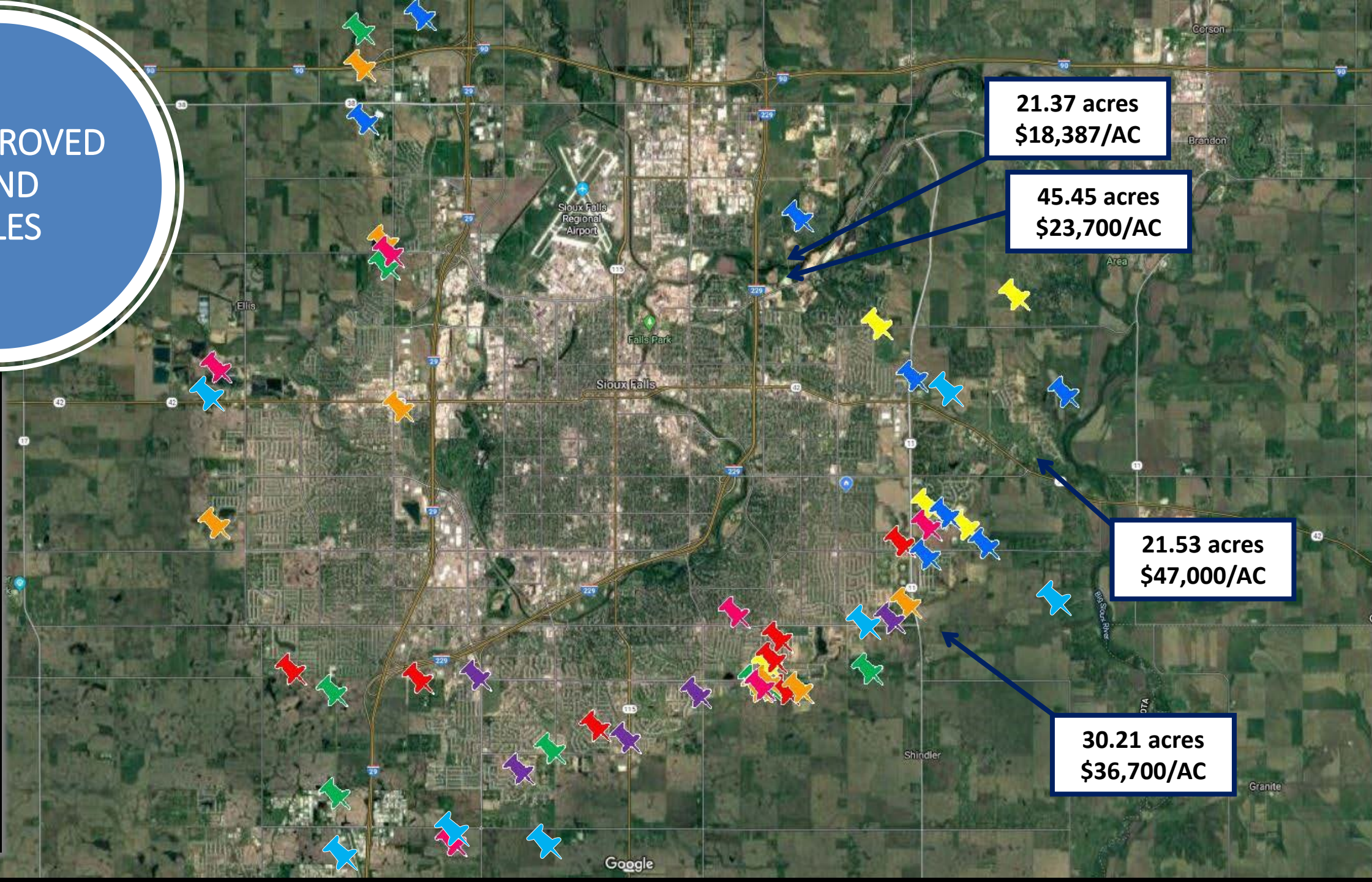
- 2019
- 2018
- 2017
- 2016
- 2015
- 2014
- 2013
- 2012

21.37 acres
\$18,387/AC

45.45 acres
\$23,700/AC

21.53 acres
\$47,000/AC

30.21 acres
\$36,700/AC



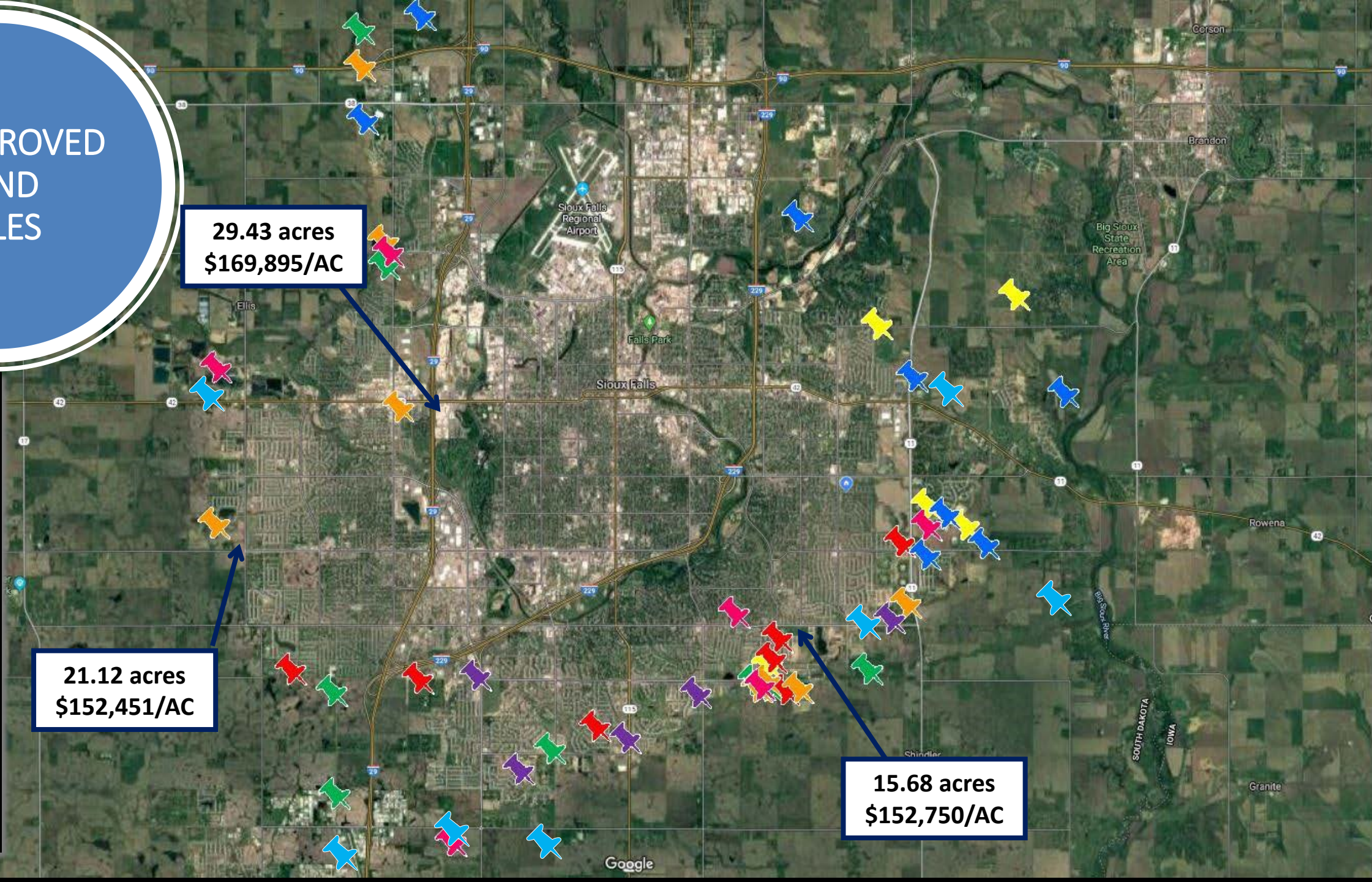
UNIMPROVED LAND SALES

- 2019
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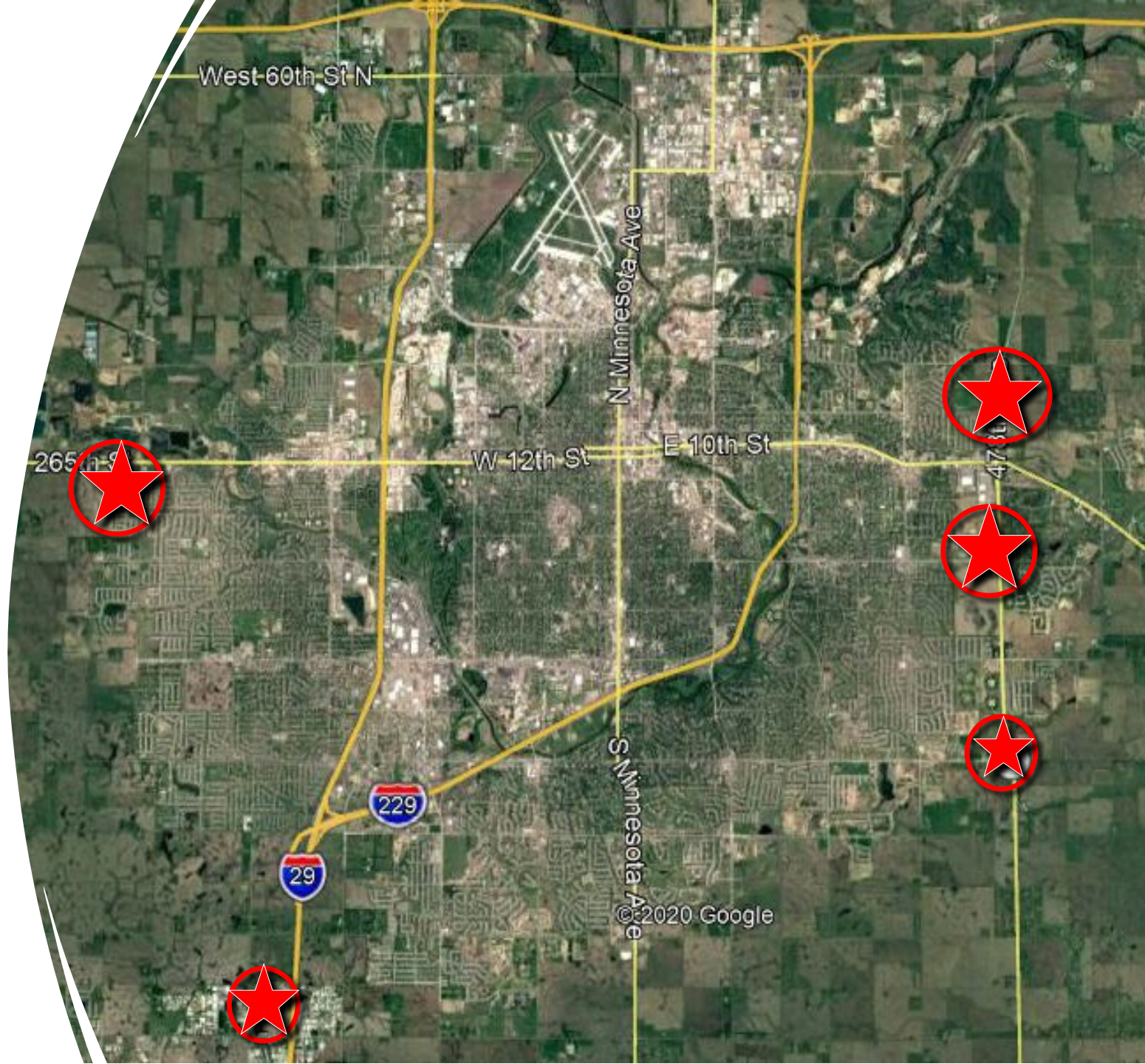
29.43 acres
\$169,895/AC

21.12 acres
\$152,451/AC

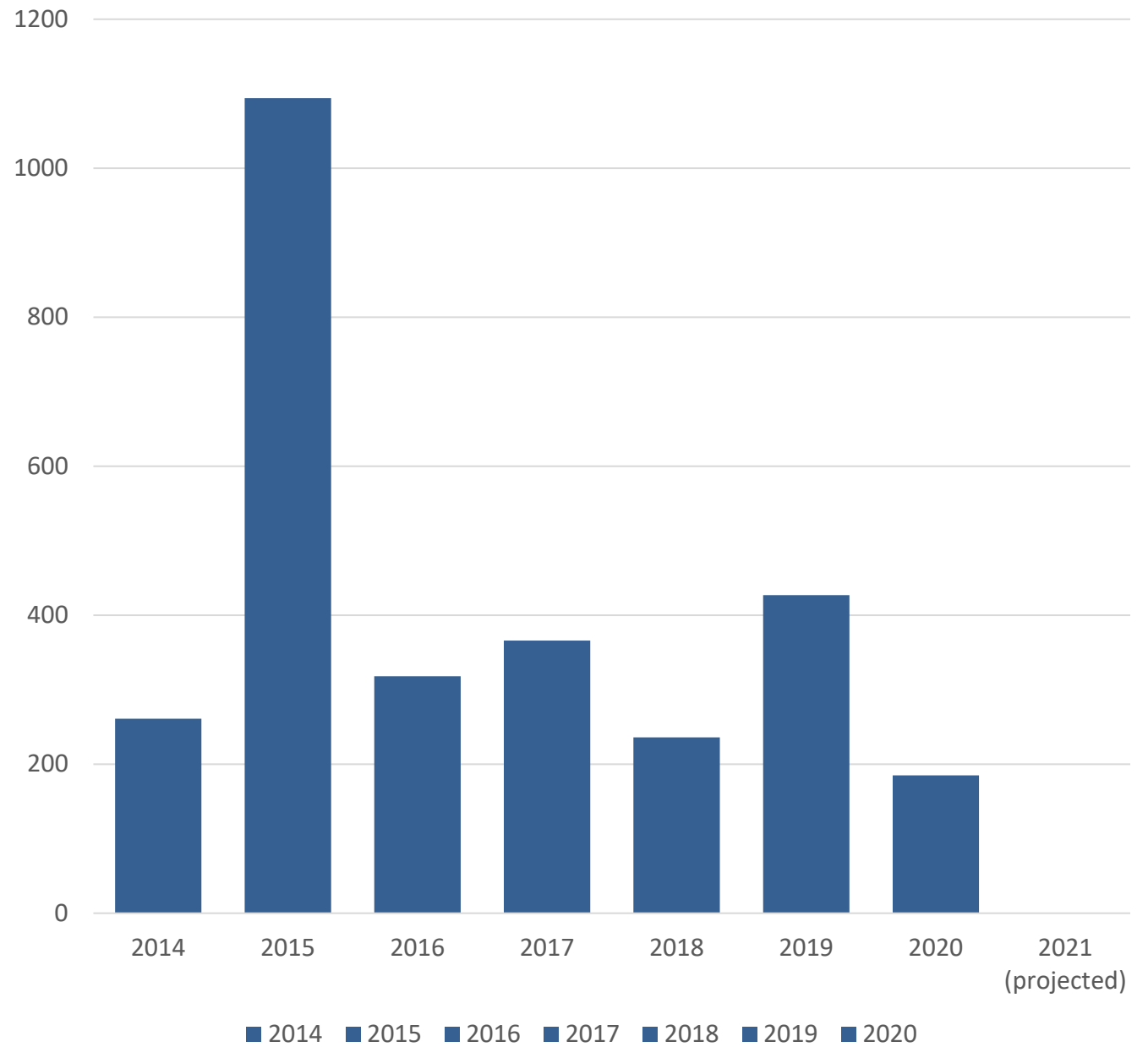
15.68 acres
\$152,750/AC



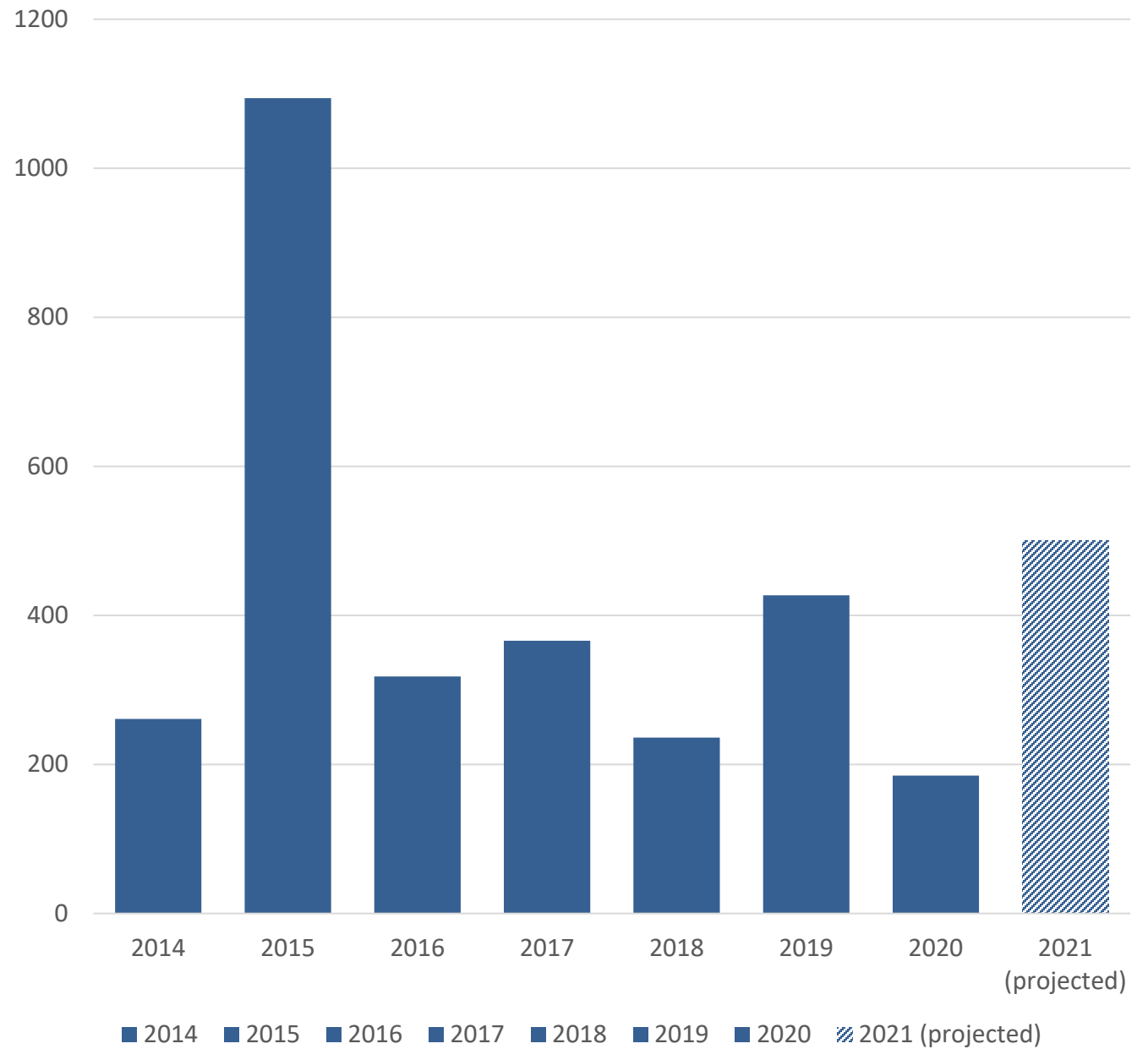
Developer “Wait & See”



Number of Acres Sold



Number of Acres Sold



Predictions – Big Year for Bulk Land

Northwest Sioux Falls



Foundation Park
Impact

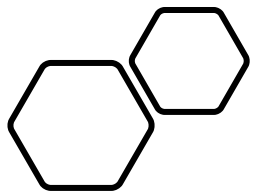


Jefferson High
School



Upside Less
Competition





Infrastructure



DIRT WORK



CURB &
GUTTER



WATER



UTILITIES

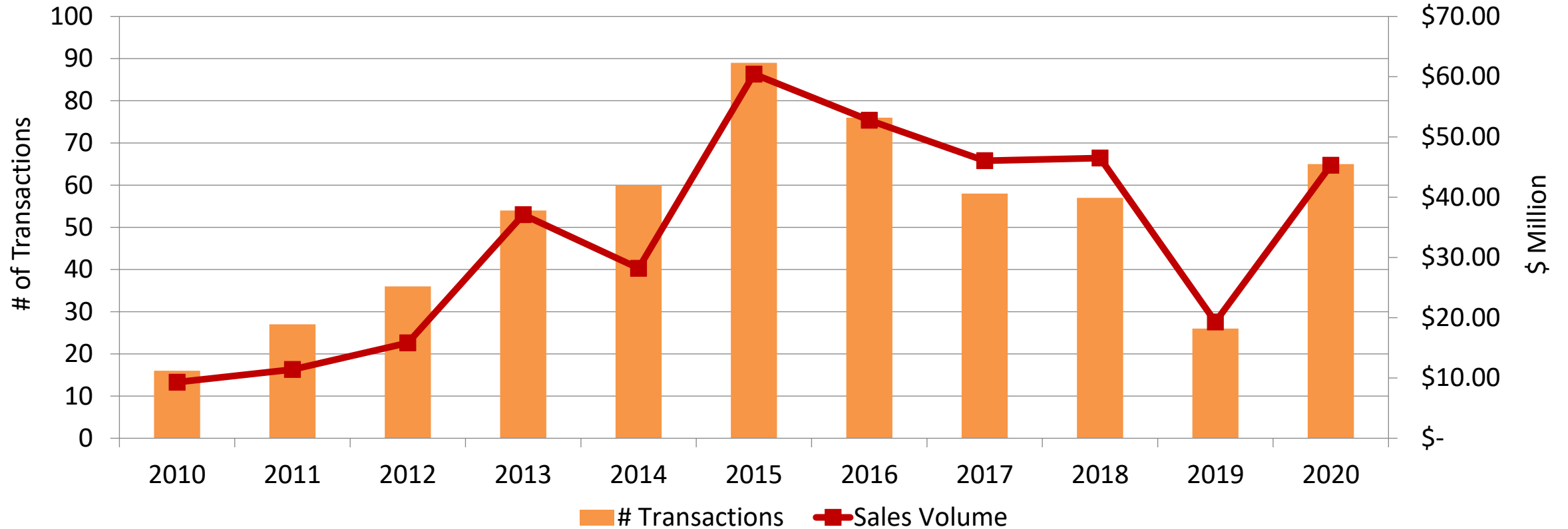


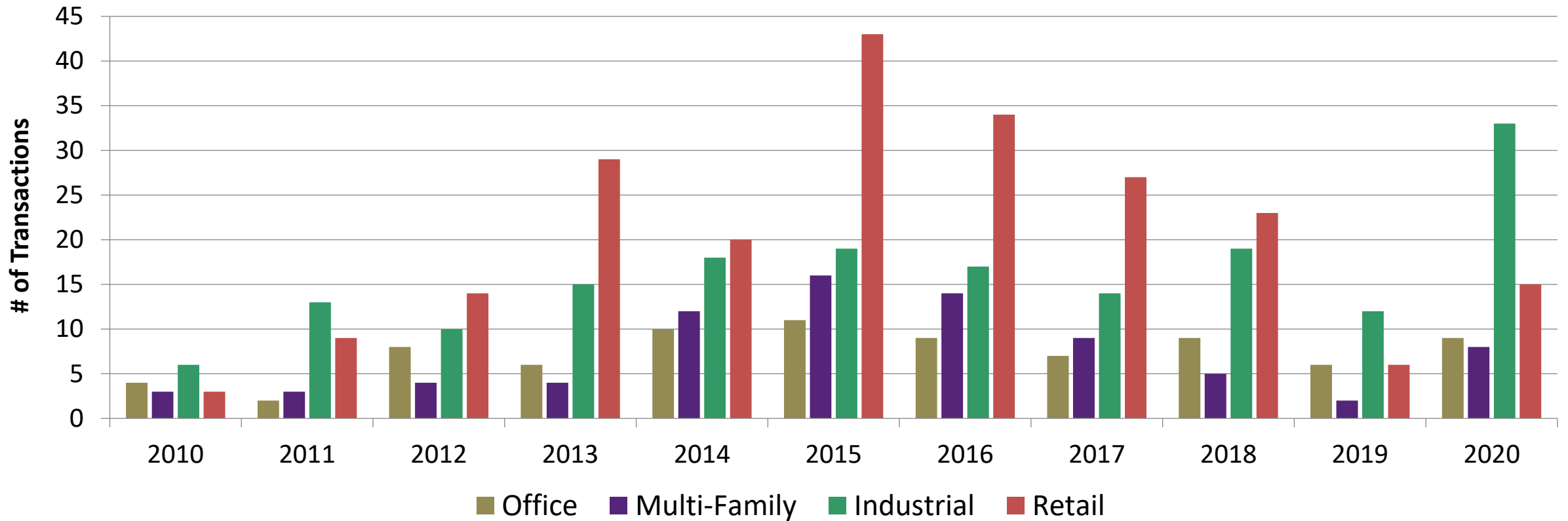
STREET



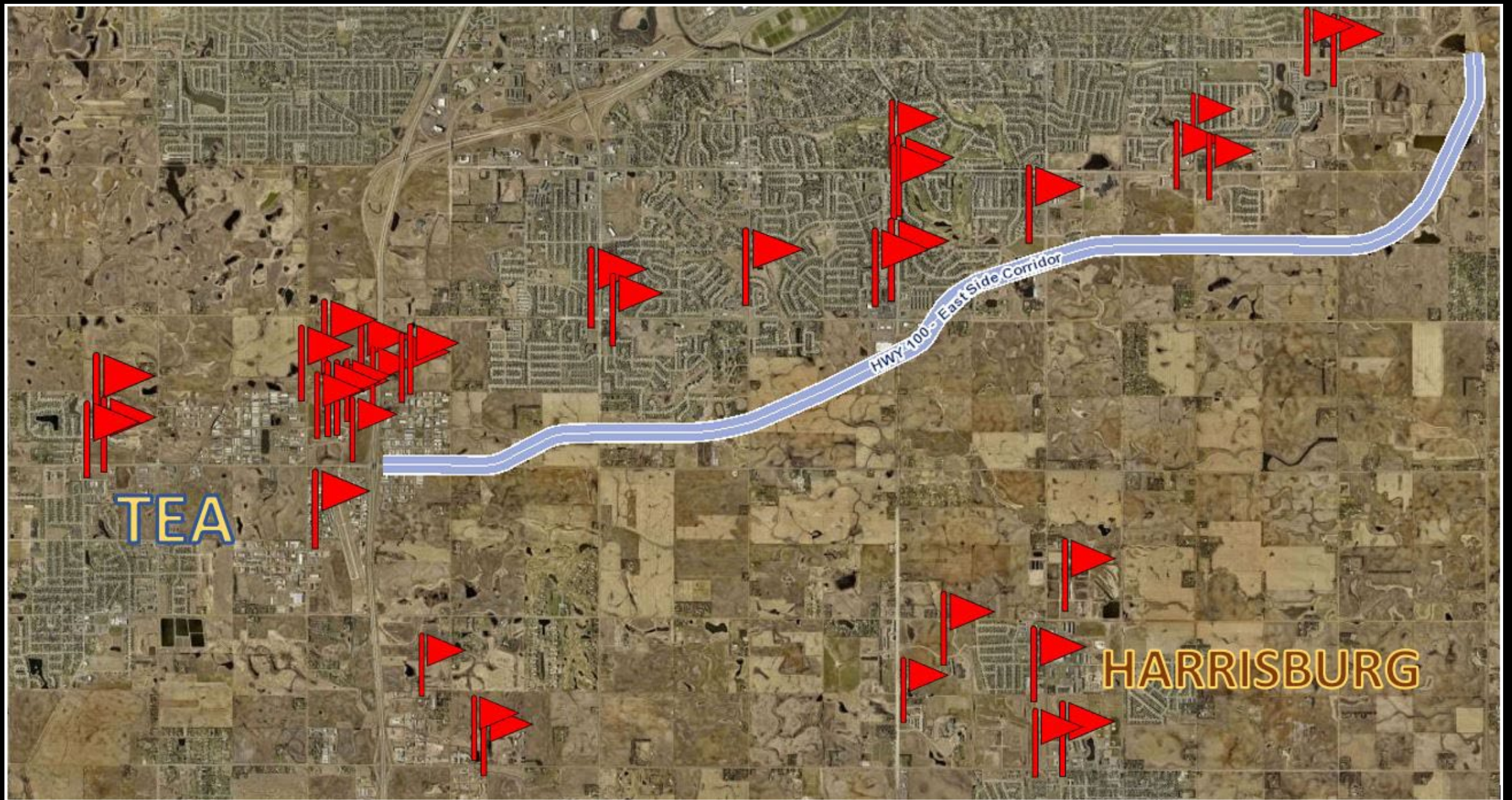
DETENTION
PONDS

Improved Land Transactions





Transactions By Land Use



Future SD Highway 100

Land Pricing

	Low	High	2019 Mean	2020 Mean
Retail	\$3.50	\$30.00	\$13.47	\$11.25
Office	\$4.25	\$13.50	\$8.68	\$8.75
Industrial	\$1.17	\$6.32	\$3.19	\$3.50
Multi-Family	\$1.45	\$7.00	\$3.07	\$4.00

Predictions

Unimproved ↑

Improved Sales

- Industrial ↔
- Retail ↓
- Office ↔
- Multi-Family ↑



Office Market

Reggie Kuipers, SIOR

Overall Office Market



Inventory

8.3M SF



Vacancy Rate

Overall 9.9% ↔

Class A 4.5% ↓

Class B/C 12.3 ↑



Net Absorption

195,521 SF



Lease Rate

Overall \$11.25/SF NNN

Class A \$17.00/SF NNN

Class B/C \$10.50/SF NNN

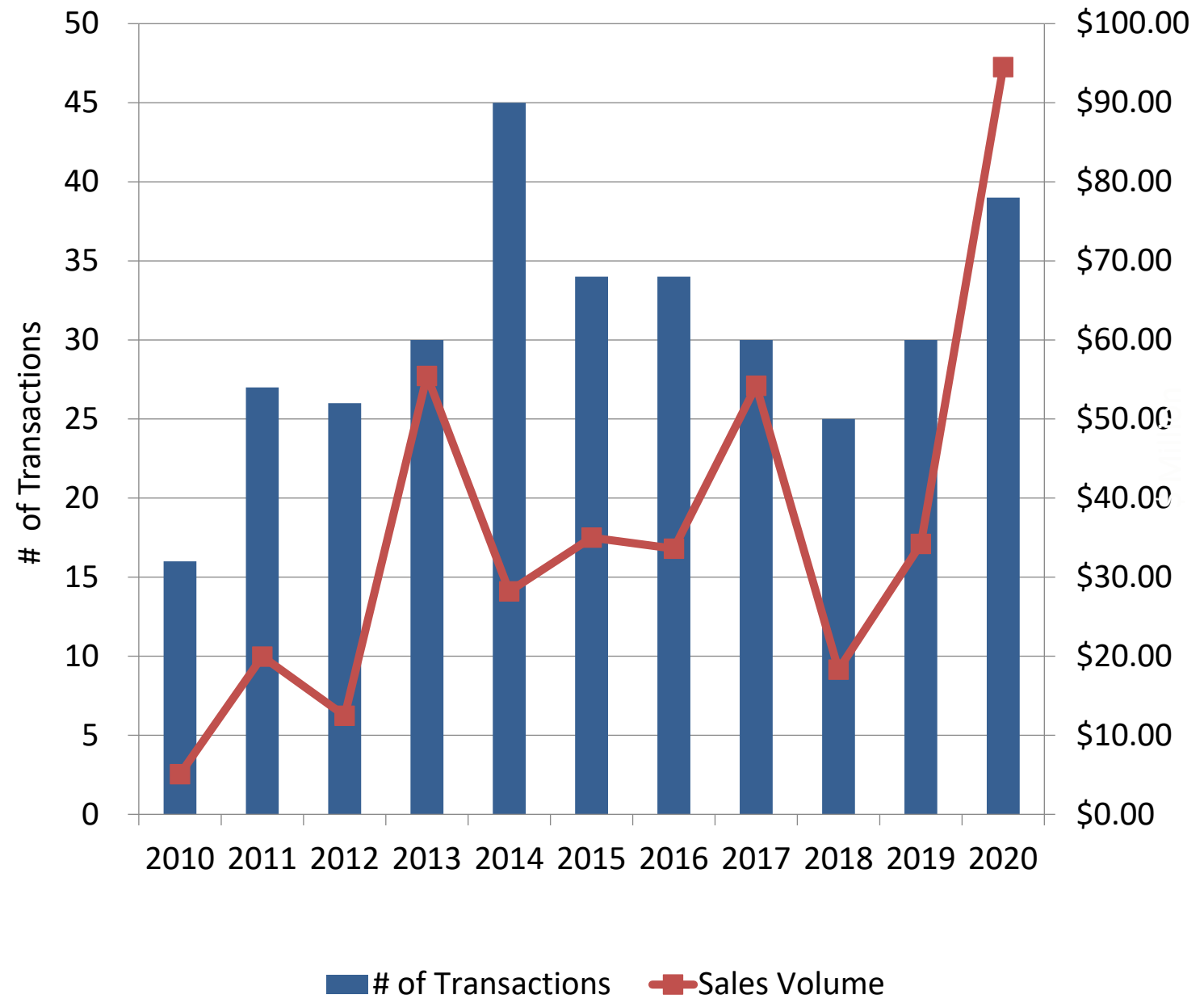


Office Sales

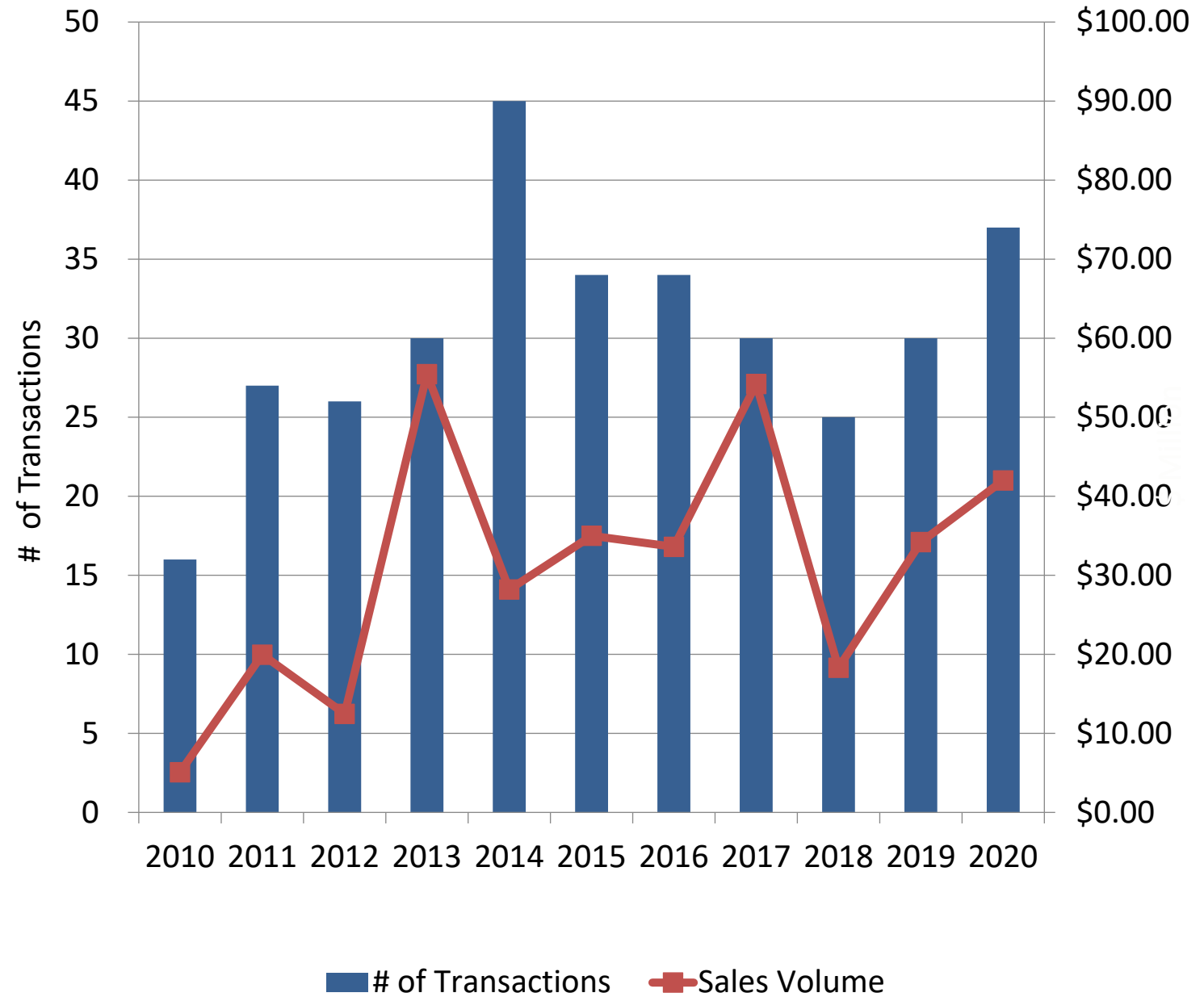
39 Transactions

\$95.0M ↑↑

Office Property Sales

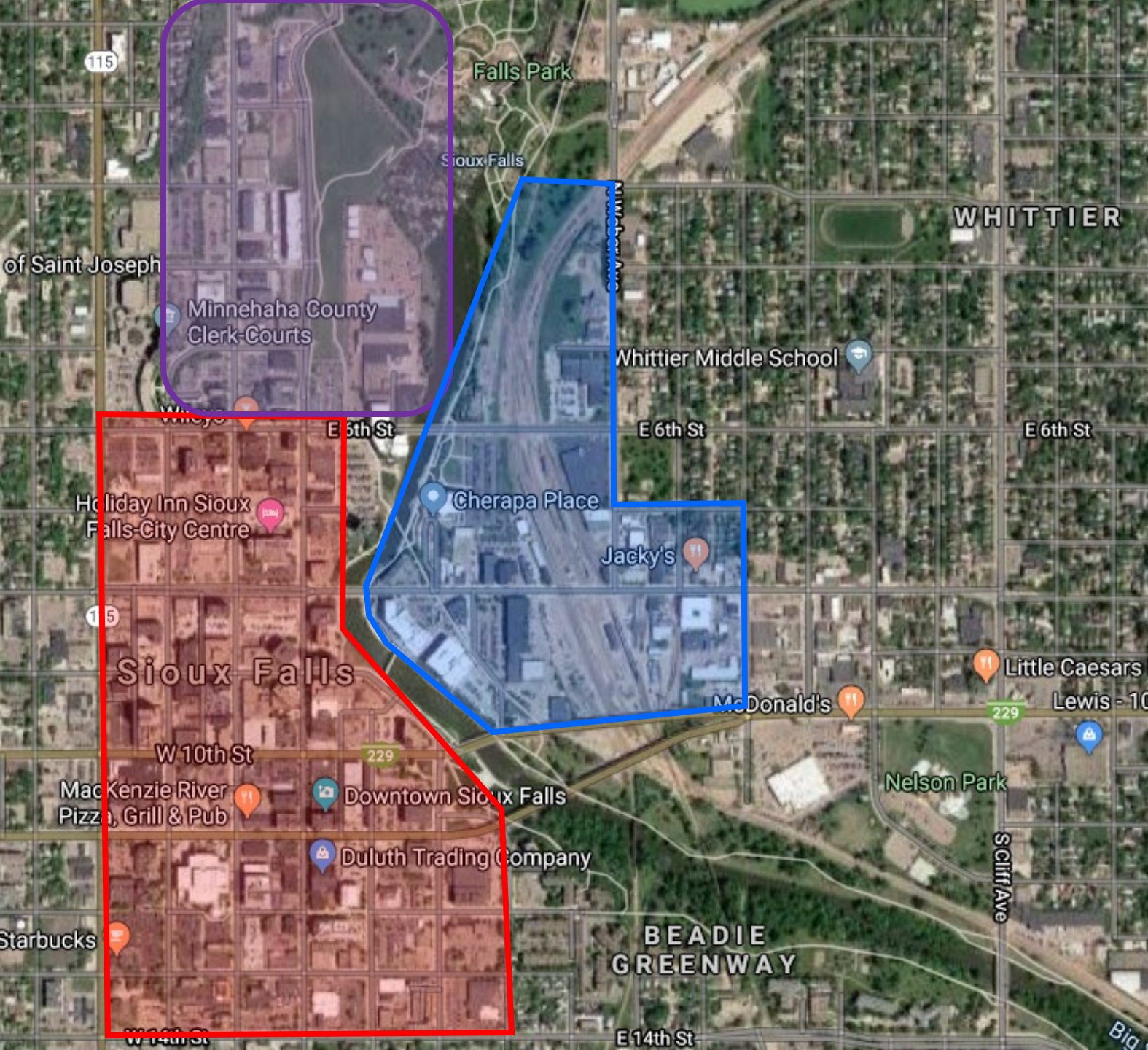


Office Property Sales



An aerial photograph of a city downtown area. The image shows a dense grid of buildings, streets, and parking lots. A river or canal winds through the middle of the city. In the top left corner, there is a large blue circle with a white border. Inside the circle, the word "Downtown" is written in white, sans-serif font. The overall scene is a high-angle, wide-area view of an urban environment.

Downtown



Submarkets

Downtown

Uptown

East Bank

Downtown Office Market



Inventory

2.36M SF



Vacancy Rate

Overall	8.4% ↑
Class A	2.2% ↓
Class B/C	11.3% ↑↑



Net Absorption

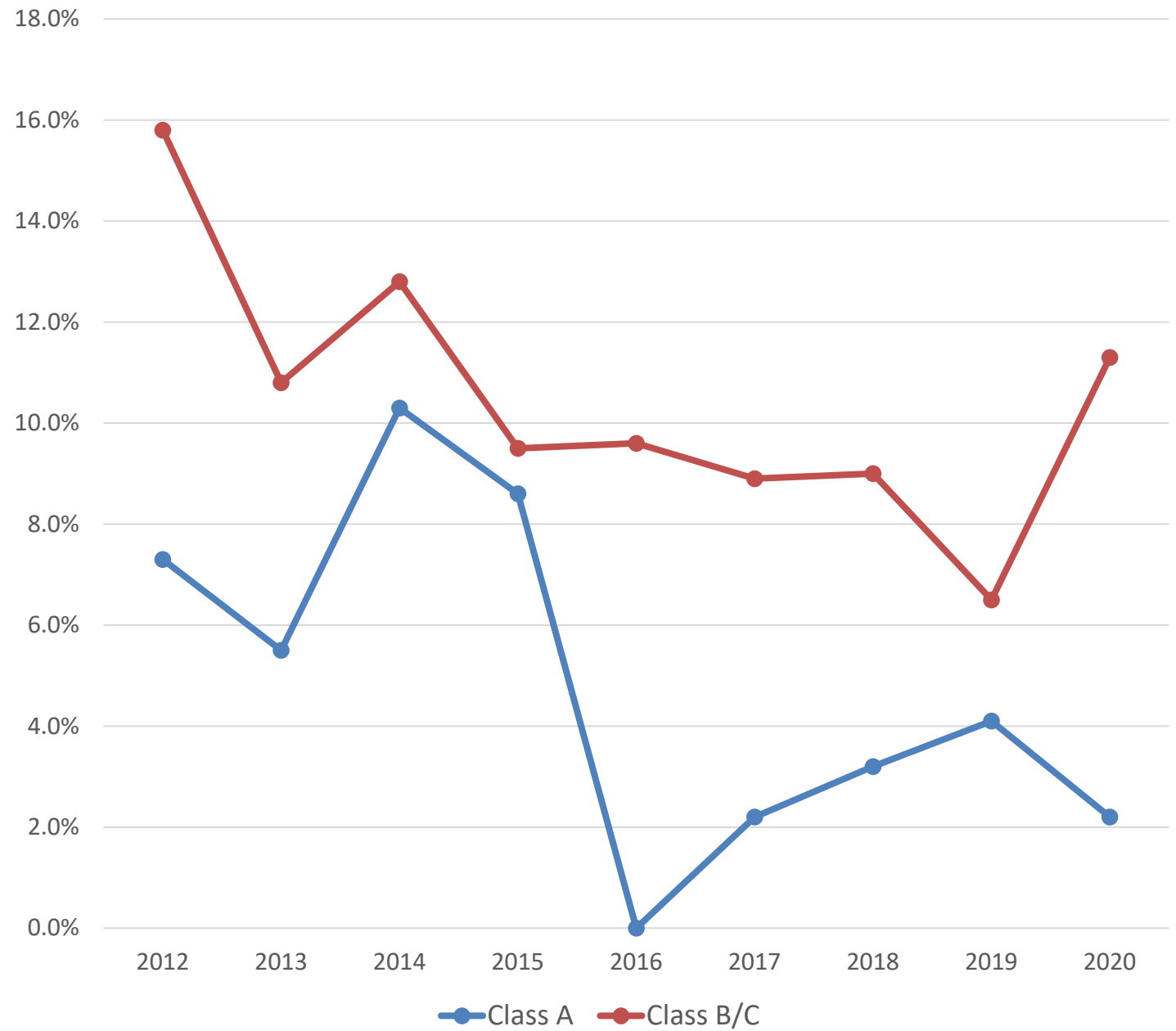
-31,550 SF



Asking Lease Rate

Overall	\$12.75/SF NNN
Class A	\$20.00/SF NNN
Class B/C	\$12.75/SF NNN

Downtown Vacancy



Suburban Office Market



Inventory

5.9M SF



Vacancy Rate

Overall 10.4% ↓

Class A 5.5% ↓

Class B/C 12.7% ↓



Net Absorption

227,072 SF



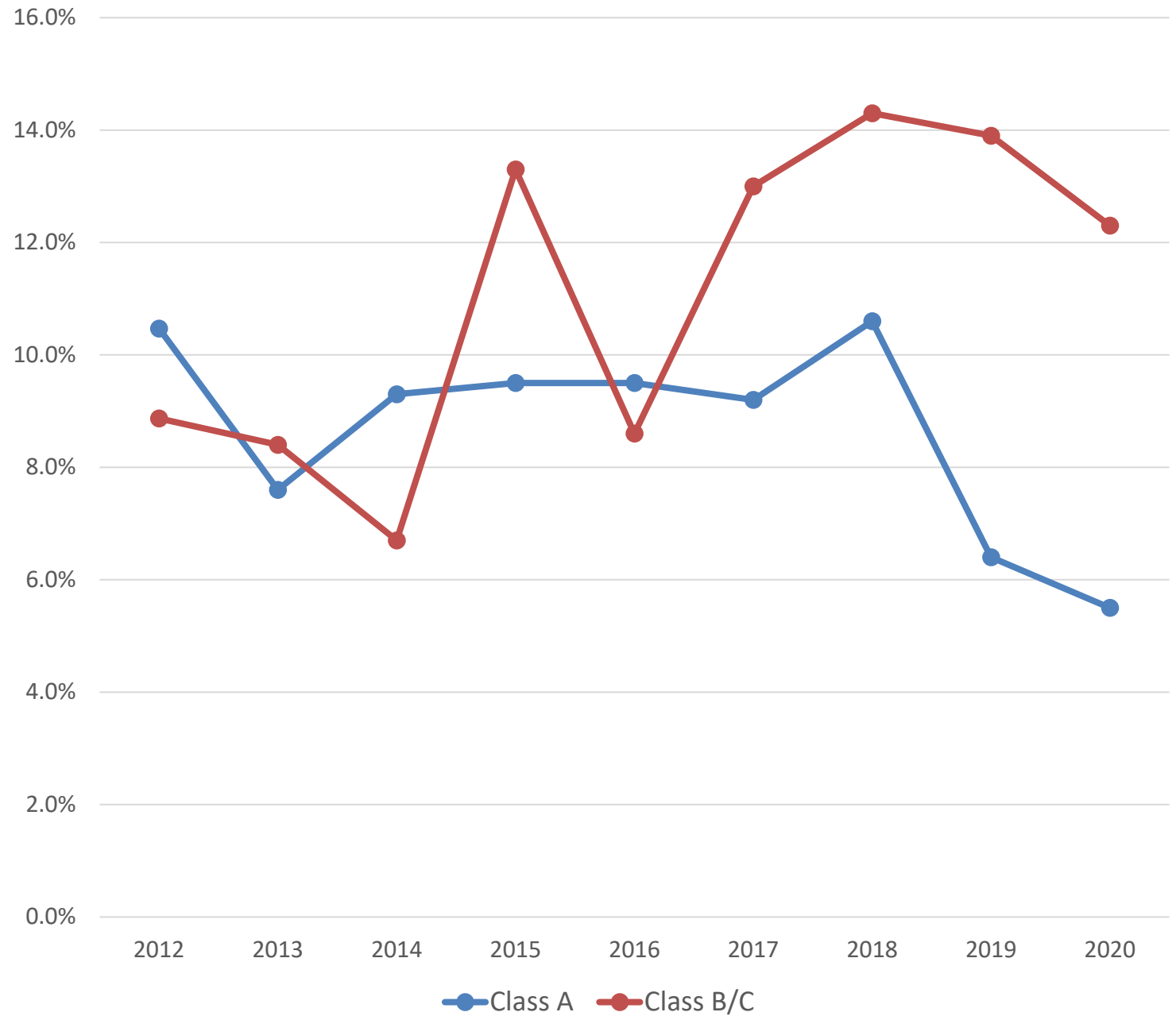
Asking Lease Rate

Overall \$11.75/SF NNN

Class A \$17.50/SF NNN

Class B/C \$10.00/SF NNN

Suburban Vacancy





Office Predictions

Vacancy ↑

Construction
↓

Office Sales
↔

Hibernation

Office Space
Redesign

Reverse
Densification

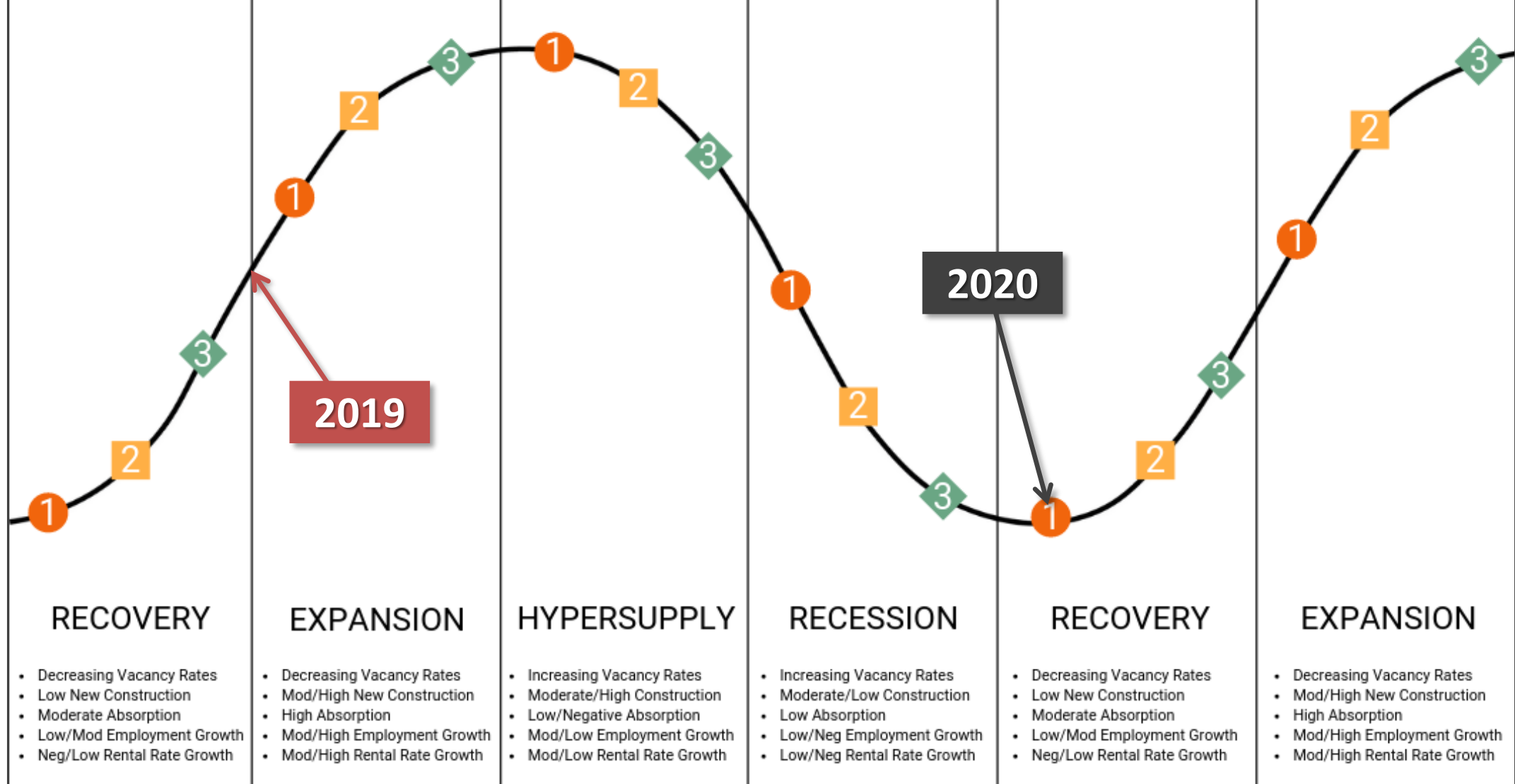
Home Office
↑

Coming back to
the Office in
2021-2022

Sublease
Space ↑

Service-Based Office
Medical, Engineering,
Insurance, Daycare, Bank

Call Center/Tech
Vacancy



Office Real Estate Cycle

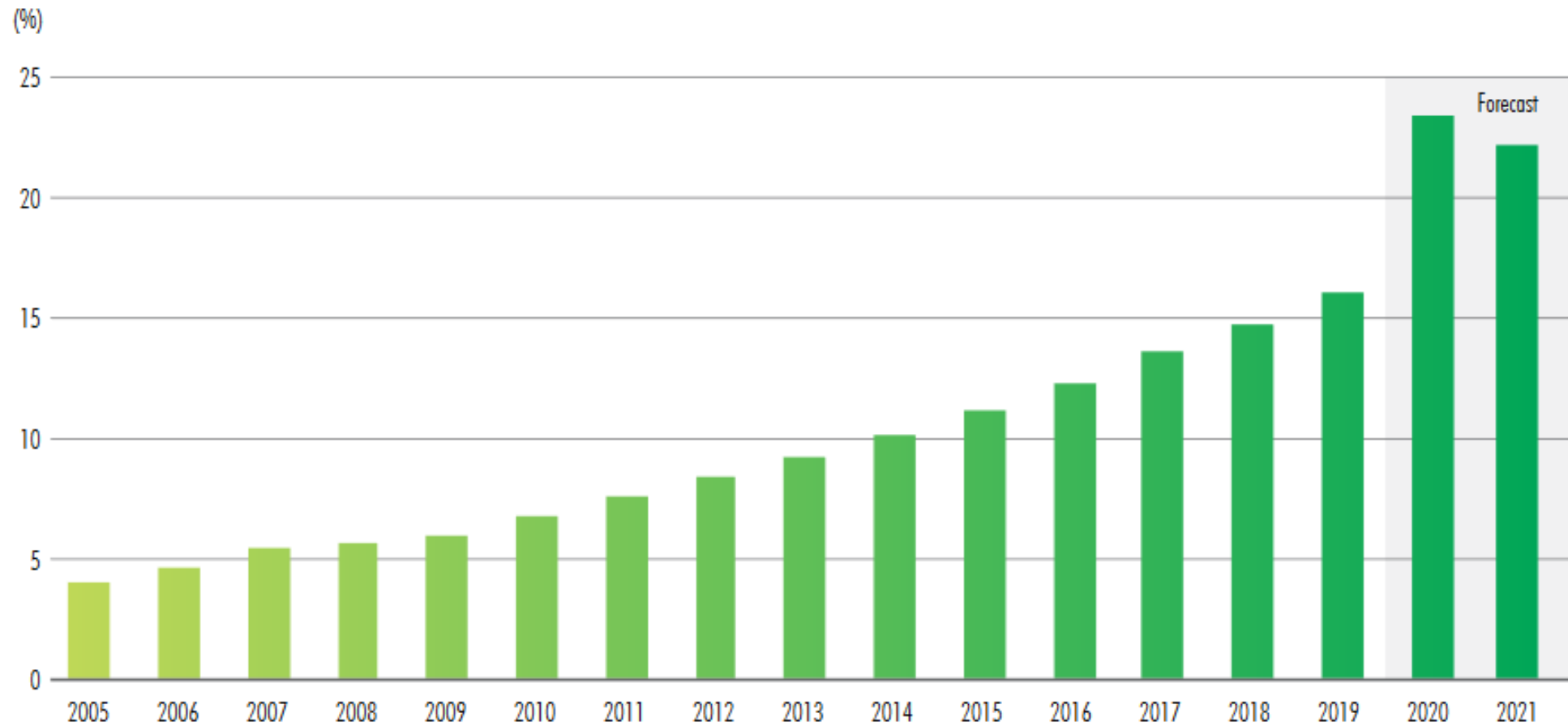


Retail Market

Rob Kurtenbach

Online Explosion

FIGURE 12: E-COMMERCE SALES PENETRATION (% OF TOTAL RETAIL SALES)



Source: CBRE Research, U.S. Census Bureau, October 2020.

Winners

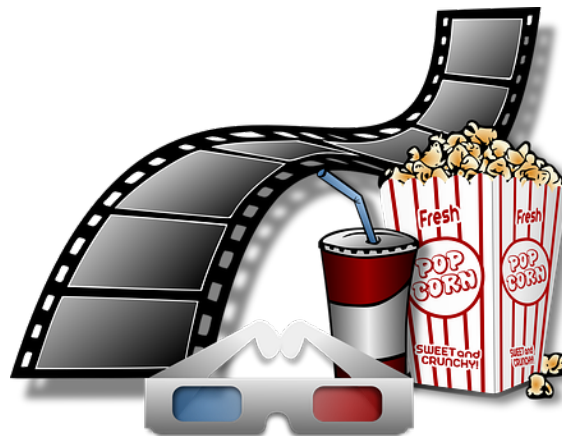
- Online Retailers
- Home Improvement Stores
- Food Delivery
- Online Groceries
- Alcohol Sales
- Sioux Falls Retailers

MENARDS



Losers

- Dine-In Restaurants
- Travel Industry
- Movie Theatres
- Experiential retailers
- Boutique Shops
- Shopping Malls



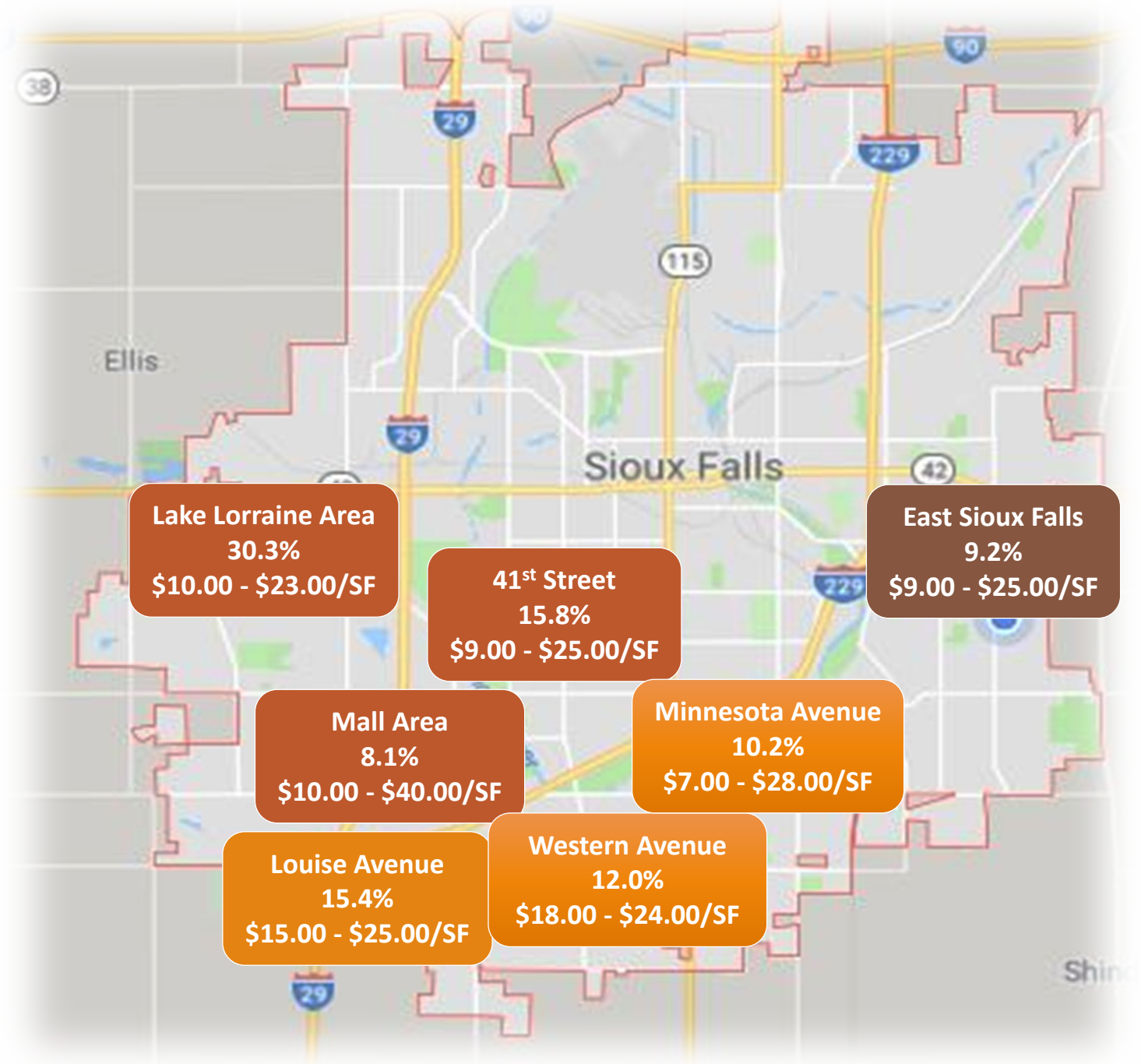
The Empire Mall

- Simon now hiring local broker for large anchor space - Sears
- Back-fill Opportunities
- Chick-fil-A
- Chipotle
- Chase Bank

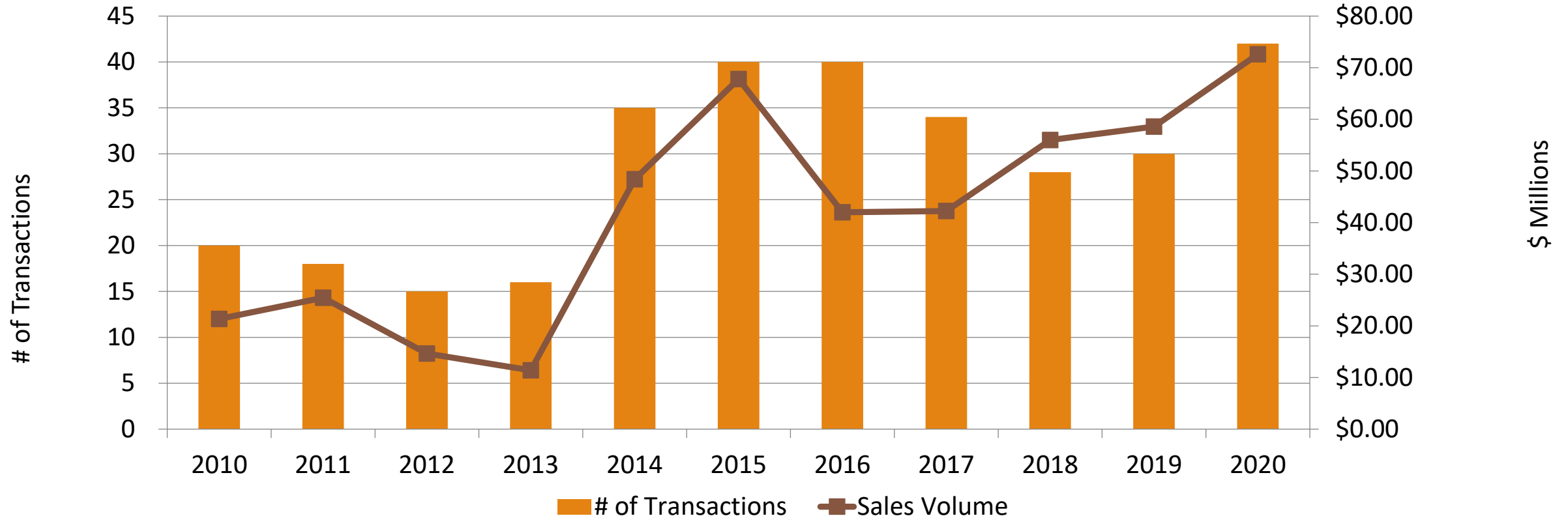


Sioux Falls Retail Market

13.3% Vacancy
(↓ from 17.8% in 2019)



Retail Property Sales



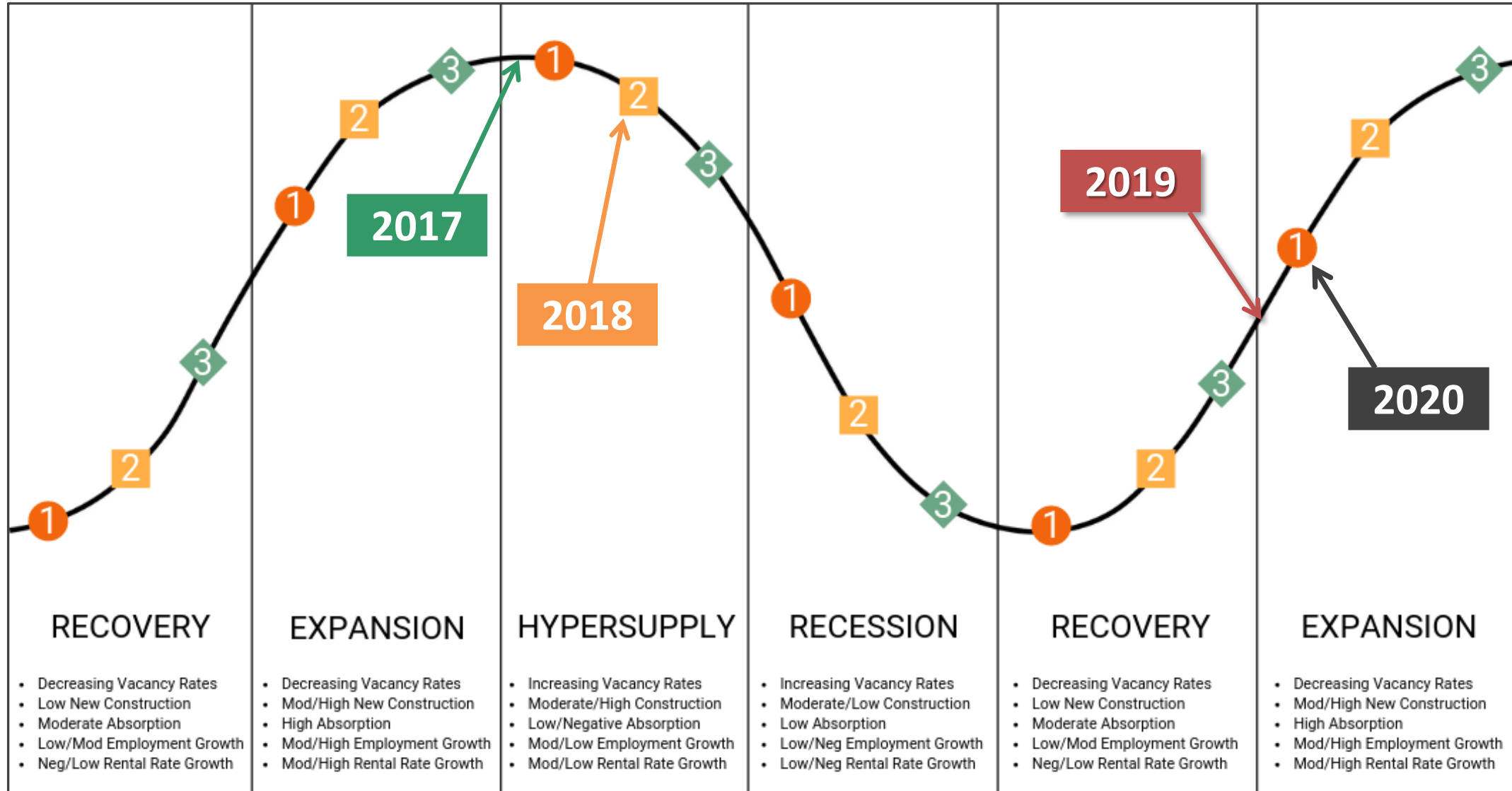
Trends & Predictions

Trends:

- Demand for Convenience
- Ghost Kitchens
- Same Day Delivery
- Grocery goes eCommerce
- Subscription Services
- Contactless Purchases

Predictions:

- Vacancy ↑
- Sales ↔
- Construction ↔



Retail Real Estate Cycle



Industrial Market

Rob Fagnan, SIOR

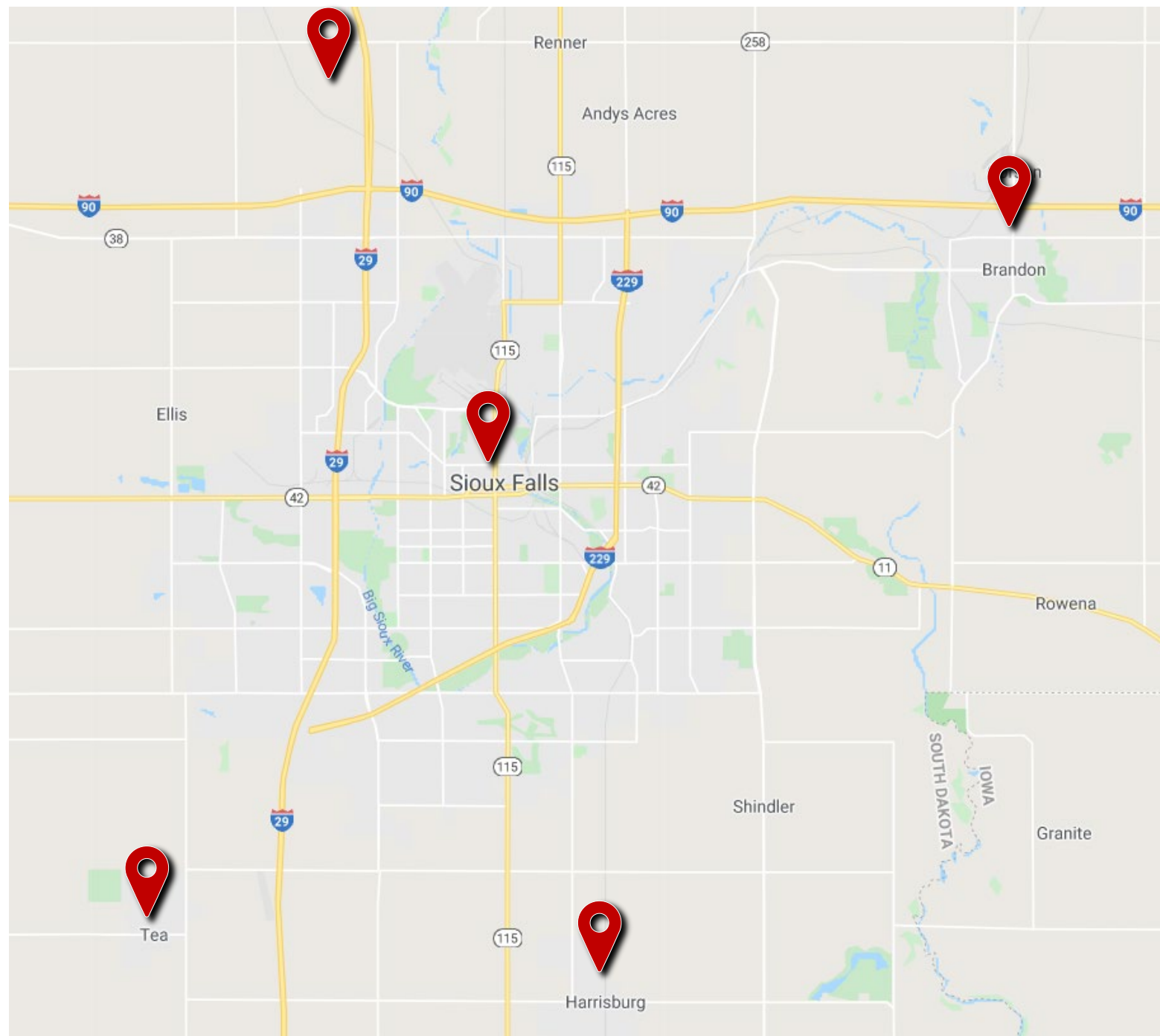


Industrial Universe



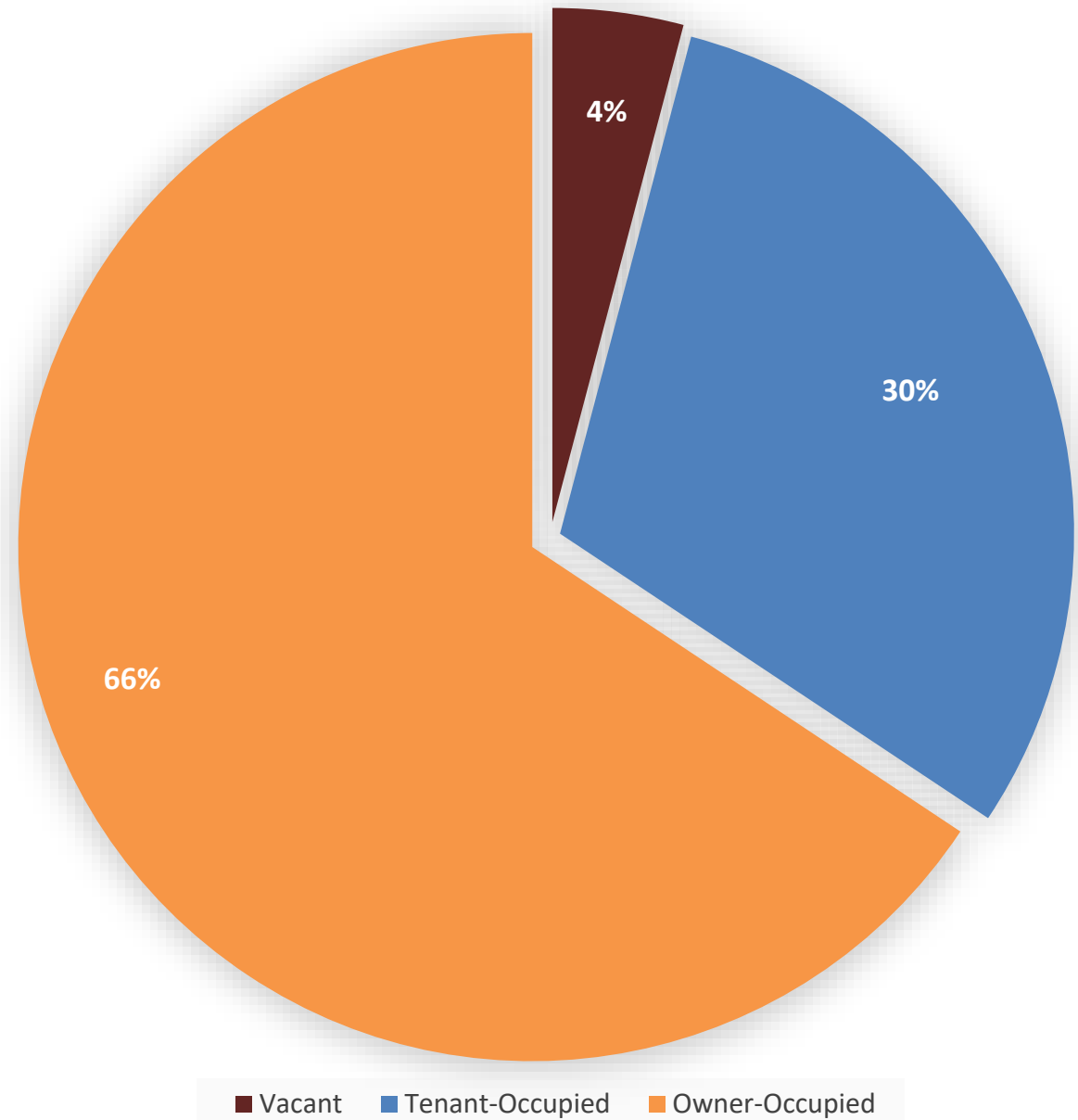
Industrial Universe

24.6M SF



Industrial Universe

24,635,396 SF





Industrial Construction

482,557 SF

↓ 21% from 2019

19 New Buildings

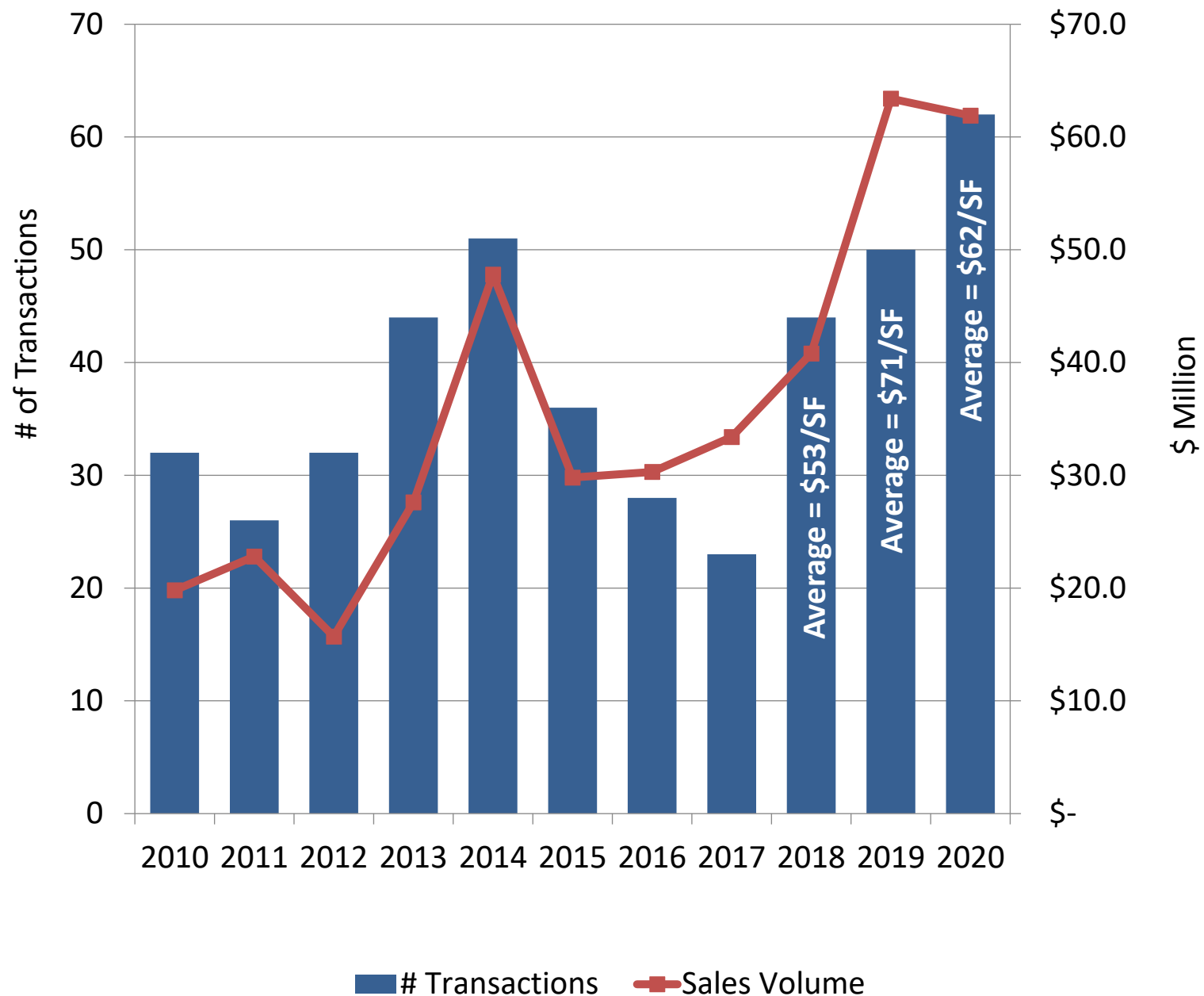
2 Additions



New Construction

Tea, Harrisburg, Brandon

Industrial Property Sales



Industrial Market

Net Absorption

2020
256,789 SF

2019
512,178 SF

2018
698,275 SF

Vacancy Rate

2020
4.11%

2019
3.55%

2018
3.23%

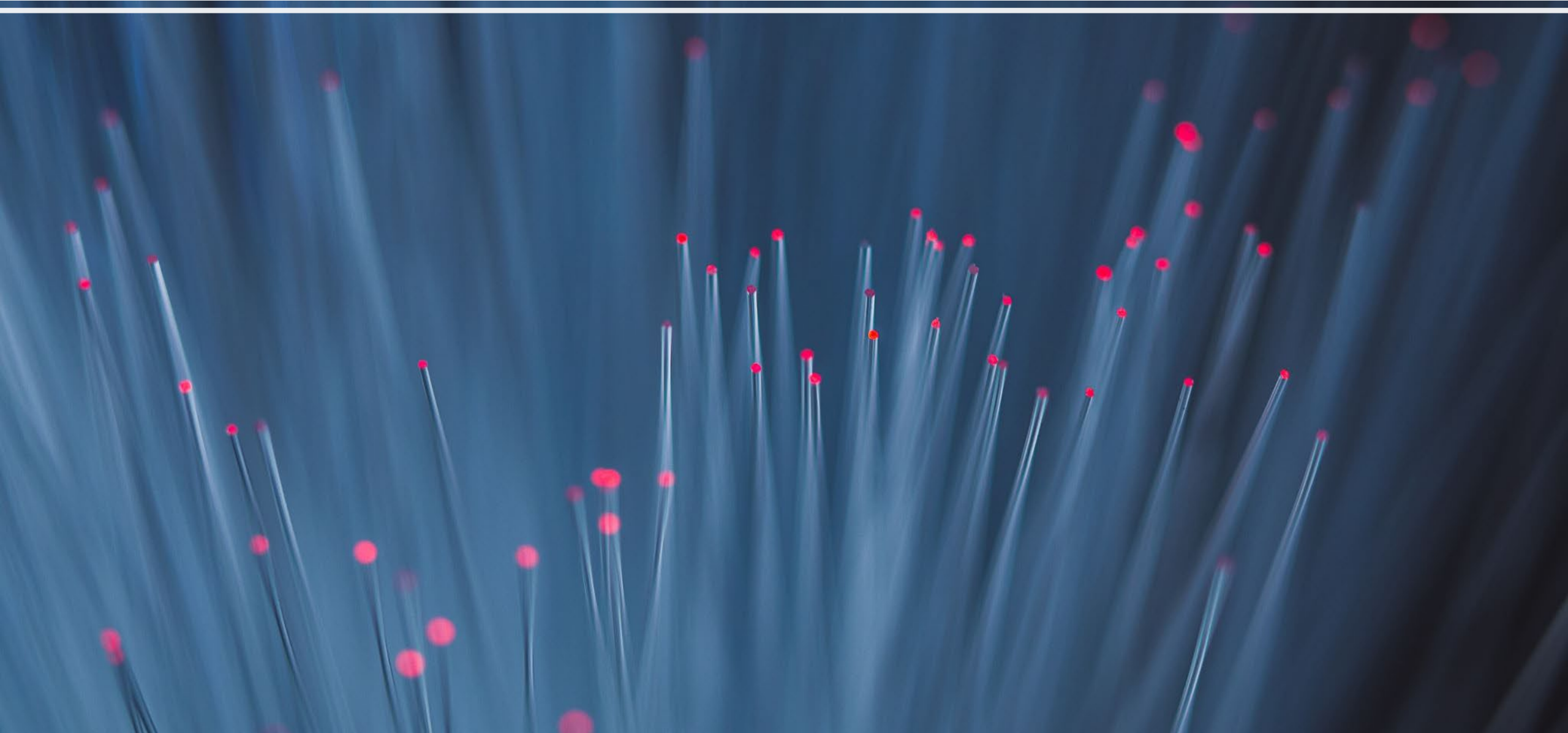
Asking Rental Rates

Class A
\$6.25 - \$7.50/SF NNN

Class B
\$4.75 - \$6.00/SF NNN

Class C
\$3.50 - \$4.50/SF NNN

Where Are We Headed?





PREDICTIONS



New Construction ↑



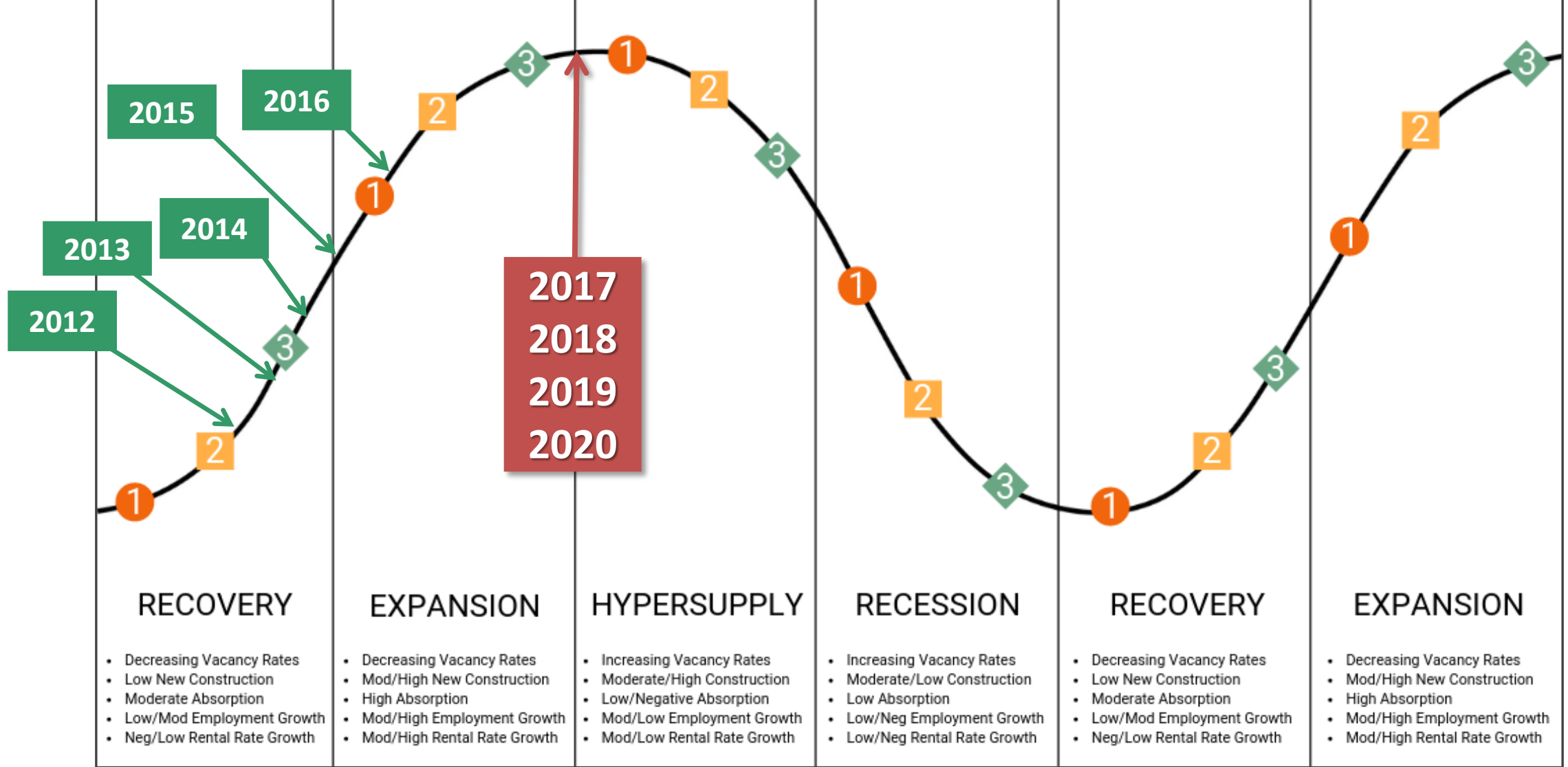
Lease Rates & Sale Prices (\$/SF) ↑



Vacancy ↔



Sale Transactions ↔



Industrial Real Estate Cycle



Investment Market

Nick Gustafson, CCIM

Sioux Falls Investment Real Estate



1st Half 2020

Strong Start
Massive Disruption
Dip in March



Market was Resilient
Deal Velocity Recovered
Roaring 20's



2nd Half 2020



Asset Classes that Compete with Commercial Real Estate



CRYPTO
CURRENCY



STOCKS



BONDS



OPTIONS



BUSINESS
INVESTMENTS



VACATION
HOMES



COMMODITIES



LIVESTOCK

2020 Investment Score Card



Dow Jones

9.7%



S & P 500

18.4%



Nasdaq

45%



Gold

31.05%



Oil

-17%



Bitcoin

204%

Real Estate Investment Trends



Multi-Family Transactions



Multi-Family Development



Compressing Cap Rates in Multi-Family



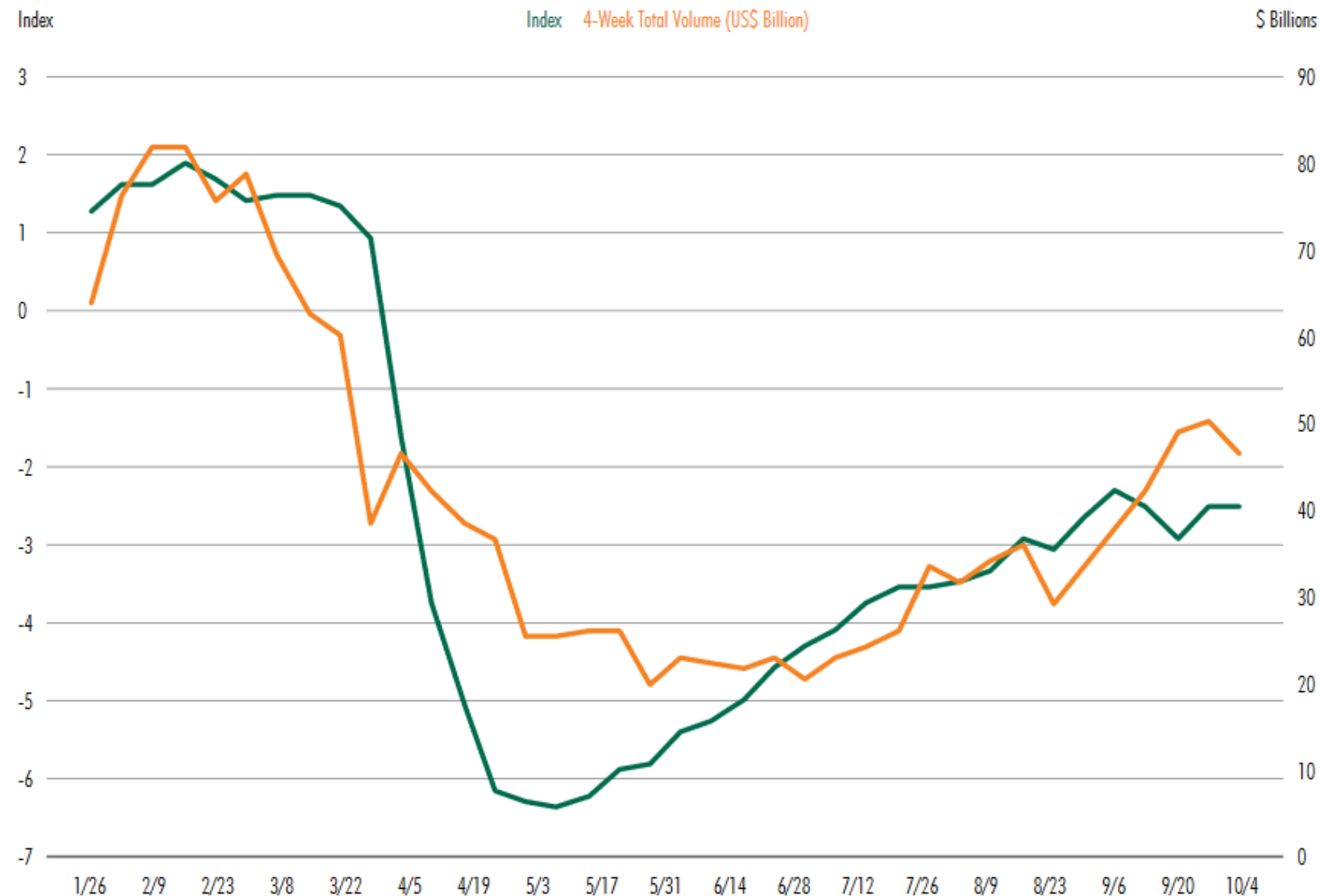
Historic Low Interest Rates



All Asset Classes showed Strength

US Investment Real Estate Sales

FIGURE 5: CAPITAL MARKETS RECOVERY INDEX WITH TRANSACTION VOLUME



Source: CBRE Research, Real Capital Analytics, Q3 2020.

Quarterly Deal Volume

Drops in US Deal Activity Abate at Close of 2020

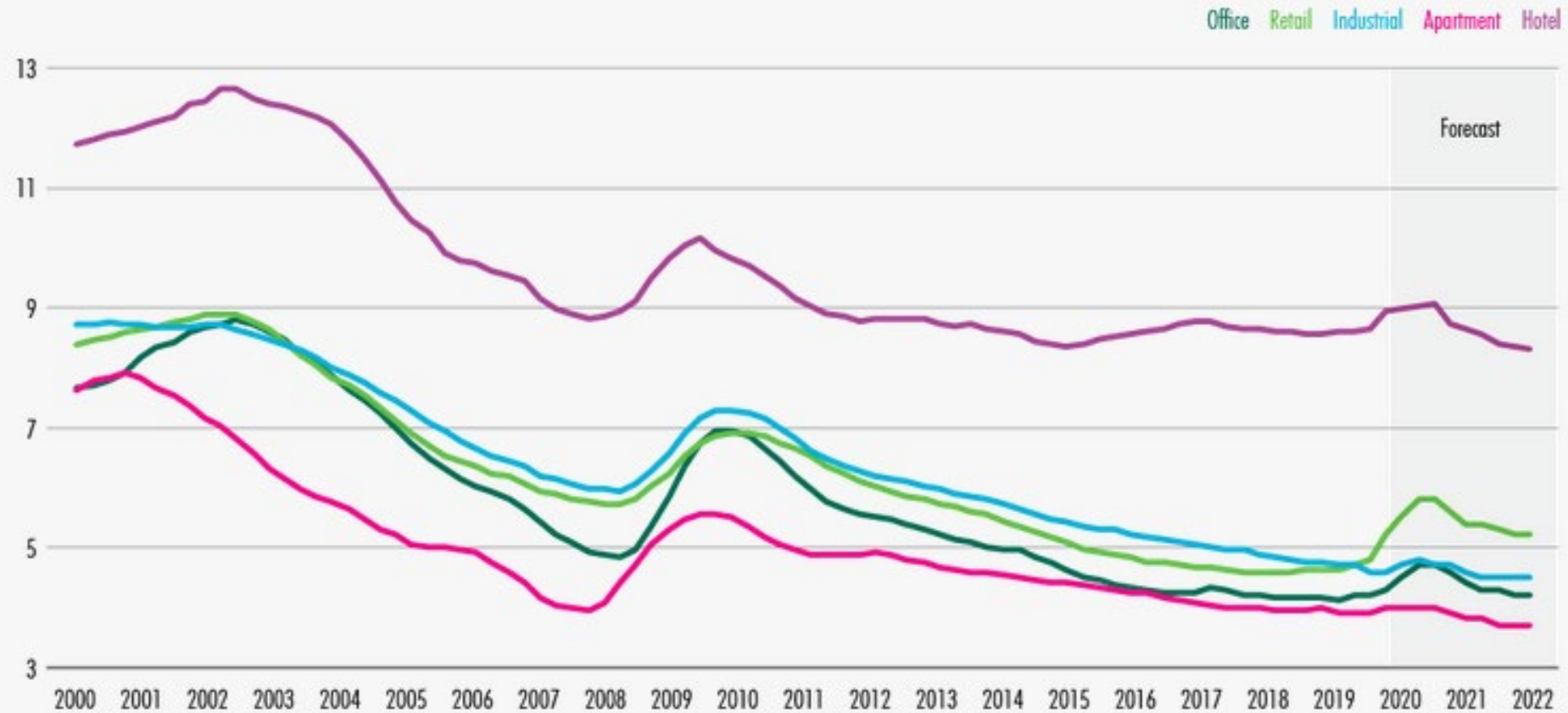


rcanalytics.com

REAL CAPITAL ANALYTICS

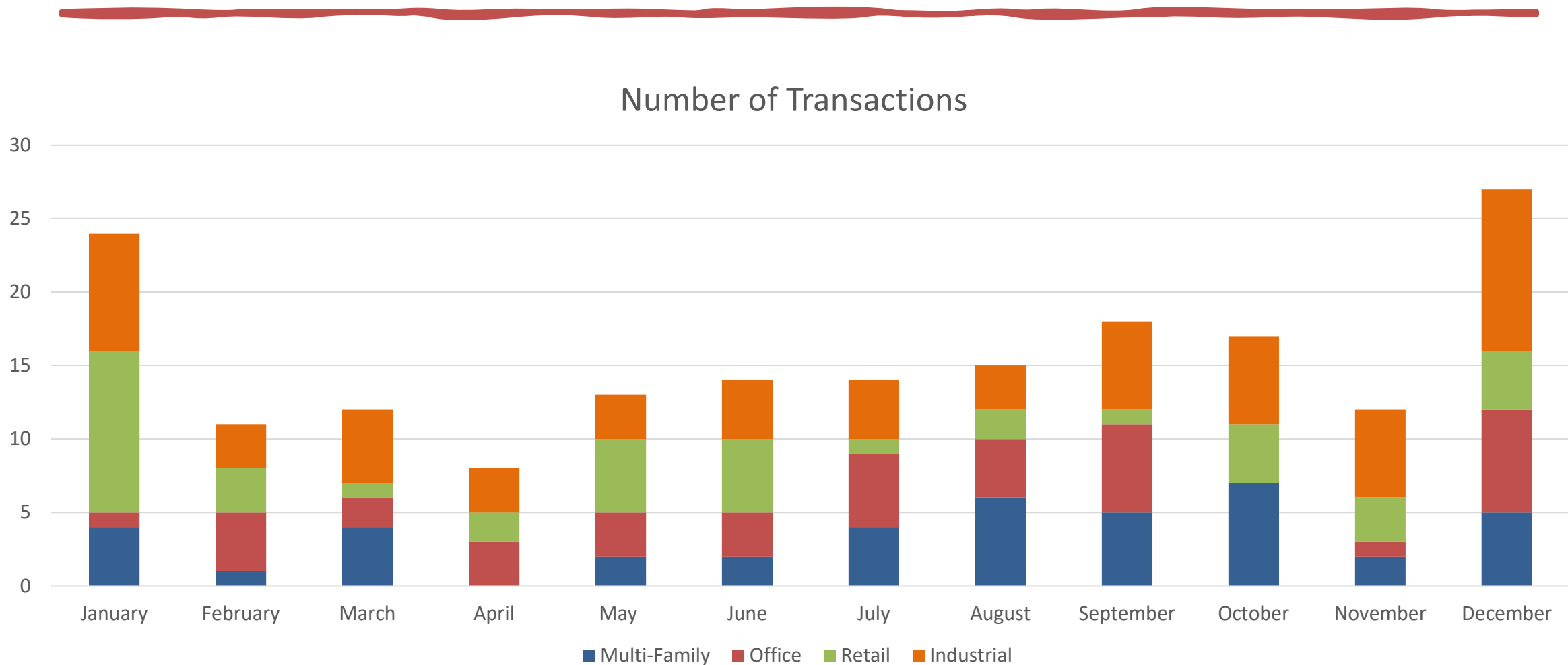
National Cap Rates

FIGURE 7: CAP RATES FOR MAJOR PROPERTY TYPES IN THE U.S.

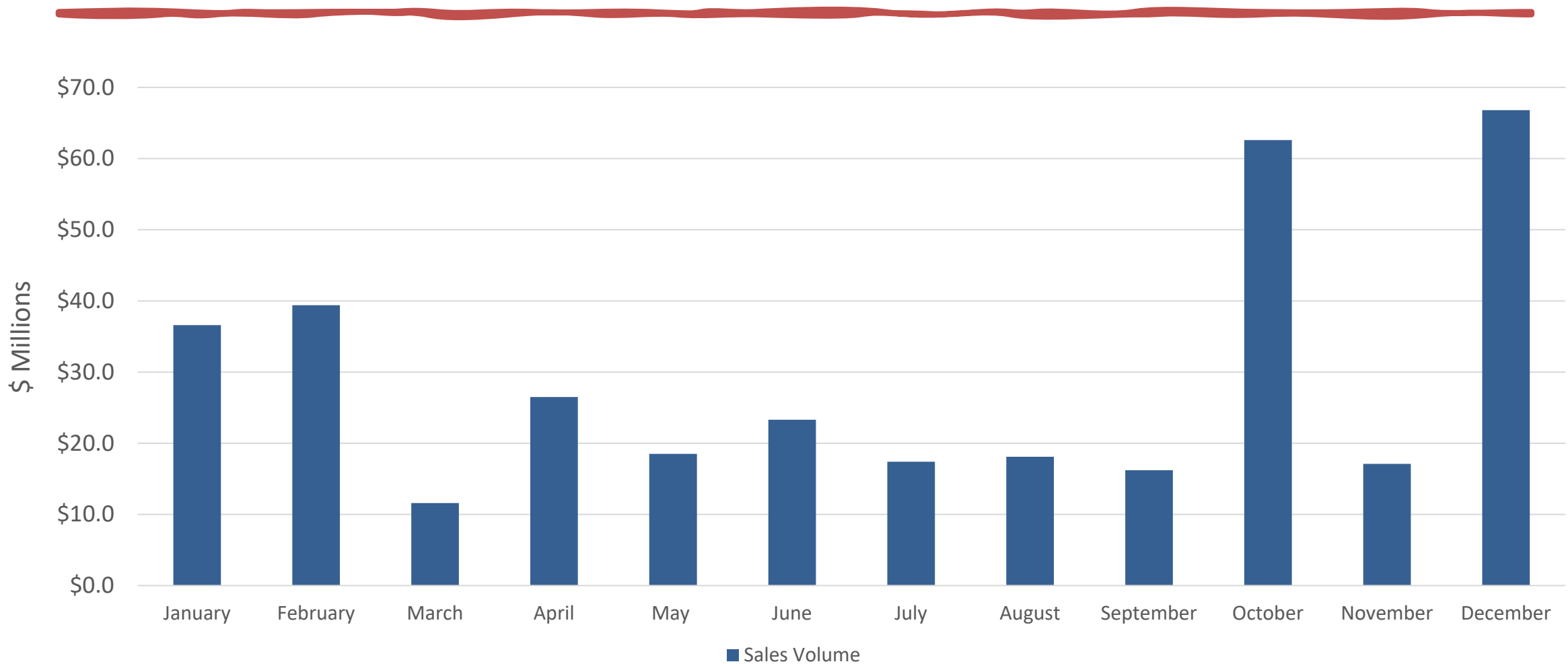


Source: CBRE Econometric Advisors, Q3 2020.

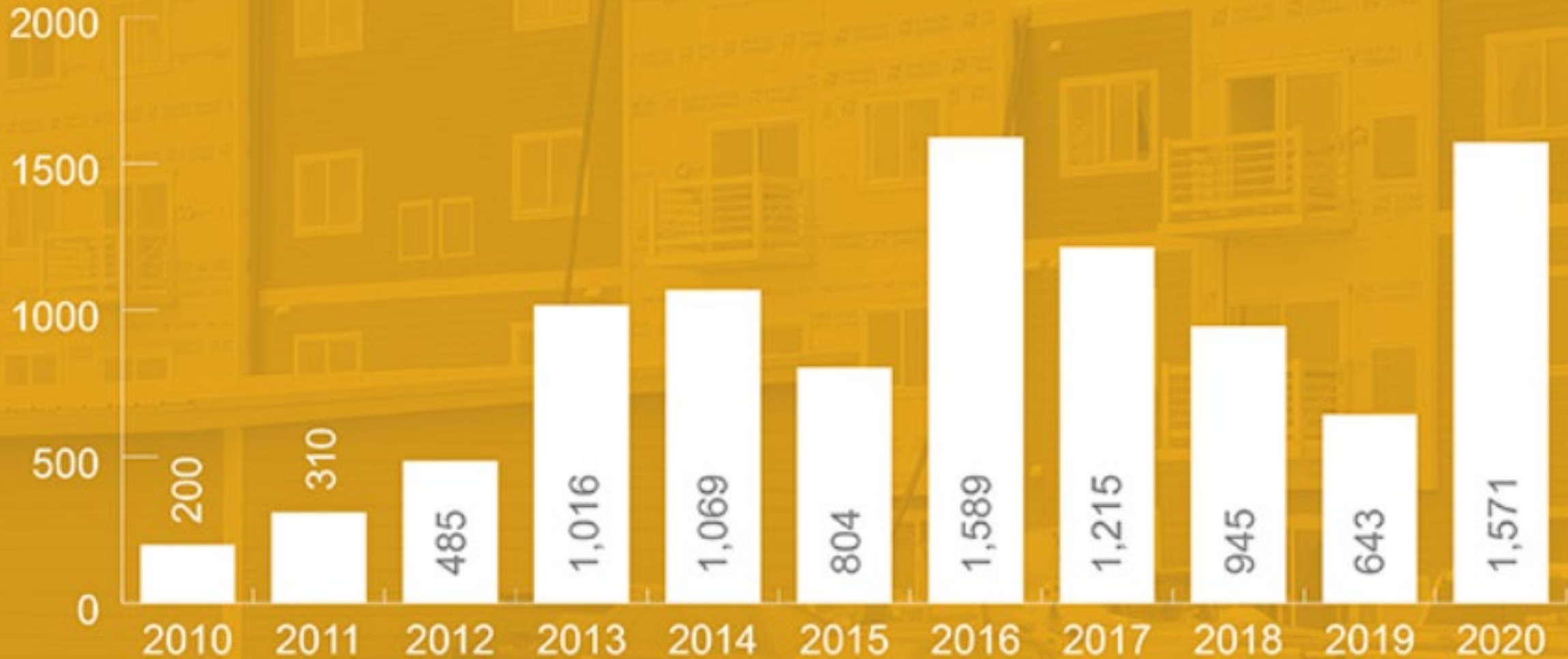
Sale Transactions by Month



Sale Volume by Month

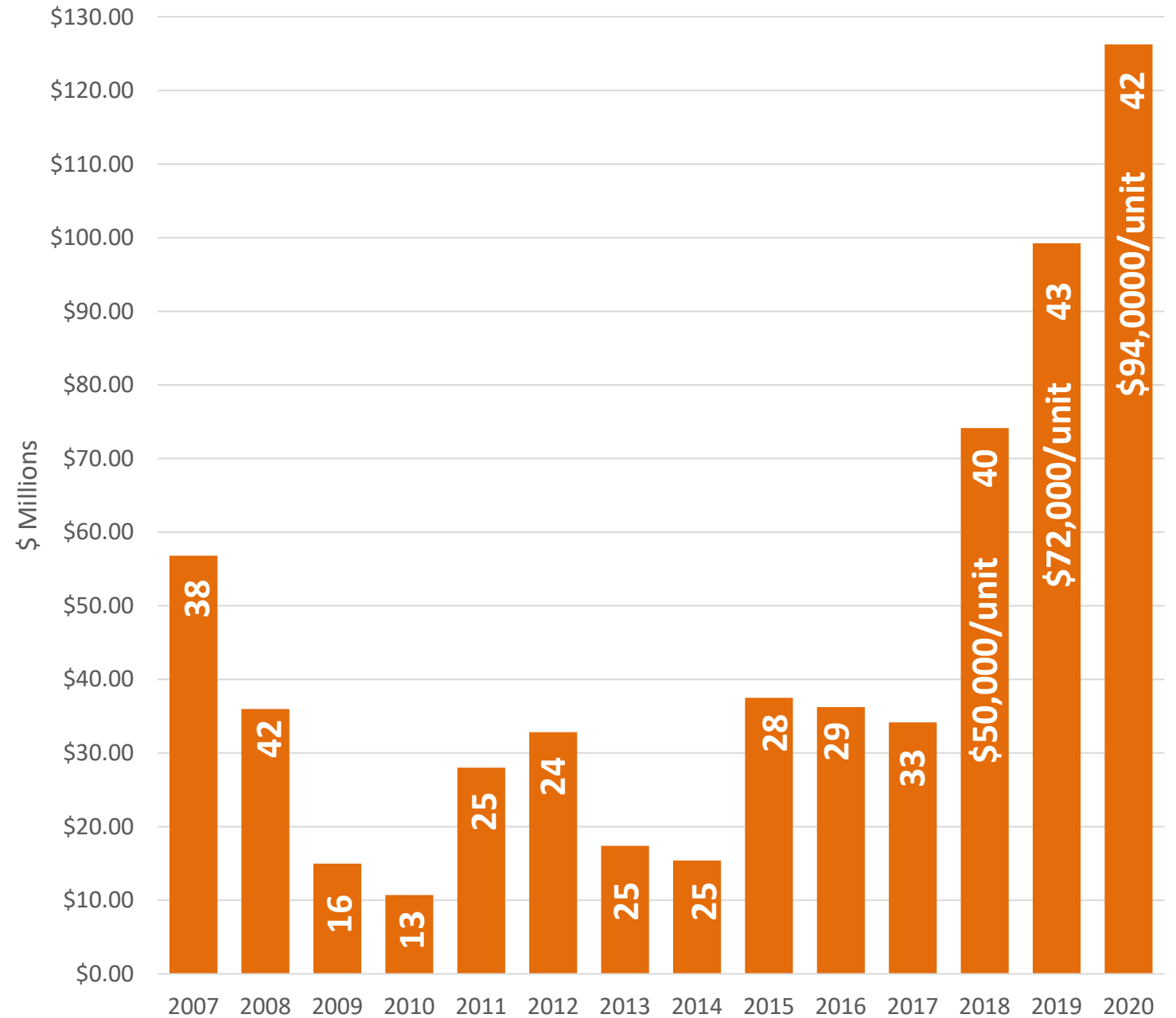


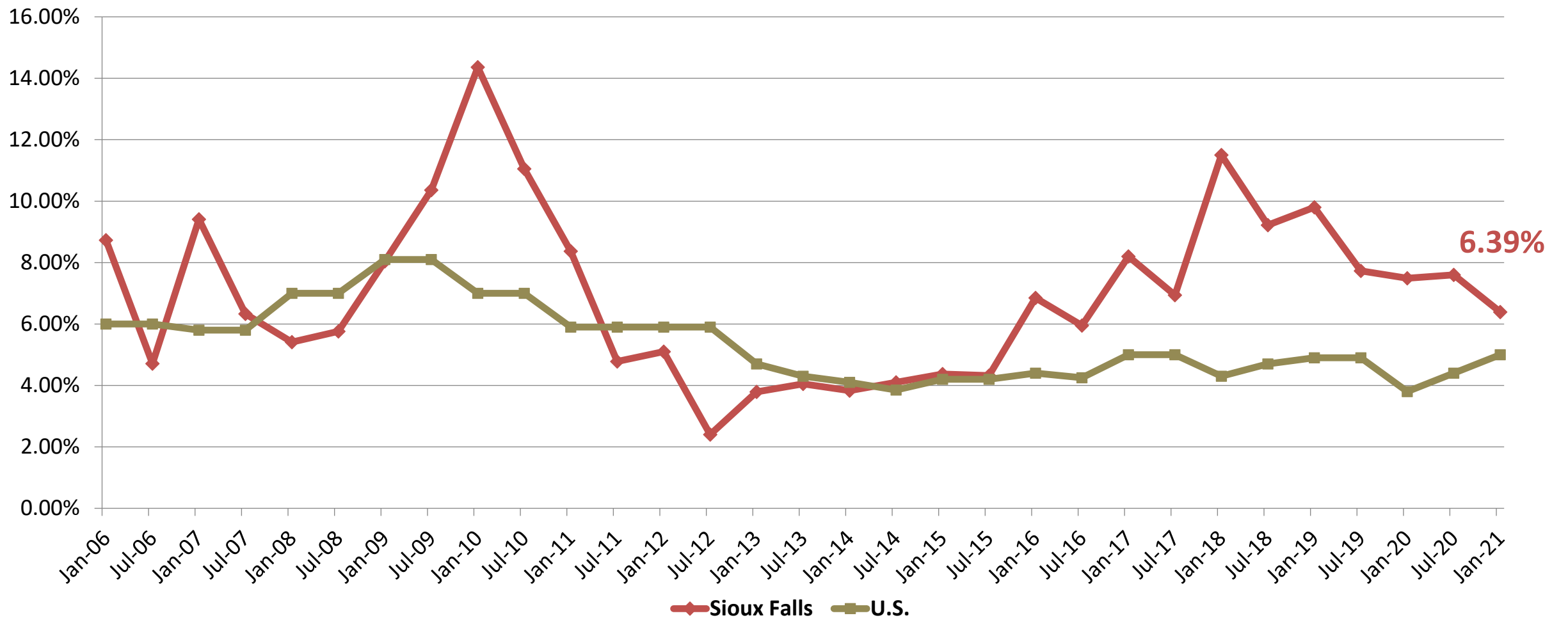
Sioux Falls Multi-Family Construction



Sioux Falls Multi-Family Sales Volume

10-Year Average
\$50.1M





Multi-Family Vacancy Rate



The Maples

\$6,059,000
\$79,724/unit
76 Units
Built in 1993
6.75% Cap Rate



Cox Portfolio

\$5,812,500

\$80,729/unit

72 Units

Built in 1976 – 1983

6.4% Cap Rate



West Briar Common

\$19,700,000

\$129,605/unit

152 Units

Built in 2008/2010

5.35% Cap Rate



\$7,850,000
\$50,321/unit
156 Units
Built 1974
7.26% Cap Rate

Wood Lake Commons



\$9,800,000
\$148,485/unit
66 Units
Built 2018
6.08% Cap Rate

Graystone Townhomes



Diamond Fields Commons

\$23,500,000
\$124,339/unit
189 Units
Built 2016
6.19% Cap Rate



Prairie Edge Townhomes

\$20,100,000
\$116,860/unit
172 Units
Built 2013
5.46% Cap Rate



\$7,700,000
\$118,462/unit
65 Units
Built 2015
5.65% Cap Rate

Silver Springs

Sanford Health Building



**2200 East
Benson Road**

- \$30,336,000
- \$192/SF
- 6.25% Cap Rate

Rock Island Building



300 North Phillips Avenue

- \$3,600,000
- \$138/SF
- 6.36% Cap Rate

Cherry Creek Office



**3208 East 26th
Street**

- \$1,075,000
- \$166/SF
- 6,475 SF
- 6.87% Cap Rate

Garden Village Office



6901 South Lyncrest Place

- \$1,075,000
- \$164/SF
- 7,121 SF
- 6.47% Cap Rate

Verizon Store



2000 West 41st Street

- \$3,083,000
- \$536/SF
- 5,752 SF
- 6.0% Cap Rate

Lippert Components / Luverne Trucking Property



1200 Birch Street, Brandon

- \$6,300,000
- \$30.81/SF
- 204,485 SF
- 7.8% Cap Rate

Investment Sales Transaction Volume Report Card

Investment Sales			
	Multi-Family	Office	Retail
2020	↑	↑	↑
2020 Cap Rates	5.5% - 7.5%	6.5% - 7.5%	6.0% – 7.75%

Conclusions



Record year for Investment Transactions



Multi-Family was the star



Strong Office and Retail Sales



Investor Appetite for MF remains Elevated



Tremendous amounts of capital are chasing a small number of Deals



Historically low Cap Rates

Predictions

Capital
Gains

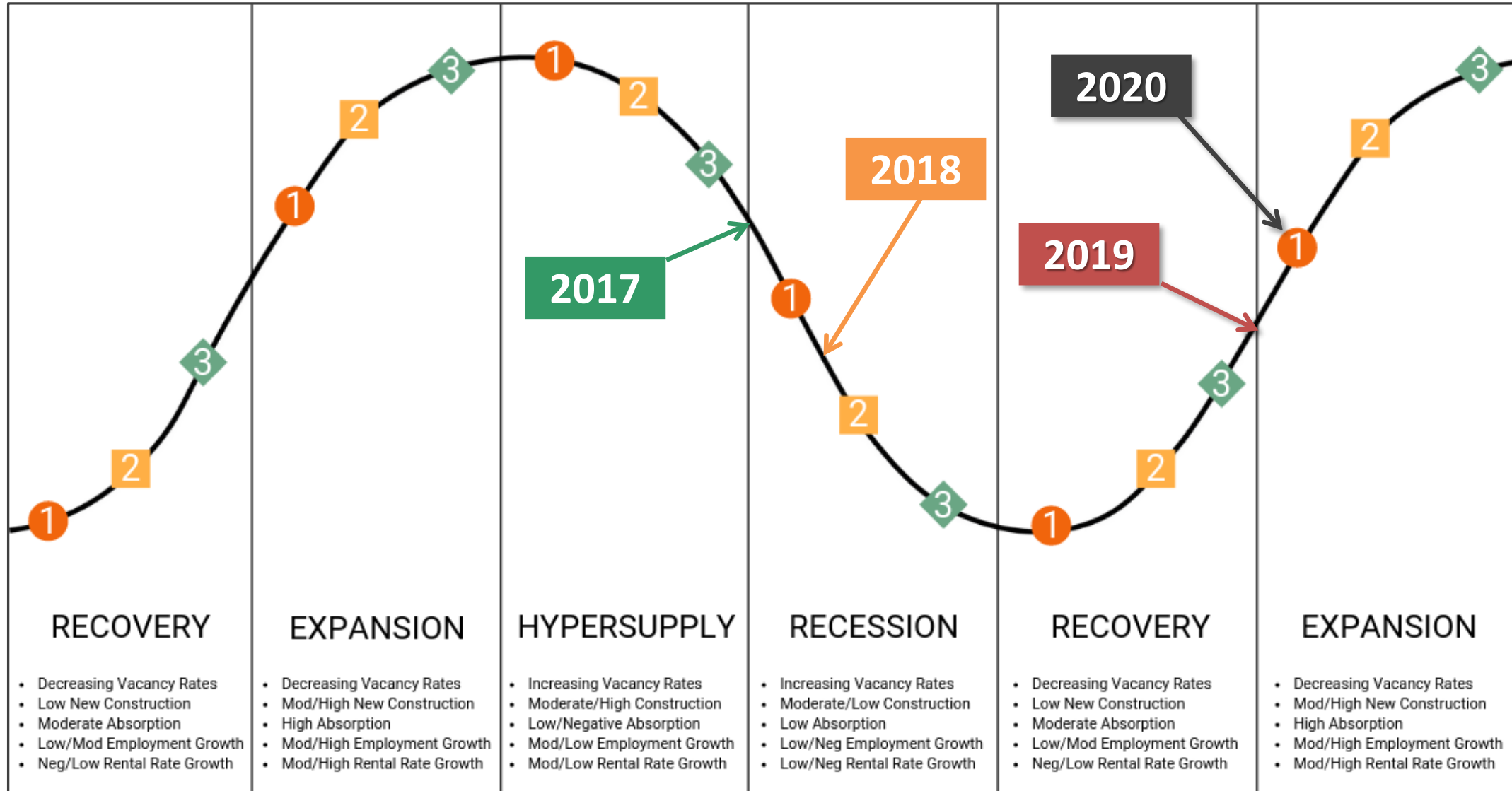
Record Year

Recovery
Calculus

Strategic
Planning

Cost of
Capital

Cap Rates



Multi-Family Real Estate Cycle