



2022 MID-YEAR MARKET OUTLOOK REPORT

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WELCOME TO OUR COMPANY

Bender
COMMERCIAL



Bender Commercial Real Estate Services, a Sioux Falls, South Dakota based regional real estate company, provides top quality services in the areas of commercial leasing and sales of office, retail, industrial, land, and investment properties, as well as full-service property management in conjunction with Bender Midwest Properties. With more than 135 years of combined experience of its 13 brokers, Bender Commercial Real Estate Services has a proven reputation of integrity, dependability, and professionalism.

ECONOMIC OVERVIEW

Inflation. Inflation. Inflation.

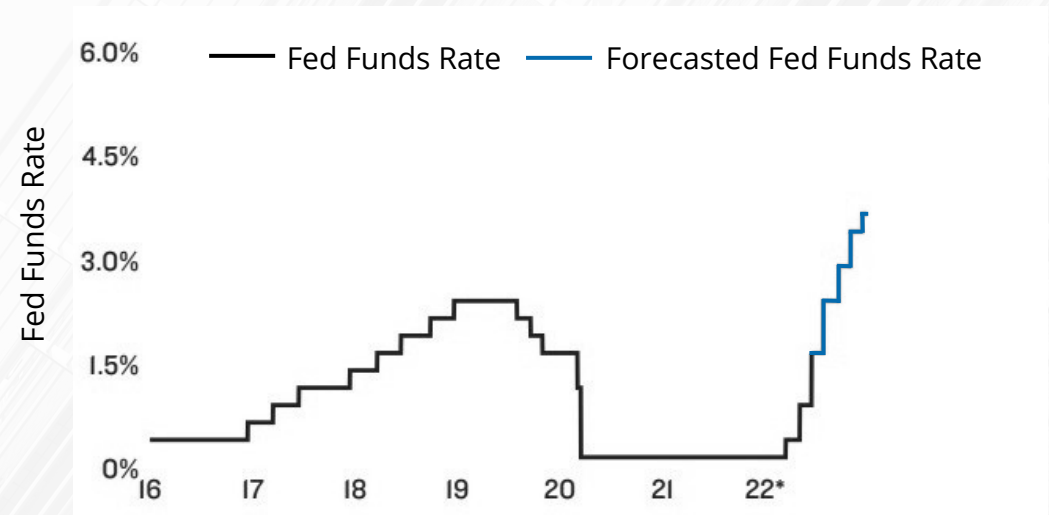
The term “transitory” was itself transitory. Early on this year, the Federal Open Market Committee (FOMC) acquiesced to the market conditions and finally realized that inflationary market indicators needed to be addressed. At the FOMC June meeting, the board decided to raise the fed funds rate by 75 basis points, the largest increase since November 1994, and brought the total year-to-date increase to 150 basis points. Additional rate hikes are expected throughout the remainder of 2022 with a target goal of 3.50%.



ECONOMIC OVERVIEW

Although we expect the local demand for commercial real estate investment to remain robust due to strong personal and corporate balance sheets and the increased pressure to deploy cash by investors for hard assets, the rising rate pressure will have direct impact on pricing. Coming off the COVID government cash binge, seller expectations remain at an all-time high. Secondary market and large institutional lenders have started to increase their spreads. However, community banks and balance sheet lenders may hold the line a little longer depending on the relationship they have with the borrower. Over the next 12-24 months, investors will either accept a lesser yield or they will slowly reset the market. We expect cap rates to increase over the next year as investors look to hit their expected yield while taking on higher rates for debt service.

Fed Tightening Monetary Policy



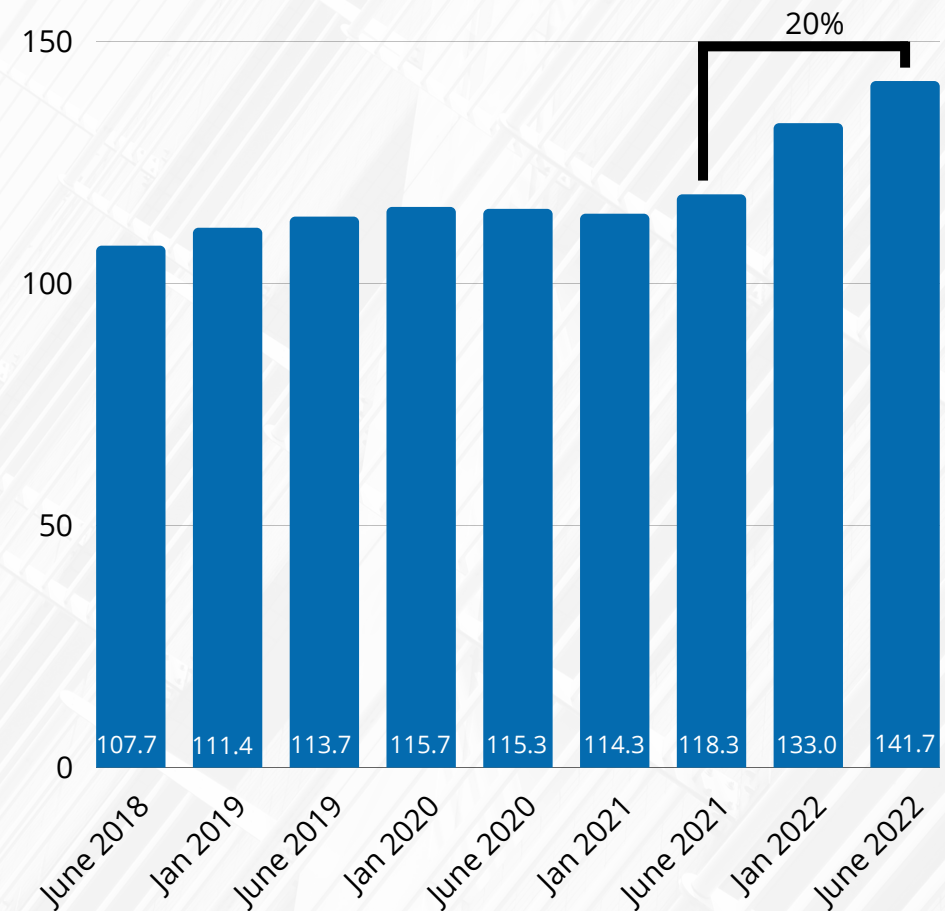
*Forecast: Assumes one 75 bps, and one 25 bps hikes at subsequent FOMC meetings ** Through May
Source: Marcus & Millichap Research; Federal Reserve; Moody's Analytics; U.S. Bureau of Labor Statistics

ECONOMIC OVERVIEW

Let's jump into the numbers. It's no surprise to anyone that inflation is nearing a 40 year high (CPI was 9.1% in June 2022). The supply chain remains constrained (thanks to raw materials from abroad and zero-COVID Chinese policies), energy pricing continues to climb (thanks to current American government energy policies and the Ukraine/Russia war), and the tight labor market across the entire country (increased wage pressure across nearly every sector). The Producers Price Index (PPI) tracks the cost of construction. The measured PPI for non-residential new construction in the Midwest index increased 19.78% in June 2022 compared to one year earlier. Say that out loud: a 20% increase year-over-year for new commercial construction!

What does this all mean as we look forward? According to the Wall Street Journal and most other financial media, the prognosticators hint towards looming headwinds and a forthcoming recession. It seems like this may be the most anticipated recession in all of history! (There may be some hyperbole in the media!) Sure, inflation needs to be addressed. The fed will continue to push interest rates higher to slow down the white hot economy and allow for supply and demand forces to push towards equilibrium (2% growth target). The Sioux Falls economy may slow some in the next 12-24 months, but the pipeline for deal flow and new projects remains robust. We expect another strong finish in 2022.

PPI - Midwest - Nonresidential Building Construction



Source: U.S. Bureau of Labor Statistics

ECONOMIC OVERVIEW

City of Sioux Falls Building Permit Data January through June 2022

	2020	2021	2022
Number of Permits Issued	3,382	3,569	3,940
Total Value of Permits Issued	\$286,055,722	\$492,205,649	\$868,537,859
New Residential	\$107.6M	\$166.5M	\$162.6M
Residential Addition & Remodel	\$29.3M	\$31.7M	\$43.7M
New Commercial	\$90.2M	\$173.5M	\$586.4M
Commercial Addition & Remodel	\$59.0M	\$120.5M	\$75.8M
Totals	\$286.1M	\$492.2M	\$868.5M
New Commercial			
Manufacturing	\$7.5M	\$38.9M	\$52.1M
Office, Institutional, Educational	\$36.3M	\$8.1M	\$154.5M
Apartments	\$27.5M	\$114.1M	\$226.2M
Other Commercial	\$18.0M	\$12.4M	\$153.6M
Totals	\$89.3M	\$173.5M	\$586.4M
New Residential			
Single-Family Units	330	475	434
Duplex Units	0	4	0
Townhome Units	166	247	269
Multiple Family Units	284	1,031	1,830
Totals	780	1,757	2,533
Manufactured New Housing Placements	10	28	33

Source: Building Services Division

PREDICTIONS

- 1 Interest rates will continue to climb
- 2 Sioux Falls MSA population will increase by 10,000+
- 3 Sioux Falls building permit will be 30% higher than 2021 and may eclipse \$1.6B
- 4 Watch for continued investment in downtown Sioux Falls
- 5 Continued growth in all four quadrants of Sioux Falls despite market conditions

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THE SIOUX FALLS ECONOMY MAY SLOW SOME IN THE NEXT 12-24 MONTHS, BUT THE PIPELINE FOR DEAL FLOW AND NEW PROJECTS REMAINS ROBUST. WE EXPECT ANOTHER STRONG FINISH IN 2022.

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UNIMPROVED LAND MARKET

The unimproved land market, after an unprecedented year in 2021 with over 2,000 acres sold, sees continued demand in the Sioux Falls metro area. At the beginning of the year, I predicted that we could see another 1,000 acres purchased in 2022, and the market is on pace to reach that number. Developers continue to position themselves to control land for future development. As southern Sioux Falls runs out of developable land that has city infrastructure, developers are purchasing land in northwest and northeast Sioux Falls. Developers are also looking at the surrounding communities of Tea and Harrisburg to capture some of the development demand that is south of Sioux Falls.

With the strong population growth and development, city municipalities are working to accelerate their plans to provide city services and infrastructure to keep up with demand. Southern Sioux Falls is an area that is starting to get more attention to satisfy development demand. I foresee the City of Sioux Falls incorporating additional infrastructure projects with the South Veterans Parkway project to provide city services and provide more developable land in southern Sioux Falls.

SALE

8001 E. 10TH ST

35.08 AC
\$40,000/AC
January 2022

6600 W. MAPLE ST

315 AC
\$44,987/AC
June 2022



IMPROVED LAND MARKET

Improved land sales throughout the market have continued to show demand. Industrial demand is outpacing supply in the market and the pricing for industrial land reflects that. The Sioux Falls Development Foundation has raised their pricing again for their land sites, and the remaining industrial landowners are following suit. Office land sales are not creating headlines but are steady with historical trends. Retail land sales are strong along major arterials particularly along Veterans Parkway and future South Veterans Parkway. I foresee the South Veterans Parkway corridor continuing to show high demand with the first phase of construction getting started in 2023.

PREDICTIONS

- 1 Bulk land continues to see demand
- 2 Industrial land - high demand, low supply
- 3 Industrial land pricing is going up
- 4 Retail land sales strong along major arterial Veterans Parkway and South Veterans Parkway
- 5 Northwest Sioux Falls gaining momentum

OUTLOOK

The Sioux Falls metro continues to perform well with strong population growth, business activity, and new construction. In looking out to the end of the 2022, I expect land sales to continue to show strong demand. Look for bulk land sales to be announced north of Harrisburg and in northwest Sioux Falls. With the lack of supply in industrial sites, I expect to see announcements of bulk land purchased for future industrial developments by the end of the year as well.

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**2022 WILL AGAIN BE A
GOOD YEAR FOR LAND
TRANSACTIONS IN THE
SIOUX FALLS METRO.**

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SIoux FALLS OFFICE MARKET

Welcome to the post-COVID office market in Sioux Falls. By that, I mean that we have likely seen the direction that most organizations have shifted as it pertains to their office needs as a result of the pandemic. At this point, companies have either brought their employees back to the office, kept them working remote, or have adjusted to a hybrid model (part-time at the office, part-time remote).

Our overall office vacancy has officially dropped below pre-COVID vacancy levels (9.87% at year-end 2019 to 9% mid-2022). This is all while adding 465,000 square feet of tenant occupied office space since year-end 2019. With the national office market vacancy rate at 15.2%, the office market in Sioux Falls looks very healthy at 9%. With the overall vacancy of Class A office space citywide at 3.56%, we predict this demand, in addition to the increase in construction cost, will continue to drive the asking rental rates for Class A office space over \$20.00/SF NNN.



SIoux FALLS OFFICE MARKET

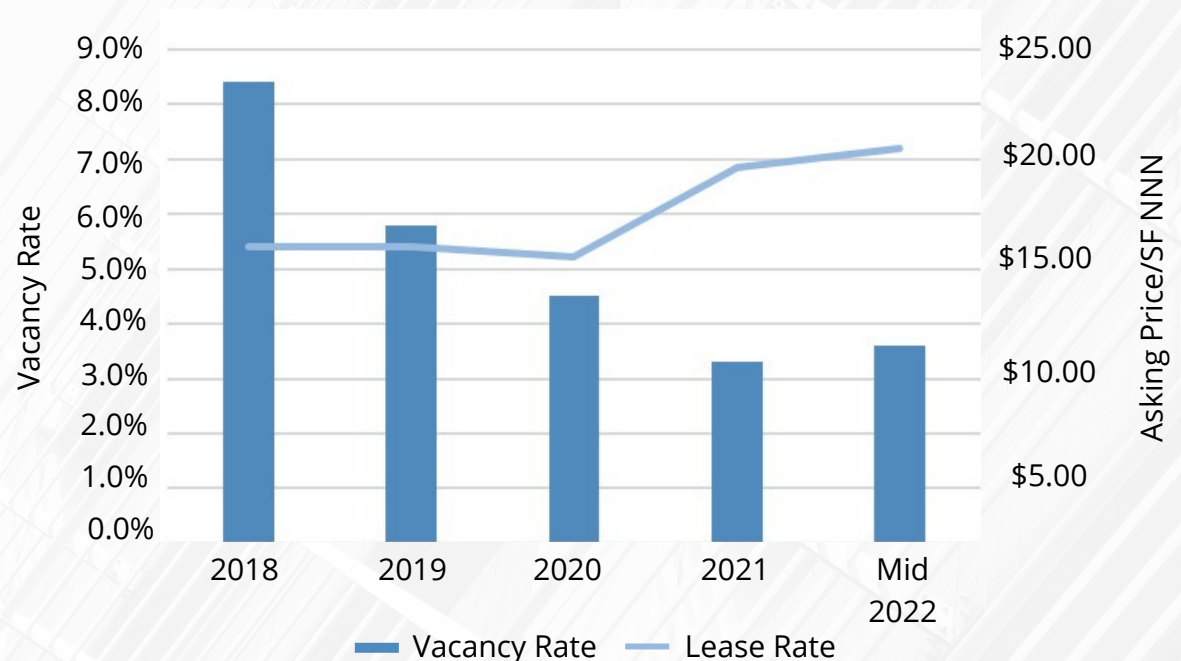
DOWNTOWN

With the construction of Cherapa II and The Steel District in full swing, the downtown Sioux Falls office market has a ton of momentum right now. Between those two projects, the downtown Sioux Falls office market will be adding 350,000+ square feet of Class A office space over the next 12-18 months. With 2% vacancy in Class A office space downtown, both of these projects are positioned extremely well and have received a lot of interest from both local and national tenants.

SUBURBAN

Although our downtown office market has received most of the attention the last 12 months, don't sleep on our suburban office market! One could argue that with a 4.2% vacancy rate for Class A office space in the suburban market, that the demand is just as strong as the downtown market. Expect to see developers continuing to build spec buildings to lease or to sell to investors/owner-occupants to feed the demand.

Overall Class A Vacancy & Lease Rates



SIoux FALLS OFFICE MARKET & TRENDS

- 1 Owner-occupied office buildings will remain in high demand
- 2 Vacancy for Class C office space will continue to increase
- 3 Vacancy for Class A office space in the Central Business District (CBD) will remain below 10% while absorbing Cherapa II and The Steel District
- 4 Strong rental rate growth for Class A & B office space

	INVENTORY (SF)	VACANT SPACE (SF)	VACANCY RATE	ABSORPTION (SF)	ASKING RENTAL RATES (NNN)
TOTAL CBD	2,358,543	95,629	4.1%	41,335	\$16.00
CLASS A CBD	773,965	15,157	2.0%	17,767	\$20.00
CLASS B/C CBD	1,584,578	80,472	5.1%	23,568	\$14.50
TOTAL SUBURBAN	6,203,526	677,043	10.9%	60,093	\$14.00
CLASS A SUBURBAN	1,977,254	82,736	4.2%	42,821	\$20.00
CLASS B/C SUBURBAN	4,226,272	594,307	14.1%	17,272	\$12.50
TOTAL SIOUX FALLS	8,562,069	772,672	9.0%	101,418	\$15.00

NOTABLE OFFICE TRANSACTIONS



LEASE

●	●	●	●	●
101 S. PHILLIPS AVE	311 S. WHITEWOOD CIR	THE STEEL DISTRICT (9TH FLOOR)	223 S. PHILLIPS AVE	5006 S. BROADBAND
Mammoth Sports Construction 5,811 SF	Little Tykes University 5,862 SF	C & B Operations, LLC 43,550 SF	Flynn Wright 2,600 SF	S1J Homes, LLC 2,200 SF

SALE

●	●	●	●	●
2900 W. 11TH ST & 2909 W. 10TH ST	3401 N. 4TH AVE	200 N. PHILLIPS AVE	3600 S. WESTPORT AVE	3701 W. 49TH ST
26,252 SF \$3,500,000 January 2022	94,416 SF \$8,529,000 January 2022	35,586 SF \$5,700,000 March 2022	17,180 SF \$1,685,000 April 2022	47,533 SF \$7,850,000 July 2022

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**THE SIOUX FALLS OFFICE
MARKET REMAINS HOT,
AND CLASS A OFFICE SPACE
IS IN THE DRIVER'S SEAT.**

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RETAIL MARKET

The demand for expansion into Sioux Falls remains high. We expect to have additional announcements from national/regional retailers moving into our market before year end.

Foot traffic is expected to rise in 2022 as pandemic related restrictions soften. Retailers are looking to sign longer term lease deals. Is 2022 the year the retail market stabilizes after several years of unpredictable and volatile growth? We will further explore these trends and predictions, and more, at our 2023 Market Outlook event.

VACANCY RATE

YEAR-END 2021: 12.5%

MID-2022: 7.7%

NEW CONSTRUCTION

YEAR-END 2021: \$44.34M

MID-2022: \$20.8M



RETAIL MARKET

The local market has seen continued, steady growth as we hit our mid-year mark of 2022. Here are a few of the highlights worth noting:

- Kwik Trip has announced plans to enter our market
- Starbucks is adding several additional locations
- Aldi is adding a location in north Sioux Falls
- Fareway is expanding into Brandon
- Chick N Max announced plans to open its first location at Lake Lorraine
- Freddy's recently opened their east side location and has already started construction at a second location near the Empire Mall
- Chipotle will soon be opening on the east side
- Slim Chickens opened its third location
- Natural Grocers is now open in the former Northern Tool & Equipment location



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**THE DEMAND FOR EXPANSION
INTO SIOUX FALLS REMAINS HIGH.**

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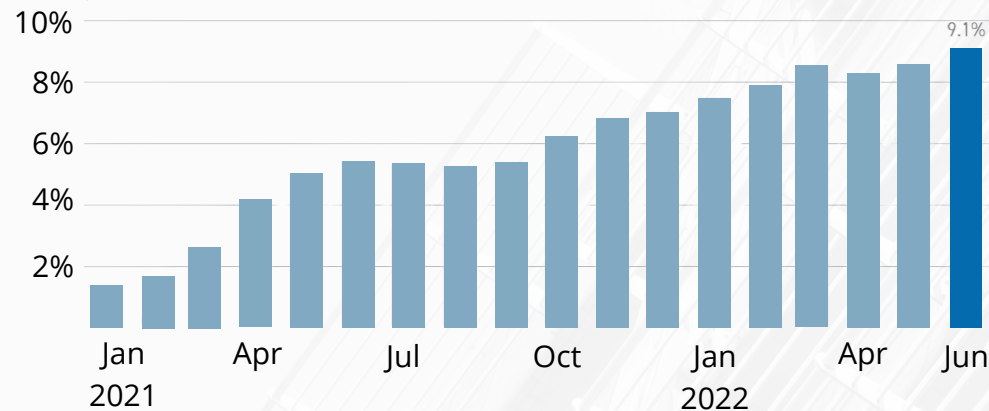
INVESTMENT MARKET

Real estate investors have been drinking from a fire hose of inputs over the last six months: exponential record inflation, volatility in equity and bond markets, a suddenly aggressive Federal Reserve, and subsequent rapidly rising borrowing costs.

It's not all bad news. The RCA CPPI National All-Property Index reported that across the United States, price growth for all commercial real estate grew 18.6% from May 2022 over the prior year. Industrial and multi-family assets led the way with this growth, at 28.6% and 23.3% respectively. While buyers may not appreciate the rapid price increase, real estate continues to act as an effective hedge against inflation through price and rent appreciation. Watch for this trend to continue.

Year-Over-Year Inflation Hits Another New High

Consumer prices in June 2022 were 9.1% higher than last June - the largest annual increase since 1981.



Note: Not seasonally adjusted
Source: Bureau of Labor Statistics
Sean McMinn / POLITICO



INVESTMENT MARKET

The dust hasn't settled on rising interest rates and resulting market capitalization rates. As the Federal Reserve openly telegraphs aggressive interest rate hikes, buyers and sellers have yet to reach consensus on market values and cap rates. Locally, demand remains brisk and inventories shallow for investment properties.

Local attitudes remain bullish on both the buy side and sell side.

Developers continue to build aggressively in Sioux Falls, perhaps most strikingly in the new multi-family unit construction area. I predict more than 3,000 new multi-family unit building permits will be pulled by year-end.

Look for year-end transaction volume to be strong, but under the records set in 2021.

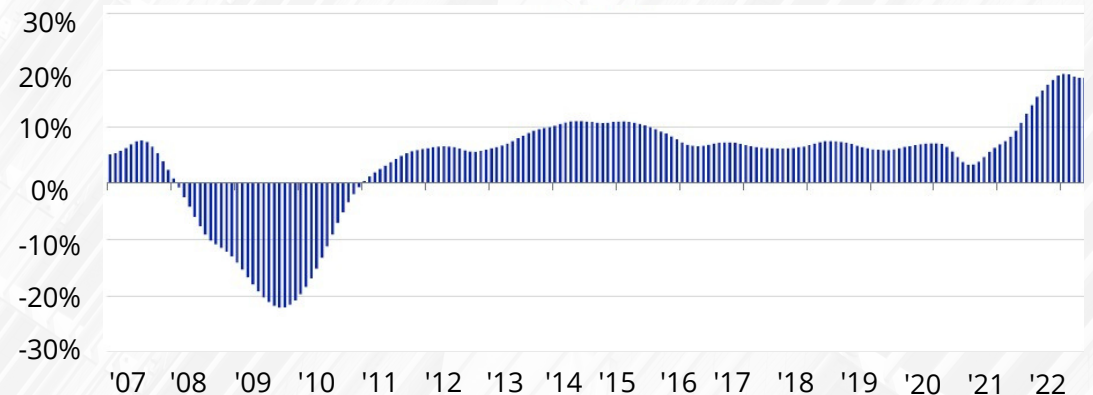
10 Year Treasury - YTD

2.759% ▼ -0.028



Source: CNBC

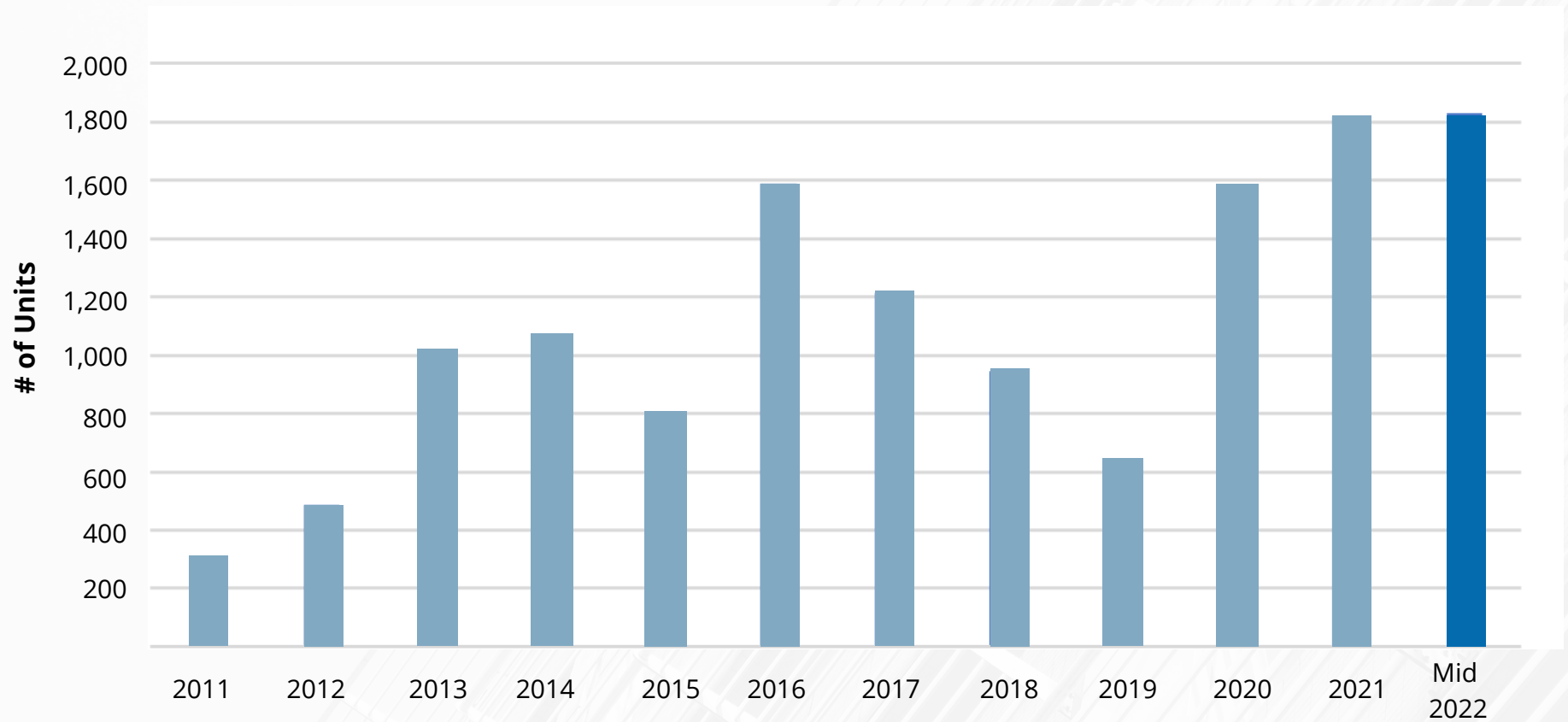
Property Price Index - YOY Change



Source: MSCI RCA CPPI™ US - May 2022

INVESTMENT MARKET

Sioux Falls Multi-Family Construction

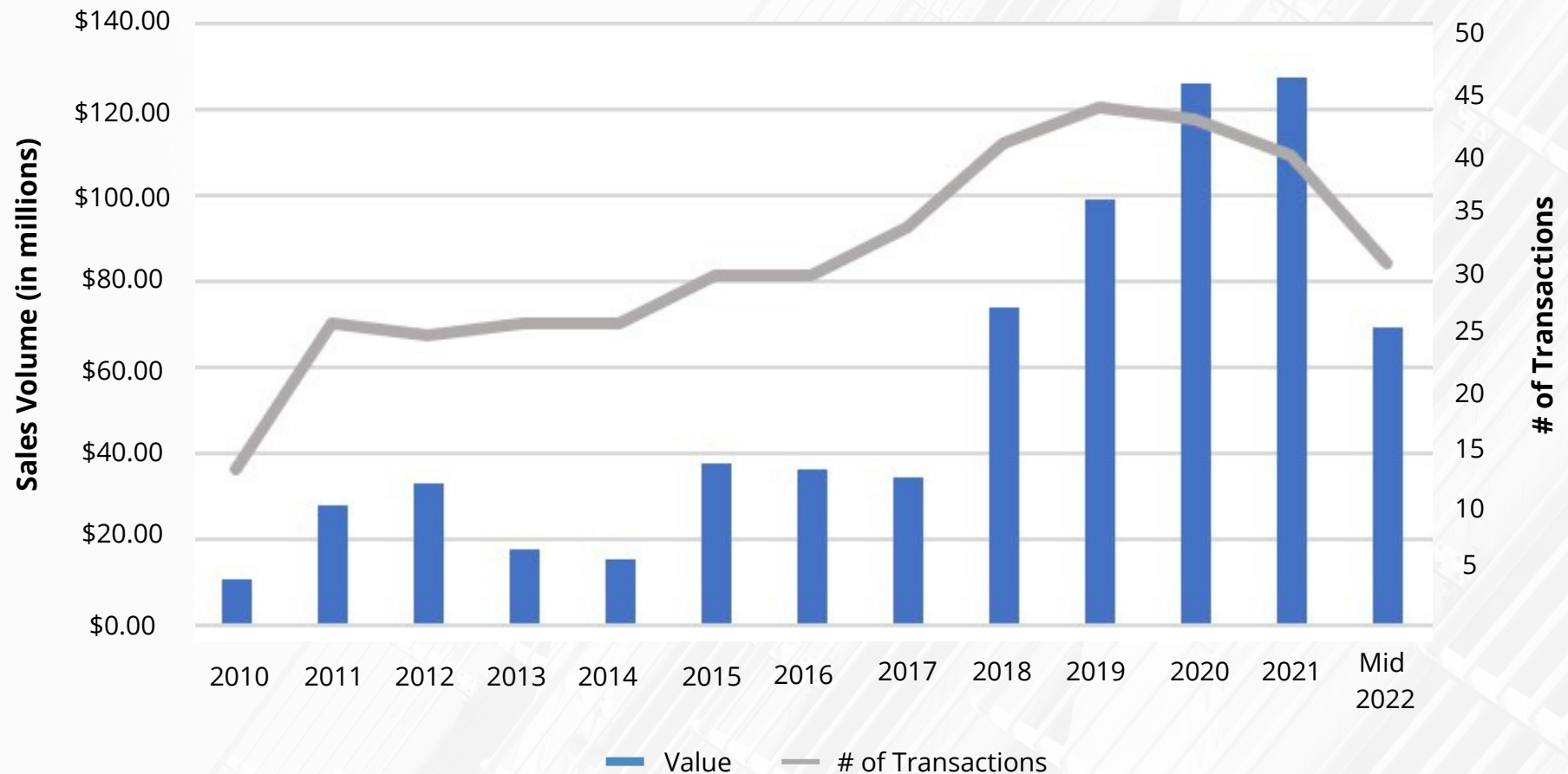


Source: City of Sioux Falls, Planning

INVESTMENT MARKET

Transaction volume remains brisk, note the mid-year multi-family sales volume. We predict similar year-end transaction volume to 2021, despite rising interest rates.

Sioux Falls Multi-Family Sales



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REAL ESTATE INVESTORS HAVE BEEN DRINKING FROM A FIRE HOSE OF INPUTS OVER THE LAST SIX MONTHS: EXPONENTIAL RECORD INFLATION, VOLATILITY IN EQUITY AND BOND MARKETS, A SUDDENLY AGGRESSIVE FEDERAL RESERVE, AND SUBSEQUENT RAPIDLY RISING BORROWING COSTS.

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INDUSTRIAL MARKET

The Sioux Falls industrial market is made up of properties used for manufacturing, warehouse, distribution, and transportation. Additionally, a large component of our local market includes contractor shops throughout Sioux Falls, Tea, Harrisburg, Brandon, and Crooks/Renner.

The market encompasses a total of 1,401 properties, equating to approximately 29.48 million square feet of space. The ongoing demand for industrial space in the first half of 2022 has provided over 600,000 additional square feet of industrial inventory.

As the unrelenting demand for space outpaces the supply, vacancy rates have continued their downward spiral from 1.43% in 2021 to 1.11% year-to-date (YTD). This is the lowest vacancy the industrial market has ever experienced, which in-turn has created an onslaught of new construction throughout the market – to the tune of 665,820 square feet. Most of which is speculative construction ranging from 10,000 to 200,000 square feet.



INDUSTRIAL MARKET

Average asking rental rates continued its slow and steady climb for Class A space to \$8.50/SF, which was a 6.25% increase from 2021. Many markets across the country are seeing double digit rental growth to keep up with the ever-increasing material, labor, and borrowing costs. Due to the lack of available product in the market, demand for space will continue to inflate the price per square foot occupiers pay in both the leasing and sales markets.

As 2021 proved to be a record-breaking year for new construction and absorption, 2022 is starting out on a more measured note. With a looming national recession, lenders have maintained their underwriting standards by not allowing leverage to get crazy or for loan structuring to be too loose. For Sioux Falls, there's plenty of liquidity in the market to help offset any roadblocks in this inflationary environment. As Ecommerce continues to grow and the reshoring of manufacturing – through advancements in automation – throughout the country, Sioux Falls will be a direct beneficiary of this trend. The next several years should be an enjoyable and prosperous time for the Sioux Falls industrial market.

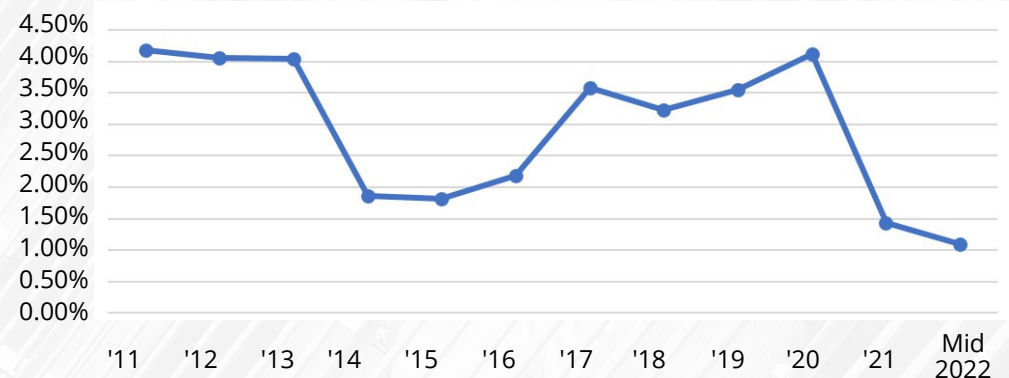
ASKING RENTAL RATES

CLASS A: \$6.75 - \$8.50/SF NNN

CLASS B: \$5.00 - \$6.50/SF NNN

CLASS C: \$4.75/SF NNN AND UNDER

Industrial Vacancy Rate



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**THE INDUSTRIAL MARKET HAS
NEVER BEEN CONSIDERED A
DARLING ASSET CLASS IN OUR
MARKET; HOWEVER, THAT TIDE
IS STARTING TO SHIFT.**

”



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