

18TH ANNUAL

SIOUX FALLS

MARKET OUTLOOK

2015

Bender
COMMERCIAL

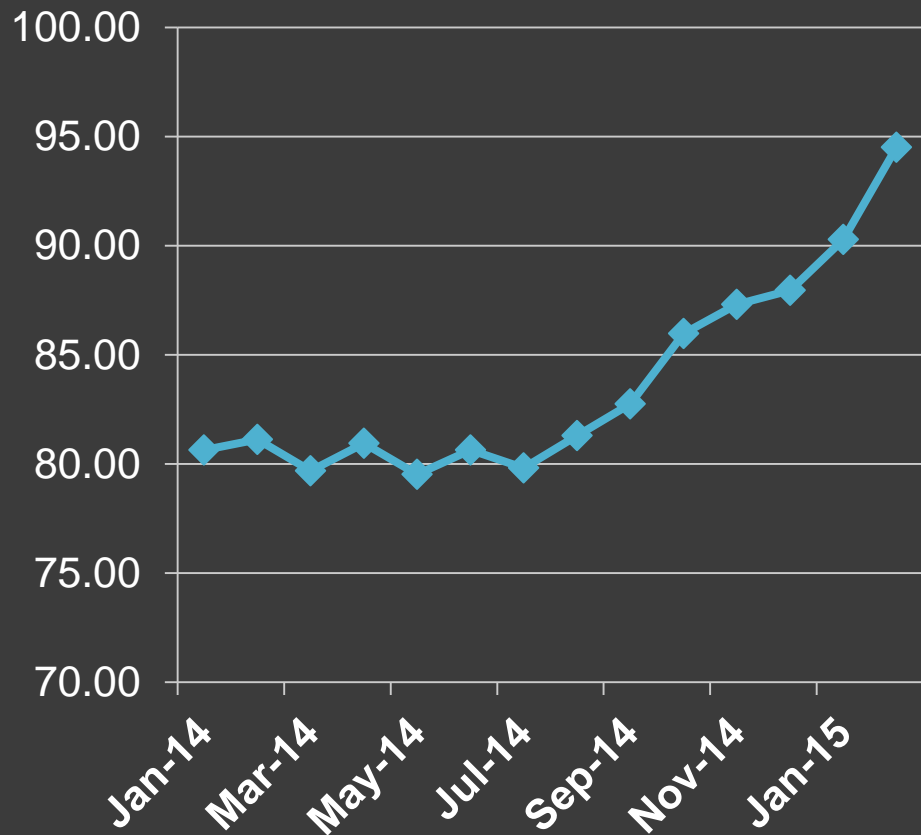
GLOBAL & U.S. OUTLOOK

GLOBAL INSTABILITY

- ◎ China slowing down
- ◎ Demographics in Japan
- ◎ Shaky Euro Zone
 - Greece just the start
 - Southern Europe to follow?
- ◎ Brazil – Inflation ↑
- ◎ Russia?
- ◎ New “Black Swan” Event

STRENGTHENING OF THE U.S. ECONOMY

The U.S. Dollar Index



- Federal Rates ↑
- Global Money to follow
- Real GDP ↑
 - U.S. Exports more costly
- Federal Deficit ↓
 - 2009 = \$1.4 Trillion
 - 2014 = \$514 Billion
 - 3% of GDP → 40 year average

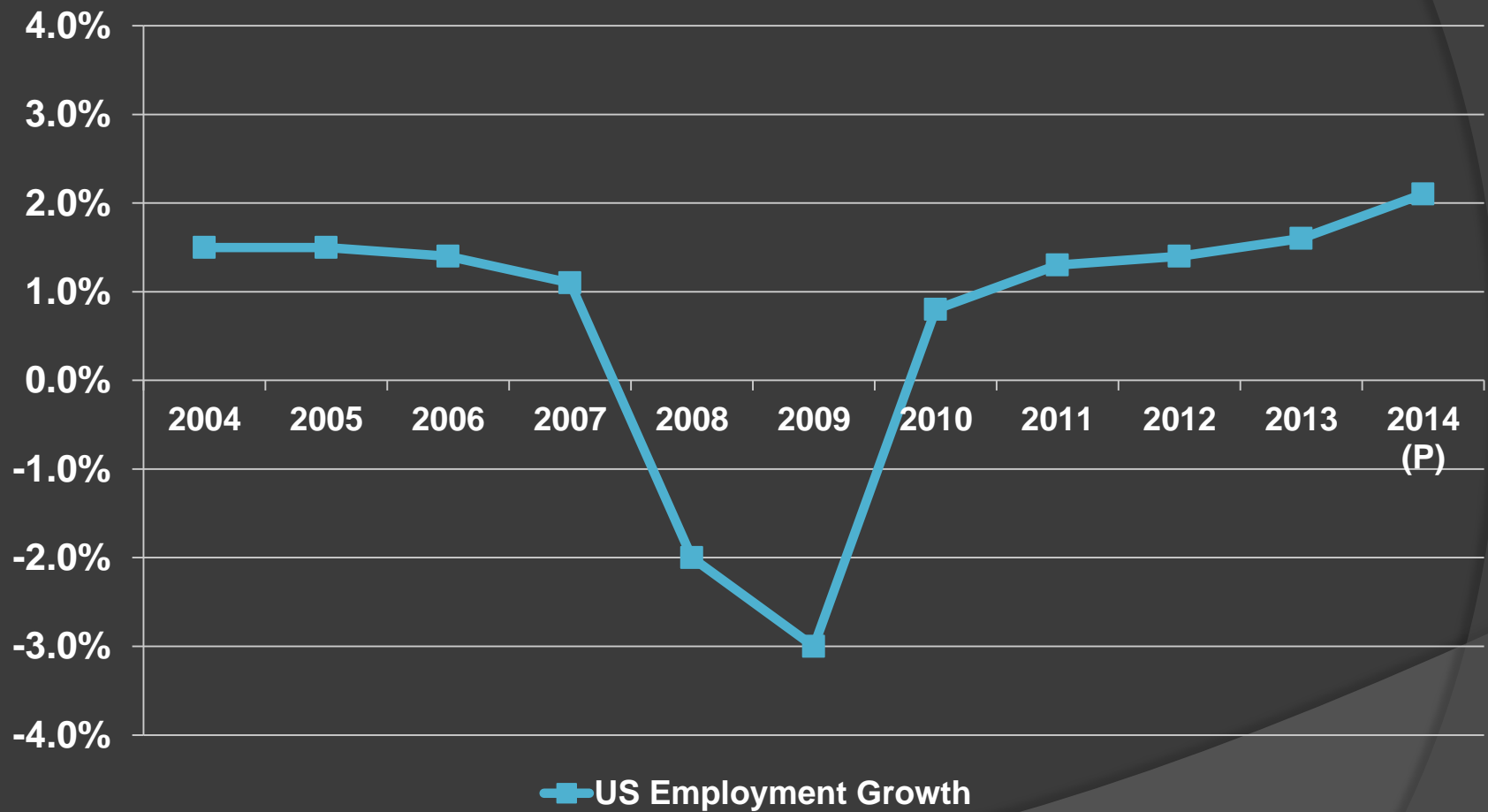
MORE GOOD NEWS

OIL - ↓ thru 2015

Oil Dividends to U.S. Consumers

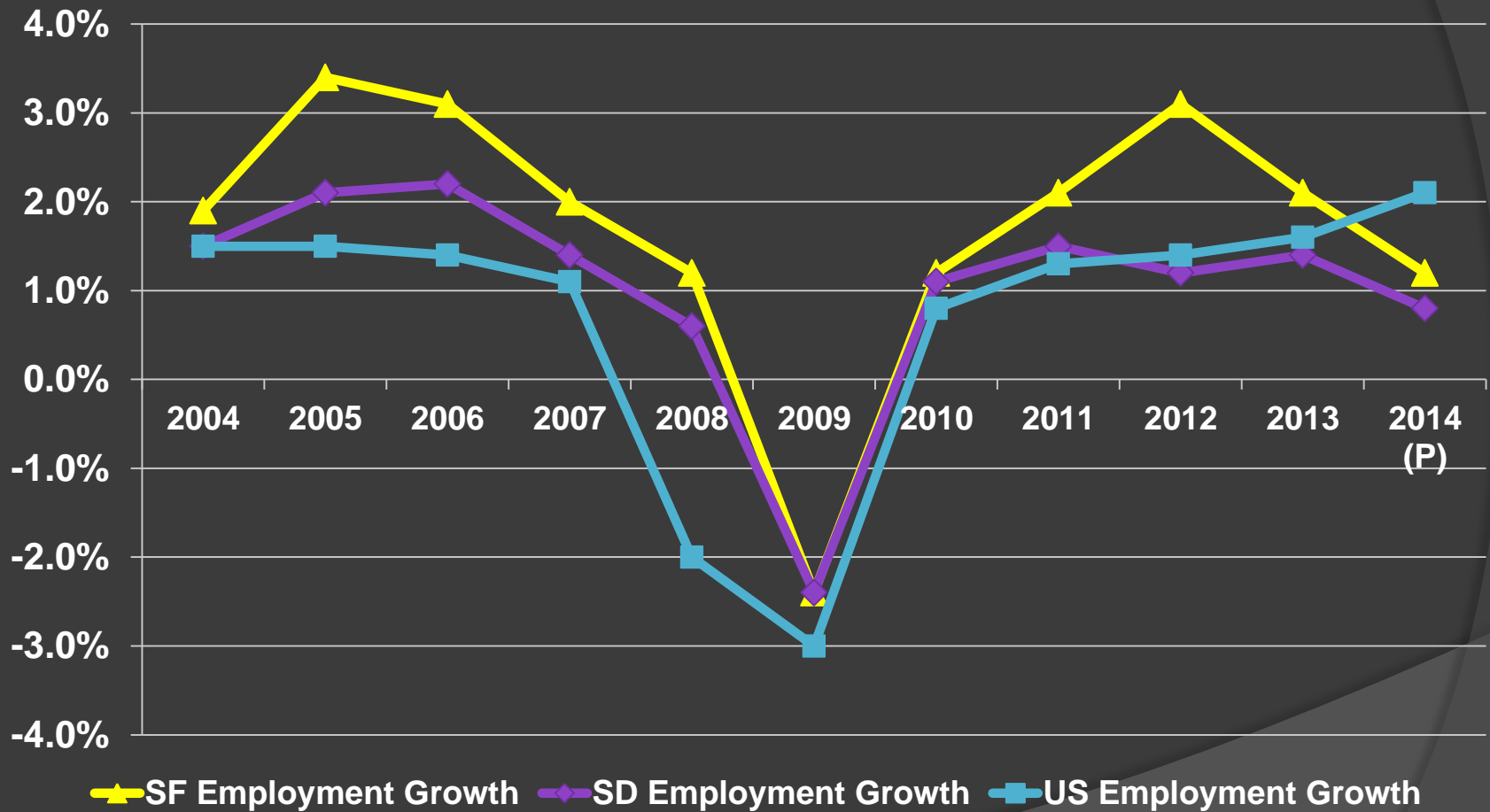
- 50% to Personal Savings
- 25% to Pay Down Debt
- 25% to New Consumer Spending

EMPLOYMENT GROWTH

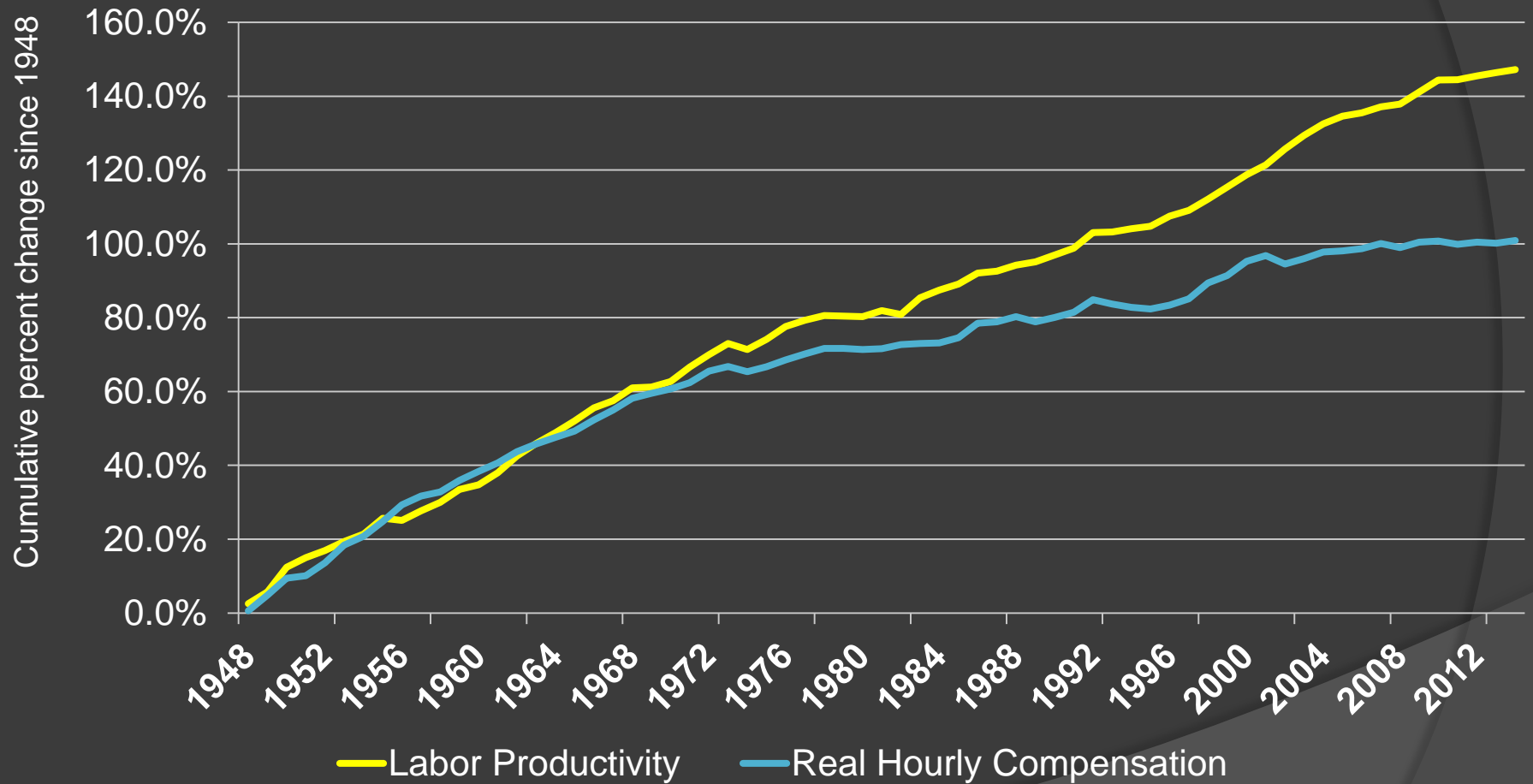


Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH



WAGE STAGNATION

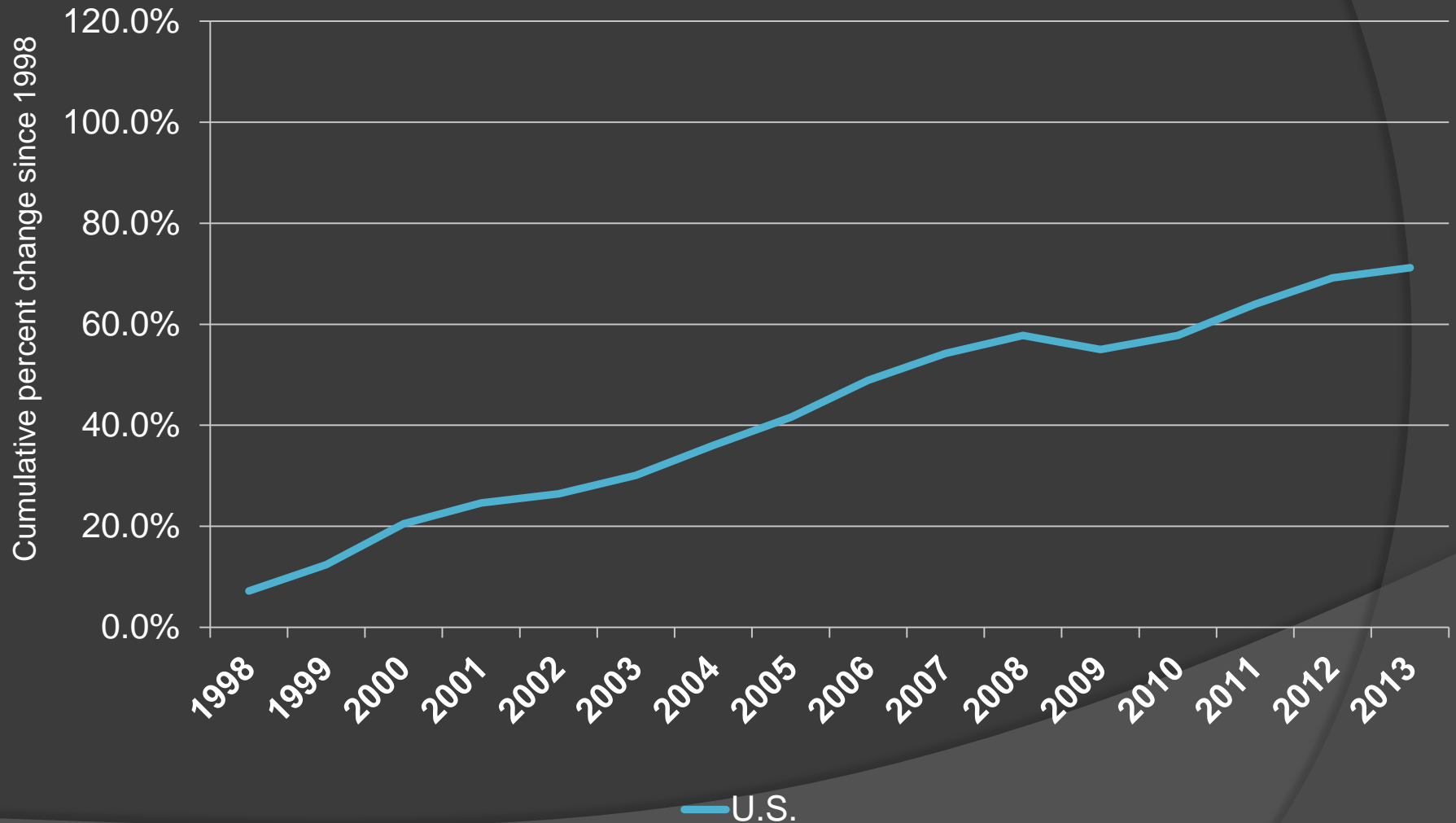


Source: U.S. Bureau of Labor Statistics

WAGE STAGNATION

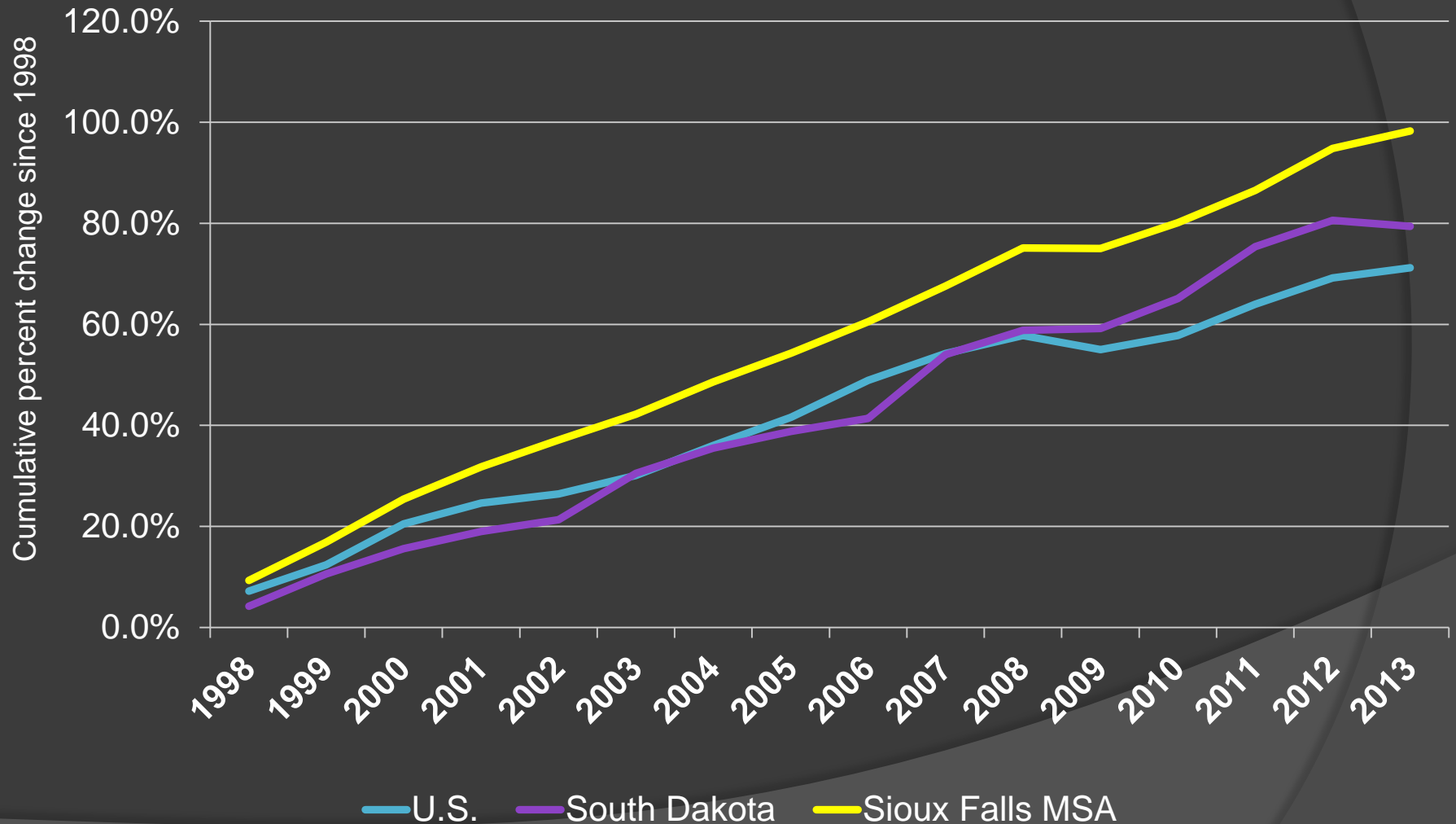
- ⦿ Since mid-1970's labor productivity has increased at a faster pace than real hourly compensation
 - Real = purchasing power
- ⦿ Wages froze during The Great Recession, rather than cut
 - Excessive unemployment also suppressed wage growth
 - After recession, wages are not raising as quickly
→ “pent-up wage deflation”

PERSONAL INCOME GROWTH



Source: U.S. Department of Commerce, Bureau of Economic Analysis

PERSONAL INCOME GROWTH



Source: U.S. Department of Commerce, Bureau of Economic Analysis

WAGE STAGNATION

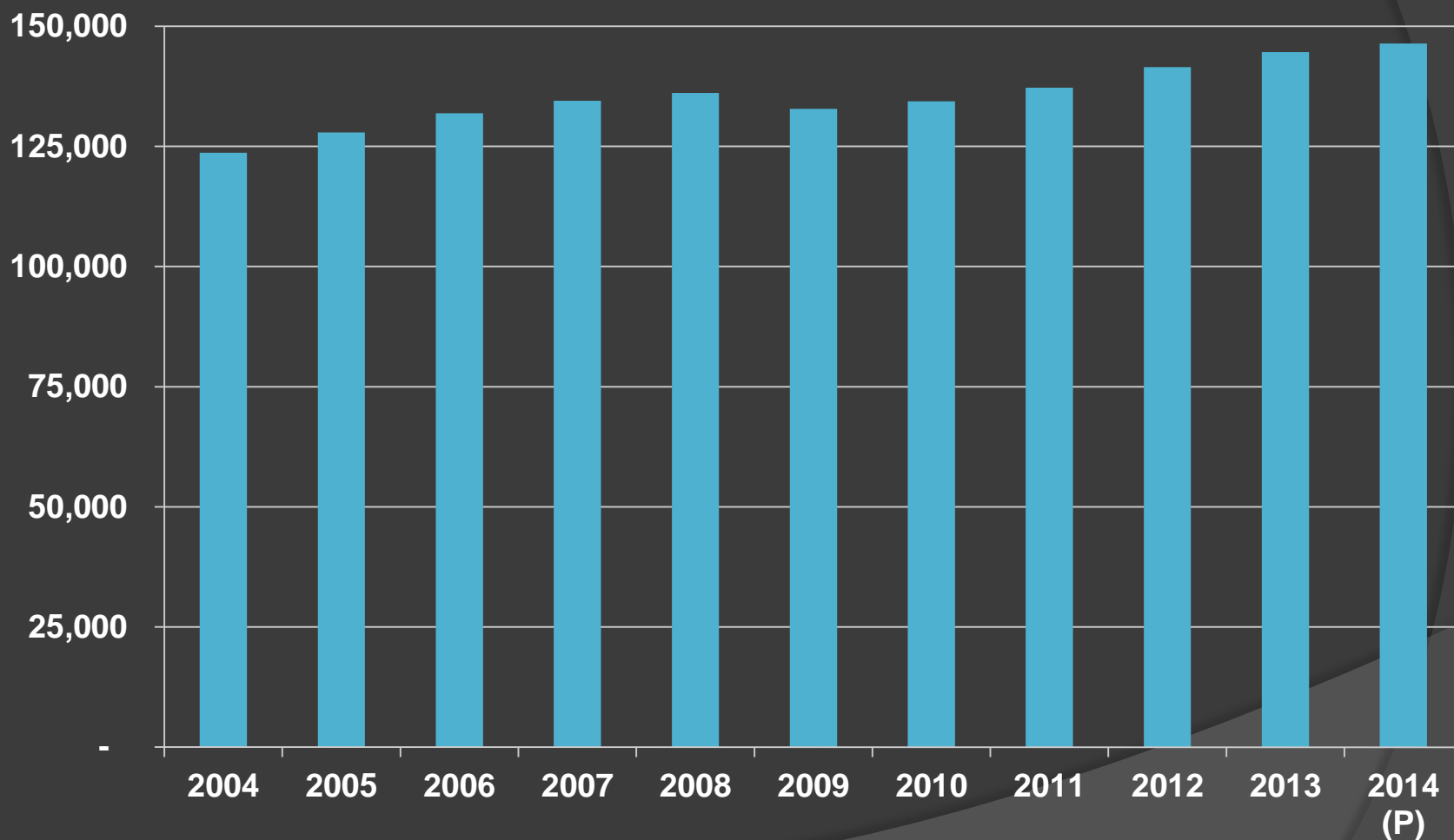
Possible Solutions

- ⦿ Restore full employment
 - Not raising interest rates until wage growth is improved
 - Public investments to create jobs and future productivity growth
 - Increase wages → Increase consumer Demand (Real Income)

SIoux FALLS ECONOMIC OVERVIEW

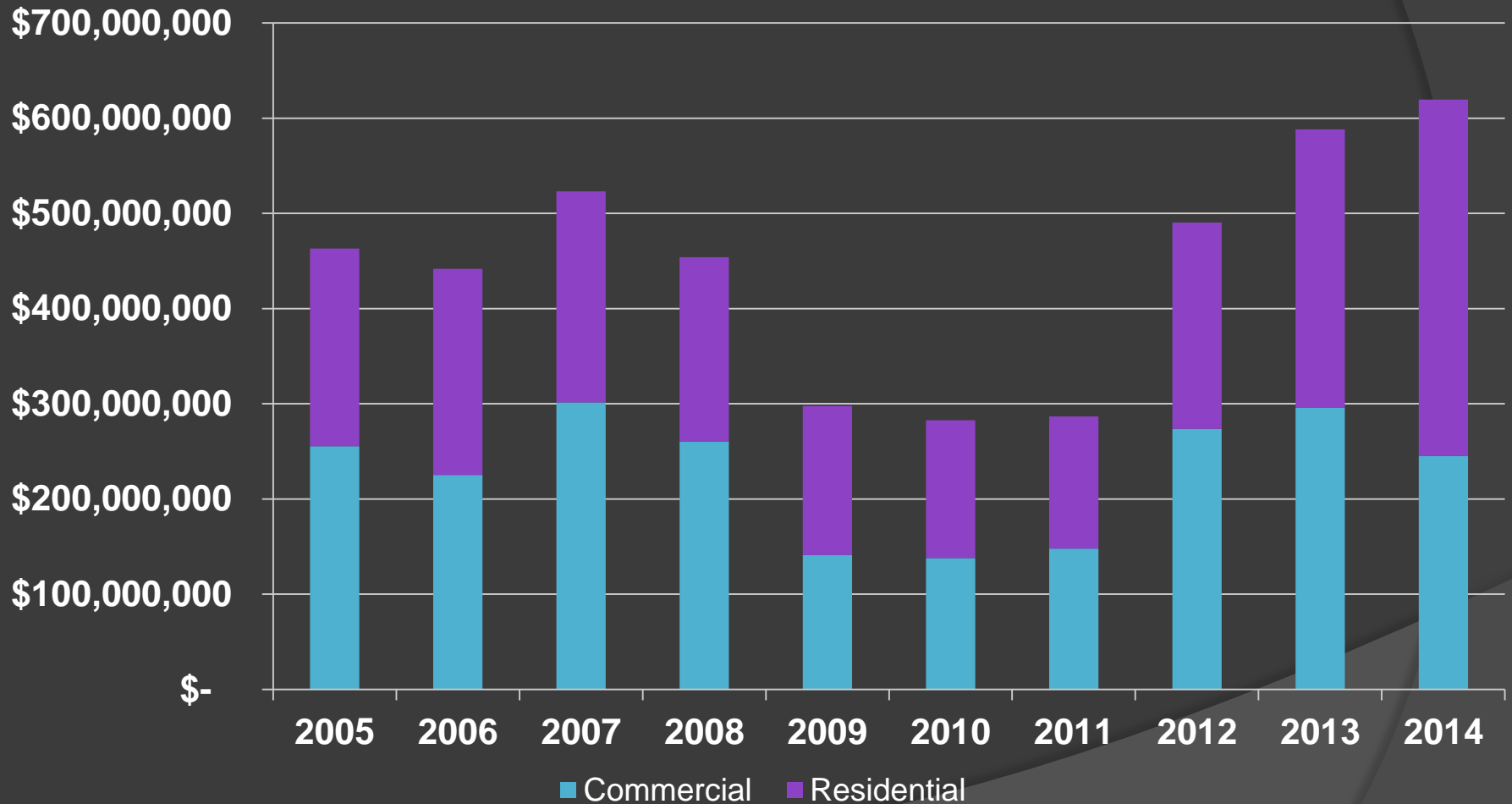
SIoux FALLS MSA EMPLOYMENT

(Non-Farm)



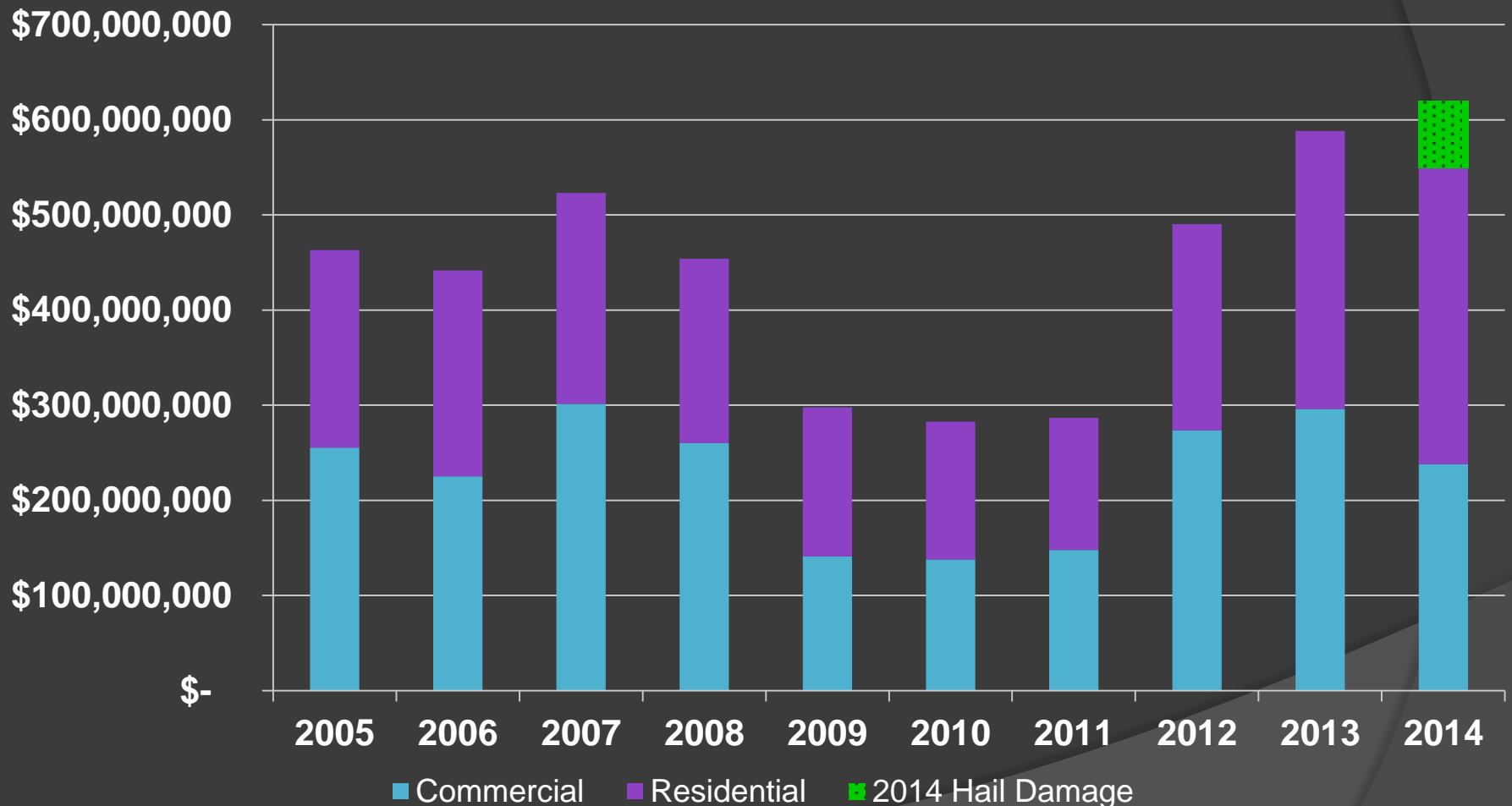
Source: U.S. Bureau of Labor Statistics

TOTAL BUILDING PERMITS



TOTAL BUILDING PERMITS

(without 2014 hail damage figures)



REGIONAL COMPARISONS

Sioux Falls

\$ 619,502,240

Rapid City, SD

\$ 214,924,663

Fargo, ND

\$1,012,135,745

Rochester, MN

\$ 452,506,560

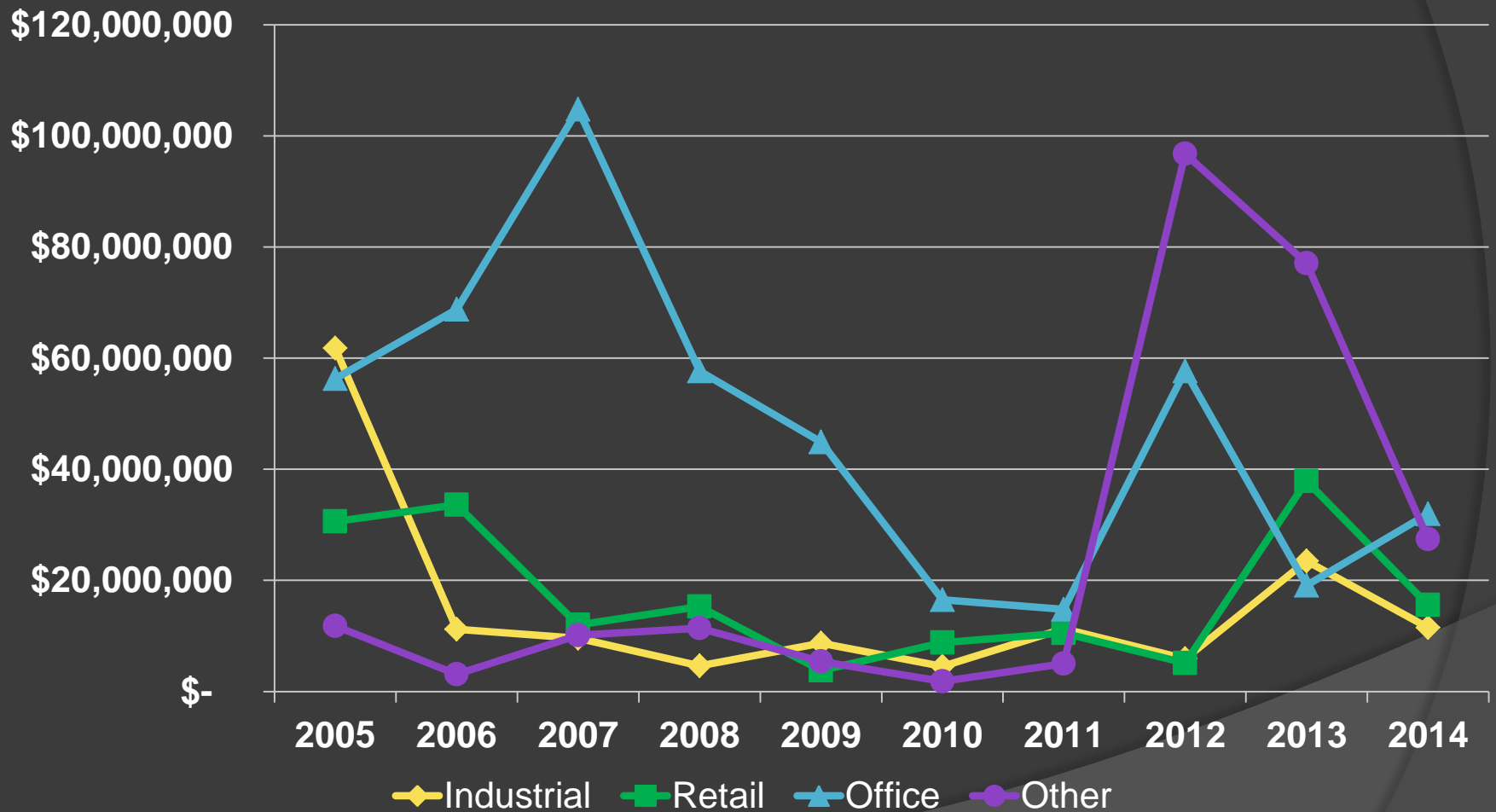
Omaha, NE

\$ 697,966,202

Des Moines, IA

\$ 340,181,808

NEW COMMERCIAL CONSTRUCTION



Source: City of Sioux Falls, Planning and Building Services

EXAMPLES OF CONSTRUCTION

◎ **New Construction:**

- Scheel's Ice Plex - \$8,000,000
- HiRoller Conveyor - \$7,000,000
- First Saving Bank - \$2,000,000
- Burlington Coat Factory - \$3,439,000
- Susan B. Anthony School - \$8,025,958

◎ **Additions/Remodel:**

- Plaza Downtown Building - \$6,695,000
- Sioux Falls Regional Airport - \$10,500,000
- Downtown YMCA - \$5,004,000
- Sanford Cancer Center & Skywalk - \$3,900,000

2015 PREDICTIONS

Sioux Falls Economic Outlook

- Job Growth: 1,800 – 2,000 jobs
 - Primarily in Retail and IT
- Construction:
 - Retail ↑
 - Office ↔
 - Industrial ↑
- Residential Construction
 - Single-Family ↔
 - Multi-Family ↓

ROB FAGNAN



- Minneapolis Native
- Southwest Minnesota State
- Joined Bender Commercial in 2005
- New Father 2014
- *Fun Fact:* Sioux Falls Storm QB

LAND MARKET

LAND SALES MARKET

Unimproved Land - \$ per acre

Retail	}	\$ per square foot
Office		
Industrial		
Multi-family		

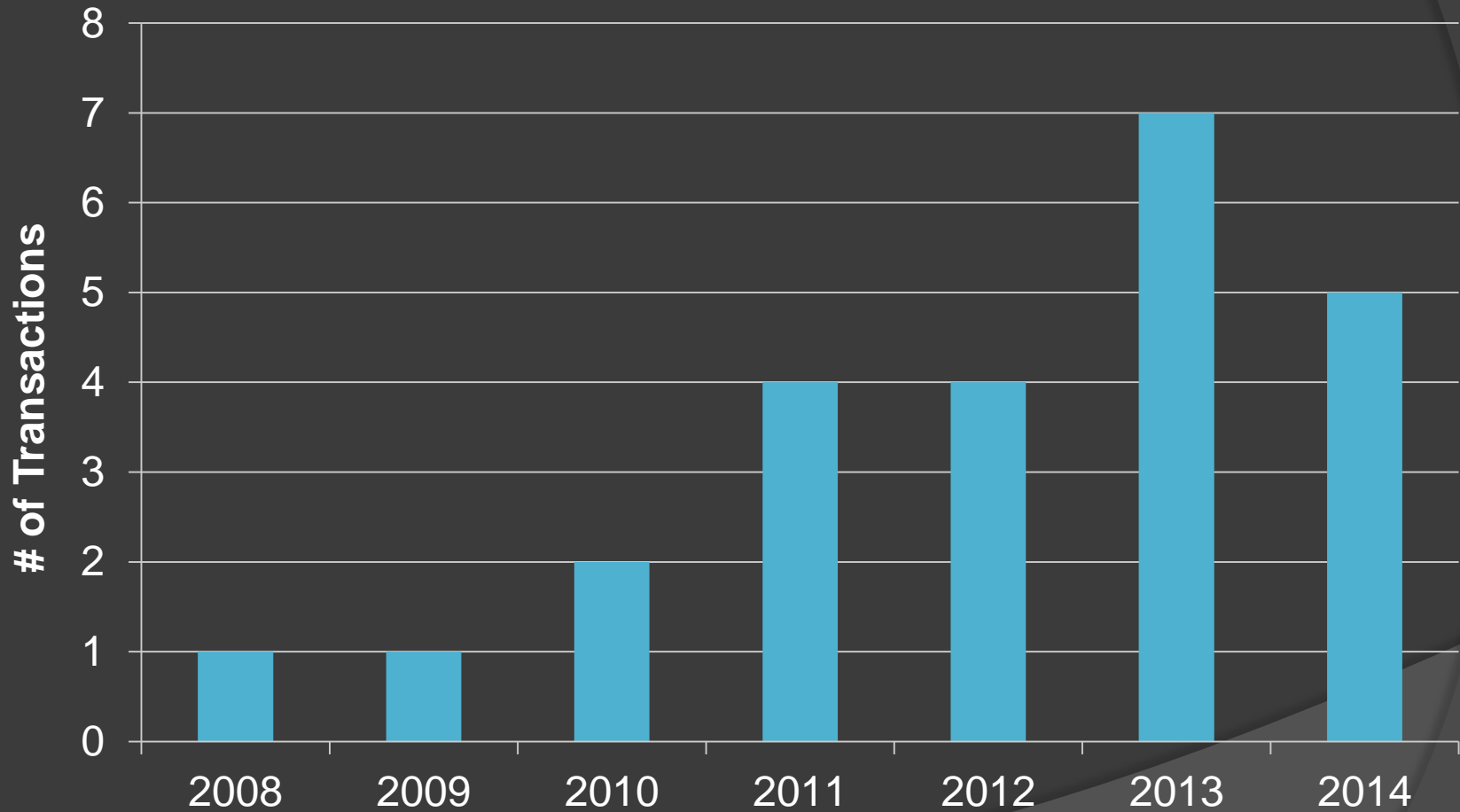
LAST YEAR'S PREDICTIONS

Unimproved Land Sales ↗

Improved Land Sales →

Price ↗

UNIMPROVED LAND



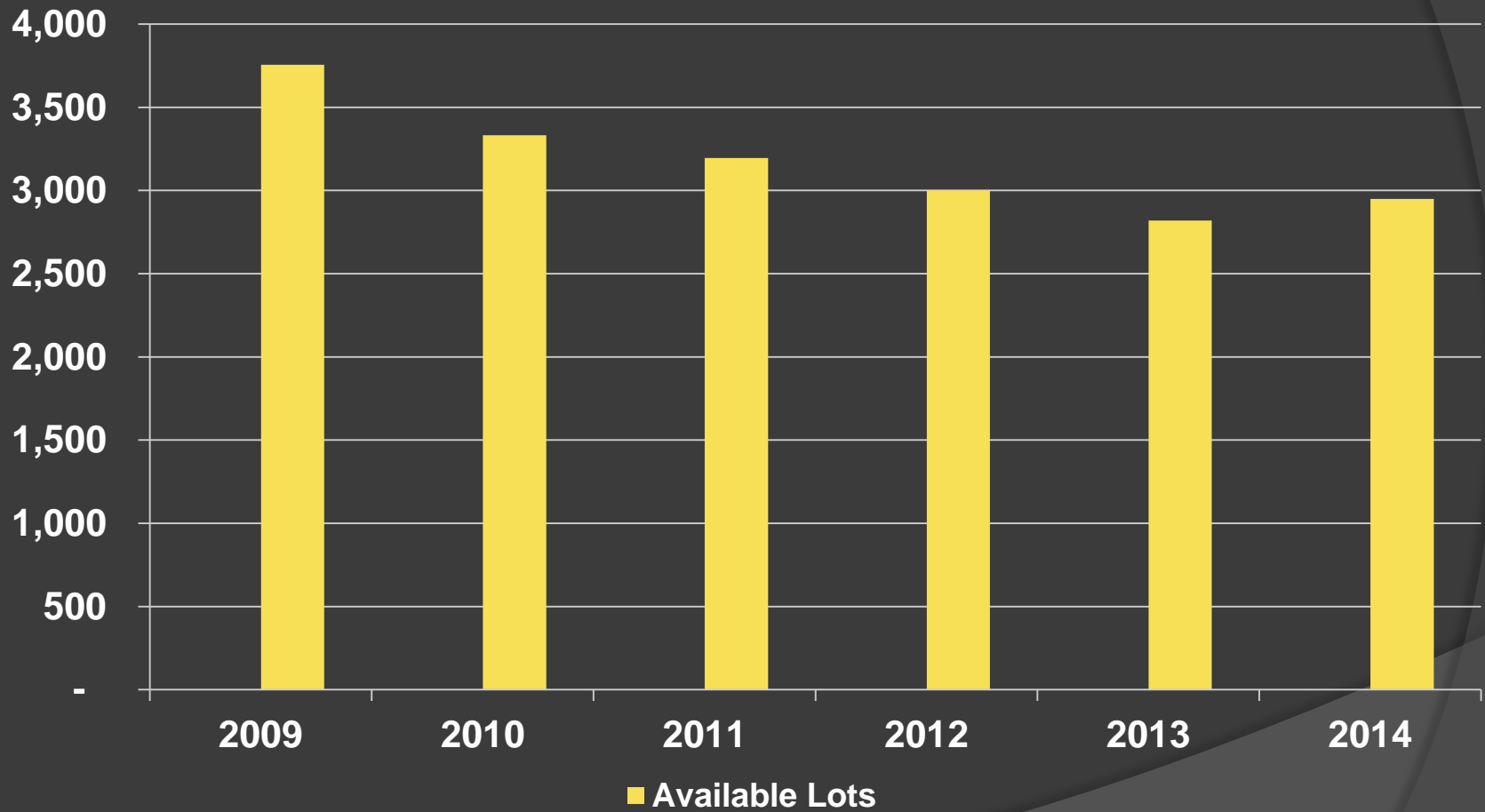
UNIMPROVED LAND



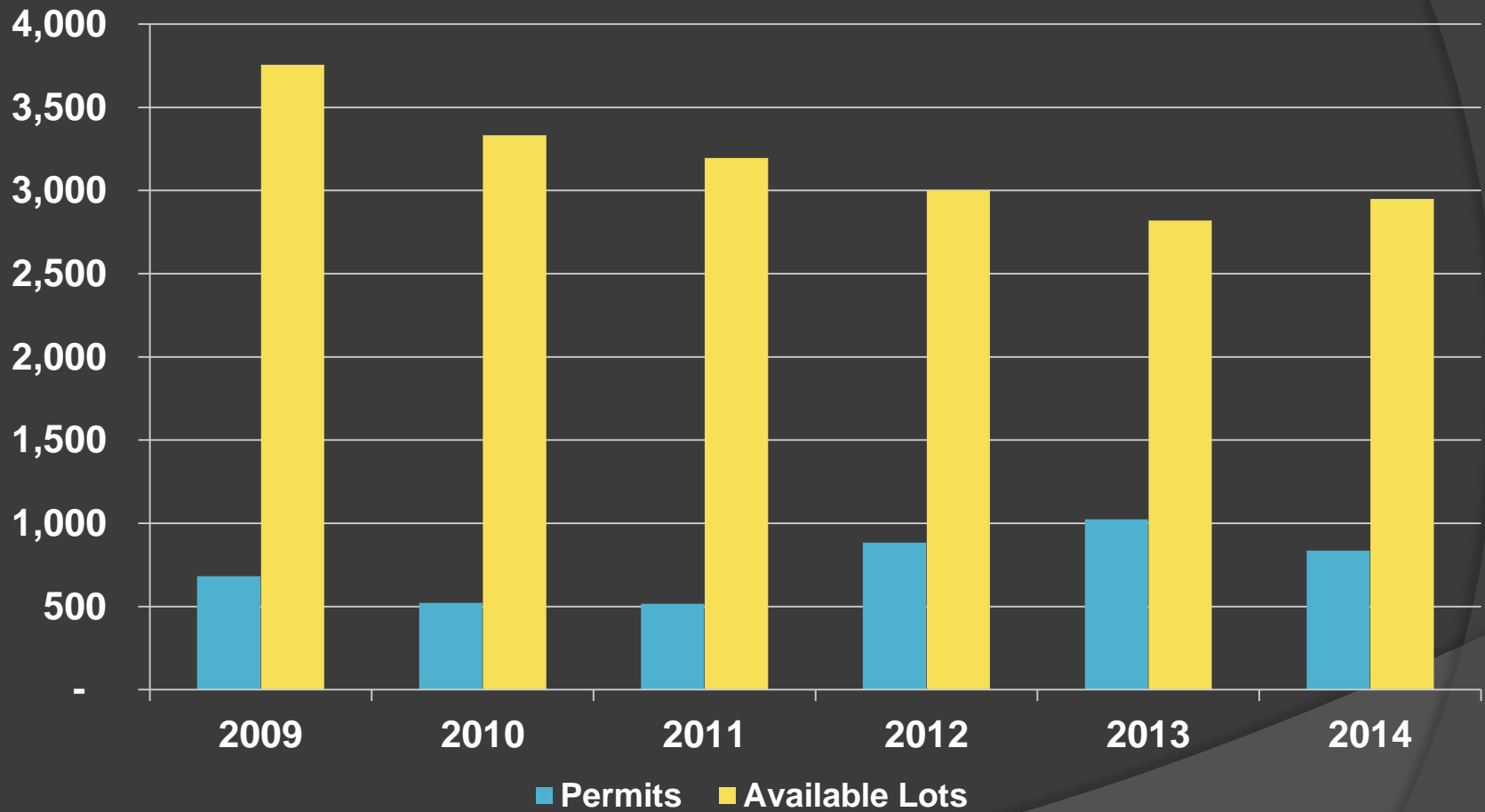
UNIMPROVED LAND



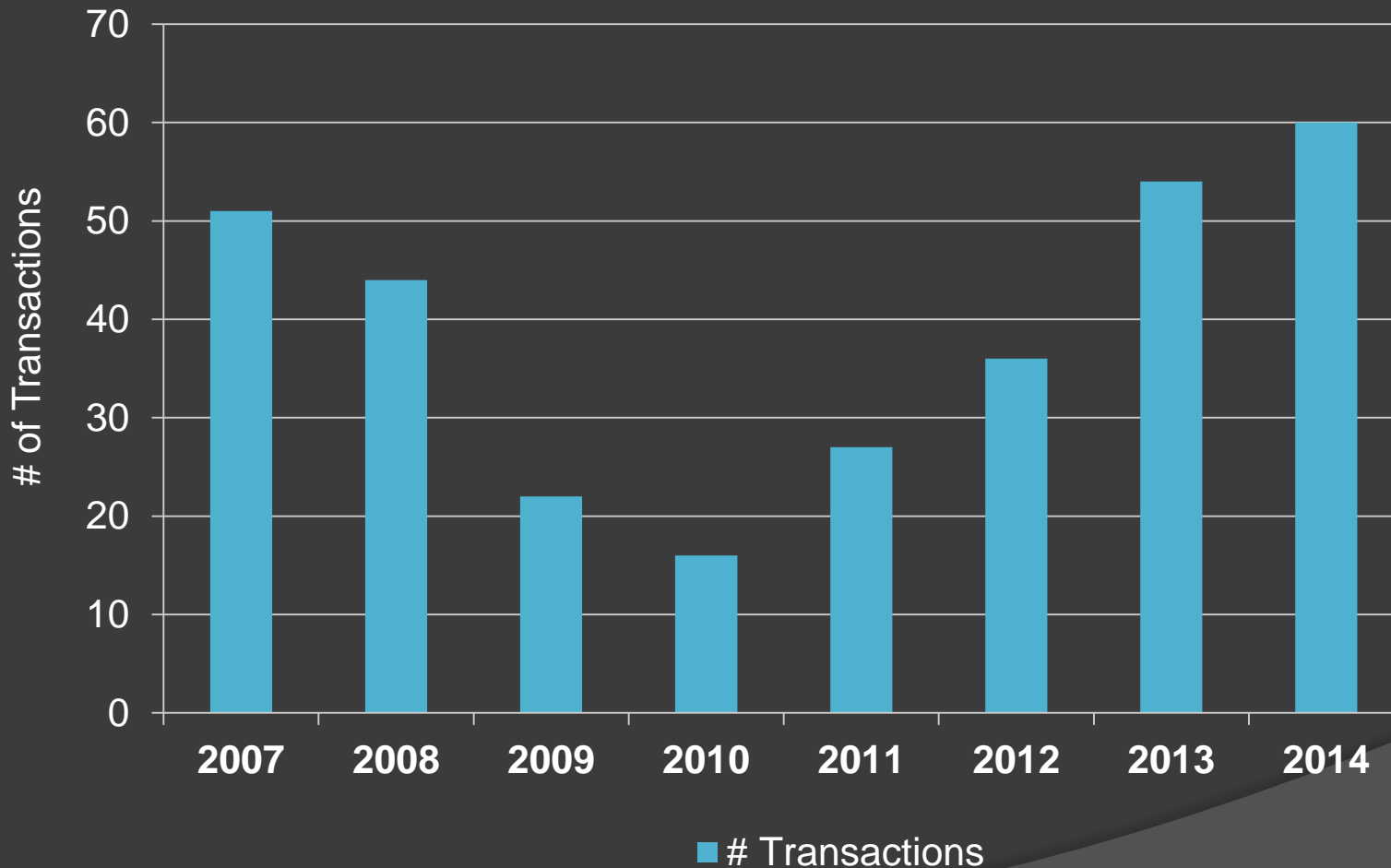
NEW RESIDENTIAL PERMITS (Supply)



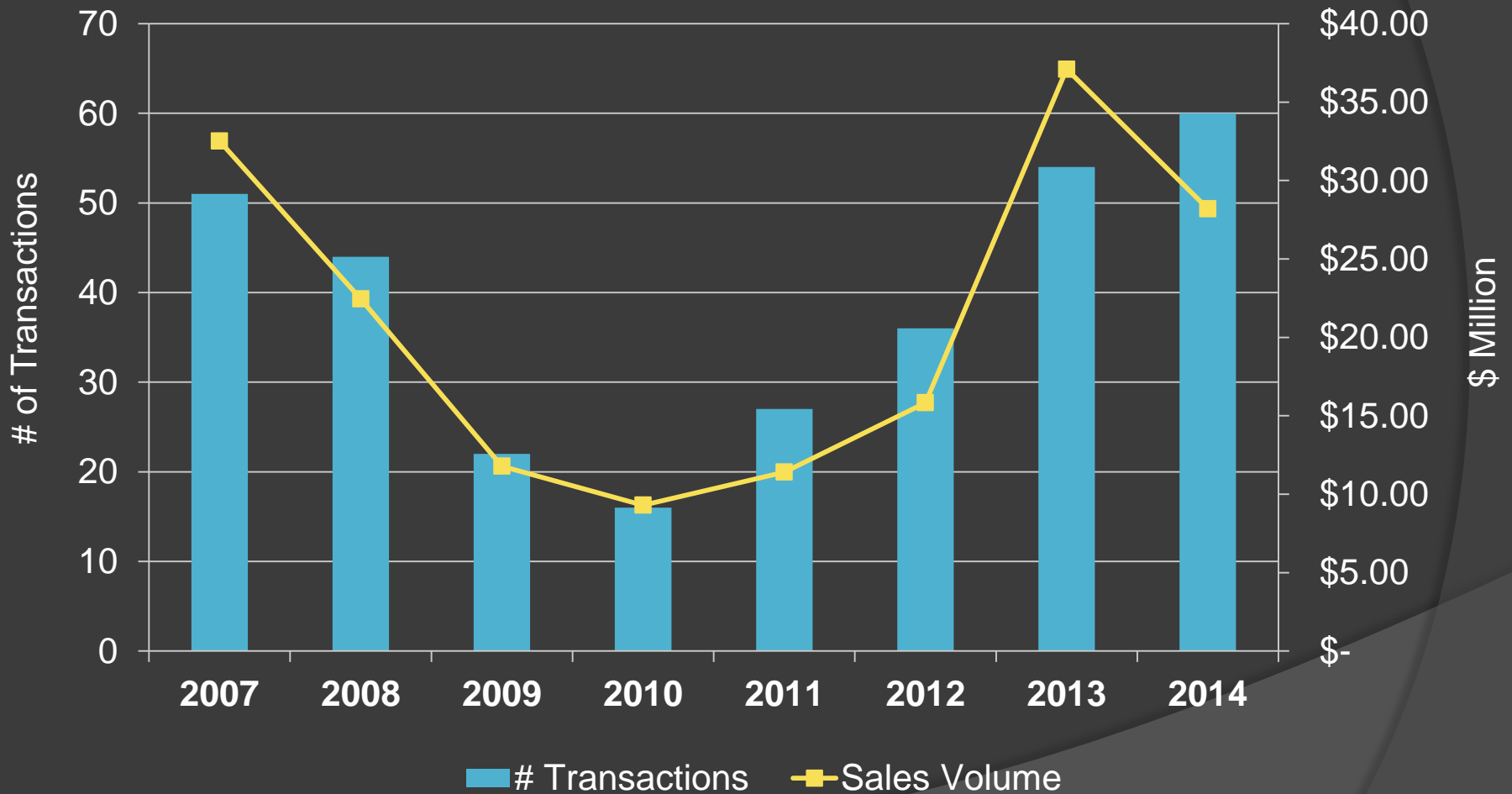
NEW RESIDENTIAL PERMITS (Supply v. Demand)



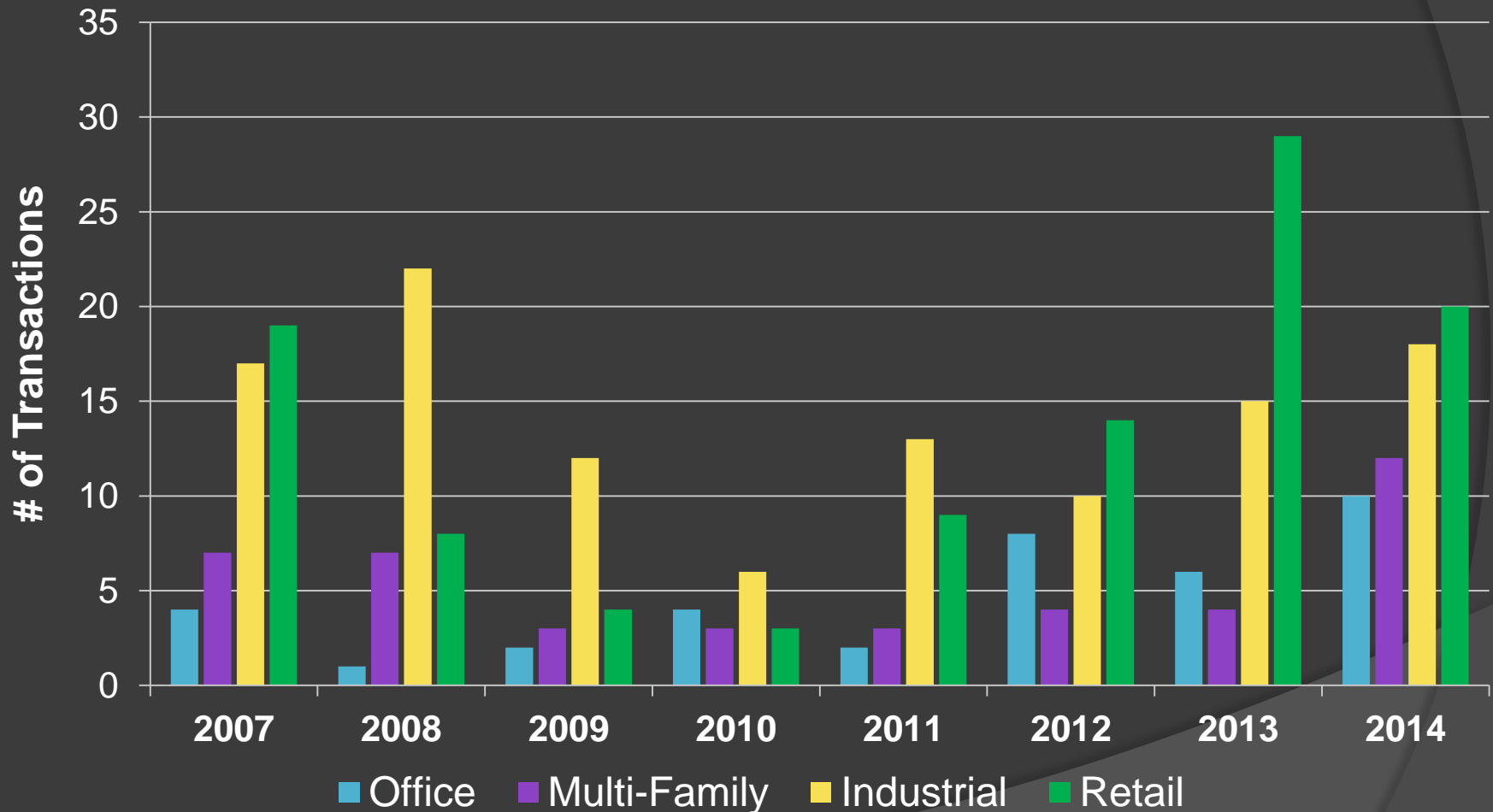
IMPROVED LAND TRANSACTIONS



IMPROVED LAND TRANSACTIONS



TRANSACTION BY LAND USE



PRICING

	LOW	HIGH
OFFICE	\$3.04/sq. ft.	\$7.68/sq. ft.
RETAIL	\$3.00/sq. ft.	\$14.50/sq. ft.
INDUSTRIAL	\$1.62/sq. ft.	\$4.00/sq. ft.
MULTI-FAMILY	\$1.20/sq. ft.	\$3.00/sq. ft.

INFILL SITES

\$15.00 to \$35.00/sq. ft.

1600 & 1608 W. Russell St. – 75,000 sq. ft. @ \$15.33/sq. ft.

805 S. Minnesota Ave. – 9,900 sq. ft. @ \$14.65/sq. ft.

507 – 527 S. 2nd Ave. – 47,400 sq. ft. @ \$18.99/sq. ft.

CONCLUSIONS & PREDICTIONS

Unimproved Land Sales ↔

Improved Land Sales ↑

Price ↑

REGGIE KUIPERS



- Platte HS
- University of Sioux Falls
- Joined Bender in 2010
- New Father 2015
- SIOR Candidate
- *Fun Fact:* Participated in 2 Tough Mudders

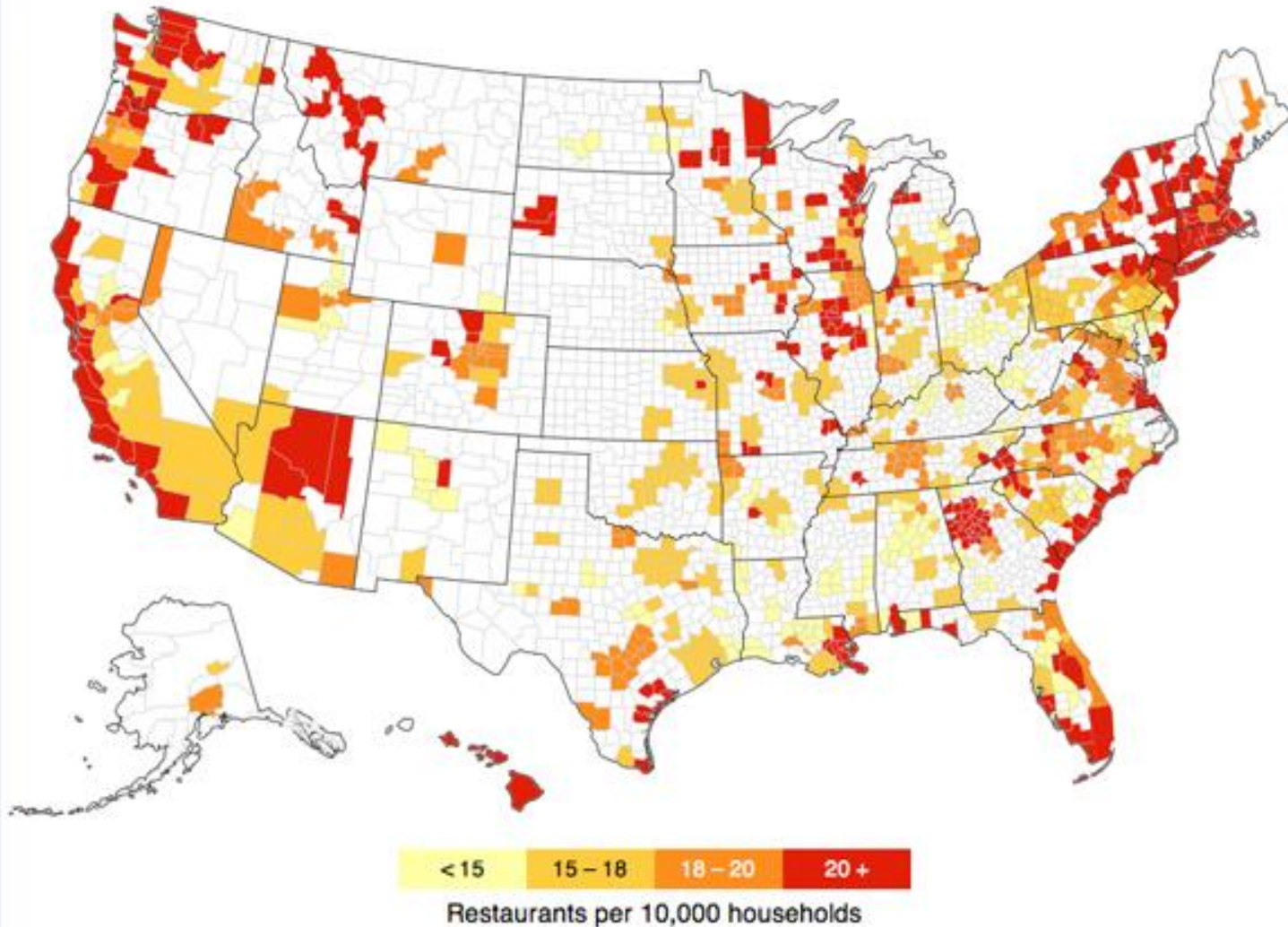
RETAIL MARKET

MAJOR RETAIL FOCAL POINTS

Sector	Total Sq. Ft.	Vacancy Rate	Asking Lease Rates per Sq. Ft. (NNN)
57 th & Western	92,774 sq. ft.	0.0%	\$15.00 - \$17.00
57 th & Louise	151,828 sq. ft.	0.0%	\$16.00 - \$21.50
69 th & Western	53,985 sq. ft.	0.0%	\$14.00 - \$16.00
69 th & Minnesota	64,462 sq. ft.	2.79%	\$13.25 - \$15.00
26 th & Marion	99,346 sq. ft.	17.5%	\$11.00 - \$18.00
Mall Area	588,242 sq. ft.	3.0%	\$9.50 - \$30.00
Dawley Farm Area	141,584 sq. ft.	9.1%	\$14.50 - \$22.50
Total	1,192,221 sq. ft.	4.2%	

RESTAURANTS

Restaurant Density, By U.S. Metros



RESTAURANTS

- ⦿ Huge Increase in restaurant expansion
 - Qdoba, Pita Pit, Noodles, Jimmy Johns, Zoup, Wingstop, Panda Express, Jimmy Johns, 5 Guys
- ⦿ Restaurant Row 2.0
 - Lake Lorraine
- ⦿ Minimum Wage ↑

RESTAURANTS

6.6% ↑ in Restaurant Sales (Gross Sales = \$497M in 2014)

LOSERS

- Fast Food
- Frozen Yogurts
- Other

WINNERS

- Fast Casual
- QSR
- Health Conscious
- Neighborhood Bars
- Unique Concepts

RETAIL EVOLUTION

Mobile Shopping

Metropolitan Areas

Millennial Generation

NATIONAL RETAILERS



RETAIL MARKET

CONCLUSIONS & PREDICTIONS

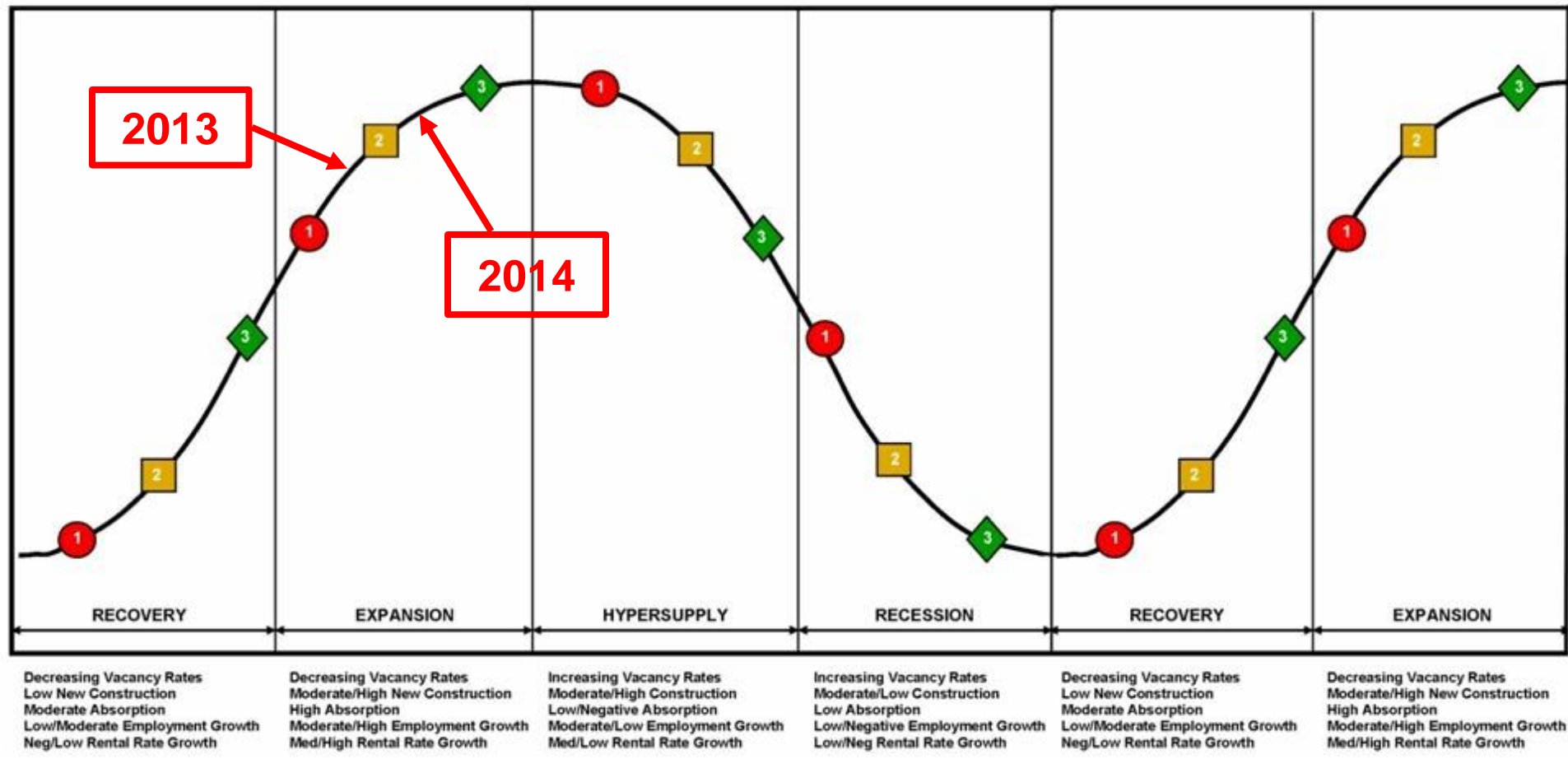
⦿ Conclusions:

- Vacancy ↓
- Rental Rates ↑
- Corporate / National Interest ↑
- Construction ↓

⦿ Predictions:

- New Construction ↑ (\$40M)
 - 85th Street, Minnesota Avenue, Dawley, 41st Street
- Big Box Availability
- Downtown Retail

RETAIL MARKET REAL ESTATE CYCLE



ANDI ANDERSON, SIOR

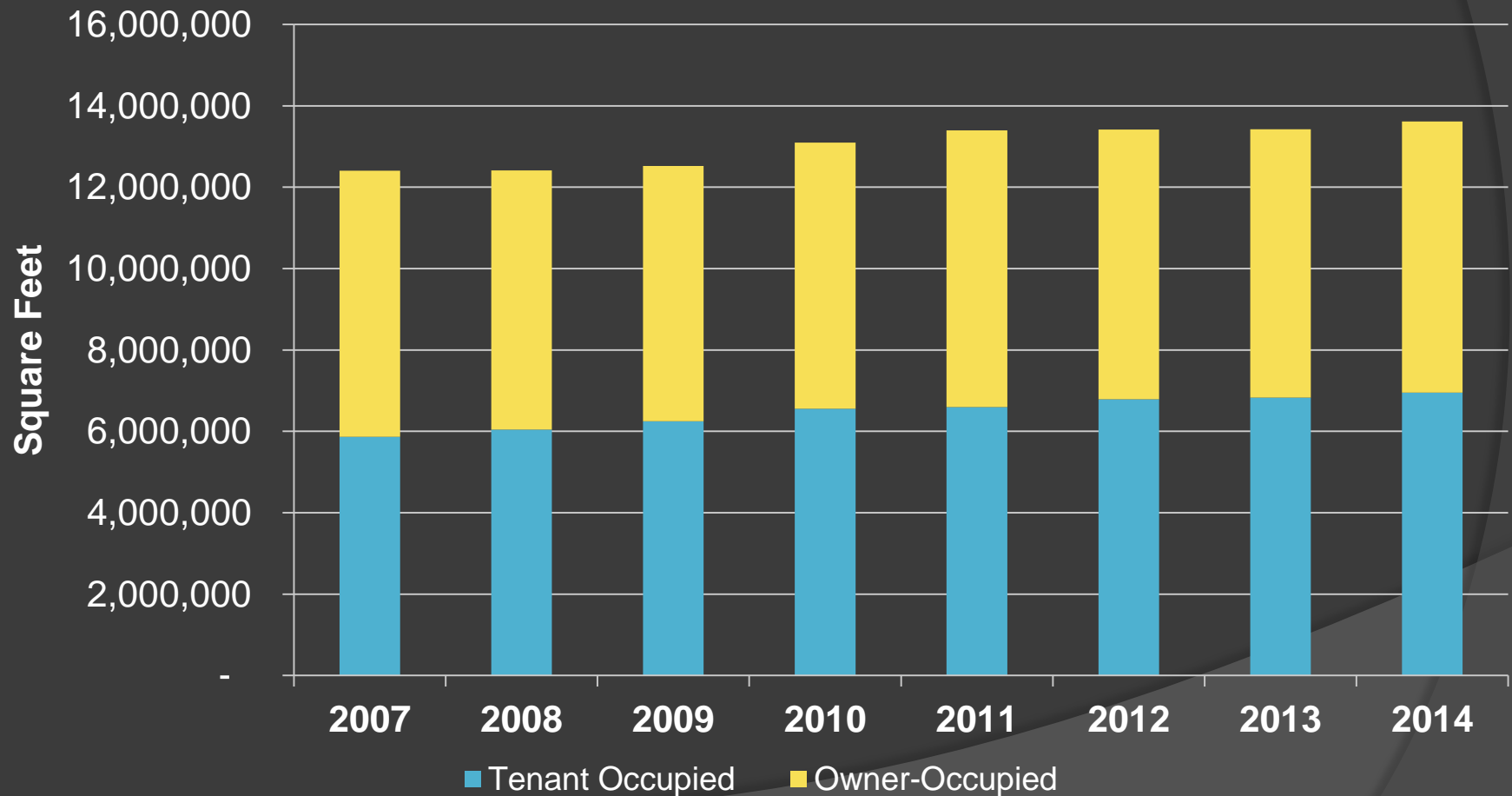


- Mitchell HS
- Desert Storm Veteran
- Joined Bender in 2000
- 3 Children
- *Fun Fact: 3D Archery Champ*

OFFICE MARKET

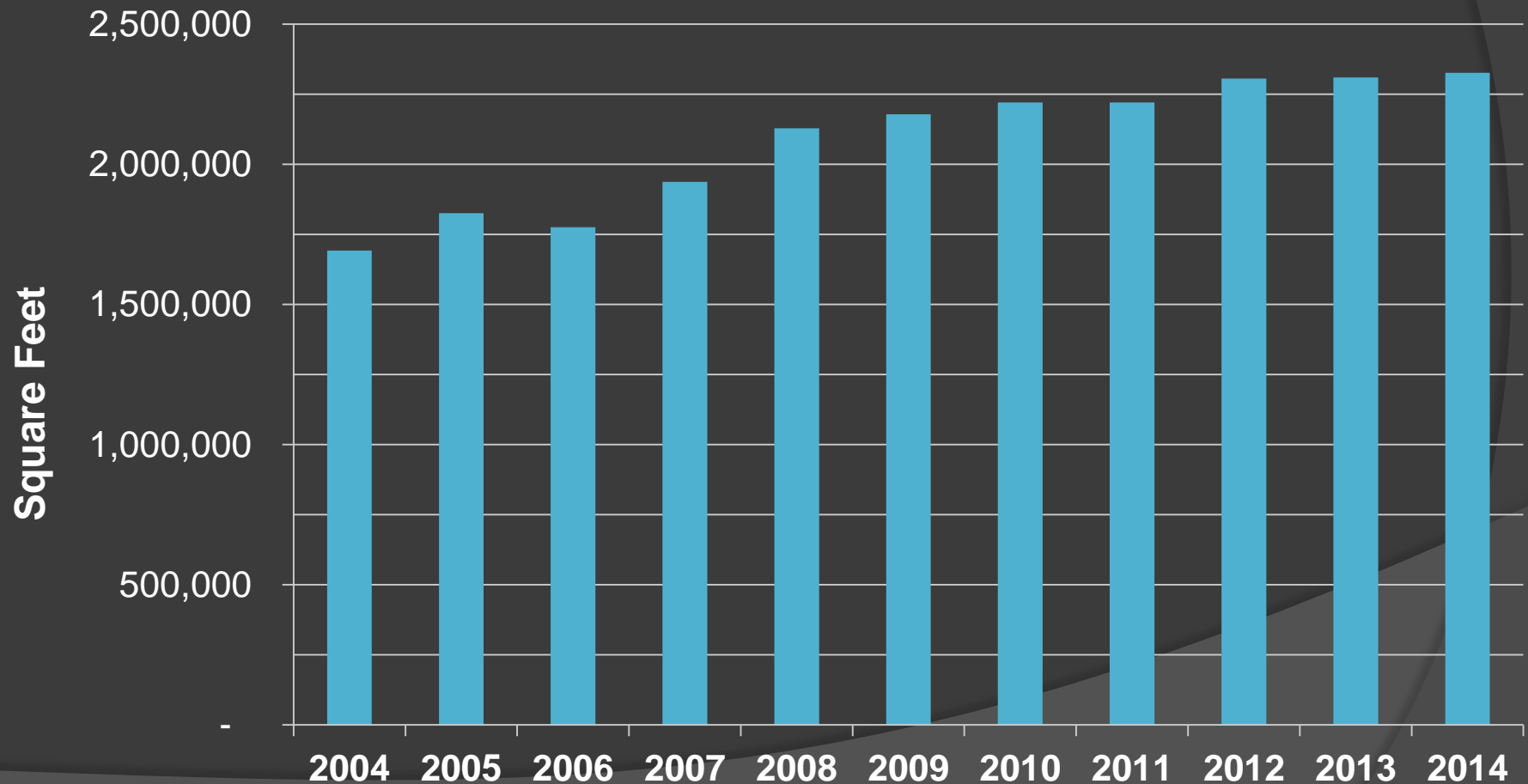
SIoux FALLS

13,618,750 sq. ft.



CBD INVENTORY

2,326,937 sq. ft. ↑ 0.7%

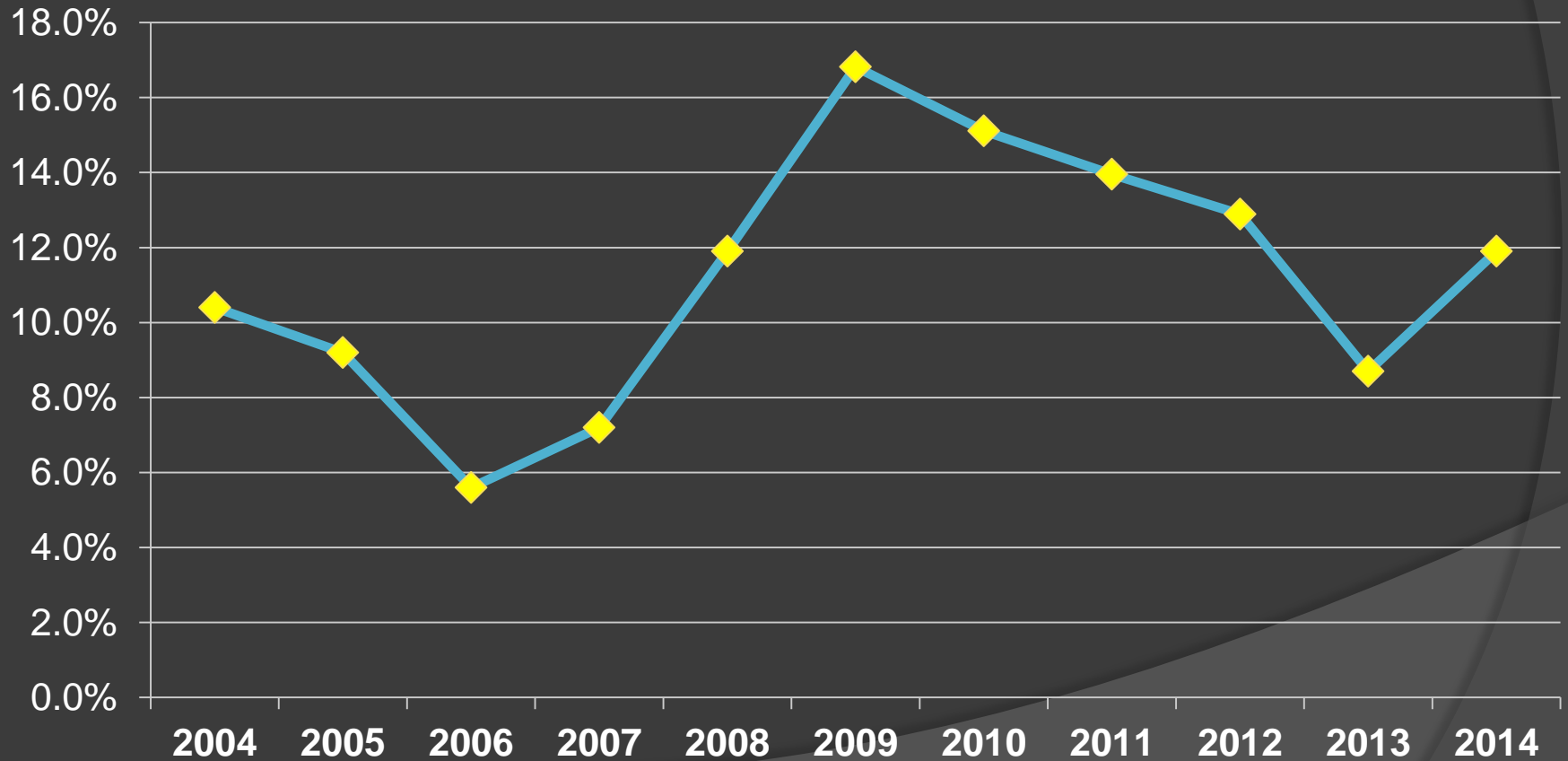


CBD INVENTORY



CBD VACANCY RATE

11.9%

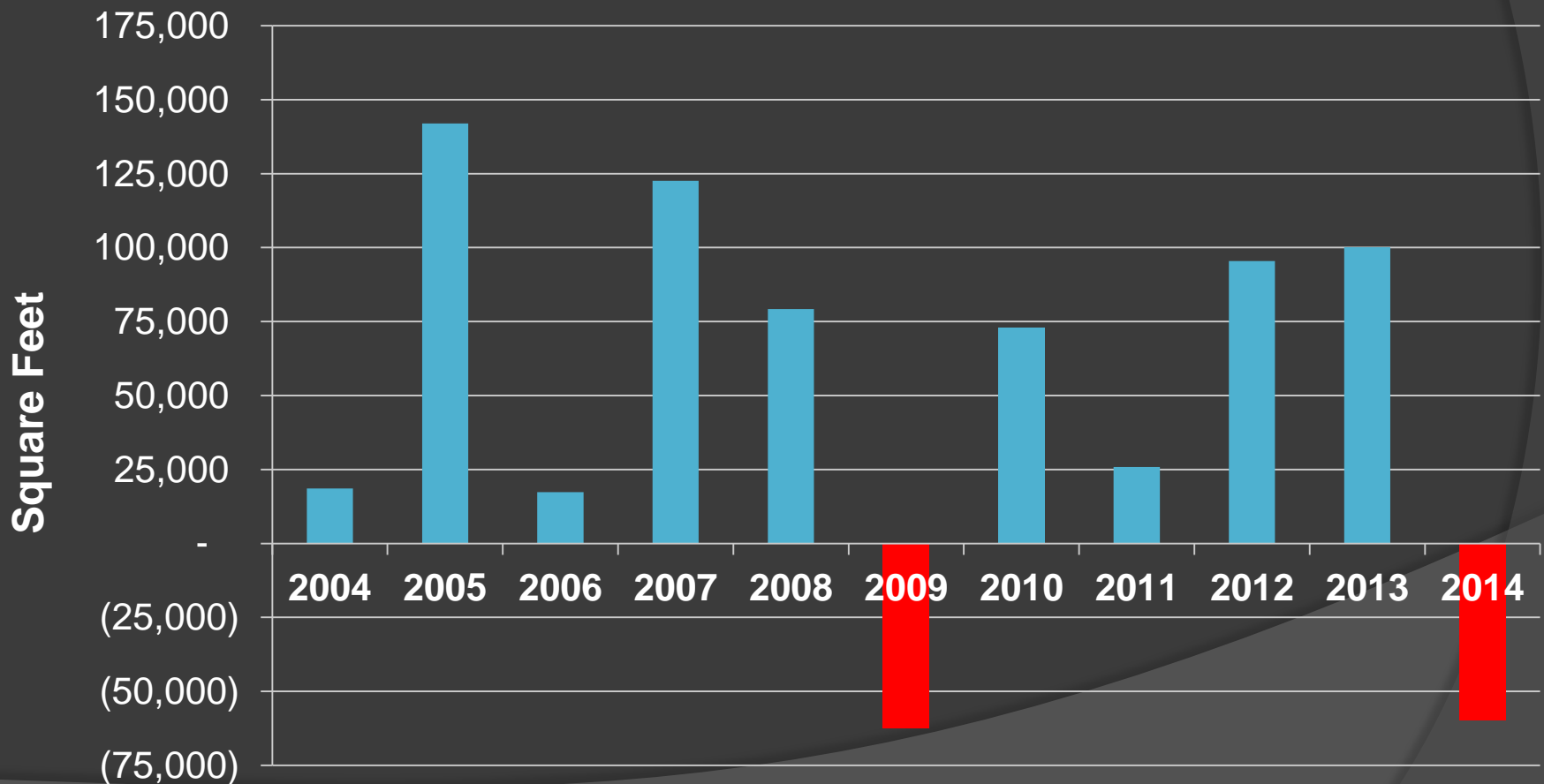


CBD OFFICE MARKET



CBD NET ABSORPTION

- 59,925 sq. ft. ↓ 160%



CBD OFFICE PREDICTIONS

Inventory ↔

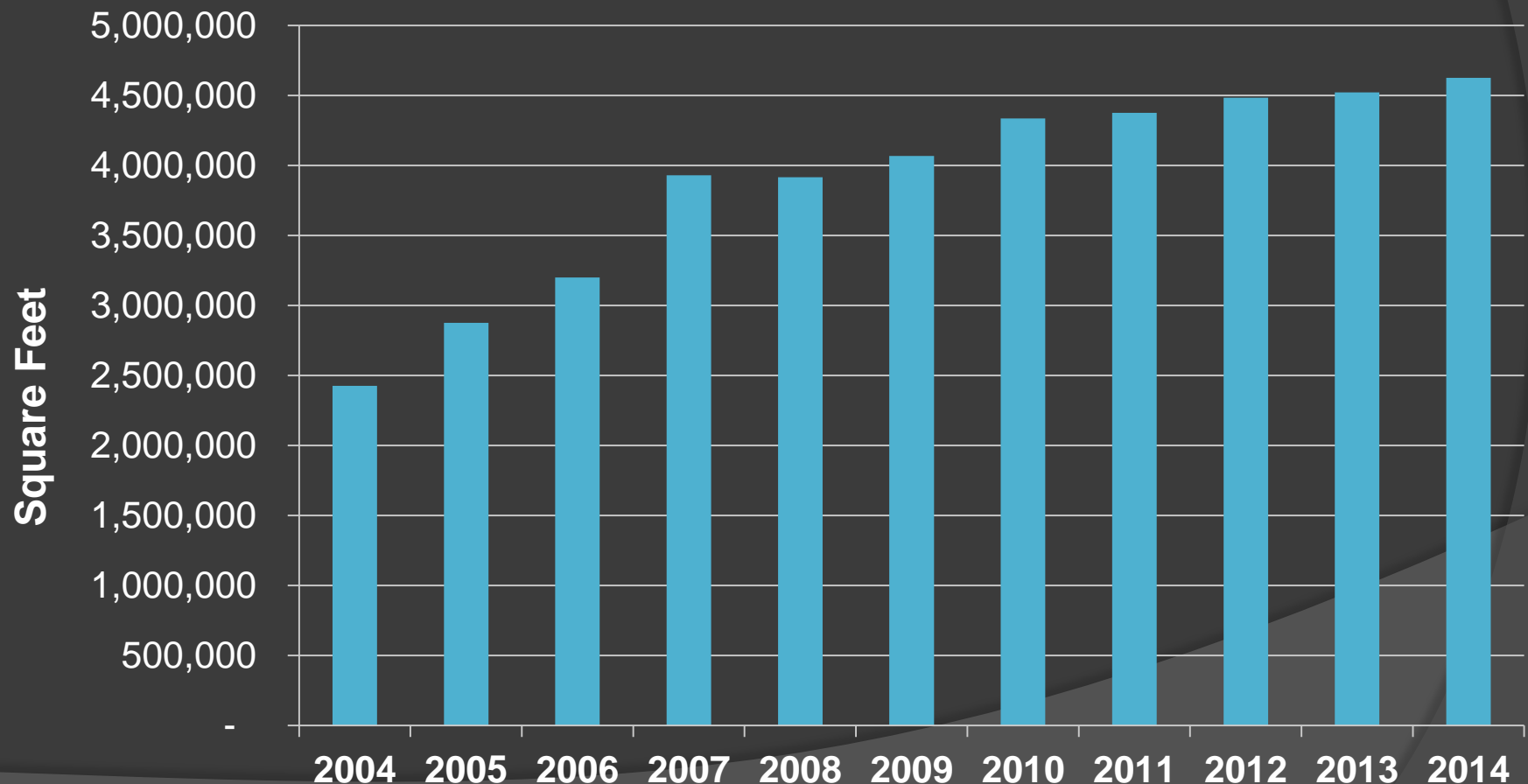
Absorption ↑

Vacancy ↓

Rental Rates ↑

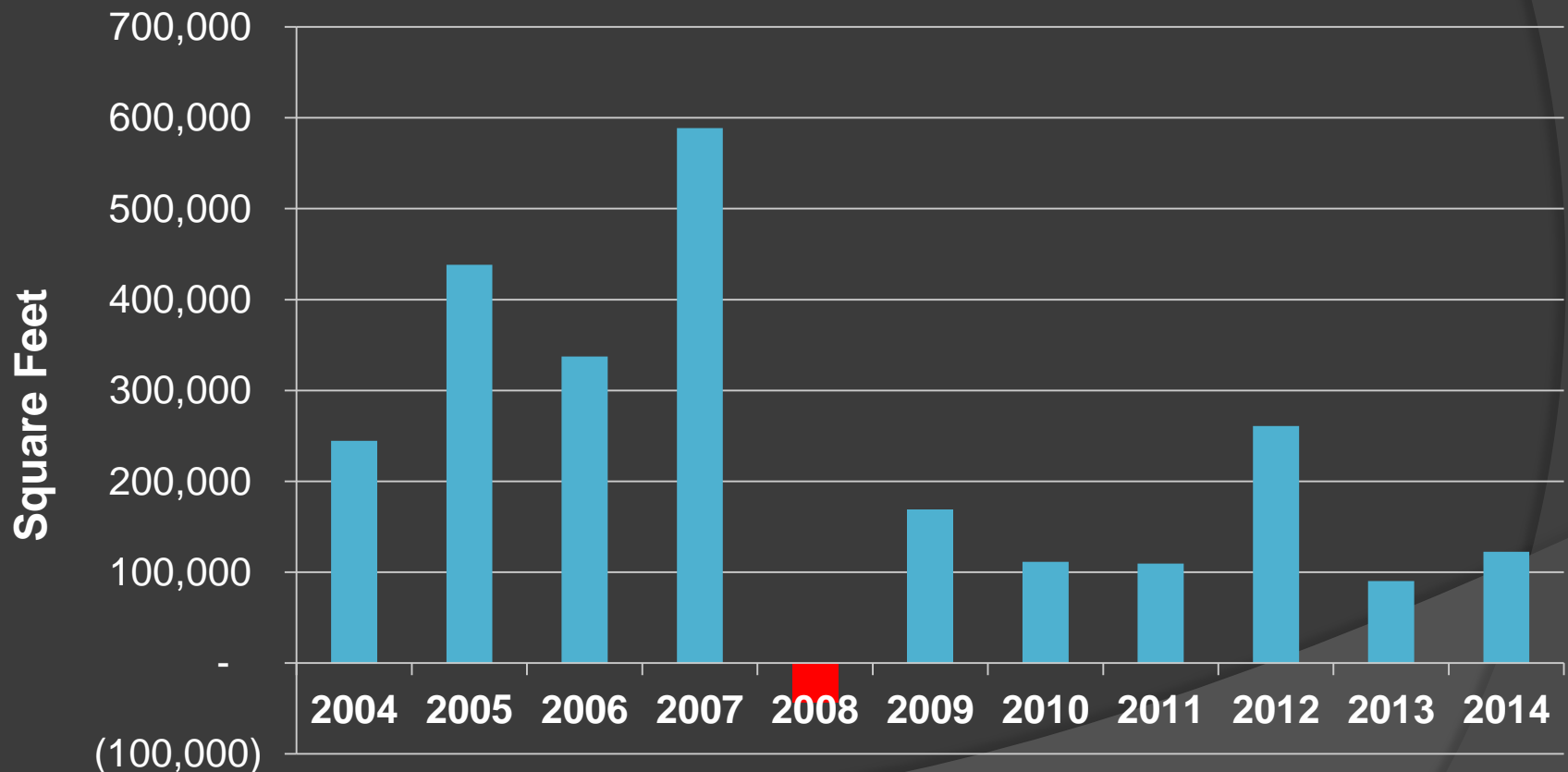
SUBURBAN INVENTORY

4,626,037sq. ft. ↑ 2.3%



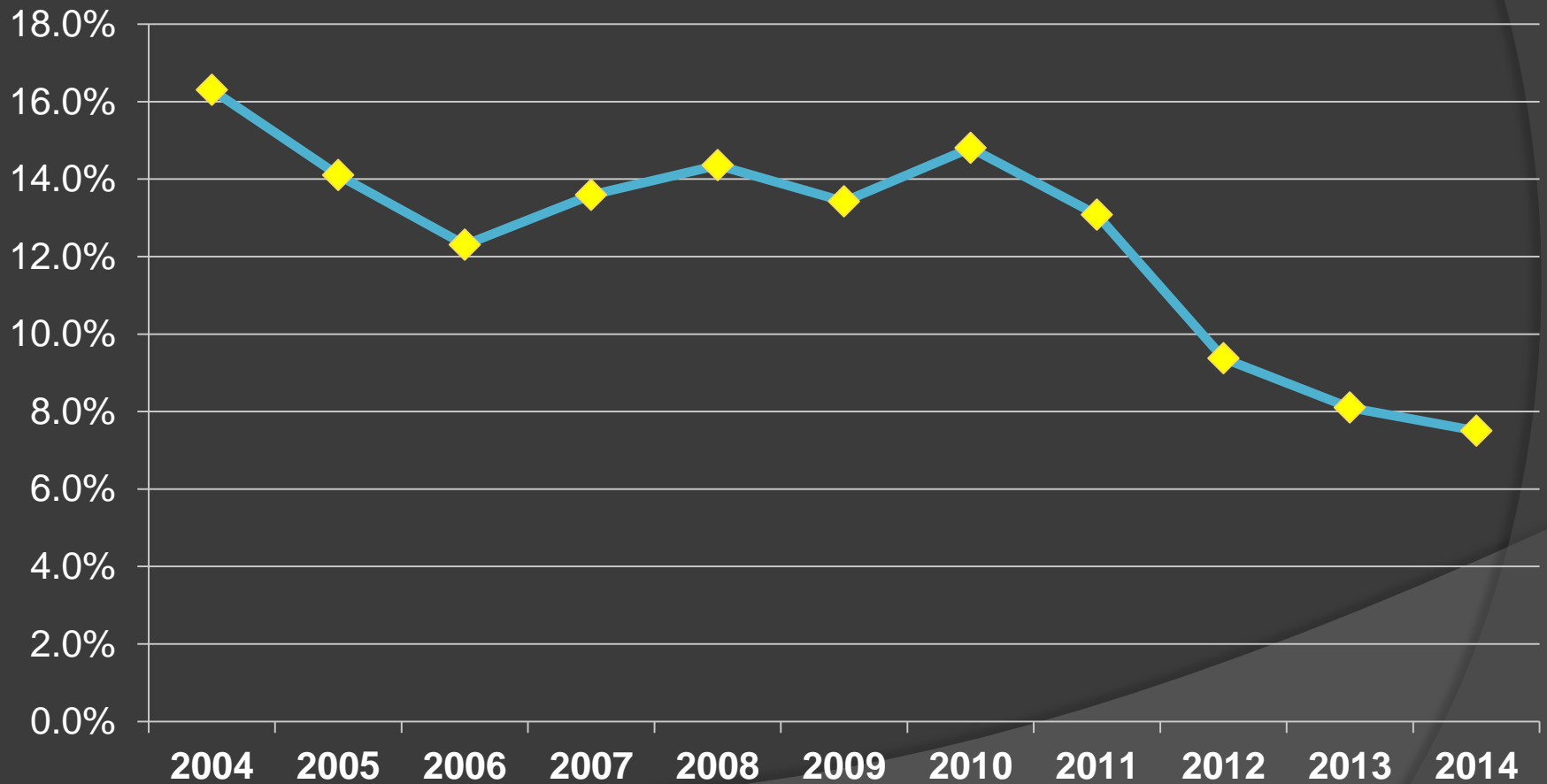
SUBURBAN NET ABSORPTION

122,590 square feet in 2014



SUBURBAN VACANCY RATE

7.5%



SUBURBAN OFFICE PREDICTIONS

Inventory ↑

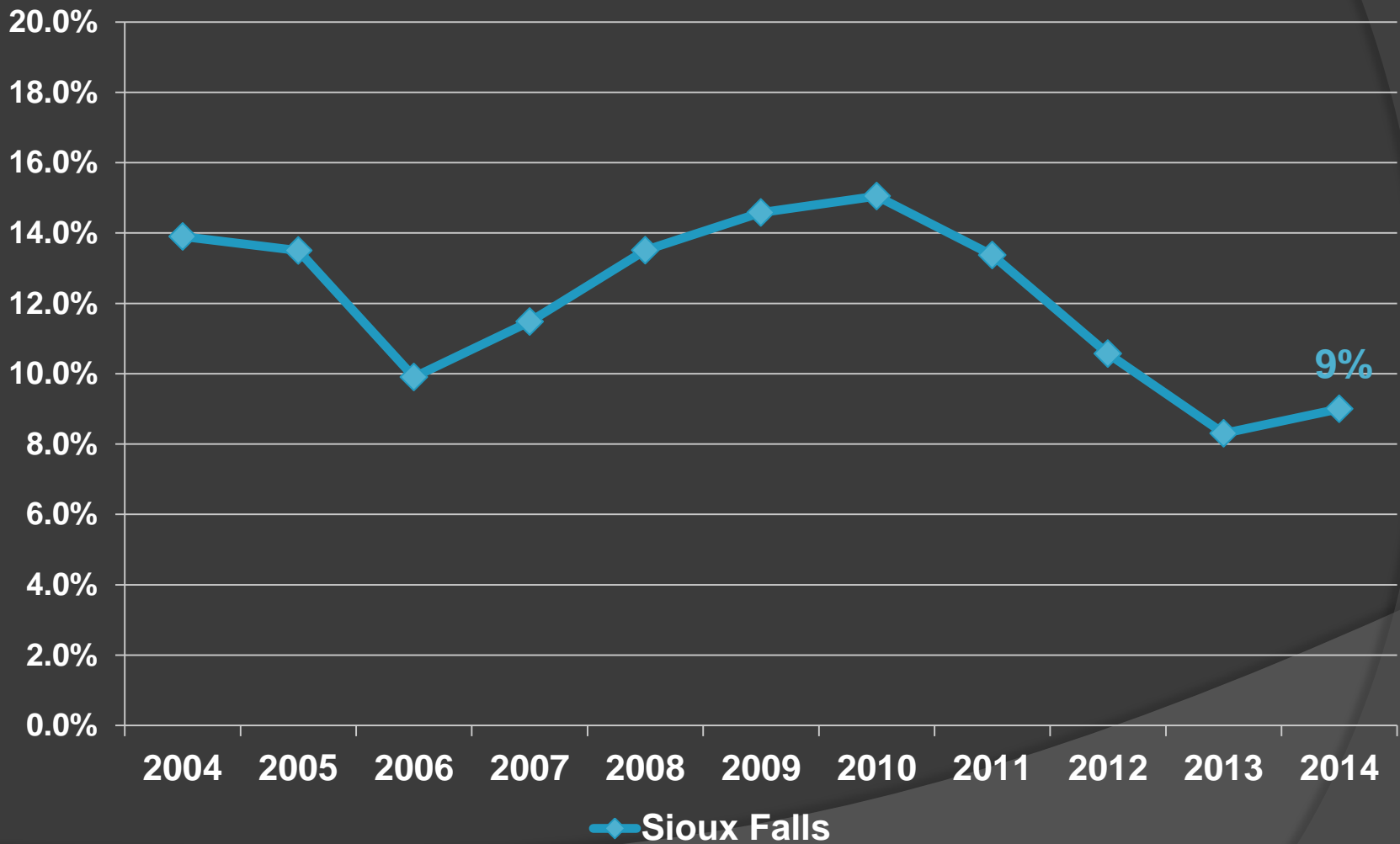
Absorption ↑

Vacancy ↔

Rental Rates ↑

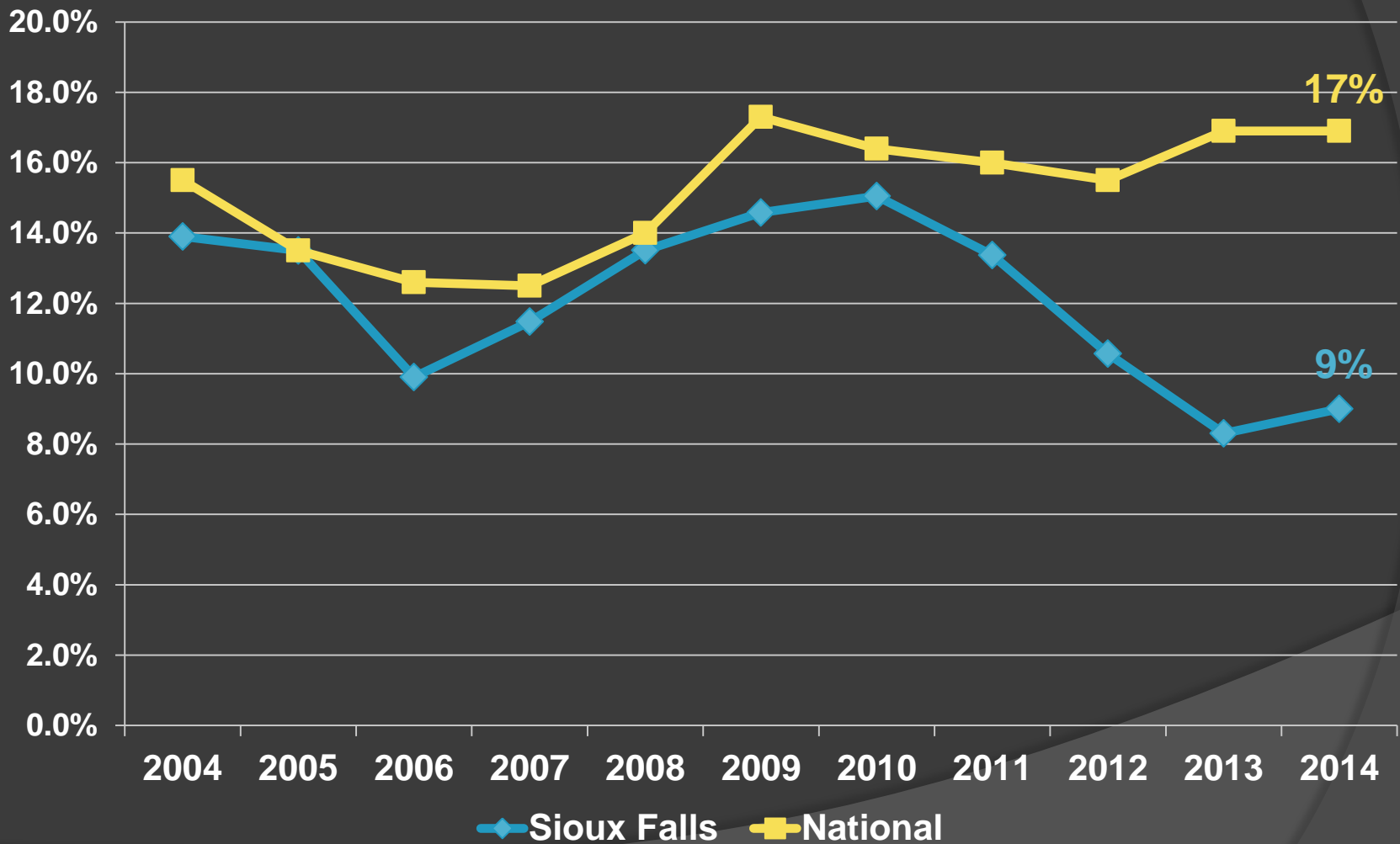
HISTORIC VACANCY

(Citywide)



HISTORIC VACANCY

(Citywide)



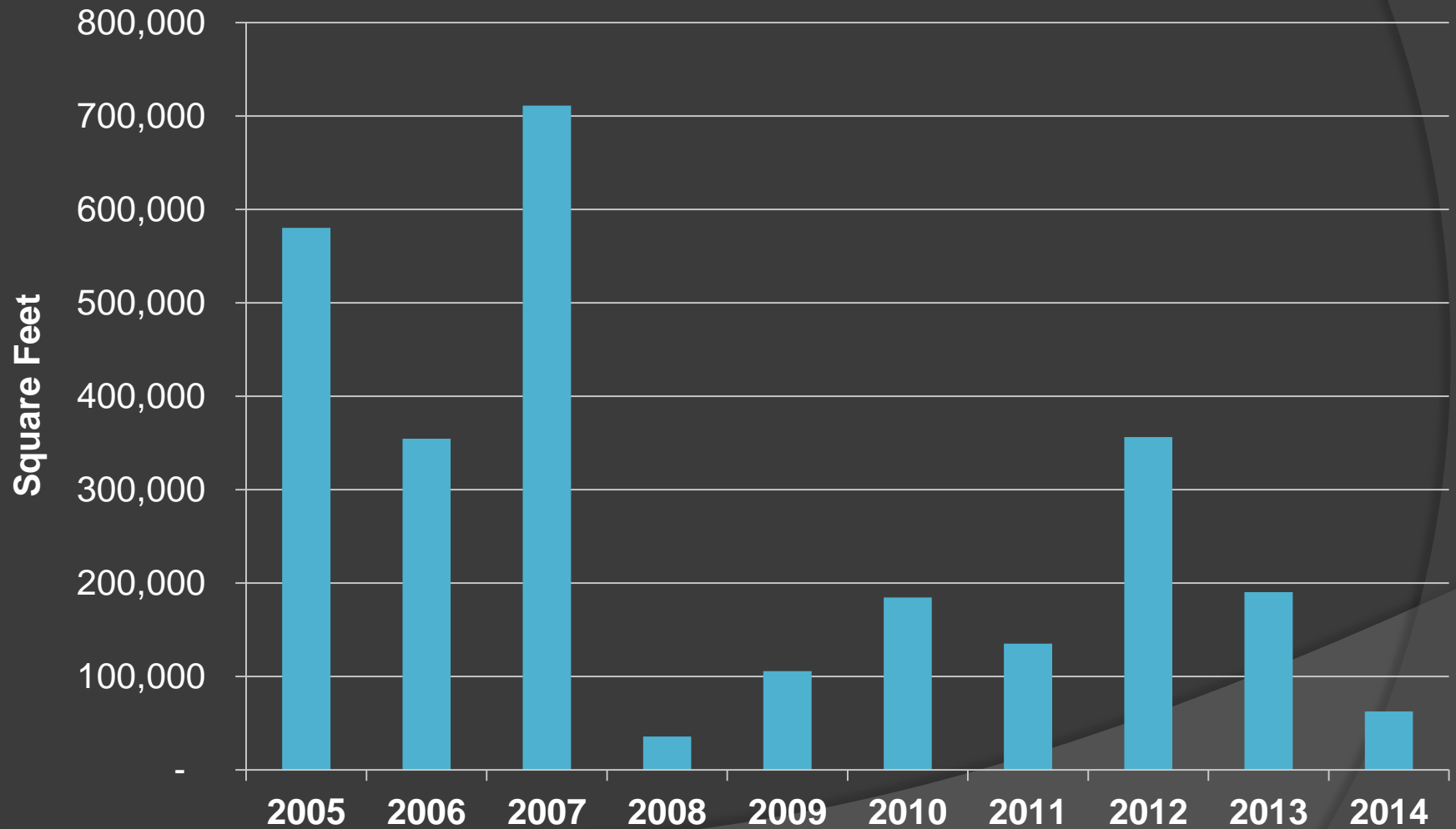
ASKING RENTAL RATES

(By Class - NNN)

	Low	High
Class A Space	\$13.50	\$17.00
Class B/C Space	\$8.00	\$11.00

NET ABSORPTION

(Citywide)



OFFICE MARKET PREDICTIONS

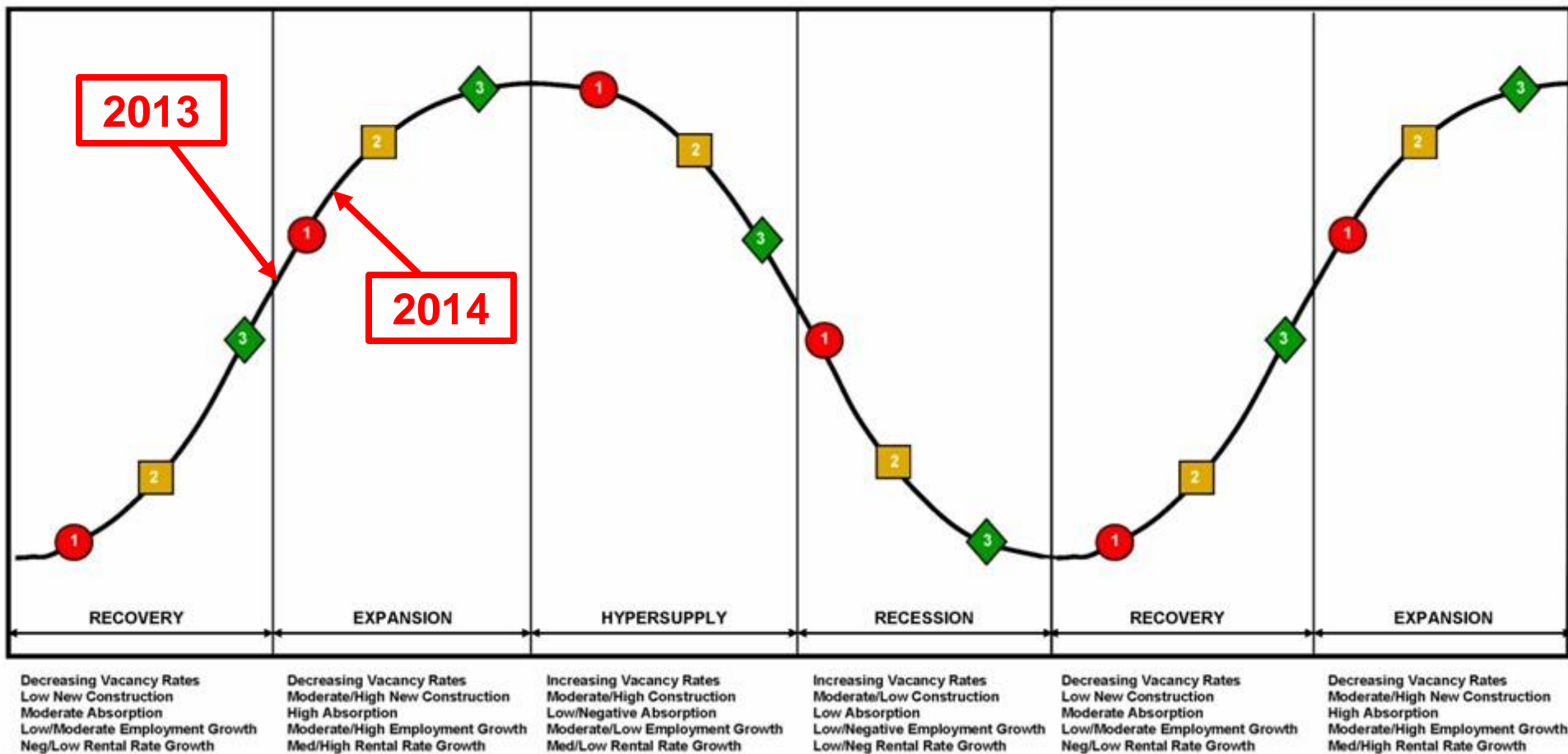
Continued Positive Net Absorption

↓ Vacancy

↑ Rental Rates

Limited Spec Building

OFFICE MARKET REAL ESTATE CYCLE



NICK GUSTAFSON, CCIM



- Missouri Native
- Augustana College
- Joined Bender in 2009
- 2 Children
- *Fun Fact: Cigar Aficionado*

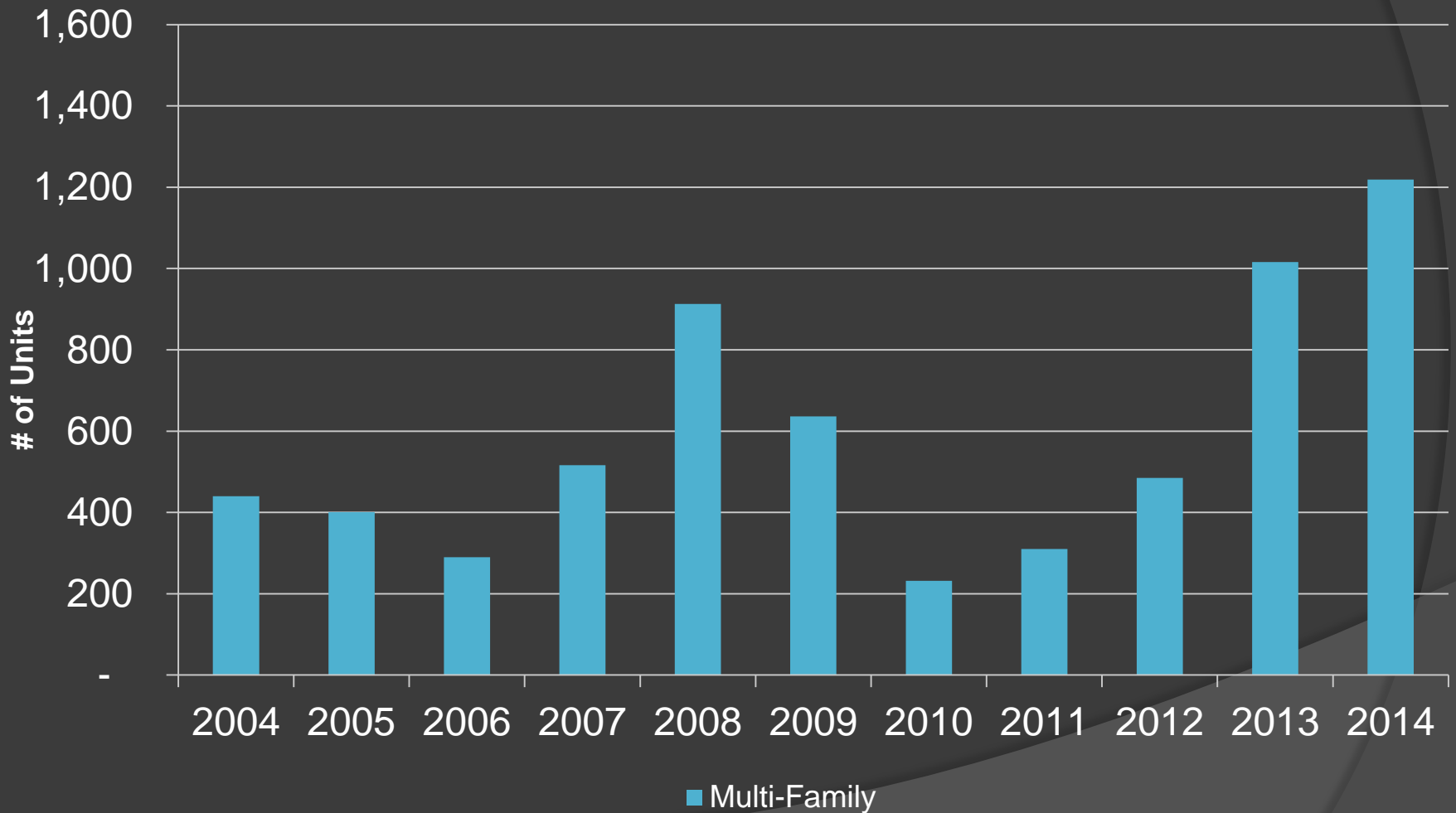
INVESTMENT & COMMERCIAL SALES MARKET

INVESTMENT & COMMERCIAL SALES MARKET OVERVIEW

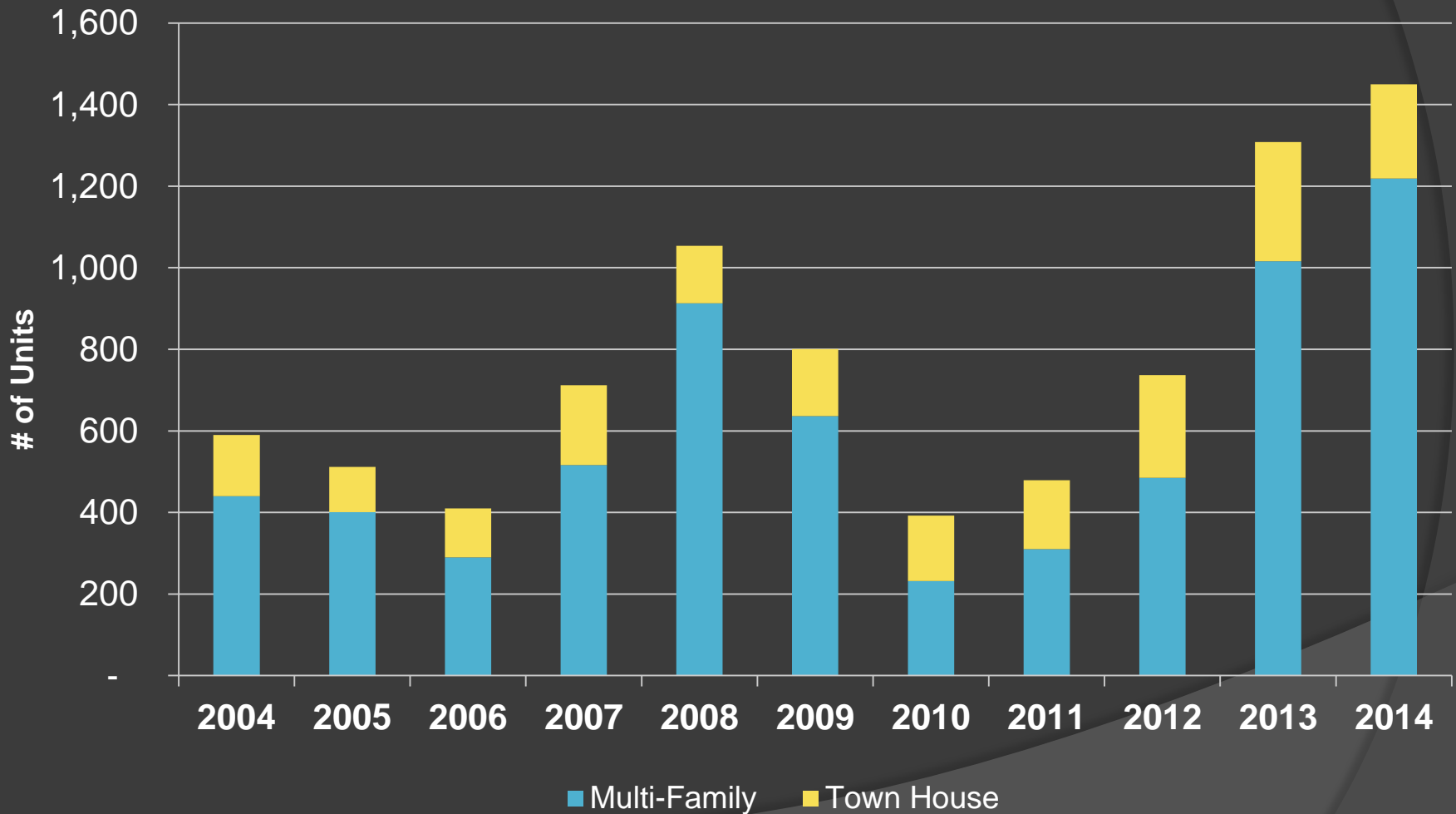
- Asset Class Performance
 - Multi-Family Market
 - Office Market
 - Retail Market
- 2014 Trends & Conclusions
- 2015 Predictions

MULTI-FAMILY BUILDING PERMITS

(Supply)



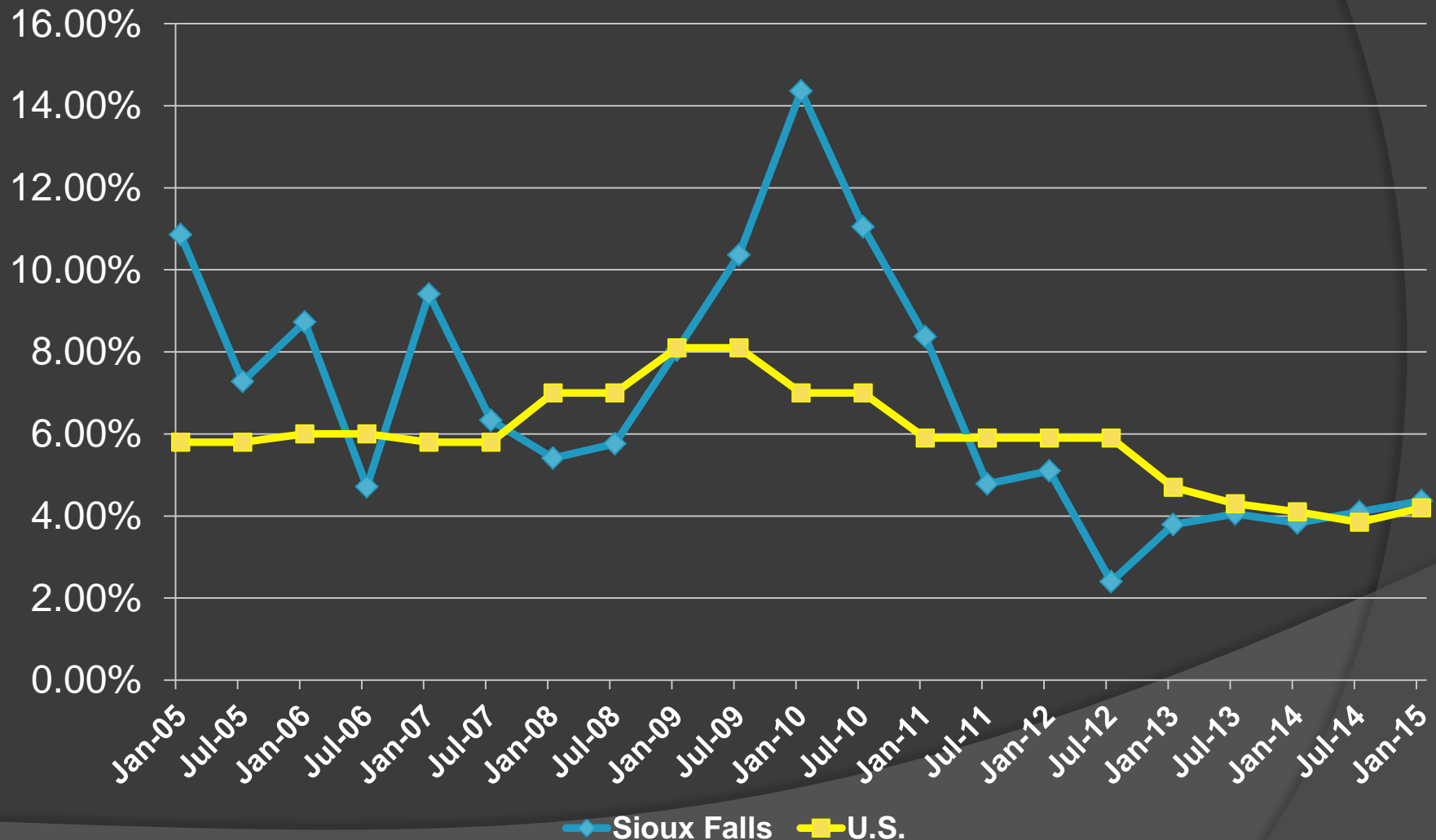
MULTI-FAMILY BUILDING PERMITS (Supply)



Source: City of Sioux Falls, Planning and Building Services

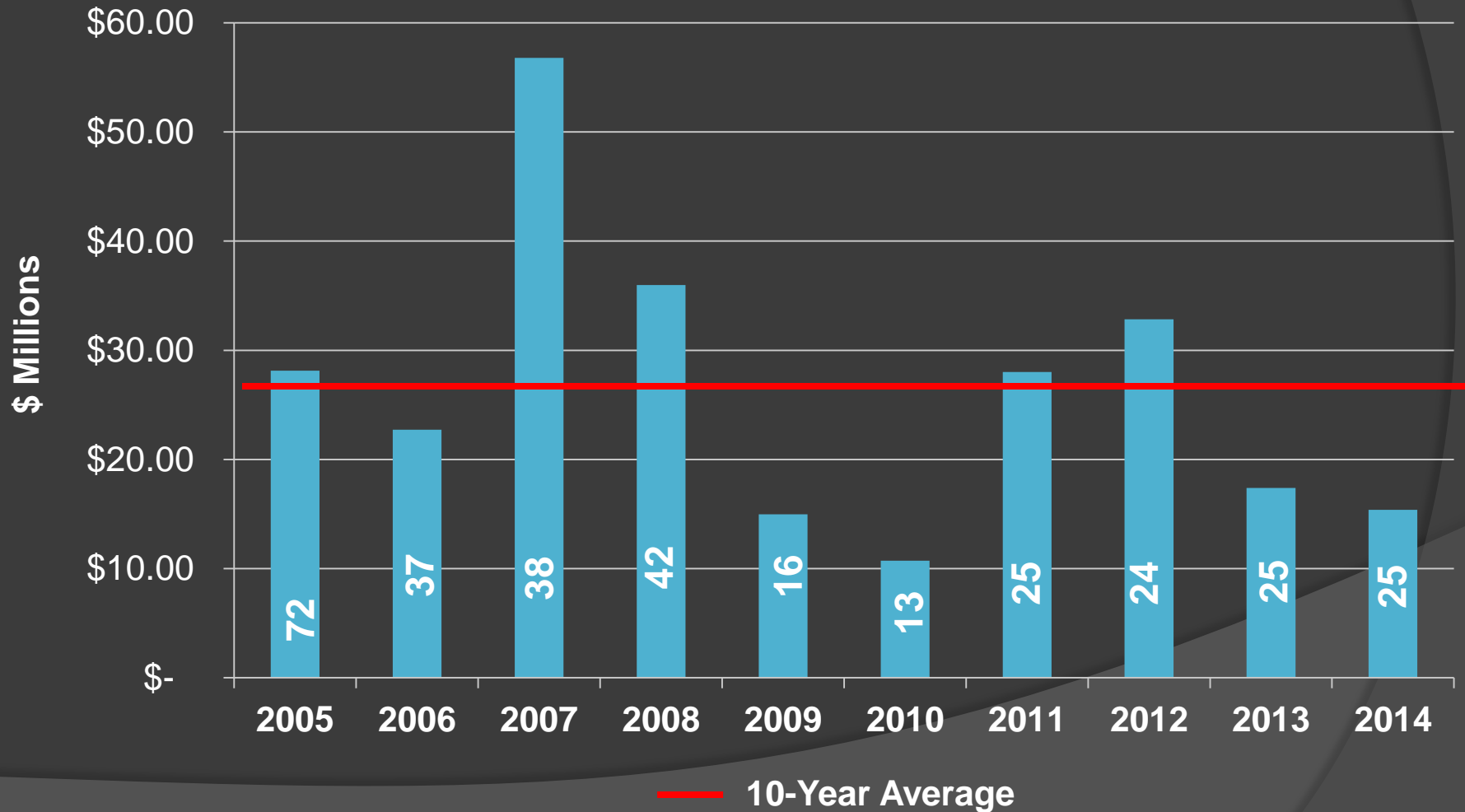
MULTI-FAMILY VACANCY RATE

Sioux Falls MSA (Demand)



MULTI-FAMILY MARKET

10-Year Multi-Family Sales Volume



NOTABLE 2014 MULTI-FAMILY SALE

6206 South Avalon Avenue

- \$4,291,000
(\$79,462/unit)
- 54 units
- Built 2008
- Sold April 2014
- 7.6% Cap Rate



NOTABLE 2014 MULTI-FAMILY SALE

3501, 3505, 3601 & 3609 South West Avenue

- \$1,208,000
(\$43,143/unit)
- 28 units
- Built 1974
- Sold July 2014
- 8.4% Cap Rate



NOTABLE 2014 MULTI-FAMILY SALE

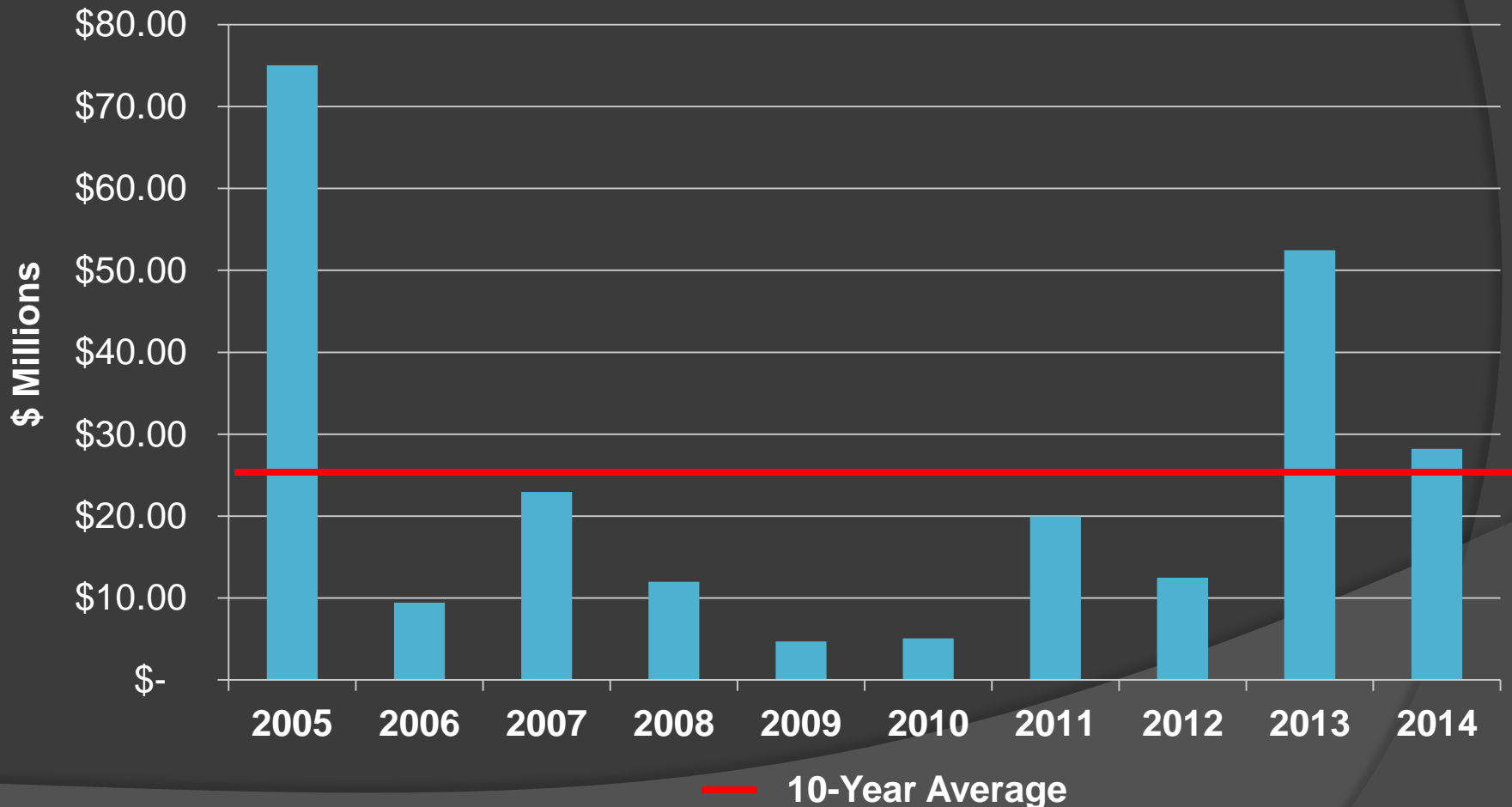
**1201 East 57th Street &
4901 South MacArthur Lane**

- \$1,200,000
(\$42,857/unit)
- 24 units
- Built 1984
- Sold February 2014
- 6.0% Cap Rate



OFFICE PROPERTY SALES

10-Year Office Sales Volume



NOTABLE 2014 OFFICE SALE



4701 West Research Drive

- \$1,900,000 (\$125.98/sq. ft.)
- 15,082 sq. ft.
- Built in 2007

NOTABLE 2014 OFFICE SALE



4601 West Homefield Drive

- \$1,340,000 (\$105.40/sq. ft.)
- 12,714 sq. ft.
- Built in 1998

NOTABLE 2014 OFFICE SALE

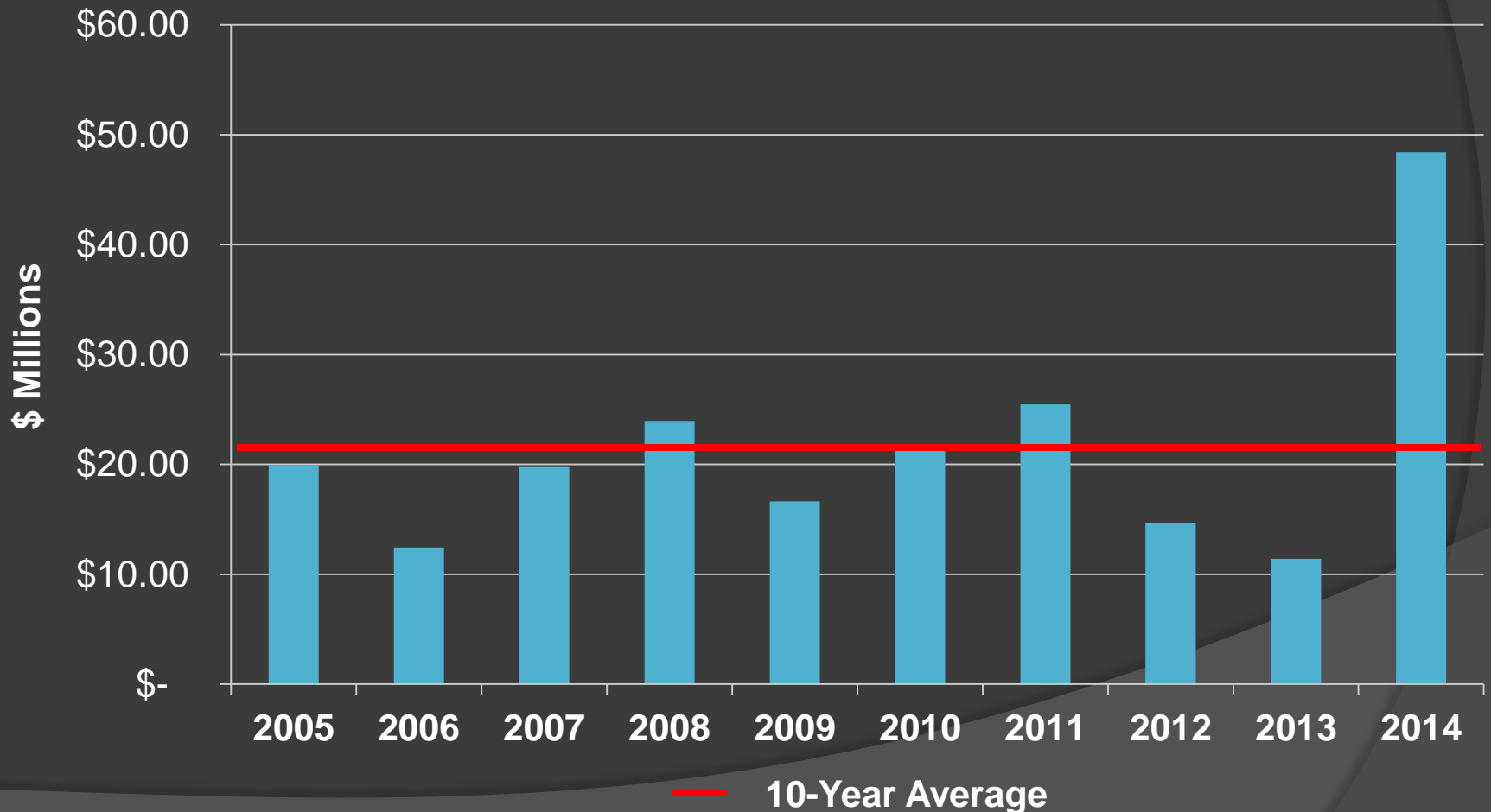


4610 South Technopolis Drive

- \$1,070,000 (\$96.66/sq. ft.)
- 11,070 sq. ft.
- Built in 2000
- 8.7% Cap Rate

RETAIL PROPERTY SALES

10-Year Retail Sales Volume



NOTABLE 2014 RETAIL SALE



2804 South Louise Avenue

- \$4,550,000 (\$94.80/sq. ft.)
- 47,995 sq. ft.
- Built in 2005
- 7.39% Cap Rate

NOTABLE 2014 RETAIL SALE



2812 South Louise Avenue

- \$7,700,000 (\$197.61/sq. ft.)
- 38,966 sq. ft.
- Built in 2006
- 7.38% Cap Rate

NOTABLE 2014 RETAIL SALE



2600 South Louise Avenue

- \$4,800,000 (\$171.53/sq. ft.)
- 27,984 sq. ft.
- Built in 2001
- 7.6% Cap Rate

SALES VOLUME REPORT CARD

	Multi-Family	Office	Retail
2014	↓	↓	↑

SALES VOLUME REPORT CARD

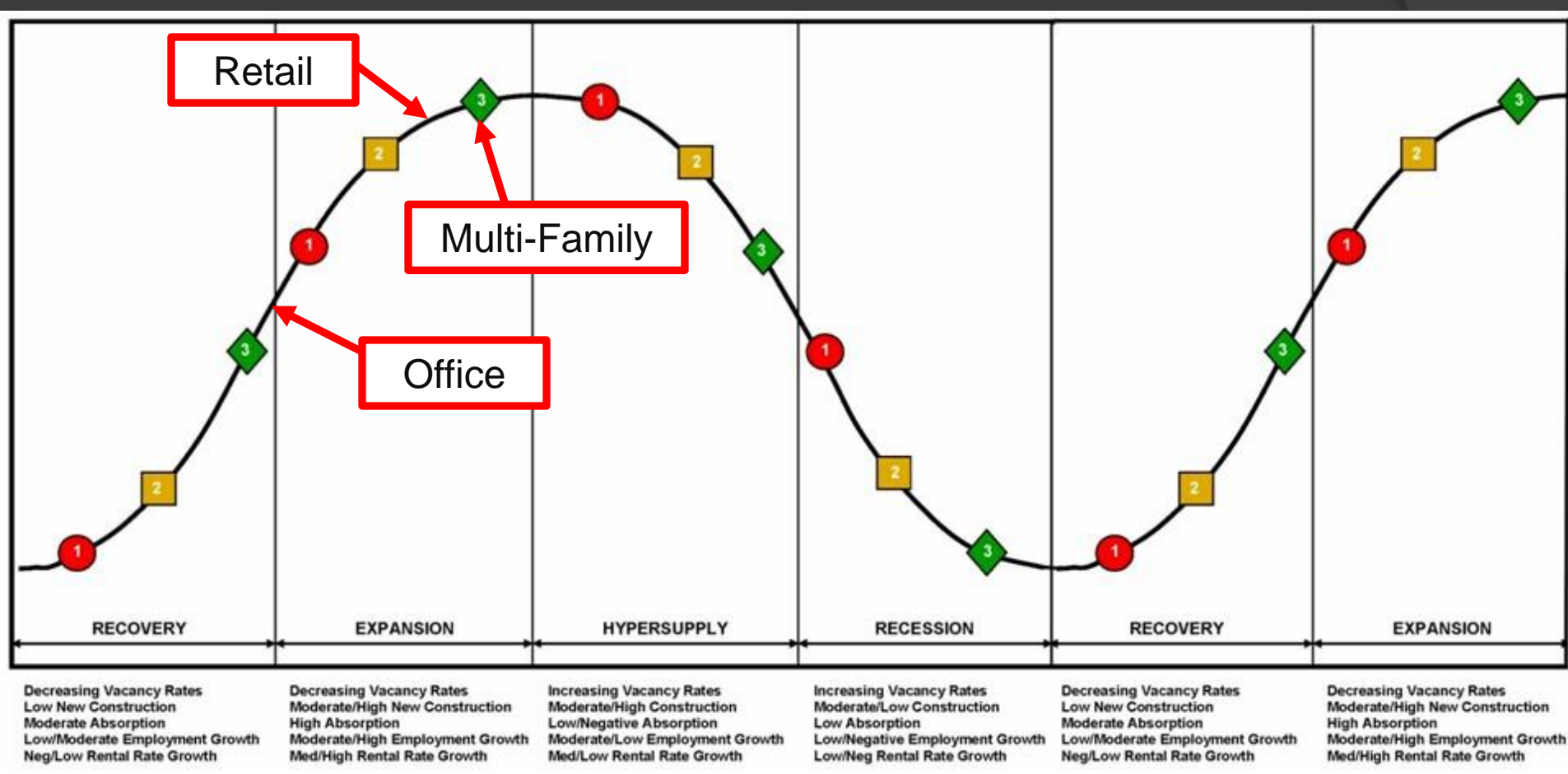
	Multi-Family	Office	Retail
2014	↓	↓	↑
2015	↑	↑	↓

SALES VOLUME REPORT CARD

	Multi-Family	Office	Retail
2014	↓	↓	↑
2015	↑	↑	↓
Cap Rates	7.0% – 8.0%	7.0% - 8.5%	7.0% - 8.0%

INVESTMENT & COMMERCIAL SALES

REAL ESTATE CYCLE



DOUG BROCKHOUSE, SIOR



- Sioux Falls Native
- SD School of Mines
- Joined Bender in 1997
- *Fun Fact: Emergency Dive Team - Dove 1300'*

INDUSTRIAL MARKET

INDUSTRIAL MARKET

Basis of our Data

We define the industrial market as those properties used for:

Manufacturing

Warehousing

Distribution

Transportation

Contractor Shop Space

INDUSTRIAL MARKET

Sioux Falls

771 Buildings = 15.6 M

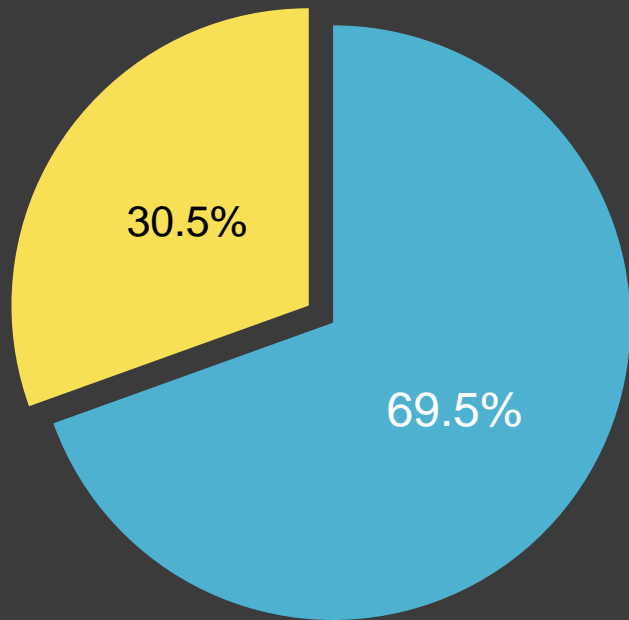
Tea

313 Buildings = 2.4 M

(2.45% vacancy)

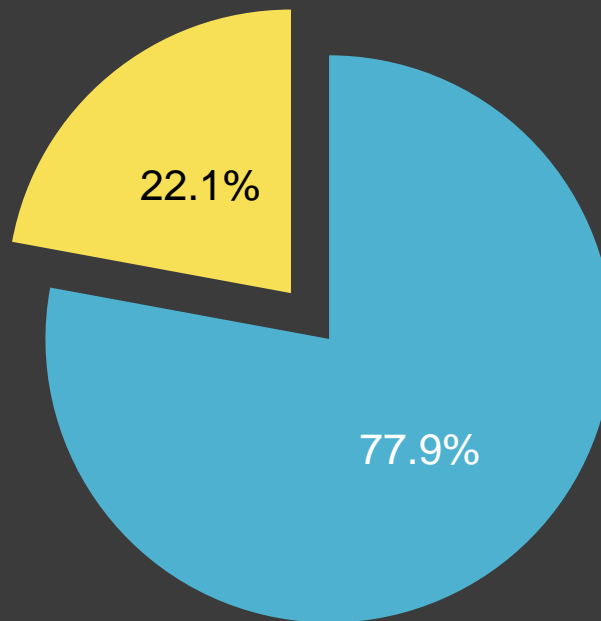
INDUSTRIAL MARKET

Sioux Falls



■ Owner-Occupied
■ Non-Owner Occupied

Tea



■ Owner-Occupied
■ Non-Owner Occupied

VACANT JANUARY 1, 2014

Sioux Falls

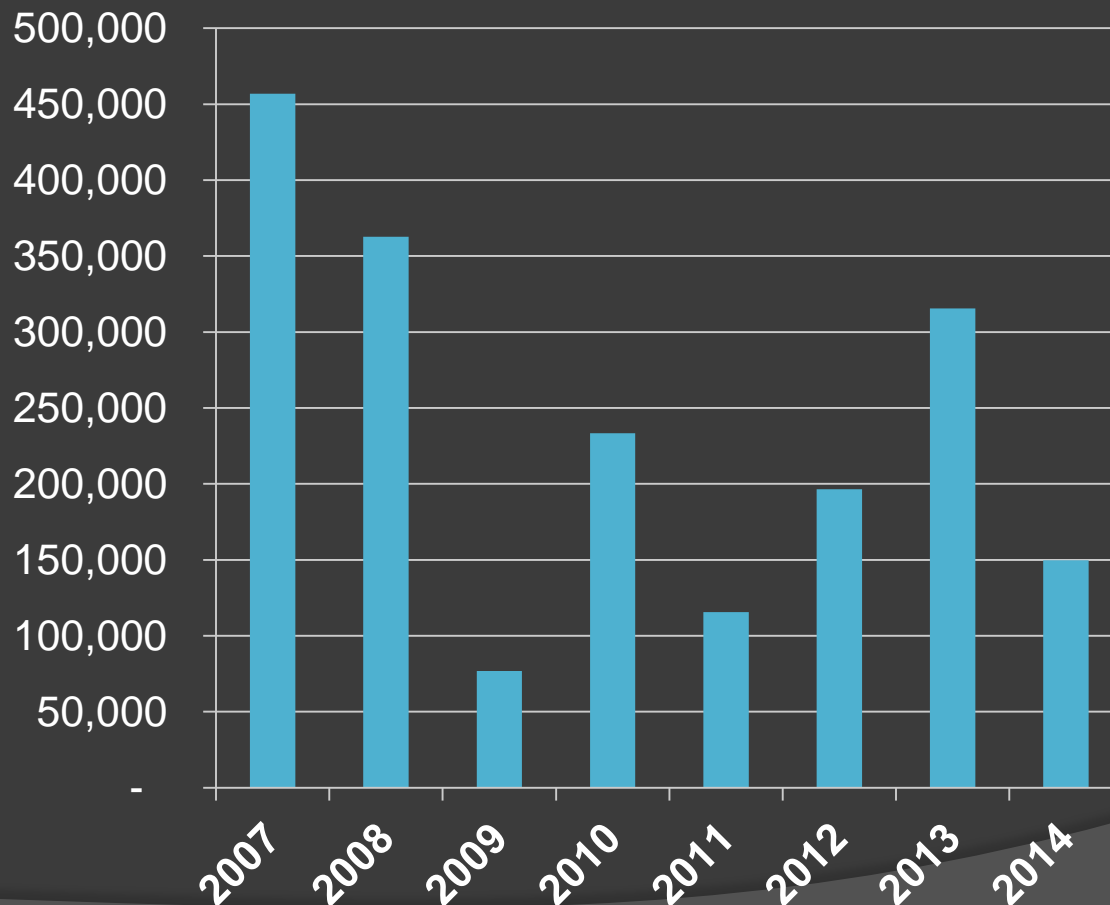
536,104 sq. ft. (3.51%)

Absorbing 2,964 sq. ft./Day

182 Days

INDUSTRIAL CONSTRUCTION

New Construction – Completed during calendar year 2014

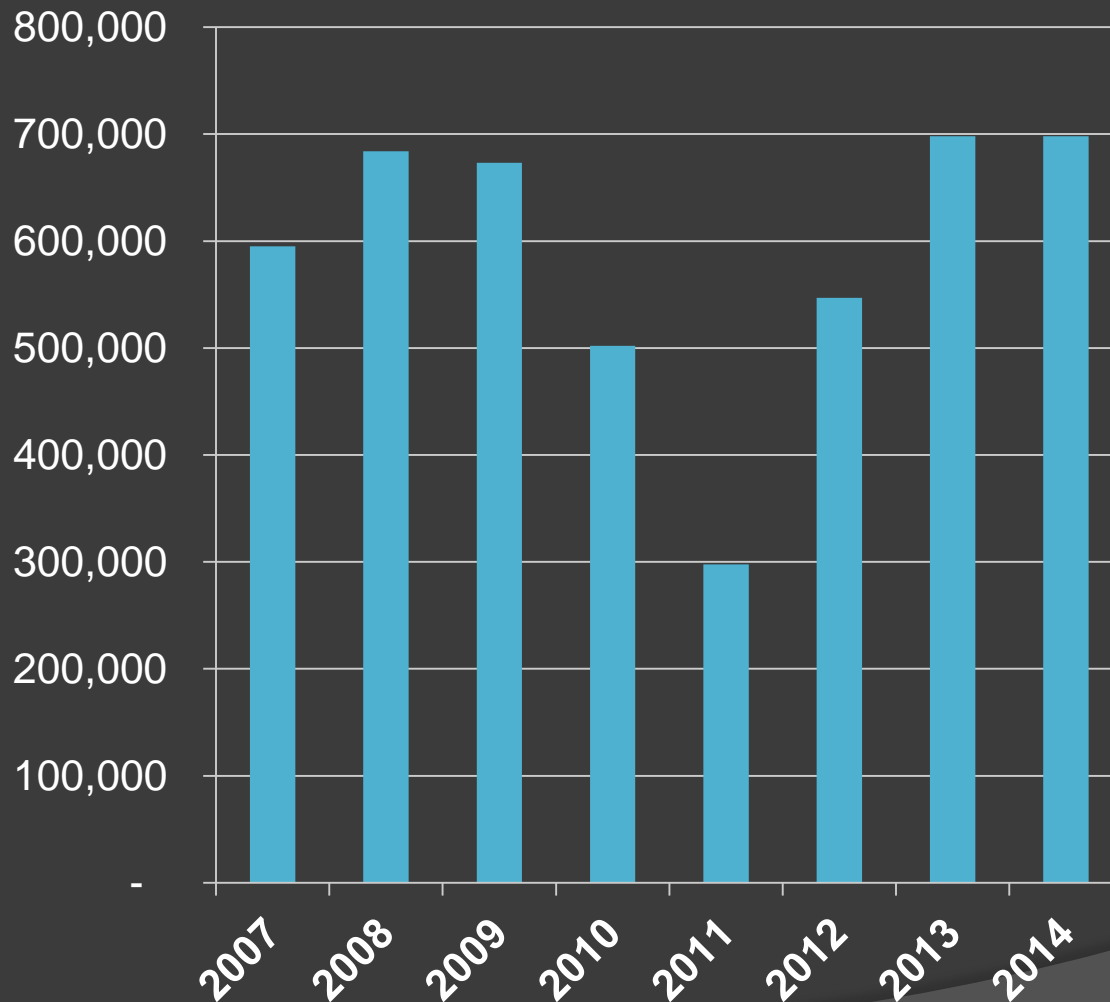


6 New Buildings
and 6 Additions
Completed in 2014
(149,633 sq. ft.)

INDUSTRIAL CONSTRUCTION



EXISTING SPACE TURNOVER

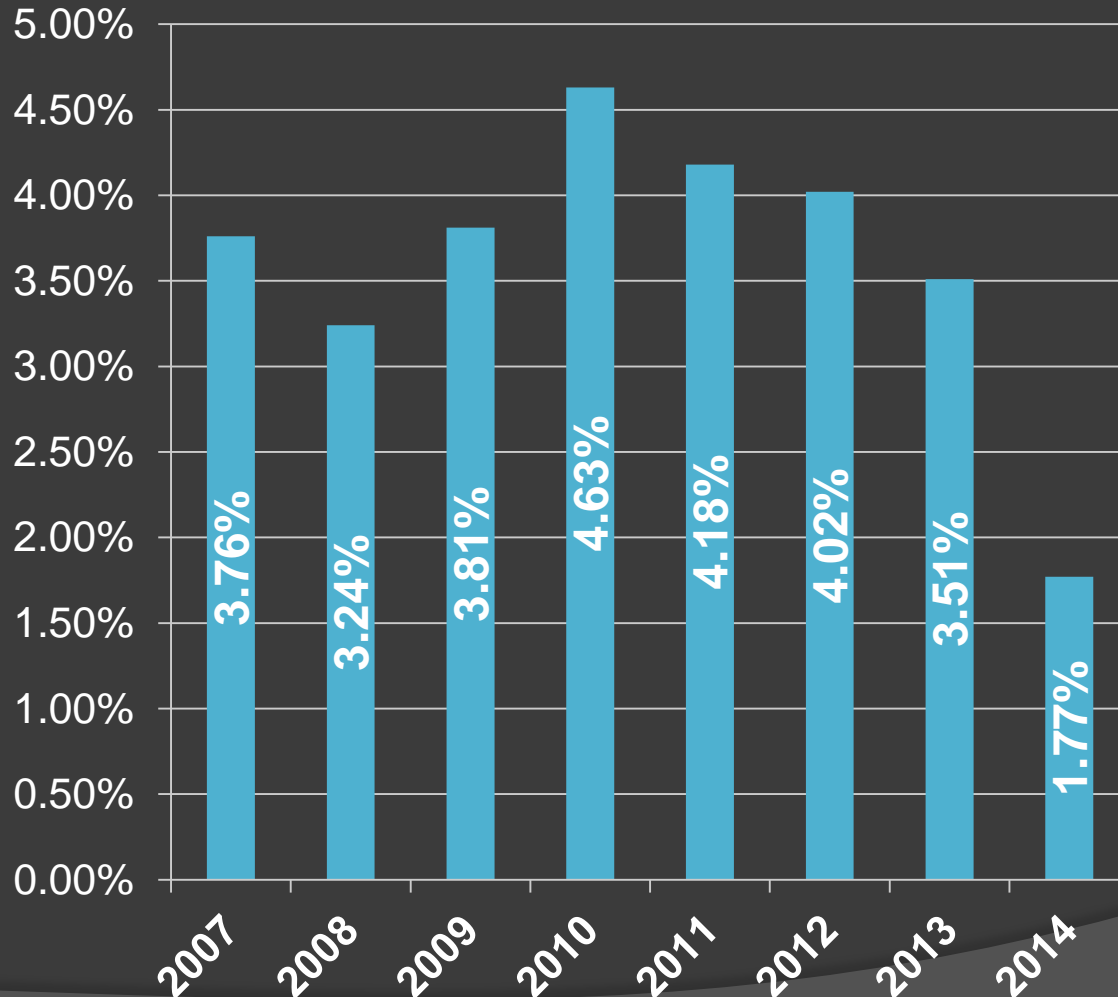


The amount of existing space that came on the market in 2014 was up only 0.4% from 2013

AVAILABLE SPACE IN 2014

1 – Vacant as of January 1, 2014	536,104 sq. ft.
2 – New Construction in 2014	149,633 sq. ft.
3 – Existing Space Turnover	695,145 sq. ft.
Total Available Space	1,380,882 sq. ft.

INDUSTRIAL VACANCY



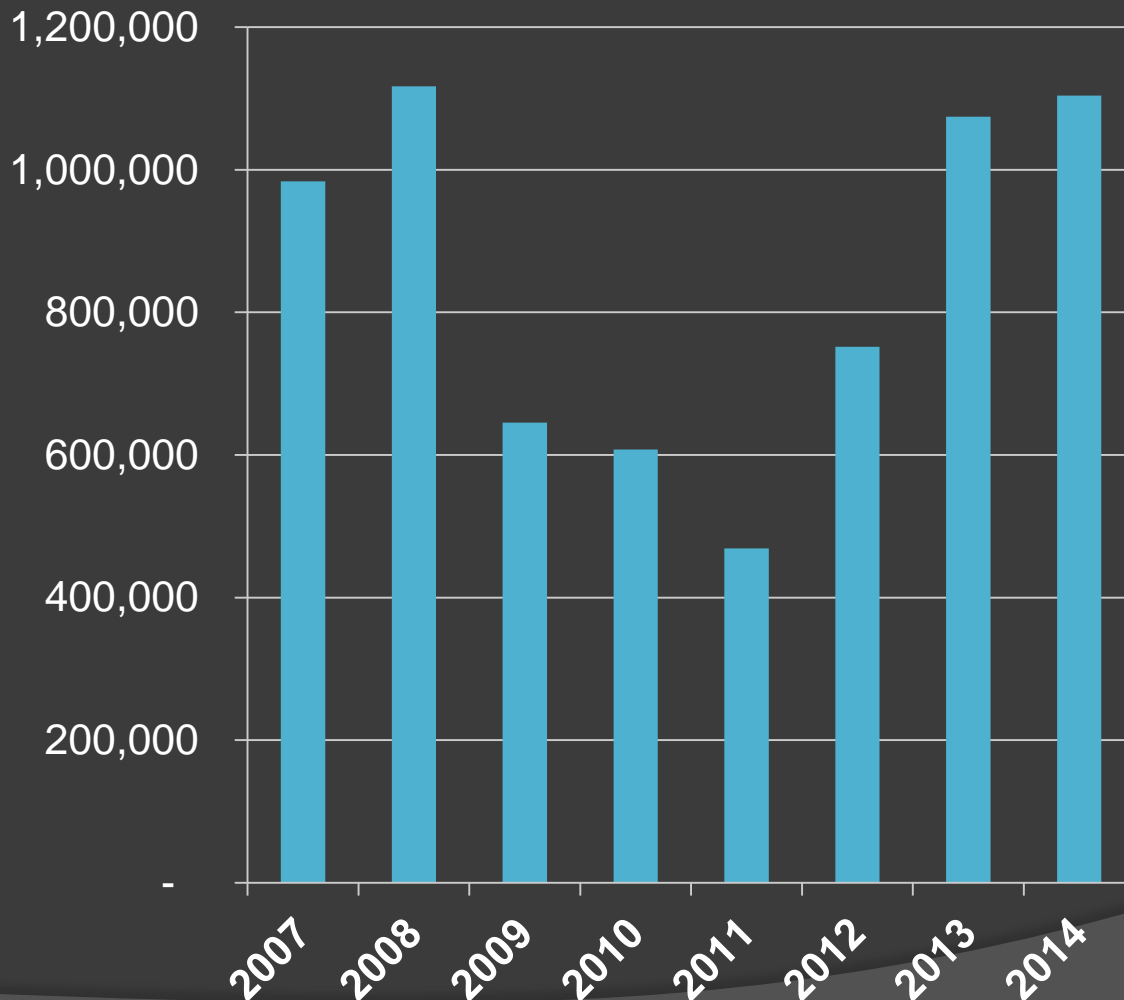
276,645 sq. ft.

Tea = 2.45% (59,310 sq. ft.)
7.4% in 2013

NET ABSORPTION

Total Available Space	1,380,882 sq. ft.
Vacant as of January 1, 2014	(276,645 sq. ft.)
Net Absorption	1,104,237 sq. ft.

NET ABSORPTION



In 2014, the Industrial market absorbed 2.8% more than in 2013

SUPPLY

Absorbing 3,025 sq. ft./day

276,645 sq. ft. Vacant

91 Days

INDUSTRIAL MARKET

Net Absorption

Sale

Leases

INDUSTRIAL MARKET SALES



2205 & 2209 East 39th Street North

97,800 sq. ft. (2 Buildings)

\$3,500,000 = \$35.59/sq. ft.

INDUSTRIAL MARKET SALES



1400 East Robur Drive

12,024 sq. ft.

\$585,000 = \$48.65/sq. ft.

INDUSTRIAL MARKET SALES



3601 North Potsdam Avenue

9,229 sq. ft

\$610,000 = \$66.10/sq. ft.

INDUSTRIAL MARKET SALES

42 Sales Ranging from
\$12.50 to \$98.00/sq. ft.

Average = \$42.00/sq. ft.

INDUSTRIAL MARKET LEASES



4001 North Jessica Avenue

12,500 sq. ft.

\$4.98/sq. ft. NNN

INDUSTRIAL MARKET LEASES

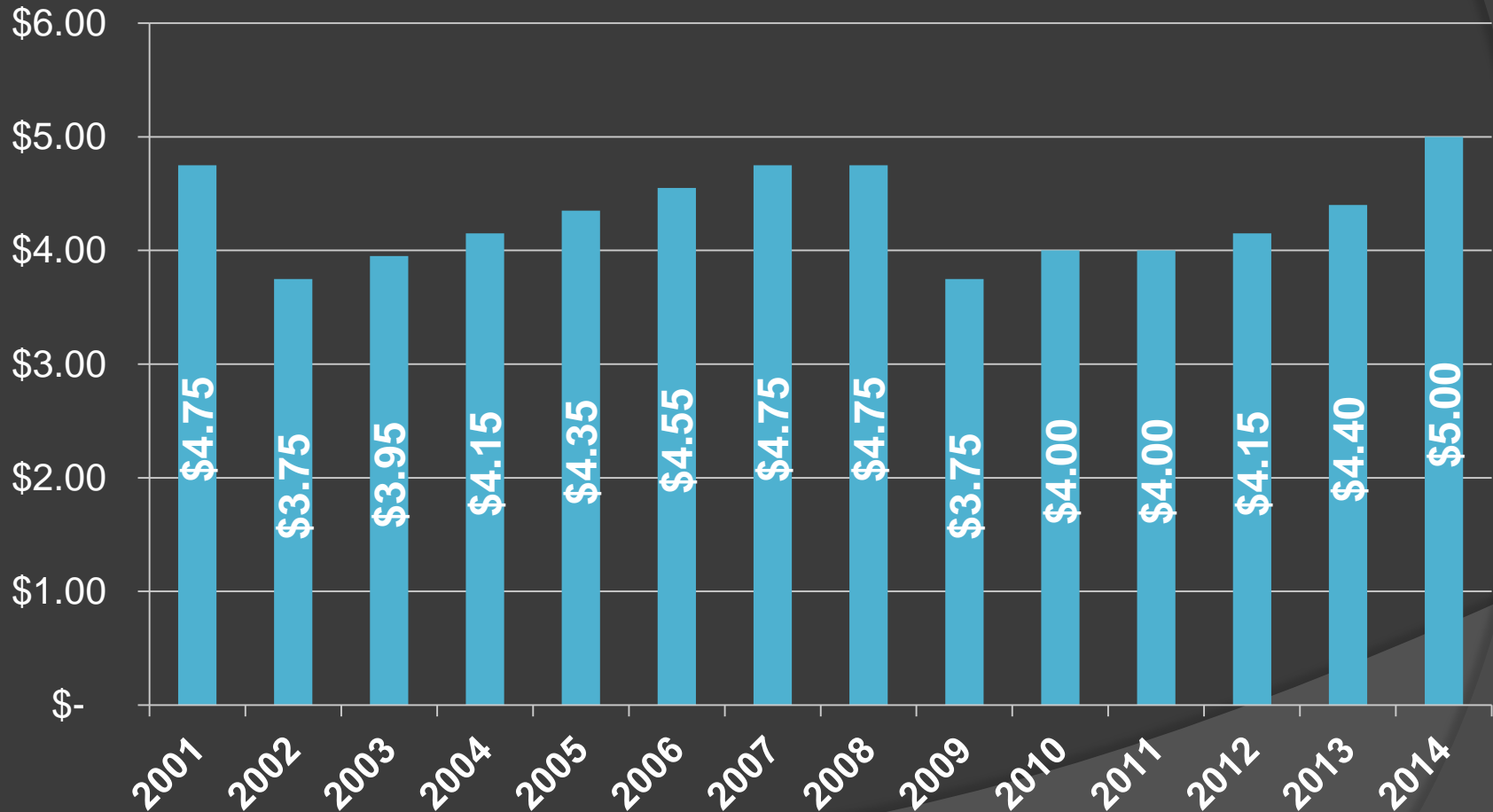


3518 North Casco Avenue

3,600 sq. ft.

\$5.85/sq. ft. NNN

INDUSTRIAL MARKET RENTAL RATES



INDUSTRIAL MARKET RENTAL RATES

Today's \$5.00/SF Rent

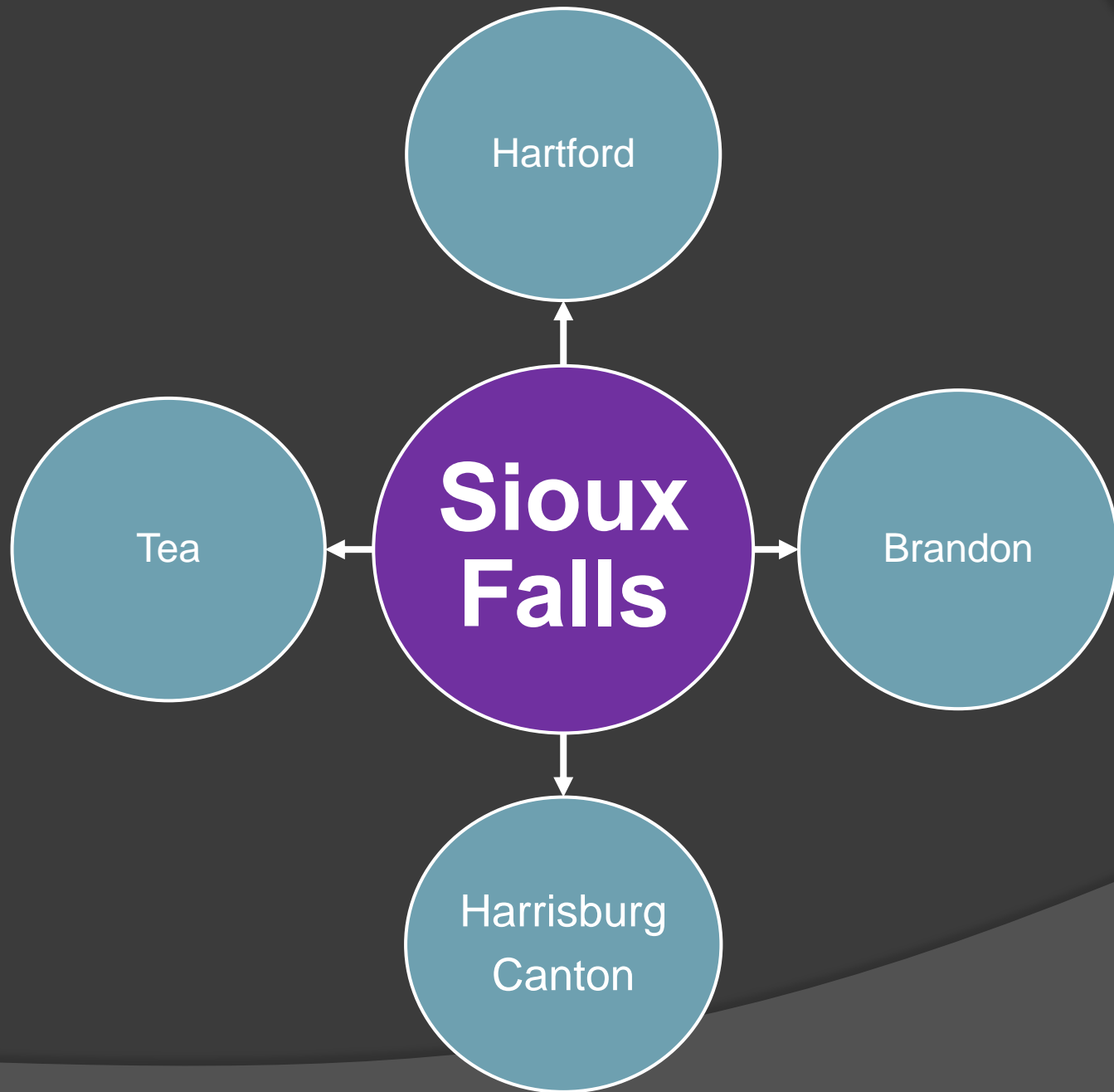
\$5.00 Net

- \$1.00 Expenses

\$4.00 Income

\$4.00/SF Income @ 8% required rate of return

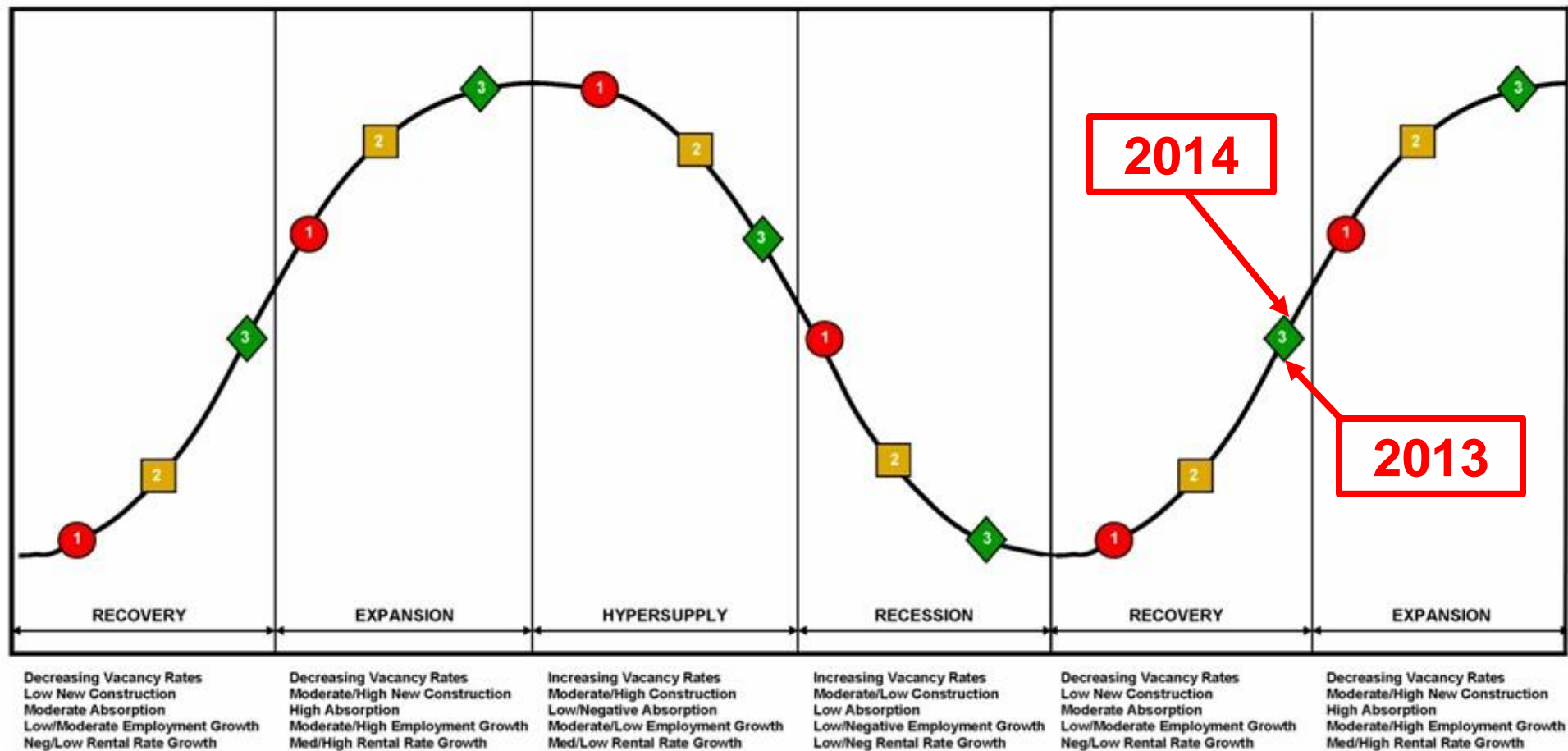
= \$50.00/SF to Complete Construction



INDUSTRIAL MARKET CONCLUSIONS & PREDICTIONS

- Surrounding Communities will continue growth
 - 25 - 30% of All-in Construction = Land Cost
 - Some communities have cheap or free land
- Lack of 2014 construction – 2015 should be stronger
- Large users are looking
- The 2015/2016 Challenge

INDUSTRIAL MARKET REAL ESTATE CYCLE



18TH ANNUAL

SIOUX FALLS

MARKET OUTLOOK

2015

Bender
COMMERCIAL