

MID-2020

MARKET OUTLOOK REPORT

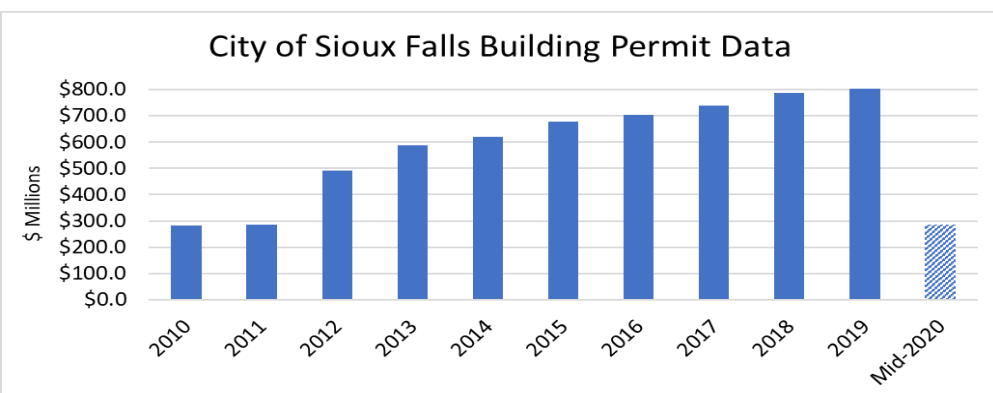
SIOUX FALLS, SOUTH DAKOTA

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 190,519 and a metro population of 275,917. 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’ 2019 list of Best Small City for Business and Careers. Sioux Falls has placed in the top 5 on this list for 15 consecutive years.
- WalletHub ranked Sioux Falls as one of the Best Large Cities for Jobs in 2019.
- Smart Asset Top 10 List (#4) for Best City for Young Professionals.

Sioux Falls continues to have consistent construction within it’s city limits. At mid-year, there has been over \$286 million worth of construction, though below mid-2019’s figure of \$350.5 million.



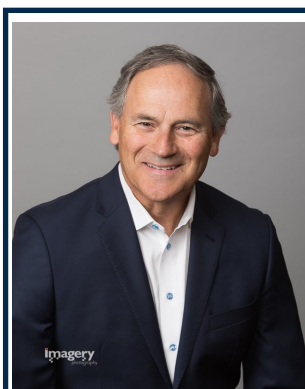
City of Sioux Falls Building Permit Data—January through June 2020

Source: Building Service Division, City of Sioux Falls

	2020
Number of Permits Issued	3,382
Total Value of Permits Issued	\$286,055,722
New Residential	\$107.6M
Residential Addition & Remodel	\$29.3M
New Commercial	\$90.2M
Commercial Addition & Remodel	\$59.0M
Total	\$286.1M
New Commercial	
Manufacturing	\$7.5M
Office, Institutional	\$36.3M
Retail	\$8.6M
Apartments	\$27.5M
Other Commercial	\$9.4M
Total	\$90.2M
New Residential	
Single Family Units	330
Duplex Units	0
Townhouse Units	166
Multi-Family Units	284
Total	780

The top construction projects in the first half of 2020 include:

- Brandon Valley—Sparta Elementary—\$14.0M
- Aspen Heights Condos—\$10.5M
- Whisper Ridge East Apartments—\$9.7M
- Capital Card Services—\$8.8M
- Nordica Warehouse—\$7.3M
- Boyer Trucks—\$6.7M
- Arbor Ridge Senior Living II—\$6.2M



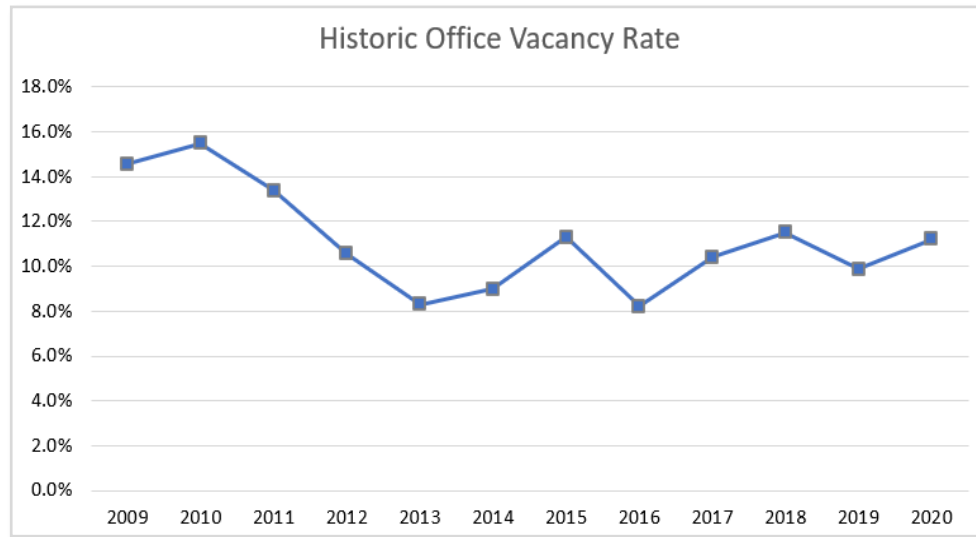
Michael Bender, CCIM, SIOR
 Principal
 (605) 782-1662
 michael@benderco.com

“As South Dakota’s largest city, Sioux Falls has a vibrant economy.”



	Inventory (SF)	Vacant Space (SF)	Vacancy Rate	Absorption (SF)	Asking Rental Rates (NNN)
Total CBD	2,338,603	175,338	7.5%	(28,430)	\$13.05
Class A CBD	739,029	14,437	1.9%	15,910	\$14.85
Class B/C CBD	1,599,574	160,901	10.0%	(44,339)	\$12.90
Total Suburban	5,903,210	748,995	12.7%	48,673	\$12.50
Class A Suburban	1,826,915	158,099	8.7%	(10,246)	\$15.00
Class B/C Suburban	4,076,295	590,896	14.5%	58,919	\$11.85
Total Sioux Falls	8,241,813	924,333	12.2%	20,243	\$12.60

By the midyear of 2020, Sioux Falls’ entire office market consisted of 15,613,042 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 rental rates, so this report excludes those properties. This criteria left 8,241,813 sq. ft. of tenant-occupied space, an increase of approximately 146,000 sq. ft. in the past six months. The overall vacancy of the Sioux Falls office market increased from 9.87% at the end of 2019 to 11.2% by mid-2020.



Four (4) newly constructed buildings and three (3) owner-occupied building made up the 2% increase in the office market inventory. Three of the four of the new construction occurred in southeast Sioux Falls, while the fourth is located in the Dawley Park Development in east Sioux Falls.





Notable Office Transactions

Address	Tenant	Space Size	Lease Type
500 East 56th Street North	Avera McKennan	127,332 SF	NNN
3241 East Bison Trail	Infrastructure Design	3,881 SF	NNN
6909 South Lyncrest Place	Burns & McDonnell Engineers	1,318 SF	NNN

Address	Building Size	Price	Sale Date
2200 East Benson Road	160,312 SF	\$30,336,000	February 2020
325 South 1st Avenue	79,504 SF	\$21,625,000	April 2020
5000 South Minnesota Avenue	16,000 SF	\$1,625,000	April 2020



So far, over \$60 million in office sales volume has occurred in 2020! The Sioux Falls office market will set a record for the highest sales volume ever this year. There have been two large transactions, Sanford Health on Benson Road and the Courthouse Square in downtown Sioux Falls. The previous high watermark was set in 2013 at \$52 million. The sales of the State of South Dakota building on 11th Street (\$7.8M), the downtown Wells Fargo Tower (\$6.2M) and Heather Ridge at 69th Street and Western Avenue (\$14.25M) drove the high sales volume that year.

Overall Office

COVID-19 dropped a proverbial grenade in to the traditional office environment. Companies and their employees were forced to reflect and do some company soul searching and ask some tough questions:

- Can your employees effectively and efficiently work from home?
- What are our liabilities/risks from a home office set up?
- What processes need to be put in place to protect our employees, vendors, customers, clients, visitors, etc.?
- How can we hire people remotely? How can we onboard and provide opportunities for professional development?
- How do we create synergy, teamwork, and camaraderie within the office?
- Who needs to be in the office? Who doesn't?

Short-term, there will be a plethora of unused office space, which will force companies to make additional difficult decisions about subdividing their space, sub-leasing, or selling their building. As companies try to free up some cash flow to offset long-term lease arrangements, I predict the Sioux Falls market will see more sublease office options (at value price points) than any other time in recent history.

Trends/Predictions

- Back to traditional office layout - less open environment
- Creative Company Culture Implementation - patio's, outdoor concerts, company picnics, etc.
- Visual Cleaning—janitorial cleaning during the day visible to employees and clients
- Mergers & Acquisitions - opportunity minded companies will take advantage

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



“The office market has been unprecedentedly disrupted in a matter of months due to COVID.”



As expected, due to the uncertainty surrounding COVID-19, the first half of 2020 has been unlike any other in recent memory. It is safe to assume the second half of the year will be more of the same—especially in the retail market as retailers navigate the impact of the pandemic.

Big Box Transformation

In February, we mentioned some big box transformations coming to East 10th Street. Two noteworthy transactions include Vern Eide as the new owner of the former Shopko building, opening this summer, and Runnings purchasing the former Kmart with plans to open by the end of the year. Nearly 200,000 square feet were acquired in those two transactions alone, correcting the inflated vacancy rates for east Sioux Falls. An additional 50,000 square feet on East 10th Street hit the market earlier this year as Campbells Supply plans to vacate their current space, moving into the former Kmart location under new ownership as Runnings.



Vacancy

Although we expect to see a slight increase in vacancy by year end, the impact of what COVID-19 will do to many retailers is still to be seen. Look for a more in-depth look into vacancy rates at the 2021 Market Outlook.




Total Sioux Falls Retail	Mid-2020
Inventory	2,947,013 SF
Available For Lease	367,842 SF
Vacancy Rate	12.5%
Absorption	183,471 SF

Online Retail

Online retailers continue to see increased demand. It’s no surprise that many of us are choosing to buy more and more online versus going into a physical location. Given the times, look to see additional market share shifting to the online format. Also, rumor has it, Amazon is beginning to lose a bit of its dominance online. Who will be the rising star to capture what Amazon has lost?

Rob Kurtenbach
Sales & Leasing
(605) 782-1674
rk@benderco.com



“The first half of 2020 has been unlike any other in recent history.”

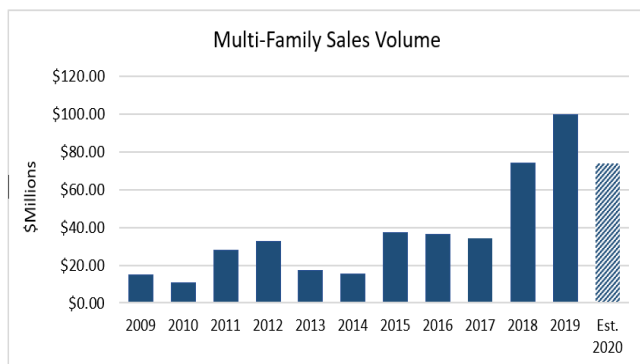
PREDICTIONS

- 1 DECREASING NEW CONSTRUCTION
- 2 INCREASING VACANCY RATES
- 3 ONLINE RETAILERS TO FINISH STRONG



Multi-Family

It's been quite a year so far for Multi-Family transactions. Despite a slow start to the year, transactions are picking up substantially. Look for a strong second half.



Developers continue to exercise restraint with new developments and vacancy continues to remain steady.

Overall interest rates are at record low and investors are taking an optimistic wait-and-see approach over the last six months while pouncing on solid opportunities. Vacancy rates have remained steady at 7.6% for market apartments.

New Residential	Mid-2018	Mid-2019	Mid-2020
Single-Family Units	363	340	330
Duplex Units	2	2	0
Townhome Units	161	155	166
Multiply Family Units	412	338	284
Total	938	835	780

Office Investment Market

Office is the surprise investment asset class star in Sioux Falls as of mid-year 2020. Two large investment transactions have closed thus-far in 2020. The first was 2200 East Benson Road for \$30,336,000 for an approximate 6.25% cap rate. This 160,000 square foot property was the former Capital One building and was leased by Sanford Health through 2027. The next big office investment transaction was the 79,504 square foot Courthouse Square for \$21,625,000. Courthouse Square is occupied by KSFY and several federal government tenants. With these large transactions, 2020 office sales volume is already in record territory.



Retail Investment Market:

Retail investment transactions have shown resilience during 2020 with several notable transactions:

- Tractor Supply - 3520 North Cliff for \$3,550,000
- Verizon - 2000 W. 41st Street for \$3,083,333
- AutoZone - 2230 W. 41st Street for \$1,650,000



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



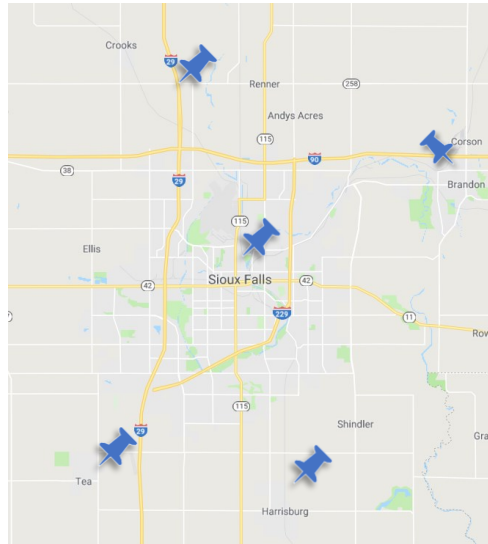
“Despite a slow start to 2020, activity and deal-making has exponentially increased in the investment real estate market in the 2nd half.”



Industrial Market Overview

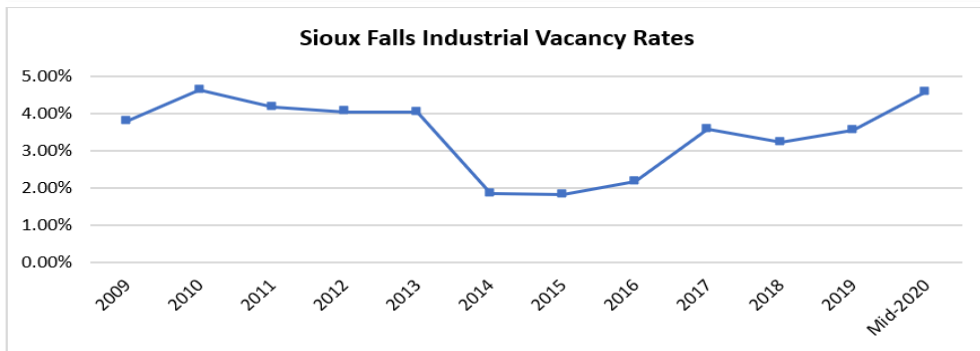
The Sioux Falls industrial market is made up of properties used for manufacturing, warehouse, distribution, and transportation. Additionally, a large component of our local market includes contractor shops in Sioux Falls, Tea, Harrisburg, Brandon, and Crooks/Renner.

The industrial market encompasses a total of 1,339 properties, equating to approximately 24.5 million square feet of space. In contrast to the office and retail markets - where most properties are occupied by tenants - the industrial market has traditionally been dominated by owner-users who made up about 80% of the market. In response to the migration of regional and national tenants making their way to Sioux Falls over the last 15 years, we've seen that percentage decrease to 66% as more space transitions to tenant-occupied. Now, 34% of the industrial market is tenant-occupied space.



Vacancy, Absorption & New Construction

The first half of 2020 has yet to see any major market impact from COVID-19. The vacancy rate increased from 3.55% in 2019 to 4.58% year-to-date (YTD), which was the result of an uptick in new construction and the removal of self storage facilities from our report. There are several new construction projects that will be underway in 2020 and 2021 which will increase the much needed supply of available space in the market. The overwhelmingly majority of available product in the market are warehouses in the 10,000 to 50,000 square foot range, along with 1,500 to 5,000 square foot contractor shops.



At mid-year, the market has already absorbed over 85,000 square feet, with new construction reaching 420,000 square feet. Two notable construction projects underway in 2020 include Nordica Warehouses 200,000 square foot second building in Foundation Park. The other project is Boyer Truck's 50,000 square foot truck shop located in Mryl and Roys Development Park along Benson Road.

Pricing

Average rental rates have remained stable in recent 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 upward from mid-year 2019. 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 improvement requirements and time decay - continue to drop.

Notable Sale Transactions			
Buyer	Property Address	Size	Transaction Amount
Rensberger Private Investments	2000 E. 54th St. N.	73,860 SF	\$4,275,000
Spartan Fire - Brandon, SD	3907. 7th Avenue	38,112 SF	\$1,093,114
Longs Peak Capital - Brandon, SD	1200 E. Birch Street	204,485 SF	\$6,300,000
Market Average Sale Price	\$41.83/SF	19 Transactions	
Market Medium Sale Price	\$67.37/SF		

Outlook

There are two major factors that will impact the industrial market throughout the remainder of 2020 and beyond-COVID-19 and the presidential election. Industries will see the effects of these events, both nationwide and local, for several years. Some companies will thrive within this environment whereas others will experience misfortune. We are confident the Sioux Falls market will be on the thriving end for years to come. There will soon be a major announcement within our market that will have positive long-term effects throughout the market.

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



“COVID-19 has created a reshoring of manufacturing and a surge in E-commerce across the country - driving demand for manufacturing and warehouse space.”