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BENDER COMMERCIAL REAL ESTATE SERVICES

# 2021 MID YEAR MARKET OUTLOOK REPORT

Bender  
COMMERCIAL

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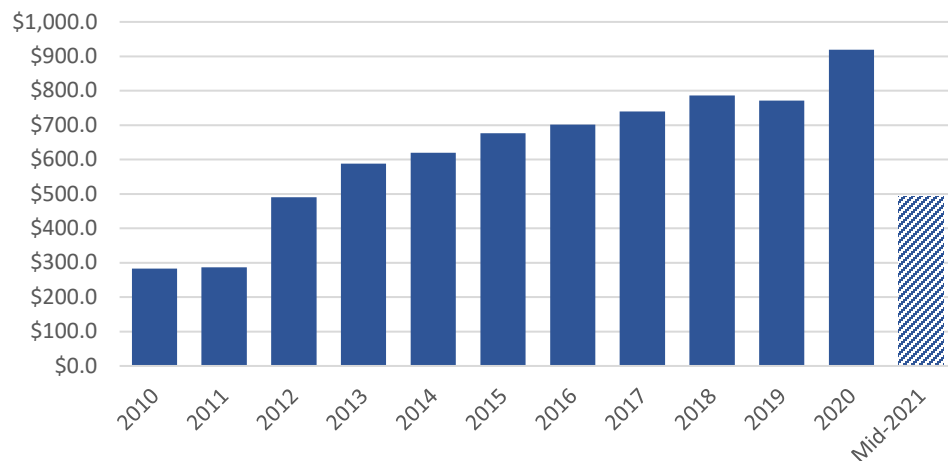
As South Dakota's largest city, Sioux Falls has a vibrant economy. Located at the intersection of I-90 and I-29, the city is the perfect place for retail, healthcare, education, manufacturing and distribution industries. Sioux Falls has a current population of 190,583 and a MSA population of 276,730. The Sioux Falls MSA is comprised of four counties: Minnehaha, Lincoln, McCook and Turner. The largest employers in Sioux Falls include Sanford Health, Avera Health, Sioux Falls School District, Smithfield Foods, Hy-Vee Grocers and Wells Fargo.

Sioux Falls continues to be a strong environment for construction. At mid-year, construction has already exceeded \$490 million. The big winner in the construction game is the apartment market, making up 23% of the construction values - over \$114 million. At midyear 2020, Sioux Falls had \$286 million with only \$27.5 million in the apartment market.

The top construction projects in the first half of 2021 include:

- FedEx in Foundation Park - \$27.1M
- Carlton Apartments - \$26M
- WinChill Phase III - \$24.1M
- Avera Clinic East - \$23M
- City's Edge Apartments - \$22.8M
- Avera Behavioral Health Addition - \$21.6M
- The Slate at Harvest Creek - \$17.5M

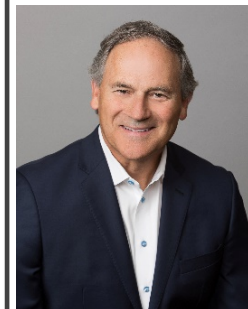
City of Sioux Falls Building Permit Data



#### CITY OF SIOUX FALLS BUILDING PERMIT DATA – JANUARY THRU JUNE 2021

	2021
<b>Number of Permits Issued</b>	<b>3,569</b>
<b>Total Value of Permits Issued</b>	<b>\$492,205,649</b> (72% increase from mid-2020)
New Residential	\$66.5M
Residential Addition & Remodel	\$31.7M
New Commercial	\$173.5M
Commercial Addition & Remodel	\$120.5M
<b>Total</b>	<b>\$492.2M</b>
<b>New Commercial</b>	
Manufacturing	\$38.9M
Office, Institutional	\$8.1M
Retail	\$7.3M
Apartments	\$114.1M
Other Commercial	\$5.1M
<b>Total</b>	<b>\$173.5M</b>
<b>New Residential</b>	
Single Family Units	475
Duplex Units	4
Townhouse Units	247
Multi-Family Units	1,031
<b>Total</b>	<b>1,757</b>

Source: Building Services Division, City of Sioux Falls

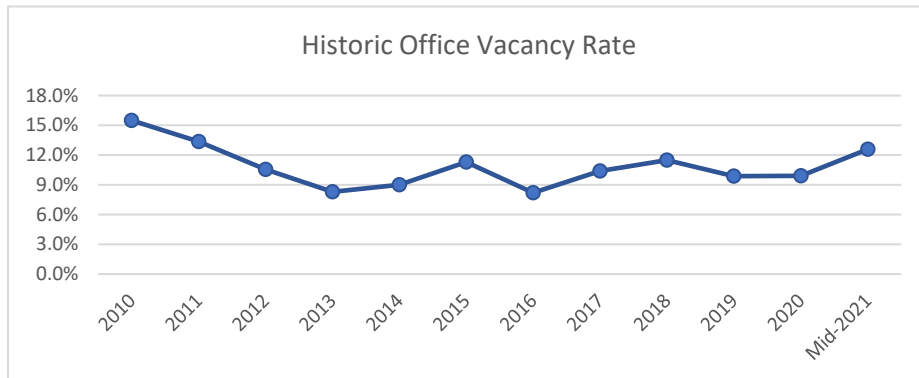


**“Sioux Falls continues to be a strong environment for construction.”**

**Michael Bender, CCIM, SIOR**  
**Founder/Principal**  
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	INVENTORY (SF)	VACANT SPACE (SF)	VACANCY RATE	ABSORPTION (SF)	ASKING RENTAL RATES (NNN)
<b>TOTAL CBD</b>	<b>2,358,423</b>	<b>216,268</b>	<b>9.2%</b>	<b>(17,989)</b>	<b>\$13.50</b>
Class A CBD	773,965	35,880	4.6%	6,837	\$18.00
Class B/C CBD	1,584,458	180,388	11.4%	(24,826)	\$13.00
<b>TOTAL SUBURBAN</b>	<b>6,104,773</b>	<b>846,254</b>	<b>13.9%</b>	<b>(74,095)</b>	<b>\$12.00</b>
Class A Suburban	1,858,596	66,608	3.6%	54,878	\$20.00
Class B/C Suburban	4,246,177	779,646	15.4%	(128,973)	\$12.00
<b>TOTAL SIOUX FALLS</b>	<b>8,463,196</b>	<b>1,062,522</b>	<b>12.6%</b>	<b>(92,084)</b>	<b>\$14.00</b>

The Sioux Falls Office Market has weathered the COVID environment incredibly well. Over the last 18 months, our overall office vacancy has only increased 2.73% (9.87% at year-end 2019 to 12.6% mid-year 2021). Over the same time period, the office market has added nearly 370,000 square feet of inventory, which equates to 4.5% of extra space available for tenants. Even with the current office vacancy rate resting at 12.6%, the Class A office space, which has been in high demand for some time, is less than 5% citywide. As such, the asking rental rates are being pushed to over \$20/SF NNN.



In 2020, some companies pivoted very quickly, had flexible lease terms or expiring leases, and were able to give space up very quickly. Nearly everyone went to a home office in some capacity over the last 18 months, and executives for all organizations have made difficult decisions on how to approach their future office space needs. In 2021, many of these organizations are figuring out future space needs and assessing what and how

much space to give back to a landlord. Many larger organizations will implement a hybrid work environment as the new status quo. We anticipate a continuous flux of organizations giving space up as they make these difficult decisions and implement their post-COVID work strategies. The Class B and C vacancy rates will likely increase slightly over the next 12-24 months as leases expire.

#### NEW PROJECTS:

For the last 5 years, Class A office vacancy in the downtown market has been under 5% and currently sits at 4.6%. Market demand for high-quality office space downtown is incredibly tight causing a



market reaction with two major projects announced in the first half of 2021 (Sioux Steel and Cherapa II). The demand was so strong for these concepts that Cherapa II has re-designed their building to add additional floors to accommodate all of the interested tenants. Additionally, the market demand, low vacancy, and construction costs have pushed rents to the \$20-\$25/SF NNN range for new projects.

### NOTABLE OFFICE LEASE TRANSACTIONS

ADDRESS	TENANT	SPACE SIZE	LEASE TYPE
4824 E. 57 <sup>th</sup> St.	Northern Plains Endodontics	3,123 SF	NNN
212 S. Main Ave.	The Event Company, LLC	2,463 SF	NNN
4920 E. 57 <sup>th</sup> St.	CEGA Innovations	3,145 SF	NNN
114 S. Main Ave.	McGough Construction Co.	4,003 SF	Gross
6101 S. Western Ave.	Sioux Falls Rehabilitations	2,143 SF	NNN
3210 E. Bison Trl.	Little Tykes University	2,616 SF	NNN

### NOTABLE OFFICE SALES

ADDRESS	BUILDING SIZE	PRICE	SALE DATE
701-705 E. 60 <sup>th</sup> St. North 4800 N. 4 <sup>th</sup> Ave.	418,848 SF	\$31,469,178	January 2021
6701 S. Minnesota Ave.	21,292 SF	\$6,100,000	August 2021
300 N. Phillips Ave.	26,136 SF	\$3,600,000	January 2021
225 E. 11 <sup>th</sup> St.	39,300 SF	\$3,250,000	January 2021
225 E. 10 <sup>th</sup> St., Unit A	14,202 SF	\$3,250,000	January 2021



INCREASING  
INVENTORY

INCREASING  
VACANCY  
RATE

DECREASING  
ABSORPTION

INCREASING  
RENTAL  
RATES

### WINNERS

- Medical office
- Service-based office (salons, daycares, banks, insurance agents, engineering)
- Small, stand-alone office concepts
- Downtown office

### LOSERS

- Call center space
- Open-office concepts
- Older multi-tenant, multi-story office buildings

### TRENDS

- Small, stand-alone office concepts will continue to be in high demand
- Owner-occupied office buildings
- Creative areas for company gatherings and team meetings
- Downtown skyline will be transformed in the next 2-3 years with Cherapa II and Sioux Steel
- Watch for announcements for additional tenants downtown, along Veterans Parkway, and along South Minnesota Ave corridor (between 69<sup>th</sup> and 85<sup>th</sup>)
- Rents are growing due to demand, low vacancy, and construction costs



**“The Downtown skyline will be transformed in the next 24 months!”**

**Reggie Kuipers, SIOR**  
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## ONLINE EXPLOSION

As we surpass the halfway point of 2021 and continue through uncharted territories with the effects of a pandemic, let's first look at how the online retail market has been impacted.

At our most recent Market Outlook event, we spent a portion of our time together discussing what we called, the "Online Explosion" of the retail sector. The COVID-19 pandemic became the great accelerator as retailers were forced to be extremely agile or risk getting left behind. Changes that may have taken multiple years, were forced into implementation within months, or even weeks. Retailers had to bypass their usual trial period, instead going live before all necessary testing could be completed. While consumers spent more time shopping online than ever before, it became an unplanned sprint for retailers to gain online market share.

Amazon continues to be the clear front runner of the online retail world, while Wal-Mart continues to remain the leader of the overall retail market. Other online retailers such as Wayfair, Boxed and Five Below saw tremendous success in the last 12 months.



Who will win in the next phase of online retail? Companies who can flex and be agile and open-minded in how they do business in an ever-changing market. Retail continues to evolve and those who actively adjust with the market will win. Look for retailers to continue to explore creative ways to fulfill the needs and wants of consumers. Consumer is king.

We will further explore the online market share at the upcoming Market Outlook event.

## STORE IS THE CORE

Although online sales have gained more of the overall market share in recent years, national retailers are still convinced having a bricks and mortar presence is critical to their overall business success. Locally, we are seeing a surge of new construction retail sites. The Steel District (former Sioux Steel site) recently had their groundbreaking event for its project in downtown Sioux Falls that will feature numerous premier retail sites. The Crossroads (former Gage Brothers site) has already filled most of their Junior box sites. Empire Place (former Sioux Falls Ford site) is well underway with numerous national retailers open for business, or opening very soon. There are many other retail projects throughout the city launching in 2021 as well.



## SIOUX FALLS VACANCY

The overall vacancy rate has remained steady halfway through 2021. We finished 2020 at 13.3% vacancy rate and hit the halfway point of 2021 at 13.7%. As some questions and concerns around the impact of COVID-19 have subsided, expect to see our vacancy rates decrease as we finish out the year. We will give the full update at the upcoming Market Outlook event.

### Total Sioux Falls Retail

### Mid-2021

Inventory	3,136,005 SF
Available for Lease	428,622 SF
Vacancy Rate	13.7%



**"The COVID-19 pandemic became the great accelerator as retailers were forced to be extremely agile or risk getting left behind."**

**Rob Kurtenbach**  
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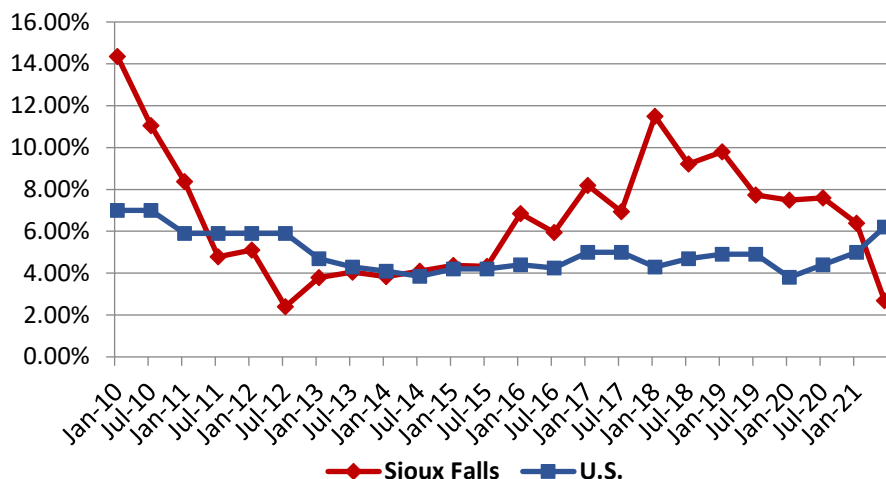
## MARKET IN GENERAL

The 2021 real estate investment market has been robust all year. The average commercial real estate broker has a much longer buyer list than inventory to match. In fact, the bid ask price gap between buyers and sellers on quality assets has narrowed to almost zero. Large quality assets are routinely trading off market.

## MULTI-FAMILY

It's not clear yet if we will break last year's record of nearly \$130,000,000 in sales transactions. It's certainly possible as local investors continue to make long-term bets on Sioux Falls' growth trajectory while actively competing against out of state buyers seeking business friendly growing communities like Sioux Falls.

Sioux Falls is experiencing record population growth. This is reflected in the market MF vacancy rate dropping from 6.39% in January 2021 to **2.69% in July 2021**.



To accommodate this rapid population growth, multi-family developers are busy building new projects. Through the end of June over 1,000 new multi-family unit building permits were pulled. Watch this number easily more than double through the end of the year.

The unprecedented investor demand for multi-family and the strong new project build numbers are a direct result of the strong increase in population Sioux Falls is experiencing in 2021.

New Residential	Mid-2018	Mid-2019	Mid-2020	Mid-2021
Single-Family Units	363	340	330	475
Duplex Units	2	2	0	4
Townhomes Units	161	155	166	247
Multi-Family Units	412	338	284	<b>1,031</b>
<b>Total</b>	<b>938</b>	<b>835</b>	<b>780</b>	<b>1,757</b>

## OFFICE

Investment office sale transactions are few and far between at the moment. Owner-occupied office transactions seem brisk. Investors are waiting for the dust to settle with new COVID variants and national corporate offices seemingly cautious in their return-to-work time tables. Half full parking lots abound in large corporate office buildings even in Sioux Falls.

## RETAIL

Retail investment transactions are strong but perhaps unlikely to top last year's record of \$70,000,000. We have noted that several multi-tenant strip malls on the market for sale have been purchased by occupants or future occupants illustrating the low cost of capital in 2021.



**"The 2021 real estate investment market has been robust all year."**

**Nick Gustafson, CCIM**

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## 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 throughout Sioux Falls, Tea, Harrisburg, Brandon and Crooks/Renner.

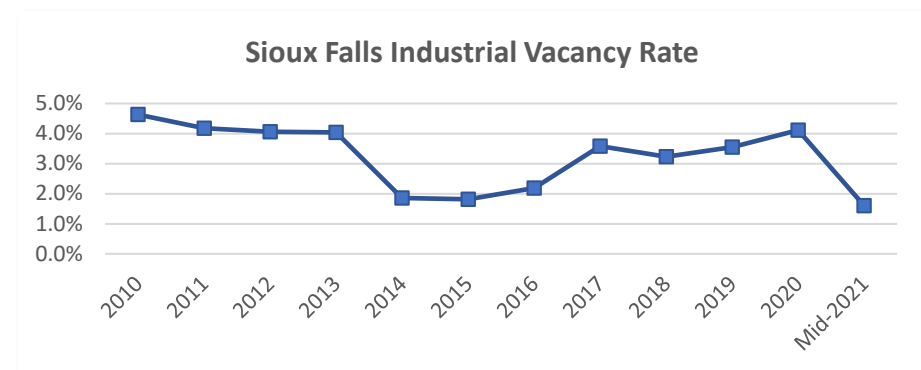
The industrial market encompasses a total of 1,368 properties, equating to approximately 28.5 million square feet of space. To no surprise the first half of 2021 saw accelerated demand for industrial space, adding a record 3.8 million square feet to the overall market.

## ABSORPTION, NEW CONSTRUCTION & VACANCY

As the market continues to absorb space more rapidly than the supply of new and existing buildings coming to market, vacancy rates have decreased from 4.11% in 2020 to 1.60% year-to-date (YTD). This is the lowest vacancy our market has



experienced over the last 25 years. Furthermore, new construction has already surpassed 3.8 million square feet. Three notable projects to be completed are Amazon, FedEx and WinChill, which collectively make up about 96% of the new construction in 2021.



## PRICING

Average rental rates have remained stable over the past several years. However, with the ever-increasing costs of new construction, tenants are faced with the following options: 1) Stay at an existing location; 2) find an alternative location with an existing building; or 3) lease a Build-to-Suit and pay increased rents. Sales transactions are similar to where they were at during this time last year – 23 total transactions. 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 – remain stable.

Notable Industrial Sales Buyer	Property Address	Size	Transaction Amount
Richard McGee Trust	2101 E. 39 <sup>th</sup> St. N.	212,500 SF	\$9,000,000
L & E Holdings, LLC	3901 N. 4 <sup>th</sup> Ave.	34,796 SF	\$3,600,000
Herc Leasing, LLC	4615 N. Cliff Ave.	16,192 SF	\$1,575,000
Karlson Holdings, LLC	27079 Katie Rd.	24,515 SF	\$1,575,000
<b>Market Average Sale Price</b>	<b>\$63.52/SF</b>	<b>23 Transactions</b>	
<b>Market Median Sale Price</b>	<b>\$79.74/SF</b>		

## OUTLOOK

2021 has been a record-breaking year for the industrial market. The effects of multiple state shutdowns have forced many companies to look at states and cities that are 'open for business.' Like it or not, South Dakota and Sioux Falls meet the criteria. Many companies have already begun the process of moving their business and families to the region. With many projects already underway, many more will break ground and/or be announced in the year ahead. The next several years should be an enjoyable and prosperous time for the Sioux Falls industrial market.



**"To no surprise, the first half of 2021 saw accelerated demand for industrial space"**

**Rob Fagnan, SIOR**

Executive Vice President / Managing Director

Industrial Specialist

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