

An aerial, black-and-white photograph of a city serves as the background. In the lower right foreground, a large, ornate church with multiple spires and a prominent dome is visible. The rest of the image shows a dense urban landscape with various buildings, streets, and trees.

Bender

COMMERCIAL

25 **MARKET
OUTLOOK**
YEARS

March 3, 2022



Economic Overview

Reggie Kuipers, SIOR

Ways the World has Changed since 2020

Demographic
Shift

Higher
Education

Big
Government is
Back

Exurbs

Swift Drug
Development
& Approval

Supply Chain
Issues

The Great Resignation

- **Total Labor Force (nonfarm):**

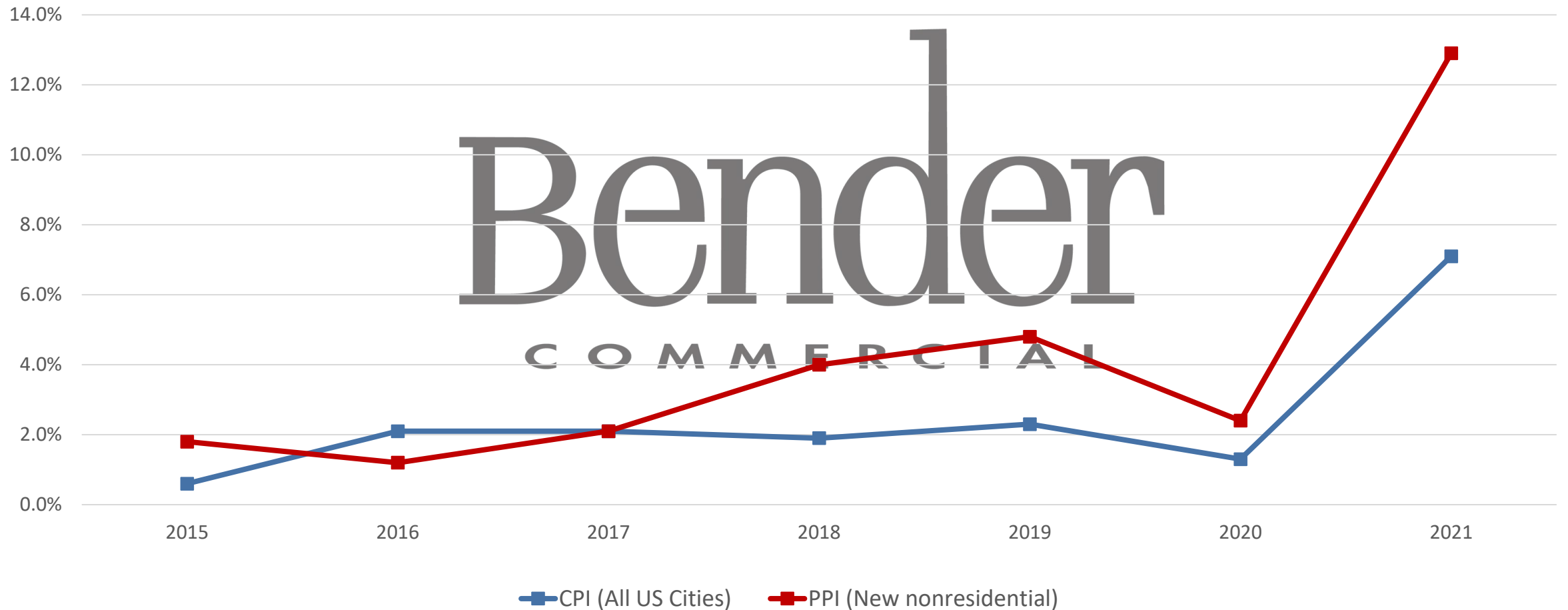
- January 2020: 152M
- April 2020: 130M
- Current: 150M
- U.S. Added 500,000 jobs/month in 2021

- **Causes:**

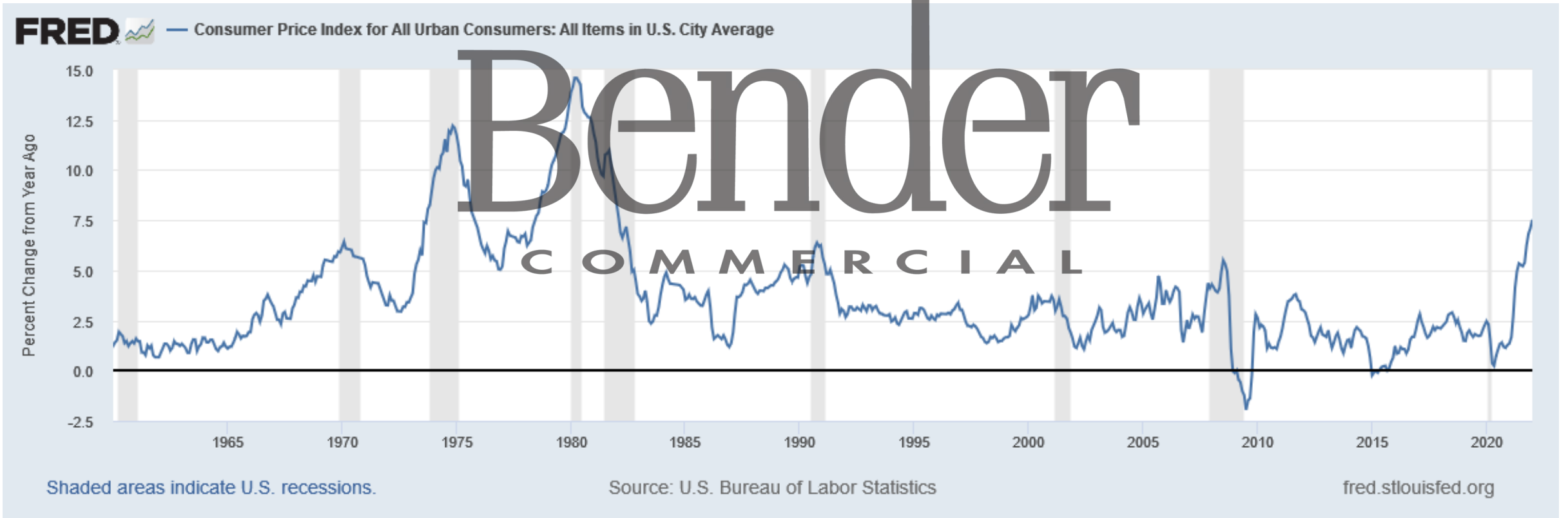
- Covid Factors
- Vaccine Mandates
- Early Retirements
- Government Incentives
- Childcare Costs

The Great American Sabbatical

Inflation – CPI vs. PPI



Inflation



Real Estate Inflation / Appreciation



July 2014 → \$3,600,000

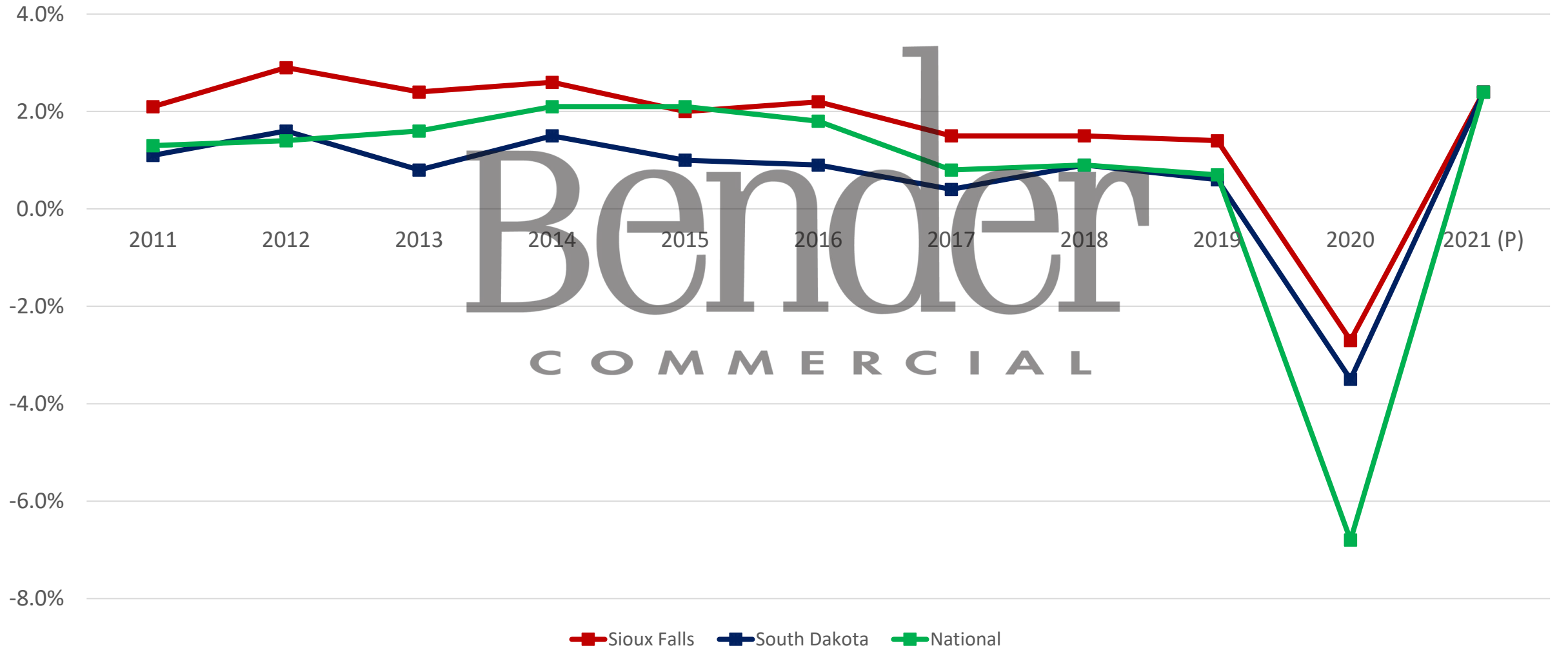
January 2022 → \$6,700,000

86% increase in 7.5 years

Bank Deposits

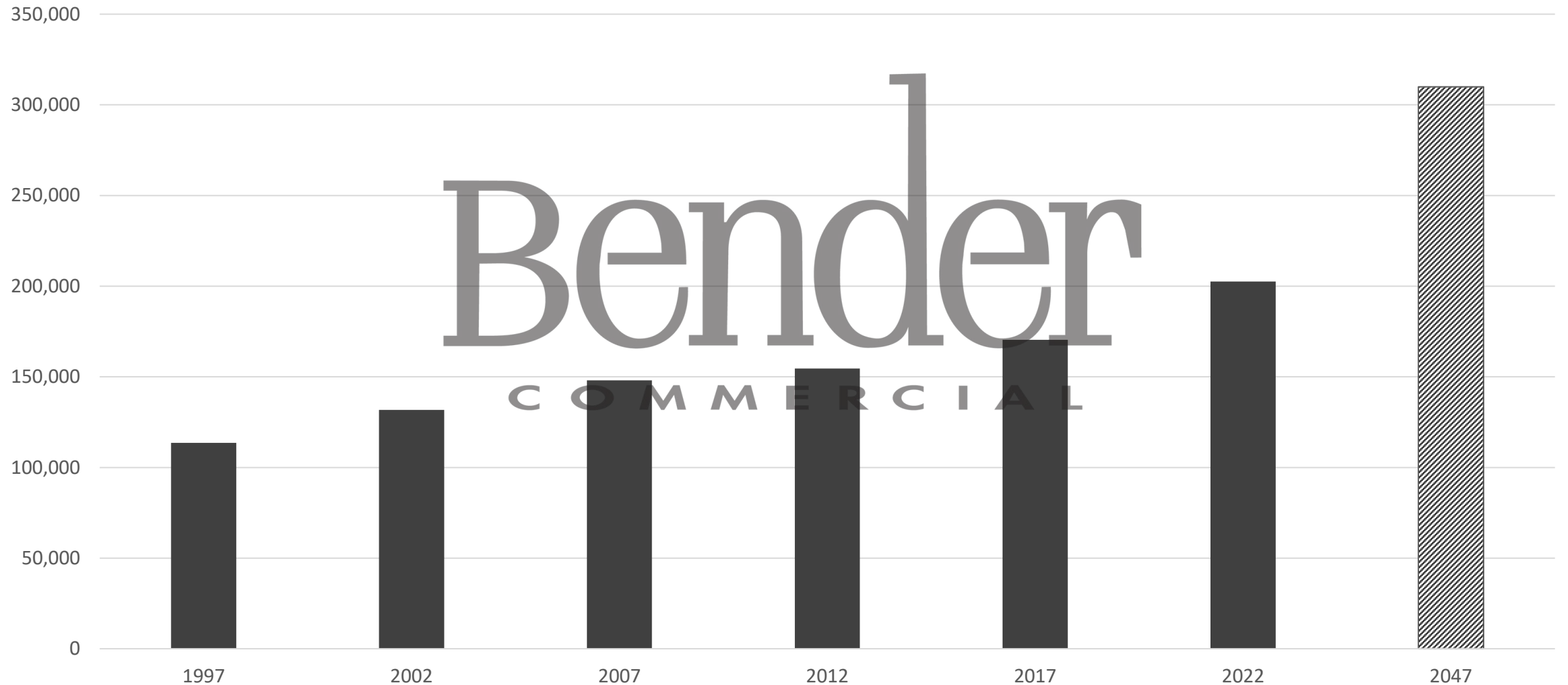
	NATIONAL	SOUTH DAKOTA	SIOUX FALLS COMMUNITY BANKS
Pre-Covid	\$13.3 T	\$310.8 B	\$16.6 B
Current	\$18.1 T	\$411.7 B	\$23.9 B
% Change	36% ↑	32.5% ↑	44.1% ↑

Employment Growth

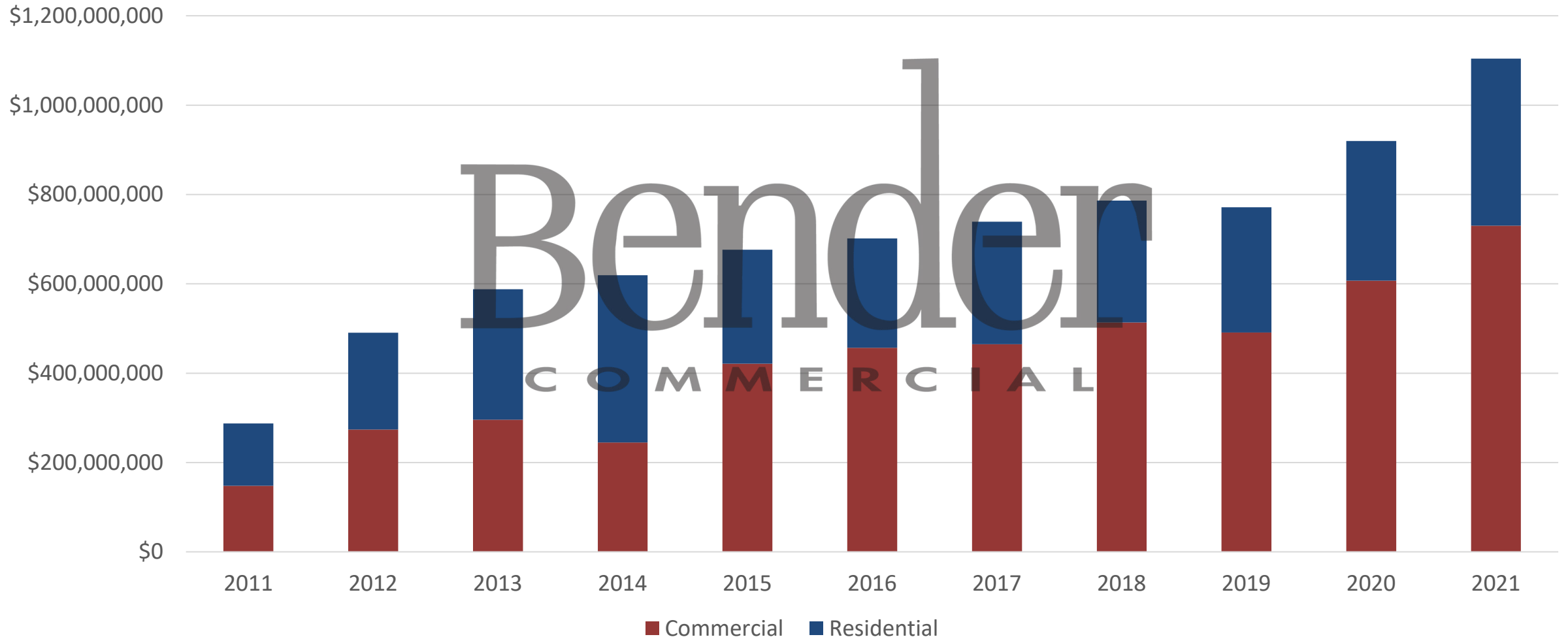


Source: U.S. Bureau of Labor Statistics

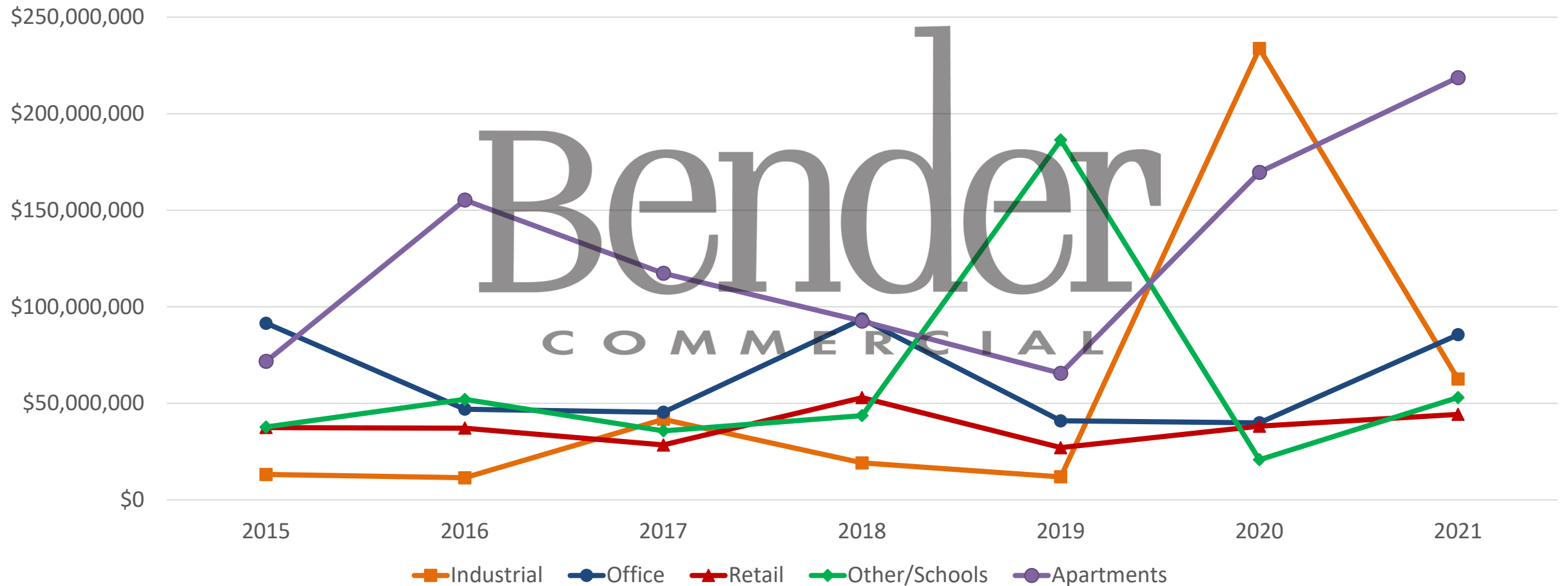
Sioux Falls Population Growth



Total Building Permits



New Commercial Construction



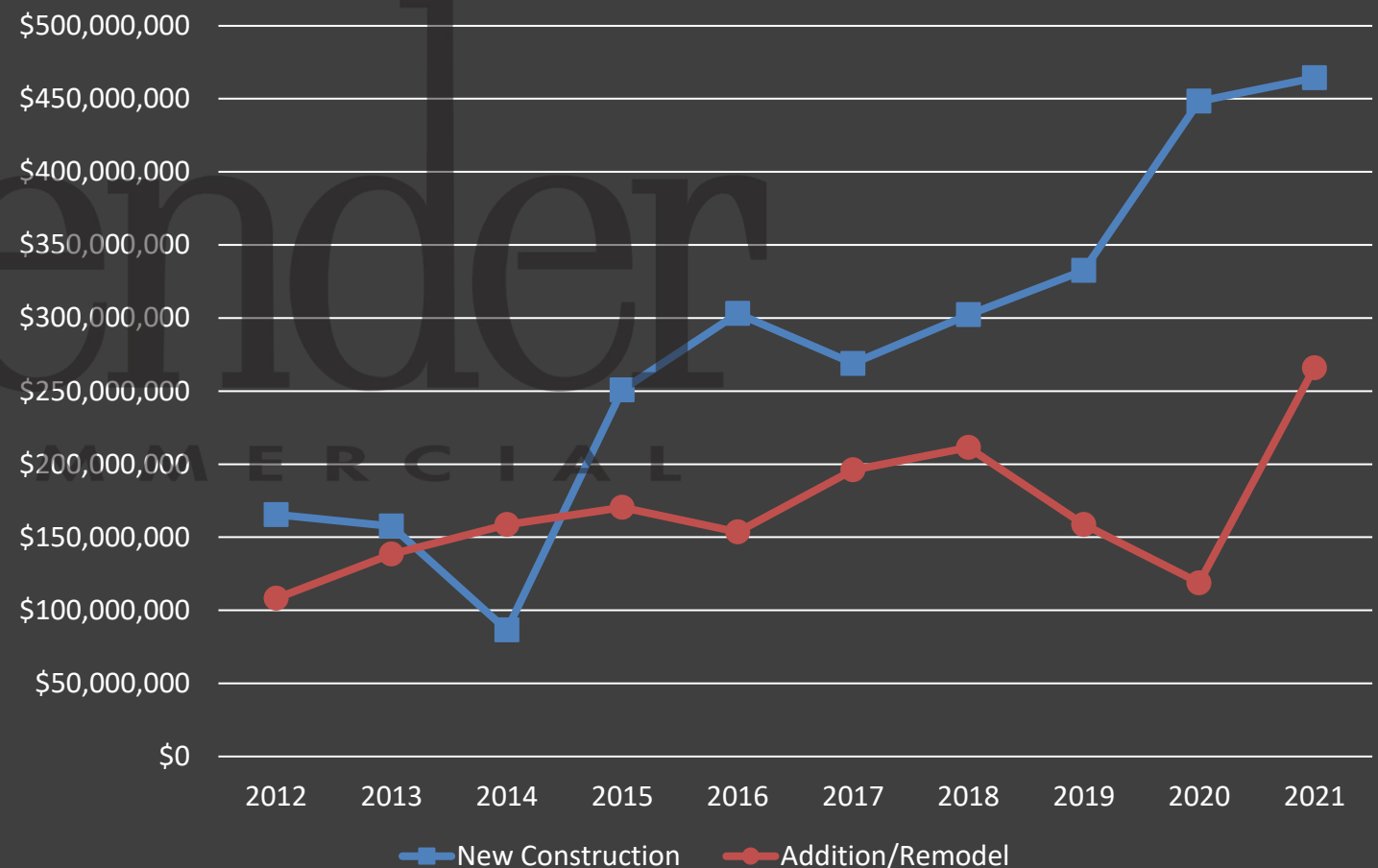
New Commercial Construction (New vs. Addition/Remodel)

New Construction:

- Safety Training Center - \$30.6M
- Fed Ex Facility - \$27.2M
- Carlton Apartments - \$26.2M
- Avera East Clinic - \$23.0M
- Sioux Steel Parking Ramp - \$22.2M

Addition/Remodel:

- WinChill Phase 3 - \$24.1M
- Avera Behavioral Health - \$21.6M
- Furniture Mart - \$17.4M
- Augustana Dorm Remodel - \$7.6M



Regional Comparison

City	Total Value of Permits	\$ per capita
Sioux Falls	\$1,104,252,391	\$5,647
Rochester	\$773,208,691	\$6,369
Rapid City	\$393,581,999	\$5,909
Fargo/West Fargo	\$977,079,342	\$5,892
Des Moines/West Des Moines/Ankeny	\$2,020,681,548	\$5,761
Lincoln	\$1,209,686,189	\$4,122

2022 Predictions

Less of the same

Strong Year

Residential +
Multi-family will be
all-time high in US

Increased
Industrial
Construction

Interest Rates

Population
Growth

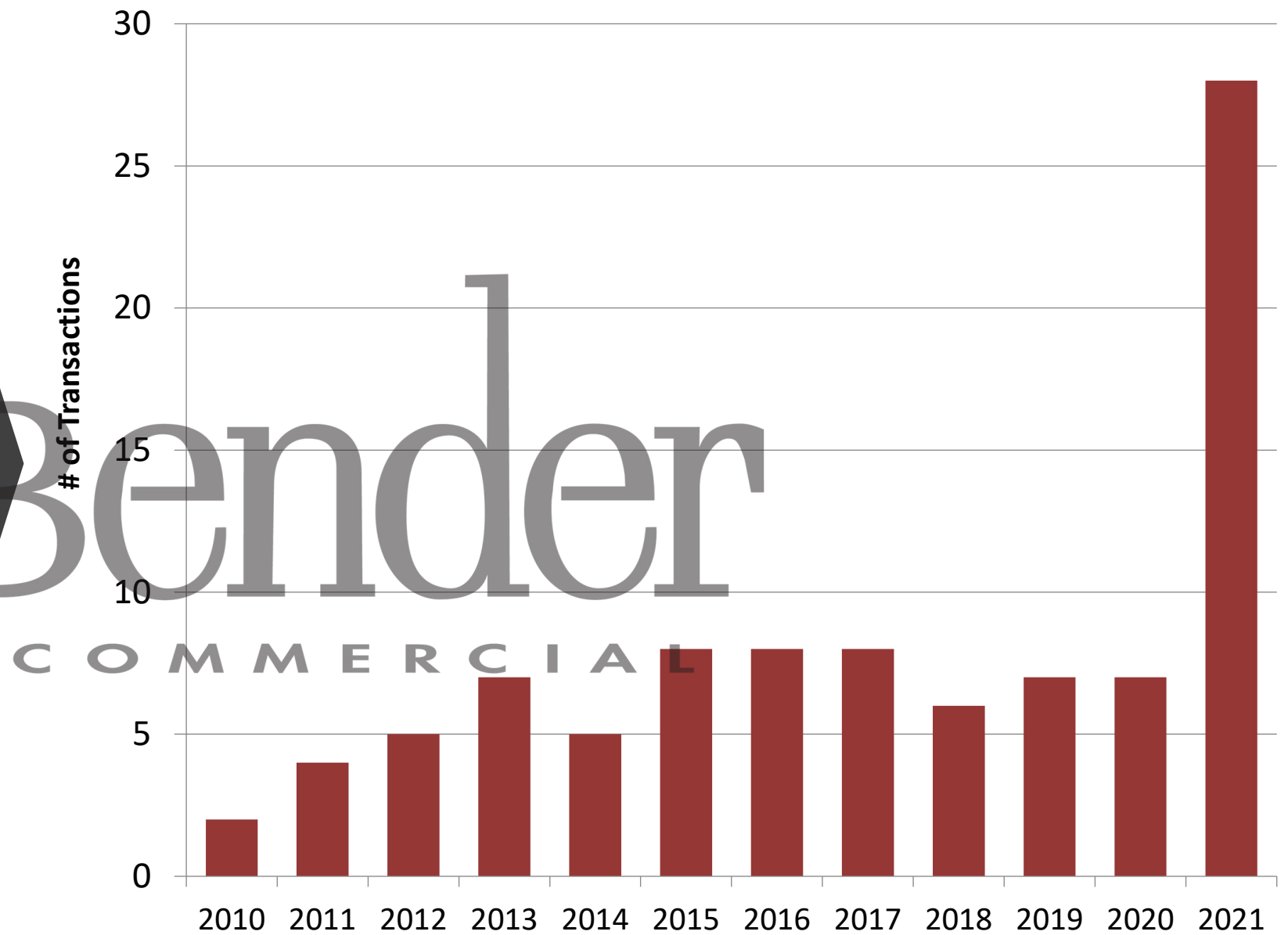
C O M M E R C I A L



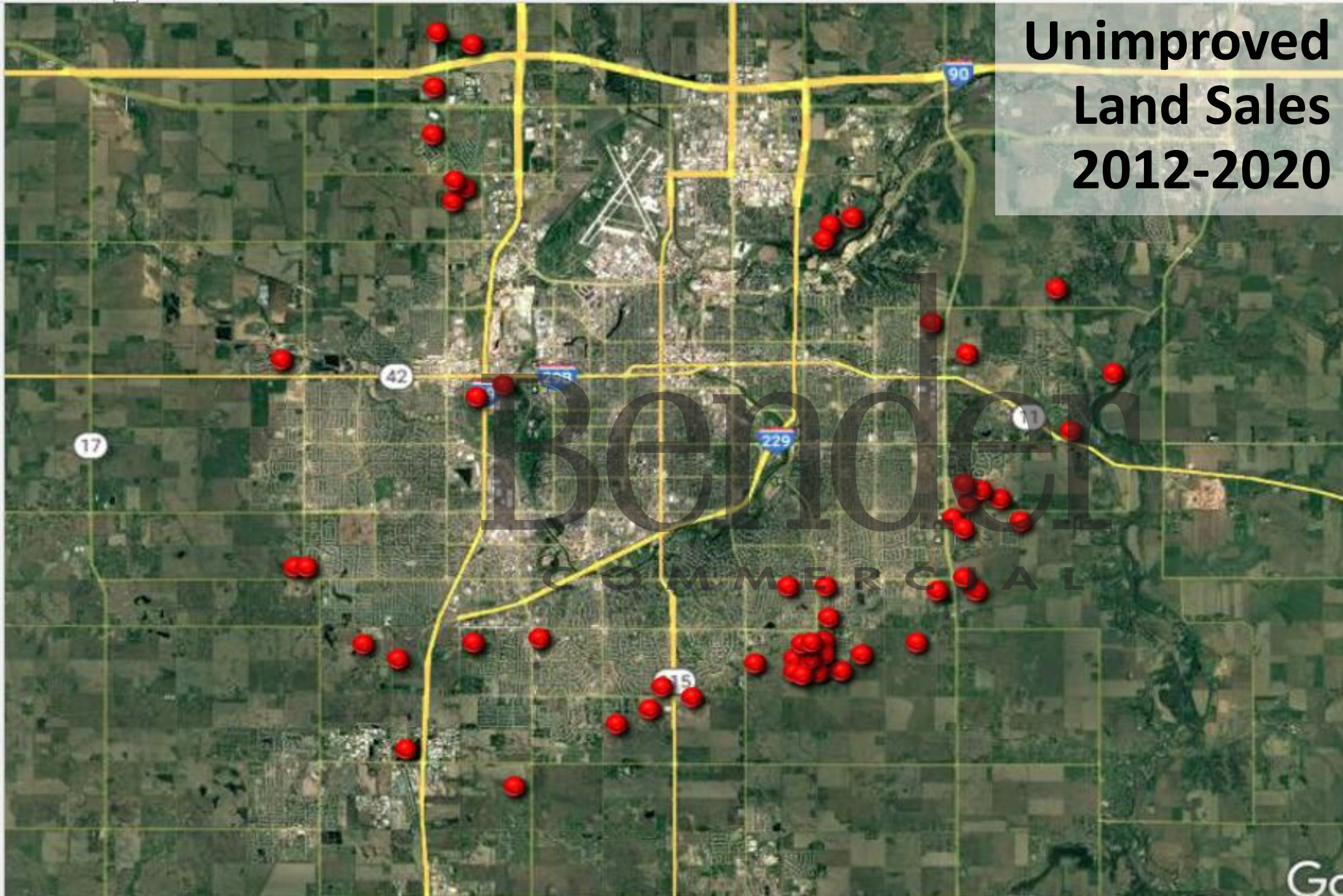
Land Market

Bradyn Neises

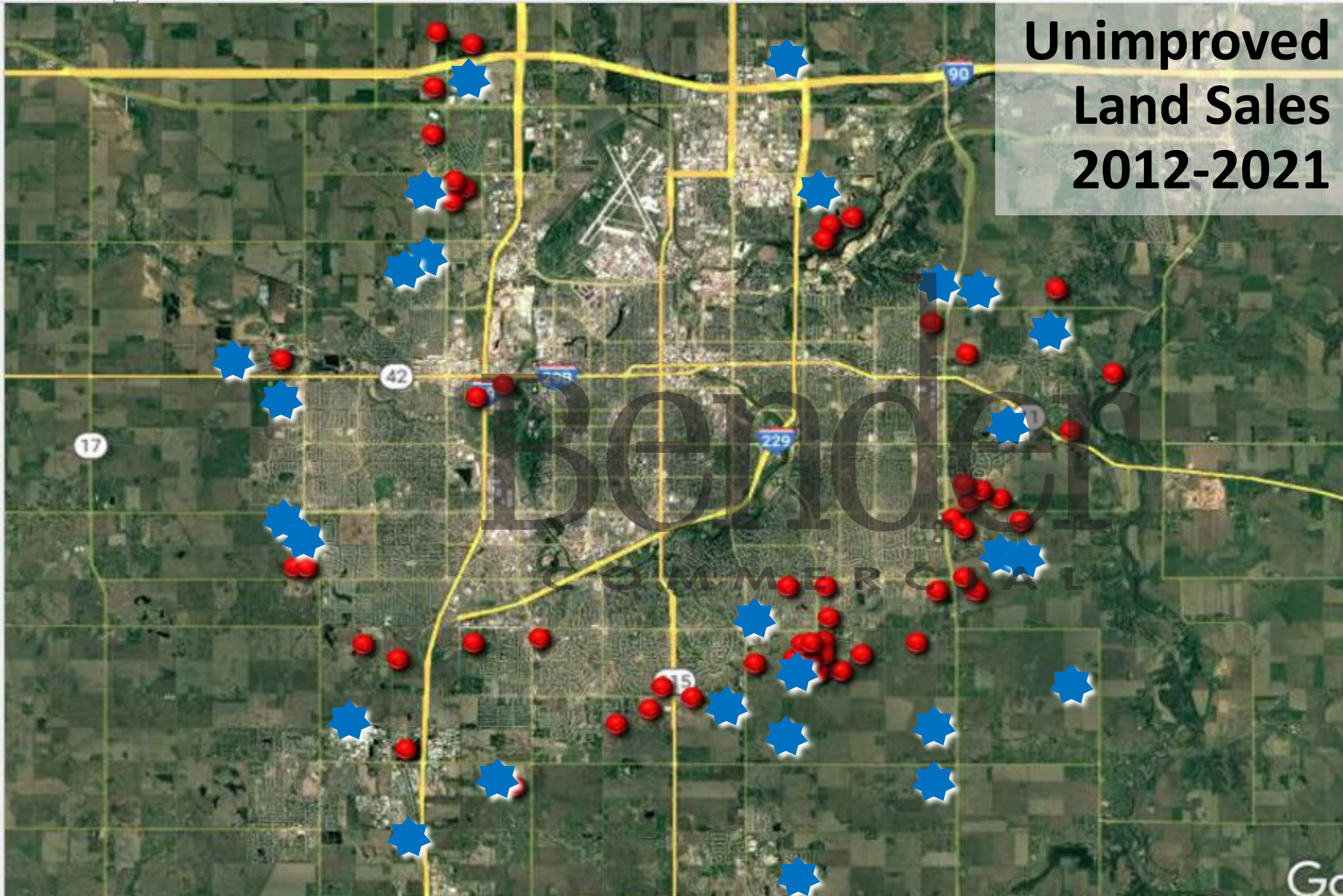
Unimproved Land Sales



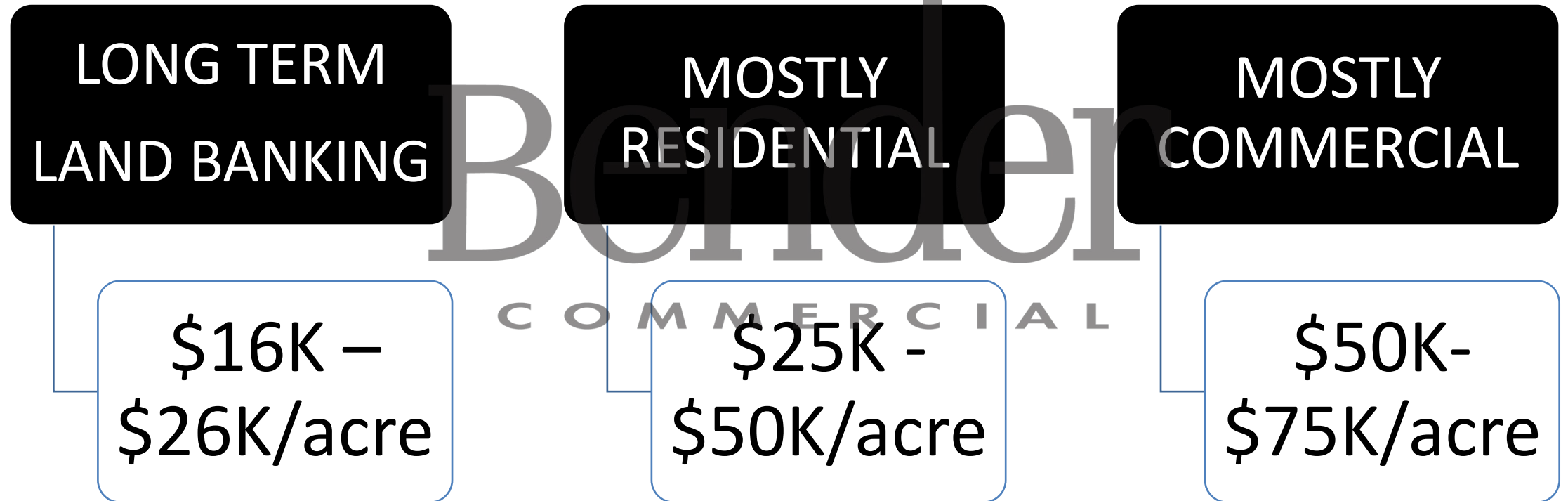
Unimproved Land Sales 2012-2020



Unimproved Land Sales 2012-2021



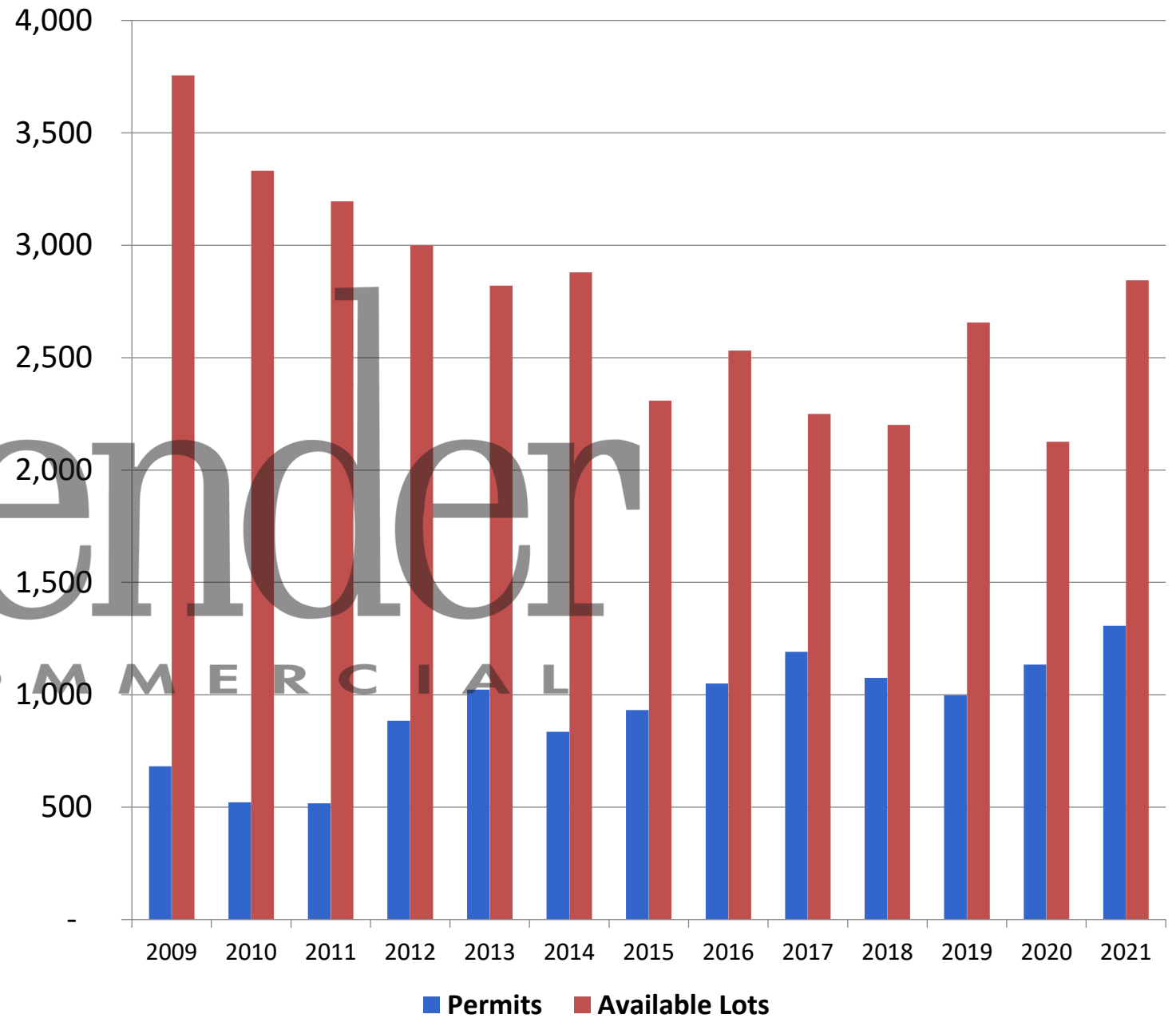
2021 Unimproved Land Sales



Number of Acres Sold



NEW RESIDENTIAL PERMITS (Supply v. Demand)



Infrastructure



DIRT WORK



CURB &
GUTTER



WATER



UTILITIES



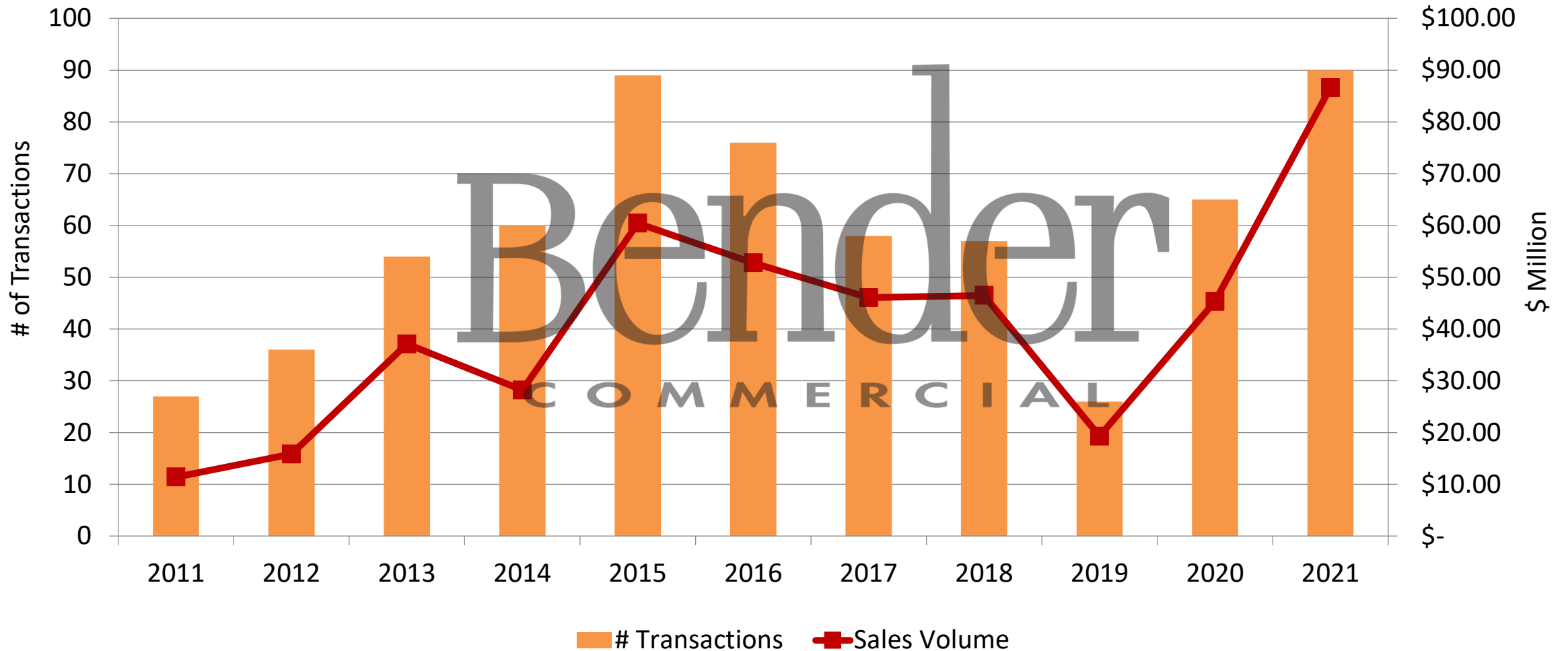
STREET



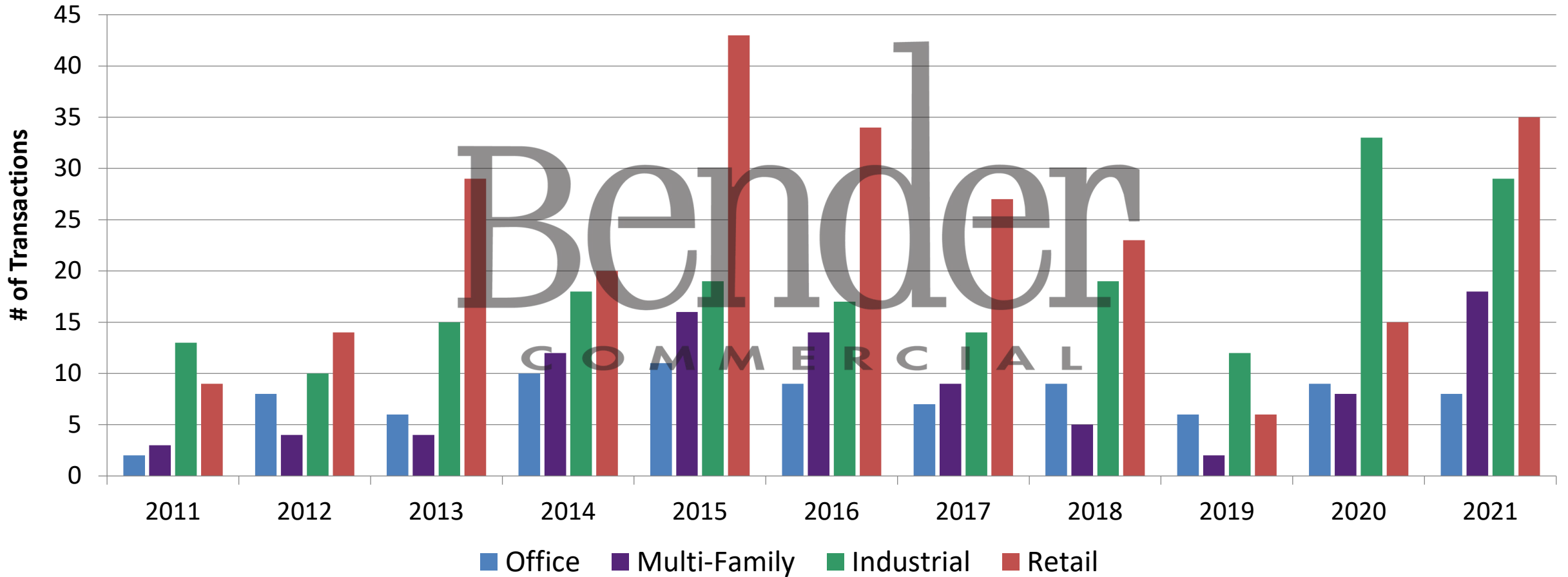
DETENTION
POND

1
Bender
COMMERCIAL

Improved Land Transactions



Transactions By Land Use



Land Pricing

	LOW	HIGH	2021 MEAN
Retail	\$4.25	\$27.00	\$12.25
Office	\$3.25	\$10.25	\$8.25
Industrial	\$2.12	\$5.25	\$3.25
Multi-Family	\$2.00	\$8.25	\$4.30

Trends & Takeaways

Veterans
Parkway

Industrial
Land Supply

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COMMERCIAL
FEMA

Predictions

Bulk Land ↓

Industrial ↗

Retail ↔

Office ↓

Multi-Family ↑



Office Market

Alex Soundy

COMMERCIAL

Office Market



NATIONAL
MARKET



SIOUX FALLS
MARKET



DOWNTOWN



SUBURBAN



PREDICTIONS



Work From Home





National Office Market Trends

Northbrook, Illinois

Allstate sells most of its campus for \$232M to developer to repurpose for E-Commerce Warehouse



C O M M E R C I A L

National Office Market Trends

Alexandria, Virginia

556,000 SF Office → 435-unit multi-family development



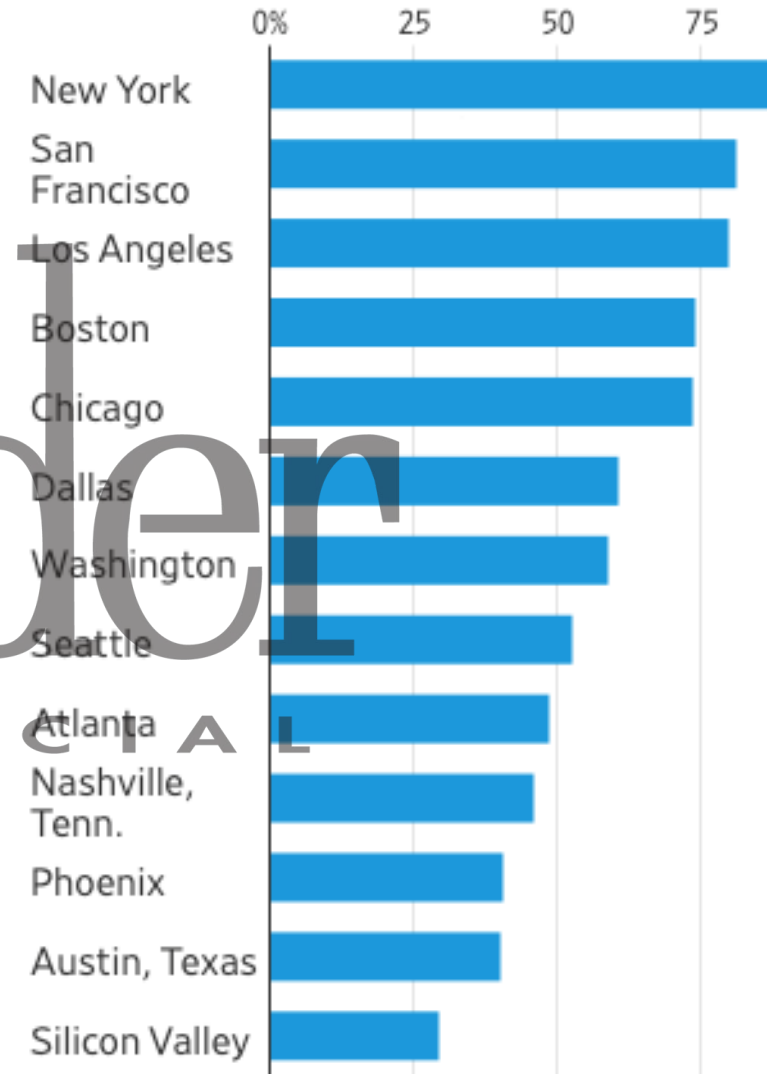
Local Example

Sioux Falls, South Dakota

Wells Fargo sold one of its call center buildings to Graco for \$8.29M in January 2022

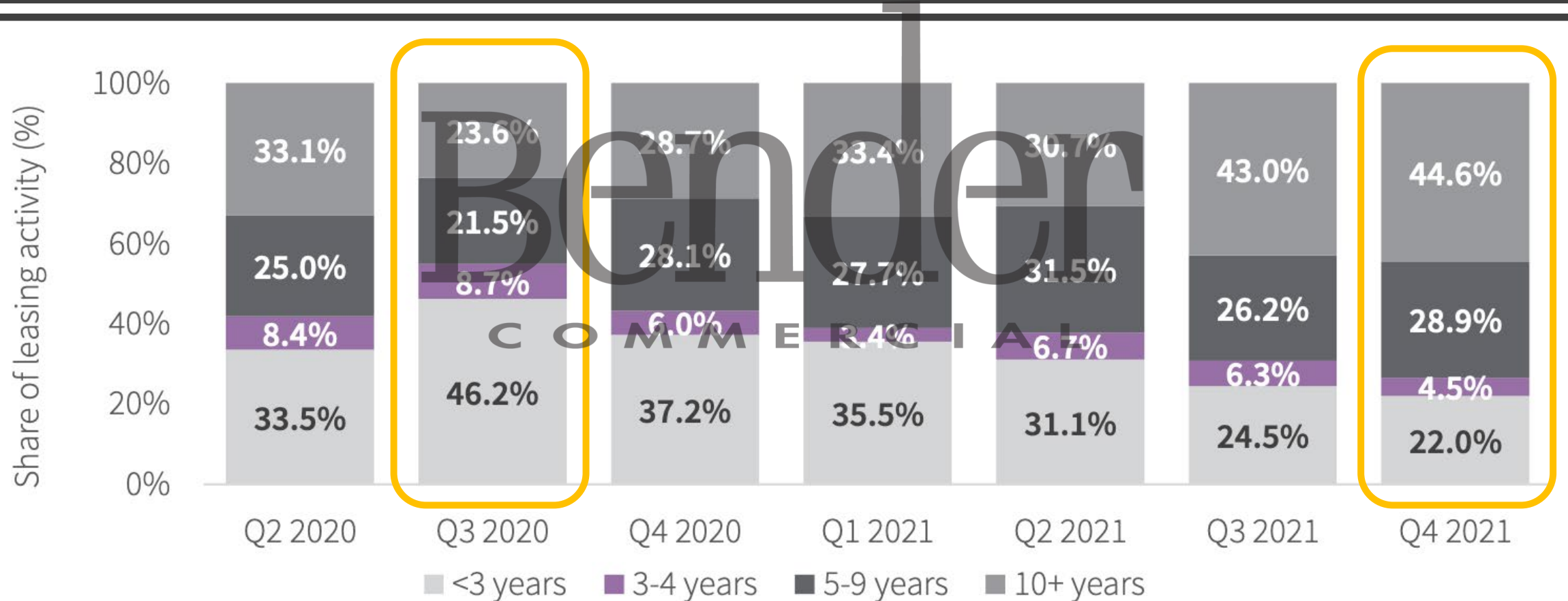
Older Office Properties

Share of office space that is older than 30 years, by city



Source: JLL

National Market Trends



Overall Office Market



Inventory

8.5M SF



Vacancy Rate

Overall 9.6% ↓

Class A 3.3% ↓

Class B/C 12.6% ↑



Net Absorption

195,210 SF



Asking Lease Rates

Overall \$14.00/SF NNN

Class A \$16.00 - \$24.00/SF NNN

Class B \$12.00 - \$16.00/SF NNN

Class C: \$8.00 - \$12.00/SF NNN

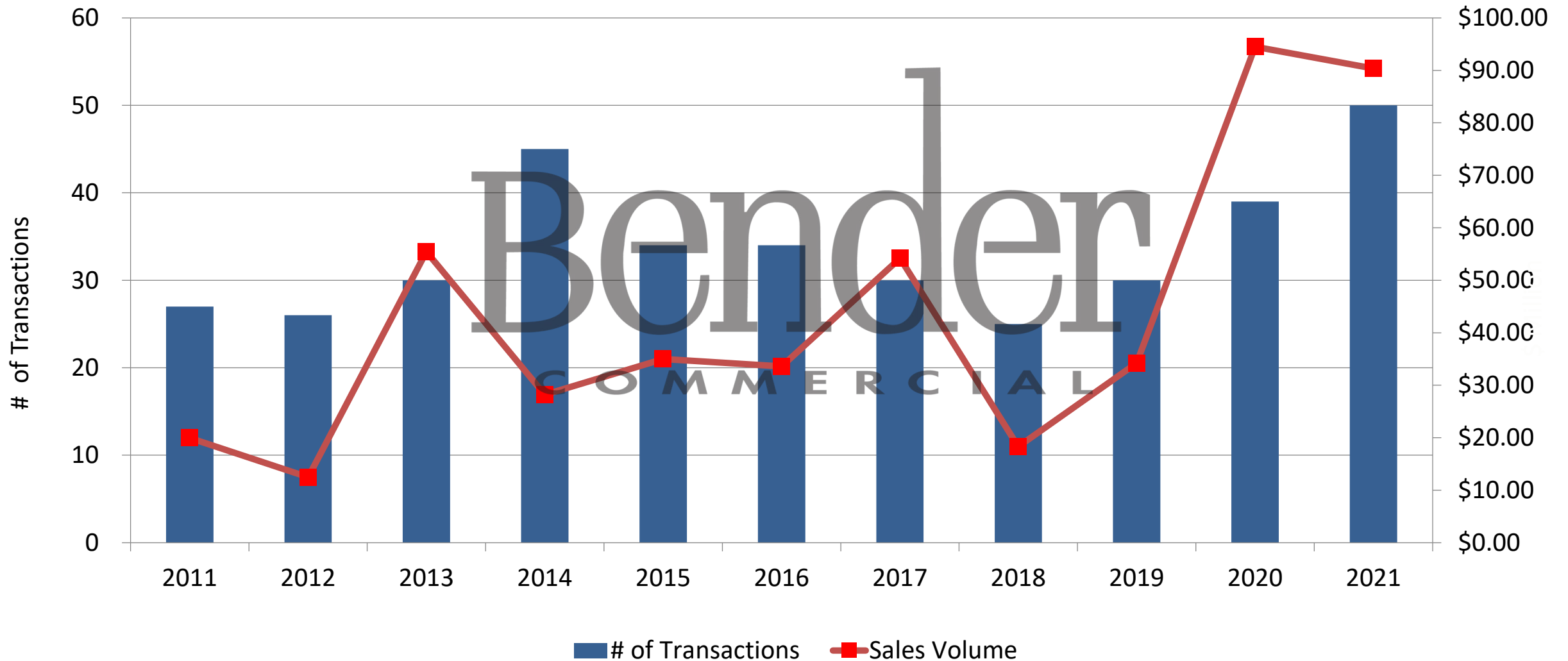


Office Sales

50 Transactions

\$90.4M

Office Property Sales





Bender

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601 South Minnesota Avenue

Local Owner-Occupied Transactions

- First Premier Bank → First International Bank & Trust
- \$2,650,000 (\$151/SF)
- October 2021



Bentley
COMMERCIAL

Local Owner-Occupied Transactions

2900 East 26th Street

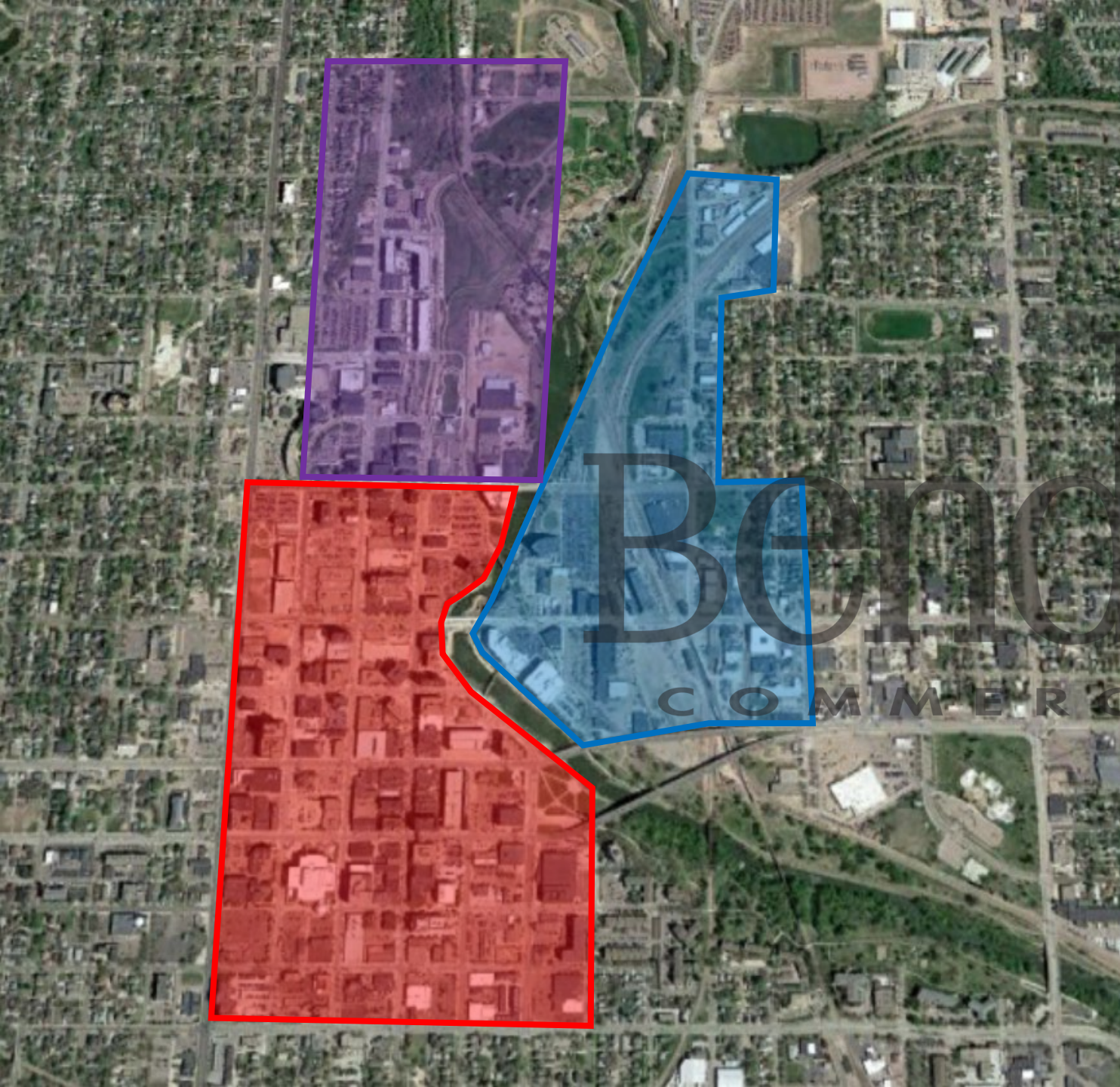
- Former Core Orthopedics Building
- \$1,950,000 (\$85/SF)
- November 2021



Border

COMMERCIAL

**Downtown
Sioux Falls**



Submarkets

Downtown

Uptown

East Bank

Downtown Office Market



Inventory

2.36M SF



Vacancy Rate

Overall	5.8% ↓
Class A	4.3% ↑
Class B/C	6.6% ↓



Net Absorption

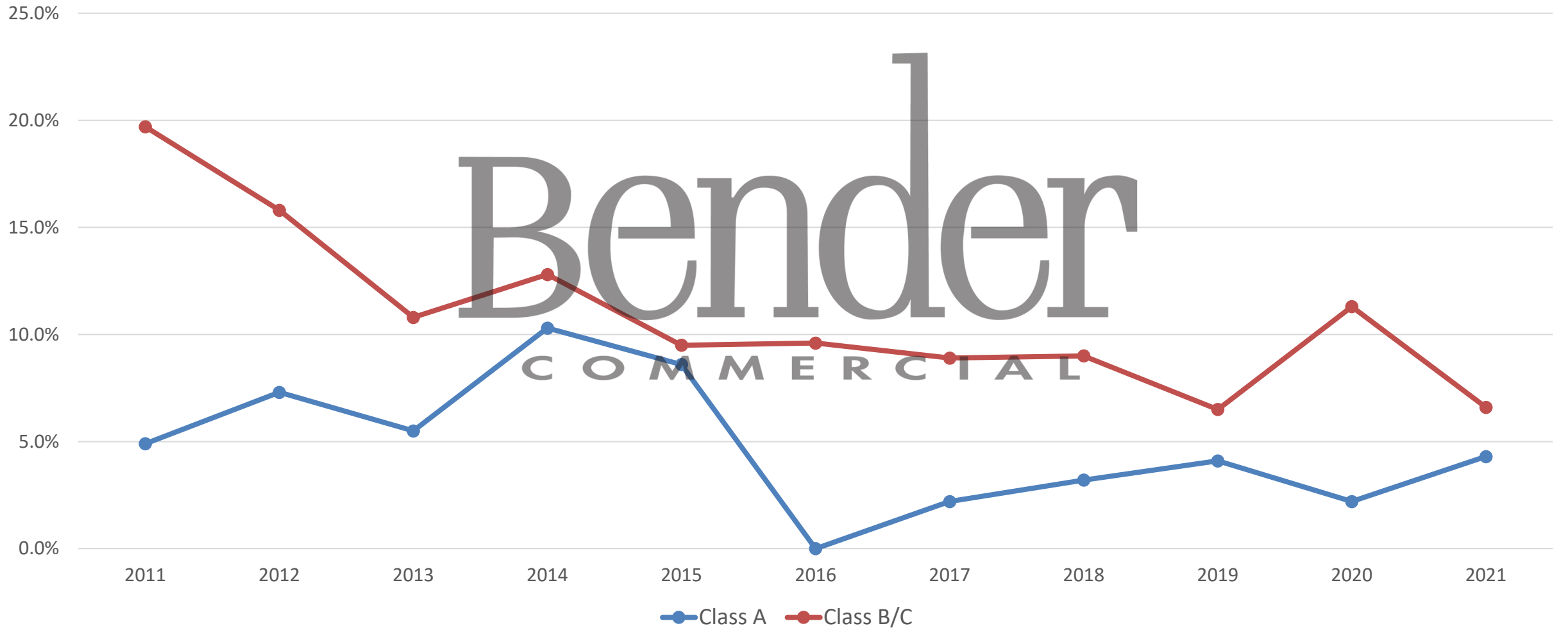
61,424 SF



Asking Lease Rates

Overall	\$15.50/SF NNN
Class A	\$20.00 - \$24.00/SF NNN
Class B	\$14.00 - \$16.00/SF NNN
Class C	\$10.00 - \$12.00/SF NNN

Downtown Vacancy





C O M M E R C I A L

Additions to Downtown

Suburban Office Market



Inventory

6.15M SF



Vacancy Rate

Overall 11.1% ↑

Class A 3.0% ↓

Class B/C 14.8% ↑



Net Absorption

133,786 SF



Asking Lease Rates

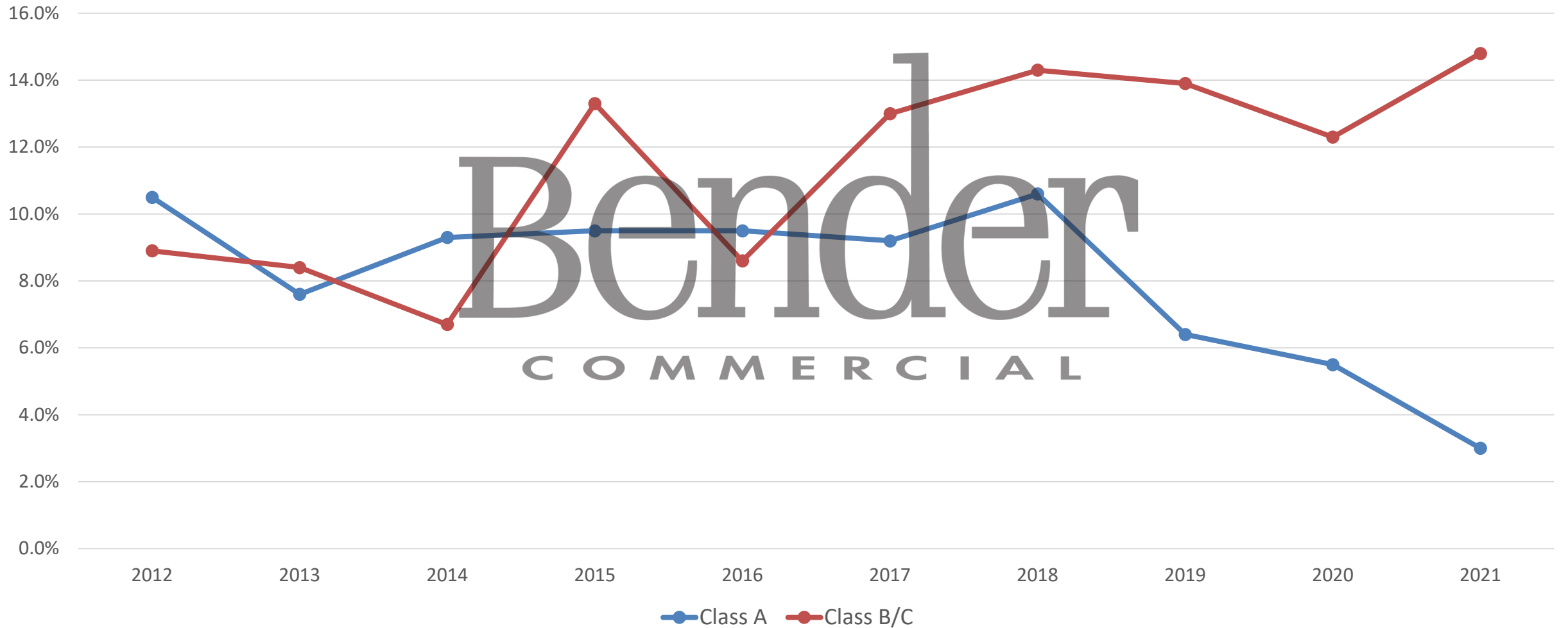
Overall \$12.50/SF NNN

Class A \$16.00 - \$20.00/SF NNN

Class B \$12.00 - \$15.00/SF NNN

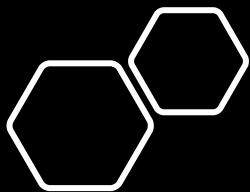
Class C \$8.00 - \$11.00/SF NNN

Suburban Vacancy





Shadow Vacancy



Vacancy

Sioux Falls – 9.6%

National – 15.5%

(top 50 markets)

Office Trends & Predictions

Continued
Interest
Downtown

Hybrid
Workplace

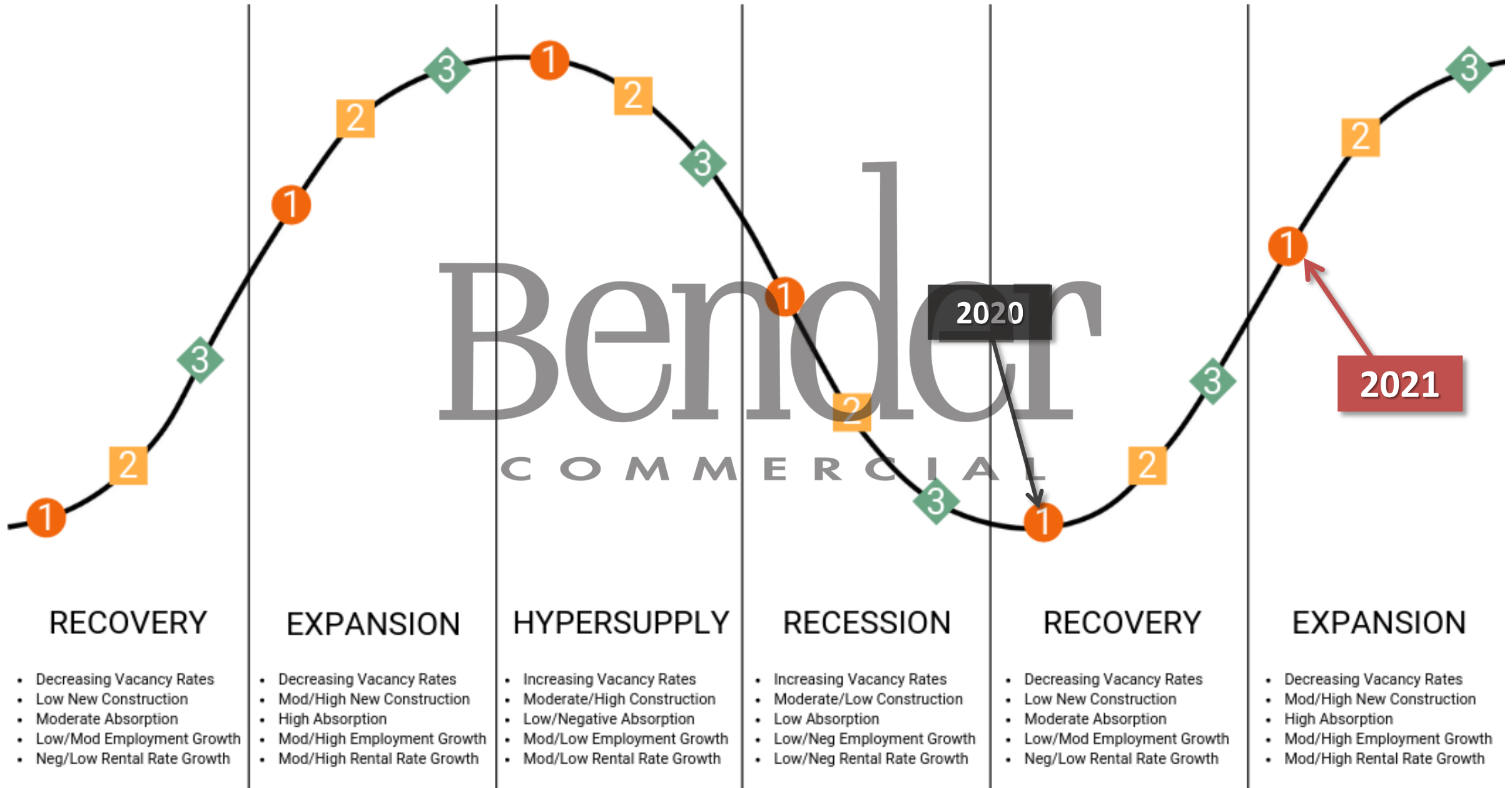
Decisions By
Large Office
Users

Workplace
Amenities

Class A
Suburban
Office Project

Repurposed
Office Building
Project

Office Real Estate Cycle





Retail Market

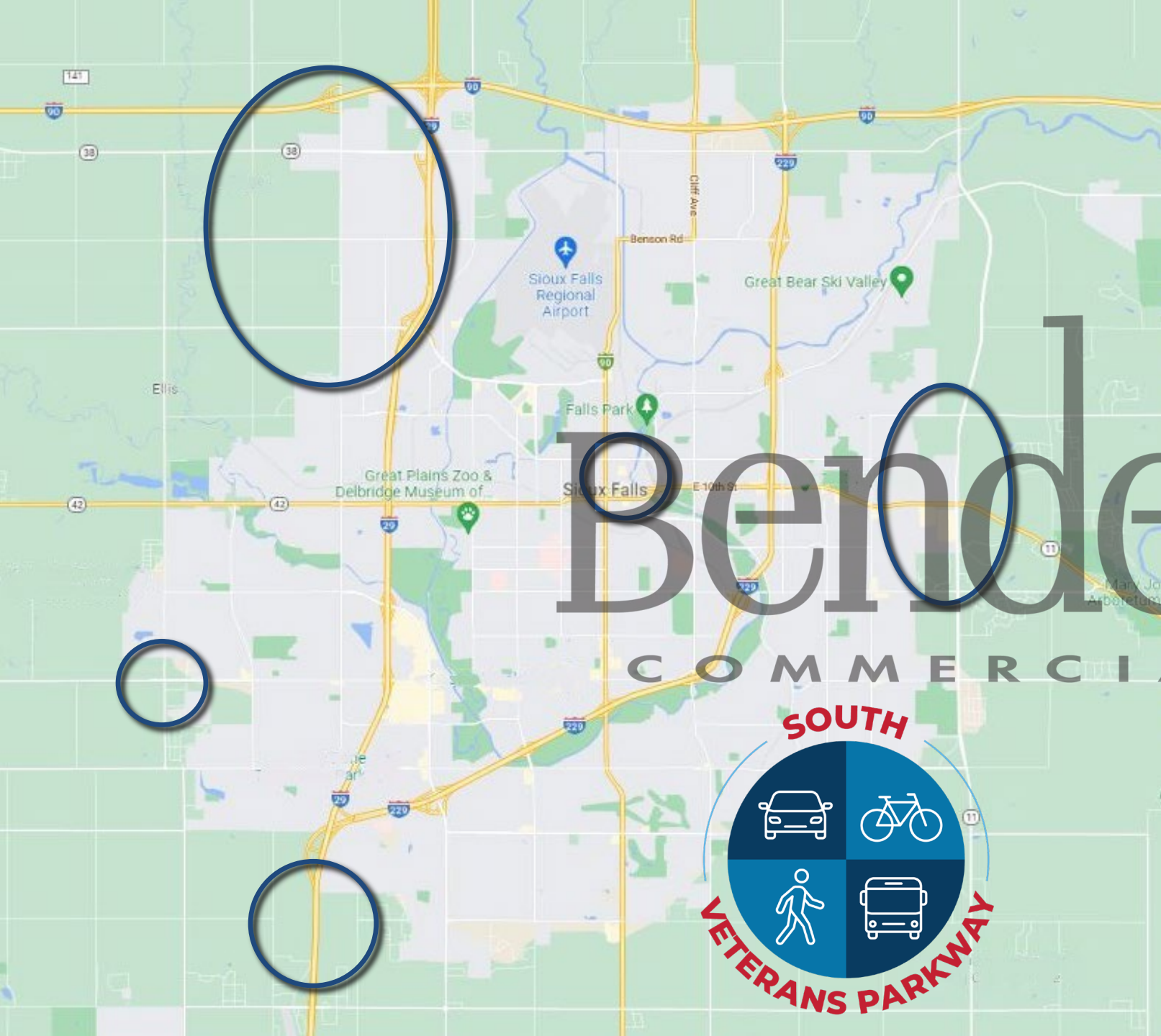
Rob Kurtenbach

BECHTOLD
COMMERCIAL



Local Market
How are we doing?

Bond
COMMERCIAL



Areas to Watch

NW Sioux Falls

41st & Ellis Road

85th & I-29

Dawley Farm

Cherapa & Steel District

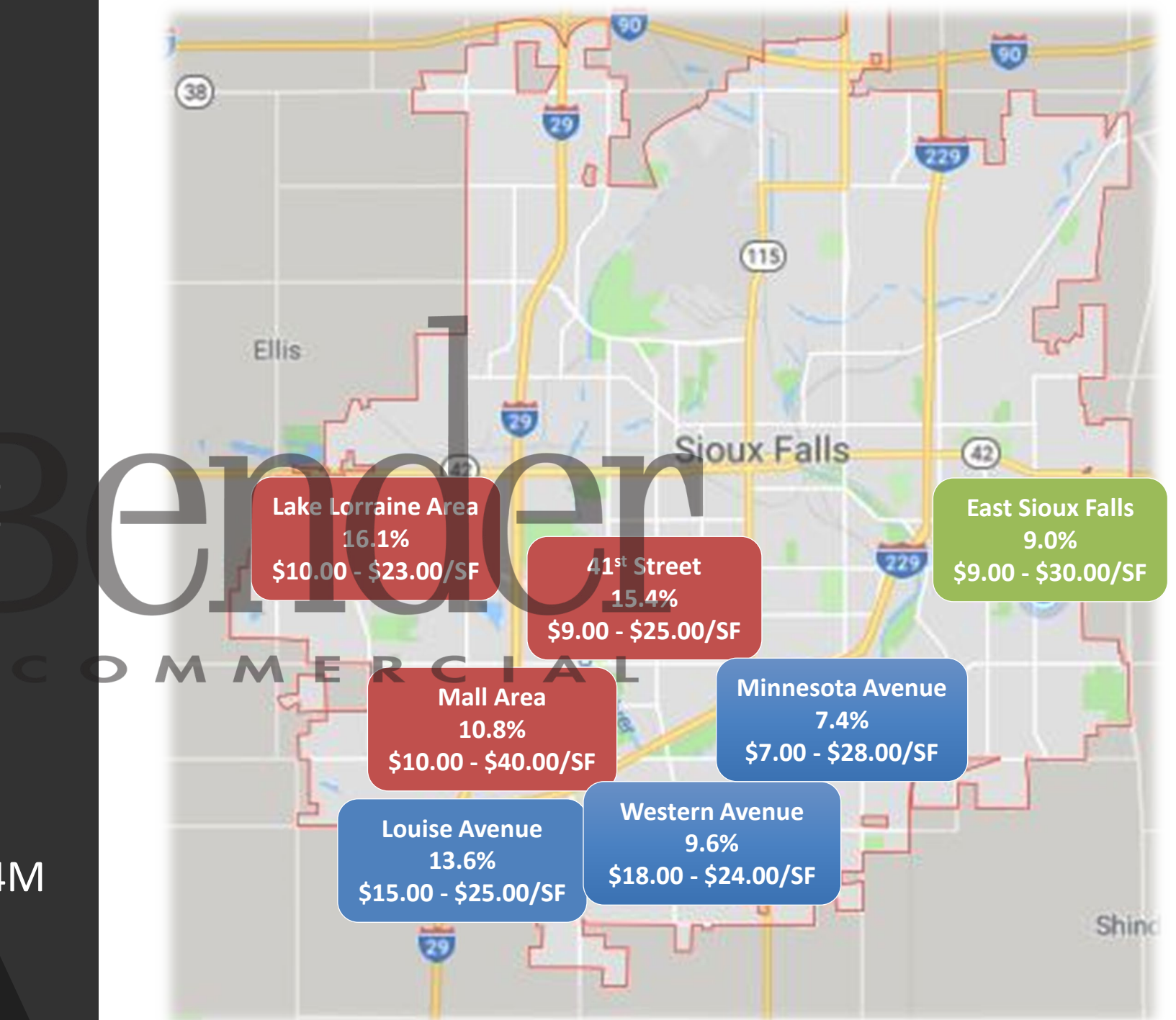
South Veterans Parkway

2021 New Construction
\$44.34M

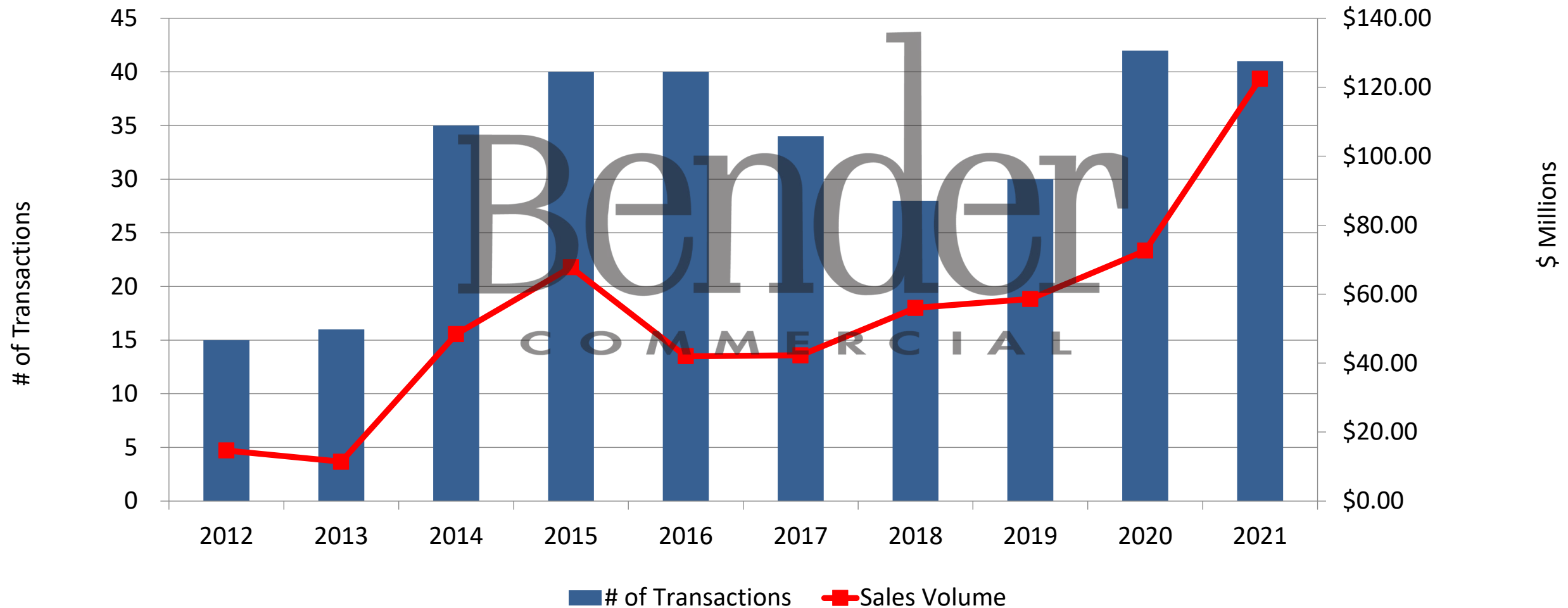
Sioux Falls Retail Market

12.5% Vacancy
(↓ from 13.3% in 2020)

2021 New Construction \$44.34M



Retail Property Sales



Online Retail Market

Year-over-year growth in online sales, 2012-2021



Source: Digital Commerce 360, U.S. Department of Commerce retail data; January 2022

*Early Digital Commerce 360 estimate

**Total retail figures exclude sales of items not normally purchased online such as spending at restaurants, bars, automobile dealers, gas stations and fuel dealers

Trends & Predictions

Dynamic Pricing

Continued Labor shortages

Online grocery sales

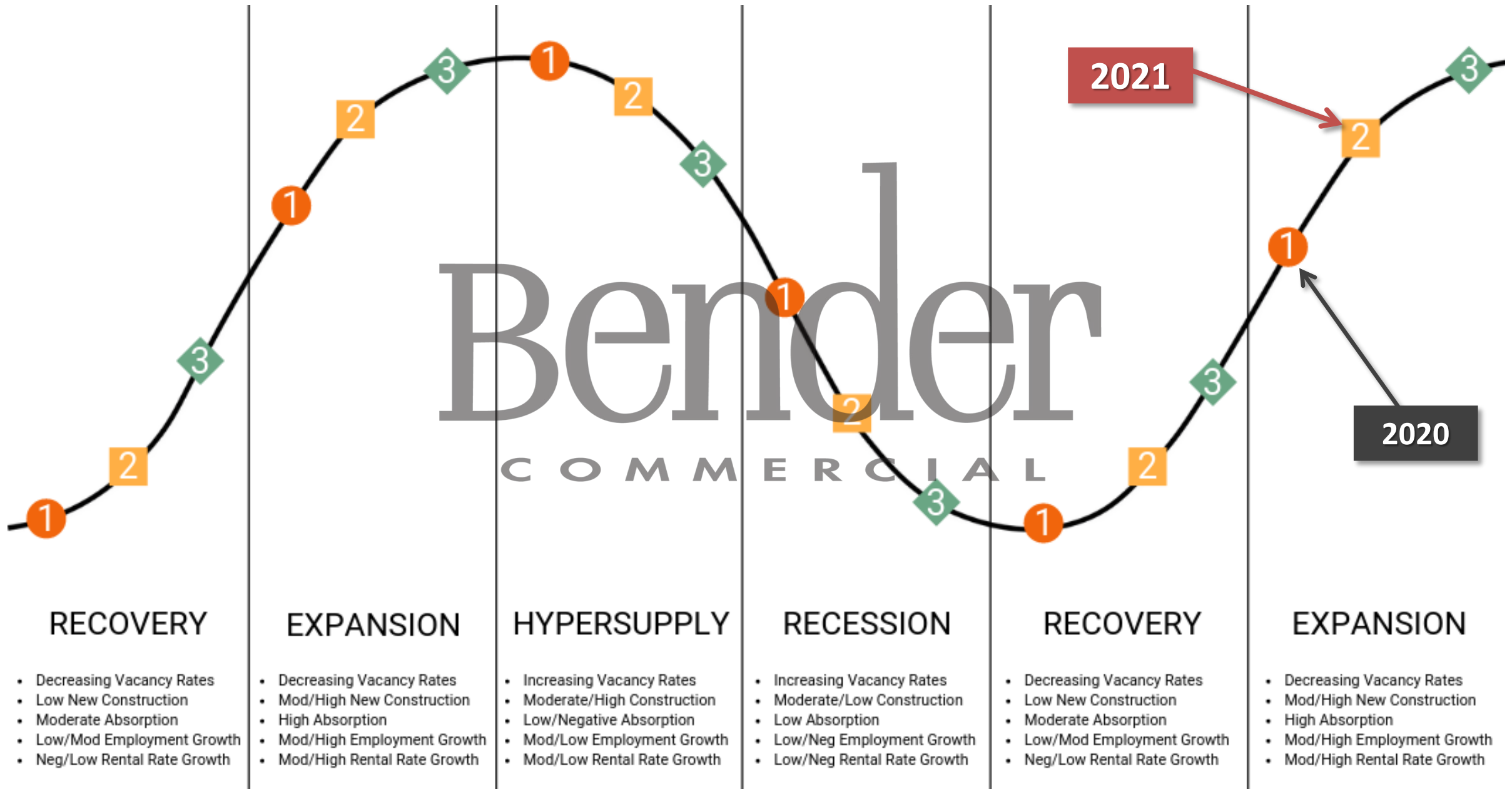
Drive-thru demand

Free Shipping and Delivery

Increase in Brick N' Mortar

Local - National Brands and second locations

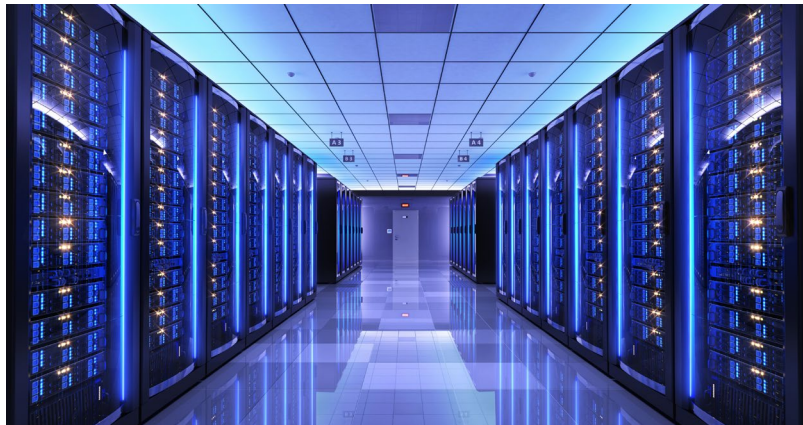
Retail Real Estate Cycle





Industrial Market

Rob Fagnan, SIOR



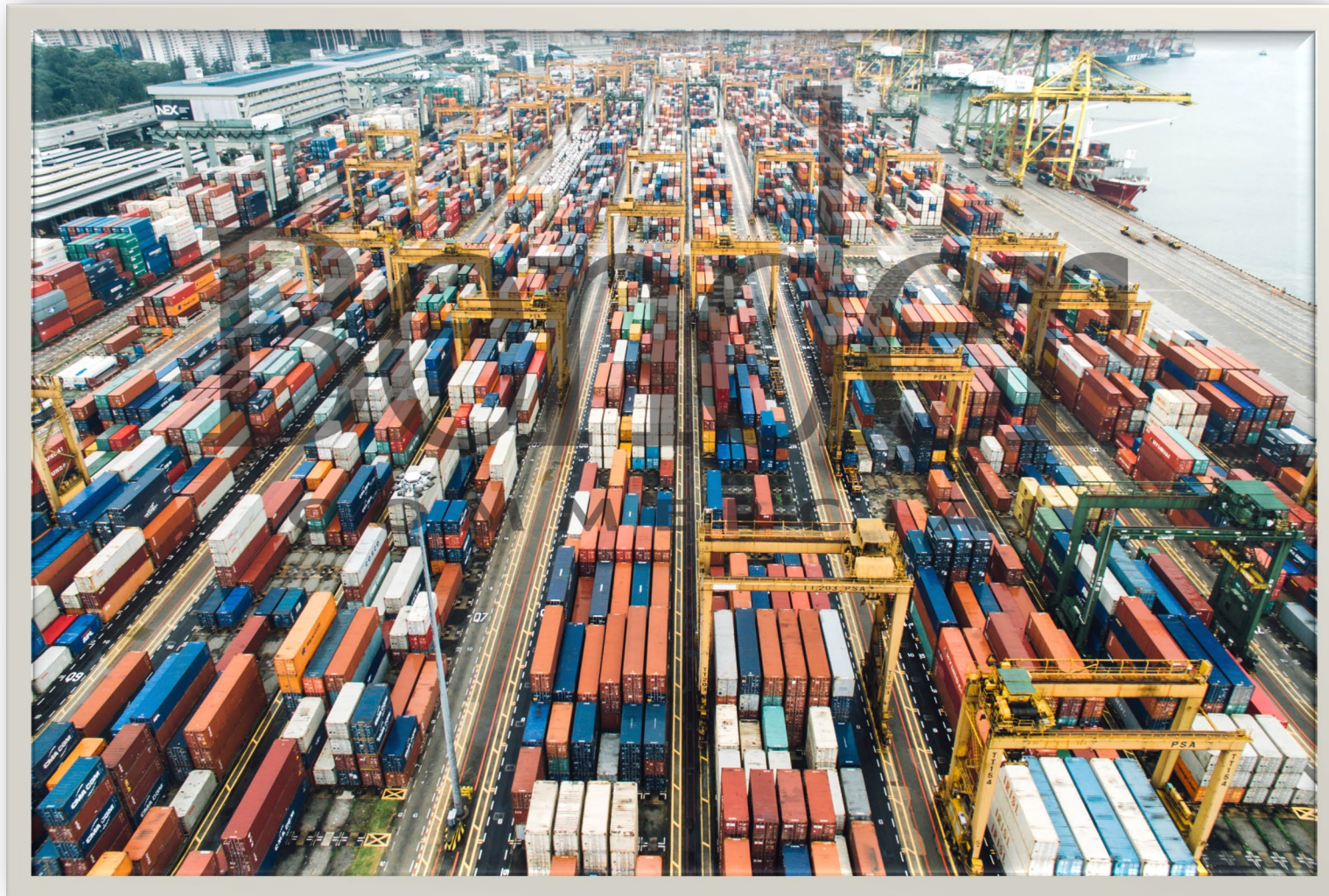
Commercial

Industrial Universe



What's
Changed since
2020?

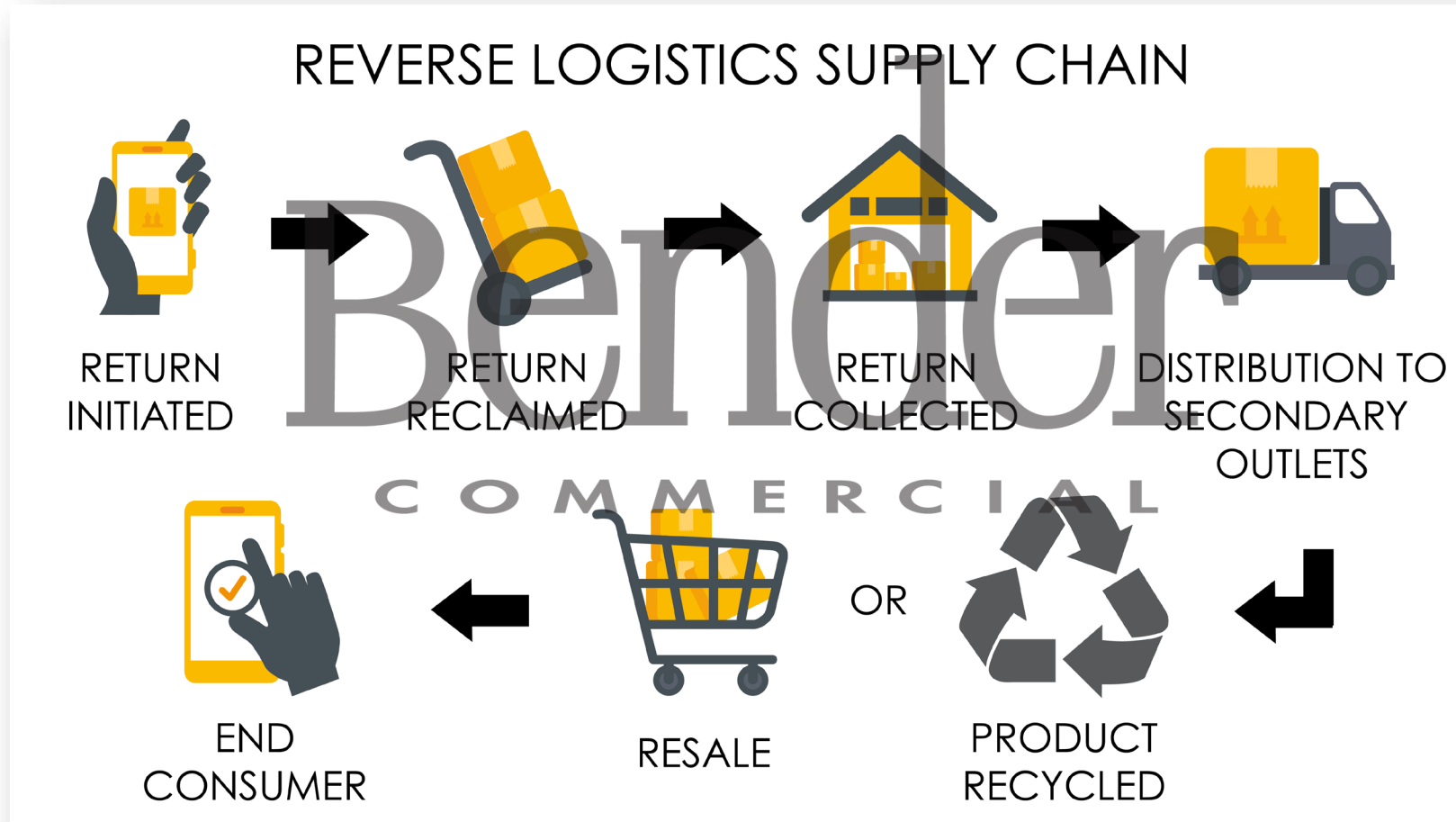
Robust Supply Chain vs. Supply Chain Disruption



Robust Supply Chain vs. **Supply Chain Disruption**



Reverse Logistics vs. Just Keep It



Reverse Logistics vs. Just Keep It

Shipped On Aug 10, 2021

Ship To:
[REDACTED]
Sioux Falls, SD 57110-8819
United States

Item	Unit Price	Qty	Subtotal	Shipping	Adjustment	Tax	Total
Jarmericus Rectangular 6 - Person 59.1" Long Bar Height Dining Set with Cushions W000991442 Frame Color/Cushion Color: Grey Frame/Grey Cushion	\$699.99	1	\$699.99	\$0.00	(\$699.99)	\$0.00	\$0.00
Replacement Item							
							Total: \$0.00

Shipped On Jun 23, 2021

Ship To:
[REDACTED]
Sioux Falls, SD 57110-8819
United States

Item	Unit Price	Qty	Subtotal	Shipping	Adjustment	Tax	Total
Jarmericus Rectangular 6 - Person 59.1" Long Bar Height Dining Set with Cushions W000991442 Frame Color/Cushion Color: Grey Frame/Grey Cushion	\$699.99	1	\$699.99	\$0.00	(\$699.99)	\$0.00	\$0.00
Replacement Item							
							Total: \$0.00

Shipped On Jun 15, 2021

Ship To:
[REDACTED]
Sioux Falls, SD 57110-8819
United States

Item	Unit Price	Qty	Subtotal	Shipping	Adjustment	Tax	Total
Jarmericus Rectangular 6 - Person 59.1" Long Bar Height Dining Set with Cushions W000991442 Frame Color/Cushion Color: Grey Frame/Grey Cushion	\$699.99	1	\$699.99	\$0.00	(\$699.99)	\$0.00	\$0.00
Replacement Item							
							Total: \$0.00

Shipped On May 30, 2021

Ship To:
[REDACTED]
Sioux Falls, SD 57110-8819
United States

Item	Unit Price	Qty	Subtotal	Shipping	Adjustment	Tax	Total
Jarmericus Rectangular 6 - Person 59.1" Long Bar Height Dining Set with Cushions W000991442 Replaced	\$679.99	1	\$679.99	\$0.00	\$0.00	\$45.50	\$725.49
							Total: \$725.49

Payments

Payment Date	Payment Method	Status	Details	Amount
May 30, 2021	Credit Card - VISA ****4842 exp. 12/22	Settled	The amount has been successfully transferred, and the payment is complete.	(\$745.49)

Payment Terms

Payment Type: Credit Card
Currency: USD

Tax Terms

Tax Exempt: No
Order Country: United States
Order State: South Dakota

Invoice Summary

Subtotal	\$2,779.96
Shipping	\$0.00
Adjustments	(\$2,099.97)
Tax	\$45.50
Order Total	\$745.49
Payments	(\$745.49)
Balance	\$0.00

Invoice summary reflects current payment and shipment status. Remaining balance will be charged to your credit card as items ship.

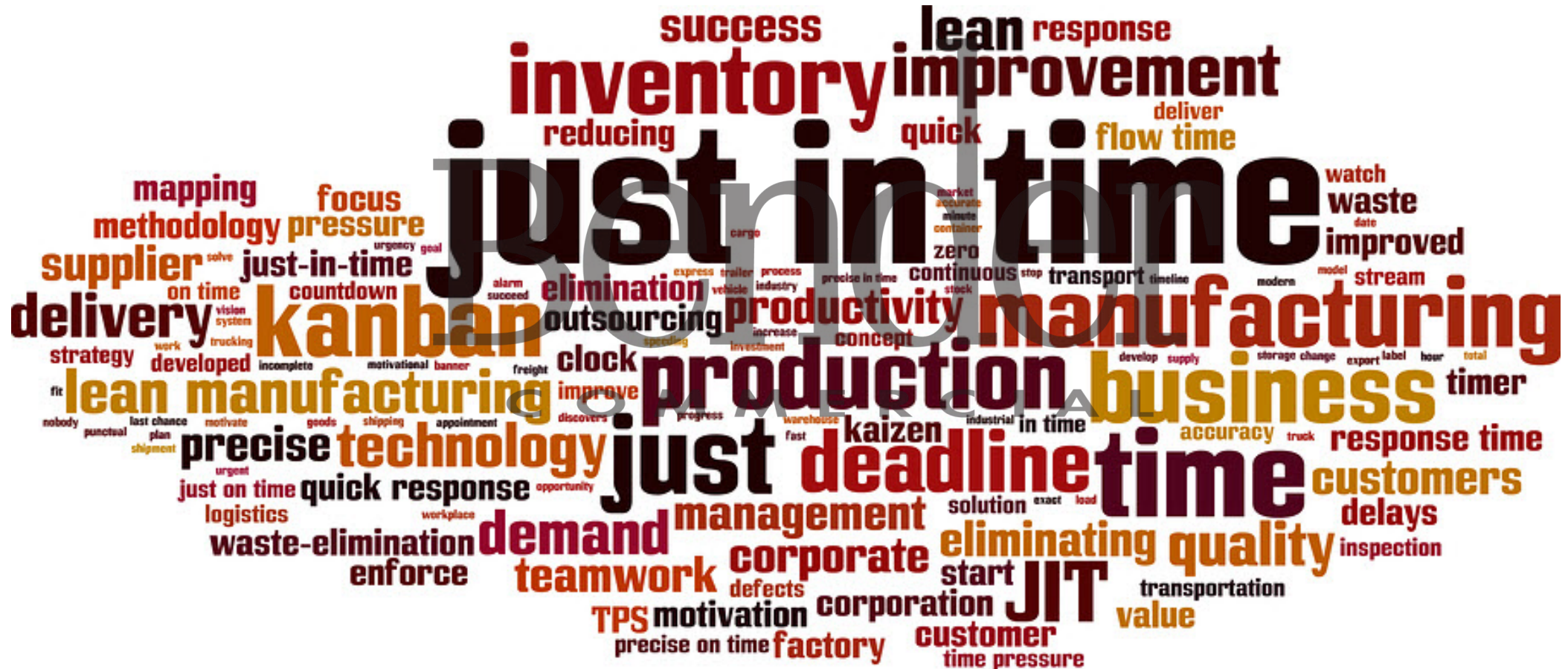
Labor Shortages vs. Robotic Manufacturing



Labor Shortages vs. Robotic Manufacturing



Just in Time vs. Just in Case



Just in Time vs. Just in Case



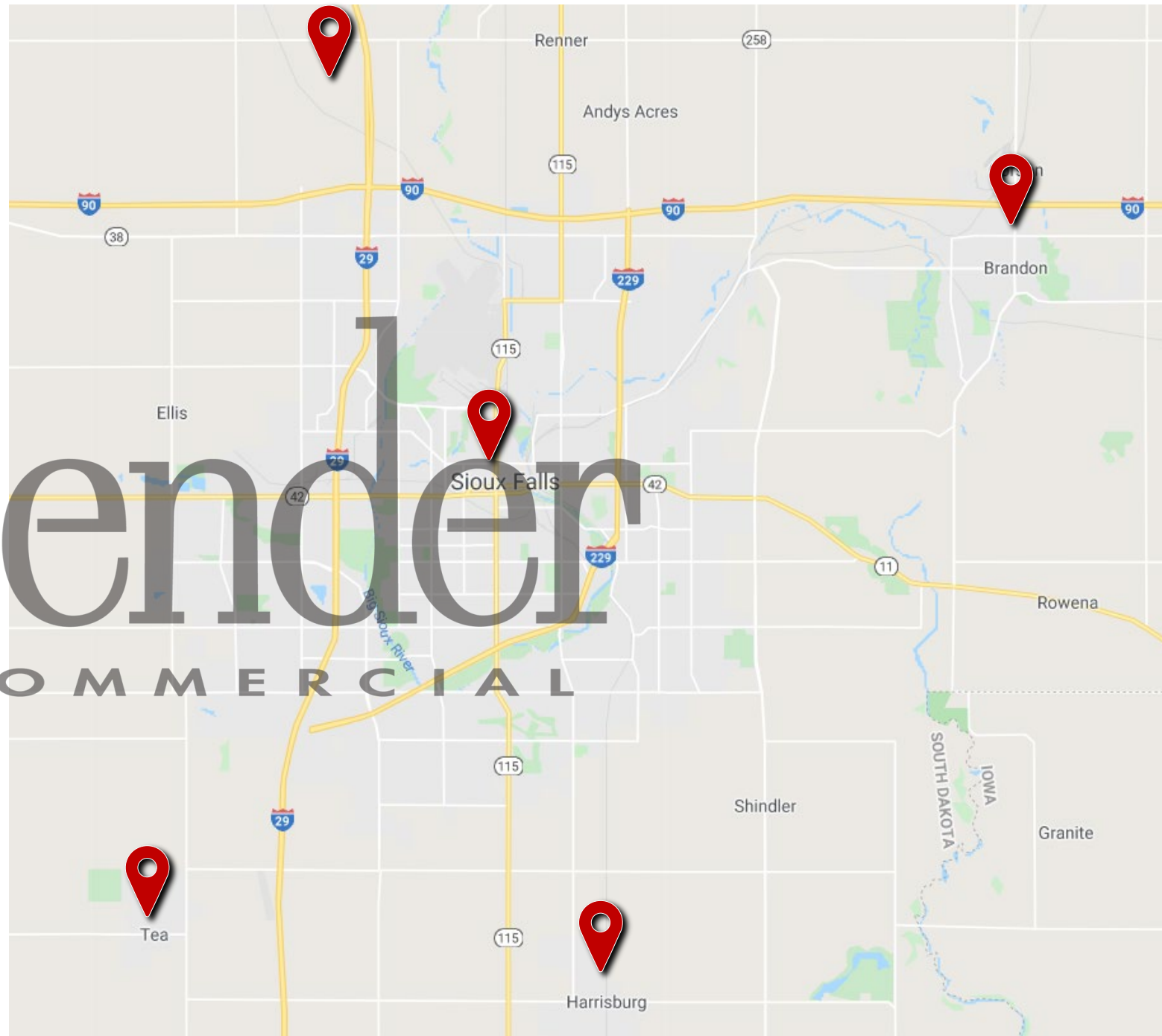
Industrial Universe

28.7M SF

16.7%↑

(24.6M SF in 2020)

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Industrial
Construction

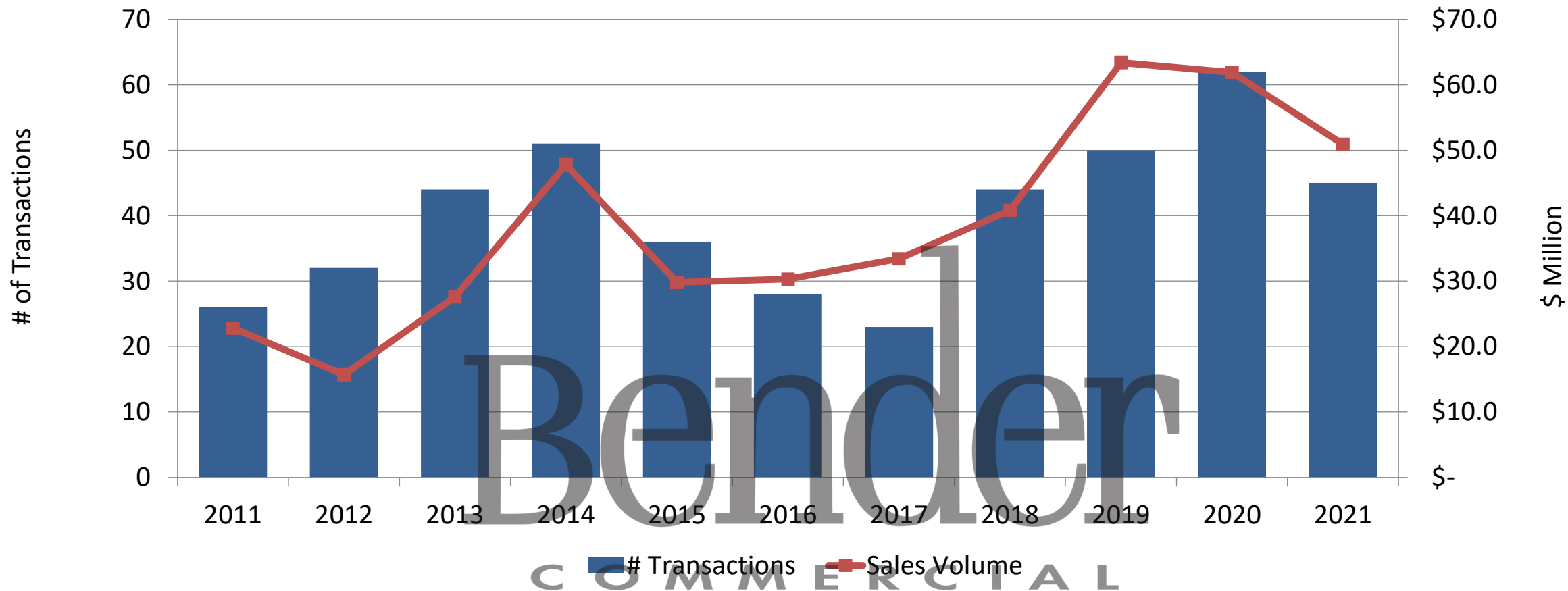
C O M M E R

3,964,223 SF

721% ↑

(70 Football Fields)





Industrial Property Sales

Industrial Property Sales



4021 N. Westport
Avenue
\$118/SF



27174 470th Avenue
\$72/SF



1000 E. Walnut
Street
\$27/SF

Industrial Market

Net Absorption

2021
4,564,523 SF

2020
256,789 SF

2019
512,178 SF

Vacancy Rate

2021
1.43%

2020
4.11%

2019
3.55%

Asking Rental Rates

Class A
\$6.75 - \$8.00/SF NNN

Class B
\$5.00 - \$6.50/SF NNN

Class C
\$4.75/SF NNN and under

PREDICTIONS

Bender COMMERCIAL



New
Construction

New SF ↓
Total \$ ↑



Vacancy ↗

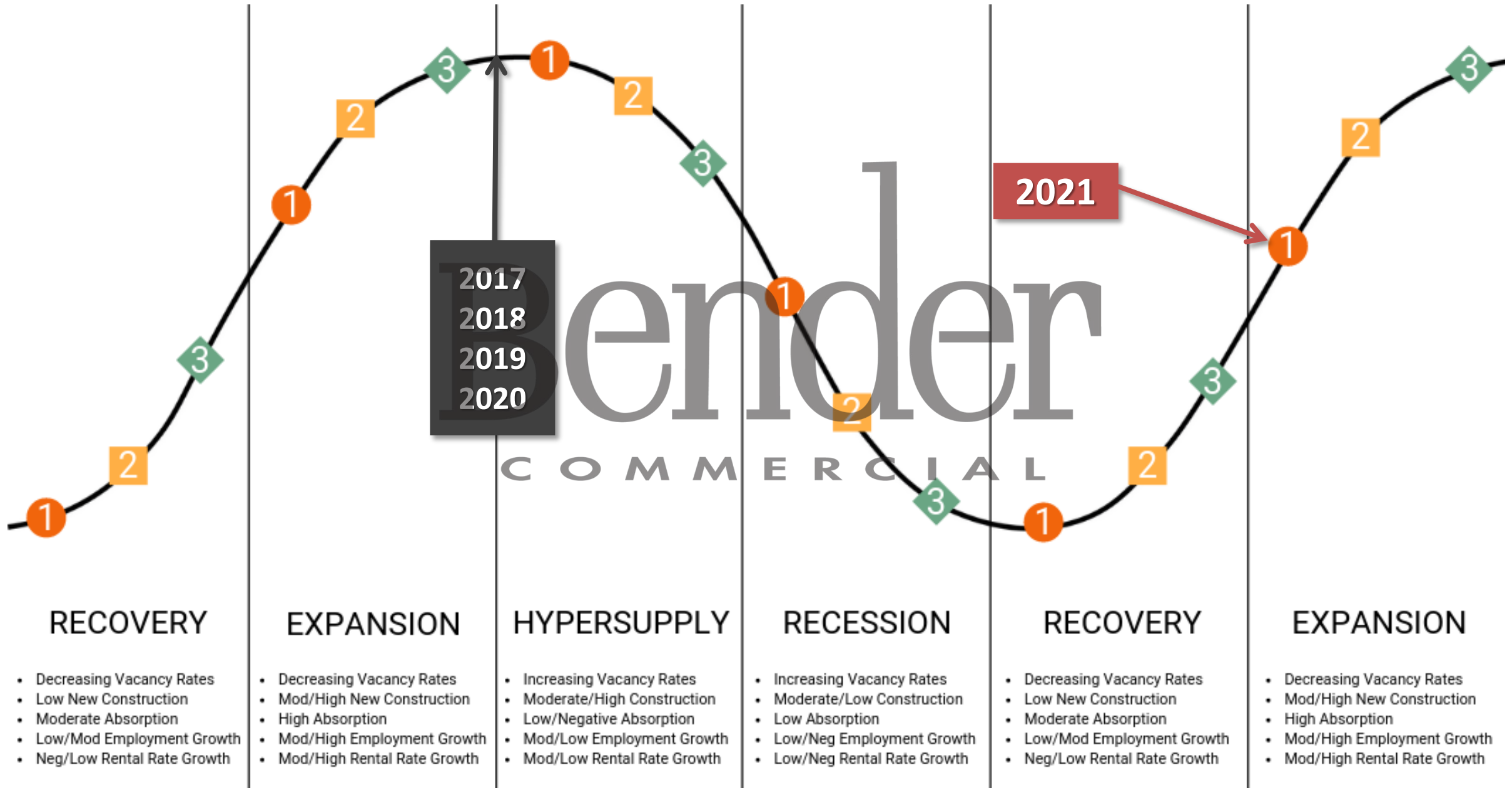


Lease Rates & Sale Prices (\$/SF) ↗



Sale Transactions ↘

Industrial Real Estate Cycle





Investment Market

Nick Gustafson, CCIM

Investment Market



MACRO TRENDS



LOCAL TRENDS



CAP RATES



PREDICTIONS

Competing Asset Classes

2021 Returns

- Dow Jones: 18.7%
- Nasdaq: 21.4%
- S&P 500: 26.9%
- Bitcoin: 70%
- Ethereum: 425%
- Gold: 27%
- Oil: 31%

Why Invest in Real Estate

Yield / Cash Flow

(Cap Rates, IRR, Financial
Rates of Return, Cash-on-
Cash, etc.)

Appreciation

Tax Advantages

Hedge against Inflation

Diversification

C O M M E R C I A L

“SAFE” Investments

Current Yields

• Savings Account:	0.01%
• Money Market:	0.5%
• 5-Year CD:	0.6%
• 10-Year US Treasury:	1.913%
• Microsoft 10-Year Bond:	3.3%
Inflation (CPI):	7.5%



Money Market Return on \$2M

2006	4.51%	\$90,200
2022	0.51%	\$10,200

Global Value Real Estate Universe in Comparison to Other Assets

Bender
COMMERCIAL

Global Wealth

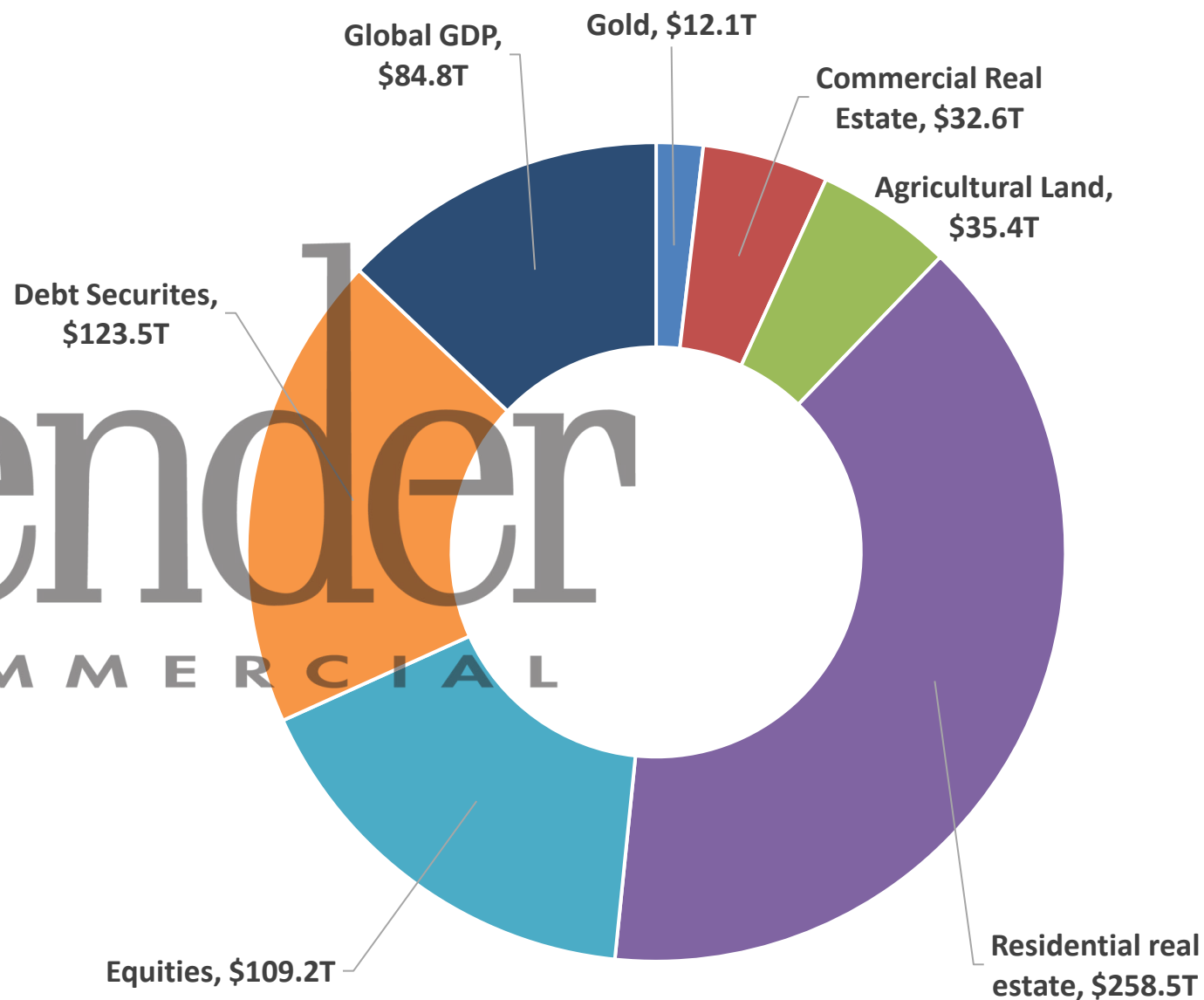
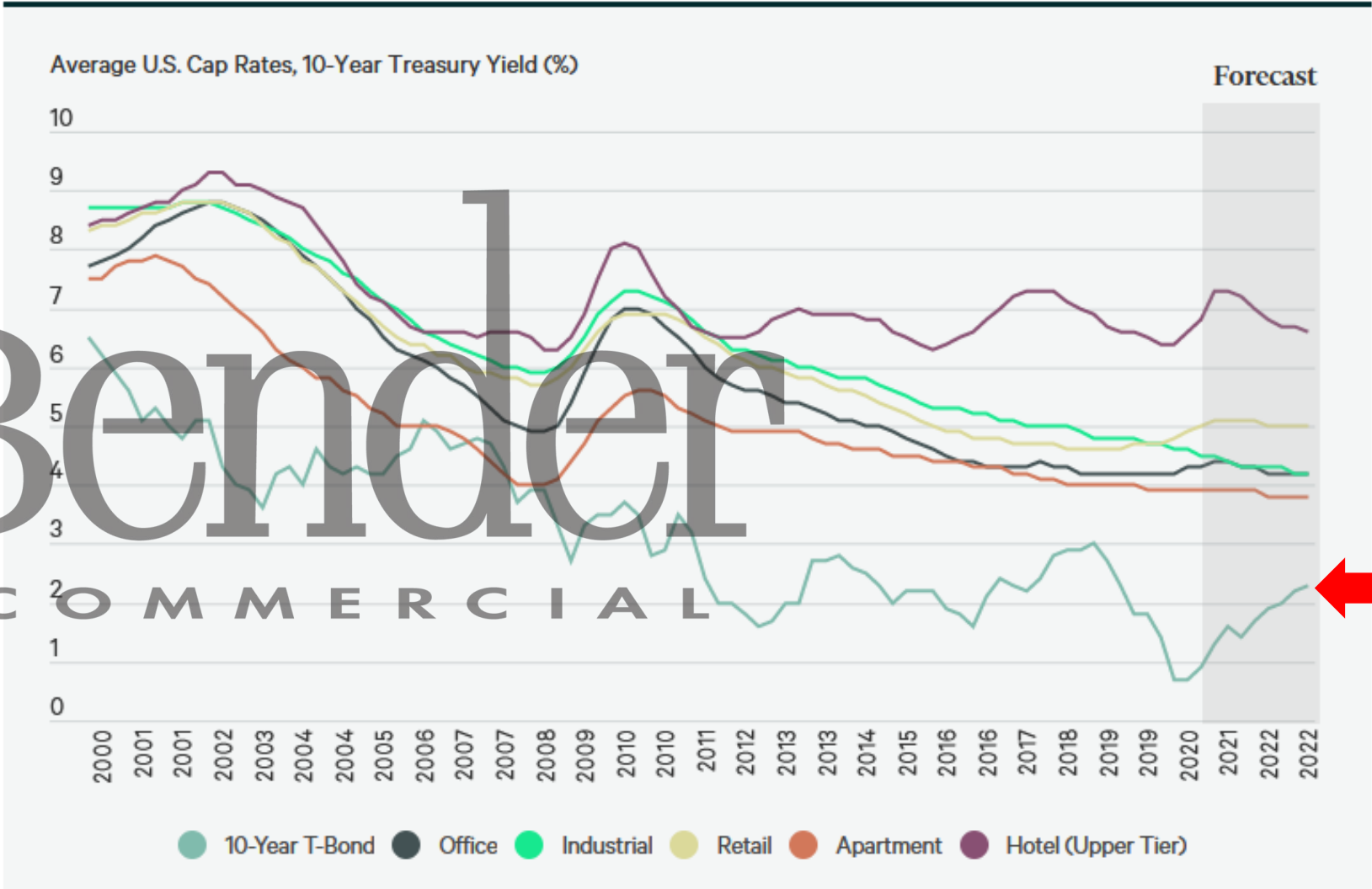


Figure 5: Spread Over Risk-Free Rate Narrowing but Still Significant

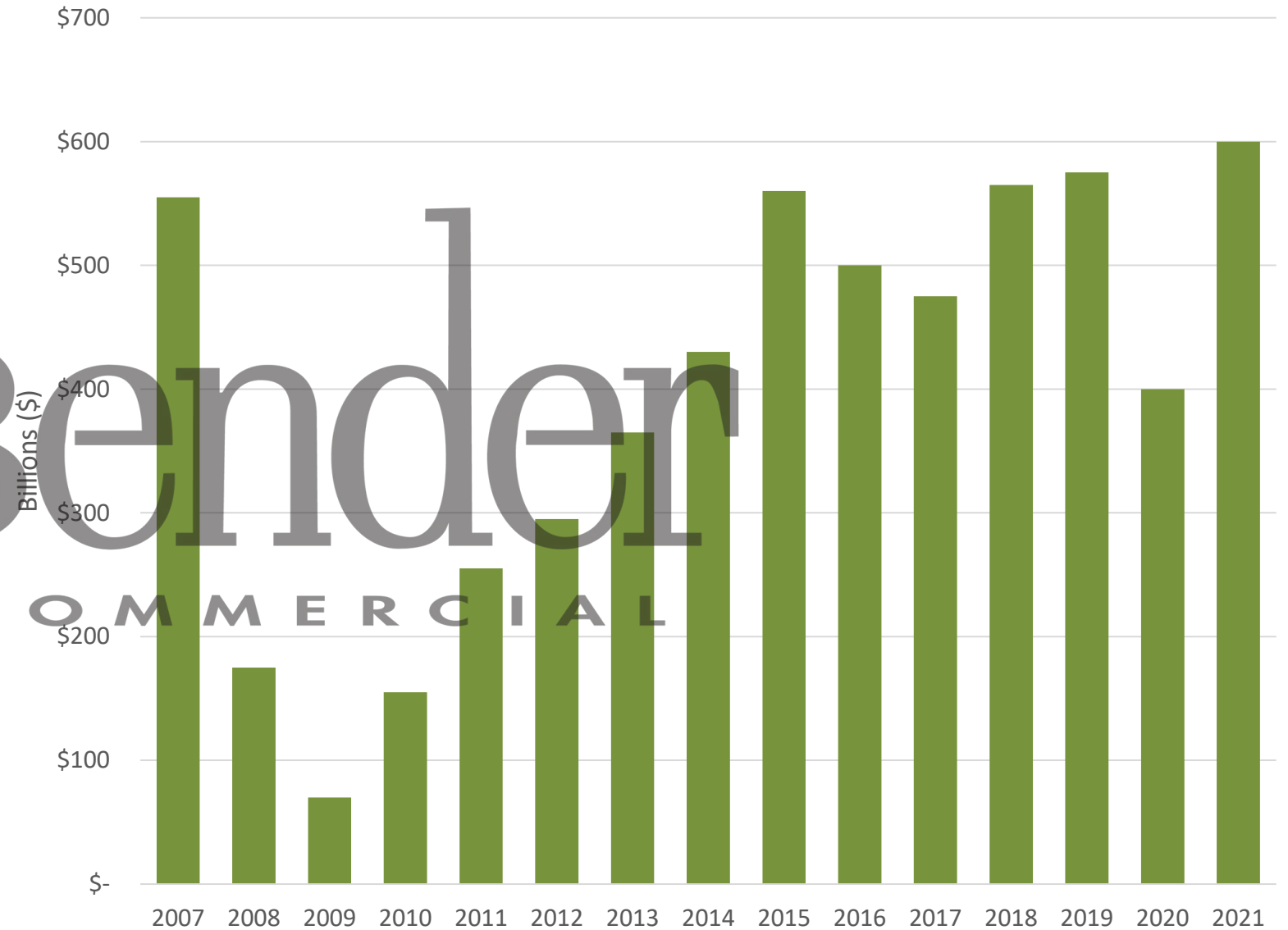
National
Cap Rates vs.
10-Year
Treasury



Source: CBRE Econometric Advisors, U.S. Federal Reserve Board, October 2021.

US
Investment
Real Estate
Sales

Total U.S. Capital Investment Volume



US Commercial Property Growth



2020 in Review

February 2020 Predictions

- Sellers sensed a peak in 2020
- Prompting profit taking, exchanging on asset appreciation
- Prices ↑ Risk will increase
- More money into Real estate

What Actually Happened

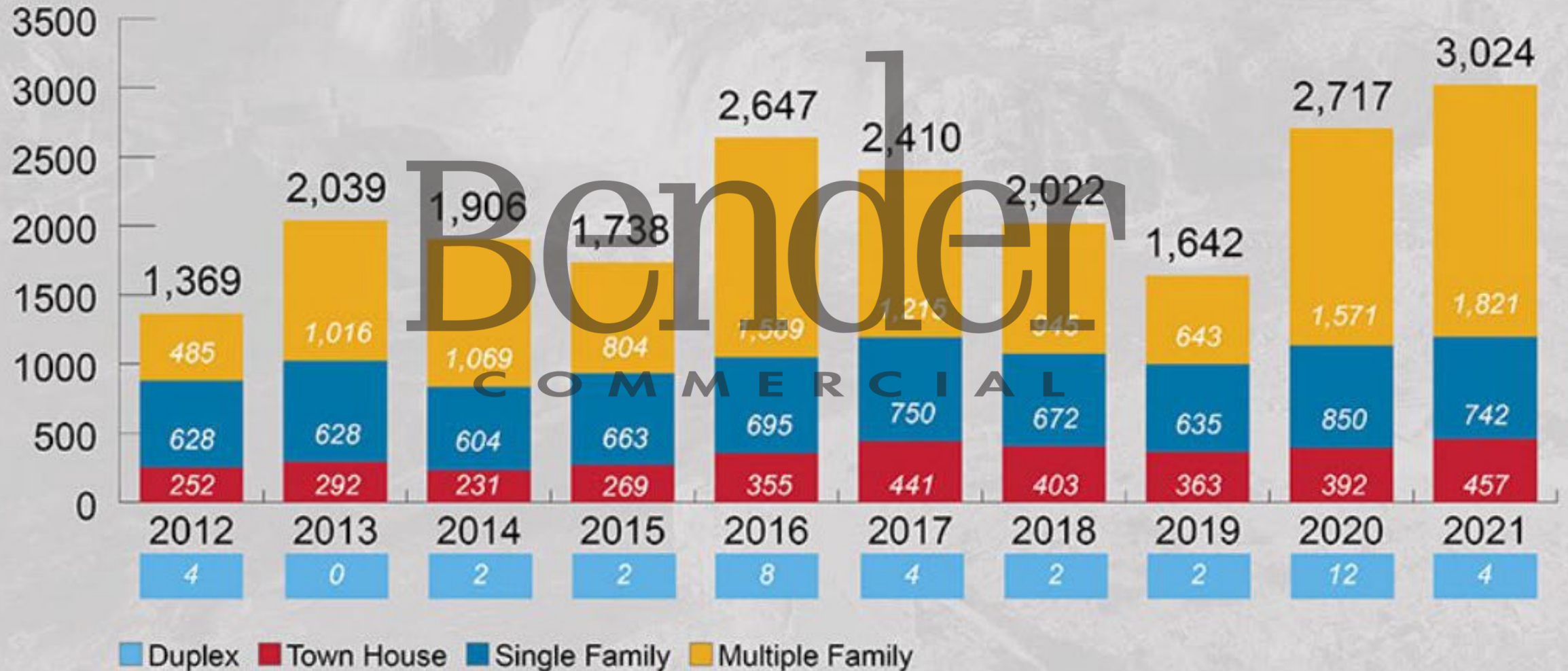
- \$Trillions from stimulus and dollar creation
- Excess capital supercharged investment sales - ↑ Prices & ↓ Yield
- Not all asset classes were winners
- Competitive markets
- Excess liquidity & jolted supply chains = Inflation
- Fed is poised to raise rates for first time since 2018.

Sioux Falls Multi-Family Construction

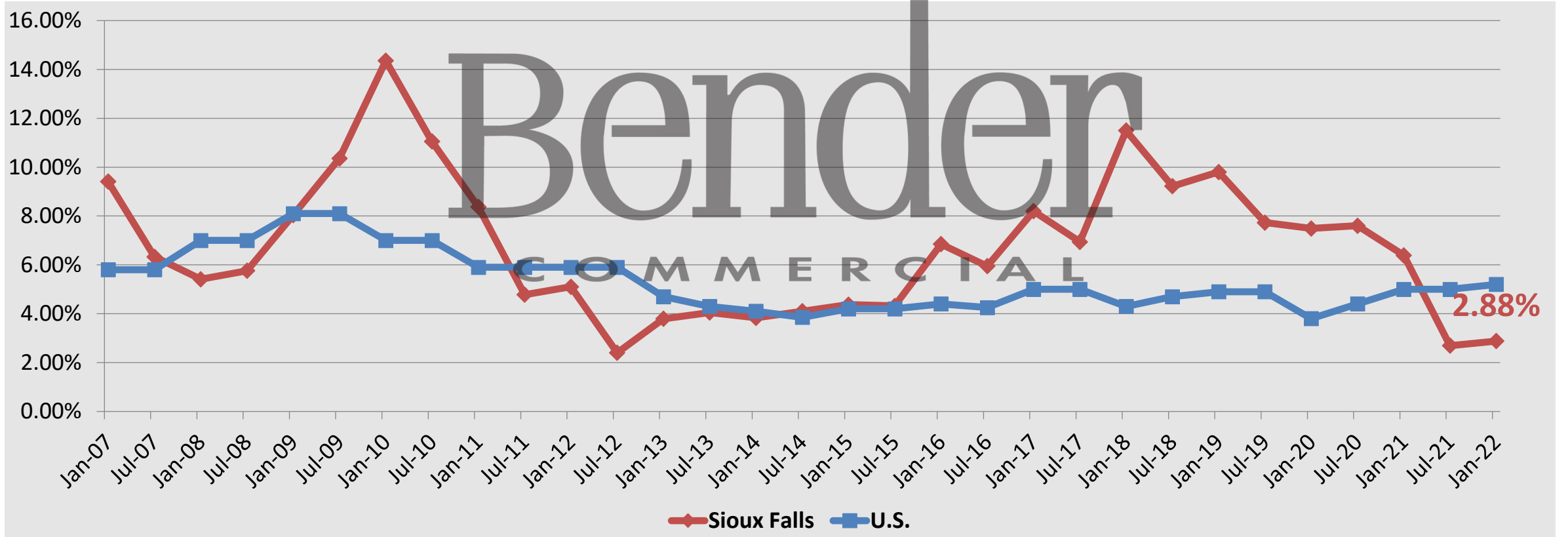


Source: City of Sioux Falls, Planning

Cumulative Units Total (2012-2021)



Multi-Family Vacancy Rate

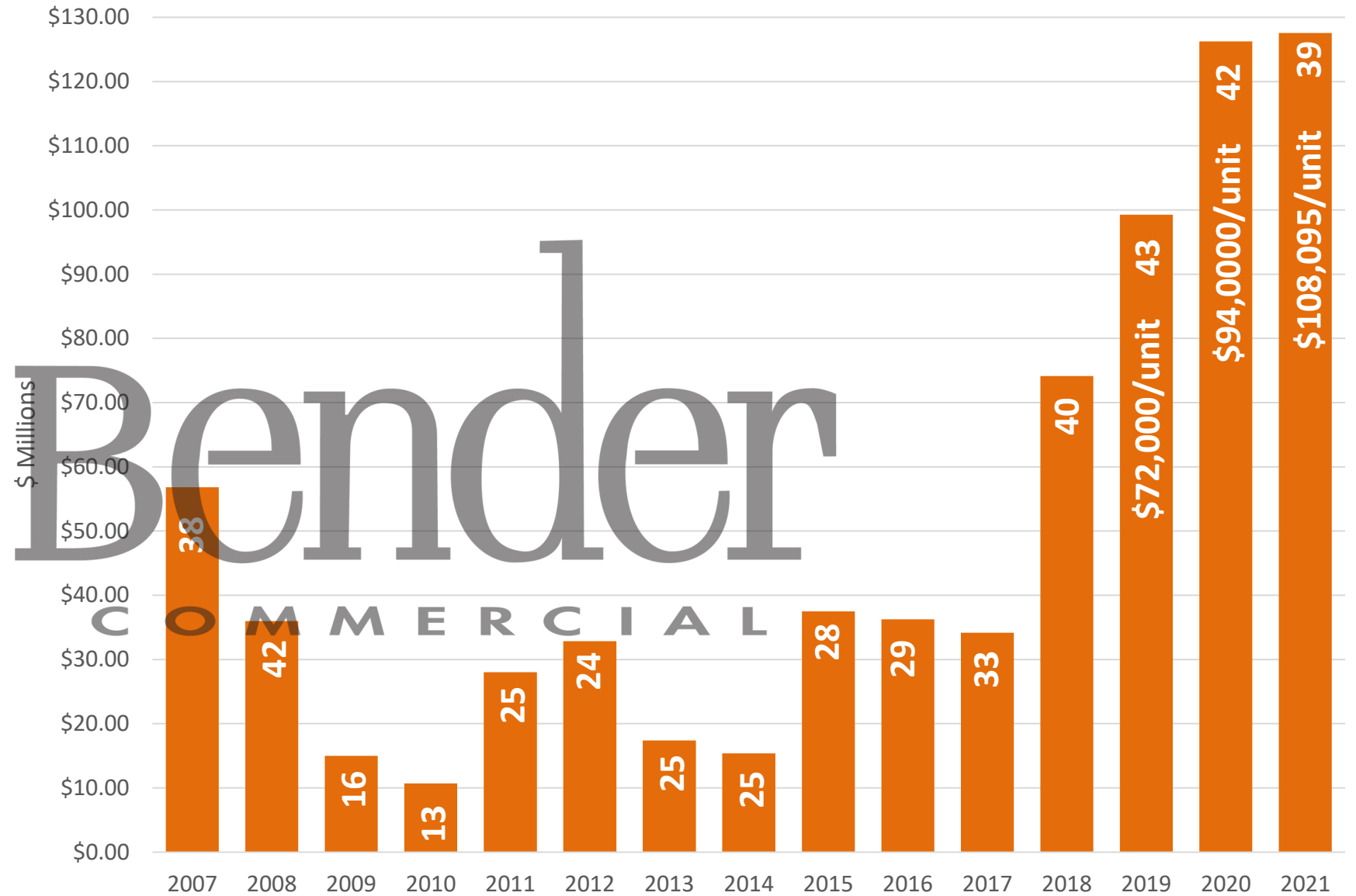


Conventional MF Average Rental Growth



Source: South Dakota Multi-Family Association

Sioux Falls Multi-Family Sales Volume





East Pointe Apartments

- 4601 E. 3rd Street
- \$4,400,000
- \$91,667/unit
- 48 Units
- Built in 1994
- 6.0% Cap Rate



- 4400 E. 69th Street
- \$31,750,000
- \$143,665/unit
- 221 Units
- Built in 2020
- 5.0% Cap Rate

Whisper Ridge Apartments



- 601 W. 81st Street
- \$9,500,000
- \$121,795/unit
- 78 Units
- Built in 2016
- 5.01% Cap Rate

Garden Villas



Tally Ho Apartments

- 300 - 308 S. Lowell Avenue
- \$3,276,000
- \$42,000/unit
- 78 Units
- Built in 1965
- Sub-4.0% Cap Rate
(60% Occupied, Value Add)



Creekstone Falls Apartments

- 4605 W. Chippewa Circle
- \$23,000,000
- \$104,545/unit
- 220 Units
- Built in 1988
- 5.66% Cap Rate



Gateway Apartments

- 3511 S. Gateway Boulevard
- \$4,200,000
- \$87,500/unit
- 48 Units
- Built in 1997
- 6.25% Cap Rate



West Pointe Apartments

- 7800 S. Townsley Avenue
- \$25,000,000
- \$177,304/unit
- 141 Units
- Built in 2006
- 4.8% Cap Rate

Avera Dermatology Building



- 6701 S. Minnesota Avenue
- \$6,300,000
- \$287/SF
- 21,292 SF
- 5.24% Cap Rate

Minnesota Avenue Building



- 4900 S. Minnesota Avenue
- \$1,700,000
- \$100.72/SF
- 16,878 SF
- 7.41% Cap Rate



Nordica Building

- 2101 East 39th Street North
- \$9,000,000
- \$42.35/SF
- 212,500 SF
- 6.23% Cap Rate



Ferguson Building

- 1001 E. 14th Street
- \$2,582,000
- \$57.38/SF
- 44,998 SF
- 7.54% Cap Rate

Western Mall



- 2101 W. 41st Street
- \$47,000,000
- \$122.20/SF
- 384,621 SF
- 7.3% Cap Rate

Walmart Strip Center



- 5615 E. Arrowhead Parkway
- \$1,256,450
- \$123.78/SF
- 10,151 SF
- 9.67% Cap Rate

Kum & Go



- 4721 E. 26th Street
- \$1,000,000
- \$416.67/SF
- 2,400 SF
- 8.01% Cap Rate

Investment
Sales
Transaction
Volume
Report Card

Investment Sales

	Multi-Family	Office	Retail	Industrial
2021 Cap Rates	4.5% - 6.5%	5.25% - 7.5%	5.25% - 9.0%	6.0% - 7.5%

2022 Predictions

1

No Tax Changes

- Mid-term elections
- Long term disposition and acquisitions in 2022

2

Interest rates will rise

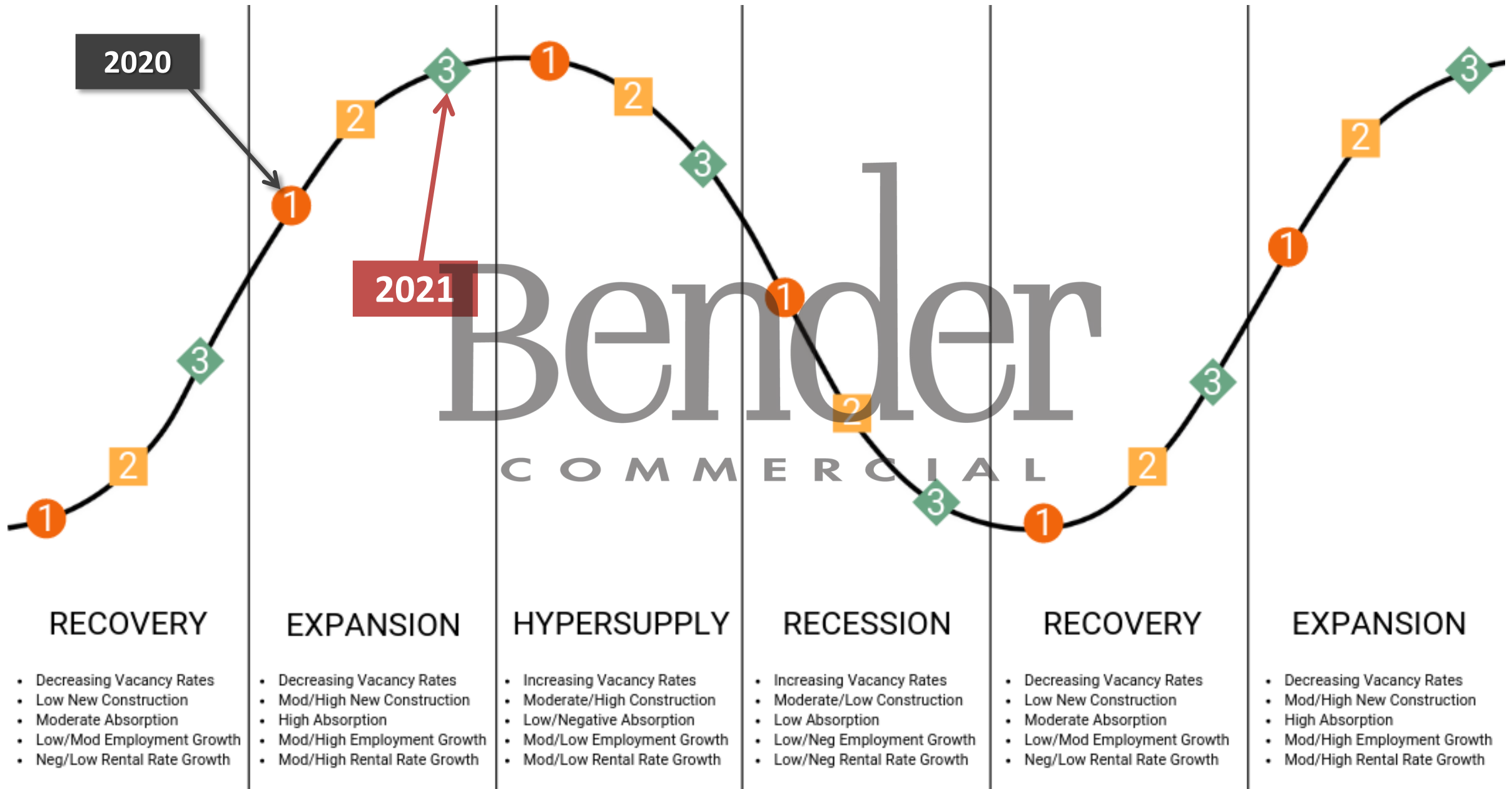
- Investors put more money into transactions to compensate for rising costs of capital.
- Little change in Cap Rates

3

Massive Volatility

- Investment real estate market will likely benefit as a safe harbor asset class.

Multi-Family Real Estate Cycle



An aerial, black and white photograph of a city. In the foreground, a large, ornate church with two prominent spires and a rounded apse is visible. The city extends into the background with various buildings, streets, and trees. The entire image is framed by a thin white border.

Bender

COMMERCIAL

25 **MARKET
OUTLOOK**
YEARS

March 3, 2022