



MID-YEAR
**MARKET
OUTLOOK**

Bender
COMMERCIAL

OUR COMPANY

Bender Commercial, a Sioux Falls, South Dakota, based regional commercial 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.



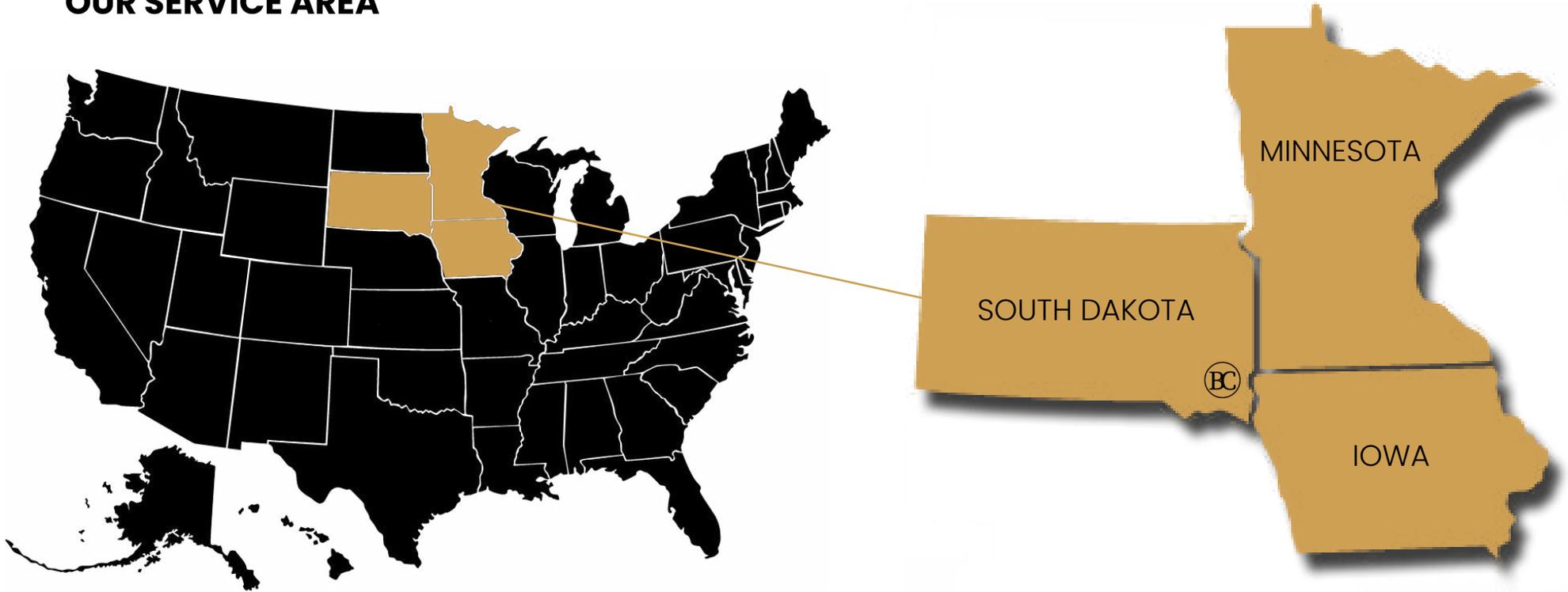
66.89M
Sq Ft Sold/Leased Since 1997



\$1.47B
Sold/Leased Since 1997



OUR SERVICE AREA



A TOP COMMERCIAL REAL ESTATE FIRM IN THE MIDWEST



LOCAL EXPERTS

We possess an in-depth understanding of the real estate market in our area, allowing us to provide valuable insights and guidance to clients.



COMMUNITY FOCUSED

We prioritize giving back by supporting local organizations, sponsoring community events, and fostering a culture of social responsibility.



RESULTS ORIENTED

With a focus on efficiency, productivity, and innovation, we deliver tangible results that propel our success and that of our clients.



DEDICATED TEAM

Our team is composed of highly skilled professionals who are passionate about their work, going above and beyond client expectations.

OUR TEAM

With nearly 200 years of combined experience of its 16 brokers, Bender Commercial has a proven reputation of integrity, dependability, and professionalism.

Our team is composed of highly skilled professionals who are passionate about their work, going above and beyond client expectations.

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REGGIE KUIPERS, SIOR

“Seller expectations are slowly being reset, adapting to evolving market dynamics and consumer behaviors.”

ECONOMIC OVERVIEW

COMING OUT OF THE PANDEMIC | 2020

Congress authorized spending packages resulting in a nearly 40% increase in Monetary Supply (M2). To the surprise of no one, consumers and borrowers leveraged these new funds as incredible investments back into their core businesses and other investments. This generated remarkable forces on the global economy. Almost immediately, there was a heavy push on pricing of nearly all products and services, which resulted in a 40 year high inflation. This was a pretty simple math equation: $M2 * 1.4 = 9\%$ (peak inflation).

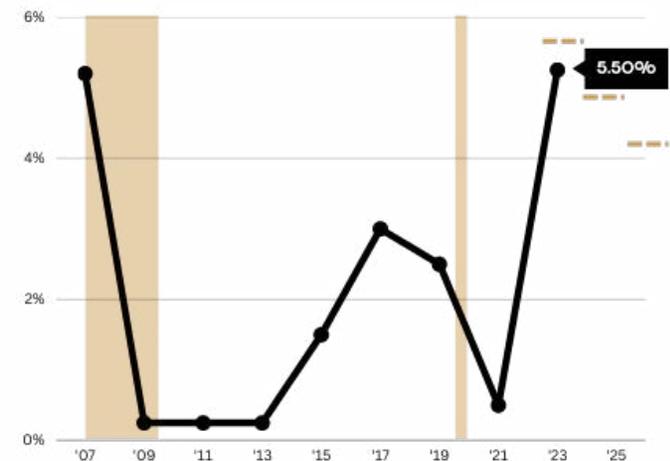


AN OVERHEATED ECONOMY | 2022

The Fed finally signaled an overheated economy in April 2022 with the first interest rate adjustment. Since then, the Fed has responded to market conditions with the fastest rate hikes in history. The Fed Funds Rate has increased ten more times and is still in search of equilibrium currently sitting at 5.50%. Inflation is stubborn and remains sticky. Some prognosticators believe the Fed will raise rates one to two more times in 2023. We will continue to monitor the Fed, inflation, and market conditions.

FED PAUSES RATE HIKES BUT SIGNALS MORE TO COME

Fed Funds Rate



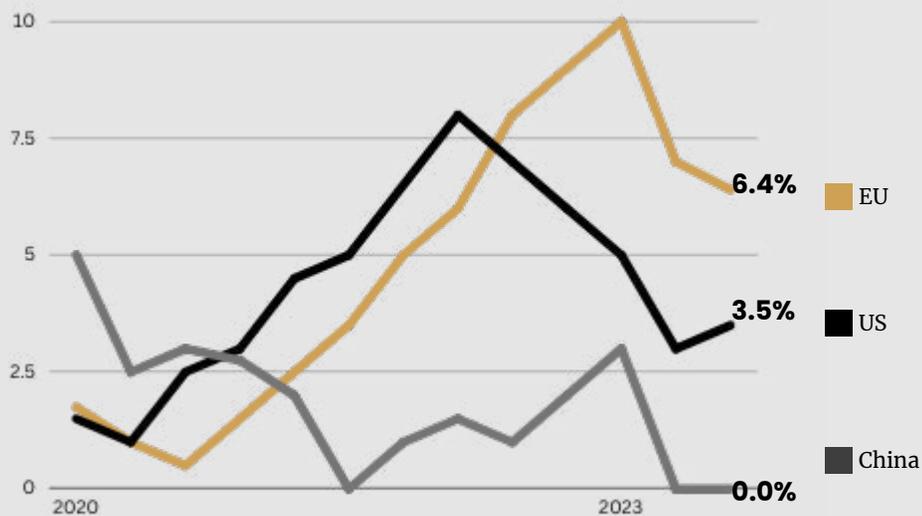
- Indicates a recession.
- Indicates median projections of the midpoint of the appropriate target range.

Source: U.S. Federal Reserve

IS THE FED DOING ITS JOB?

If you take a look at the U.S. inflation compared to China and EU, it seems like the Fed is positioning the U.S. well. China is nearing deflation in their markets, and the European countries are still seeing rampant inflation (currently at 6.4%). The Fed's target is 2% and a soft landing. They seem to be closing in on this target. Let's hope they can land the plane!

Annual Change in Consumer Prices

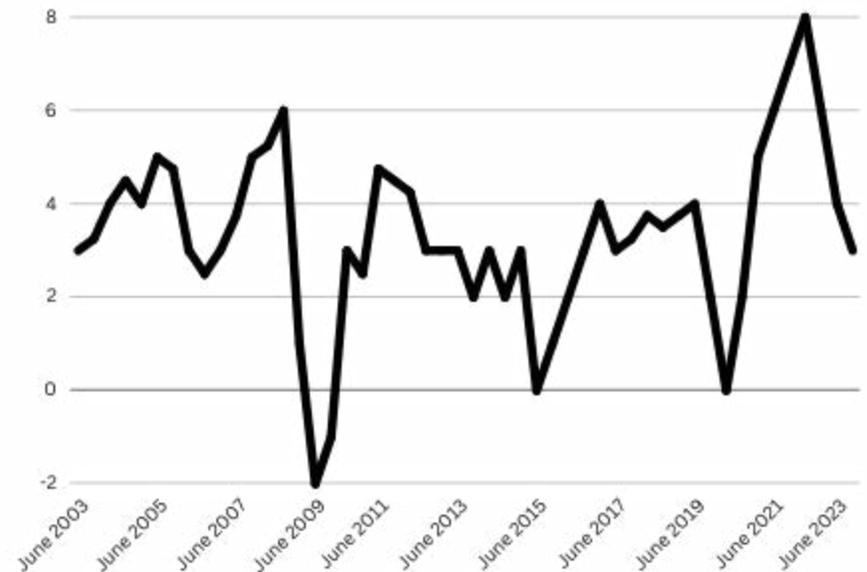


Source: CEIC

WHAT DOES THAT MEAN FOR THE U.S.?

We are going to see continued investment in the U.S., including commercial real estate. It may not be perfect, but it seems like the safest option. In times of uncertainty, investors flock to safety. The U.S. commercial real estate market is in a good spot. Tertiary markets like Sioux Falls are in a great spot!

Consumer Price Index



Source: U.S. Bureau of Labor Statistics

WHAT'S HAPPENING IN THE LOCAL MARKET?

Sioux Falls continues to be the little engine that could. The total number of building permits is actually on par with the last two years. However, the total dollar volume is down about 34% year over year. When compared to 2021, the 2023 numbers are actually 16% higher. The single family sector is no doubt the biggest loser so far with the interest rate hikes (434 permits in 2022; 181 permits in 2023) and are down nearly 60% year over year. The multi-family sector continues to churn new units. Surprisingly, over 1,100 units have been permitted already in 2023. However, the vacancy rate remains moderate and investors are eating the construction cost increase + the interest rate increase. These factors are being alleviated with additional equity investment and/or creative financing.

Overall, the demand for traditional investment transactions (driven by interest rates) and bulk raw land development (driven by single family residential) have softened. However, the owner-occupied and end users have continued to invest in commercial real estate. These business owners have been incredibly busy working “in” their business the last three years, and now they are getting an opportunity to work “on” their business. A byproduct of the business owners working on their business is reinvestment into their facilities to accommodate growth and employee retention. Their balance sheets are strong, and they are choosing to reinvest cash into their core business.

City of Sioux Falls Building Permit Data (January through June)

	2021	2022	2023
Number of Permits Issued	3,569	3,940	3,774
Total Value of Permits Issued	\$492,205,649	\$868,537,859	\$570,583,393
New Residential	\$166.5M	\$162.6M	\$73.1M
Residential Addition & Remodel	\$31.7M	\$43.7M	\$49.9M
New Commercial	\$173.5M	\$586.4M	\$307.4M
Commercial Addition & Remodel	\$120.5M	\$75.8M	\$140.2M
Totals	\$492.2M	\$868.5M	\$570.6M
New Commercial			
Manufacturing	\$38.9M	\$52.1M	\$40.4M
Office, Institutional, Educational	\$8.1M	\$154.5M	\$36.2M
Apartments	\$114.1M	\$226.2M	\$146.7M
Other Commercial	\$12.4M	\$153.6M	\$84.1M
Totals	\$173.5M	\$586.4M	\$307.4M
New Residential			
Single-Family Units	475	434	181
Duplex Units	4	0	0
Townhome Units	247	269	113
Multiple Family Units	1,031	1,830	1,109
Totals	1,757	2,533	1,403
Manufactured New Housing Placements	28	33	20

Source: Building Service Division.

PREDICTIONS FOR THE REST OF THE YEAR



Feds will hold the interest rates steady in the 4th quarter.



Inflation: 2.0-2.5% in June 2024 (with a soft landing). Inflation was 9.1% in June 2022; 3.0% in June 2023.



Starting to see cracks with borrowers who did not lock in long-term fixed rates.



Sioux Falls will finish the year between \$1.2-\$1.3B in total permits (2nd best year ever).



Veterans Parkway is a magnet for growth (watch for more announcements).



Sioux Falls MSA will grow another 3% in 2023.



BRADYN NEISES, SIOR

“The Sioux Falls commercial land market is showing resilience and adaptability, with shifts influenced by economic conditions.”

LAND MARKET

OVERVIEW

The unimproved land market in the first half of 2023 has shown a more historical start compared to the past two big years for land purchases. Thus far, 350 acres have been purchased in the Sioux Falls metro area. A majority of the purchased acres in the first half of the of the year are for future commercial use. Commercial developers have confidence in the long-term outlook of the Sioux Falls metro area and continue to invest in prominent locations.

Residential bulk land purchases have had a slower start to the year compared to the past few years. Increasing interest rates and low inventory have held back residential purchasing activity. According to REALTOR® Association of the Sioux Empire (RASE), closed sales have dropped 20.2% year to date in the month of June. Although the metrics are trending down, it is comparing it to an unprecedented time of residential activity. I foresee homeowners who locked in low interest rates to stay put and inventory for existing homes to continue to fall. As our metro continues to grow, homeownership will have to come from new construction. That is why I predict there will continue to be activity from developers purchasing land although not at the pace we have seen in the past couple of years. I expect to see two to three more sales, and I would keep an eye on the surrounding communities for a few of those purchases.

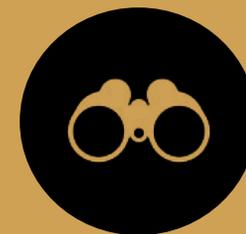
Improved land sales throughout the market have continued to show demand. A lack of supply as well as increased pricing and interest rates have caused the industrial land sales activity to slow compared to our previous record years. Retail land sales have shown the strongest performance, being led by national convenience stores coming to the market. Office land sales continue to be steady, and finally multi-family land sales have had a slow start to the year, and I predict activity will continue to slow with an increase in interest rates and the vacancy rate starting to increase in our market.





PREDICTIONS

1. 750-900 acres of bulk land purchased in 2023
2. Industrial land activity will be down from previous year
3. Retail sales will continue to be strong. Areas to watch:
 - a. South Veterans Pkwy
 - b. Tea Area
 - c. Northwest Sioux Falls, i.e. Jefferson High School



OUTLOOK

The Sioux Falls metro continues to show signs of health with population growth and business activity. Looking out to the end of 2023, expect land sales to continue to have activity across the board. Developers will continue to look for opportunities throughout the Sioux Falls metro. Commercial activity will lead the way as retailers position themselves in new segments of population growth in Sioux Falls and the surrounding communities.



ALEX SOUNDY, SIOR

“The Sioux Falls office market added as much tenant-occupied inventory in the last 12 months (Jul 22–Jun 23) as it had in the prior 36 months (Jul 19–Jun 22).”

OFFICE MARKET

OVERVIEW

Over the last 12 months we've seen the overall vacancy rate in the Sioux Falls office market increase from 9% in mid-year 2022 to 14.2% in mid-year 2023. At first glance, this seems very drastic and unhealthy, but when putting it in the context of a 6.28% increase in new tenant-occupied inventory (537,750 sq. ft.), it helps soften the blow. The Sioux Falls office market added as much tenant-occupied inventory in the last 12 months (Jul 22–Jun 23) as it had in the prior 36 months (Jul 19–Jun 22). That being said, we are still absorbing much of that new inventory. Watch for the overall vacancy rate to settle around 10% over the next 12 months.

CENTRAL BUSINESS DISTRICT

There's plenty of momentum for the office market in the Sioux Falls Central Business District (CBD). With the Bancorp Building and the Steel District Office Tower set to take occupancy later this year, we're seeing a lot of shuffling of tenants in our CBD. These two large additions have caused the Class A vacancy rate in the CBD to increase from 2% to 13.2% and the overall vacancy rate in the CBD to increase from 4.1% to 8.35% in the last 12 months. There remains a lot of demand for businesses wanting to office in the CBD, so watch for the vacancy rates across all classes in the CBD to decrease over the next 12 months.

SUBURBAN

The suburban office market saw increases in vacancy rate across all classes and saw the overall vacancy rate increase from 10.9% in mid-year 2022 to 16.7% in mid-year 2023. Class A office product saw the biggest shift in vacancy rate in the suburban office market, increasing from 4.2% to 15.7% in the last 12 months. This was caused by a lot of new speculative Class A office product brought to the suburban market that is still being absorbed, and as the economy tightens up I believe we will see more businesses shift toward more affordable Class B office space. Look for the suburban Class A vacancy rate to stay above 10% for the next 12–18 months.

TRENDS & PREDICTIONS

1. Further separation between Class A and Class B rental rates
2. Overall vacancy rates in the Central Business District (CBD) to remain below 10%
3. Transaction volume for office sales to be down in 2023
4. Call center vacancy rates will continue to increase

	Inventory (SF)	Vacancy	Available for Lease (SF)	Average Lease Rates
CBD	2,670,440	8.35%	223,096	
Class A CBD	882,351	13.20%	116,790	\$24.00
Class B CBD	1,348,650	6.70%	90,657	\$16.50
Class C CBD	439,439	3.60%	15,649	\$12.50
Suburban	6,429,379	16.70%	1,071,323	
Class A Suburban	958,828	15.70%	150,946	\$22.50
Class B Suburban	3,701,716	15.90%	589,691	\$15.00
Class C Suburban	1,768,835	18.70%	330,686	\$11.00
Overall	9,099,819	14.20%	1,294,419	
Overall Class A	1,863,321	14.60%	272,763	\$23.00
Overall Class B	5,050,366	13.50%	680,348	\$15.75
Overall Class C	2,186,132	15.60%	341,308	\$11.75

NOTABLE 2023 OFFICE TRANSACTIONS

OFFICE MARKET

LEASE



**140 N PHILLIPS AVE
#105**

Experity
7,739 SF



2909 E 57TH ST

Woltman Group
6,149 SF



4020 W CAYMAN ST

Midcontinent
Communications
52,000 SF



**300 N CHERAPA PL,
5TH FLOOR**

Trident Trust Co.
4,896 SF

SALE



2909 E 57TH ST

6,149 SF
\$1,250,000
(\$203.29/SF)



610 W 49TH ST

14,240 SF
\$1,936,288
(\$135.98/SF)



110 N MINNESOTA AVE

58,735 SF
\$13,699,645
(\$233.24/SF)



5900 S WESTERN AVE

19,728 SF
\$3,850,000
(\$195.15/SF)



ROB KURTENBACH

“Due to the city’s economic development and favorable business environment, the Sioux Falls commercial retail market stays steady.”

RETAIL MARKET

DEMAND FOR MORE RETAIL CONTINUES

In every corner of our city, there are retailers breaking ground and opening for business. New concepts. Proven concepts. Their 1st location. Their 20th+ location. Local retailers. National retailers. And everything in between. It's happening all over in Sioux Falls.

Here are just a few of the announcements from the first half of 2023:

- ✓ **Lucky's adds its second location, opens in former Cody's BBQ location near 69th & Louise.**
- ✓ **Dairy Queen will soon open a new location at Lake Lorraine.**
- ✓ **Fazoli's on E Arrowhead Parkway opened earlier this year.**
- ✓ **Minneapolis-based Tavern Grill has begun construction at the former Spezia location.**
- ✓ **Crunch Fitness is opening in the 60,000 square foot former Gordman's building near The Empire Mall.**
- ✓ **Atomic Wings is coming to Sioux Falls. Its first location is underway at 69th & Cliff.**
- ✓ **Dillard's remodel in The Empire Mall is well underway. Expected to open in Q1 2024.**
- ✓ **Food truck favorite to bricks n mortar location, The Smoked Culture is set to open this summer at 49th & Westport.**
- ✓ **B&G Milky Way expands with its newest location at 69th & Cliff.**
- ✓ **Get-N-Go / Blue Tide Car Wash opens newest location at 57th & Sycamore.**
- ✓ **Schulte Subaru is adding a 50,000 SF building next to its current 85th & Minnesota location.**



NICK GUSTAFSON, CCIM

“With a strong economy and population growth, the investment real estate market in Sioux Falls outperforms the rest of the nation.”

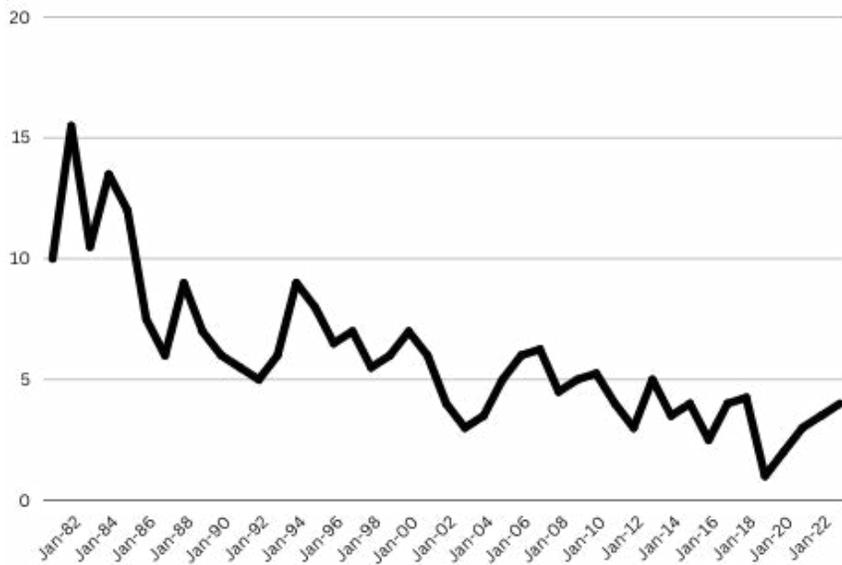
INVESTMENT MARKET

UNCERTAINTY SLOWS NATIONAL INVESTMENT SALES TRANSACTIONS...

Storm clouds seem to be on the horizon of the U.S. investment real estate market. According to MSCI Real Assets, U.S. investment real estate transactions are down 61%, equating to \$130 billion in transactions at mid-year 2023. The majority of the slowdown can be attributed to historic interest rate increases and the slowing of rental increases as inflation is battled by the Federal Reserve.

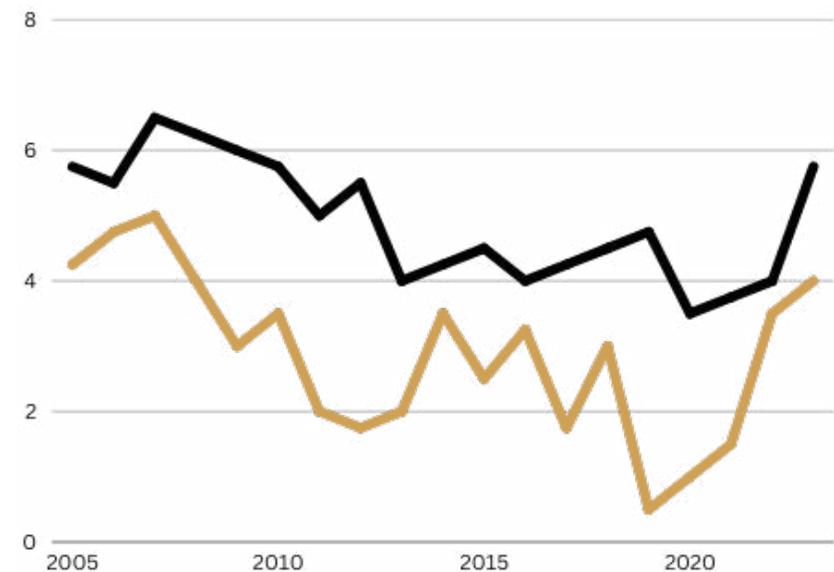
Perhaps the biggest national challenge preventing buyers and sellers from being on the same page is the velocity of interest rate raises over the last 18 months, now at their highest level in the last 20 years. Buyers must usually apply leverage (debt) in their transactions, and the rapid increase in the cost of debt has now surpassed the asset yield generated by many asset classes at current pricing. Many investors are simply watching from the sidelines, collecting interest off of their high-yielding money markets and waiting to see what the Federal Reserve will do over the next 18 months.

10-Year Treasury Rate



Source: Frost, Brown, Todd

Costly Loans



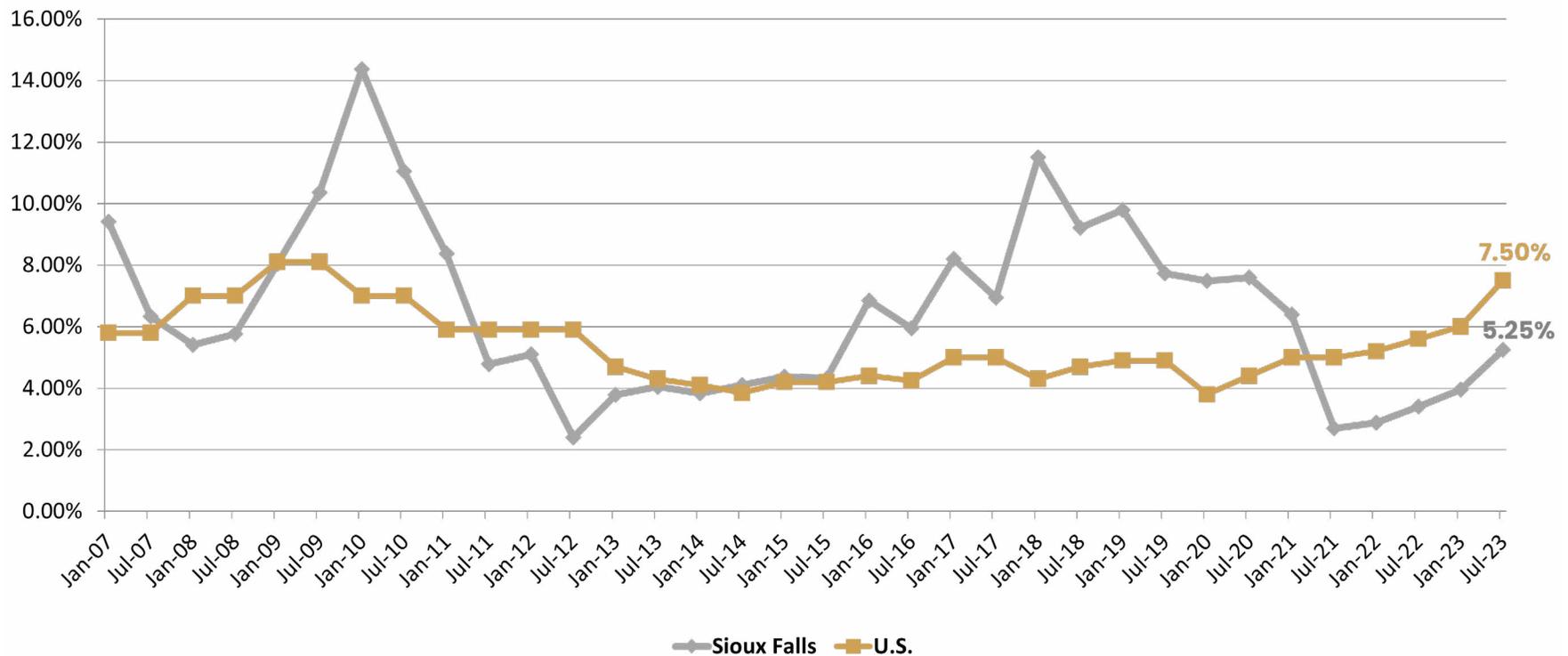
Source: Cushman & Wakefield

■ Apartment Mortgage Rate
■ 10-Year Treasury Yield

...BUT CREATES OPPORTUNITIES IN SIOUX FALLS

Sioux Falls appears to be a bright spot, with strong population growth and a vibrant business environment. The unemployment rate is a shockingly low 1.7% and all commercial real estate asset classes continue to be resilient (with perhaps the exception of call centers). While residential single-family construction has pulled back, Sioux Falls continues to build new commercial properties at an historic rate, albeit down from 2022.

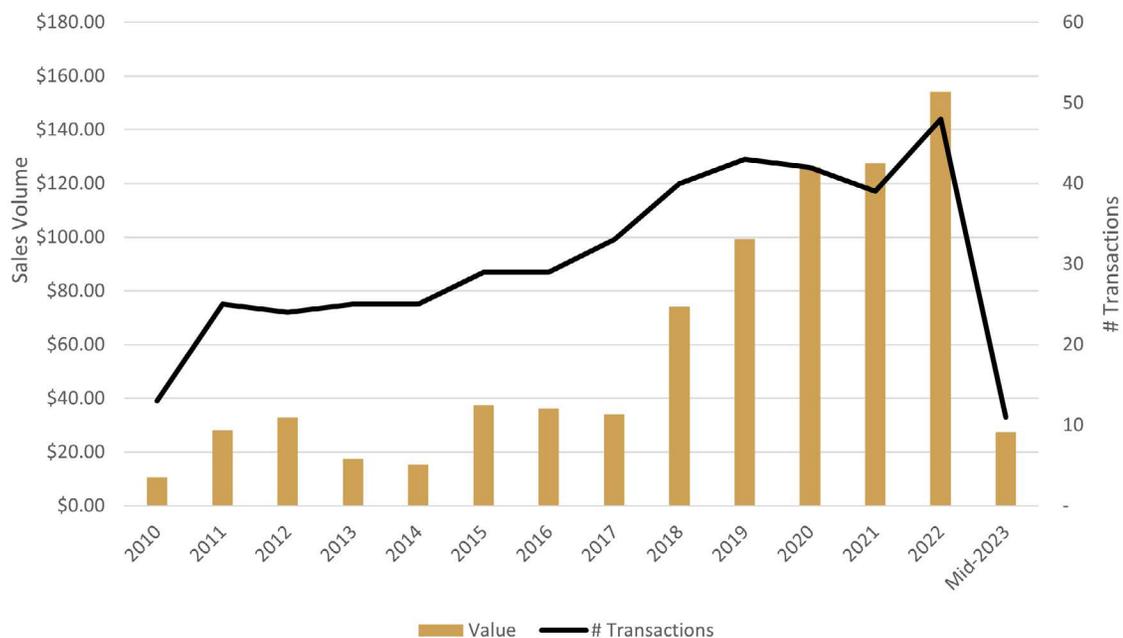
Multi-Family Vacancy Rate



Source: SDMHA Vacancy Study

INVESTMENT TRANSACTIONS ARE DOWN

Multi-Family Sales Transactions



Investment transactions are down midyear in volume in Sioux Falls for the reasons previously discussed. However, we expect these numbers to pick up with deals we currently have under contract and pending. Investors can expect year-end 2023 transactions to end at 2018/2019 levels.

Despite high interest rates, there is quite a bit of capital waiting on the sidelines here in Sioux Falls for the right deal. More than several owners are considering selling assets in hope of reallocating capital to account for a higher interest rate environment for the foreseeable future.



ROB FAGNAN, SIOR

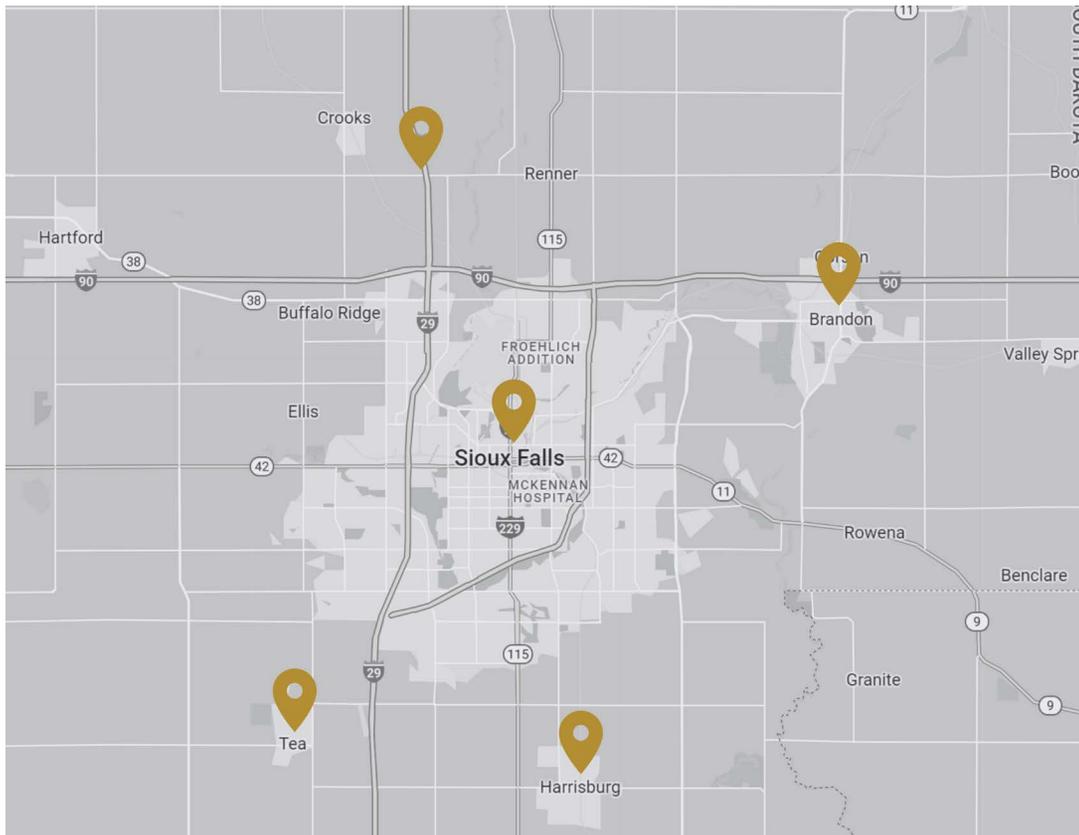
“The Sioux Falls industrial market is experiencing steady growth as the city is becoming a strategic location for growing companies.”

INDUSTRIAL MARKET

OVERVIEW

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

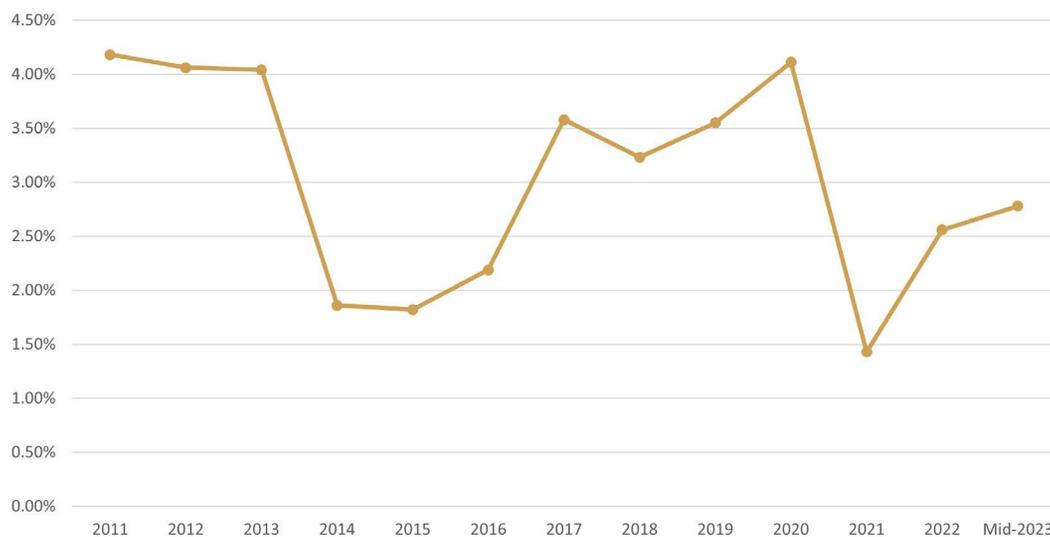
The market encompasses a total of 1,438 properties, equating to approximately 30.18 million square feet of space. The ongoing demand for industrial space in the first half of 2023 has provided an additional 428,875 square feet of industrial inventory, a 29% drop from this time last year.



ABSORPTION, VACANCY & NEW CONSTRUCTION

Thus far, the market has absorbed 564,142 square feet of space, which is 65% of the total absorption from 2022, proving there's still some elevated demand for space throughout the market. With the help of several spec projects in 2022, the vacancy rate has continued its healthy upward climb from 2.56% at the end of 2022 to 2.78% as of June 2023. Most of the available space in the market is 'For Lease,' with very few 'For Sale' options throughout the market. In turn, many owner-users have either had to add on to their existing buildings or find land to build new, which has resulted in 644,875 square feet being added to the market in 2023. These additions and new builds have ranged in size from 12,000 to 72,000 square feet, which is much smaller in size than what the market provided in recent years.

Industrial Vacancy Rate



PRICING

Average asking rental rates have remained stable across all three industrial classes. However, with the continued increase of material, labor, and borrowing costs, the market may command a slight increase in the price per foot tenants will have to pay going into 2024. Alternatively, should the supply of space continue on its upward trend, pricing will be kept at bay.

Asking Rental Rates

Class A

\$7.50-\$8.50/SF NNN

Class B

\$5.00-\$7.00/SF NNN

Class C

\$4.75/SF NNN AND UNDER



OUTLOOK

As 2022 proved to be the second best on record, 2023 will end on another strong note. Demand for industrial space continues throughout the market for both leasing and sales, as companies continue to move to and grow/expand within the Sioux Falls area. Liquidity still exists in the market and, even though the market has been faced with some inflationary headwinds, business will go on as usual.

NOTABLE 2023 INDUSTRIAL TRANSACTIONS



1820 N INDUSTRIAL AVE

55,000 SF
\$2,800,000.00
(\$50.91/SF)



3501 W HOVLAND DR

8,600 SF
\$750,000.00
(\$87.21/SF)



3905 S WESTERN AVE

14,635 SF
\$2,050,000.00
(\$140.08/SF)



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