TRANSWESTERN

REAL ESTATE SERVICES

MIDWEST CAPITAL MARKETS

CAPITAL MARKETS REPORT

2020 | MINNEAPOLIS

MINNEAPOLIS INDUSTRIAL LEADS THE WAY

UNCERTAINTY SURROUNDS MULTI-TENANT OFFICE AND RETAIL

BILL WARDWELL
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EXECUTIVE SUMMARY

MARKET REVIEW

This past year brought profound change to the global economy, real estate, and our daily lives. While coronavirus disrupted much of what we take for granted, not all was doom and gloom: many of us spent more time with family and outdoors, finishing long-put-off home improvement projects, and dedicated more time to exercise.

Similarly, commercial real estate had a few bright spots in an otherwise unclear world. Without question the stand-out asset class has been, and continues to be, industrial, which saw multiple significant portfolios trade here in the Twin Cities. Investor appetite for real estate leased to essential retailers also increased dramatically over the last year, compressing cap rates for single-tenant net leased retail. Capital earmarked for multi-tenant office, on the other hand, continues to sit on the sidelines for the most part, awaiting more clarity from the office leasing and debt markets; and senior housing and hospitality sectors have really struggled.

This is different than 2008-2009, though. The Great Financial Crisis was the result of poor market fundamentals coming to bear, the foundations of the current market remain strong: low-interest rates, lower leverage and higher reserve ratios, significant capital chasing real estate, and limited alternative investment opportunities in the treasury and bond markets, all of which are pushing demand for the risk adjusted returns common of commercial real estate. As the vaccine rollout continues and businesses reopen, a global economic recovery seems likely.

In the following pages you will find a summary of the 2020 Minneapolis capital markets and some forward looking statements and opinions about 2021. While 2020 did not go as many of us envisioned, we believe Minneapolis, with its highly educated workforce, deep roster of Fortune 500 companies, and low unemployment rates, is well positioned to bounce back and return to a new form of normal, both economically and socially.

EXECUTIVE SUMMARY

STRATEGIC HIRES

2020 presented significant headwinds that challenged many of us personally and professionally, but also allowed us the opportunity to refocus and prioritize. Here at Transwestern, we used the downtime to review our approach and consider how we can better serve our clients' needs.

As part of that review, we made several key additions to our brokerage roster. In June of 2020, Transwestern brought on two strategic hires, Harrison Wagenseil and Erik Coglianese, to lead our Midwest Capital Markets team. As a multi-market team they focus on the disposition of assets throughout the upper Midwest. Harrison serves as Managing Director and leverages his experience selling investment properties in San Francisco, Bay Area before founding a boutique commercial real estate advisory firm in Minneapolis. Erik is an Associate and Analyst and utilizes his background as an appraiser of industrial, office, medical office, and retail properties.

We are excited to have Harrison and Erik join us and look forward to their success. Their additions help us round-out our services and meet the demands of modern-day investors. They bring enthusiasm, exceptional attention to detail, a fresh perspective to Transwestern, and they get deals done, which is great for our clients!

REVIEW

2020 YEAR-END RECAP

Coronavirus disrupted the global economy and changed the ways companies conduct business. It also impacted pricing, both positively and negatively, with sale-volume declining from 2019 across all asset types. Ultimately, this resulted in the following trends:

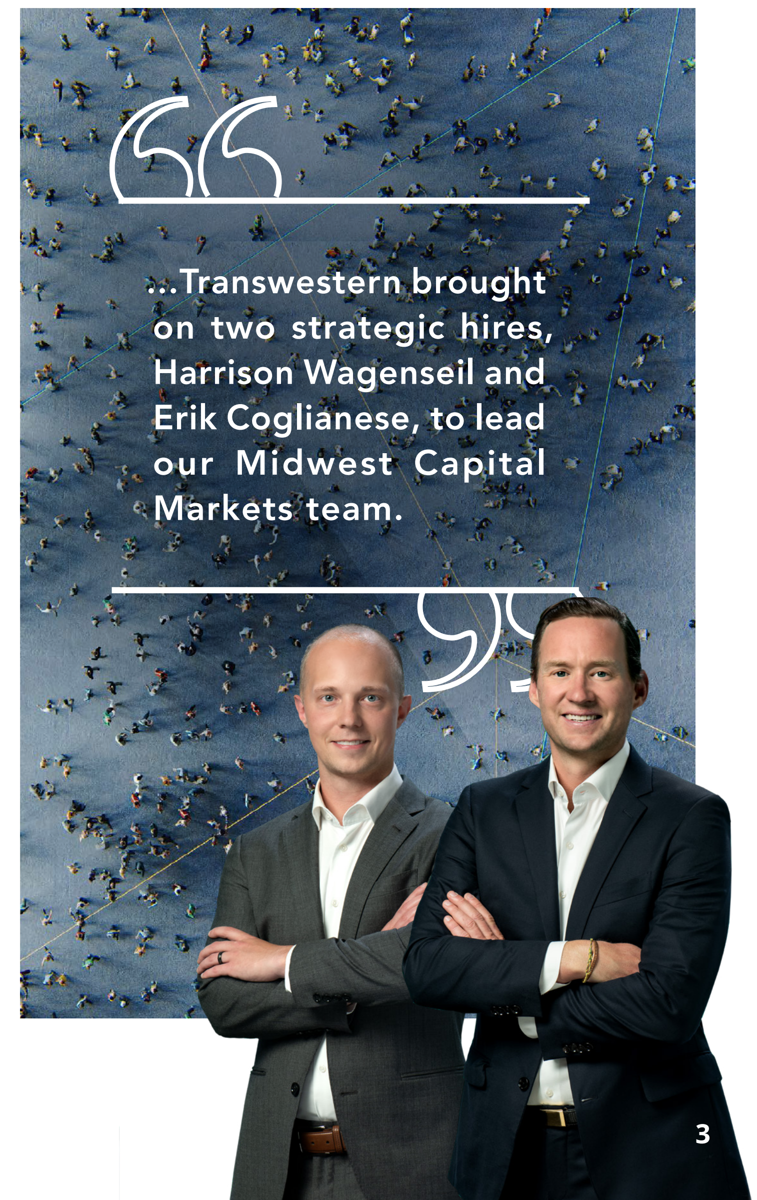
1. Changes in office use and underwriting assumptions led to price discrepancies for multi-tenant office.
2. Office investors preferred suburban locations, single-tenant, one-to-three story buildings, and buildings with high weighted average lease terms.
3. Driven by e-commerce, industrial real estate continues to be the most sought-after asset type by investors.
4. Single-tenant, net leased, retail witnessed cap rate compression as investors sought low-risk, high-quality assets with drive-thrus, discounted retailers, auto-parts, and other essential retailers.
5. As a result of shutdowns and changes in consumer behavior, multi-tenant retail saw significant impacts to cash flow and value and limited sales transactions.

OUTLOOK

WHAT TO EXPECT IN 2021

While industrial real estate is well-positioned with strong market fundamentals, office and retail are highly dependent upon vaccine roll-out and consumer and tenant behavior. Looking forward, we anticipate the following trends in 2021:

1. As vaccinations increase and companies return to work, underwriting and pricing should become clearer for suburban office buildings.
2. Industrial real estate will continue to be the main target of buyers which will result in cap rate compression.
3. The largest industrial owners remain well capitalized and aggressive on pricing which will result in further consolidation in the market.
4. While NNN retail will remain in-demand, we anticipate significant pricing discounts for multi-tenant retail relative to pre-pandemic pricing.



WEST END OFFICE PARK

2020 STARTED STRONG WITH THE SALE OF WEST END OFFICE PARK

SALES SLOWED IN Q2 AND Q3 BUT Q4 SAW SIGNIFICANT INCREASE IN SALES VOLUME

EXECUTIVE SUMMARY

OFFICE MARKET

The Minneapolis office sales market started 2020 with a bang when Bridge Investment Group purchased West End Office Park for $131M in January, but when coronavirus hit in March it disrupted all stakeholders' (investors, lenders, and users) understanding of and confidence in the office workplace. As a result, several notable CBD and suburban assets that were on the market or under contract for sale were pulled to await market clarity.

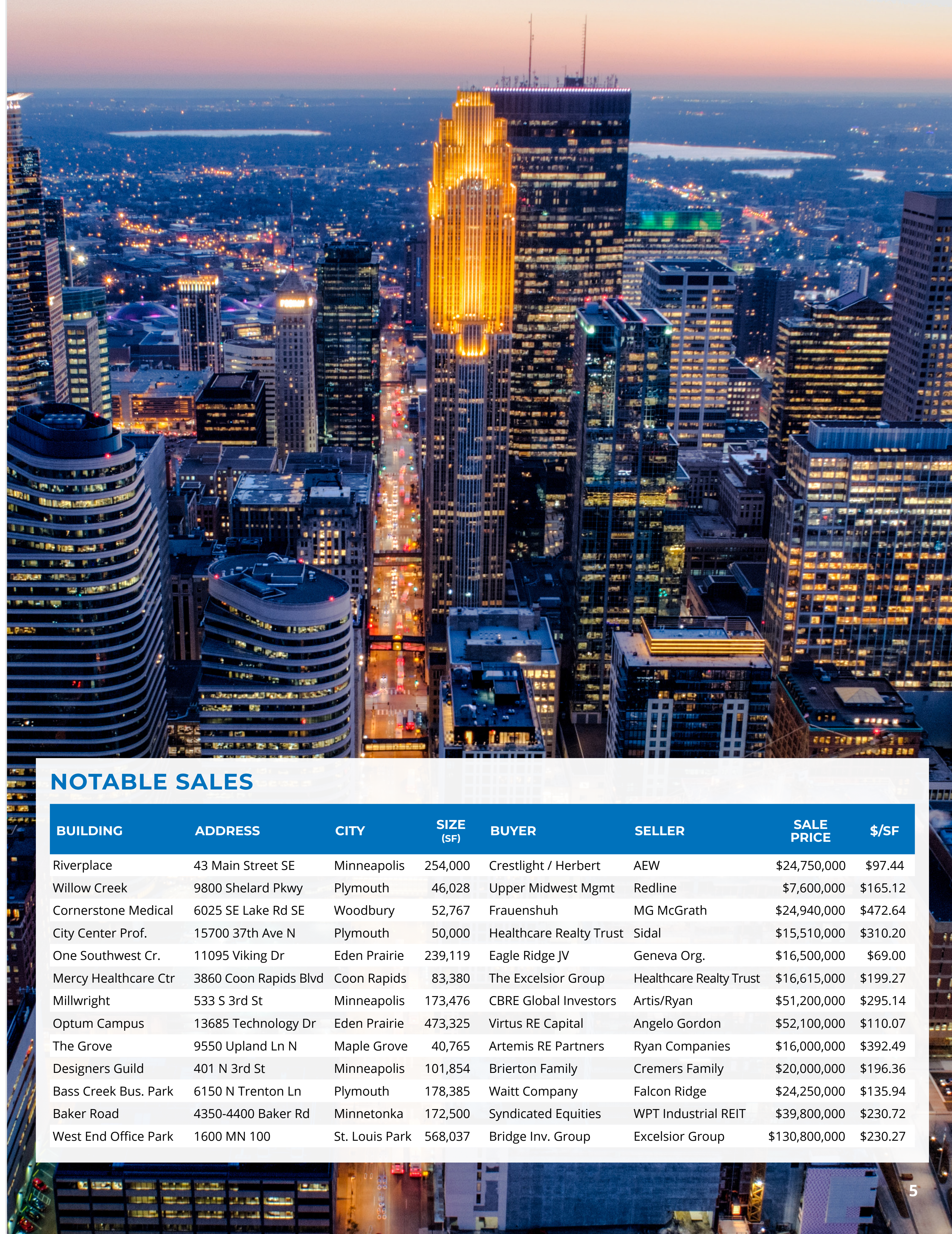
While the initial stages of the pandemic were defined by investors shifting their attention to asset management, by mid-year most investors were refocused and rolling out new investment strategies with a modest amount of capital allocated for suburban office. However, sales velocity remained low through third quarter 2020, with underwriting emerging as the biggest obstacle to closing deals, specifically – closing deals became very difficult for properties with significant vacancy, near-term roll, or tenants whose core-business and tenancy was suddenly questionable in a post Covid world.

Acknowledging new office pricing, many suburban buildings teed-up for the market pushed their launch dates as sellers patiently waited for pricing to return to pre-pandemic levels. Downtown Minneapolis, which is also combating safety concerns, is largely out of mind for buyers but for two notable exceptions: the sale of Millwright in September for $52.1M and Riverplace in December for $24.75M. The Fourth quarter saw a significant increase in sales volume, with medical office emerging as a clear investor target and at least six medical buildings trading between November and December. All in all, most office investors showed a preference for suburban locations, single-tenant, one-to-three story buildings, and buildings with high weighted average lease terms.

OUTLOOK

WHAT TO EXPECT IN 2021

Riding the momentum of sales that occurred in the fourth quarter combined with a large buyer pool and historically low interest rates, we anticipate a bounce-back in activity for Class A and B office in prime suburban locations in late 2021. That said, it is likely some price discovery will continue through the first half of 2021; and with the continued vaccine rollout and numerous large companies tentatively scheduled to return to the workplace by fall 2021, a clearer picture of the utility of office space should emerge by late summer. This should remove some of the uncertainty regarding underwriting and make pricing more definitive. In summary, it may take longer for the Minneapolis downtown office market to return, but we anticipate it will regain its footing as a cultural and commercial centerpiece of the Twin Cities, mirroring the return of Twins' baseball and the downtown area's fine dining and music venues.



NOTABLE SALES

BUILDING	ADDRESS	CITY	SIZE (SF)	BUYER	SELLER	SALE PRICE	$/SF
Riverplace	43 Main Street SE	Minneapolis	254,000	Crestlight / Herbert	AEW	$24,750,000	$97.44
Willow Creek	9800 Shelard Pkwy	Plymouth	46,028	Upper Midwest Mgmt	Redline	$7,600,000	$165.12
Cornerstone Medical	6025 SE Lake Rd SE	Woodbury	52,767	Frauenshuh	MG McGrath	$24,940,000	$472.64
City Center Prof.	15700 37th Ave N	Plymouth	50,000	Healthcare Realty Trust	Sidal	$15,510,000	$310.20
One Southwest Cr.	11095 Viking Dr	Eden Prairie	239,119	Eagle Ridge JV	Geneva Org.	$16,500,000	$69.00
Mercy Healthcare Ctr	3860 Coon Rapids Blvd	Coon Rapids	83,380	The Excelsior Group	Healthcare Realty Trust	$16,615,000	$199.27
Millwright	533 S 3rd St	Minneapolis	173,476	CBRE Global Investors	Artis/Ryan	$51,200,000	$295.14
Optum Campus	13685 Technology Dr	Eden Prairie	473,325	Virtus RE Capital	Angelo Gordon	$52,100,000	$110.07
The Grove	9550 Upland Ln N	Maple Grove	40,765	Artemis RE Partners	Ryan Companies	$16,000,000	$392.49
Designers Guild	401 N 3rd St	Minneapolis	101,854	Brierton Family	Cremers Family	$20,000,000	$196.36
Bass Creek Bus. Park	6150 N Trenton Ln	Plymouth	178,385	Waitt Company	Falcon Ridge	$24,250,000	$135.94
Baker Road	4350-4400 Baker Rd	Minnetonka	172,500	Syndicated Equities	WPT Industrial REIT	$39,800,000	$230.72
West End Office Park	1600 MN 100	St. Louis Park	568,037	Bridge Inv. Group	Excelsior Group	$130,800,000	$230.27

THE LARGEST REAL ESTATE TRANSACTION IN MINNESOTA HISTORY

BLACKSTONE PURCHASES INDUSTRIAL PORTFOLIO FROM CSM FOR $650 MILLION

EXECUTIVE SUMMARY

INDUSTRIAL MARKET

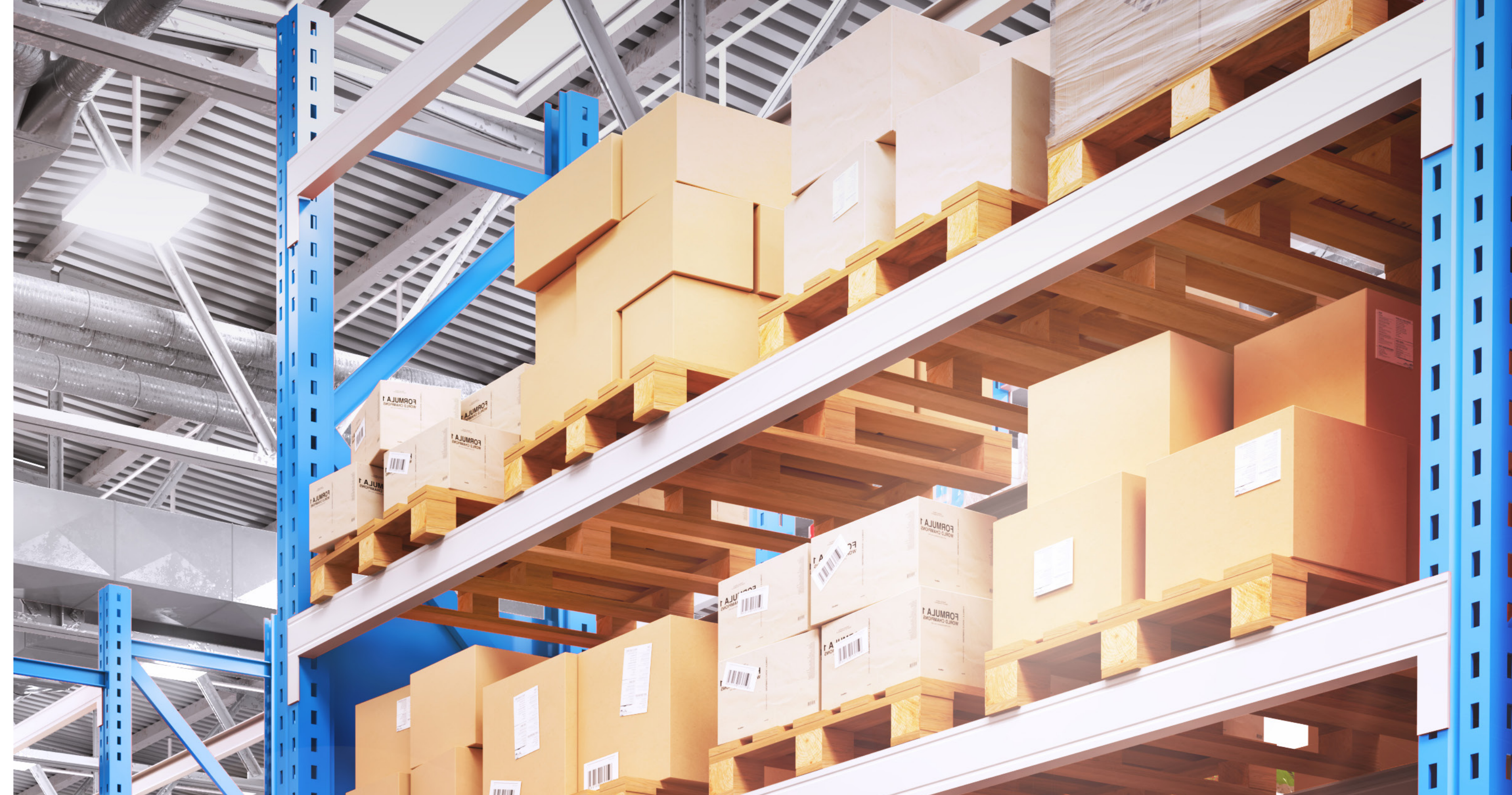
Industrial real estate has been the darling of the commercial world since the Great Financial Crisis and any notion that this asset type may experience a setback due to coronavirus was put to rest when Blackstone closed on the $650 million, 59-property transaction with CSM in April 2020. While other asset classes experienced volatility during 2020, industrial only saw a slight pause during the initial onset of the pandemic.

The industrial sector undoubtedly benefited from coronavirus as retailers were forced to close and consumers flocked to on-line shopping. However, 2020 was mostly an acceleration of a trend that has been playing out for some time – e-commerce, and consequently industrial real estate, continues to grow at the detriment of brick-and-mortar retail.

Minneapolis has historically been known for its stable economy, moderate increases in rent and modest returns, but the industrial landscape has changed rapidly. In recent years there has been a significant concentration of holdings among the largest landlords, most notably Blackstone and Capital Partners. Controlling a large portion of the market and with limited options in the marketplace, the top landlords aggressively pushed rental rates on existing properties. Meanwhile, asking rates for new construction hit as much as $14.00 for office and $6.50 for warehouse as several large users absorbed new product.

Industrial acquisitions were top of mind for investors in 2020 and there was a strong buyer pool for every type – distribution, flex, office-warehouse, etc. – and every stage of the lifecycle – core, core-plus, value-add, etc. The one exception being assets with recreational tenants such as trampoline parks and breweries. Otherwise, the biggest obstacle to closing deals was finding suitable trade options for sellers. The one new trend to emerge in 2020 was the rise in popularity of sale-leasebacks as companies sought liquidity and took advantage of a prime seller's market.

Industrial investors remained as committed as ever to the asset class, while investors with minimal to no industrial holdings took a closer look at industrial opportunities to add to their portfolio and hedge their exposure in other commercial real estate food groups. This dynamic led to cap rate compression, increased pricing, and value-add properties trading with minimal discounts relative to stabilized assets. As a result, some industrial investors with limited development experience are chasing yield by seeking development sites for speculative projects while others are turning their attention to markets with better returns.



OUTLOOK

WHAT TO EXPECT IN 2021

Compared to other secondary markets, Minneapolis-St. Paul has witnessed modest new product delivery during the current economic cycle, which was driven by conservative underwriting and lack of infill sites. Realizing the pent-up demand, several new developments are currently under construction or in the planning stage with developers hoping to capitalize on a historic number of 100,000+ square foot users currently in the market. The Twin Cities is set to see a bounce back in speculative development activity in 2021, which will likely garner the attention of core and core-plus buyers.

With strong market fundamentals and insatiable investor demand, we anticipate a robust market in 2021 with continued cap rate compression and further consolidation among the largest owners in the market, with at least one large portfolio scheduled to close early in 2021.

NOTABLE SALES

BUILDING	ADDRESS	CITY	SIZE (SF)	BUYER	SELLER	SALE PRICE	$/SF
Opus Industrial Portf.	Multiple	Eagan/MG	357,000	CBRE Global Investors	The Opus Group	$51,162,552	$143.31
GAF Materials	8175 Jefferson Hwy	Maple Grove	102,994	STAG Industrial	Capital Partners jv	$14,550,000	$141.27
Dart Portfolio	Multiple	Eagan	400,168	Meritex	Dart Transit	$36,025,011	$90.02
Timberland North	Multiple	Brooklyn Park	365,938	Red Tail Acquisitions	Timberland	$22,000,000	$60.12
Bix Produce	3060 Centerville Rd	Little Canada	208,000	WP Carey	Bix Produce	$34,000,000	$163.46
Skywater Technology	2401 E 86th St	Bloomington	392,988	Oxbow Industries	Skywater	$37,000,000	$94.15
Target Distribution	2600 NE Winter St	Minneapolis	400,000	Target	Onward	17,400,000	$43.50
King Solutions	11011 Holly Lane N	Maple Grove	283,778	Cabot Solutions	King Solutions	$27,750,000	$97.79
NuAire	2100 Fernbrook Ln	Plymouth	258,000	Founders Properties	NuAire	$15,190,000	$58.88
CSM Portfolio	Multiple	Multiple	7,000,000	Blackstone/Link	CSM	$650,000,000	$92.86
Amazon	2601 4th Ave E	Shakopee	820,000	MetLife	USAA Real Estate	$118,000,000	$143.90
Scannell Portfolio	Multiple	Multiple	557,877	Capital Partners jv	Scannell	$59,953,030	$107.47

RETAIL SECTOR HIT THE HARDEST BY COVID-19 PANDEMIC

ESSENTIAL BUSINESS LIKE GROCERY, HARDWARE, AUTOMOTIVE REPAIR, AND DRUG STORES THRIVE

EXECUTIVE SUMMARY

RETAIL MARKET

The continued surge of online sales combined with the Coronavirus made for a very challenging year for retail, multi-tenant retail in particular; and sensationalized headlines have added to the general public's perception that retail is a troubled asset class. However, it became abundantly clear by year end that there is a bifurcation in the retail world – some businesses thrived, while others contracted or permanently closed. The "Haves" included essential businesses such as grocery stores, hardware stores, automotive repair shops, drugstores, and restaurants with drive-thrus, while the "Have-nots" included sit-down restaurants, soft good retailers, gyms, and entertainment venues.

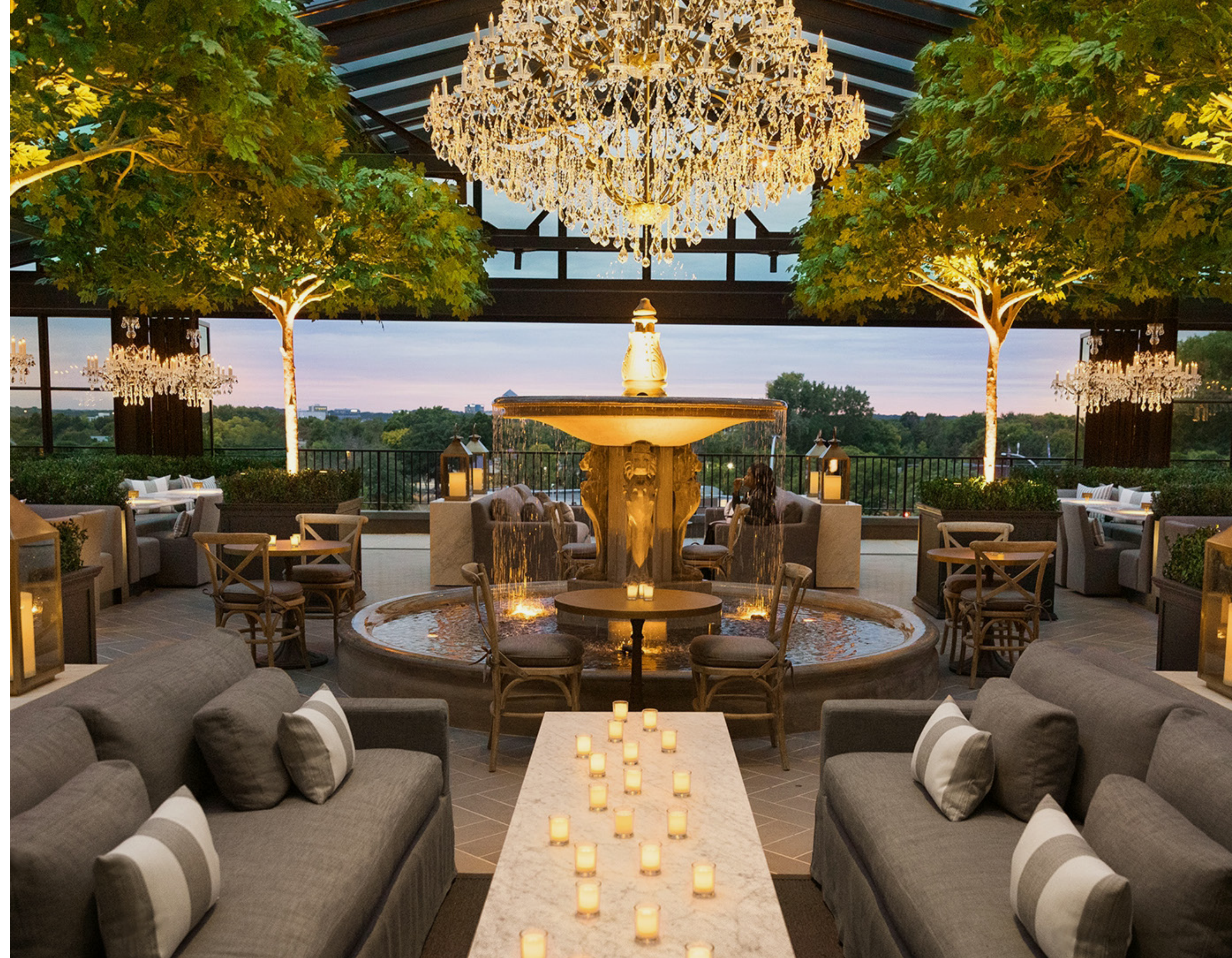
Retail was unusually asset management-intensive last year. While all assets types had challenges at the beginning of the pandemic, retail was undoubtedly hit harder and longer (with the exception of hospitality/lodging) as many businesses were forced to temporarily close due to government-mandated shutdowns. This resulted in asset managers' being forced to decipher between tenants that needed rent deferrals and those that were being opportunistic. Many landlords and property managers become de facto consultants, helping some tenants to secure extensions, rent relief, Covid-related grants and PPP loans, while simultaneously seeking mortgage relief.

When uncertainty and risk arise, buyers typically seek stable assets to weather the storm and that is exactly what happened in 2020. Some investors fled retail altogether, while others sought out quality, essential businesses. This resulted in cap rate compression among single-tenant NNN assets and locations whose clientele could be served by drive-thru windows. Although buyers are comfortable with grocery-anchored centers, multi-tenant retail, especially those with local tenants and non-essential businesses, were difficult for buyers to underwrite and led to price discrepancies and few closed transactions.

OUTLOOK

WHAT TO EXPECT IN 2021

Essential businesses, grocery-anchored centers, and single-tenant retail will continue to flourish and command interest from investors. As in previous downturns, some retailers' sales figures drastically improved in 2020, namely discount retailers, sellers of car parts, DIY home improvement stores, drive thrus, liquor stores and large retailers that pivoted online and created contactless pick-up options. Multi-tenant retail pricing will be heavily dependent upon the vaccine rollout, retailers' ability to fully reopen and transform their business model and re-engage with customers who have switched to online shopping. Due to difficulty in servicing their debt, and disappointing historical returns, we expect multi-tenant retail centers to hit the market at sizeable discounts relative to pre-pandemic pricing.



NOTABLE SALES

BUILDING	ADDRESS	CITY	SIZE (SF)	BUYER	SELLER	SALE PRICE	$/SF
Pinehurst Building	4999 France Ave S	Minneapolis	42,104	Buhl Investors	Scott Weber	$9,471,128	$224.95
Tires Plus Portfolio	Multiple	Multiple	24,948	Realty Income Corp.	Tom-Don Real Estate	$8,900,000	$356.74
Burnsville Center	1178 Burnsville Center	Burnsville	409,713	Kohan Retail Invest.	Spinoso RE Group	$17,960,000	$43.84
Fleet Farm	320 Chelsea Rd	Monticello	188,000	Robert Rappaport	STORE Capital	$20,830,000	$110.80
Edina Retail Strip	5033 Vernon Ave	Edina	18,424	Montecito Medical	BTO Development	$9,950,000	$540.06
Riverdale Shopping Ctr	12519 Riverdale Blvd N	Coon Rapids	810,555	North American Devel.	Retail Value Inc	$70,000,000	$86.36
Home Depot Lease	1300 E Mendota Rd E	Inver Grove	130,513	Forman Group	Fine Associates	$17,200,000	$131.79
Restoration Hardware	6801 France Ave S	Edina	58,000	NAI Legacy	Restoration Hardware	$25,500,000	$439.66
Melzer Building	330 E Hennepin Ave	Minneapolis	115,885	Asana Partners	Melzer Investment Co.	$8,100,000	$69.90
Sterling-IRC Portfolio	Multiple	Multiple	930,100	Sterling Organization	IRC Retail Centers	$149,320,000	$160.54
Westlake Center	119-289 12th St SW	Forest Lake	100,571	Rivercrest Realty Inves.	Gloria Burns	$9,051,515	$90.00
Woodbury Commons	10150 Hudson Rd	Woodbury	121,110	HJ Development	DRA Advisors	$17,160,000	$141.69
Park Place Plaza	5600 S Cedar Lake Rd	St. Louis Park	87,903	Bianco Properties	DRA Advisors	$28,150,000	$320.24

RESTORATION HARDWARE

PROVIDING CONFIDENCE AND CLARITY IN AN UNCERTAIN MARKET

HARRISON WAGENSEIL

Managing Director - Capital Markets
Transwestern Minneapolis

Harrison Wagenseil is a Managing Director and team lead for Transwestern's Minneapolis-St. Paul capital markets and investment sales practice. Harrison has executed significant deals across the nation, working principally on behalf of family offices, trusts, private equity shops, real estate funds and middle-market institutional and private investors. His team provides advisory and brokerage services primarily in the disposition of multi-tenant and single tenant office, medical office, industrial, and retail properties nationwide. Harrison brings a high energy, detail-oriented team of well-qualified analysts, marketers, designers and advisors to each assignment. He is a licensed real estate broker in Minnesota and North Dakota, holds the CCIM designation, and has also worked for Fortune 500 companies Oracle and Raytheon.

ERIK COGLIANESE

Associate/Analyst - Capital Markets
Transwestern Minneapolis

Erik Coglianese is an Associate/Analyst for Transwestern's Minneapolis-St. Paul capital markets and investment sales practice. Erik is partnered with Harrison Wagenseil. He provides brokerage services, marketing, deal execution, and financial analysis for the disposition and acquisition of single- and multi-tenant office, medical office, industrial, and retail properties. Erik previously worked as a commercial real estate appraiser and valued land, retail, office, industrial, and multi-family properties in urban, suburban, and rural locations throughout the upper Midwest. He has valued in excess of $2 Billion worth of assets for banks, special servicers, investors, and lawyers for financing, estate planning, portfolio analysis, acquisition and disposition, and public reporting purposes.

THINKING BEYOND THE OBVIOUS

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