

19th Annual

Sioux Falls 2016 Market Outlook

Thursday, February 25, 2016

Bender
COMMERCIAL

U.S. Outlook

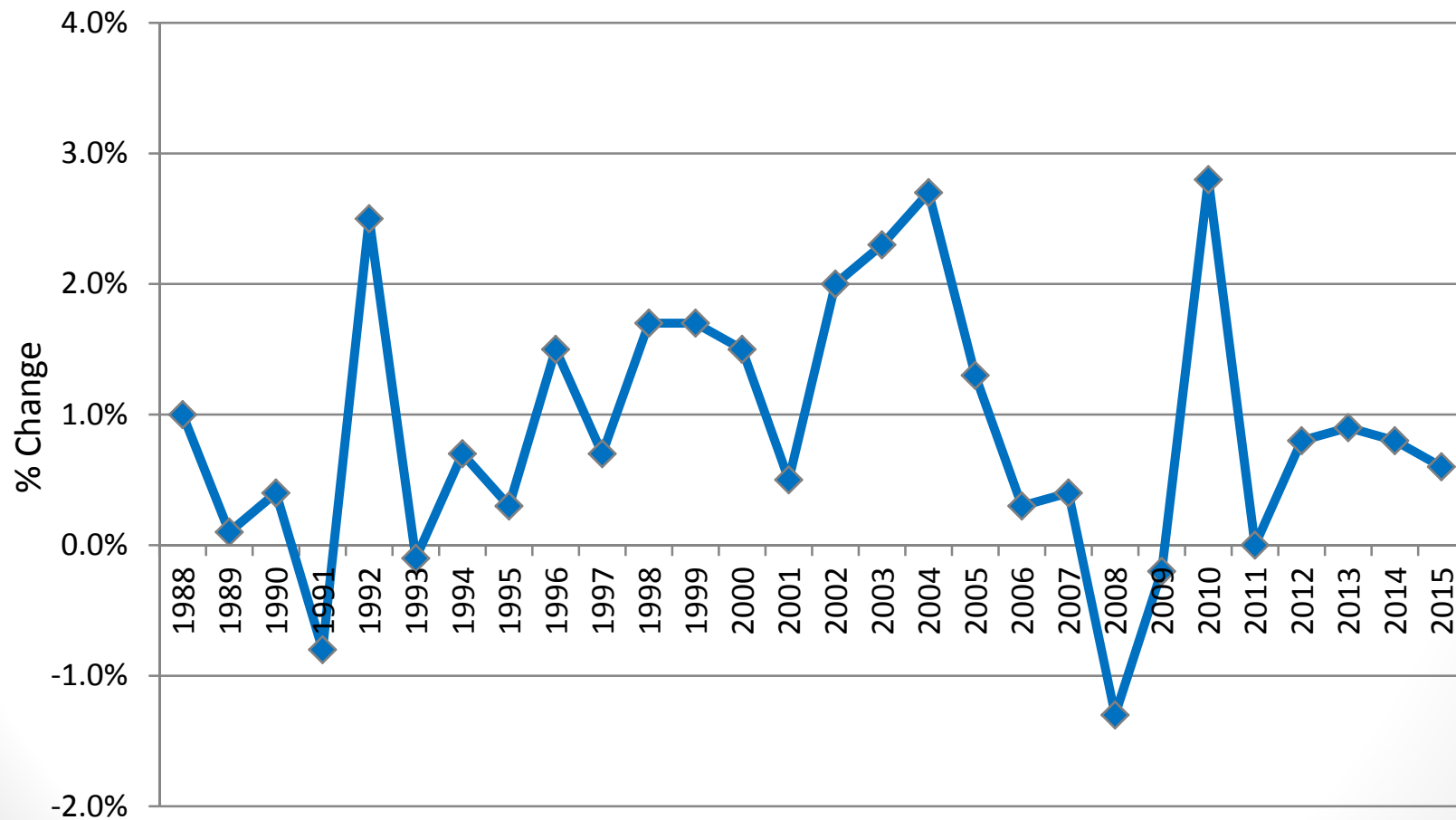
Long-Term Economic Indicators

Most Important Indicator??

PRODUCTIVITY

Productivity Growth

Private Non-Farm Business Sector



Source: U.S. Bureau of Labor Statistics

“Productivity Paradox”

Average Annual Productivity Growth

- Past 5 Years: 0.6%
- Past 10 Years: 1.2%
- Long Term Rate 2.1% (1947 – 2015)

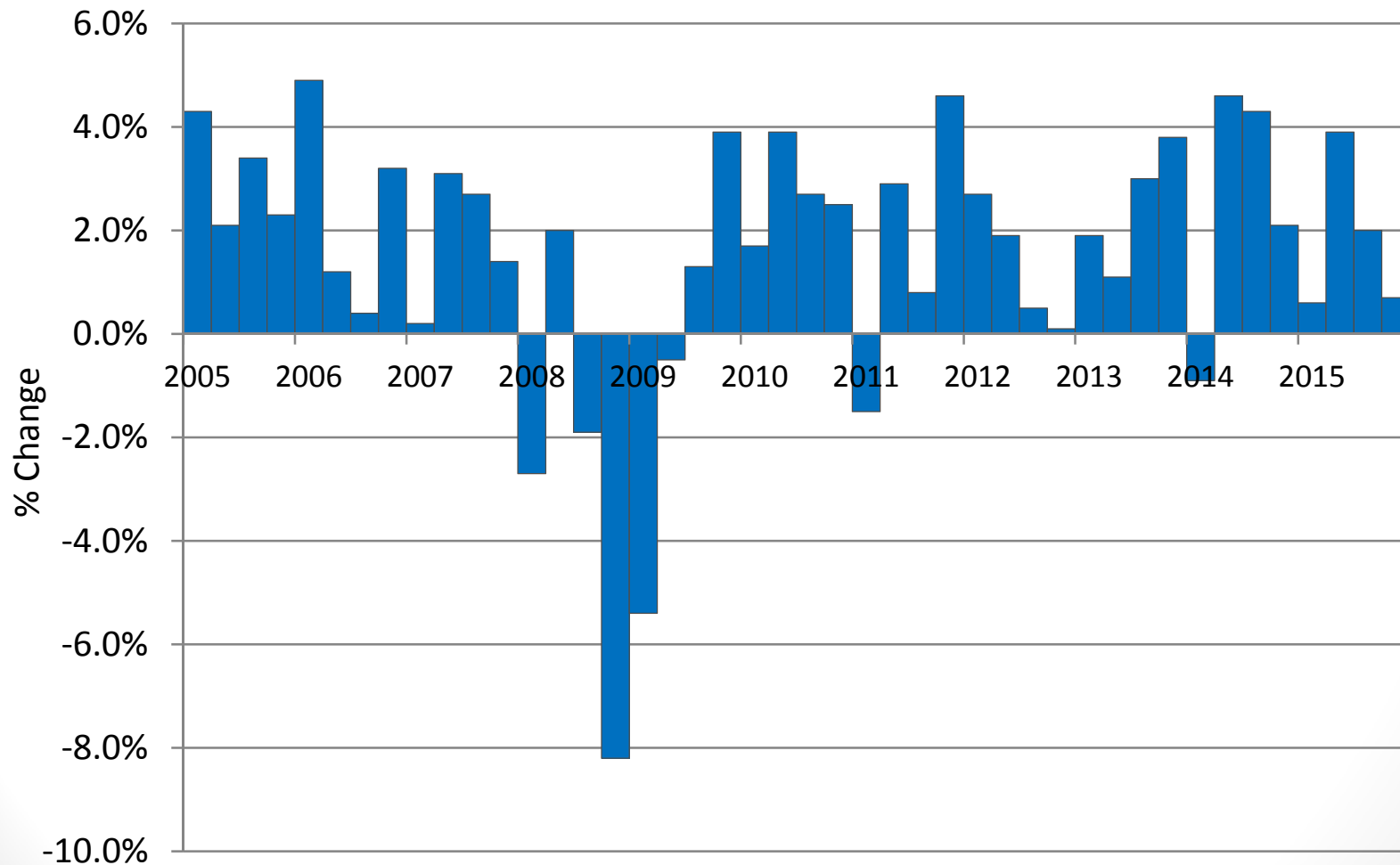
Causes:

- Hard to Measure in Digital Age
- Lag Time for Innovation to Boost Productivity

Effects:

- Lack of Investment → Decline in Capital Investment
- Short-term → Employment Gains

2015 Gross Domestic Product



Source: Bureau of Economic Analysis

2015 Gross Domestic Product

Consumption (69%)

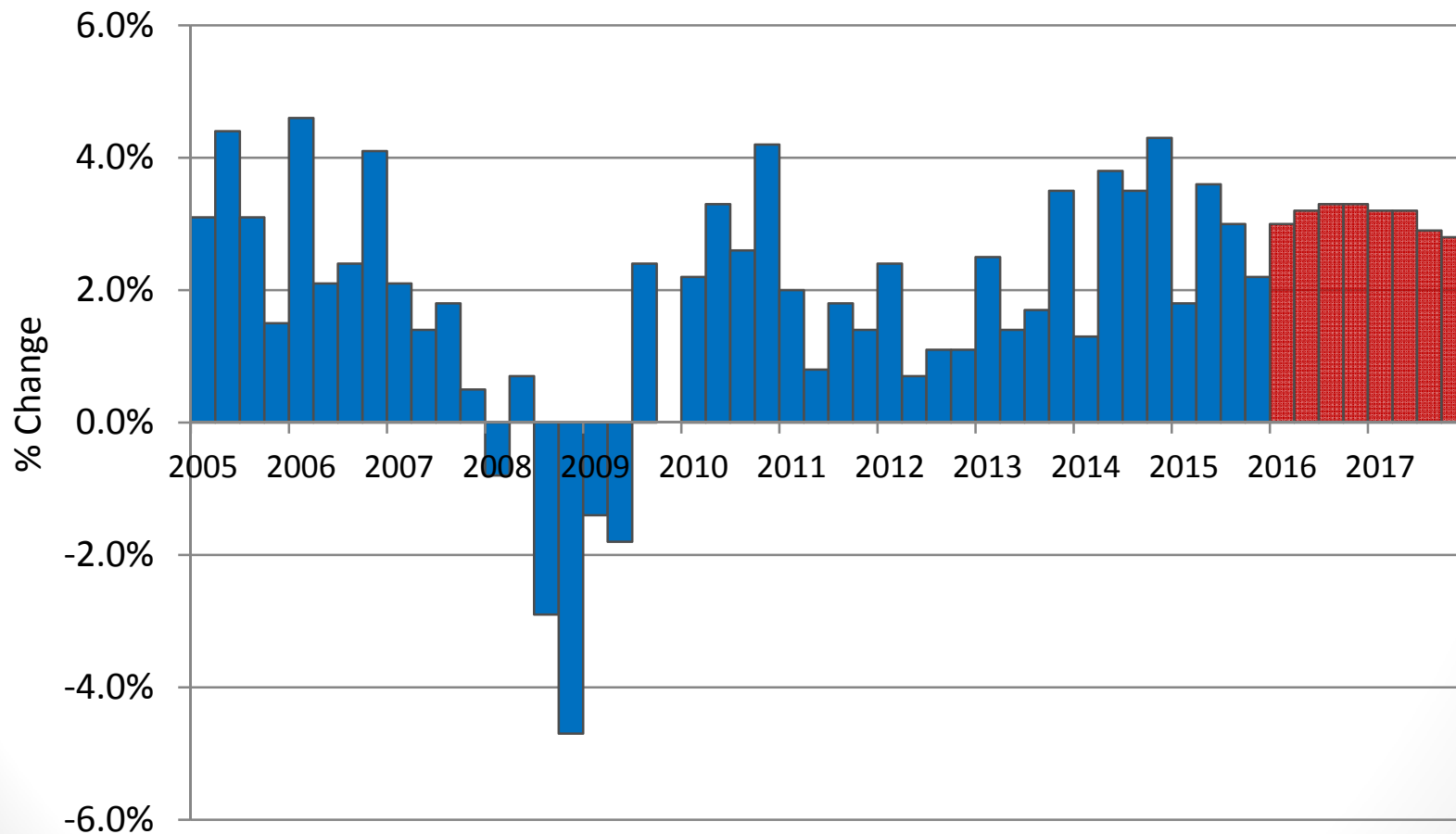
Investment (17%)

Government (18%)

Net Exports (-4%)

Real Consumption

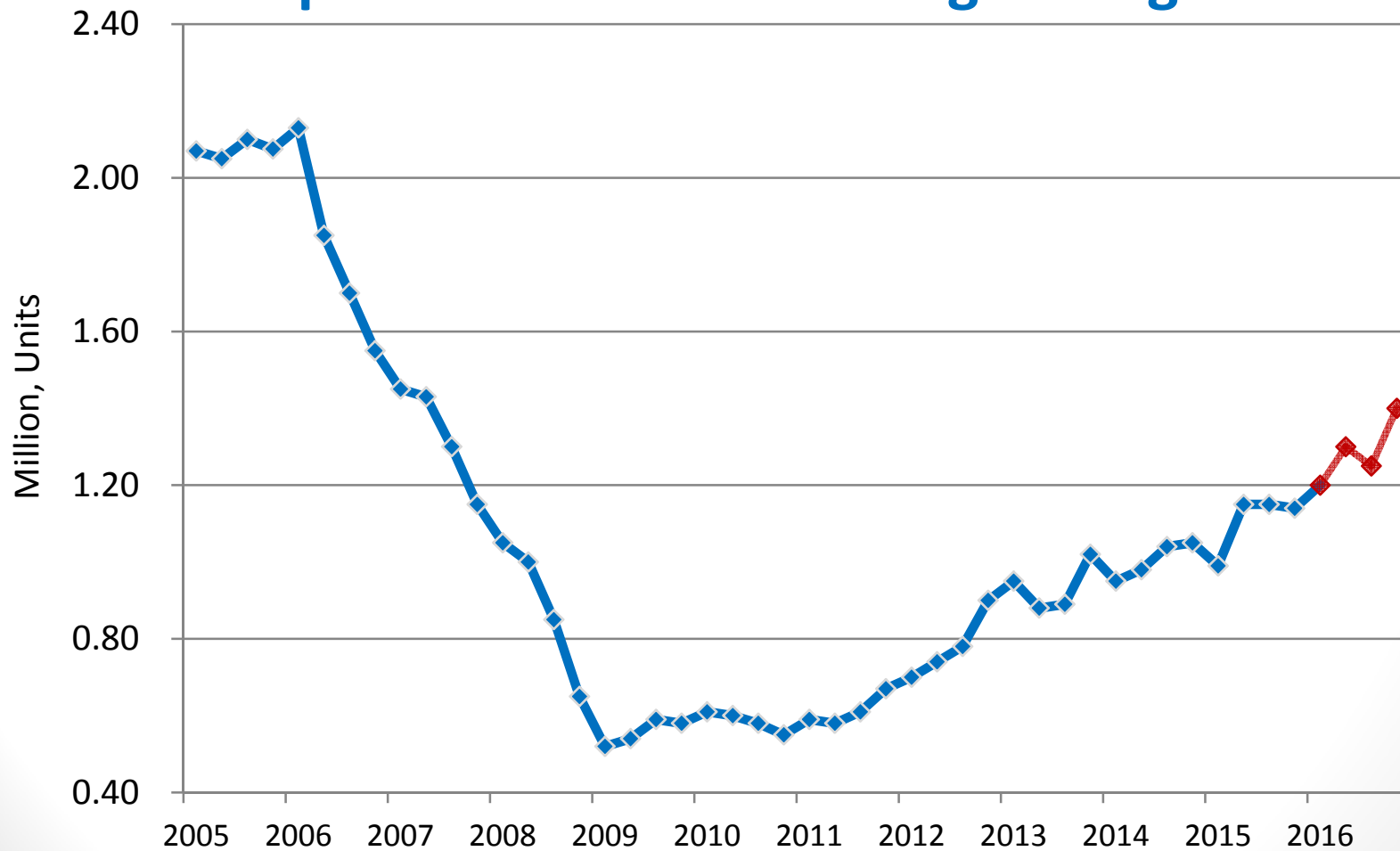
Expected to Remain Strong through 2017



Source: Bureau of Economic Analysis

Investment Sector Housing Starts

Expected to Remain Strong through 2016



Source: Bureau of Economic Analysis

Better Than It Feels...

Conclusions:

- GDP up 2.5% for 2016
 - Consumer Spending: 3% + in last 6 quarters
 - Retail Sales: 4% growth in 2016
 - Business-sector spending (+9.5%) in Q3 2015
- Housing Market: Sales & Construction Up
- Falling Unemployment

**5 Major Real Estate
Trends to Watch
In 2016**

Trend #1: Urbanization

US Urban Population Increased 12.1% from 2000 to 2010

Overall Population: 9.7% increase

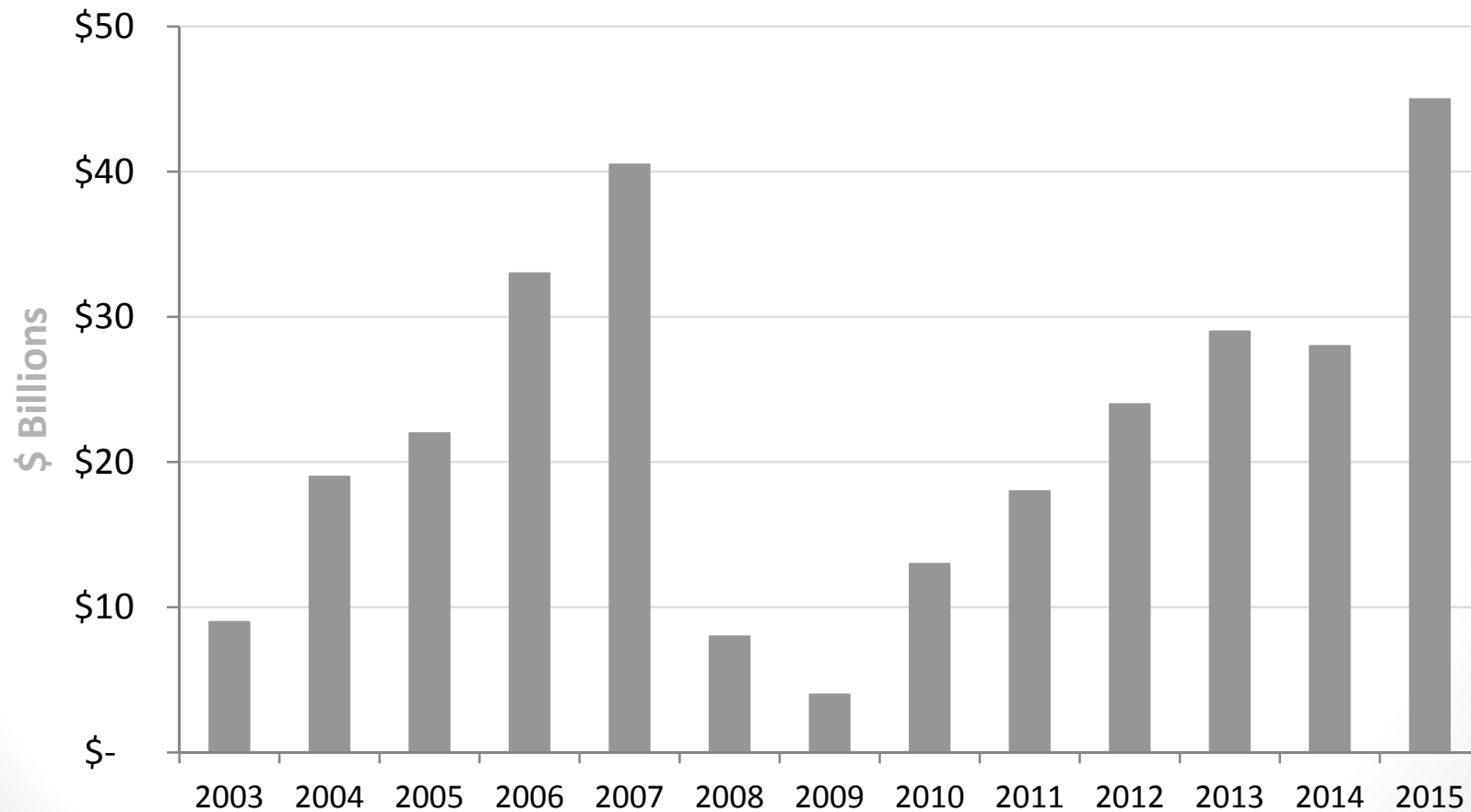


Trend #2: Interest Rates



Trend #3: International Capital

Overseas Investment in U.S. Commercial Real Estate



Source: JLL, Real Capital Analytics

Trend #4: Retail Model



Trend #5: Explosive Infrastructure Costs

AMERICA'S
G.P.A. **D+**

ESTIMATED INVESTMENT
NEEDED BY 2020: **\$3.6** TRILLION

INFRASTRUCTURE GRADES FOR 2013

 ENERGY	D+	 SCHOOLS	D	 PUBLIC PARKS & RECREATION	C-
 TRANSIT	D	 ROADS	D	 RAIL	C+
 PORTS	C	 INLAND WATERWAYS	D-	 BRIDGES	C+
 AVIATION	D	 WASTEWATER	D	 SOLID WASTE	B-
 LEVEES	D-	 HAZARDOUS WASTE	D	 DRINKING WATER	D
 DAMS	D				

Source: ASCE

Trend #5: SD Infrastructure

KEY FACTS ABOUT South Dakota Infrastructure

\$540 MILLION
in drinking water
infrastructure
needs over the
next 20 years



\$106 MILLION
in wastewater
infrastructure
needs over the
next 20 years



7,106
of the state's
82,536
public roads are
major roads



and 6% are in
poor condition

1,210 of the 5,875



bridges as
structurally
deficient

\$522 MILLION
in estimated school
infrastructure
funding needs



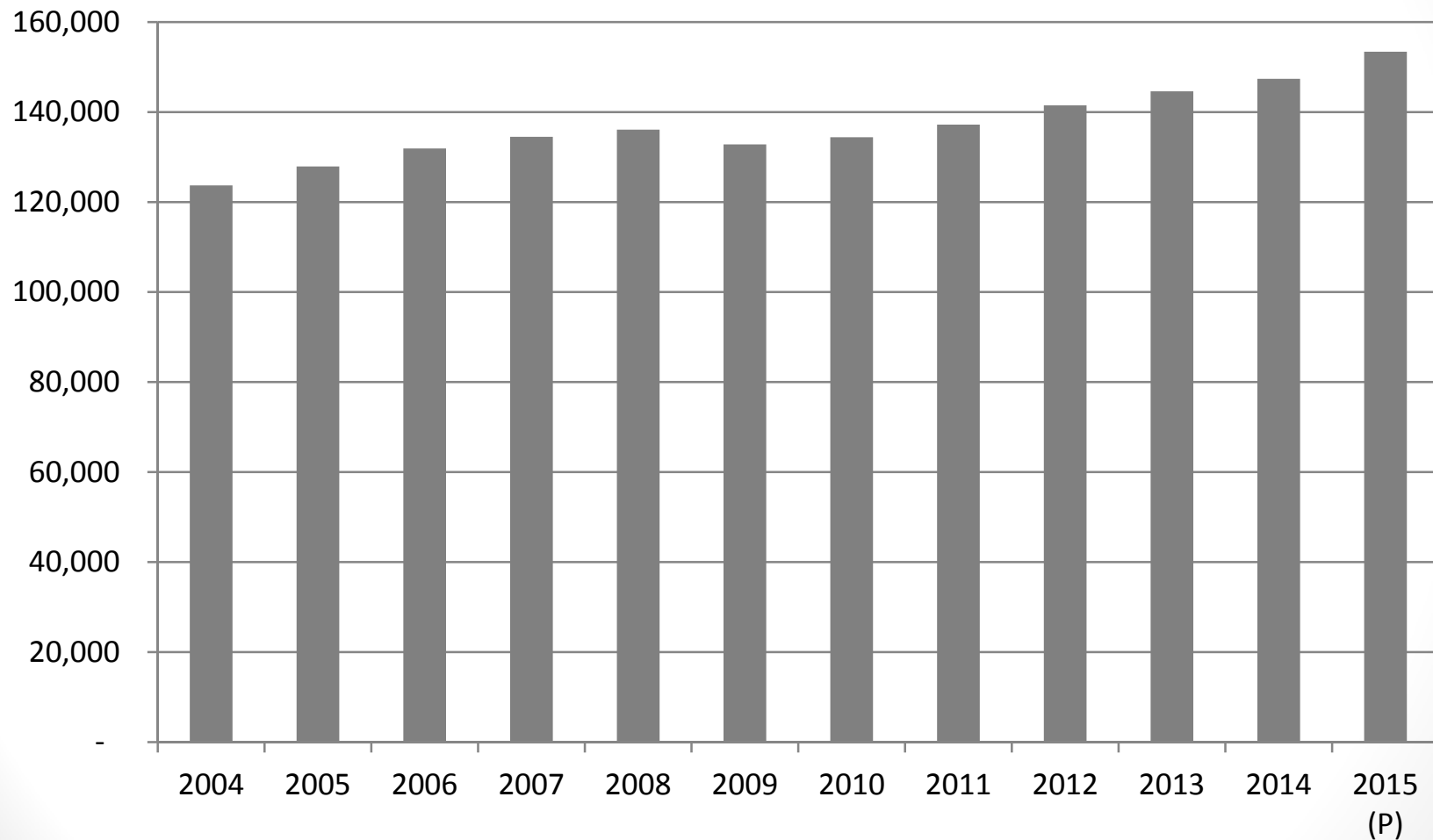
Sioux Falls Economic Overview

Employment Growth Rate



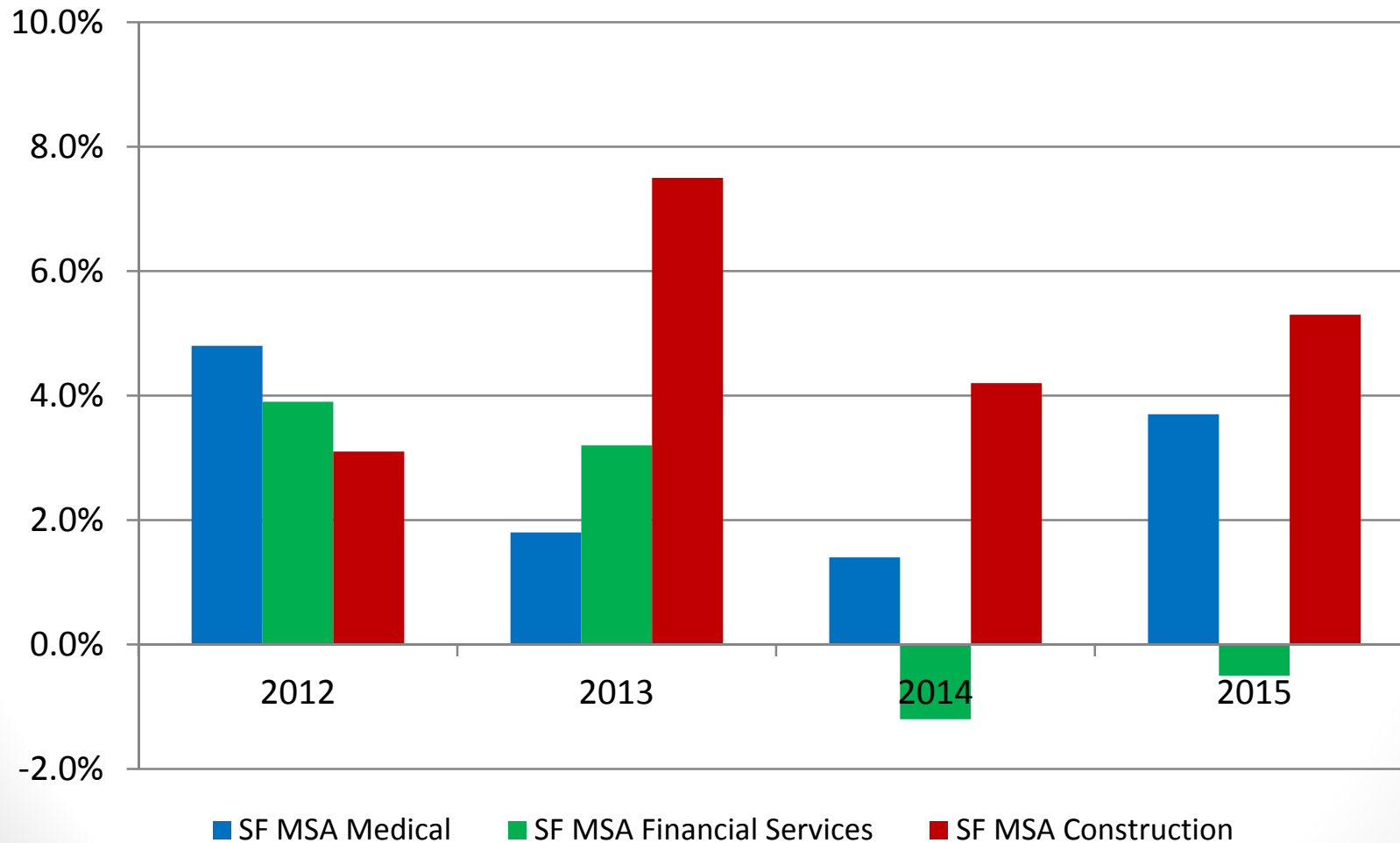
Source: U.S. Bureau of Labor Statistics

Sioux Falls MSA Employment (Non-Farm)



Source: U.S. Bureau of Labor Statistics

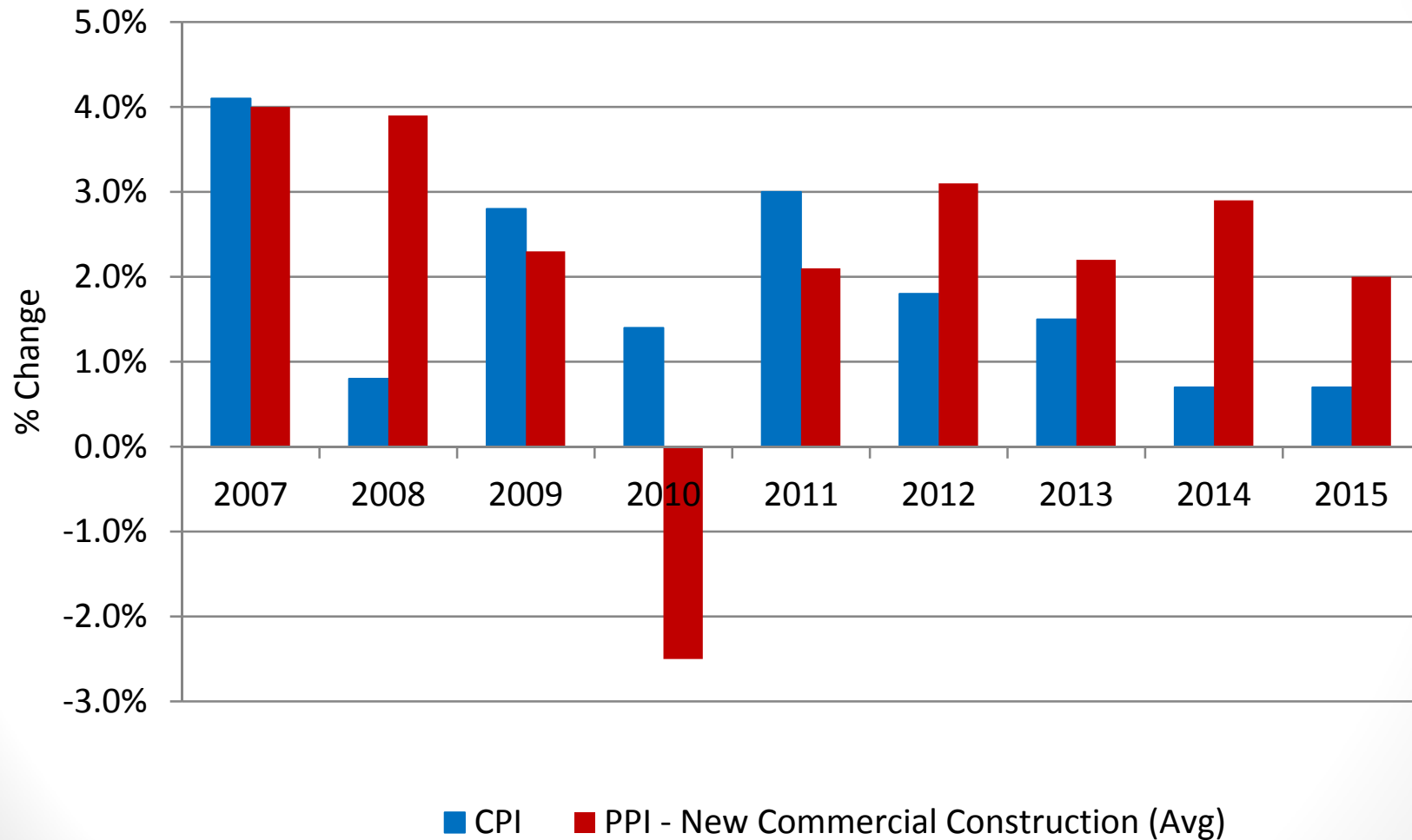
Employment Growth Rate



Source: U.S. Bureau of Labor Statistics & South Dakota Department of Labor and Regulation

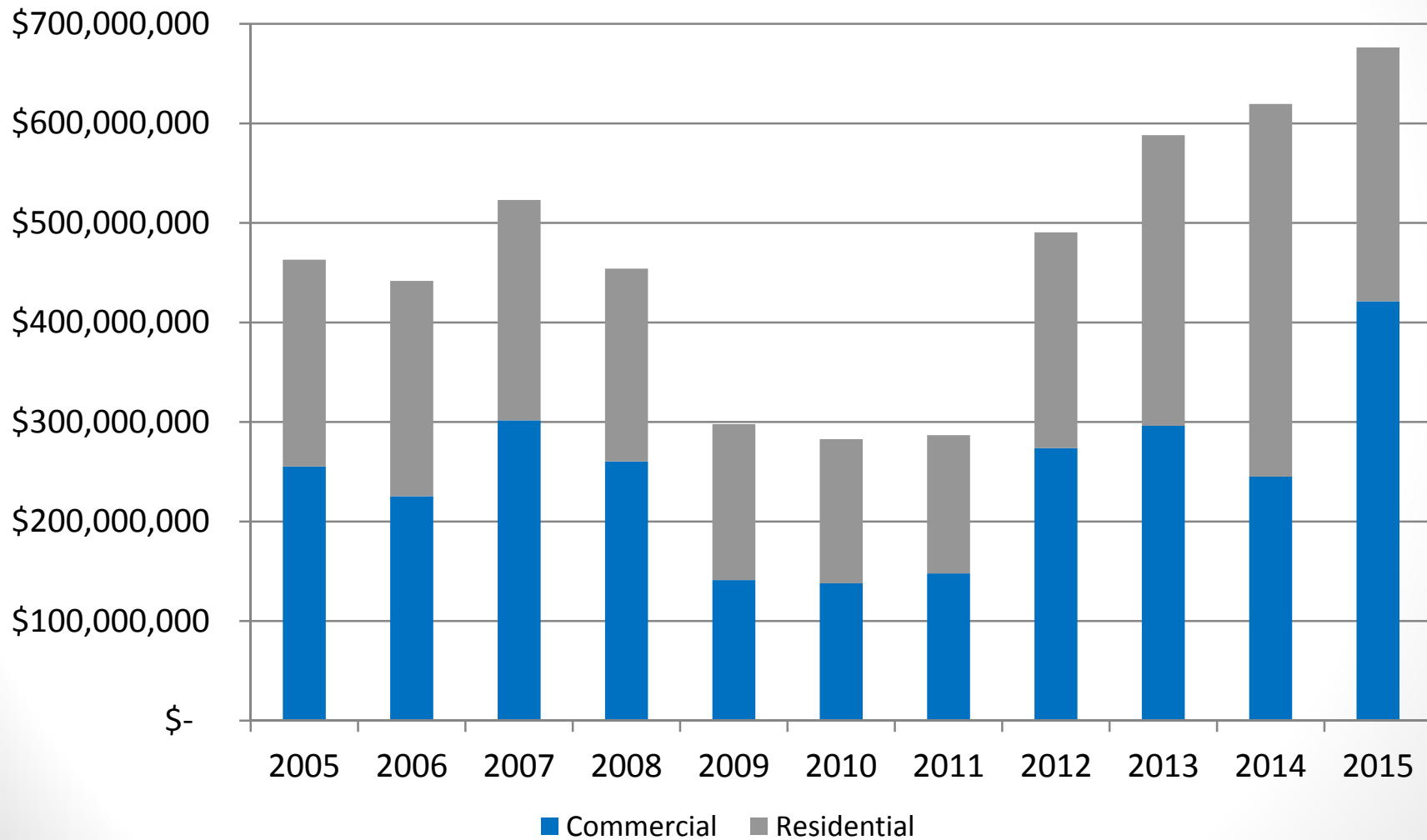
Construction Inflation

CPI vs. Producer Price Index



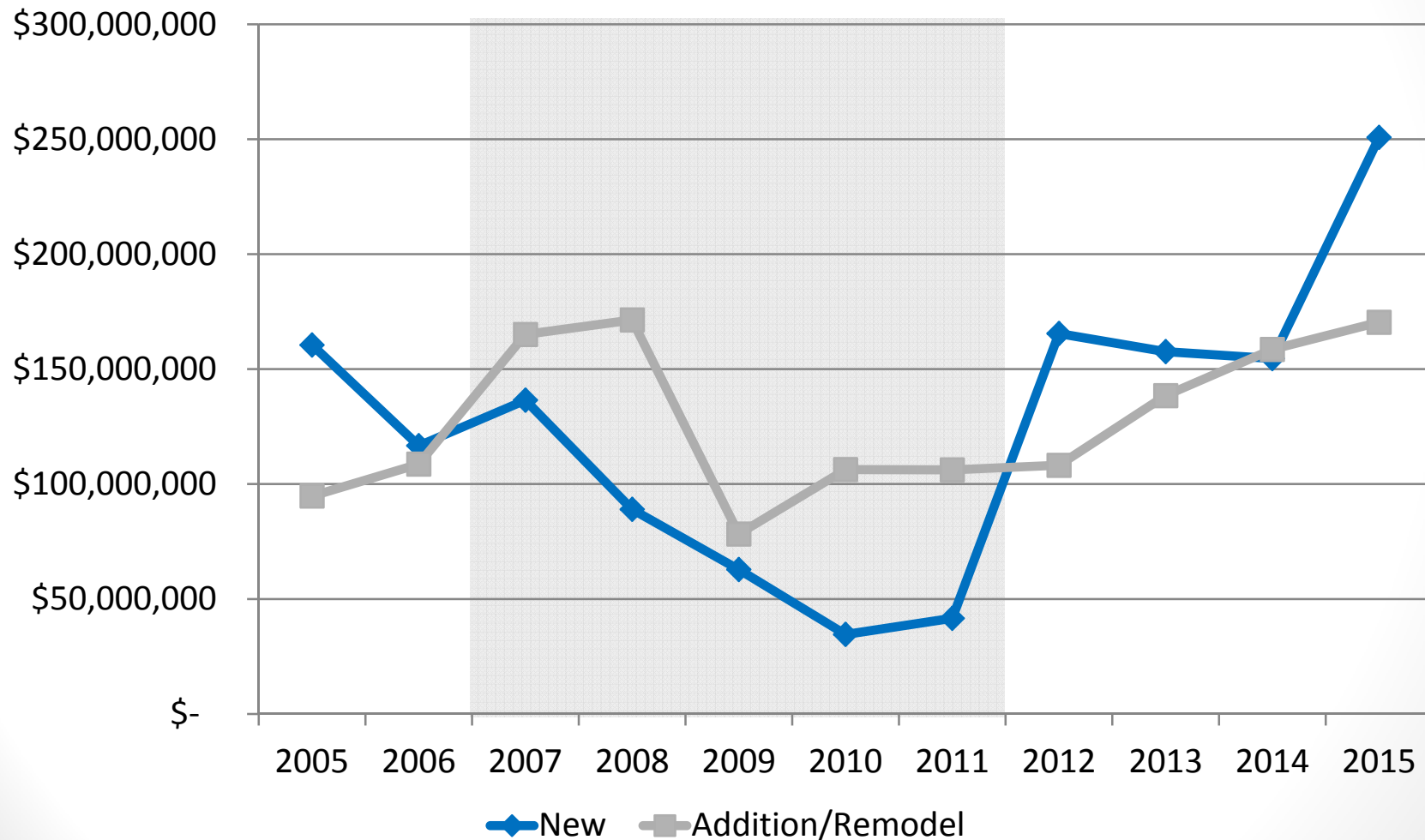
Source: U.S. Bureau of Labor Statistics

Total Building Permits



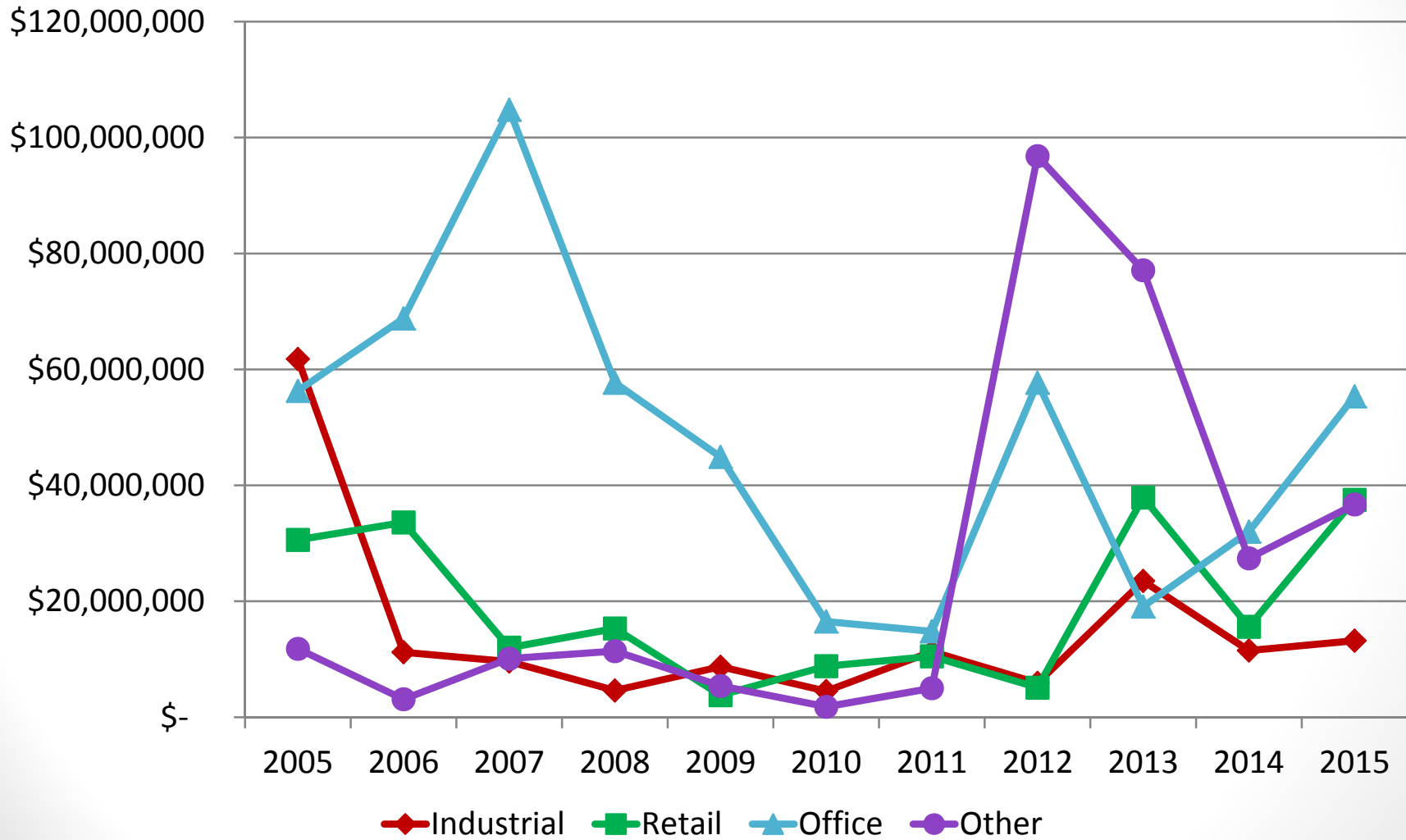
Source: City of Sioux Falls, Planning and Building Services

Commercial Construction (New vs. Addition/Remodel)



Source: City of Sioux Falls, Planning and Building Services

New Commercial Construction



Source: City of Sioux Falls, Planning and Building Services

Examples of Construction

- **New Construction:**

- Indoor Aquatics Center - \$20 M
- Spanish Immersion School - \$10.2 M
- Walmart - \$9.6 M
- Republic National Building - \$9.0 M
- Ol-Great Life Facility - \$5.0M

- **Addition Remodels:**

- Sanford Imagentics Medical Building - \$22.7 M
- Edith Sanford Addition - \$8.5 M
- Good Samaritan Addition - \$14.6 M

Regional Comparisons

Total Construction

Sioux Falls

\$676,292,291

Rapid City, SD

\$219,494,525

Fargo, ND

\$500,745,731

Rochester, MN

\$571,131,874

Omaha, NE

\$701,266,825

Des Moines, IA

\$679,768,609

Williston, ND

\$182,708,925

(\$500M in 2014)

Ag's Effect on South Dakota

Agriculture has a
\$25.6 BILLION



Annual Economic
Impact on SD

Agriculture
contributed
\$654 MILLION
in taxes



Nationwide, farm
and ranch families
comprise



of the US
Population

Agriculture is
responsible for
**1 OUT OF 5
JOBS**



in South Dakota

Agriculture's

ECONOMIC IMPACT

SD has
1.6 MILLION
cows with an
estimated
**90,000
BULLS**



**10 BILLION
BUSHELS**
of corn are
produced in
Iowa, Illinois,
Nebraska, and
Indiana

South Dakota corn
industry has an
annual impact of

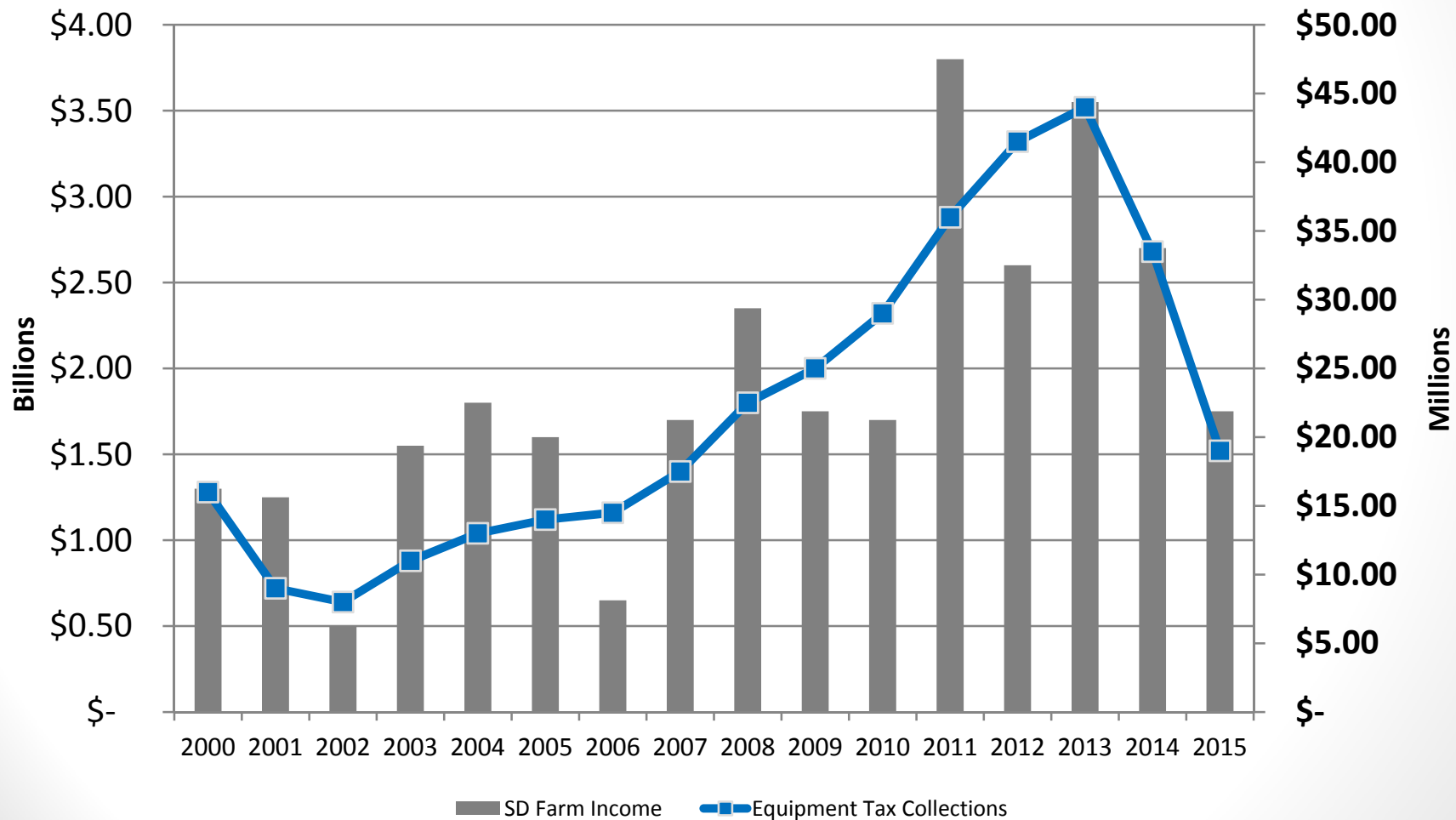


in sales in SD

It was estimated that
the 2015 harvest
totalled more than
**760 MILLION
BUSHELS**
of corn- the 3rd
highest on record



SD Farm Income and Equipment Tax Collections



Source: Governor's Council of Economic Advisors

Regional Ag Trends

2009 – 2012

- Commodity Prices ↑↑
- Land Prices (IA)
 - 2010 – 33% ↑
 - 2011 – 18.5% ↑
 - 2012 – 10.3% ↑
- 65% increase in Row Crop Tractor Sales

2013 – 2016

- Commodity Prices ↓↓
- Land Prices (IA)
 - 2014 – 8.8% ↓
 - 2015 – 11.3% ↓
 - 2016 - ???
- 31% decrease in Row Crop Tractor Sales

Land Market

Rob Fagnan

Land Sales Market

Unimproved Land - \$ per acre

Retail
Office
Industrial
Multi-family

} \$ per square foot

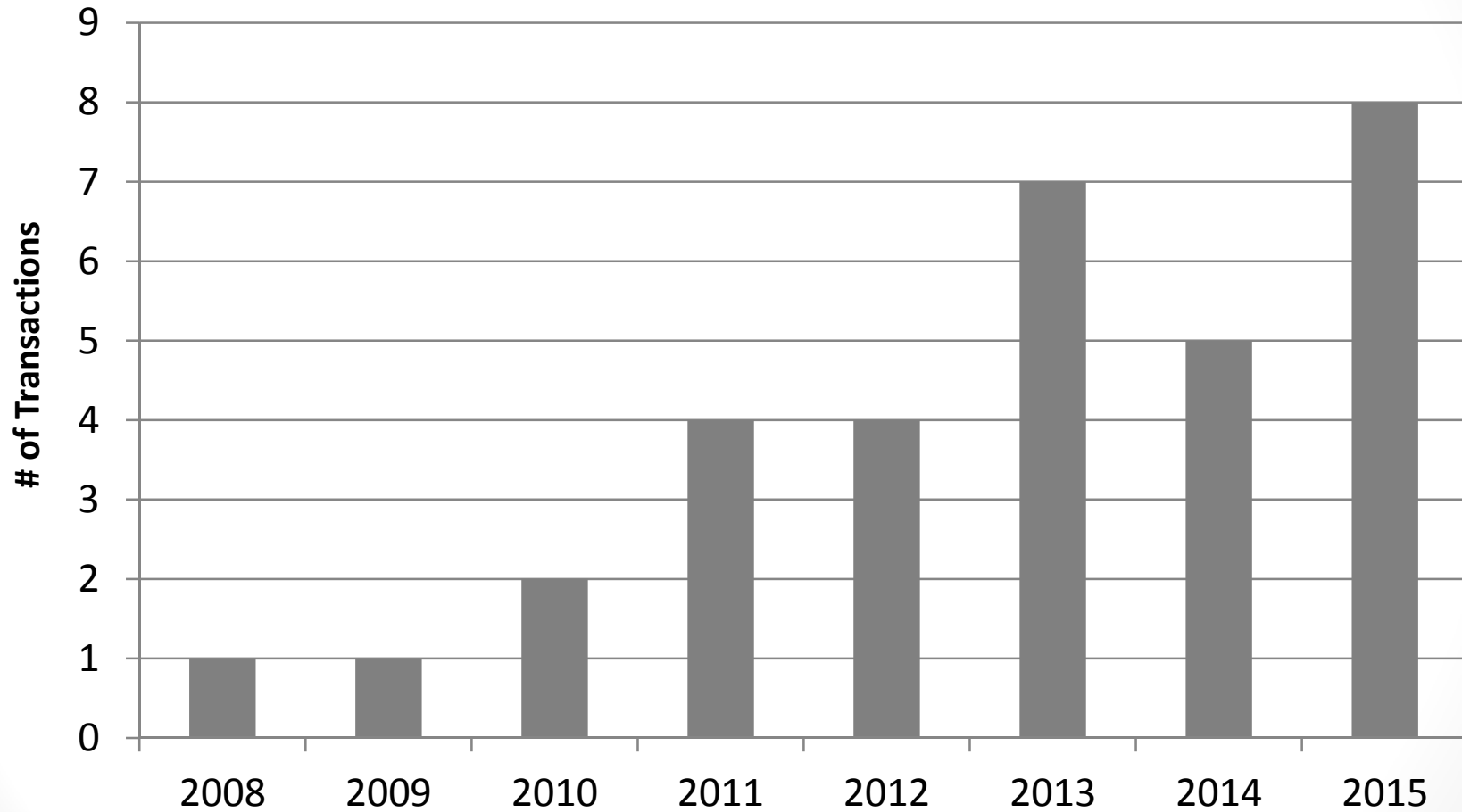
Last Year's Predictions

Unimproved Land Sales ↔

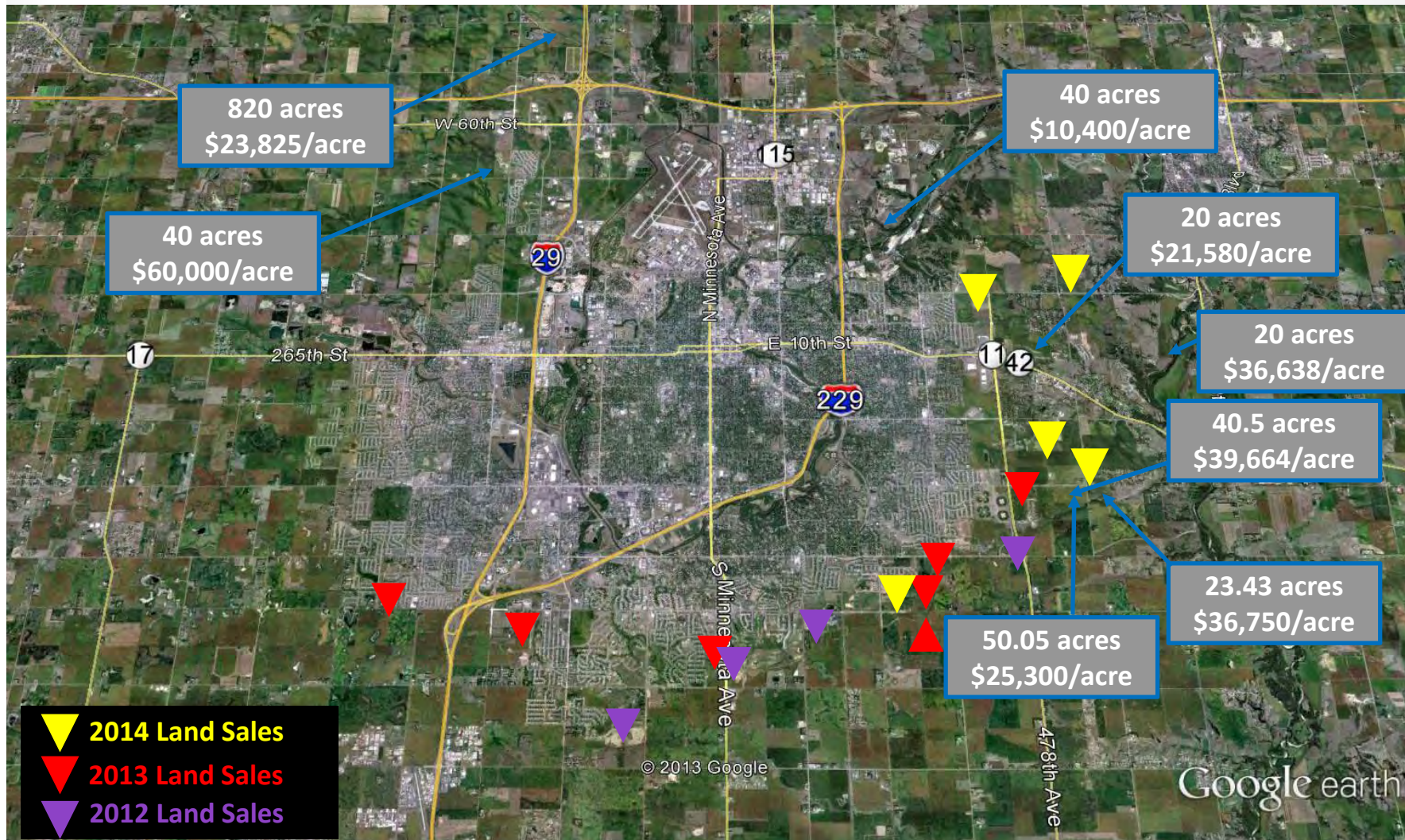
Improved Land Sales ↑

Price ↑

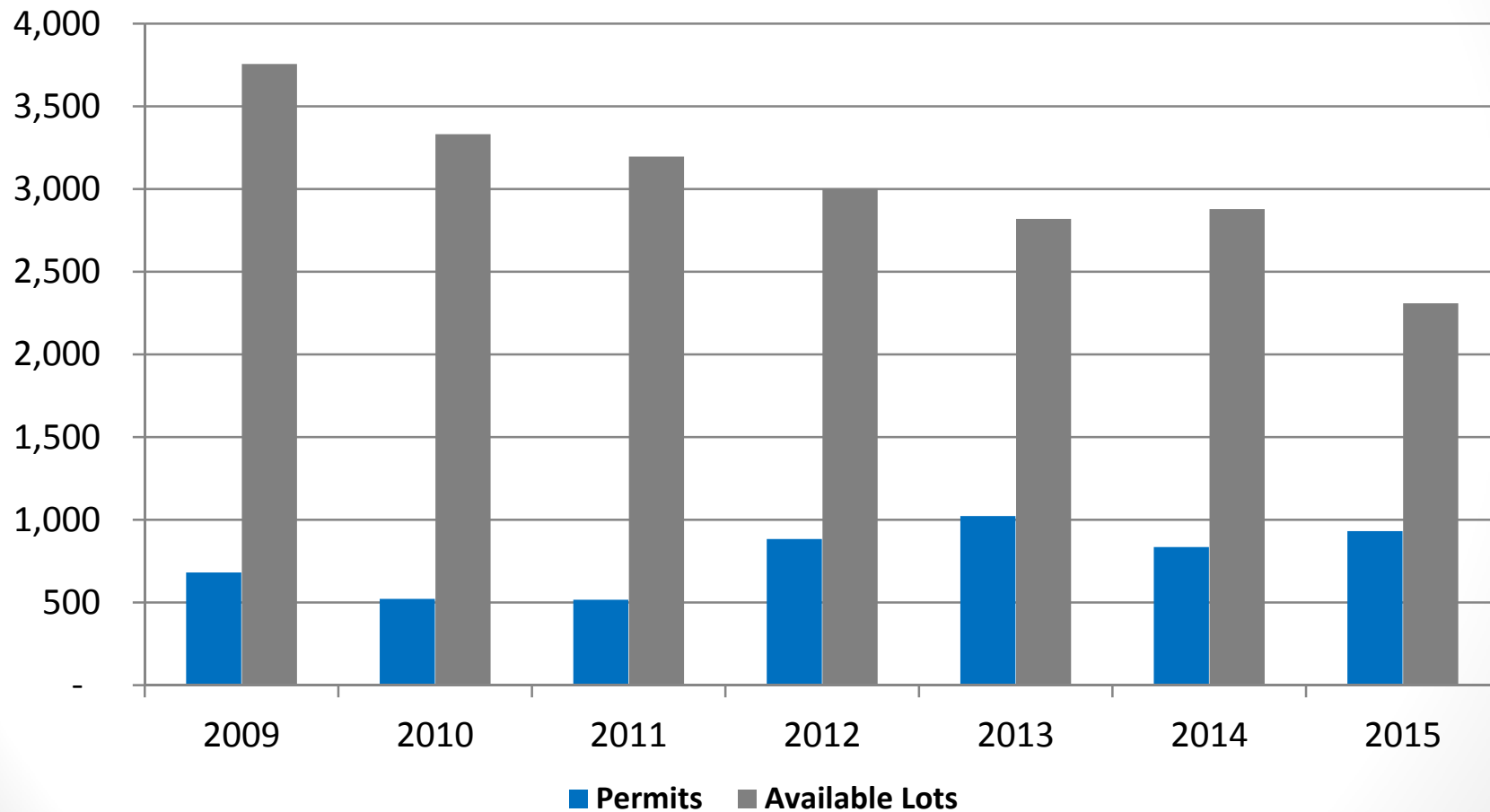
Unimproved Land Sales



Unimproved Land Sales

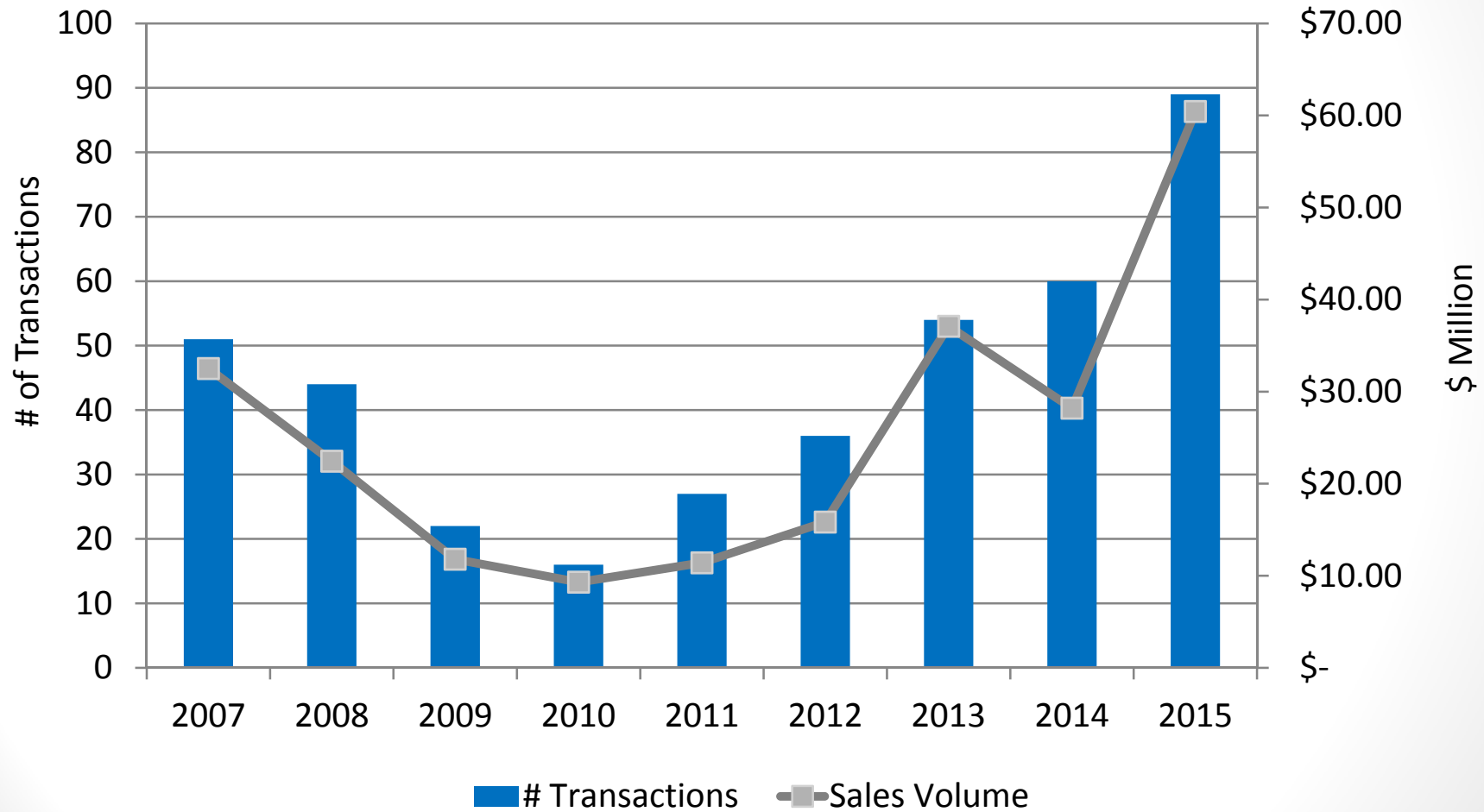


New Residential Permits (Supply v. Demand)

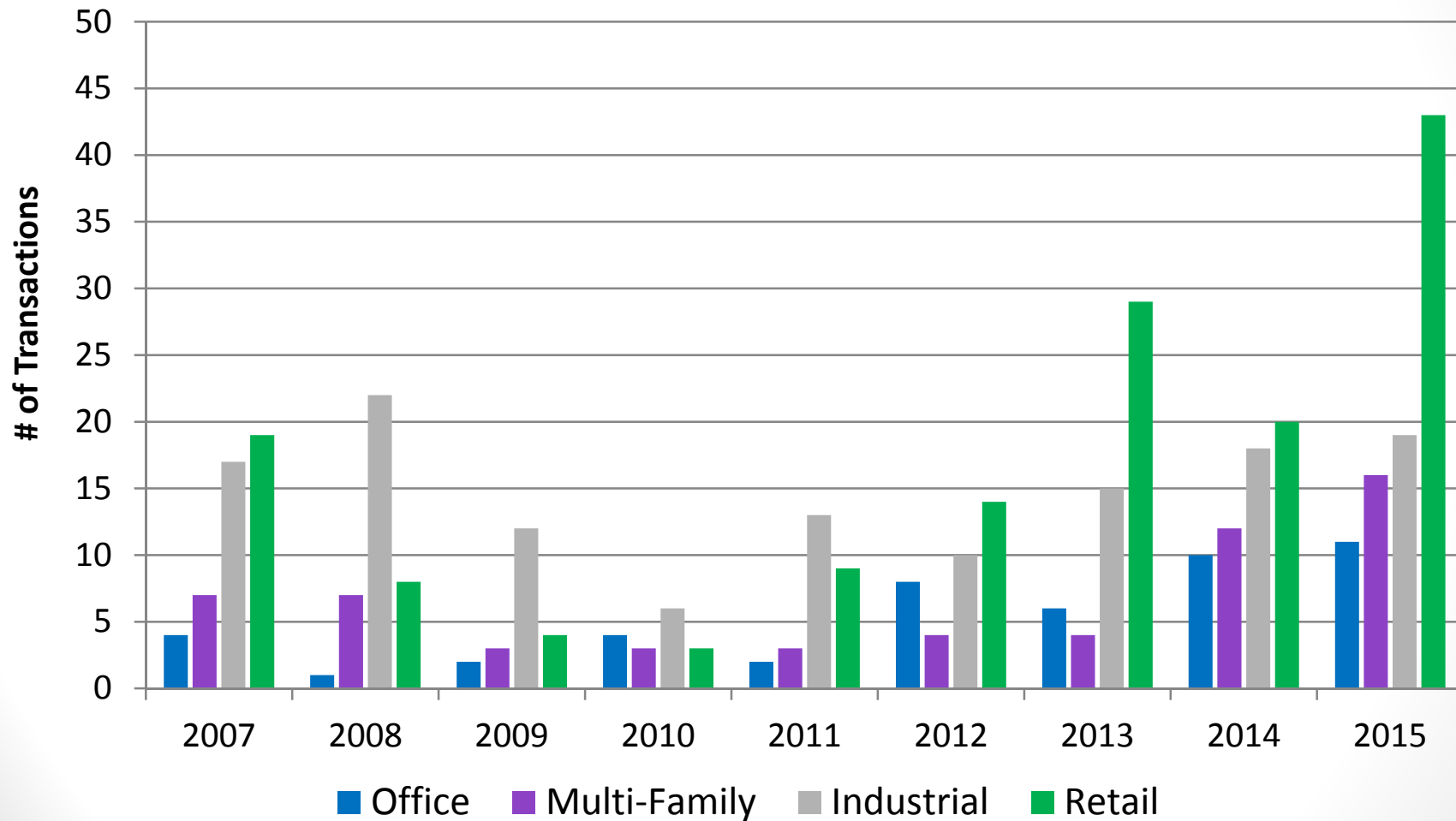


Source: City of Sioux Falls, Planning and Building Services

Improved Land Transactions



Transaction By Land Use



Pricing

	LOW	HIGH
OFFICE	\$4.50/sq. ft.	\$7.50/sq. ft.
RETAIL	\$4.40/sq. ft.	\$14.50/sq. ft.
INDUSTRIAL	\$1.50/sq. ft.	\$3.40/sq. ft.
MULTI-FAMILY	\$1.20/sq. ft.	\$2.75/sq. ft.

Infill Sites

\$15.00 to \$35.00/SF

15 Total In-fill Sales

Billion @ 41st & Minnesota

Avera McKennan Campus

Badlands Pawn @ Russell Avenue

Conclusions & Predictions

Unimproved Land Sales ↓

Improved Land Sales ↓

(In-Fill Sites)

Price ↔

Industrial Market

Rob Fagnan

Industrial Market

Manufacturing

Warehousing

Distribution

Transportation

Contractor Shop Space

Industrial Market

Sioux Falls

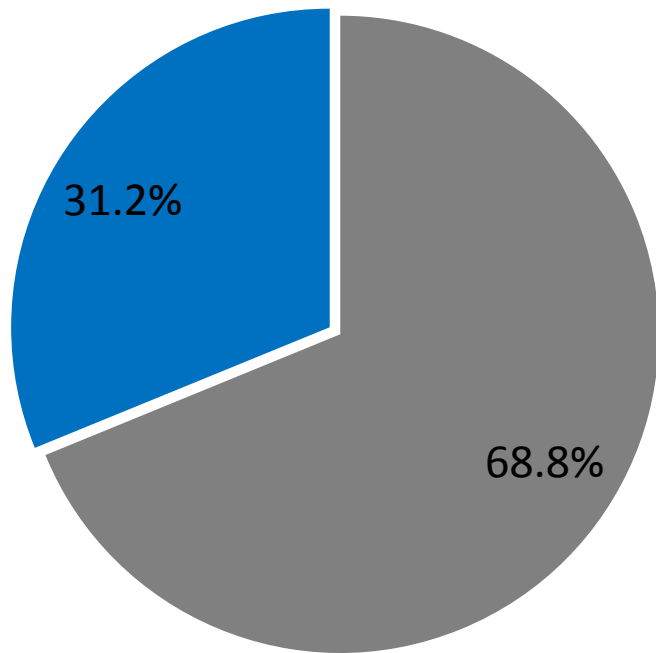
781 Buildings = 16.14 M

Tea

324 Buildings = 2.62 M

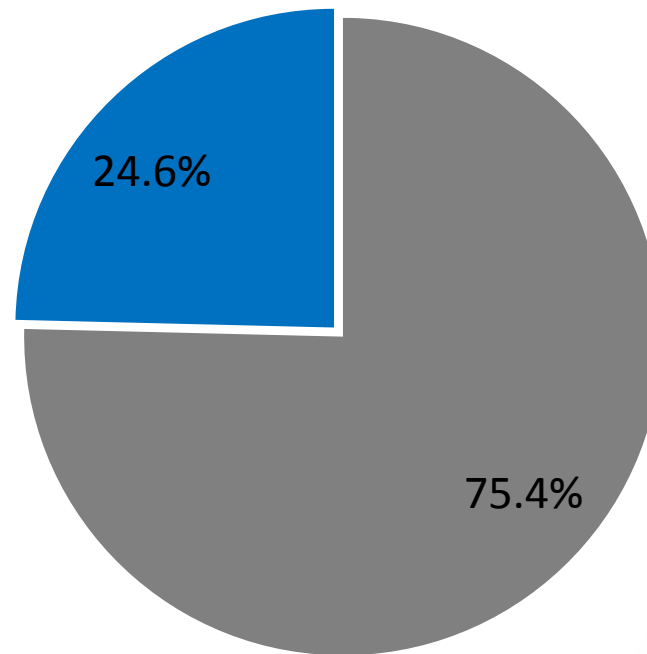
Industrial Market

Sioux Falls



■ Owner-Occupied ■ Non-Owner Occupied

Tea



■ Owner-Occupied ■ Non-Owner Occupied

Vacant December 31, 2014

Sioux Falls

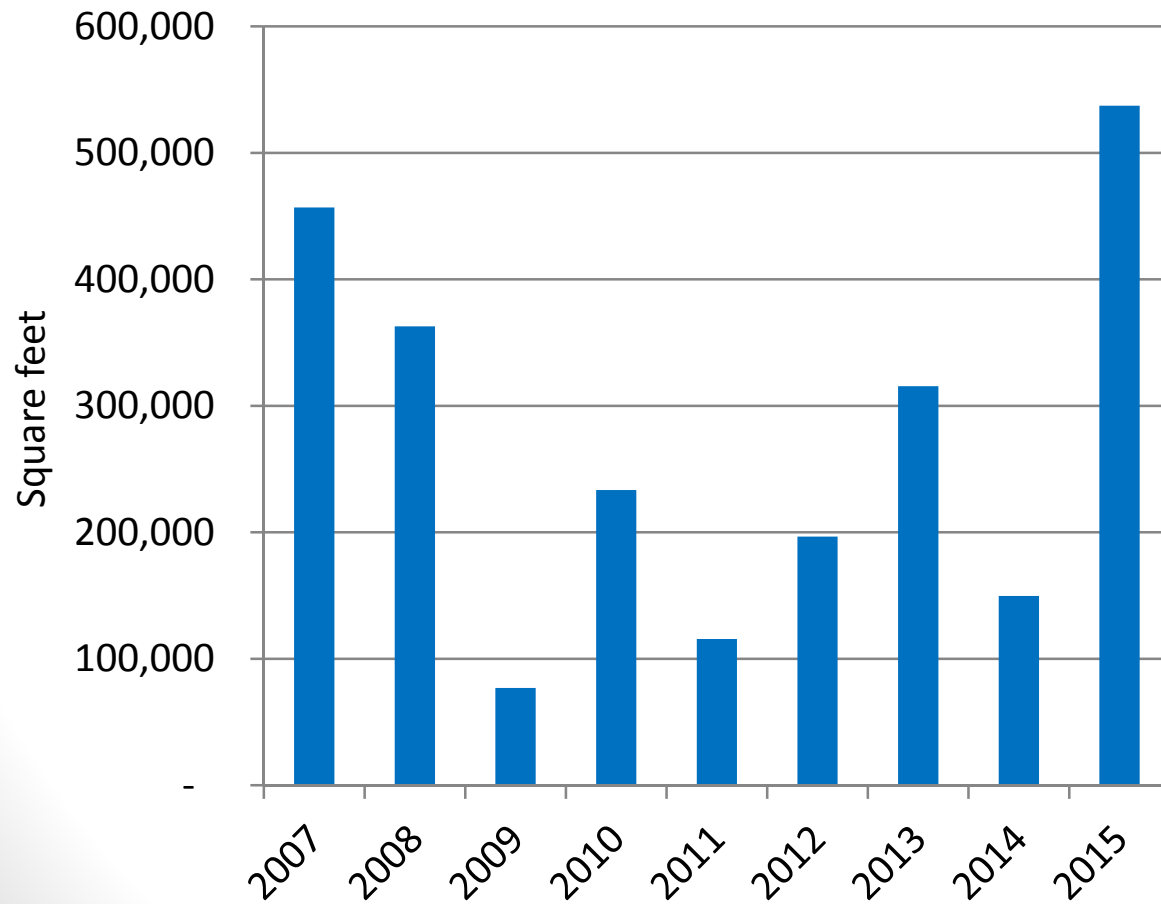
276,645 SF (1.77%)

Absorbing 1,120 SF/Day

247 Days

Industrial Construction

New Construction – Completed during calendar year 2015



9 New Buildings
and 4 Additions
Completed in 2015
(537,205 SF)

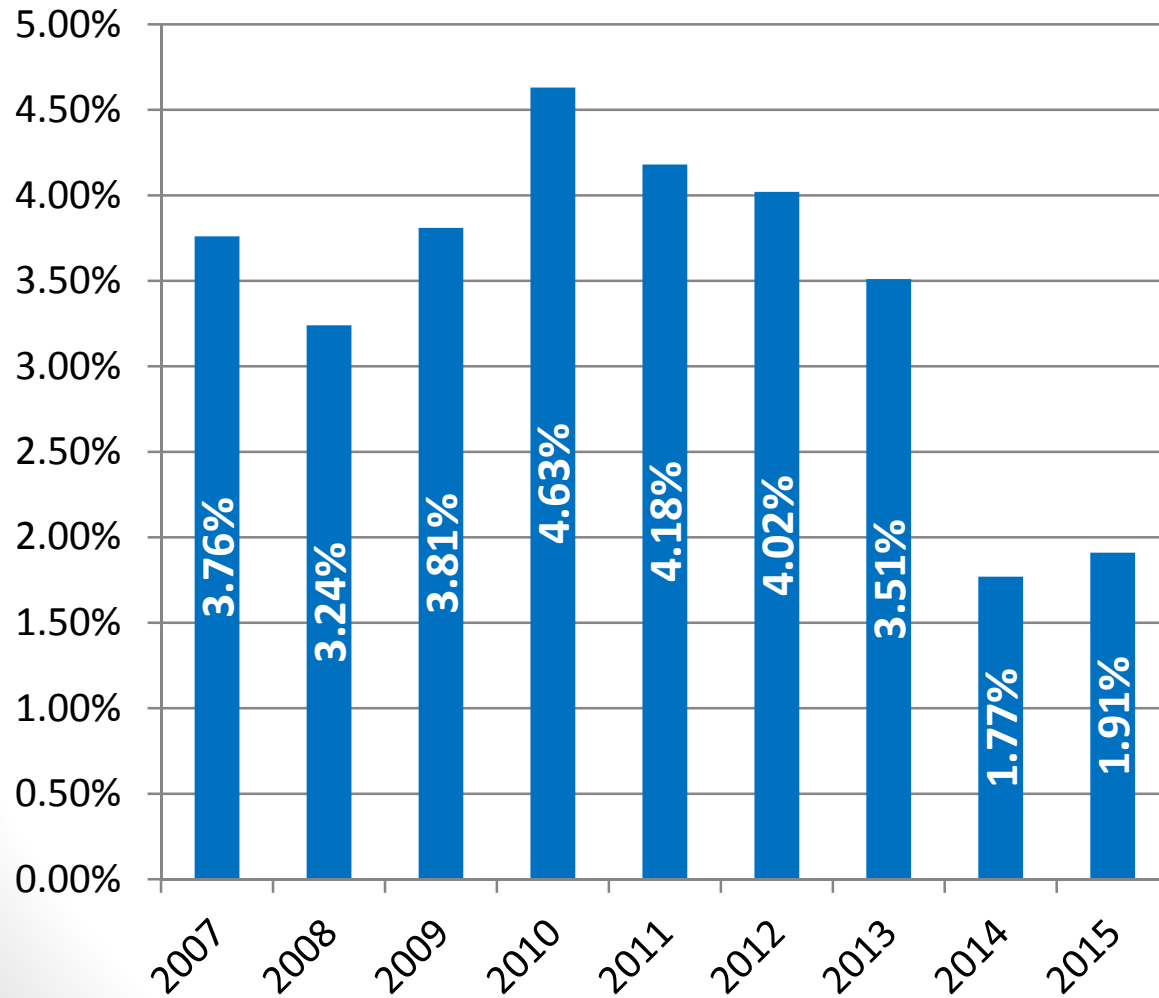
Industrial Construction



Available Space in 2015

Vacant Space as of January 1, 2015	276,645 SF
New Construction in 2015	<u>537,205 SF</u>
Total Available Space	813,850 SF

Industrial Vacancy



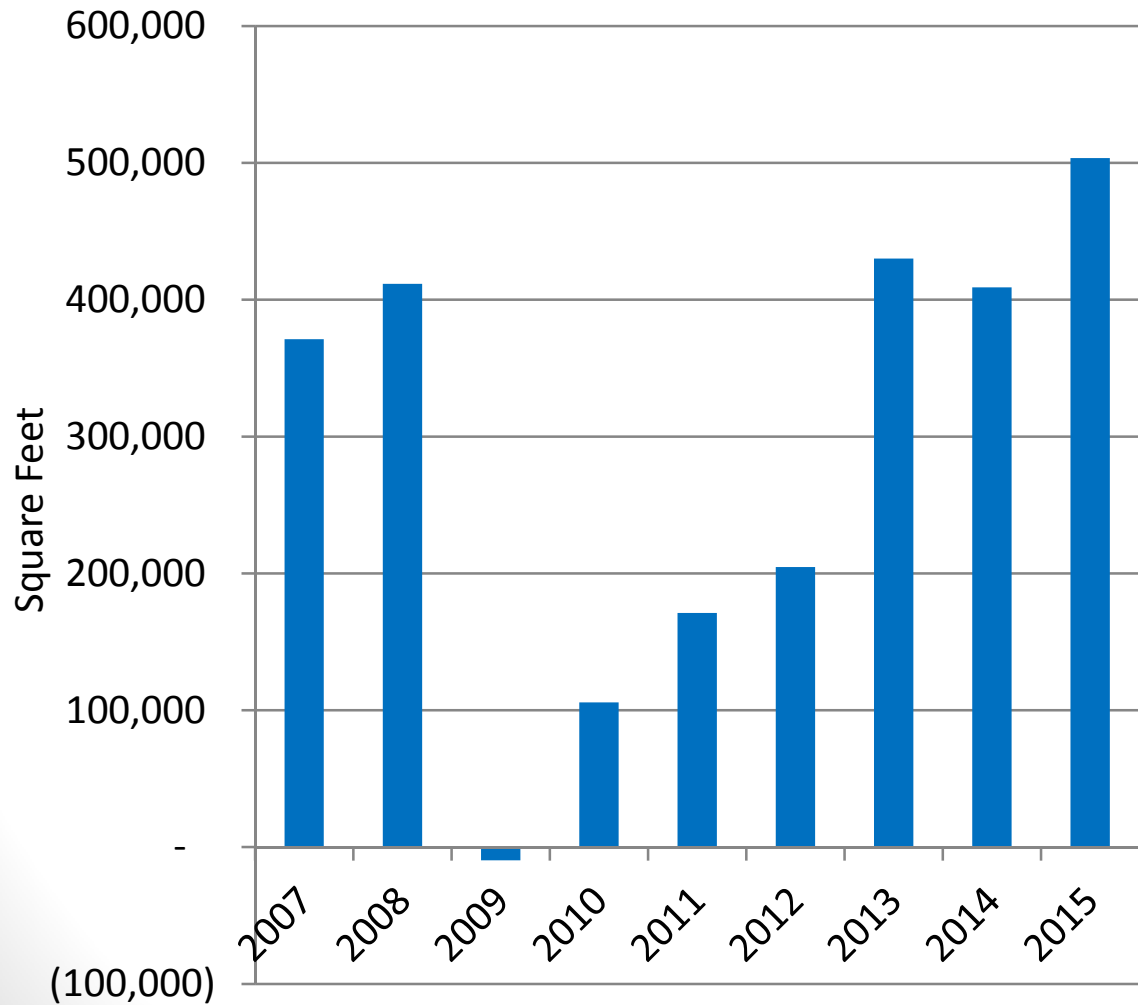
Sioux Falls
310,329 SF

Tea = 1.29% (33,759 SF)
2.45% in 2014

Net Absorption

Total Available Space	813,850 SF
Vacant as of December 31, 2015	<u>(310,329 SF)</u>
Net Absorption	503,531 SF

Net Absorption



In 2015, the Industrial market absorbed 23.1% more than in 2014

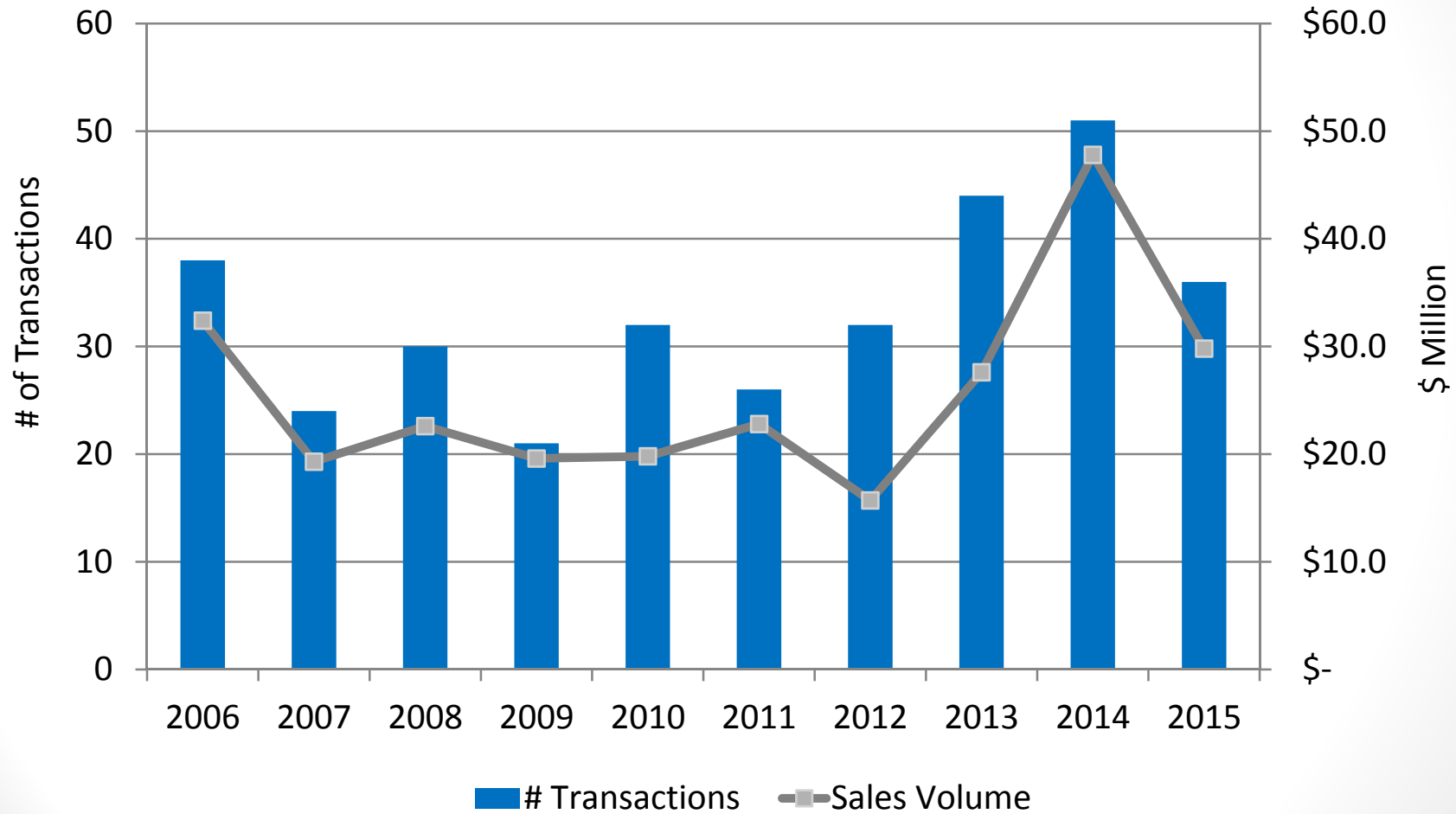
Industrial Market Supply

Absorbing 1,380 SF/Day

310,329 SF Vacant

225 Days

Industrial Market Sales



Asking Industrial Lease Rates (NNNs)

	Low	High
Class A	\$5.75	\$6.25
Class B	\$4.50	\$5.50
Class C	\$3.50	\$4.25

Spec Building?

New 15,000 SF Metal Building

\$6.00/SF NNN Lease Rate

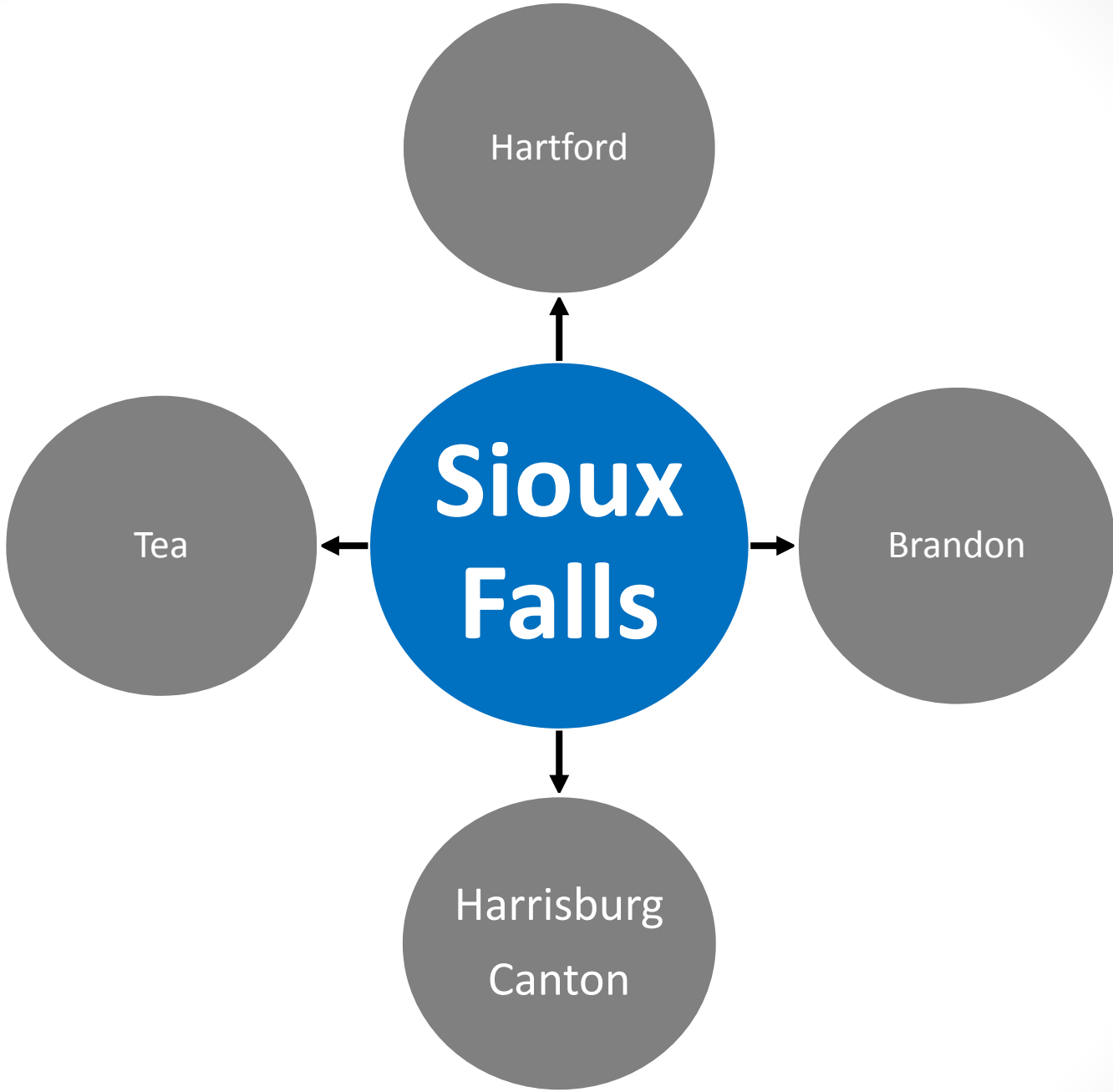
Construction Cost = \$75.00/SF

15,000 SF @ \$6.00/SF = \$90,000

15,000 SF @ \$75.00/SF (including land)

\$1,125,000

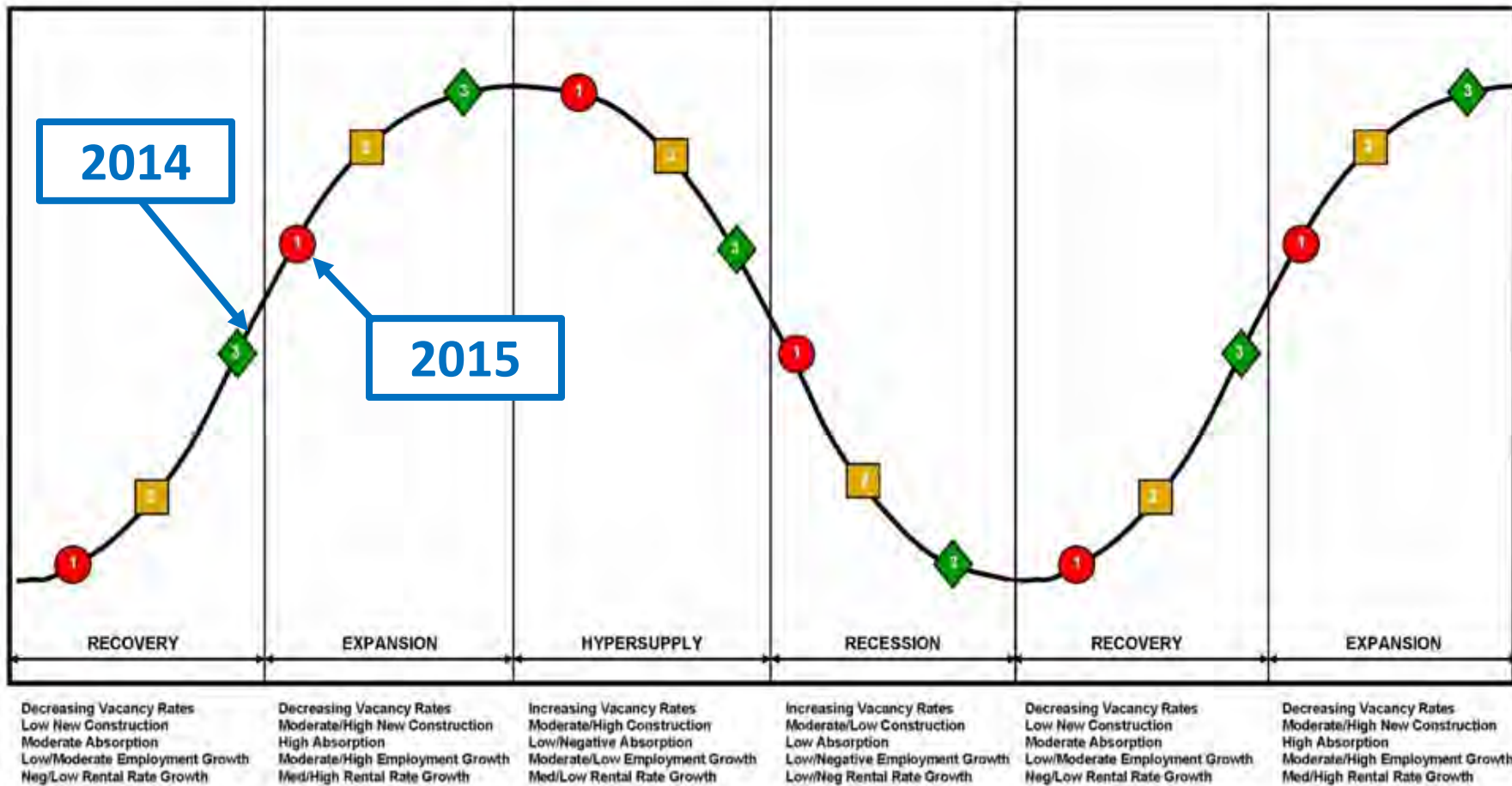
$\$90,000 / \$1,125,000 = 8.0\% \text{ Cap}$



Conclusions & Predictions

- Surrounding Communities will continue to grow
 - Land Cost = 25% - 30% of Total Construction Costs
 - Cheap or Free Land
- Sales ↓
- Leasing ↑
- 2015 and 2016 New Construction Strong

Industrial Real Estate Cycle



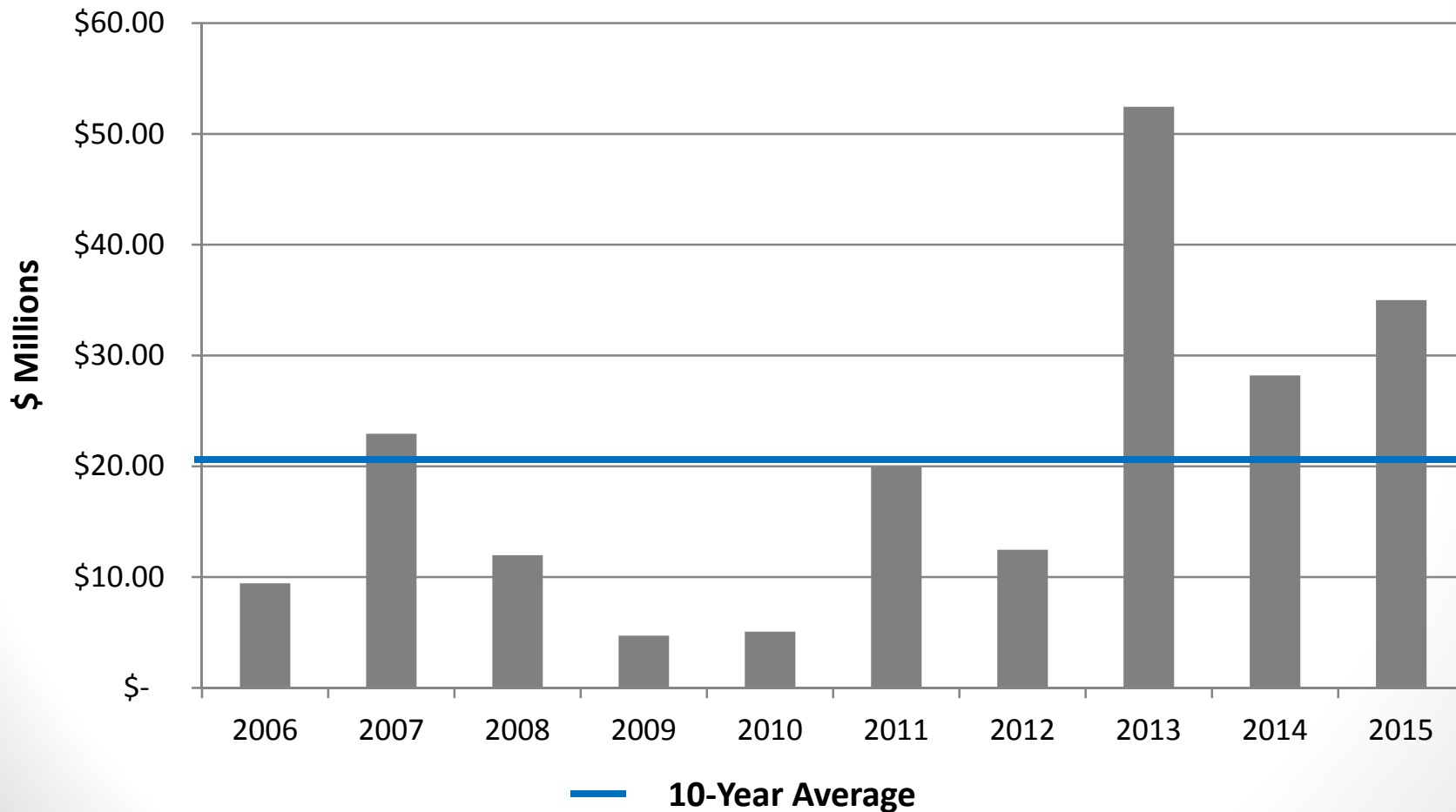
Office Market

Andi Anderson, SIOR

Office Property Sales

(Owner/User)

10-Year Office Sales Volume



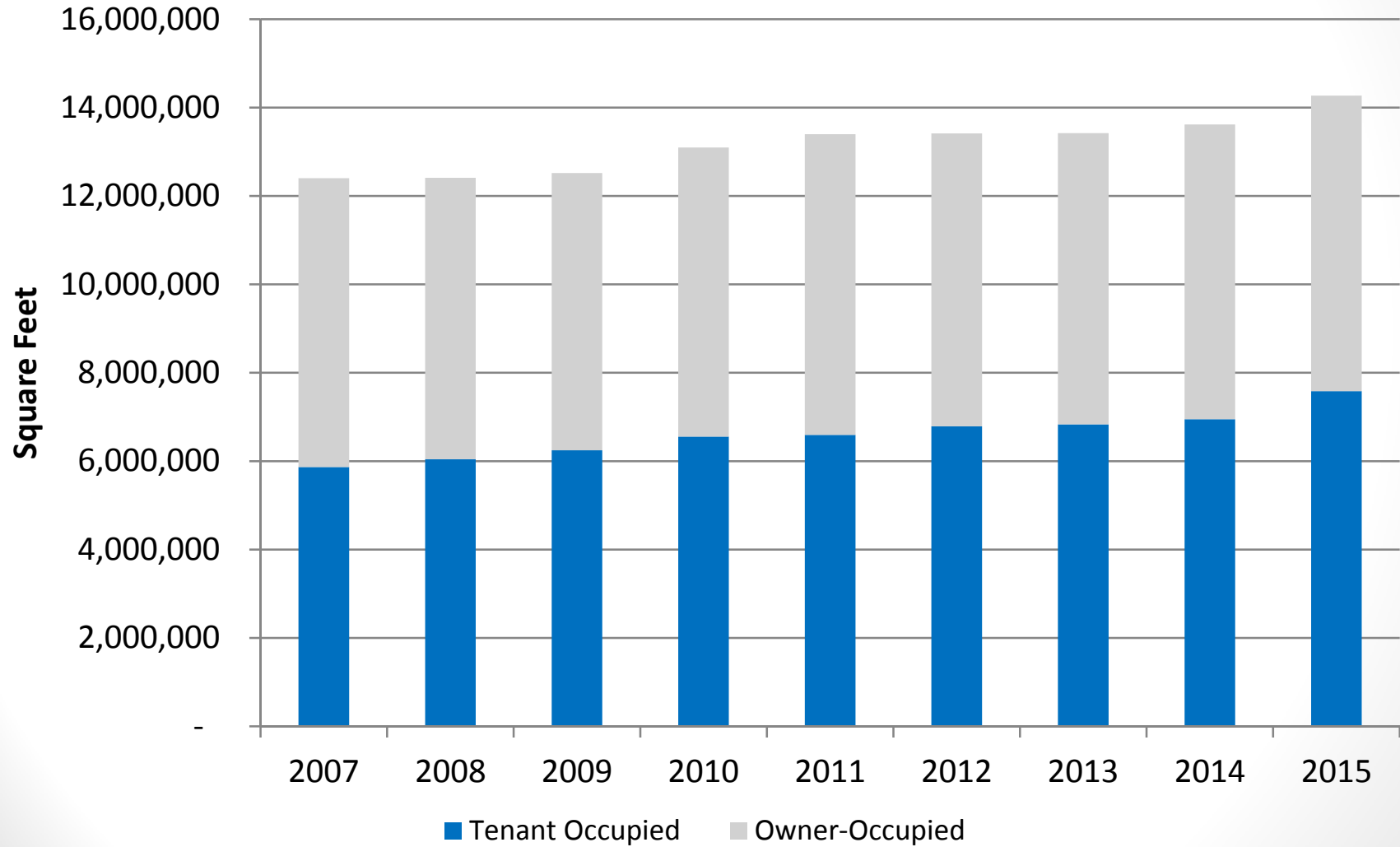
Sale Price/SF

\$75.00 - \$220.00/SF



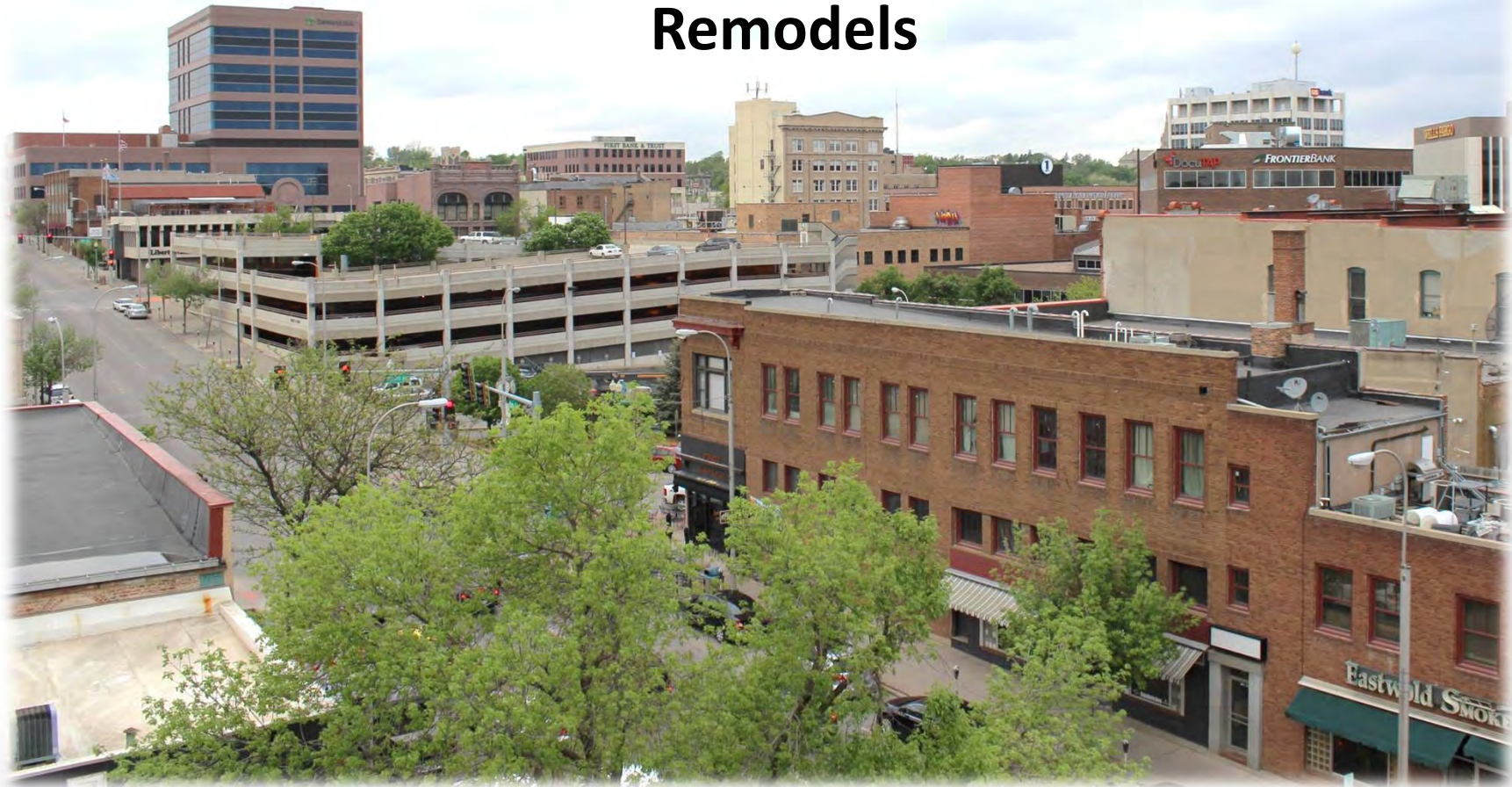
Average Sale Price: \$90.00/SF

Sioux Falls Office Market

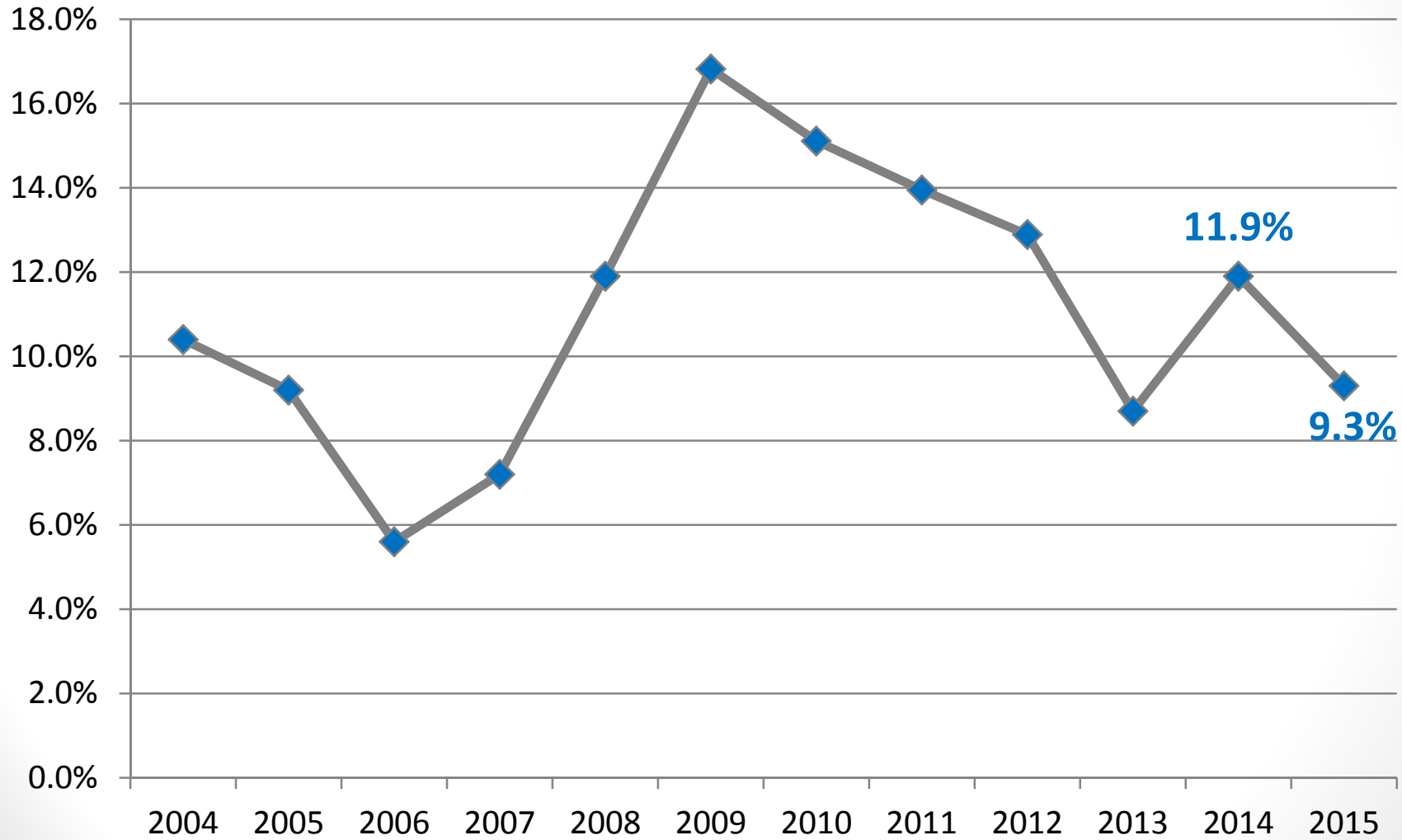


CBD Sector

No Increase in Inventory in 2015
Remodels

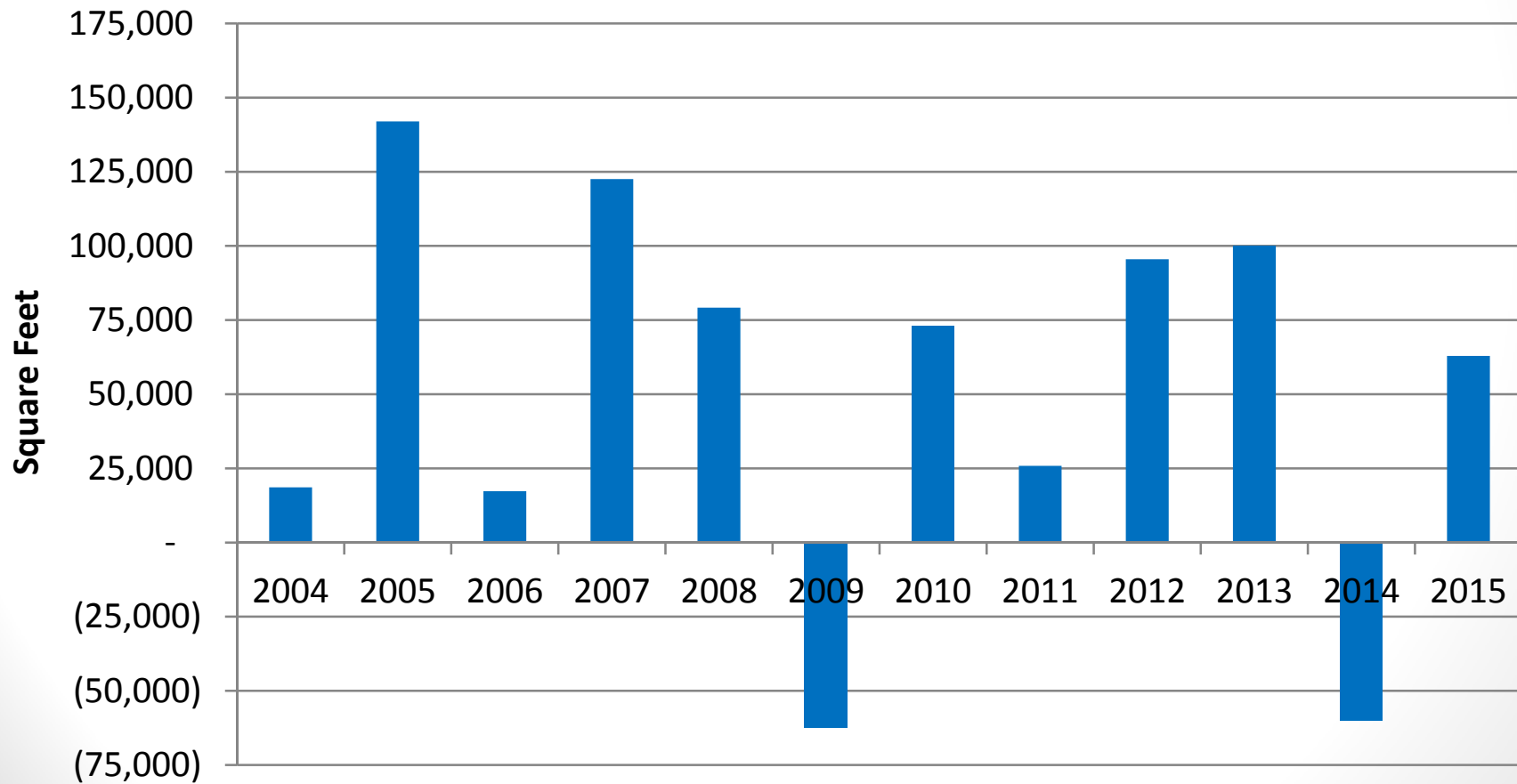


CBD Vacancy Rate



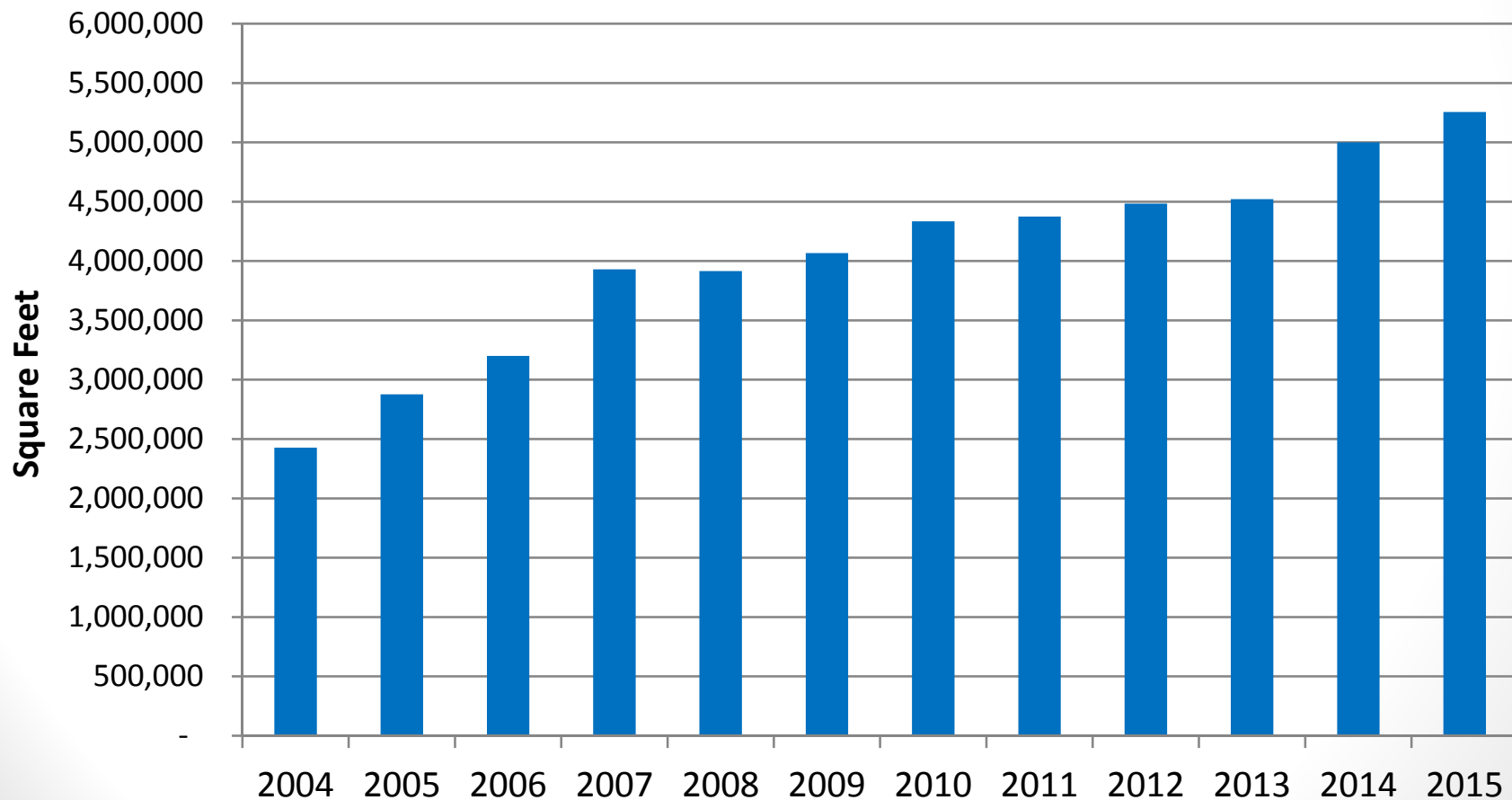
CBD Net Absorption

62,924 sq. ft.



Suburban Inventory

5,256,327 sq. ft. ↑ 5.1%

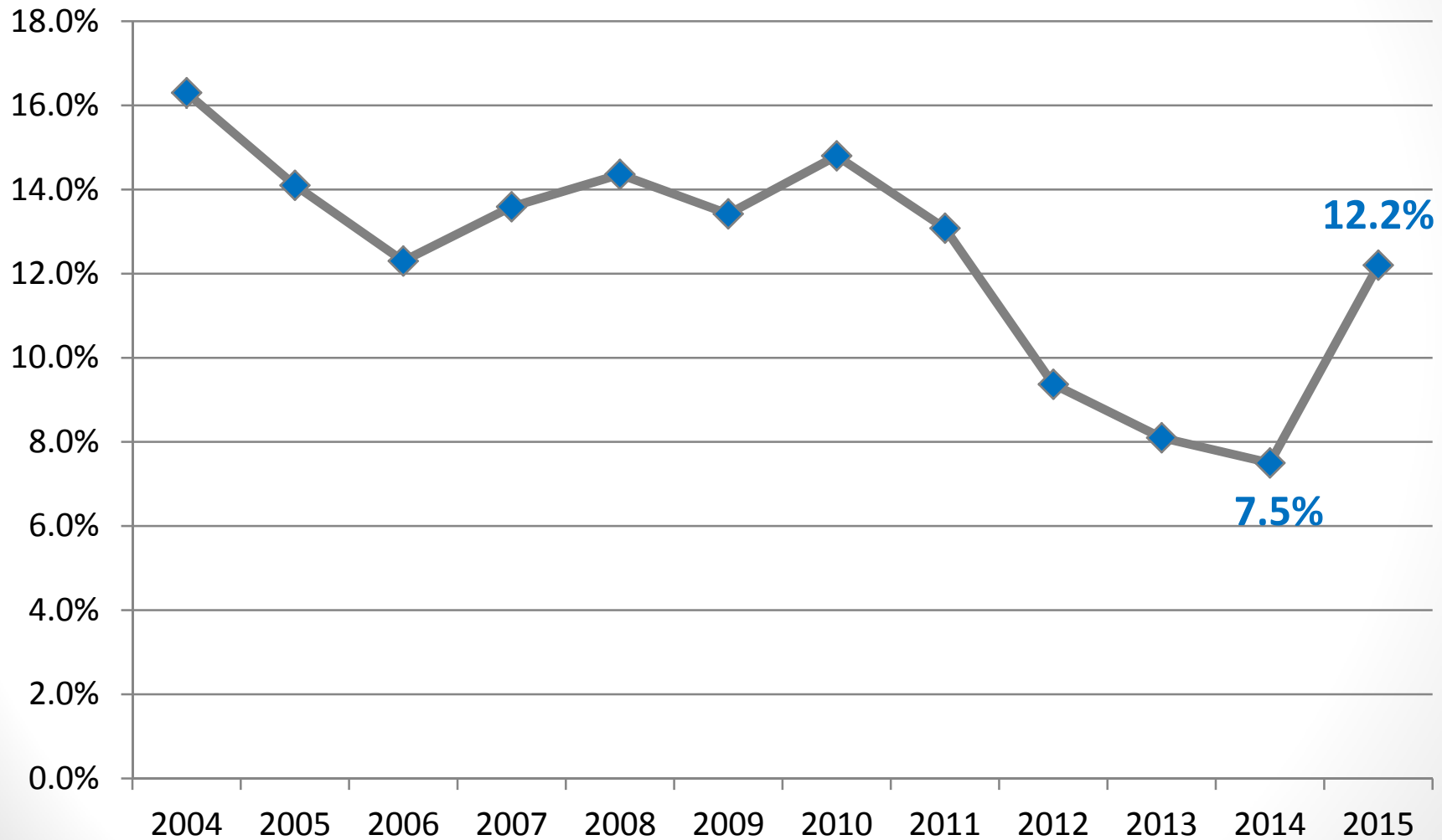


Suburban Inventory



 **Woltman Group** PC
CPAs AND BUSINESS ADVISORS

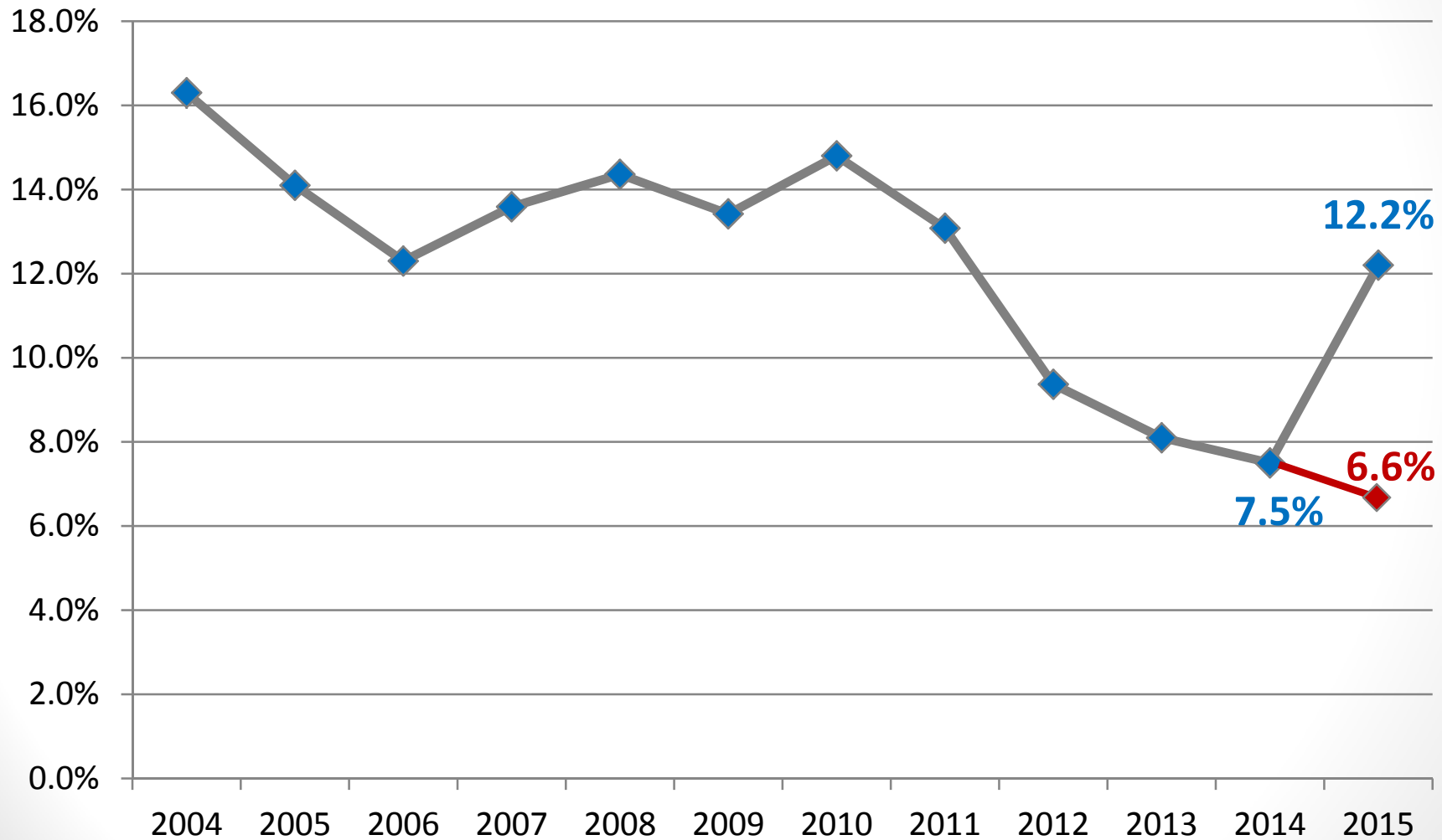
Suburban Vacancy Rate



Suburban Vacancy

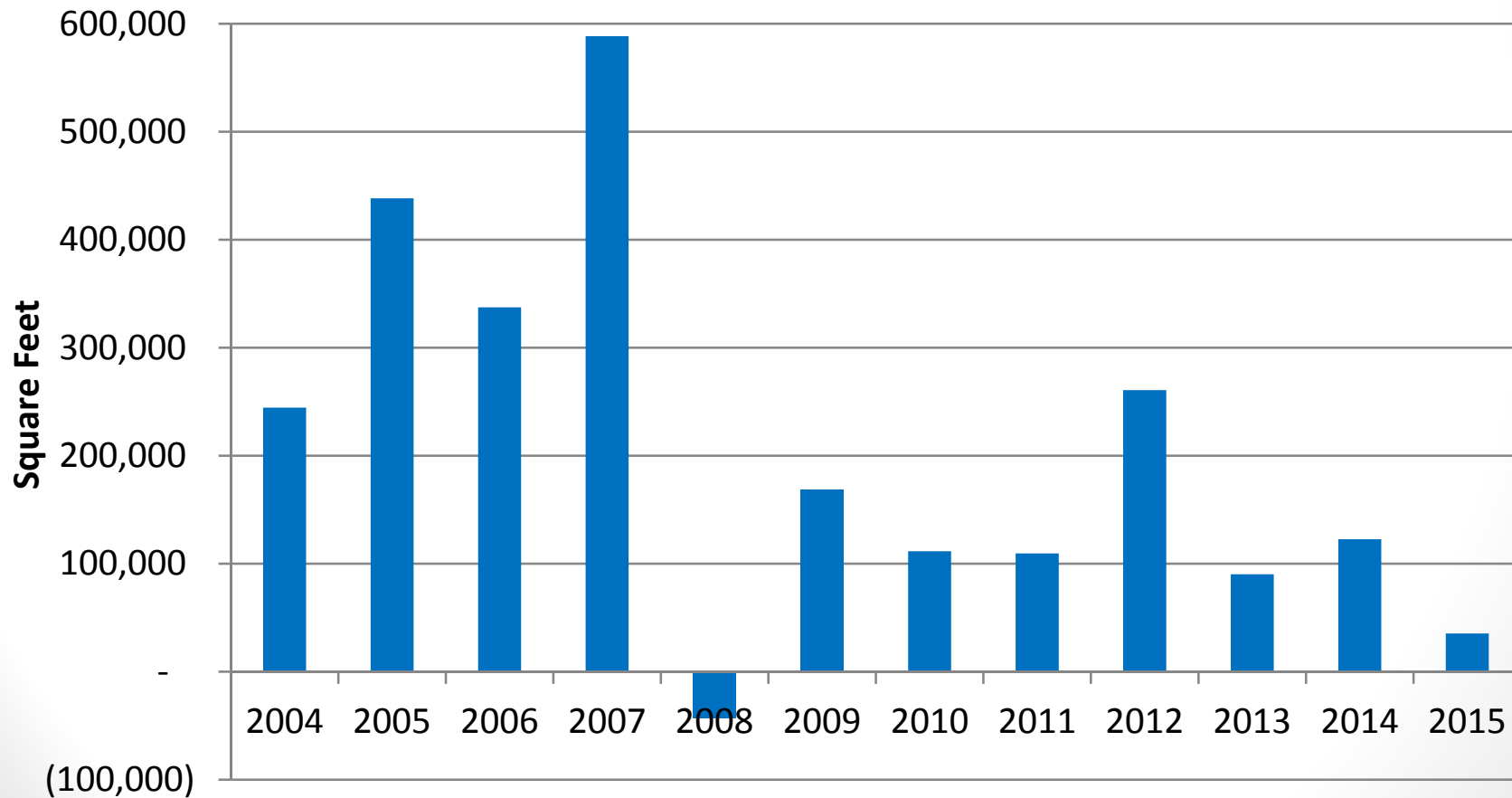


Suburban Vacancy Rate

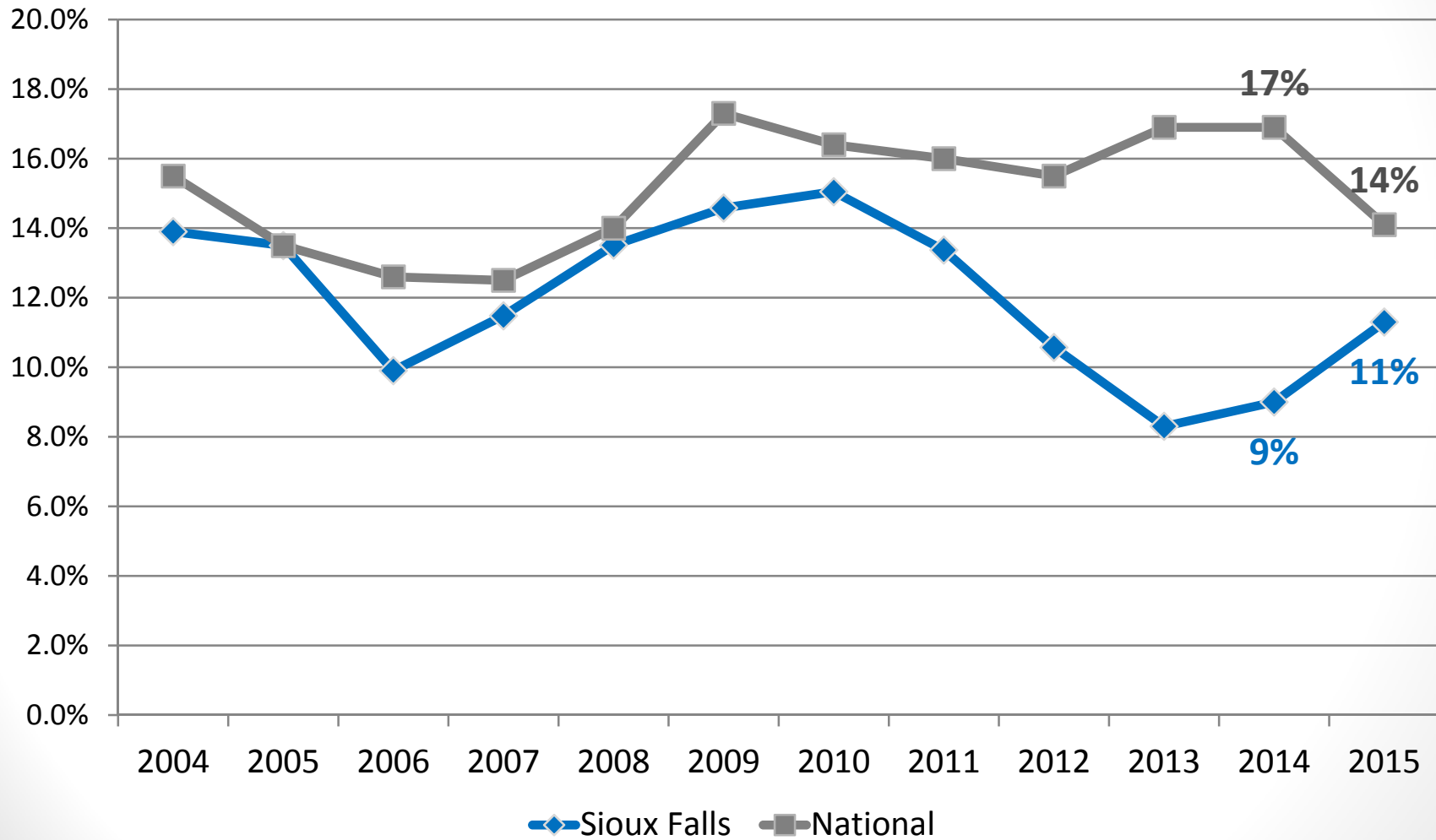


Suburban Net Absorption

35,362 sq. ft.



Historic Vacancy (Citywide)



Asking Rental Rates

(By Class – NNN - Citywide)

	Low	High
Class A Space	\$13.50	\$21.25
Class B/C Space	\$8.00	\$12.00

Citywide Inventory Trend

2006 -2010

2M SF increase

2011 – 2015

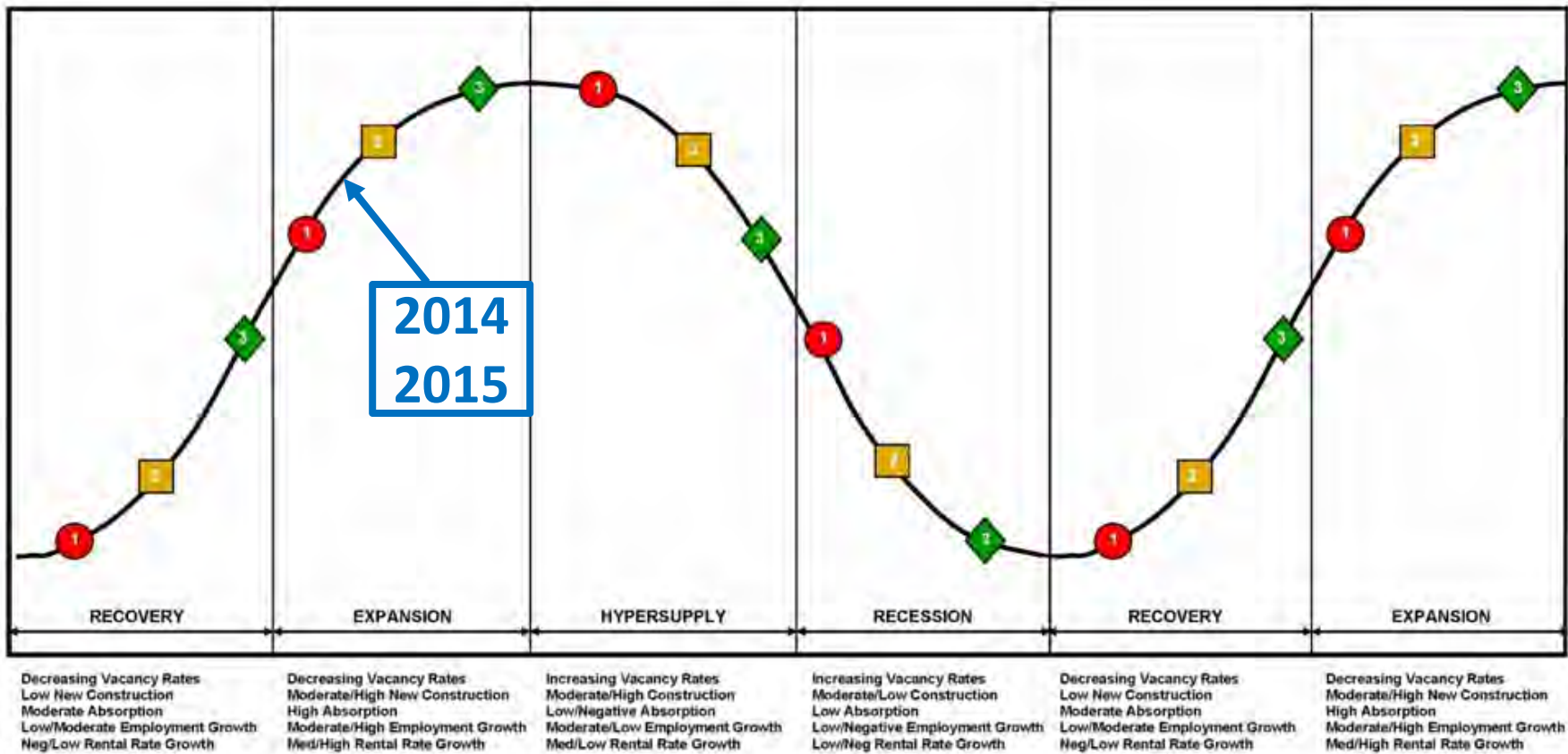
1M SF increase

WHY???

Inventory Trend

- Excess Space from Pre-Recession
- ↑ Construction Cost
- Developers more conservative
- 50% - 60% Pre-Leased
- Office Densification

Office Market Real Estate Cycle



Retail Market

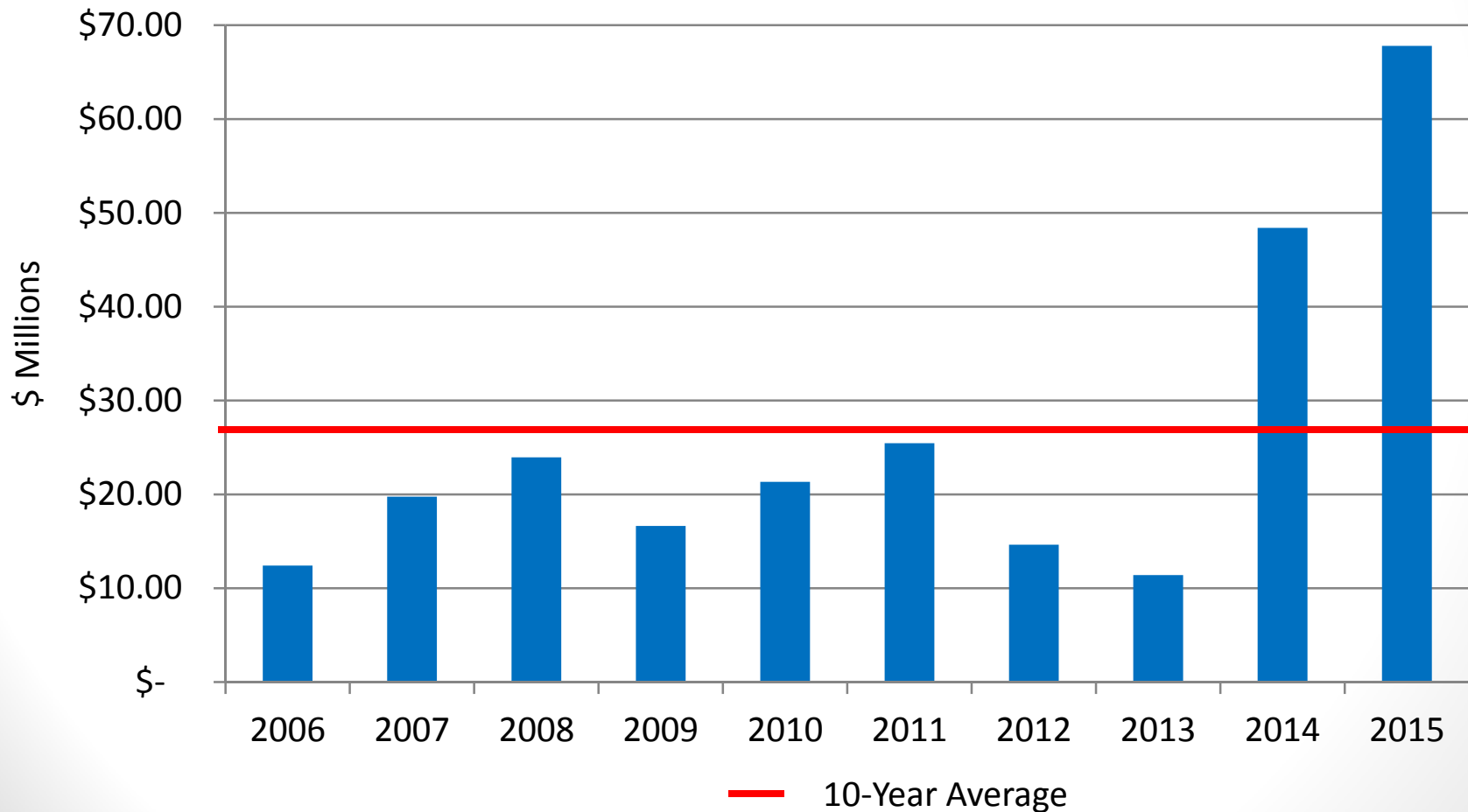
Reggie Kuipers, SIOR

Major Retail Focal Points

Sector	Total Sq. Ft.	Vacancy Rate	Asking Lease Rates per Sq. Ft. (NNN)
57 th & Western	92,774 sq. ft.	0.0%	\$15.00 - \$17.00
57 th & Louise	164,982 sq. ft.	0.9%	\$16.00 - \$25.00
69 th & Western	53,985 sq. ft.	0.0%	\$14.00 - \$16.00
69 th & Minnesota	80,943 sq. ft.	2.5%	\$13.25 - \$15.00
26 th & Marion	112,060 sq. ft.	9.7%	\$11.00 - \$18.00
Mall Area	588,242 sq. ft.	3.0%	\$9.50 - \$30.00
Dawley Farm Area	163,099 sq. ft.	7.5%	\$14.50 - \$24.00
Total	1,256,085 sq. ft.	4.7%	

Retail Property Sales

10-Year Retail Sales Volume



Out with the Old...

In with the New!!

In-Fill Sites

Out with the Old...

In with the New!!



Out with the Old...

In with the New!!

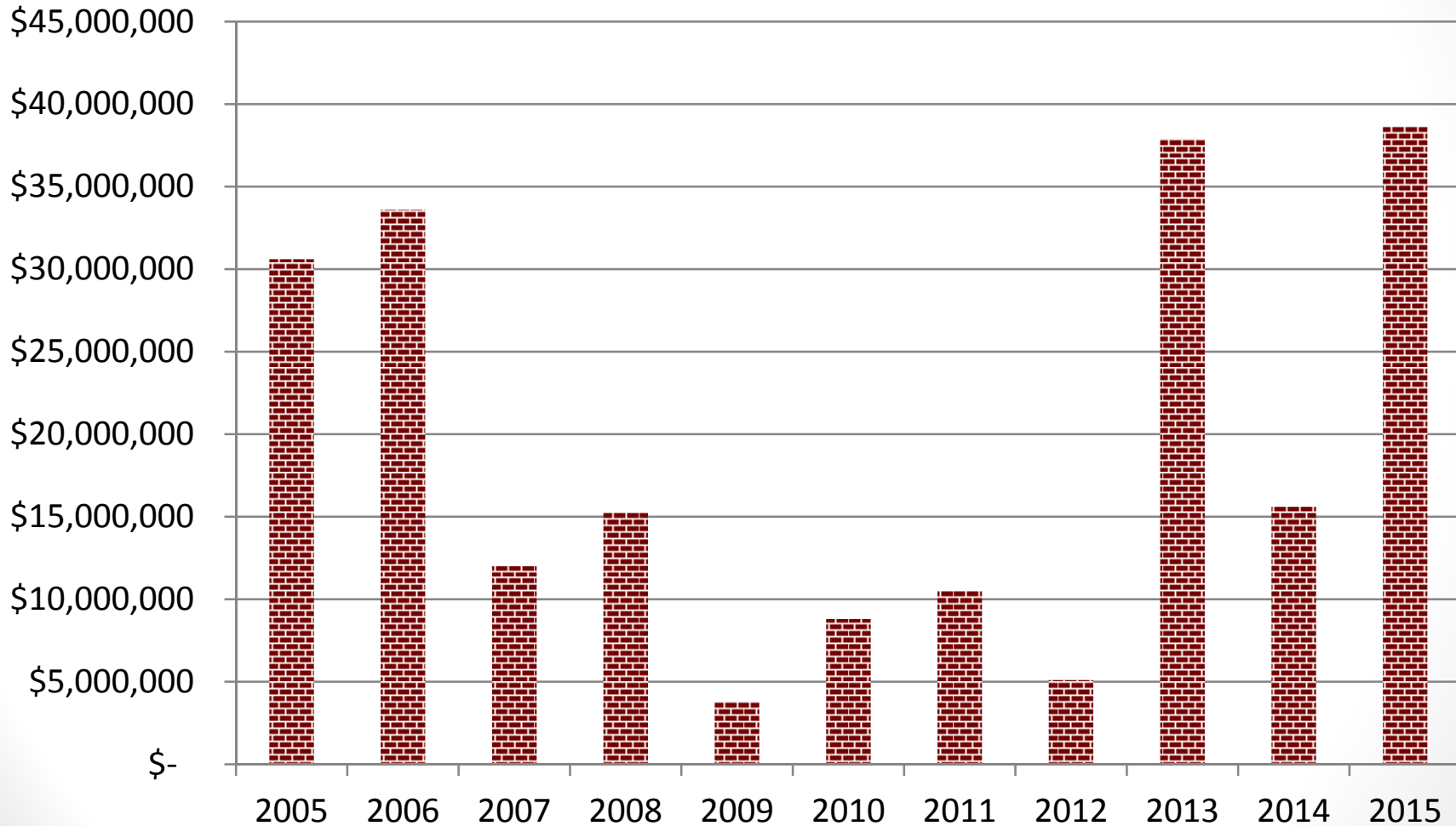


Out with the Old...

In with the New!!



Retail Construction



Source: City of Sioux Falls, Planning and Building Services

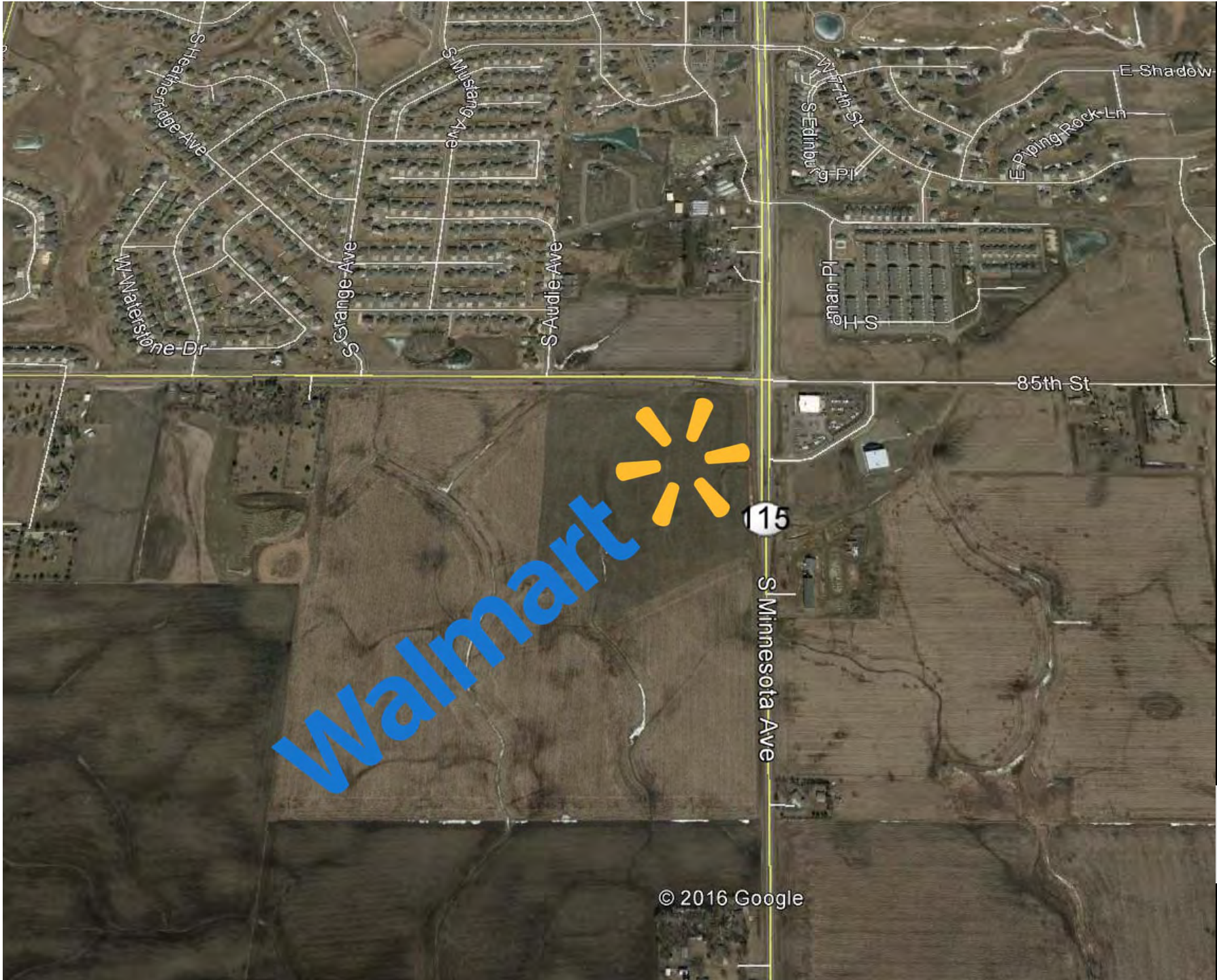
Recent Retail Closures



New Construction Areas to Watch







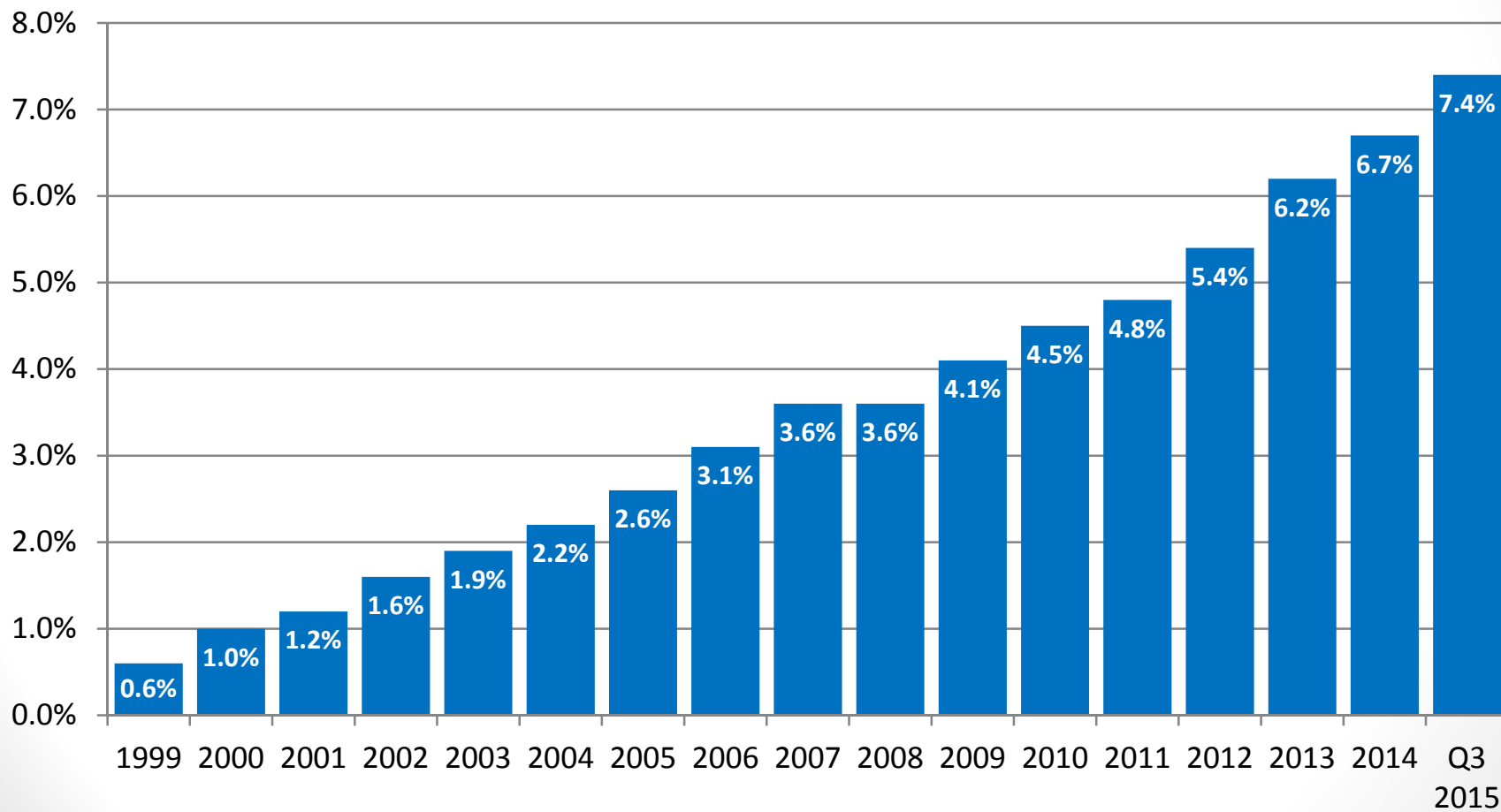
© 2016 Google

Retail Evolution

- Mobile Shopping – Bricks & Clicks
- The Changing Shopper
- Urbanization
- Millennial Generation

The Changing Shopper

E-COMMERCE SALES AS A PERCENT OF TOTAL RETAIL SALES

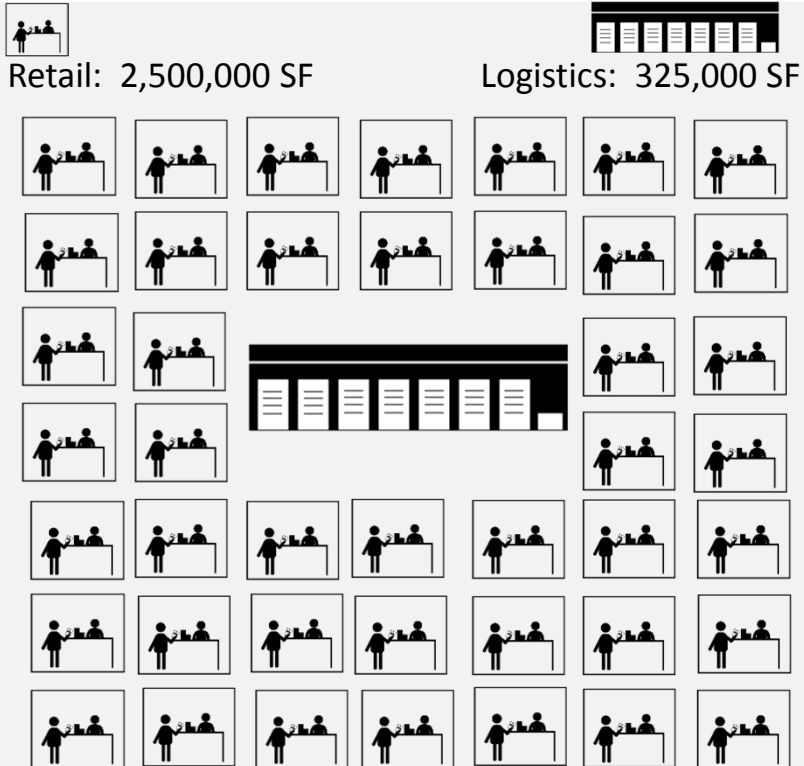


Source: Federal Reserve Bank of St. Louis

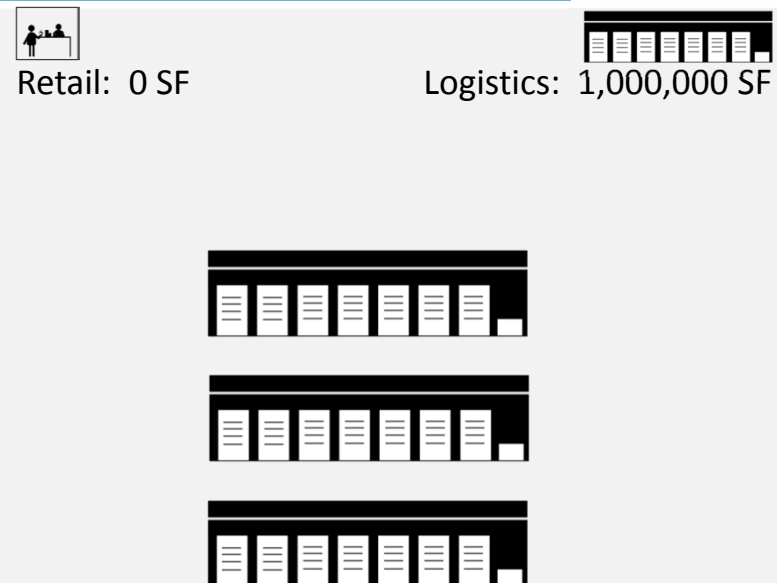
The Changing Shopper

How Much Real Estate Does a \$1B in Retail Sales Need?

Brick & Mortar Real Estate Footprint: 2.8M SF

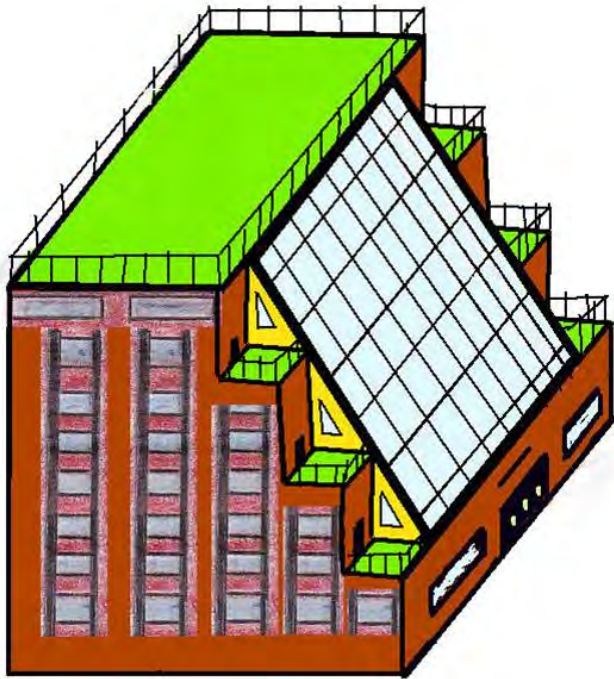


E-Commerce Real Estate Footprint: 1.0 M SF



Source: SIOR

Retail Footprint



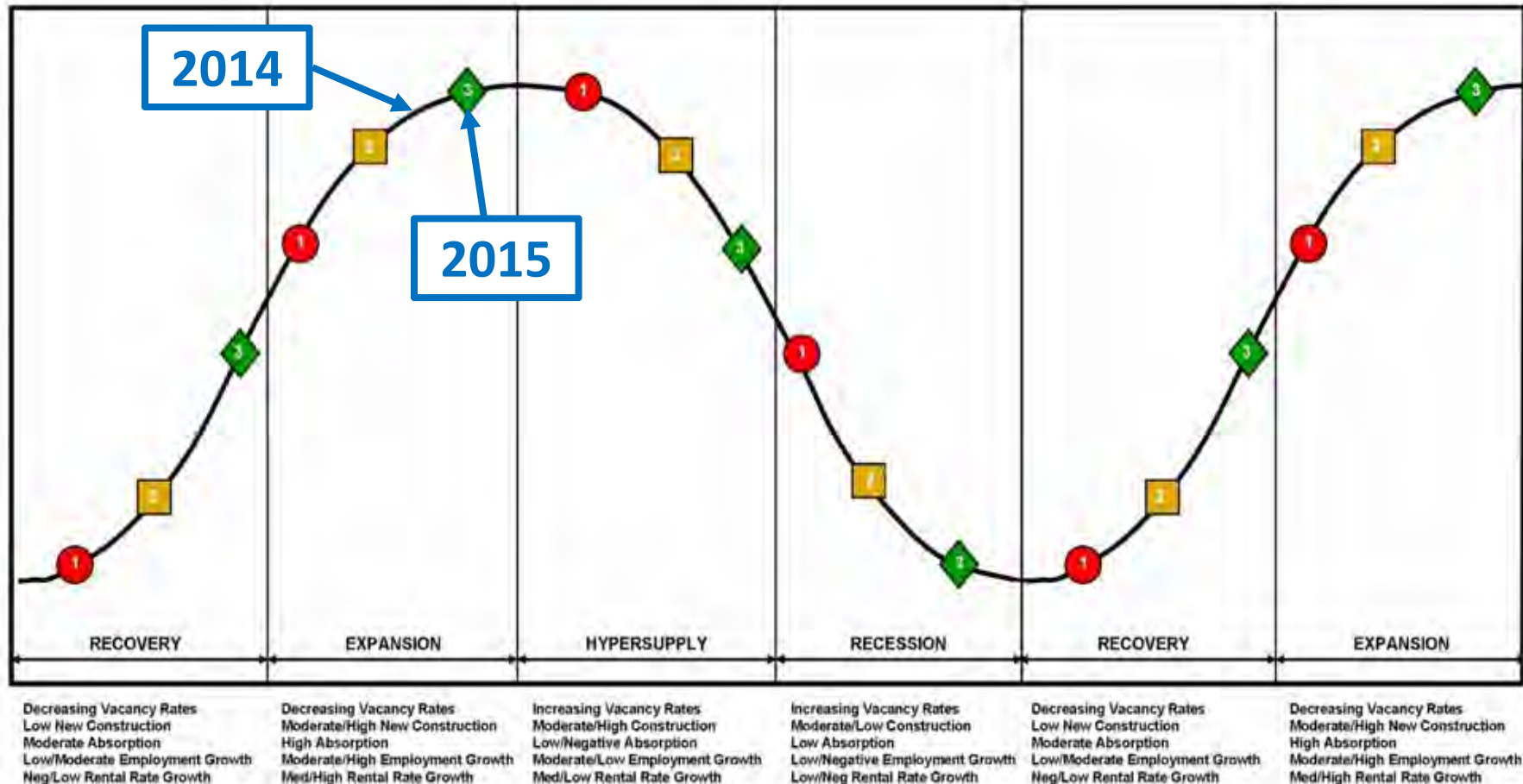
15% - 20%
Smaller
↔
By 2020



Predictions – Retail Market

- ↑ Restaurant Concepts
- ↓ Construction
- ↓ In-Fill
- ↑ Big Box Availability

Retail Market Real Estate Cycle



Investment Market

Nick Gustafson, CCIM

Investment Market Overview

- The Search for Yield
- 2015 In Review
- 2016 Predictions

Where to Invest?

Mattress

Cash

Equities

Bonds

Metal (Gold/Silver)

Early Stage Startup

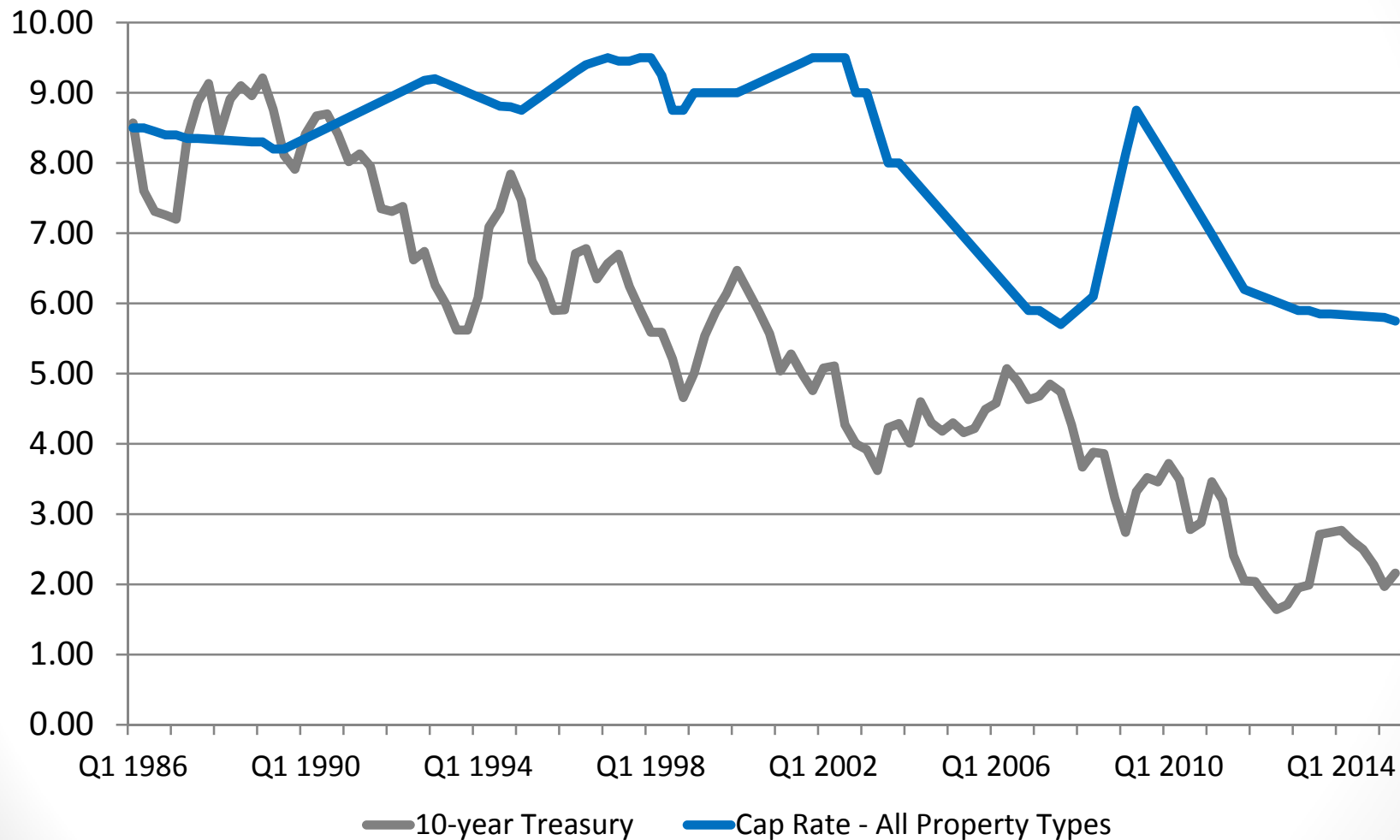
Real Estate

Reinvest in Core Business

The Search for Yield

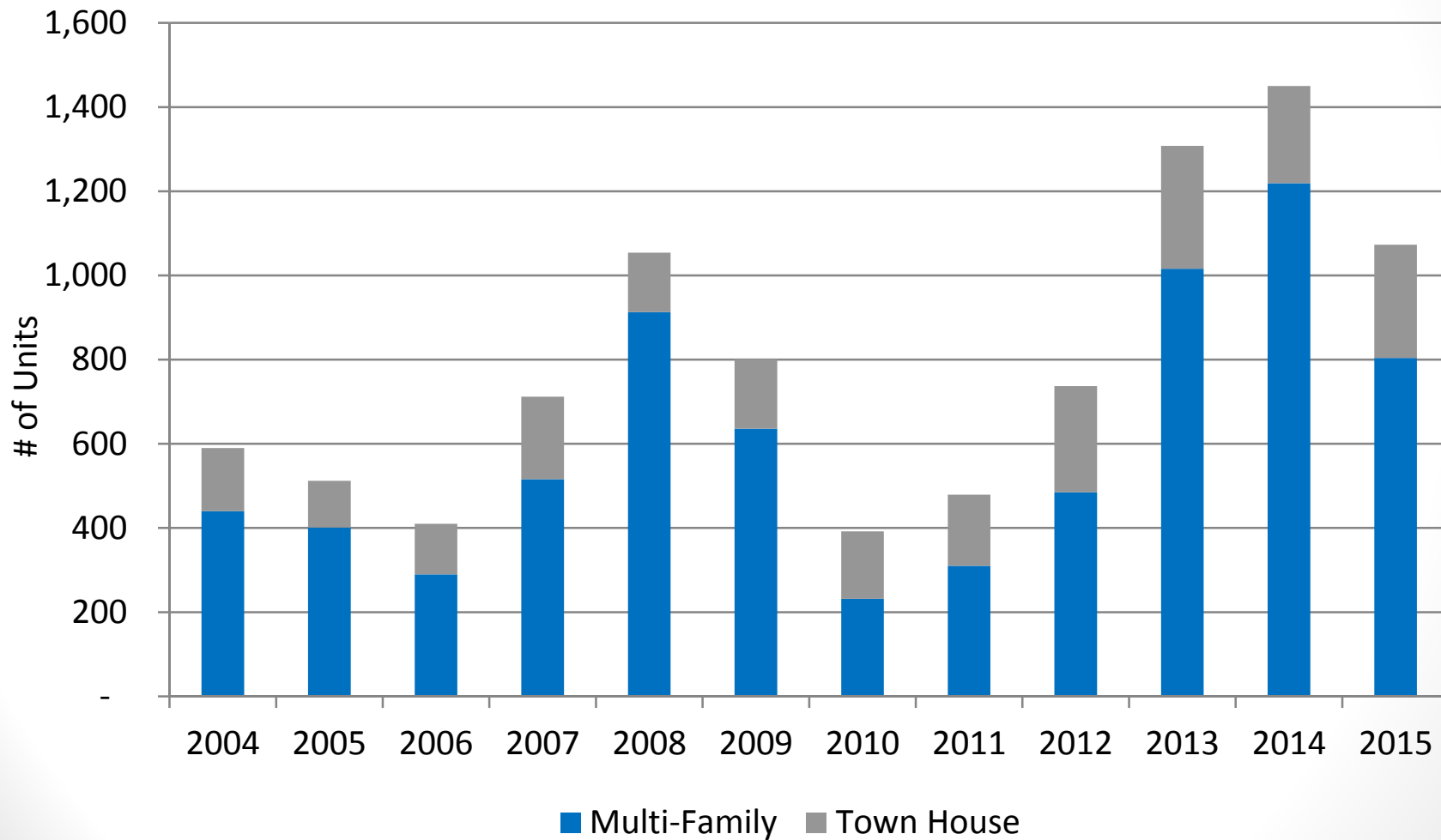
- 2015 DJIA -2.23%
- 2015 S&P 500 -0.73%
- 1 Year CD 0.30%
- 5 Year CD 1.33%
- 10 Year Treasury Bond 2.02%
- 2 Year Treasury Bond 0.83%
- GE Bond 1.31% (5.25% Coupon)
- JPM Bond 1.89% (6% Coupon)
- 2015 Gold Return ~ -10.0%

10-Year Treasury/Cap Rate Spread



Source: Ernst & Young Commercial Property Outlook, September 2015

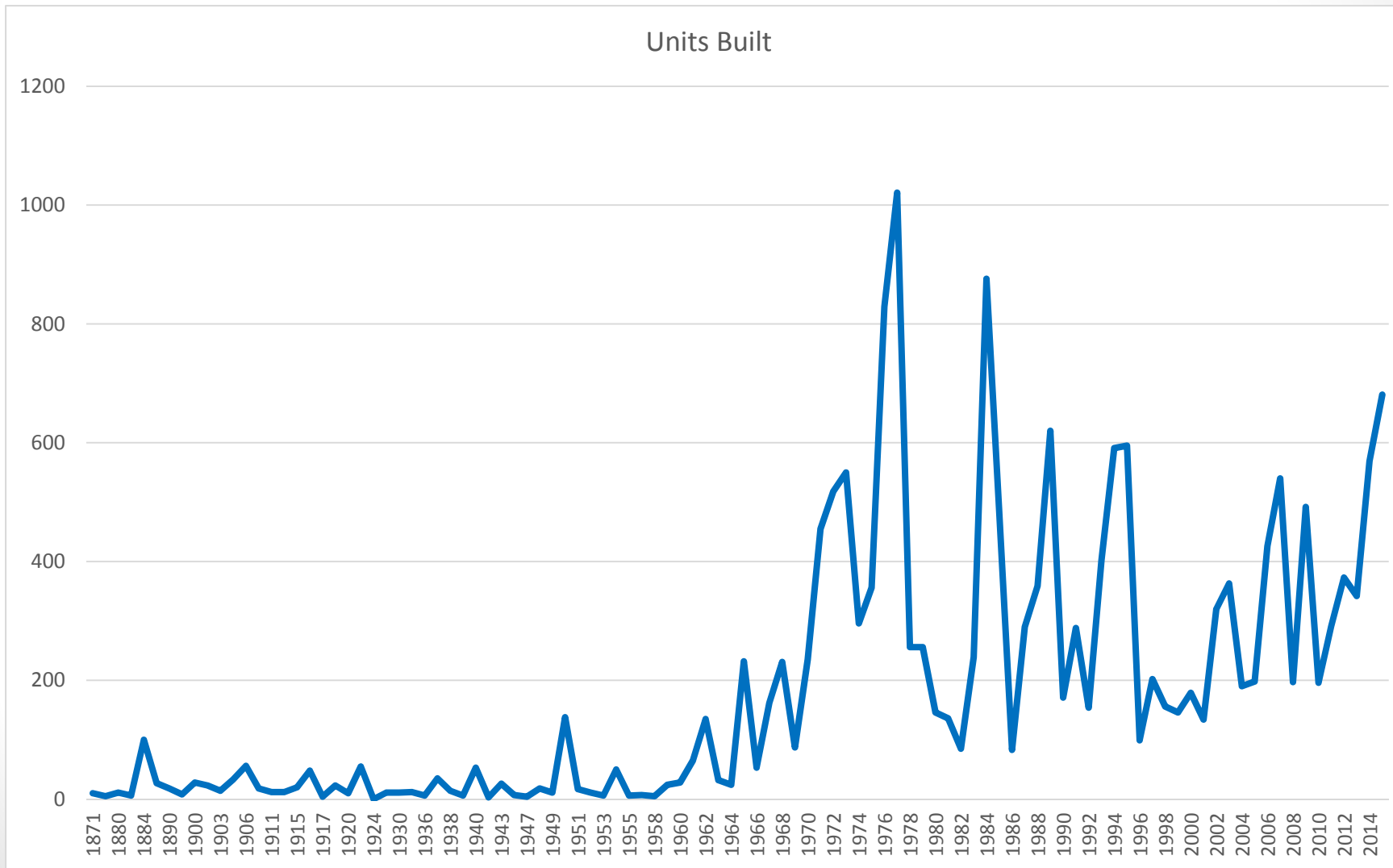
Multi-Family Building Permits (Supply)



Source: City of Sioux Falls, Planning and Building Services

Historic Construction 1871 – 2015

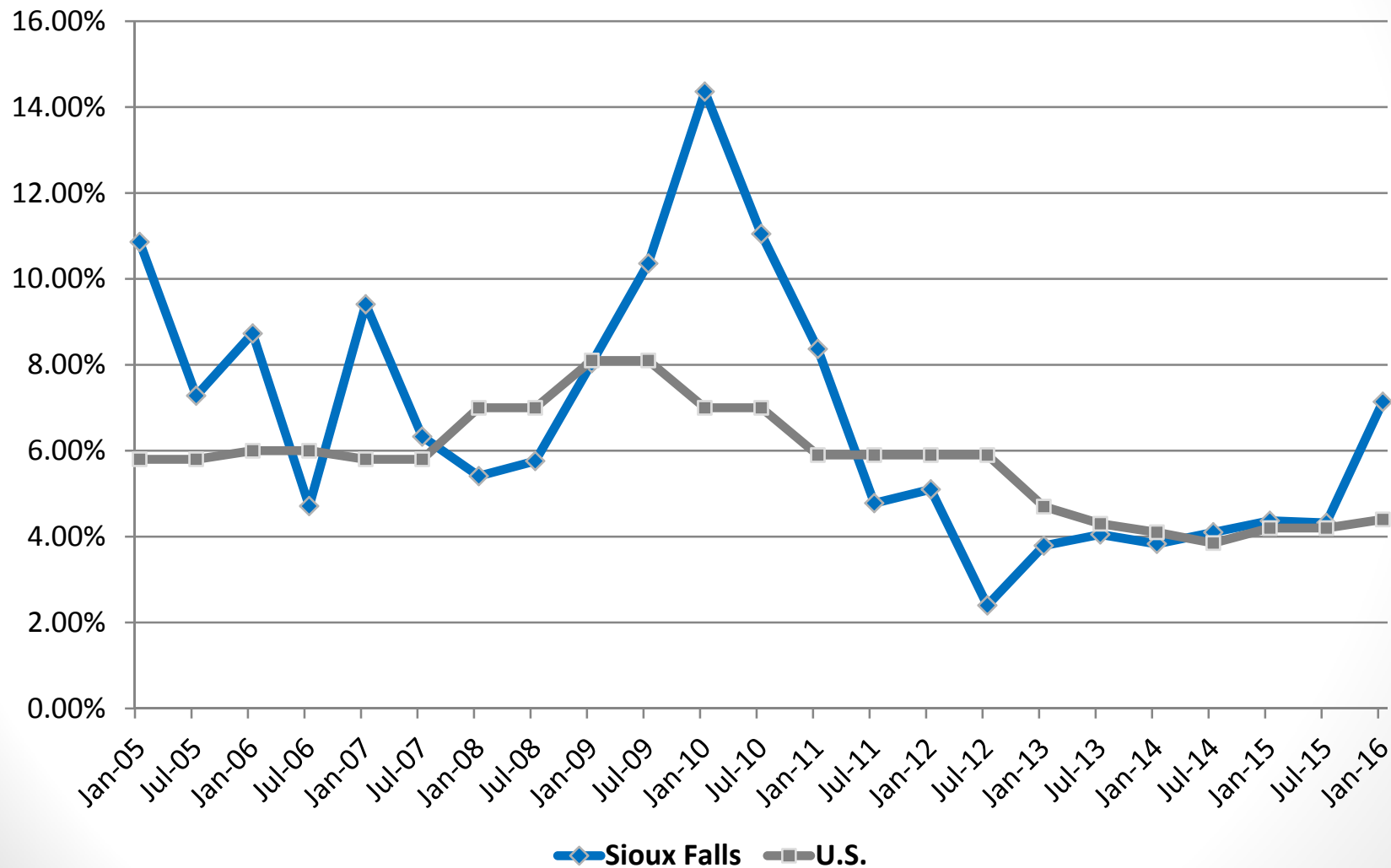
(Sioux Falls/Minnehaha County Only)



Source: Minnehaha County

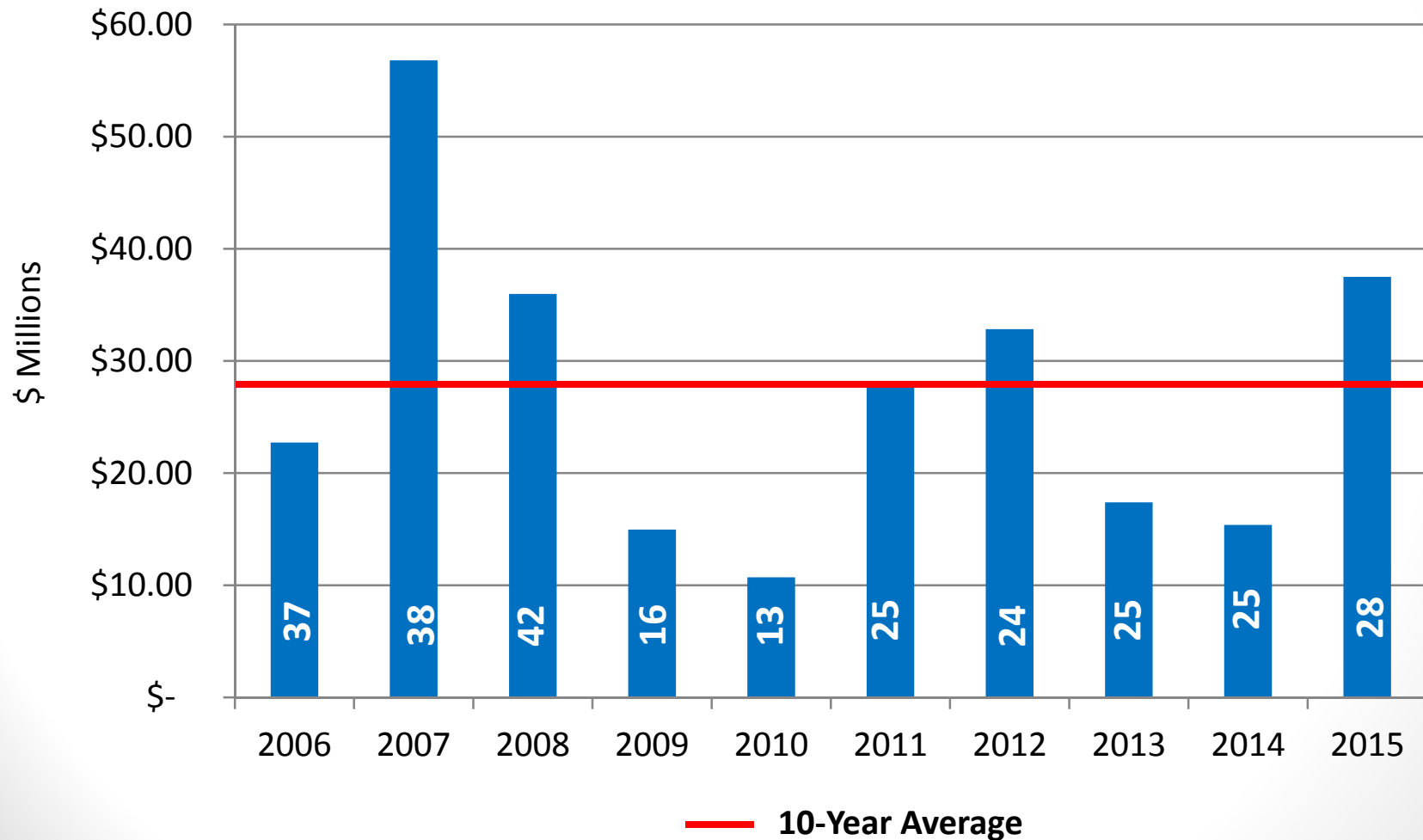
Multi-Family Vacancy Rate

Sioux Falls MSA (Demand)



Multi-Family Market

10-Year Multi-Family Sales Volume



Notable Multi-Family Sales

Village Square Apartments

- \$2,200,000
- 32 Units
- \$68,750/unit
- Built in 2000
- Sold January 2015
- 7.55% Cap Rate



Notable Multi-Family Sales

Cleveland Heights Apartments

- \$5,870,000
- 147 Units
- \$39,931/unit
- Built in 1984 - 1988
- Sold March 2015
- 8.67% Cap Rate



Notable Multi-Family Sales

Kahler Portfolio

- \$7,780,000
- 202 Units
- \$38,514/unit
- Built in 1971 - 1993
- Sold September 2015
- 9.0% Cap Rate



Notable Investment Sales

Dawley Farm Retail

- \$10,500,000
- 50,777 SF
- \$206.00/SF
- Sold January 2015
- Tenants: Dollar Tree, Famous Footwear, Subway, Avera
- 6.93% Cap Rate



Notable Investment Sales

Colorado Technical University

- \$5,750,000
- 37,924 SF
- \$150.30/SF
- Built in 1997
- Sold January 2015
- 1½ Years Remaining
- 7.87% Cap Rate



Notable Investment Sales

Carpenter Building

- \$3,550,000
- 53,120 SF
- \$33.41/SF
- Retail/Office/MF
- Built in 1912
- Sold March 2015
- \$1,000,000 Remodel
- Substantial Revenue Increase
- 5.89% Cap Rate on 68.8% Occupancy



Notable Investment Sales

FIS/GWB Building

- \$3,650,000
- 30,418 SF
- \$119.99/SF
- Built in 1991
- Sold April 2015
- 8.0% Cap Rate



Notable Investment Sales

Village on Louise

- \$12,200,000
- 48,900 SF
- \$249.49/SF
- Sold June 2015
- 6.86% Cap Rate



Notable Investment Sales

Foss & Arrowhead

- \$3,075,000
- 10,100 SF
- \$304.46/SF
- Sold July 2015
- 7.2% Cap Rate



Notable Investment Sales

Kings Crossing

- \$4,000,000
- 32,366 SF
- \$123.50/SF
- 94% Occupied
- Sold November 2015
- 8.43% Cap Rate



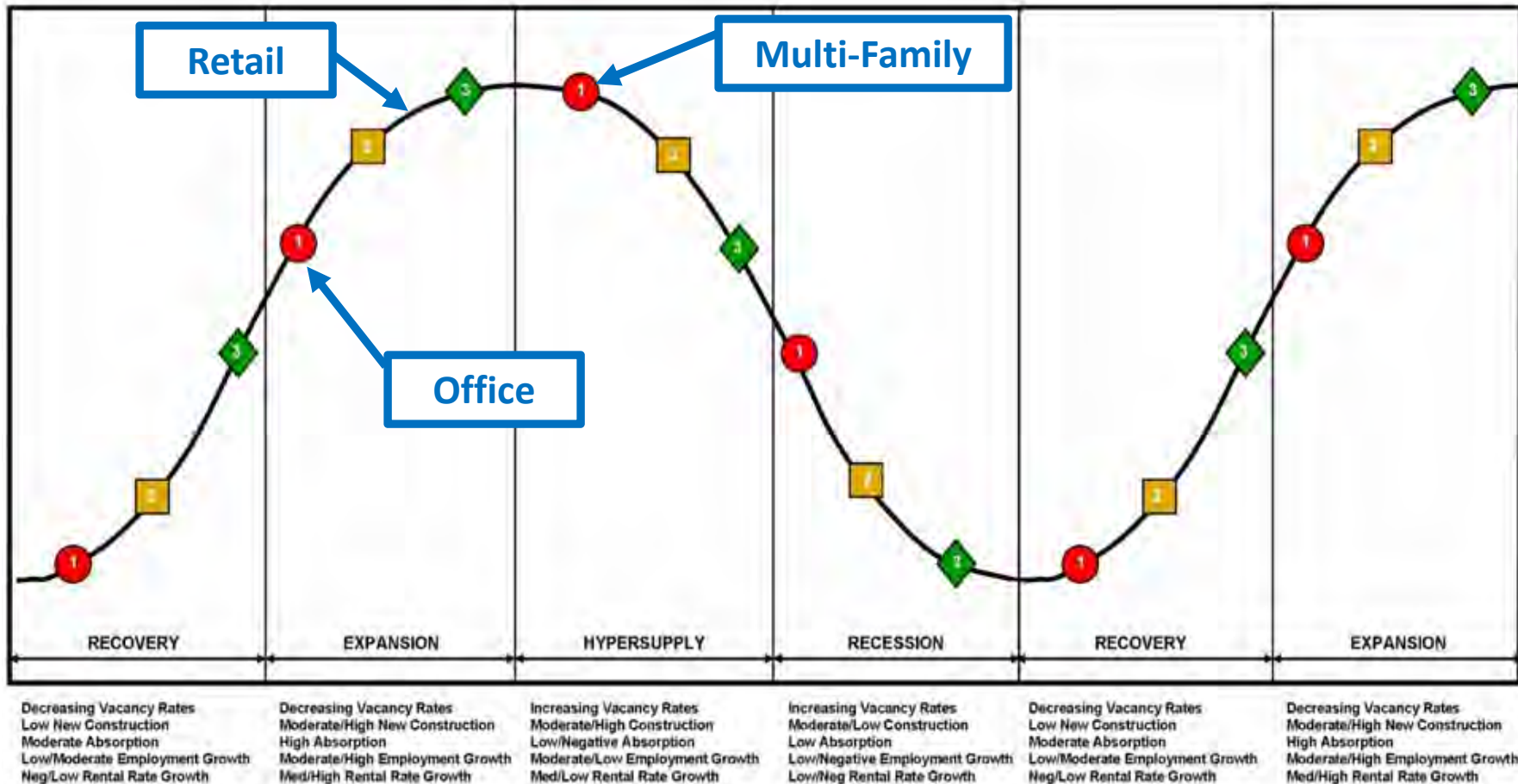
Observations / Conclusions

- Very Little Quality Inventory
- Most Transactions are Off-Market
- Leaving Money on the Table?
- Motivated Buyers + Fundamentals + Low Interest Rates = Good Exits for Sellers
- Few 1031 Options
- Good Time to Buy
Good Time to Sell
Have Time to 1031 Exchange

Sales Volume Report Card

	Multi-Family	Office	Retail
2015	↑	↑	↑
2016	↑	↑	↑
2016 Cap Rates	7.0% – 8.0%	7.0% - 8.5%	6.5% - 8.0%

Investment Real Estate Cycle



19th Annual

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