

NAI Sioux Falls

COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

Commercial Real Estate Year End Market Report Sioux Falls | 2013

OFFICE • RETAIL • INDUSTRIAL • INVESTMENT • LAND

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To our valued customers, partners and future clients...

At NAI Sioux Falls, we take great pride in being known as the area's leader in the commercial real estate industry. As such, we are pleased to present our **2013 Market Report**. Our goal in preparing this report is to provide an analysis of and our perspective on the Sioux Falls commercial real estate market.

Our expertise comes from the 150 years of collective experience NAI Sioux Falls and its agents offer the industry. We maintain our own comprehensive database which includes all areas of the commercial marketplace. That, combined with our constant watch on the local market, ensures you, our customers and clients, the most current and accurate information.

While this report encompasses only the Sioux Falls marketplace, we have access to this information for real estate markets worldwide through our NAI Global Network. Let us know if you have an interest; we will be happy to share this information with you.

2013 was a year of many successes at NAI Sioux Falls. Our team completed over 160 transactions totaling over \$80 million in real estate. We credit this success with our continual focus on **building relationships** versus completing transactions.

We know these relationships are not to be taken lightly, and we look toward 2014 with great anticipation and our continued goal of providing a renewed standard of excellence to our customers, clients and the Sioux Falls marketplace.

I'm proud of our team at NAI Sioux Falls and what we can offer you. Give us the opportunity to earn your trust—I am confident we will deliver results.

Best regards,



Dennis Breske, CCIM, SIOR, MBA
President and Owner

Economic Outlook



Population Growth



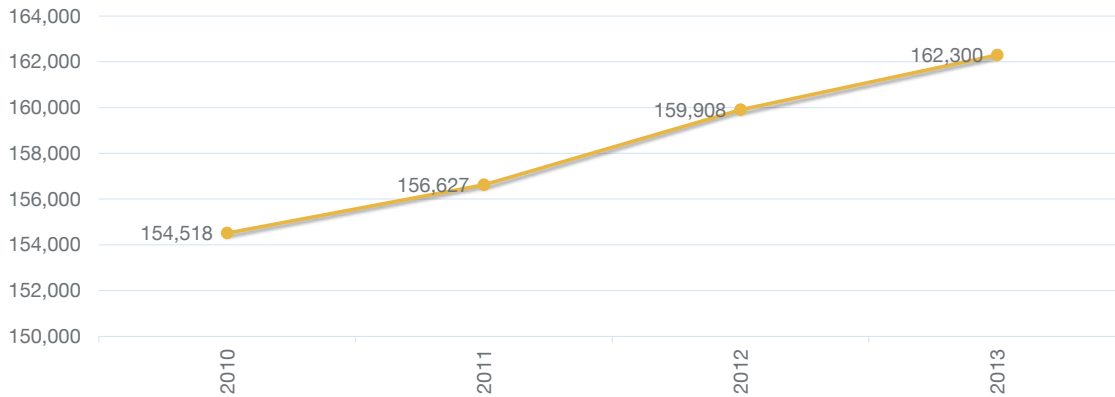
Building Permits



Unemployment Rate

Population

The estimated population of Sioux Falls at the end of 2013 was 162,300 people, a 2.2% increase from 2012 and the largest year-over-year increase since 2003. The population of Sioux Falls has grown by over 11,300 people during the last five years, a 7.28% increase.



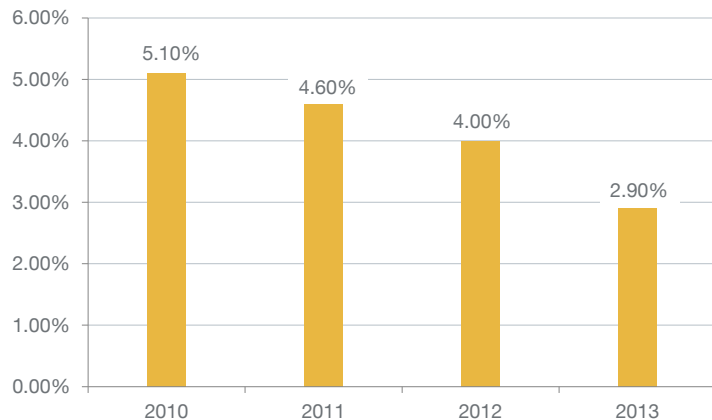
SOURCE: Sioux Falls Development Foundation

Building Permits

When factoring in both non-residential new construction and non-residential additions and remodels, the total Sioux Falls building permits increased by over 8% from 2012 to 2013, reflecting another robust construction year.

Unemployment Rate

The Sioux Falls MSA (Minnehaha, Lincoln, Turner and McCook Counties) unemployment rate continued its steady decline in 2013, from 4.1% at the end of 2012 to a low 2.9% at the end of November 2013.



SOURCE: SD Dept of Labor & Regulation

	2011	2012	2013
Number of Permits Issued	7,823	7,633	7,953
Total Construction Value	\$286,862,209	\$490,515,243	\$588,248,861
(\$Millions)			
New Residential	\$100.7	\$173.9	\$245.7
Residential Addition and Remodel	\$38.3	\$42.9	\$46.4
New Nonresidential	\$41.6	\$165.5	\$157.6
Nonresidential Addition and Remodel	\$106.2	\$108.2	\$138.5
Total	\$286.8	\$490.5	\$588.2
New Nonresidential			
Manufacturing	\$11.3	\$5.9	\$23.5
Commercial	\$10.5	\$5.1	\$37.9
Office, Institutional, Educational	\$14.8	\$57.7	\$19.1
Other	\$5.0	\$96.8	\$77.1
Total	\$41.6	\$165.5	\$157.6
New Residential			
Single-Family Units	348	628	731
Duplex Units	0	4	0
Townhome Units	169	252	292
Multiple Family Units	310	485	1,016
Total	827	1,369	2,039
Manufactured New Housing Placements	50	33	42

SOURCE: Building Services Division

Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Sioux Falls. NAI Sioux Falls makes no warranties or representations as to the completeness or accuracy thereof. NAI Sioux Falls makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

2013 SIOUX FALLS MARKET Office.



By
Kathleen Hovland

The Sioux Falls economy was strong throughout 2013. Following suit, the Sioux Falls office market was largely steady over the year.

Although the overall absorption rate increased after the dip in volumes seen in recent past, overall demand for office space is low but stable. Some tenants are reluctant to relocate their business during uncertain economic conditions on the national level.

The Sioux Falls office-market vacancy continued to decline in 2013, and the rate is now at one of the lowest levels seen since the end of 2006. This has resulted in rental rates climbing. Decreasing vacancy has been aided by the near halt of speculative office buildings over the last few years.

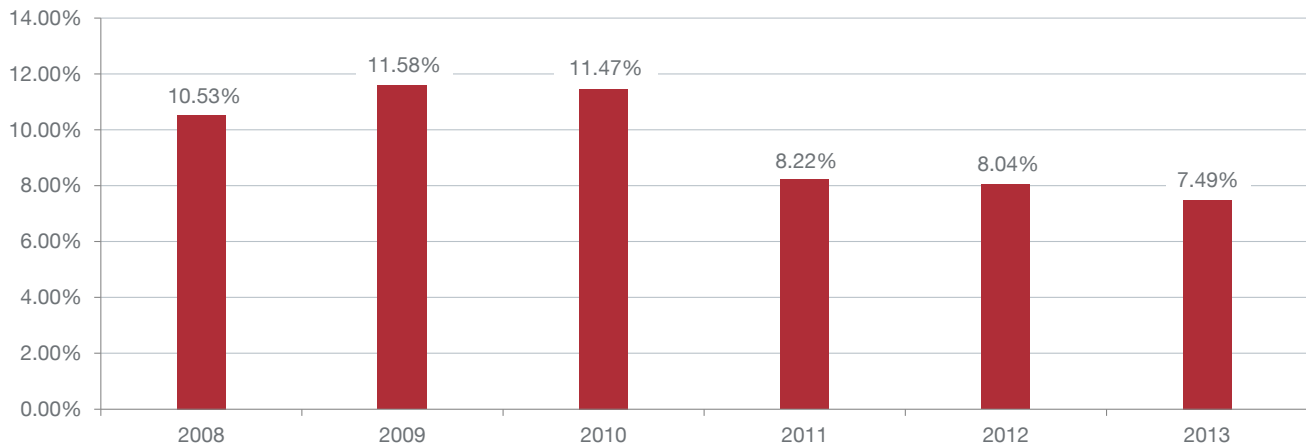
Overall, we are expecting positive economic performance to support improvement of the office market, with steady demand keeping the majority of rents firm.

Vacancy Rate

 Net Absorption

 Average Asking Rates

Overall Office Vacancy Rates



Notable Transactions

SALE

Property	Address	Buyer	Size	Sale Price
Former CNA Western Surety Building	101 S Phillips Ave	Plaza, LLC	75,480 SF	\$3,300,000
Sioux Falls Corp Ctr IV	2300 E 54th St N	Falls Investments, LLC	44,500 SF	\$3,259,000
Hagan Insurance Building	1741 S Cleveland Ave	Sioux Falls Federal Credit Union	25,486 SF	\$2,350,000

LEASE

Property	Address	Tenant	Size
Former CNA Western Surety Building	101 S Phillips Ave	DocuTAP	65,000 SF
Midcontinent Communications	3901 N Louise Ave	Midcontinent Communications (Expansion)	50,000 SF
GE Medical Building	4205 W 53rd St	Aqreva	7,179 SF

2013 SIOUX FALLS MARKET Retail.



By
Ryan Ammann

The retail sector of the Sioux Falls commercial real estate market continues its robust activity of the past five years. New retailers, along with second-location openings by existing retailers, continue to drive the expansion of the retail property marketplace.

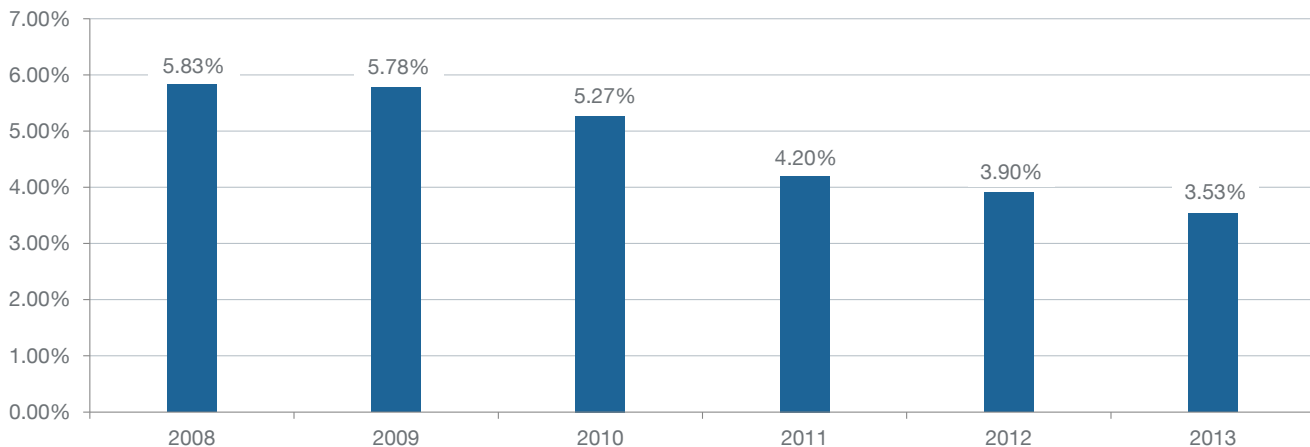
We have seen positive absorption of vacant space, as well as a revived willingness to develop new retail space. The vacancy rate continues to decline, trending with previous years. Our current rate of 3.5% vacancy illustrates the demand for well located retail opportunities. Another notable trend is the redevelopment of high traffic retail corridors, offering infill locations for retailers desiring significant exposure.

In conjunction with limited space availability, market rents have continued to rise, reaching historical highs. Sioux Falls rates are approaching those of surrounding major metro markets such as Omaha, Des Moines and Minneapolis.

While low vacancy tends to be a desirable trait for most markets, we have reached occupancy that is making it difficult for retailers wanting to expand. New construction of retail space will become the driving force of retail expansion in the Sioux Empire.

 Vacancy Rate
  Net Absorption
  Average Asking Rates

Overall Retail Vacancy Rates



Notable Transactions

SALE

Property	Address	Buyer	Size	Sale Price
Costco Building	3700 S Grange Ave	Costco Wholesale, Inc.	150,000 SF	New Construction
Ashley Furniture Building-Dawley Farms	801 S Highline Pl	Division of SD Furniture Mart	50,000 SF	New Construction
Former China Star Building	1721 W 41st St	Montgomery's Furniture	26,000 SF	\$1,300,000

LEASE

Property	Address	Tenant	Size
Empire Mall	4001 W 41st St	Dick's Sporting Goods	44,000 SF
Former HOM Furniture Building	1431 W 41st St	Fareway Food Stores	34,000 SF
Mattress Firm Strip Center	4201 W 41st St	Panda Express/Mattress Firm/Vitamin Store	10,635 SF

2013 SIOUX FALLS MARKET Industrial.



By
Bill Connelly

As in the past two years, the industrial market in Sioux Falls continues to remain strong. Vacancy rates dropped from 5.29% in 2012 to 4.18% in 2013 (nationally, vacancy is at 9.6%).

As predicted last year, Sioux Falls saw an increase in build-to-suit projects in 2013, and we believe this trend will continue into 2014.

Industrial leasing activity remains strong. Due to the low vacancy in our market, lease rates are beginning to climb, with the length of leases increasing. Finding industrial space over 10,000 SF is difficult. Likewise, on the other end of the spectrum, locating space under 3,000 SF is a challenge, especially if features such as dock doors, floor drains and larger overheads are required.

While this report focuses primarily on industrial properties in Sioux Falls, it should be noted that new industrial construction in our surrounding markets of Tea, Harrisburg, Brandon and Hartford has been strong over the last year and should continue so in 2014.



Vacancy
Rate

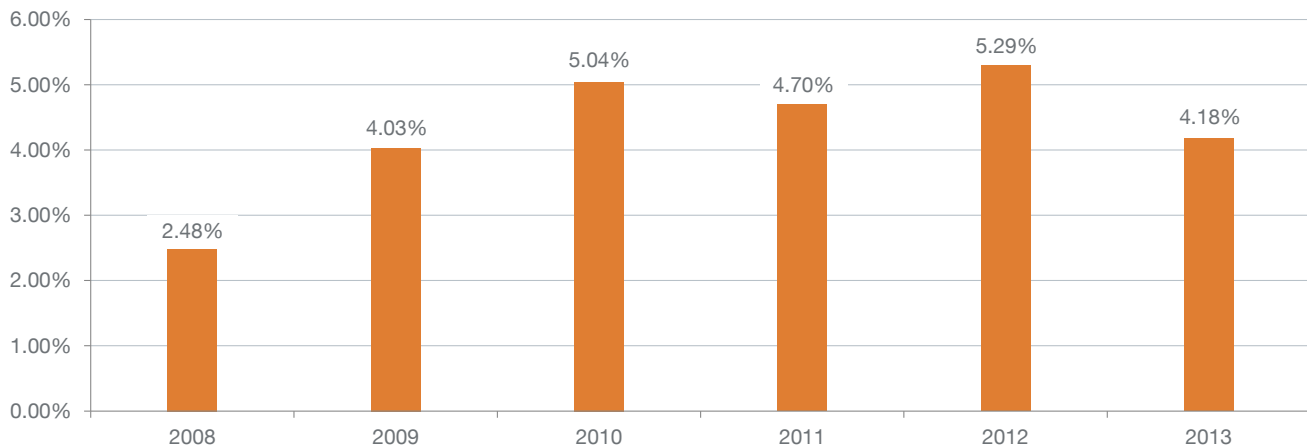


Net
Absorption



Average
Asking Rates

Overall Industrial Vacancy Rates



SALE

Property	Address	Buyer	Size	Sale Price
Broadwind Industries	1820 N Tower Tech (Brandon, SD)	Marmen Energy	143,000 SF	\$12,300,000
CSD Building	2000 N 4th Ave	Sioux Falls Crane & Hoist	19,875 SF	\$1,065,000
K&W Manufacturing	810 S Marion Rd	Bleu Earth, LLC	22,216 SF	\$1,061,000

Notable Transactions

LEASE

Property	Address	Tenant	Size
PAM Oil Building	202 S Petro Ave	Carrier Enterprises	30,405 SF
Sletten Building	717 N Kiwanis Ave	By The Threads	13,820 SF
Walco Building	1601 E Rice St	Building Fasteners of MN	10,000 SF

2013 SIOUX FALLS MARKET Investment.



By
Troy Fawcett

The combination of low interest rates and stable capitalization rates in the range of 8% to 9% continued to entice investors throughout 2013.

Investment inventory is relatively low. Investors are reluctant to sell as reinvestment opportunities are scarce. In spite of low inventory, there have been significant commercial investment transactions that occurred during 2013:

Property	Address	Size	Sale Price
Heather Ridge Village Offices	69th St & Western Ave	60,887 SF	\$14,250,000
Fiserv/Great Western Bank	3401 N Louise Ave	30,418 SF	\$2,528,037
Dakota Plaza Strip Mall	1001 W 41st St	12,672 SF	\$1,950,000

2014 will be a strong year for commercial investment real estate as investors take advantage of low interest rates. Investor inquiries will continue at a steady pace with properties turning quickly due to limited attractive offerings.

2013 SIOUX FALLS MARKET Land.



By
Craig Hagen

Sioux Falls 2013 commercial land sales totaled over \$32 million, a significant increase from 2012. The majority of the land sales were in the southwest quadrant of Sioux Falls.

Construction permits were also higher with a 49% increase in the number of multi-family units. Permits for new commercial buildings in 2013 totaled 53, compared to 47 in 2012, however there was a slight decrease in the total permit value, from \$165.5 million in 2012 to \$157.6 million in 2013. Single-family permits increased 16% from 2012, from 628 dwellings to 731.

We expect land sales to continue at an increasing pace for 2014. Strong construction permit numbers, continued low interest rates and a strong positive attitude about the Sioux Falls economy should also lead to an increase in commercial land sales.

2013 SOUTH DAKOTA MARKET Ag Land.



By
Jim Wilber

Sufficient rainfall, an abundant harvest and generous commodity prices created an atmosphere of enthusiasm among farmers and land owners across South Dakota in 2013.

Crop prices reached astounding levels, causing farmland prices to soar across the state. While land buyers in NW Iowa have pushed prices to \$20,000/acre, the benchmark for South Dakota averages \$12,000/acre. Land buyers continued to pay record prices state-wide through the end of 2013.

As ag land prices sharply escalate for investors, land rents have risen to unprecedented levels as well. Along the eastern borders, \$400/acre leases are not uncommon and rents have exceeded \$500/acre near Yankton and Vermillion.

Good productive grasslands are becoming more difficult to find. Pastures will bring \$3,000+/acre in eastern South Dakota and near \$2,000/acre for land near the Missouri River. In west river winter wheat country, farmland sales have exceeded \$1,500/acre, a healthy rise from the customary \$500/acre levels.

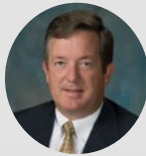
Realizing Potential, Delivering Results.

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NAI Global is the world's premier network of commercial real estate firms and one of the largest real estate service providers worldwide. Our unique "managed" network structure combines local experts in over 400 offices around the world with regional management, global infrastructure, best practices and technology to provide our clients with consistent, quality results.

- Over 5,000 professionals
- More than 400 offices worldwide
- Local experts in 55+ countries
- 300 million SF of property managed
- \$45 billion in annual transaction volume

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