

Commercial Real Estate  
Year End Market Report  
Sioux Falls | 2014

OFFICE • RETAIL • INDUSTRIAL • INVESTMENT • LAND

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

**A**t 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 2014 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.

Experience matters and our expertise comes from the more than 180 years of collective experience our agents offer the industry. We maintain our own comprehensive database which includes all areas of the Sioux Falls commercial real estate 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 and we will be happy to share this information with you.

2014 was a year of many successes at NAI Sioux Falls. Our team completed over 150 transactions totaling over \$62 million in transaction value. We credit this success to our ongoing efforts to maintain unparalleled market knowledge and our commitment to outstanding service.

We know these relationships are not to be taken lightly and we look toward 2015 with great anticipation and our continued goal of providing a renewed standard of excellence to our customers, clients, and the Sioux Falls marketplace.

I am proud of our team at NAI Sioux Falls and what we can offer. 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

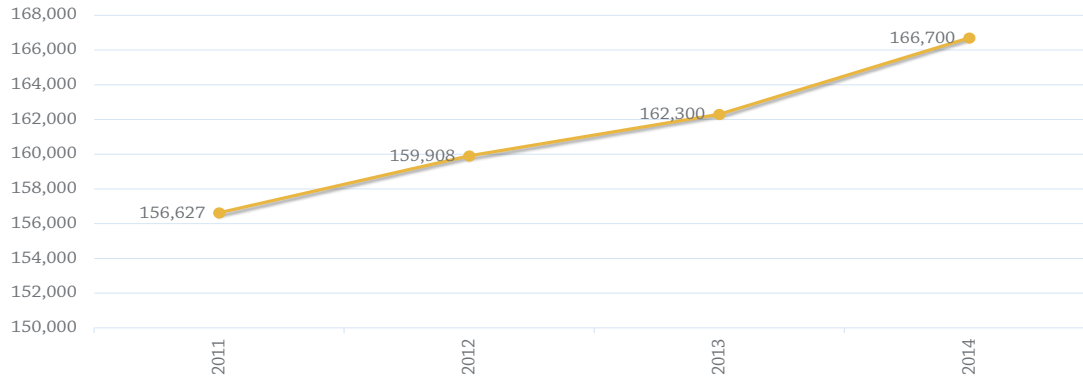
# Economic Outlook



## Population

The estimated population of Sioux Falls at the end of 2014 was 166,700 people. Sioux Falls has been averaging a 3,000-person increase, annually, for more than ten years. The 2015 estimate is a 4,000-person increase over the last 12 months.

\*SOURCE: Sioux Falls Planning and Building Services



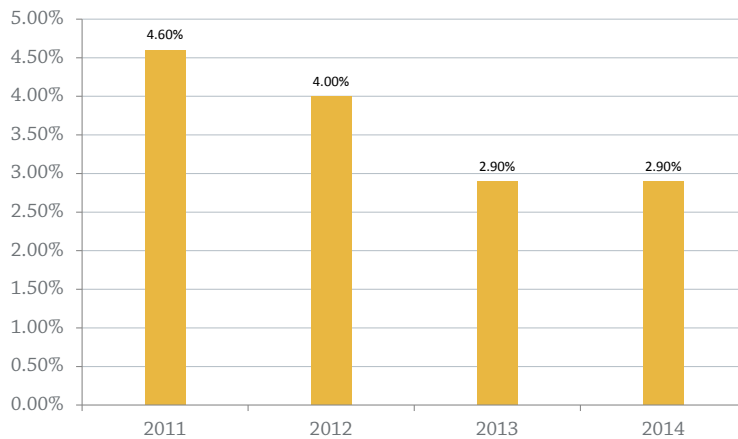
SOURCE: City of Sioux Falls

## Building Permits

The total value of Sioux Falls permits for non-residential new construction and non-residential additions and remodels, decreased by 28% from 2013 to 2014.

## Unemployment Rate

The Sioux Falls MSA (Minnehaha, Lincoln, Turner and McCook Counties) unemployment rate remained steady at 2.9%, 2.7% less than the national average of 5.6% and .4% less than the statewide average of 3.3%.



SOURCE: SD Dept of Labor & Regulation

	2012	2013	2014
Number of Permits Issued	7,633	7,953	14,945
Total Construction Value	\$490,515,243	\$588,248,861	\$619,502,240
<b>(\$Millions)</b>			
New Residential	\$173.9	\$245.7	\$254.4
Residential Addition and Remodel	\$42.9	\$46.4	\$120.0
New Nonresidential	\$165.5	\$157.6	\$86.5
Nonresidential Addition and Remodel	\$108.2	\$138.5	\$158.6
<b>Total</b>	<b>\$490.5</b>	<b>\$588.2</b>	<b>\$619.5</b>
<b>New Nonresidential</b>			
Manufacturing	\$5.9	\$23.5	\$11.5
Commercial	\$5.4	\$37.9	\$15.6
Office, Institutional, Educational	\$57.7	\$19.1	\$32.0
Other	\$96.8	\$77.1	\$27.4
<b>Total</b>	<b>\$165.5</b>	<b>\$157.6</b>	<b>\$86.5</b>
<b>New Residential</b>			
Single-Family Units	628	731	604
Duplex Units	4	0	2
Townhome Units	252	292	231
Multiple Family Units	485	1016	1219
<b>Total</b>	<b>1,369</b>	<b>2,039</b>	<b>2,056</b>
Manufactured New Housing Placements	33	42	27

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.

# 2014 SIOUX FALLS MARKET Office.



By  
Kathleen Hovland

For the sixth year in a row, the Sioux Falls office market vacancy rate has declined which has put the current vacancy rate at the lowest it has been seen since 2006.

This steady pattern of positive absorption has resulted in rental rates holding firm with signs of increasing rates, especially for newly constructed offerings. Overall demand has remained slow but steady for smaller spaces.

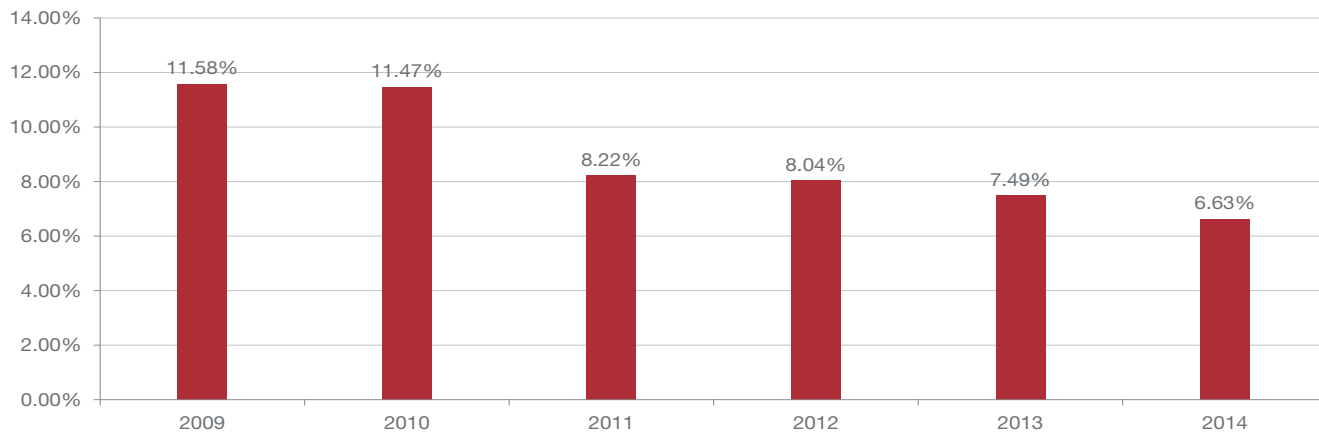
There has been a slight decrease in demand for spaces ranging from 5,000 square feet to 10,000 square feet and for 20,000 square feet and larger spaces. There has been some newly constructed, partially pre-leased, office buildings with speculative space built into their overall development. We are not aware of any completely speculative office buildings planned for construction in 2015.

Sioux Falls had a typical year, featuring a slow but steady trickle of new lease deals and we expect that trend to continue in 2015. As a result, we are predicting vacancy rates will continue their slow decline.

Vacancy Rate
 

 Net Absorption
 

 Average Asking Rates
 
Overall Office Vacancy Rates



## Notable Transactions

### SALE

Property	Address	Buyer	Size	Sale Price
Homefield Plaza	4603 W Homefield Dr	Statewide Leasing	12,714 SF	\$1,340,000
Garden Village Office	6901 S Lyncrest	RKK Properties	6,929 SF	\$ 951,000
Brenner II	4304 S Arway Dr	Korena Keys	4,600 SF	\$ 500,000

### LEASE

Property	Address	Tenant	Size
Capital One	2200 E Benson Road	Capital One	158,000 SF
MacArthur Village	5000 S MacArthur Lane	Progressive Insurance	4,035 SF
Heather Ridge Office Park	6320 S Western Ave	Wells Fargo Advisors	6,450 SF

# 2014 SIOUX FALLS MARKET Retail.



By  
Ryan Ammann

Retail real estate, both owner occupied and leased space, has reached record high occupancy levels in Sioux Falls.

A steady flow of new businesses into the marketplace has paced the growth and provided an increased depth of products and services to the retail sector. Continued interest from national retailers is often met with few locational options and/or physical space limitation.

Available space continues to dwindle with a vacancy rate now down to 2.85% and, with the majority of new buildings being mostly occupied at completion, the net absorption rate is up.

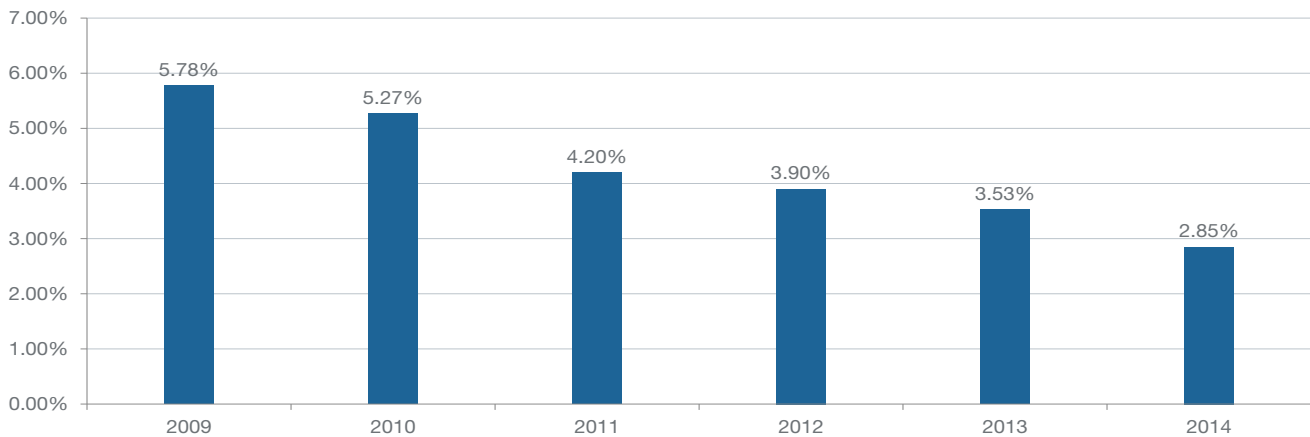
Sales of marginal retail properties for redevelopment have become a major factor in the ability for our market to provide adequate space for the demand. The result has been higher sales prices and, consequently, higher rental rates to offset those costs.

Development of new retail locations is necessary as the city grows and the market has seen success in this sector. Our market will need to continue to adapt to the neighborhood shopping center for the day-to-day goods and services, while the historically desirable intersections will still be the target for those national retailers looking to locate in Sioux Falls.

Vacancy Rate
 

 Net Absorption
 

 Average Asking Rates
 
Overall Retail Vacancy Rates



## Notable Transactions

### SALE

Property	Address	Buyer	Size	Sale Price
Brenner IV	2520 S Louise Ave	Blazing Wings	11,360 SF	\$2,750,000
Former VIP Casino	3600 W 41st St	Sleep Number	3,480 SF	\$ 950,000
Former Law Motors	1800 W 41st St	Wheel City	2,000 SF	\$1,133,000

### LEASE

Property	Address	Tenant	Size
Foss Crossing	5200 E Arrowhead Pkwy	Firehouse Subs	1,850 SF
Western Centre	2039 W 41st St	Mattress Firm	4,750 SF
Dawley Farm Village	909 S Highline Place	Rue 21	3,500 SF



# 2014 SIOUX FALLS MARKET Industrial.



By  
Bill Connelly

Demand for industrial space in Sioux Falls is steady and relatively strong. Vacancy rates continued to decline in 2014, dropping by over a full percentage point to 3.14%, the lowest since 2008.

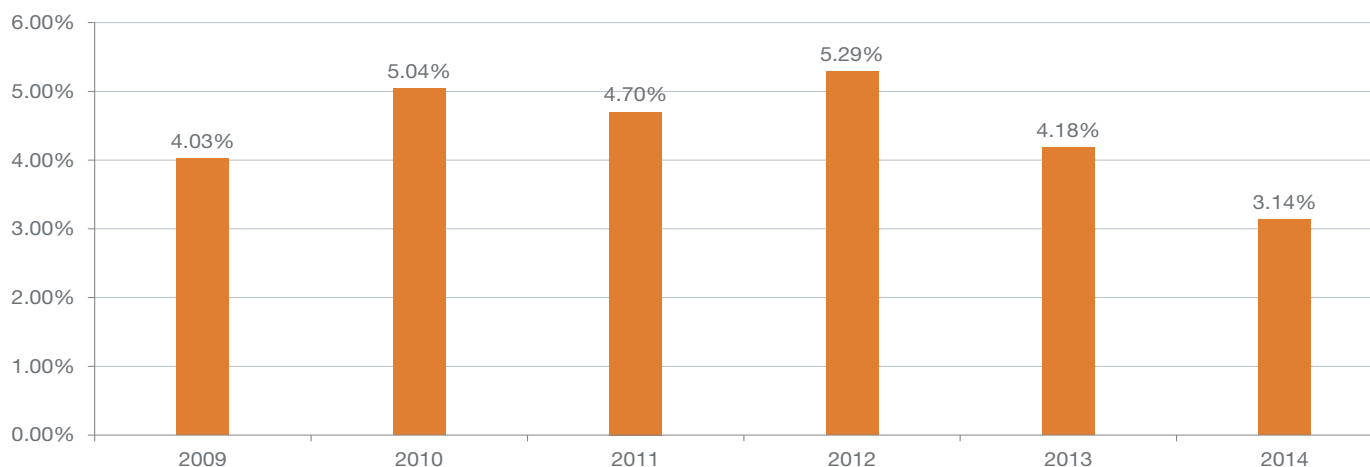
Net absorption is up and, with lower supply and higher construction costs, average asking rates for new industrial spaces have increased to the \$4.50 - \$6.00/square foot range. This trend should contribute to slightly higher rental rates for existing industrial spaces. Given the low supply of vacant space, we expect to see a steady flow of industrial build-to-suit activity throughout 2015. We anticipate one or two speculative developments in the coming year but do not expect supply will outpace demand.

Vacant space available to purchase or lease, especially spaces over 20,000 square feet and under 3,000 square feet, continues to be difficult to find.

Sioux Falls' strong industrial market is considerably better than the national industrial market where the vacancy rate was 9.8% in 2014 with an anticipated drop to 9.6% in 2015 according to the National Realtor Association.

 Vacancy Rate    
  Net Absorption    
  Average Asking Rates

## Overall Industrial Vacancy Rates



## SALE

Property	Address	Buyer	Size	Sale Price
MWI Veterinary	4001 N Lewis Ave	CAL-Dak II, LLC	24,000 SF	\$2,300,000
Former Dakota Beverage Building	605 S Wayland	Fumigation & Sterilization	29,000 SF	\$1,100,000
Former American Tire Building	611 N West Avenue	Driscoll Services, LLC	65,000 SF	\$1,000,000

## Notable Transactions

## LEASE

Property	Address	Tenant	Size
Former BSI Building	501 E 52nd St North	Alcom, Inc.	54,000 SF
CAL Dak II, LLC	4001 N Lewis Ave	Marco, Inc.	23,000 SF
Senproco Building	1501 N Industrial Ave	Weisser Distributing	25,000 SF

# 2014 SIOUX FALLS MARKET Investment.



By  
Troy Fawcett

The investment sales market remains strong into the first quarter of 2015.

Sioux Falls witnessed capitalization rate compression in 2014 due to short supply, low interest rates and strong market fundamentals. Cap rates have lowered between 50 to 100 basis points across market segments. Below are some notable investment sales of 2014:

Property	Address	Size	Sale Price
Nordica International	2101 E 39th St North	212,500 SF	\$6,900,000
Big Lots Retail Building	2812 S Louise Ave	38,966 SF	\$7,700,000
West Side Walgreens	7120 W 41st St	14,735 SF	\$5,216,342

If you are looking at a potential sale in the next few years, you may want to consider taking advantage of the current market conditions now.

# 2014 SIOUX FALLS MARKET Land.



By  
Craig Hagen

Sioux Falls 2014 commercial land sales totaled over \$24.4 million. While a notable number, this is a decrease from 2013 commercial land sales of approximately \$32 million.

The value of 2014 total construction permits in Sioux Falls was \$619.5 million, a record for the city. The value of commercial permits was \$245.1 million, down 17.22% from 2013. Permits for 1,219 multi-family units were written in 2014, up 19.69% from the 1,016 units in 2013. Residential new construction permit values (excluding multifamily) were up 3.5% from \$245.7 million in 2013 to \$254.4 million in 2014, however, the number of new residential units was down from the prior year. While there were 1,023 new residential units permitted in 2013, only 837 were permitted in 2014. This indicates more expensive homes were under construction in 2014. Both residential and commercial remodeling permits were up substantially, mainly due to roofing permits associated with hail damage caused by a June storm. Due to the dwindling inventory of available commercial buildings in Sioux Falls, we believe 2015 will see an increase in commercial land sales and new construction in order to meet user's needs.

# 2014 SOUTH DAKOTA MARKET Ag Land.



By  
Jim Wilber

After harvesting decent crops with near record prices in South Dakota during the 2013 growing season, farmers were slapped with a dose of reality in 2014.

Farmers were fortunate enough to combine record corn and soybean yields this year, but markets dropped dramatically. The corn market fell from \$8.00 per bushel in 2013 to near \$3.00 per bushel in 2014 and the soybean downturn was almost as drastic. The corn market has bounced back to near \$4.00 in early 2015 and early moisture seems to be plentiful, but producers are cautious about the future. Surprisingly, ag land prices did not follow the market trend, tumbling only 10% from the record highs of 2013. In fact, good farm ground in Minnehaha and Lincoln counties still brought an occasional \$12,000/acre price in 2014, very similar to the previous year. Lease rates were affected in Eastern South Dakota. Not many \$400/acre leases survived the cut with some area tenants claiming those paying over \$200/acre would be "bleeding red" next year. As more and more pasture acres are being plowed into farm ground, good grassland has come into increased demand. Strong cattle prices have livestock producers scrambling for additional pasture land.

# More experience, more expertise, more results

## Experience Matters

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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 375 offices around the world with regional management, global infrastructure, best practices and technology to provide our clients with consistent, quality results.

- Over 6,700 professionals
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- \$45 billion in annual transaction volume

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