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Outstate Minnesota Retail Market Trends

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It's hard to believe the end of summer is quickly approaching. Here at Chadwick Appraisals, we've been having a great time this summer working on some fun projects with excellent clients. However, as the saying goes, "all work and no play make Jack or Jill a dull boy or girl!" We've also been able to slip away and enjoy some fun summer activities. Highlights included an East Coast tour over July 4th to experience rich history in Boston, Newport, Rhode Island and the Cape Cod region. Another fun bucket list item was swimming in the Atlantic Ocean and the five Great Lakes. Now that fun trip has ended, kids are going back to school and

we are excited to launch into the latter part of the year feeling refreshed and mentally recharged to continue delivering excellent service and well-prepared appraisals, on-time!

Over the past few months, we've appraised several retail properties in outstate Minnesota. While general market data is more readily available in the Minneapolis/St. Paul metropolitan area, obtaining data on current conditions in outstate markets can be more challenging. Following are some recent observations across central and southern Minnesota, with particular emphasis on the Mankato and St. Cloud markets.

Mankato Retail Market Trends

The Minnesota Commercial Association of Realtors® (MNCAR) tracks data on 85 retail properties in the Mankato/North Mankato MSA area, totaling 2,856,652 square feet of space. It appears not all retail properties in the Mankato/North Mankato MSA are included in the data, but it helps provide at least a partial snapshot of overall market supply. As of August 2016, approximately 66,840 square feet is currently vacant, resulting in market vacancy of 2.3%.

Approximately 54,340 square feet is listed as being available for lease.

There are several retail developments within the Mankato/North Mankato MSA. The most significant development is the 720,000 square foot River Hills Mall. This regional shopping center is located at the southwest corner of Highway 14 and Highway 22, and is anchored by Herberger's, JC Penney, Scheels Sports, Target, Sears, and other numerous retailers. Additionally there are several other big box retailers in the area, and Madison Avenue, which travels east/west just to the south of the River Halls Mall is a significant retail corridor. Madison East Center, a 313,572 square foot regional shopping mall, is located on the northwest corner of Madison Avenue and Victory Drive.

A majority of the retail development in North Mankato is located along Commerce Drive just south of Highway 14.

New Development

According to the Mankato Planning Department, new retail construction has been relatively steady over the recent past. A new Starbucks, located at the northeast corner of Madison Avenue and Sioux Road was completed near the end of 2014. Construction of a new Mills Fleet Farm was completed in 2015. The Mills Fleet Farm property is located at the northwest corner of Highway 14 and Highway 22. Other recent new retail development throughout Mankato includes a freestanding AT&T building and new bank branch. Recent new retail development in North Mankato has been minimal.

Market Rents

According to MNCAR, asking rents in the Mankato/North Mankato market for existing vacant retail space exhibit a wide range from about \$6.00 to \$18.00 per square foot, net. Retail rents for space on major corridors such as Madison Avenue vary from about \$15.00 to \$25.00 per square foot, net with rents for newer construction extending into the \$30.00 per square foot and higher range.

St. Cloud Retail Market Trends

According to current data compiled by Minnesota Commercial Association of Realtors (MNCAR), the St. Cloud metropolitan area retail universe includes 1,080 buildings and approximately 16,123,339 square feet. As of August 2016, about 1,207,734 square feet is vacant, resulting in market vacancy of 7.49%. An additional 465,380 square feet or 2.89% of the total universe is available.

The Crossroads Shopping Center is the largest regional mall in outstate Minnesota with about 890,000 square feet and 119 stores. Anchor tenants include Target, Sears, Macy's, Scheels and JC Penney. Additionally there are

several other big box retailers in the area, and Division Street Avenue, which travels east/west directly south of Crossroads Shopping Center is a significant retail corridor.

New Development

The St. Cloud metro has seen both ground up developments and redevelopments over the last five years, with a concentration of the developments occurring along Division Street, 2nd Street South, and Highway 15. Multiple small shop developments have been built recently surrounding the busy Crossroads Center mall at Highway 15 and extending along Division Street.

Additionally, Kwik Trip convenience stores are making a significant entrance into the St. Cloud market. As of April 2016, Kwik Trip had purchased sites for 10 gas station/convenience stores in the St. Cloud area within the past year. It plans to open eight of them by the end of 2016. With a total investment of over \$40 million, the La Crosse, Wisconsin-based business plans to build four locations in St. Cloud and one each in the communities of Waite Park, Sauk Rapids, Sartell and St. Joseph. This is forcing other c-store brands to rebrand and upgrade to remain relevant.

The former K-Mart on 2nd Street South in Waite Park is being redeveloped with Dick's Sporting Goods (opens August 12, 2016) and Fresh Thyme. A new Wal-Mart and Sam's Club with small shop retail were developed several years ago along Highway 15 in Sartell, serving the northern portion of the St. Cloud MSA. There have also been multiple mixed use projects added between the St. Cloud State University campus and downtown St. Cloud. The Division Street/Highway 23 corridors continue to be the most desirable areas for retailers entering or relocating within the market given the traffic counts and concentrated mass of retailers.

St. Cloud Market Rents

Brokers and property owners were surveyed and asked about retail lease rates.

Rental rates for existing buildings near the Crossroads Mall and along Division Street command rental rates in the approximate range of \$15.00 to \$24.00 per square foot, net. New construction, strip center retail rents are extending into the \$30.00 per square foot and higher range. This is similar to other outstate Minnesota markets. Rental rates in more peripheral St. Cloud metro locations tend to average about \$8.00 to \$12.00 per square foot, net.

Real estate taxes and operating expenses for retail properties vary from about \$4.00 to \$7.00 per square foot.

Conclusions

Retail market conditions appear to be generally healthy in outstate Minnesota markets such as Mankato and St. Cloud. Demand for good quality space has improved in the past two years and market vacancy appears stable for functional retail space.

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