



# Bozeman Industrial Report | Q2 2023

**Nationally, the first half of 2023 saw brisk leasing activity and rent growth across industrial properties.** At this time over 619 million square feet of space is under construction across the US. However, the first half of 2023 showed a drop in new project starts from the same time in 2022. While some markets are veering into oversupply, most are seeing consistent demand for new space.



### Bozeman Numbers

Year over year, the industrial vacancy rate increased from 0.6% to 2.65% in Bozeman. This is well below the national average of 4.3%. Average lease rates have stayed stable at \$12.63 SF/NNN. The average sales price is up 3.6% to \$198.25 per square foot. The average sale closed at an 8% discount from the asking price.

At this time, there is no speculative industrial space under construction in Bozeman. There are approximately 88,000 square feet of projects in the planning and permitting pipeline.



### Development Activity

Development activity for speculative projects has cooled due to rising interest rates. However, the cost of doing business is too great for many users to go without a landing spot for their operations. This

creates opportunities for build-to-suit or build-to-lease spaces. Several industrial parks are planned across Bozeman in prime locations with access to rail, I-90, water, and sewer.



### Investment Activity

Overall transaction volume has dropped in the Bozeman market. The last three quarters have had the lowest commercial real estate sales volume since 2001. Leasing activity has remained consistent. Leasing volume in 2023 is behind the pace of 2022, but ahead of the pace seen in 2018 thru 2021.

The drop in sales is being driven by interest rate increases. Cap rates are pushing up, dropping property values and creating a gap between buyer and seller price expectations. With ongoing demand, investment activity is expected to resume in Bozeman as interest and cap rates stabilize, allowing for more certainty in valuations.



### Economic Growth Driving Demand

The tremendous growth in e-commerce has been the primary driver of the push on industrial product, as e-commerce propelled major warehouse and distribution expansion across the nation - including Montana.

For Gallatin County, demand is also being fueled by growth in manufacturing jobs. From 2017 to 2022, the number of manufacturing jobs grew by 16%, with the number of manufacturing businesses increasing by 20%. For reference, in the US, manufacturing employment rose 5% in the same time period.



### Outlook

The outlook for industrial space in the Bozeman market is stable, though there are some challenges. A growing economy coupled with limited space is fueling rent growth and values. However, the growing cost of capital is making it a challenge for projects to pencil.

Another potential headwind is the labor pool. For companies looking to relocate, labor costs and quality of life have become top factors in location selection. For Bozeman, this is good news and bad news. The area scores strong in quality of life, but as the cost of living increases, it could be more difficult to attract labor. The ability to moderate housing costs will likely factor greatly in Bozeman's ability to continue to attract manufacturing and distribution companies to fill industrial space.

## Bozeman Market Data Trends

	2021	2022	YTD 6/23
Vacancy Rate	NA	.4%	2.65%
Average Lease Rate*	\$8.23	\$12.37	\$12.63
Average Sales Price**	\$154.25	\$181.86	\$198.25

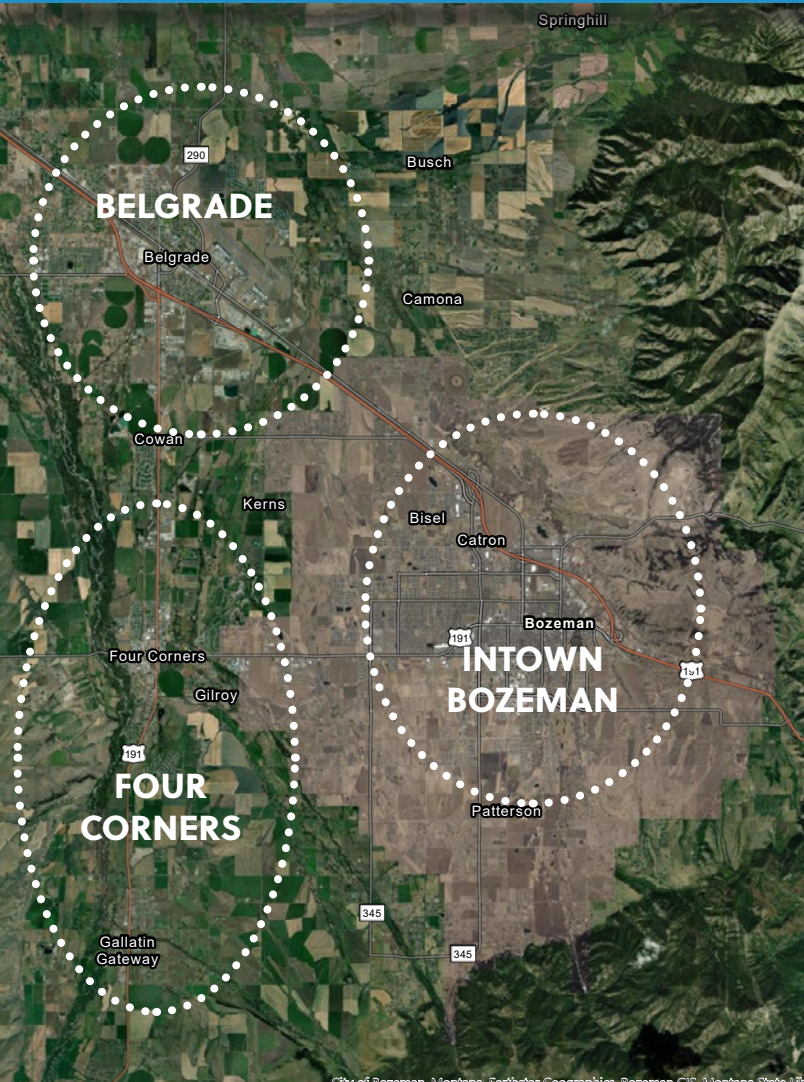
\*Per Square Foot, NNN Equivalent | \*\*Per Square Foot





# Industrial Sale & Leasing Activity by Submarket - YTD JUNE 2023

## SUBMARKET OVERVIEW



## BOZEMAN | INTOWN



Four lease transactions were completed in the intown Bozeman submarket. All of the transactions occurred north of I-90. The buildings were all hybrids with warehouse attached to finished office or retail space.

### Bozeman | Intown

Sold - 0

Average Sales Price - NA

Leased - 4

Average Lease Rate - \$14.10 SF NNN Equivalent

\* One sale occurred in Big Sky and is not included on the map or within submarket data.

## INDUSTRIAL REAL ESTATE TRENDS

### ROBOTICS & AI

Robots and AI are becoming increasingly important as labor becomes harder to find. Expect to see more two-story double decker warehouse buildings. AI/robots are often upstairs as it opens up for more efficient flow in the loading areas down below.

### REVERSE LOGISTICS

The concept of reverse logistics (IE, product returns) has increased demand for more back-end space for retailers. It has also impacted the self-storage world. A lack of suitable warehouse space has retailers leasing costlier self-storage units as an interim measure.







## FOUR CORNERS

## BELGRADE



The fast growing Four Corners area saw a number of sales and leases. With a number of large warehouse condominium complexes, the area is popular with small business owners.

Belgrade continues to be the region’s hot spot for industrial transactions. New development is planned along the Jackrabbit corridor to serve the market.

### Four Corners

Sold - 3  
 Average Sales Price - \$156 SF  
 Leased- 5  
 Average Lease Rate - \$13.08 SF NNN Equivalent

### Belgrade

Sold - 3  
 Average Sales Price - \$185 SF  
 Leased- 8  
 Average Lease Rate - \$11.62 SF NNN Equivalent



### INDUSTRIAL OUTSIDE STORAGE

Industrial Outside Storage (IOS) is an emerging trend providing additional space for businesses to store their equipment and materials outside their warehouses. This can help to free up indoor space for production and can provide cost savings for businesses.



### SUSTAINABILITY

Sustainability continues to grow in importance, particularly in the manufacturing world. One slowly emerging trend is the use of mass timber construction for warehouses. Businesses are seeking alternatives to concrete construction to reduce carbon emissions and meet ESG goals.



# CREATING VALUE WITH PROFESSIONAL PROPERTY MANAGEMENT

Attracting and retaining good tenants is key when lease rates are rising. Tenants are going to expect top level service if they are paying full market rate for their leased space. And when turnover is low, this helps to keep operating expenses low. Professional commercial management companies can play a key role in ensuring your tenants are happy and see the value in the lease rate they are paying and a reason they choose to renew their lease. Here are three key benefits to using professional property management:



## Effective service request tracking systems

allow tenants to have a self-service portal to notify property management of concerns and a place to track the status of their service requests. Management can be notified of any concerns and owners can easily be sent pictures and invoices for any work done. It's a great way for everyone to have access to the same information in real-time.

## Expertise in maintaining and repairing warehouse spaces

that include rollup doors, loading docks, specialty HVAC systems, and parking areas handling heavy truck traffic will help maintain a desirable property. Having a well-detailed preventative maintenance plan in place, along with regular property inspections, helps ensure your investment value continues to increase.

## Access to a curated list of vendors

already vetted for required insurance and licensing requirements. Quite often, because of the volume of work they can provide to local vendors, they are often able to secure better pricing and faster response times. This is a key way to make sure tenants see the value in continuing to lease your property.



Bozeman  
**MARKET  
WATCH**  
Commercial Real Estate  
2023



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SCAN ME

Each year, SterlingCRE delivers fresh commercial real estate data and looks at the outlook for the year ahead in Bozeman.

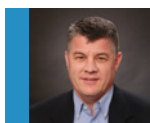
Join us for Bozeman MarketWatch  
**on September 7, 2023.**

Hosted by Sterling Commercial Real Estate Advisors  
Questions about the event? For more information or to sign up, scan the QR code or email [info@SterlingCREadvisors.com](mailto:info@SterlingCREadvisors.com)

Looking to buy, sell, or develop an industrial property in Bozeman, Montana? Contact:



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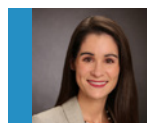


Ryan Springer, CCIM  
406-579-5586  
[Ryan.Springer@SterlingCREadvisors.com](mailto:Ryan.Springer@SterlingCREadvisors.com)

Looking professional property management in Bozeman, Montana? Contact:



**SterlingCMG**  
COMMERCIAL MANAGEMENT



Jessica Morina  
406-290-9800 x 704  
[Jessica@SterlingCMG.com](mailto:Jessica@SterlingCMG.com)