



TRANSWESTERN

MINNEAPOLIS - SAINT PAUL OFFICE MARKET

Q4 2022



TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	1.8	2.5	↓	4.1	↑
NET ABSORPTION (THOUSANDS SF)	122.1	(96.2)	↑	(241.7)	↓
OVERALL VACANCY RATE	20.4%	19.3%	↑	18.5%	↑
OVERALL VACANT SF (MSF)	19.4	17.8	↑	17.1	↑
UNDER CONSTRUCTION (MSF)	0.8	1.3	↓	1.4	↓
AVERAGE ASKING RENT, FULL SERVICE GROSS (FSG), PER SF	\$26.09	\$25.29	↑	\$25.24	↑
SALES VOLUME (MILLIONS)	\$320.7	\$165	↑	\$223.1	↓

Source: Bureau of Labor Statistics, MNCAR, Real Capital Analytics, Transwestern

OFFICE MARKET SHOWS SIGNS OF LIFE

Minneapolis-Saint Paul's office markets rebounded slightly as net absorption increased from last quarter, but vacancy rates continue to increase. Fourth quarter net absorption totaled 122,082 square feet (SF), a significant increase from the previous year when it was -96,200 SF and an even larger rebound from last quarter when net absorption was -221,876 SF. For 2022 net absorption totaled -721,798, driven mostly by sublease space entering the market.

The Minneapolis-Saint Paul office market continues to see additional sublease space come onto market as office users continue to reevaluate space needs. Over the previous year available sublease space increased by 89% from 1.86 million SF to 3.53 million SF. Uncertainty in the office real estate market is likely to increase due to the economic uncertainty from increased interest rates. However at the same time the economy continues to see solid employment growth at or above 3% from the previous year in the last four months.

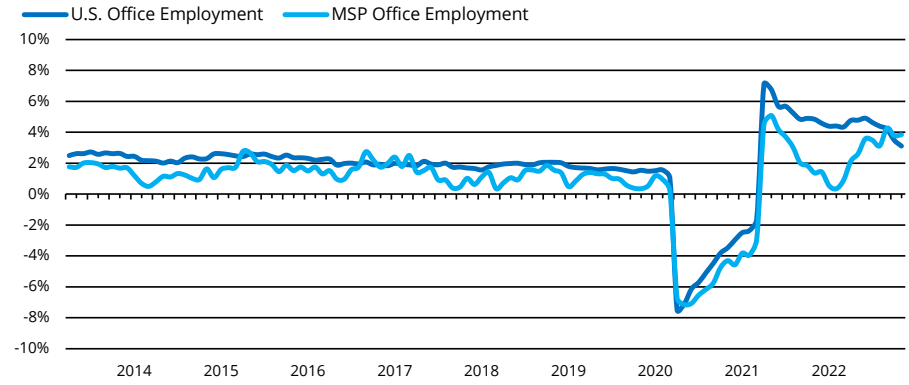


ECONOMY

Job Growth Remains Consistent

- The labor market continues to be tight, as the unemployment rate is under 2% for the third consecutive month as of November, while the labor force has slightly decreased.
- Total employment in the Minneapolis-Saint Paul metro area grew by 3.9% from this time last year. This is the seventh month year-over-year employment growth has been above three percent.
- The unemployment rate for Minneapolis - Saint Paul is currently at 1.9%, a slight decrease from last quarter when it was 2.1%, but lower than the 2.5% rate from a year ago.
- Minneapolis - Saint Paul companies have added a significant number of jobs in 2022 including:
 - Cloud HQ in Chaska - 100 Jobs
 - Graco in Dayton - 150 jobs
 - MyPlas in Rogers - 300 jobs
 - Amazon in Centerville - 600 jobs
 - Colder Products in Arden Hills - 500 jobs

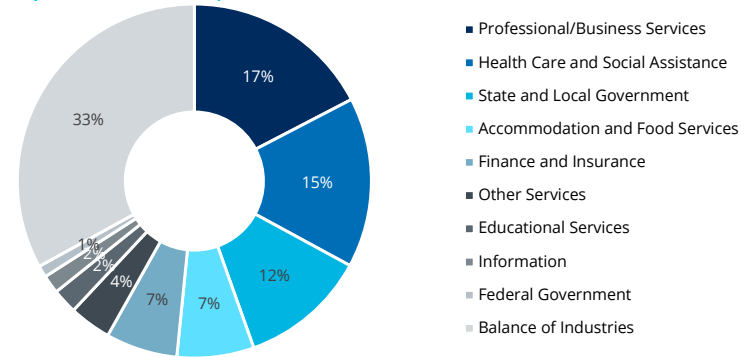
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

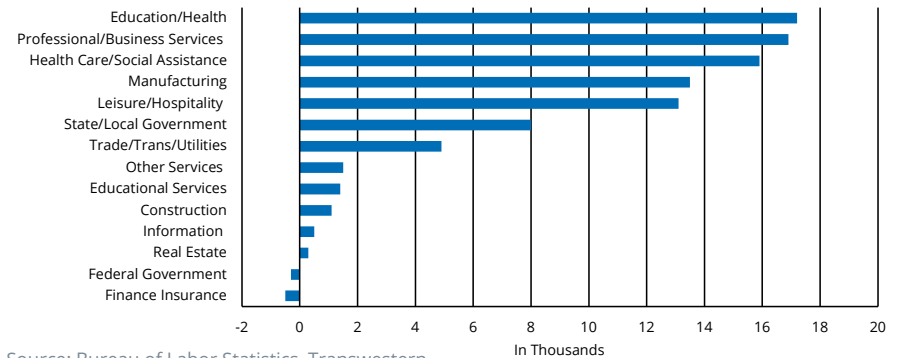
Minneapolis - Saint Paul | November 2022



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis-Saint Paul | November 2022



Source: Bureau of Labor Statistics, Transwestern

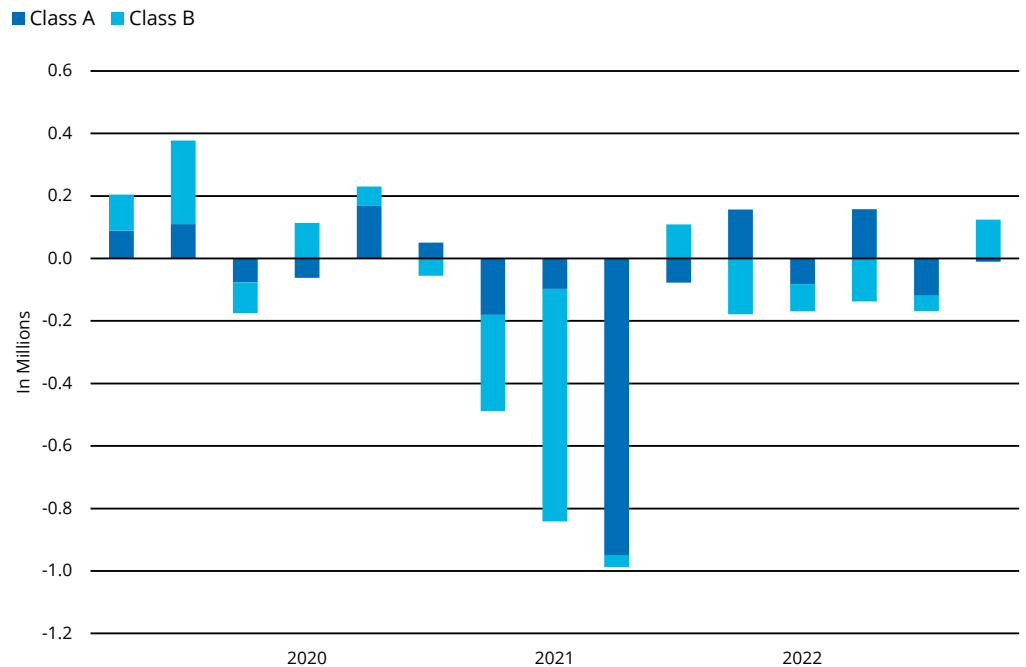


NET ABSORPTION

Supply Begins to Outpace Demand

- The region had its second quarter of positive net absorption out of 10, totaling 122,082 SF. This was led by a positive net absorption of direct leased space of 256,578 SF.
- For 2022, total net absorption was -721,798. This was driven by the large amount of office space that went on the market as sublease space: 713,997 SF of the total negative net absorption was from sublease space.
- For the year 869,305 SF have been delivered to the market, while 846,081 SF is under construction.
- Sublease space continues to increase significantly as companies continue to reduce excess office space as people continue to work from home. For the fourth quarter 3.53 million SF of space is available for sublease, a 9.2% increase from last quarter and an 89.7% year-over-year increase (1,861,744 SF in Q4 2021).
- As companies continue to increase the amount of sublease space and companies reevaluate their office space needs as economic uncertainty continues, net absorption will likely continue to be negative.

NET ABSORPTION BY CLASS



Source: MNCAR, Transwestern

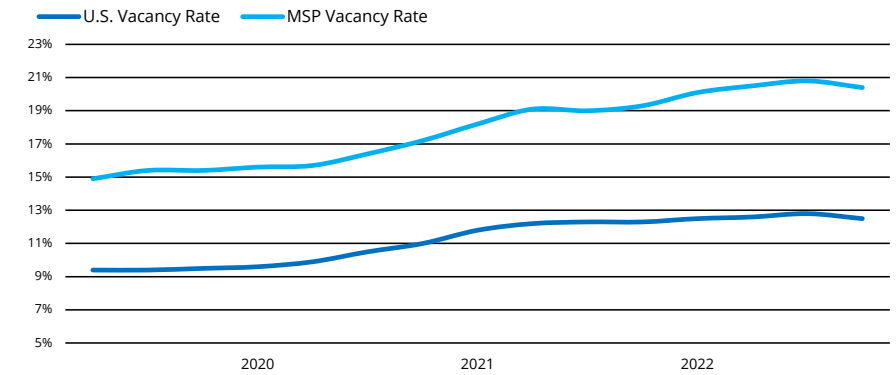


VACANCY

Vacancy Rate Stabilize

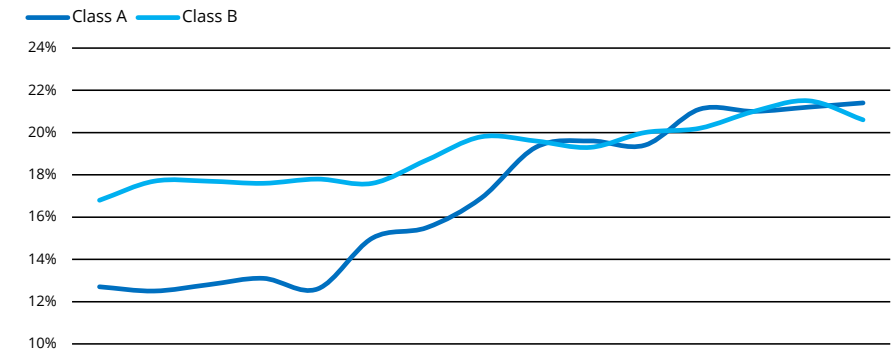
- Overall market vacancy for the fourth quarter was 20.4%, which is a decrease of 40 basis points from last quarter; the first quarter-over-quarter decrease since Q3 2021. Year-over-year, vacancy rate is up 110 basis points.
- Minneapolis CBD vacancy rates are 25.7% for the fourth quarter, an increase of 40 basis points from the third quarter and 260 basis points from the previous year.
- The Suburban submarkets vacancy rate is 17.2% for the quarter, a decrease of 100 basis points from last quarter. From the previous year there was no change.
- Class-A vacancy increased by 20 basis points from last quarter, finishing the quarter at 21.4%. Class-B vacancy, at 20.6%, saw the most significant change from the previous quarter, decreasing by 90 basis points.

OVERALL VACANCY RATE



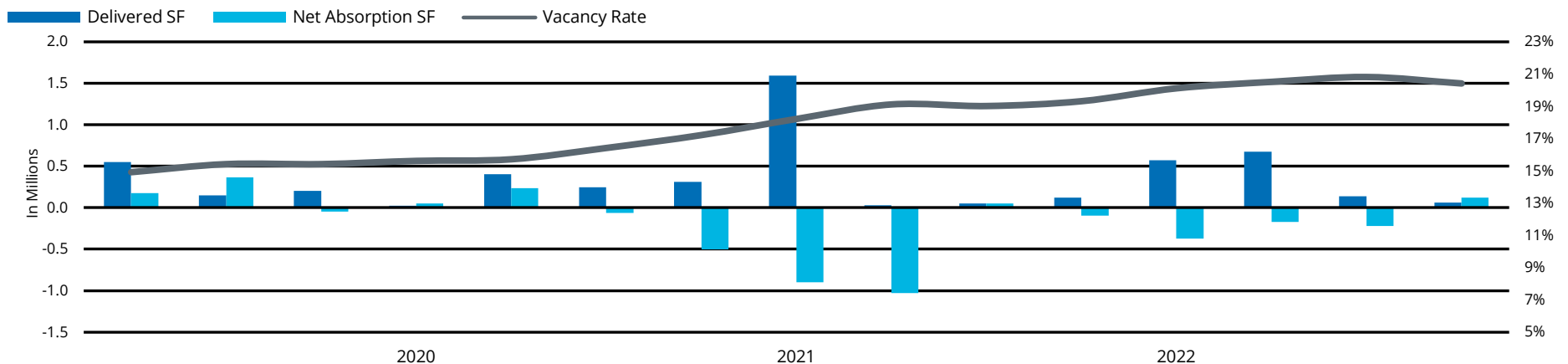
Source: MNCAR, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: MNCAR, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

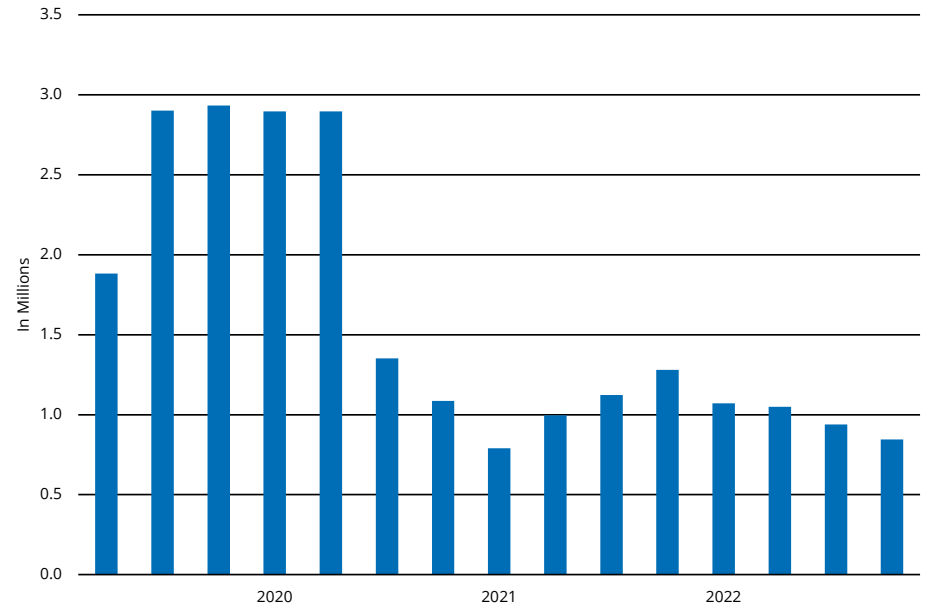


UNDER CONSTRUCTION

Construction Has Slowed Down

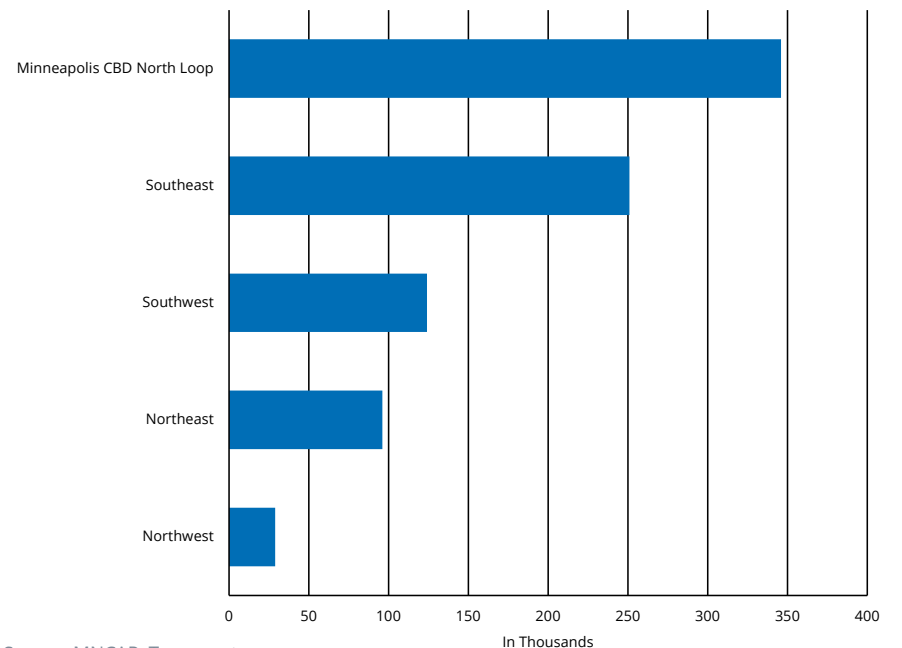
- Net deliveries totaled 59,150 SF in the fourth quarter, a significant drop from the third quarter where deliveries totaled 138,107 SF.
- For 2022 869,305 SF of office space was delivered, a 15% increase in space from last year's total of 755,886 SF.
- There is 846,081 SF currently under construction in the Minneapolis - Saint Paul region, led by the North Loop subregion, where 345,927 SF is under construction, followed by the Southeast subregion with 250,902 SF under construction.
- As the need for office space continues to lag, new office space is not expected to come on line at the rate it did pre-pandemic when between two to three million SF of office space was under construction.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

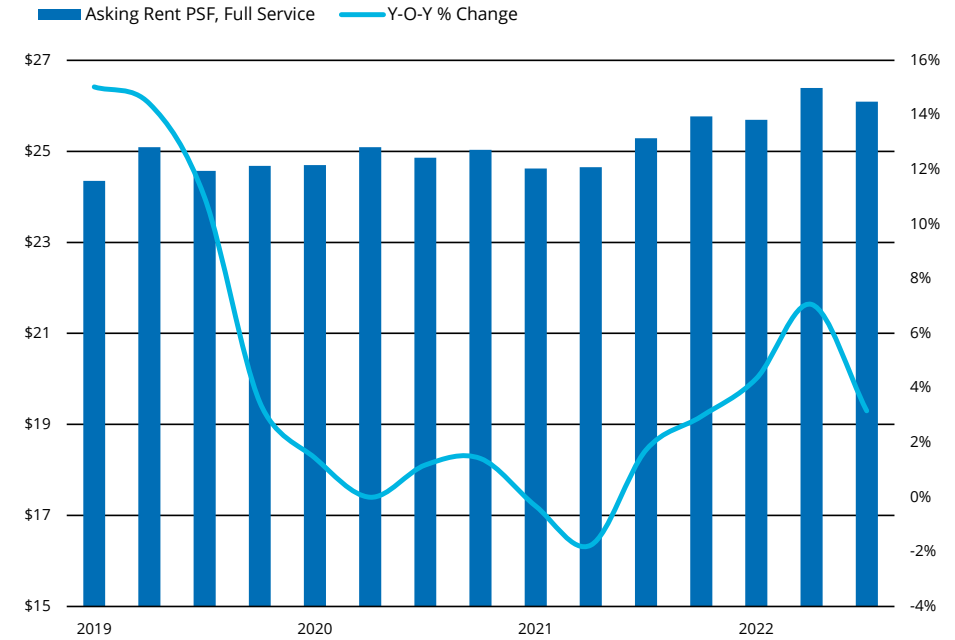


LEASE RATES

Rents Continue to Increase

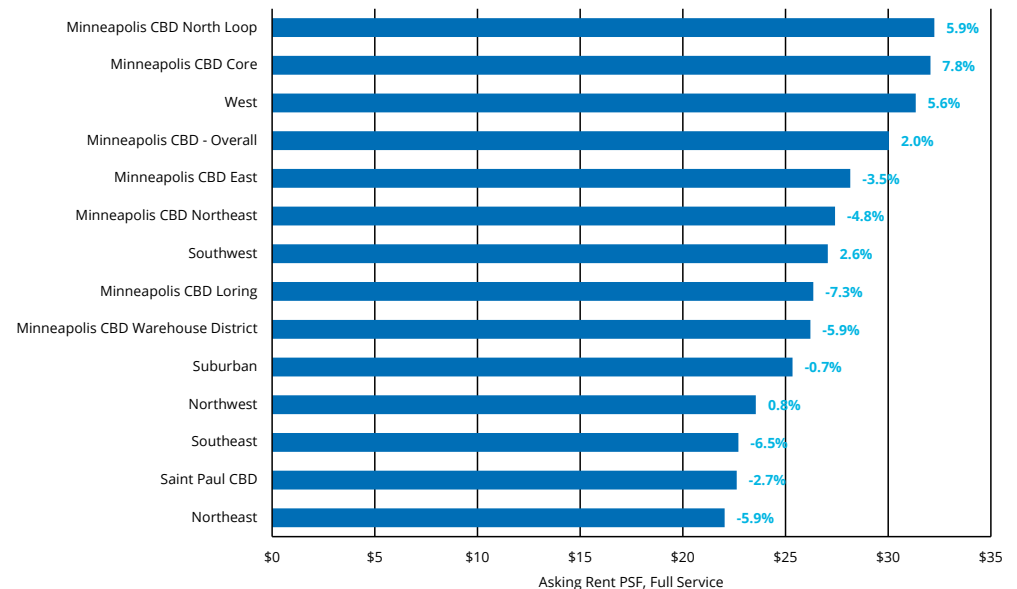
- At \$26.09 per square feet, average asking rents slightly decreased from the previous quarter, even as demand slightly picked up for direct office space.
- Average asking rent increased by 3.2% from the previous year, which was lower than the previous quarters annual increase of 7.1%.
- Year-over-year, rent increased the most in the Minneapolis CBD North Loop submarket, increasing by 5.9%, followed by the Minneapolis CBD Core submarket increasing by 7.8%. This may highlight some returning demand for office space in the Minneapolis CBD as workers continue to return to the office.
- Overall, CBD submarket rents increased by 2% and Suburban submarket rents decreased by 0.7%.
- Rates will tend to increase as the flight to Class A office space will continue to have some impact on rents over the next year.

LEASE RATES - MSP



Source: MNCAR, Transwestern

LEASE RATES BY SUBMARKET AND Y-O-Y GROWTH



Source: MNCAR, Transwestern

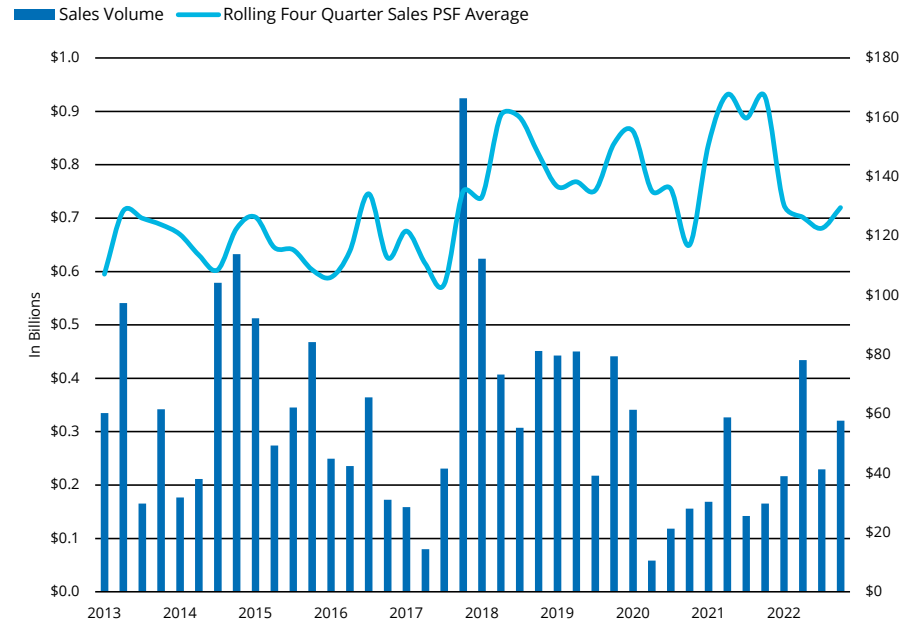


SALES

Sales Continues to Occur in Challenging Environment

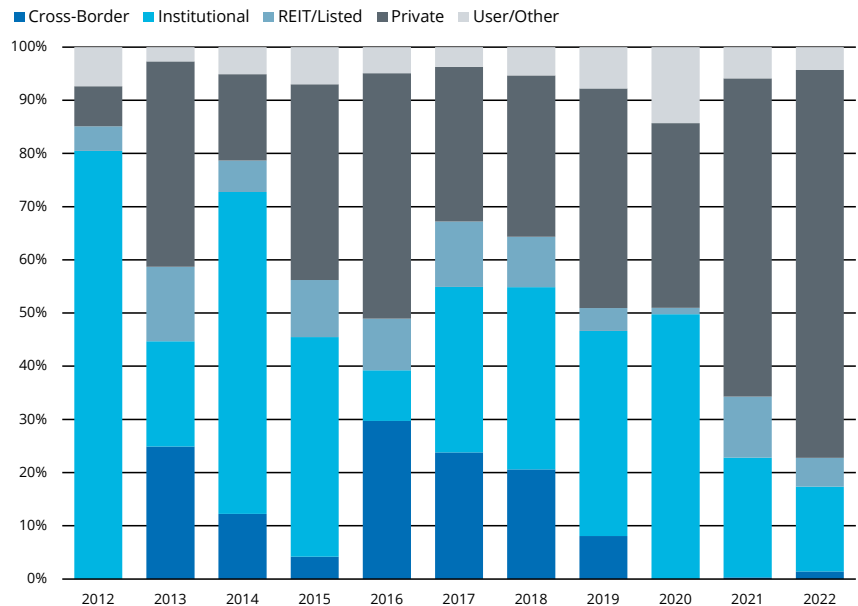
- Sales increased in the fourth quarter, to \$320.6 million, a 39.8% increase from \$229.4 million last quarter. Year-over-year sales increased by 93.9%
- Even as interest rates continue to increase over the last several months sales volumes rebounded from their mid-year lows as optimism that interest rate increases from the feds may slow down due to inflation retreating.
- The most notable sale of the quarter was 10 West End which sold for \$117.3 million. The buyer is Bridge Investment Group and the seller was Ryan Companies.
- In 2022 73% of sales transaction volume were from private buyers, up from 59.8% in 2021.
- As interest rates may start to stabilize and as distressed office properties become available for sale, sales activity may become more active headed into 2023.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
PIPER SANDLER	350 N 5th St	Minneapolis CBD North Loop	New	113,000
RAMSEY COUNTY	360 Wabasha St N	Saint Paul CBD	New	102,150
NORTHMARQ	7001 France Ave S	Southwest	New	42,000
CHANNEL PARTNERS	10900 Wayzata Blvd	West	New	34,654
PRUDENTIAL	700 Nicollet Mall	Minneapolis CBD Core	New	28,123

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1601 UTICA AVE	West	\$117,315,435	343,000	\$342	Bridge Investment Group	Ryan Companies US, Inc.
5500 WAYZATA BLVD	West	\$79,000,000	412,736	\$191	BLG Capital Advisors	AEW Capital Management L P
1500 MCANDREWS RD	Southeast	\$39,500,000	229,142	\$172	KB Summit 1 LLC	PC Summit Townhomes, LLC
12755 HIGHWAY 55	West	\$30,300,000	229,142	\$132	MN Jet LLC	Jet 55 Property Owner, LLC
775 PRAIRIE CENTER DR	Southwest	\$21,525,000	139,353	\$154	Altus Flagship LLC	CGCMT 2006-C5 9 Property Portfolio, LLC

= Transwestern deal



MARKET INDICATORS

All Classes of Space | Fourth Quarter 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	SUBLEASE VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	25,255,870	5,572,487	1,189,445	22.1%	26.8%	0	(101,074)	\$32.06
MINNEAPOLIS CBD EAST	1,024,664	151,942	59,477	14.8%	20.6%	0	(10,317)	\$28.16
MINNEAPOLIS CBD LORING	141,531	22,196	14,640	15.7%	26.0%	0	0	\$26.35
MINNEAPOLIS CBD NORTHEAST	2,907,991	464,505	25,609	16.0%	16.9%	0	38,532	\$27.41
MINNEAPOLIS CBD NORTH LOOP	2,671,932	522,927	236,608	19.6%	28.4%	345,927	(11,229)	\$32.25
MINNEAPOLIS CBD WAREHOUSE	1,893,873	407,062	49,378	21.5%	24.1%	0	(5,343)	\$26.21
MINNEAPOLIS CBD - TOTAL	33,895,861	7,141,119	1,575,157	21.1%	25.3%	345,927	(89,431)	\$30.04
NORTHEAST	9,231,230	1,317,736	94,158	14.3%	15.3%	96,192	54,971	\$22.04
NORTHWEST	4,185,918	609,815	72,196	14.6%	16.3%	29,000	23,023	\$23.56
SAINT PAUL CBD	7,716,421	1,294,926	124,704	16.8%	18.4%		(29,071)	\$22.62
SOUTHEAST	9,070,799	1,722,476	67,495	19.0%	19.7%	250,902	72,148	\$22.71
SOUTHWEST	17,823,089	2,375,910	577,605	13.3%	16.6%	124,060	41,895	\$27.06
WEST	11,233,706	1,882,636	149,868	16.8%	18.1%		129,280	\$31.34
SUBURBAN - TOTAL	51,544,742	7,908,573	961,322	15.3%	18.2%	500,154	(82,738)	\$25.34
TOTAL	93,157,024	16,344,618	2,661,183	17.5%	20.4%	846,081	(721,798)	\$26.09



MARKET INDICATORS

Class A | Fourth Quarter 2022

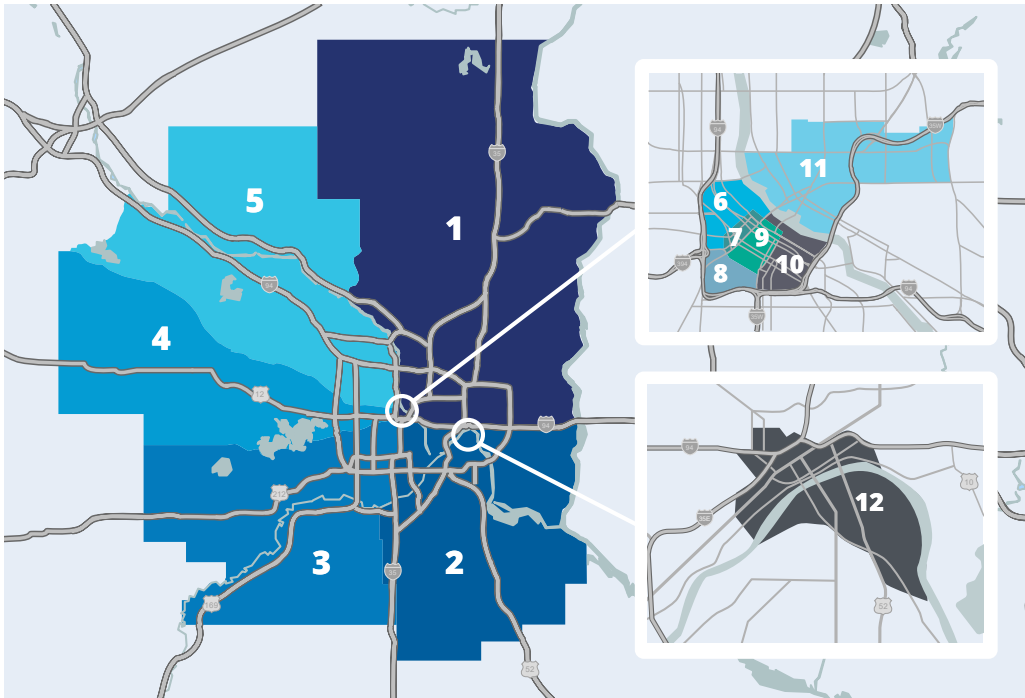
SUBMARKET	INVENTORY SF	DIRECT VACANT SF	SUBLEASE VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	17,150,455	3,374,863	1,144,799	19.7%	26.4%	(66,618)	\$37.05
MINNEAPOLIS CBD EAST	318,955	30,989	59,477	9.7%	28.4%	(72,575)	\$35.08
MINNEAPOLIS CBD LORING	0	0	0	N/A	N/A	N/A	N/A
MINNEAPOLIS CBD NORTHEAST	191,610	11,755	0	6.1%	6.1%	0	\$28.14
MINNEAPOLIS CBD NORTH LOOP	1,492,299	195,333	157,481	13.1%	23.6%	0	\$38.81
MINNEAPOLIS CBD WAREHOUSE	181,516	21,418	0	11.8%	11.8%	0	N/A
MINNEAPOLIS CBD - TOTAL	19,334,835	3,634,358	1,361,737	18.8%	25.8%	(139,193)	\$36.80
NORTHEAST	382,244	50,407	0	13.2%	13.2%	(888)	\$30.52
NORTHWEST	465,244	115,807	23,895	24.9%	30.0%	2,883	N/A
SAINT PAUL CBD	3,256,631	516,074	30,487	15.8%	16.8%	(18,509)	\$27.95
SOUTHEAST	1,797,163	260,101	10,309	14.5%	15.0%	25,369	\$29.84
SOUTHWEST	7,204,729	734,942	217,985	10.2%	13.2%	63,332	\$33.94
WEST	4,792,924	951,300	60,364	19.8%	21.1%	56,020	\$38.30
SUBURBAN - TOTAL	14,642,304	2,112,557	312,553	14.4%	16.6%	146,716	\$34.60
TOTAL	37,223,770	6,262,989	1,704,777	16.8%	21.4%	(10,986)	\$33.73



MARKET INDICATORS

Class B | Fourth Quarter 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	SUBLEASE VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	7,390,019	2,033,024	44,666	27.5%	28.1%	(26,978)	\$26.66
MINNEAPOLIS CBD EAST	533,812	27,583	0	5.2%	5.2%	2,781	\$28.28
MINNEAPOLIS CBD LORING	114,683	22,196	14,640	19.4%	32.1%	0	\$26.35
MINNEAPOLIS CBD NORTHEAST	2,228,190	440,006	23,133	19.7%	20.8%	43,446	\$27.91
MINNEAPOLIS CBD NORTH LOOP	992,657	266,508	79,127	26.8%	34.8%	(25,466)	\$30.25
MINNEAPOLIS CBD WAREHOUSE	1,643,107	385,644	49,378	23.5%	26.5%	(5,343)	\$26.21
MINNEAPOLIS CBD - TOTAL	12,902,468	3,174,691	210,944	24.6%	26.2%	(11,560)	\$27.81
NORTHEAST	7,155,724	1,165,055	89,742	16.3%	17.5%	58,693	\$21.99
NORTHWEST	3,212,819	452,429	48,301	14.1%	15.6%	16,279	\$24.04
SAINT PAUL CBD	4,075,987	655,652	91,449	16.1%	18.3%	(31,628)	\$20.83
SOUTHEAST	6,024,110	1,297,301	57,186	21.5%	22.5%	40,139	\$22.32
SOUTHWEST	9,620,661	1,489,936	359,620	15.5%	19.2%	(26,687)	\$25.80
WEST	5,781,460	901,193	65,858	15.6%	16.7%	78,493	\$28.42
SUBURBAN - TOTAL	31,794,774	5,305,914	620,707	16.7%	18.6%	166,917	\$24.18
TOTAL	48,773,229	9,136,527	923,100	18.7%	20.6%	123,729	\$25.79



MINNEAPOLIS - SAINT PAUL OFFICE SUBMARKETS

- 1** Northeast
- 2** Southeast
- 3** Southwest
- 4** West
- 5** Northwest
- 6** Mpls CBD - North Loop
- 7** Mpls CBD - Warehouse
- 8** Mpls CBD - Loring
- 9** Mpls CBD - Core
- 10** Mpls CBD - East
- 11** Mpls CBD - Northeast
- 12** Saint Paul CBD

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the seven county Minneapolis-Saint Paul metropolitan area (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties). This report includes multi-tenant properties 20,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

FOR MORE INFORMATION

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