



TRANSWESTERN

# MINNEAPOLIS - SAINT PAUL OFFICE MARKET

## Q1 2023



### TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.0	3.0	↔	4.1	↑
NET ABSORPTION (THOUSANDS SF)	(417.1)	(372.9)	↑	(280.5)	↑
OVERALL VACANCY RATE	21.3%	20.1%	↑	19.0%	↑
OVERALL VACANT SF (MSF)	19.2	19.0	↑	17.5	↑
UNDER CONSTRUCTION (MSF)	0.8	1.1	↓	1.2	↓
AVERAGE ASKING RENT, FULL SERVICE GROSS (FSG), PER SF	\$26.55	\$26.34	↑	\$25.50	↑
SALES VOLUME (MILLIONS)	\$119.8	\$200	↓	\$253.4	↓

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

### A SLOW START FOR OFFICE ACTIVITY

Minneapolis-Saint Paul's (MSP) office market started the year off slow as it continues to reduce office space to adjust to post-pandemic space needs. Q1 2023 net absorption totaled -417,057 square feet (SF), a decrease from the previous year's total of -372,900 SF and a larger decrease from Q4 2022 when net absorption was -122,082 SF. Several large office users vacated space and signed new leases for less space, continuing the trend of companies adjusting office space for post-pandemic needs.

A positive change for Q1 is that the rate of sublease space coming onto the market lessened this quarter; only 20,428 SF of available sublease space was added from Q4 2022. Uncertainty in the office real estate market continues to be a factor as the economic growth continues to slow. The continued rise in interest rates has started impacting the labor market as unemployment has trended up since Fall 2022 and the office employment has declined by 1.2% from the previous year.

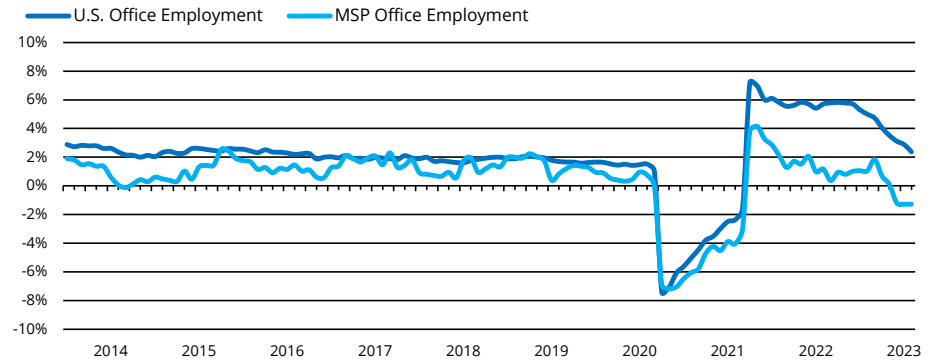


### ECONOMY

#### Job Growth Slows

- Minneapolis - Saint Paul unemployment increased from Q4 2022, but continued to be historically low. March unemployment was 2.8% and the quarterly average was 3%.
- Total employment in the Minneapolis - Saint Paul metro area grew by 1.8% from the previous year. While solid growth, it's the fourth consecutive month employment growth was below 2% from the previous year.
- Office employment from the previous year decreased by 1.2% to 471,195 in March, the fourth consecutive month where employment decreased from the previous year.
- While employment totals have returned to pre-pandemic levels, the continued loss of office-using jobs is a concern that could have an impact on office real estate.

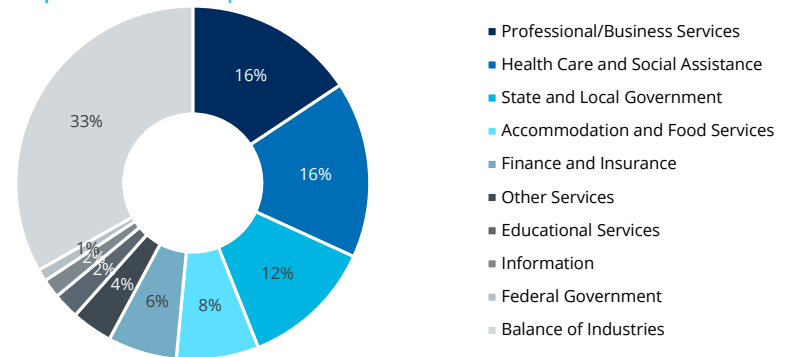
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

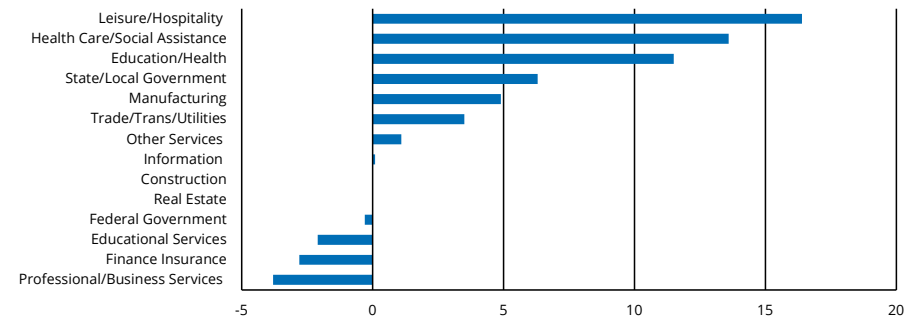
Minneapolis - Saint Paul | March 2023



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis-Saint Paul | March 2023



Source: Bureau of Labor Statistics, Transwestern

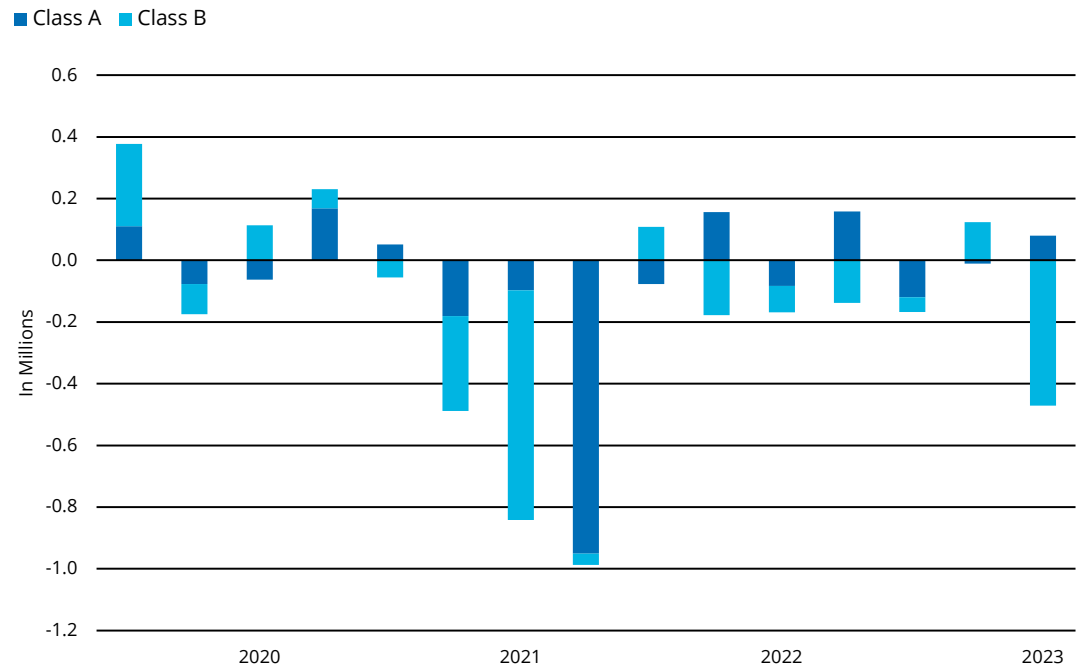


## NET ABSORPTION

### Negative Net Absorption Increases

- Net absorption decreased significantly in Q1 2023, totaling -417,263 SF.
- A major driver of negative net absorption were from tenants continuing to reduce the amount of office space as they continue to right-size the amount of workspace needed post-pandemic.
- Class A office space continued to be leased compared to other classes. Class A space had a net absorption of 79,654 SF, compared to class B which had a net absorption of -470,684.
- Sublease space did not increase significantly in Q1 as only 20,428 SF was added to the market from Q4 2022.
- As companies continue to reevaluate their office space needs and economic uncertainty continues, net absorption will likely continue to be negative.

### NET ABSORPTION BY CLASS



Source: MNCAR, Transwestern

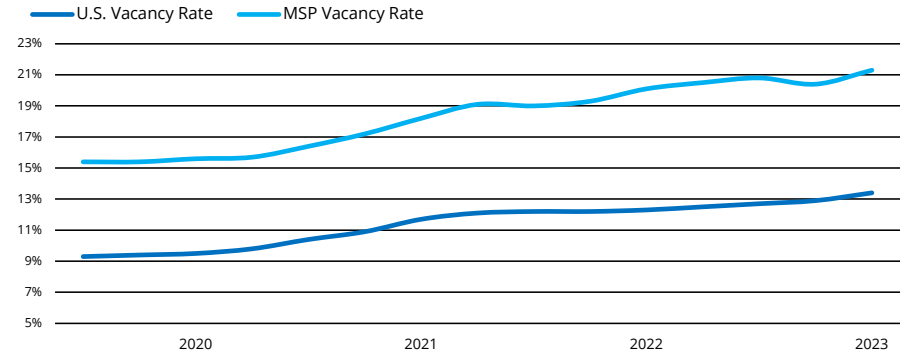


### VACANCY

#### Vacancy Rate Increases

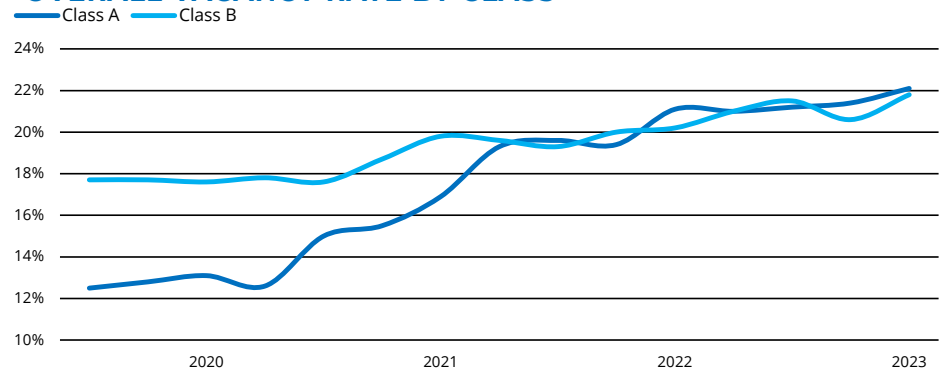
- Overall market vacancy for Q1 2023 was 22.1%, an increase of 70 basis points from Q4 2022. Year-over-year market vacancy increased by 80 basis points.
- Minneapolis CBD vacancy rates were 28% for the quarter, an increase of 270 basis points from Q4 2022 and year-over-year an increase of 340 basis points.
- The Suburban submarkets vacancy rate is 17.4% for the quarter, an increase of 20 basis points from the previous quarter. Vacancy decreased by 30 basis points year-over-year.
- Class-A vacancy increased by 70 basis points from Q4 2022, landing at 22.1%. Class-B vacancy, at 21.8%, saw the most significant change from the previous quarter, increasing by 120 basis points.

### OVERALL VACANCY RATE



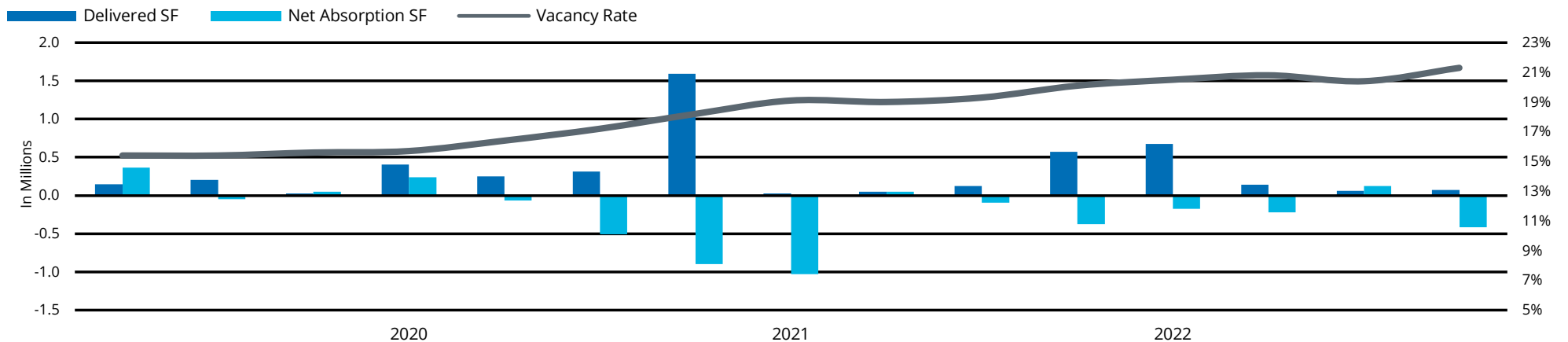
Source: MNCAR, Transwestern

### OVERALL VACANCY RATE BY CLASS



Source: MNCAR, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

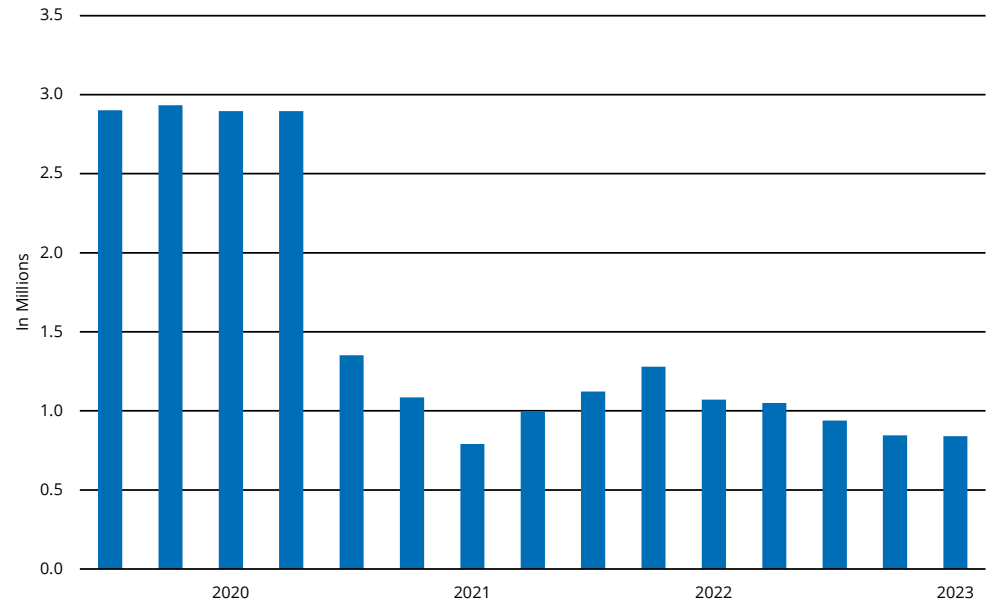


### UNDER CONSTRUCTION

#### Construction Has Slowed Down

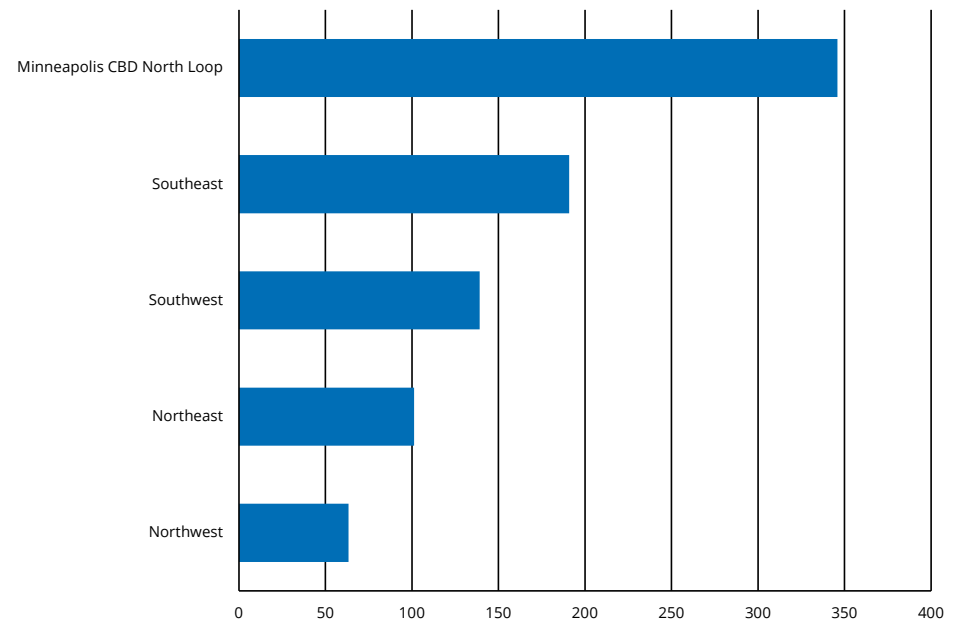
- 840,483 SF was under construction in the Minneapolis - Saint Paul region for Q1 2023.
- North Loop submarket led the market with 345,927 SF under construction, followed by the Southeast subregion with 190,902 SF under construction.
- Compared to last year there is 21.5% less square feet that is under construction.
- Net deliveries totaled 72,000 SF in Q1, a slight increase from the previous quarter when deliveries totaled 56,000 SF. Year-over-year no office space was delivered during Q1.
- As the need for office space continues to lag, new office space is not expected to come online 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

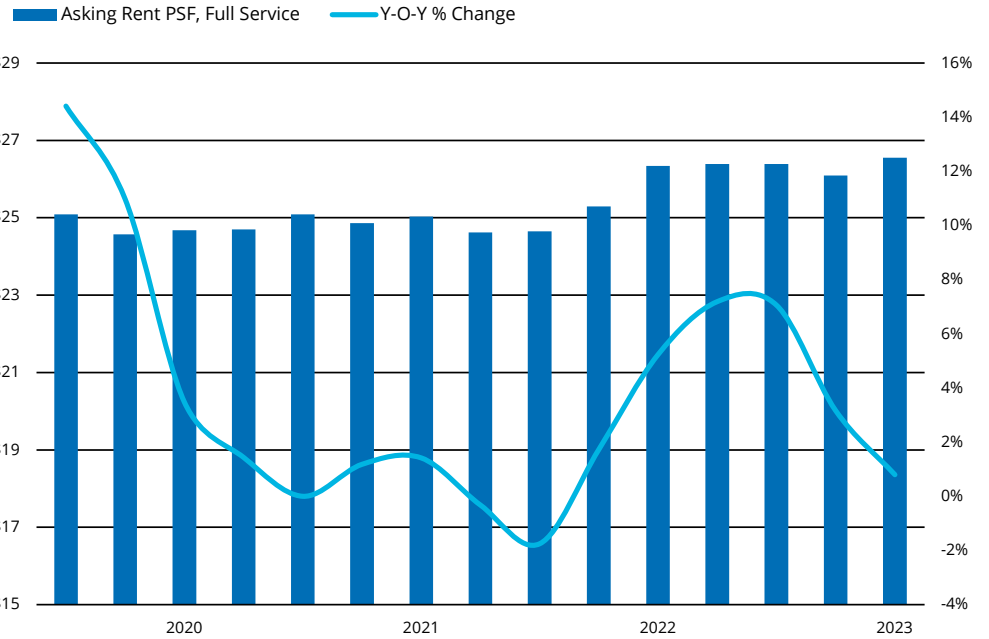


### LEASE RATES

#### Rents Continue to Increase

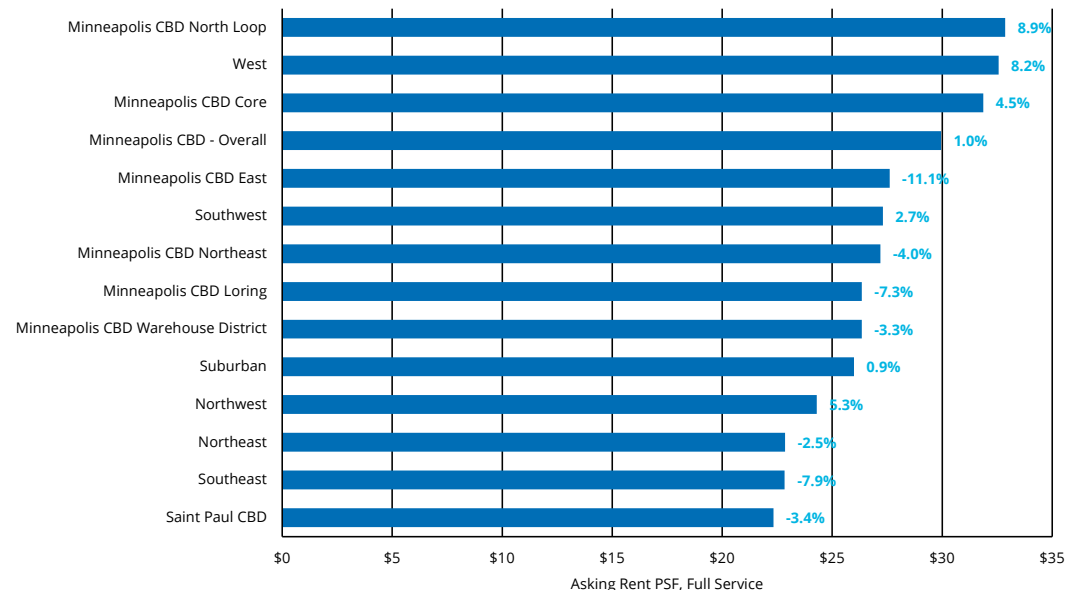
- At \$26.55/PSF, average asking rents increased by 1.8% from the previous quarter as rent growth increases in the suburban markets lifted overall rent growth.
- Average asking rent increased by 0.8% from the previous year, which was higher than the previous year-over-year decline of 0.1%.
- Year-over-year, rent increased the most in the Minneapolis CBD North Loop submarket, increasing by 8.9%. The Minneapolis CBD Core submarket increased by 4.5%. 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 1% from the previous year and Suburban submarket rents increased by 0.9% during the same period.
- Class A asking rents increased across all submarkets year-over-year, increasing 8.5% to \$36.70 in the Minneapolis CBD and 5.2% to \$34.85 in the suburban submarket.

### LEASE RATES - MSP



Source: MNCAR, Transwestern

### LEASE RATES BY SUBMARKET AND Y-O-Y GROWTH



Source: MNCAR, Transwestern

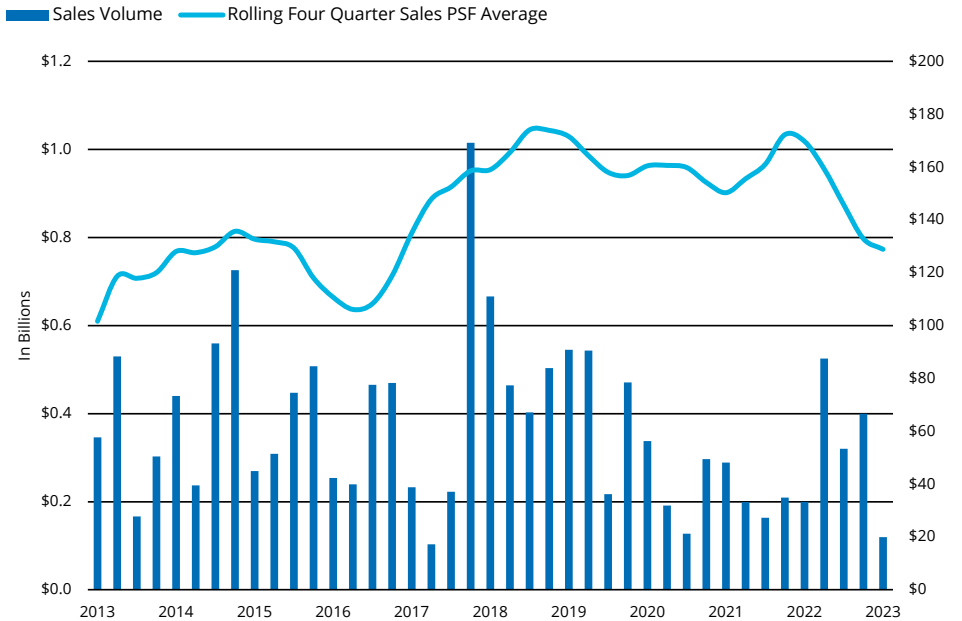


### SALES

#### Sales Slowing in A Challenging Environment

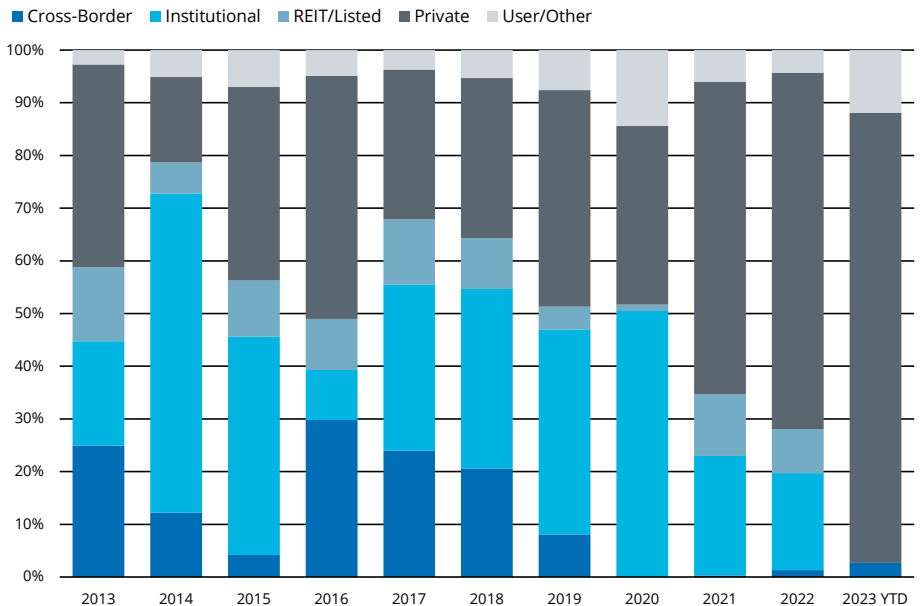
- Sales totaled \$119.8 million in Q1, a 40% decrease from the previous year.
- Continued interest rate increases and additional economic instability caused sales to decline this quarter.
- The most notable sale of the quarter was 445 Lake St E, which sold for \$25.7 million. The buyer was Clackamas Commons Property Management, LLC and the seller was 445 Lake Street, LP.
- 85.5% of sale transaction volume were from private buyers in Q1, with no transactions made by institutional investors or REITs. Users/Other buyers made up 11.9% of transactions.
- Interest rate increases are likely to continue into Q2 as the fed continues to try and reduce inflation potentially impacting sales.

### SALES VOLUME



Source: CoStar, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
SFM MUTUAL INSURANCE	3500 American Blvd W	Southwest	New	49,000
MASLON LAW	225 S 6th St	Minneapolis CBD Core	New	35,000
COPELAND AND BUHL	3033 Campus Dr	Northwest	New	29,737
MIDWEST SURGERY CENTER	2975 Holiday Court	Southeast	New	26,649
FABYANSKE	80 S 8th S	Minneapolis CBD Core	New	23,801

## NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
445 LAKE ST E	West	\$25,700,000	40,128	\$640	Clackamas Commons Property Management, LLC	Tamarack Investments, Inc.
1625 RADIO DR	Southeast	\$13,069,246	52,033	\$251	Paul Buchmayer	MSP Commercial
1715 YANKEE DOODLE RD	Southeast	\$12,450,000	102,049	\$122	Ashish Aggarwal	BridgeCap Partners
3131 FERNBROOK LN N*	Northwest	\$9,500,000	92,963	\$102	Charles E Caturia	Ravich Meyer
1200-1210 COUNTY RD E	Northeast	\$6,525,000	48,690	\$134	Ryan Hank and Matt Haskins	Woodside Capital Partners

 = Transwestern deal

\* = Portfolio Sale



## MARKET INDICATORS

## All Classes of Space | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE 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	23,282,613	5,632,811	5,745,185	1,100,697	24.7%	29.4%	0	(126,391)	\$31.87
MINNEAPOLIS CBD EAST	1,024,664	239,051	155,204	59,477	9.7%	21.0%	0	(3,262)	\$27.61
MINNEAPOLIS CBD LORING	141,531	22,196	22,196	14,640	5.2%	26.0%	0	0	\$26.35
MINNEAPOLIS CBD NORTHEAST	2,810,470	490,945	471,751	24,868	56.2%	16.9%	0	(10,831)	\$27.19
MINNEAPOLIS CBD NORTH LOOP	2,383,116	522,652	513,478	211,621	15.1%	28.4%	345,927	(35,814)	\$32.86
MINNEAPOLIS CBD WAREHOUSE	1,893,873	488,988	448,413	79,986	19.4%	24.1%	0	(71,959)	\$26.34
MINNEAPOLIS CBD - TOTAL	31,536,267	7,396,643	7,356,227	1,491,289	23.3%	25.3%	345,927	(248,257)	\$29.95
NORTHEAST	9,187,846	1,402,185	1,283,397	131,194	14.0%	15.3%	101,242	(47,662)	\$22.86
NORTHWEST	4,375,312	728,233	653,972	69,322	24.8%	16.3%	63,352	(45,074)	\$24.30
SAINT PAUL CBD	7,716,421	1,494,148	1,349,373	165,453	14.9%	18.4%		(102,522)	\$22.33
SOUTHEAST	9,003,310	2,222,398	1,697,831	65,931	7.7%	19.7%	190,902	60,738	\$22.84
SOUTHWEST	17,735,085	2,877,552	2,369,036	579,878	14.9%	16.6%	139,060	(17,444)	\$27.31
WEST	10,381,159	1,996,131	1,862,426	86,454	12.5%	18.1%		(16,836)	\$32.57
SUBURBAN - TOTAL	50,682,712	9,226,499	7,866,662	932,779	19.7%	18.2%	393,314	(66,278)	\$25.99
<b>TOTAL</b>	<b>89,935,400</b>	<b>18,117,290</b>	<b>16,572,262</b>	<b>2,589,521</b>	<b>32.2%</b>	<b>21.3%</b>	<b>840,483</b>	<b>(417,057)</b>	<b>\$26.55</b>



## MARKET INDICATORS

## Class A | Q1 2023

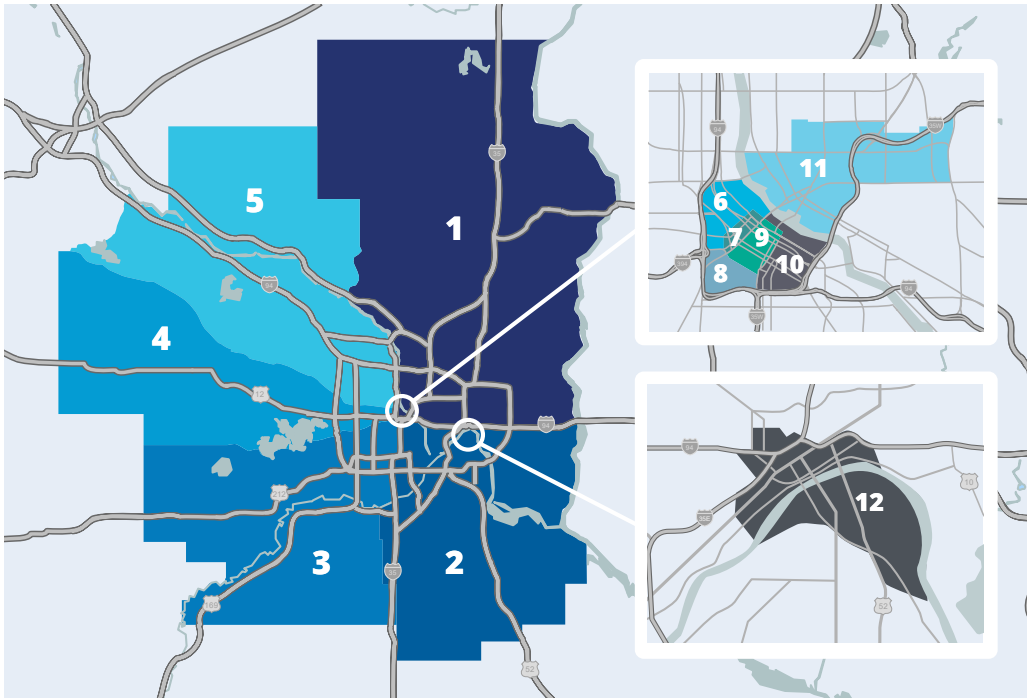
SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	15,098,094	3,212,214	3,335,001	1,044,429	22.1%	29.0%	76,842	\$36.96
MINNEAPOLIS CBD EAST	318,955	47,401	30,989	59,477	9.7%	28.4%	0	\$36.44
MINNEAPOLIS CBD LORING	0	0	0	0	N/A	N/A	N/A	N/A
MINNEAPOLIS CBD NORTHEAST	461,642	75,363	75,363	18,807	16.3%	20.4%	(2,367)	\$33.93
MINNEAPOLIS CBD NORTH LOOP	1,203,483	201,181	195,333	86,166	16.2%	23.4%	1,065	\$38.50
MINNEAPOLIS CBD WAREHOUSE	181,516	30,467	21,418	0	11.8%	11.8%	0	N/A
MINNEAPOLIS CBD - TOTAL	17,263,690	3,566,626	3,658,104	1,208,879	21.2%	28.2%	75,540	\$36.70
NORTHEAST	315,076	85,015	50,454	0	16.0%	16.0%	(47)	\$30.66
NORTHWEST	389,244	82,695	96,593	23,895	24.8%	31.0%	19,214	\$34.29
SAINT PAUL CBD	3,043,672	454,428	380,016	59,186	12.5%	14.4%	(52,605)	\$28.32
SOUTHEAST	1,663,133	425,022	258,483	9,541	15.5%	16.1%	(11,114)	\$29.92
SOUTHWEST	7,245,289	999,633	694,268	219,249	9.6%	12.6%	36,936	\$34.05
WEST	4,792,924	1,059,057	684,546	15,388	20.5%	20.9%	11,730	\$38.60
SUBURBAN - TOTAL	14,405,666	2,651,422	2,084,344	268,073	14.5%	16.3%	56,719	\$34.85
<b>TOTAL</b>	<b>34,713,028</b>	<b>6,672,476</b>	<b>6,122,554</b>	<b>1,536,138</b>	<b>17.6%</b>	<b>22.1%</b>	<b>79,654</b>	<b>\$34.44</b>



## MARKET INDICATORS

## Class B | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
<b>MINNEAPOLIS CBD CORE</b>	7,469,123	2,221,413	2,235,894	56,268	29.9%	30.7%	(197,953)	\$26.34
<b>MINNEAPOLIS CBD EAST</b>	533,812	82,805	27,583	0	5.2%	5.2%	0	\$29.53
<b>MINNEAPOLIS CBD LORING</b>	114,683	22,196	22,196	14,640	19.4%	32.1%	0	\$26.35
<b>MINNEAPOLIS CBD NORTHEAST</b>	1,860,637	394,572	383,033	0	20.6%	20.6%	(4,268)	\$26.73
<b>MINNEAPOLIS CBD NORTH LOOP</b>	992,657	258,964	260,096	125,455	26.2%	38.8%	(39,916)	\$31.01
<b>MINNEAPOLIS CBD WAREHOUSE</b>	1,643,107	458,521	426,995	79,986	26.0%	30.9%	(71,959)	\$26.34
<b>MINNEAPOLIS CBD - TOTAL</b>	12,614,019	3,438,471	3,355,797	276,349	26.6%	28.8%	(314,096)	\$27.49
<b>NORTHEAST</b>	7,221,384	1,218,313	1,147,606	126,778	15.9%	17.6%	(53,664)	\$22.89
<b>NORTHWEST</b>	3,472,818	604,885	518,102	45,427	14.9%	16.2%	(63,712)	\$24.68
<b>SAINT PAUL CBD</b>	4,288,946	916,450	845,801	91,449	19.7%	21.9%	(37,601)	\$20.42
<b>SOUTHEAST</b>	6,049,370	1,505,726	1,262,183	53,394	20.9%	21.7%	71,734	\$22.53
<b>SOUTHWEST</b>	9,492,097	1,775,399	1,513,805	360,629	15.9%	19.7%	(44,449)	\$25.94
<b>WEST</b>	4,928,913	907,261	848,067	47,420	17.2%	18.2%	(28,896)	\$30.45
<b>SUBURBAN - TOTAL</b>	31,164,582	6,011,584	5,289,763	633,648	17.0%	19.0%	(118,987)	\$24.93
<b>TOTAL</b>	<b>48,067,547</b>	<b>10,366,505</b>	<b>9,491,361</b>	<b>1,001,446</b>	<b>19.7%</b>	<b>21.8%</b>	<b>(470,684)</b>	<b>\$26.12</b>



### 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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### ABOUT TRANSWESTERN

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