



TRANSWESTERN

MINNEAPOLIS - SAINT PAUL OFFICE MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.8	2.3	↑	4.0	↑
NET ABSORPTION (THOUSANDS SF)	(177.0)	(173.7)	↑	(310.4)	↑
OVERALL VACANCY RATE	21.4%	20.5%	↑	19.5%	↑
OVERALL VACANT SF (MSF)	19.0	19.2	↑	17.5	↑
UNDER CONSTRUCTION (MSF)	0.8	1.0	↓	1.0	↓
AVERAGE ASKING RENT, FULL SERVICE GROSS (FSG), PER SF	\$26.57	\$26.35	↑	\$25.64	↑
SALES VOLUME (MILLIONS)	\$93.5	\$534	↓	\$251.5	↓

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

OFFICE ACTIVITY SHOWS IMPROVEMENT

Minneapolis-Saint Paul's (MSP) office market showed improvement as net absorption stabilized. Q2 2023 net absorption totaled (177,010) square feet (SF); a significant decrease from last quarter's total of (363,035) SF and slightly higher than the previous year's total of (173,729) SF. There was (95,000) SF of net absorption for direct space and (81,900) SF net absorption for sublease space. Leasing activity this quarter recorded 294 transactions totaling 1.164 million SF. Notable leases include Pentair which leased 120,350 SF at Colonnade in Golden Valley and Winthrop & Weinstine renewing at Capella Tower for 107,000 SF.

Asking leasing rents continue to increase slightly as there is little space being delivered or under construction and flight to quality continues. Asking rent for Q2 2023 was \$26.57 PSF full service gross (FSG); an increase of 0.8% from Q2 2022. Landlords have relied on renovations and near-record concession offerings including free rent and tenant improvement allowances in order to boost asking rents.

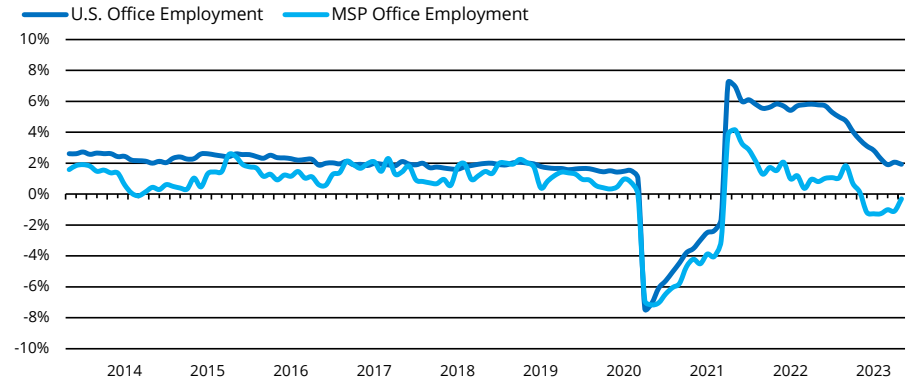


ECONOMY

Job Growth is Slowly Returning

- MSP’s unemployment rate continues to increase from its low point in mid-2022. May 2023 unemployment rate was 2.9%, an increase of 0.8% from the May 2022 rate of 2.1%.
- Office employment decreased by 0.3% from the previous year. This was the the first month that year-over-year employment numbers did not decline by 1% or more since November 2022.
- Total employment in the MSP metro area grew by 1.9% year-over-year. This was the first year-over-year increase since December 2022.
- Employment change has steadied as economic factors stabilized, including fewer interest rate increases and lower inflation, signaling a more predictable economy.

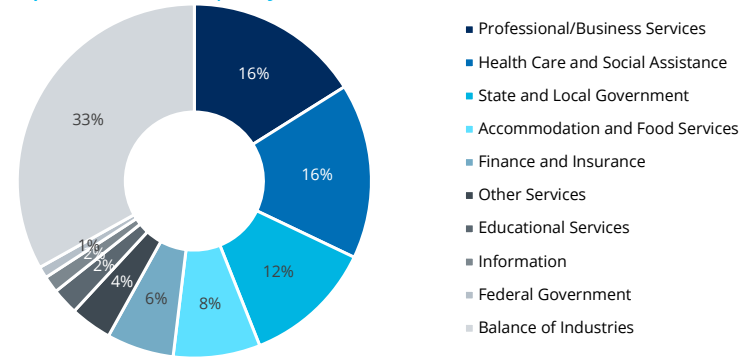
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

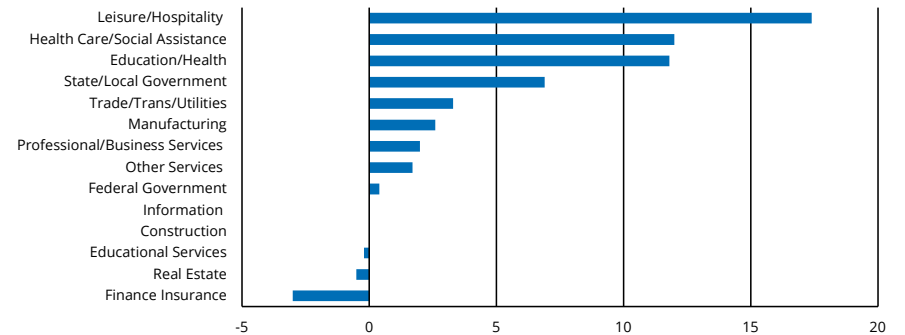
Minneapolis - Saint Paul | May 2023



Source: Bureau of Labor Statistics, Transwestern

YEAR-OVER-YEAR CHANGE IN JOBS BY INDUSTRY

Minneapolis-Saint Paul | May 2023



Source: Bureau of Labor Statistics, Transwestern

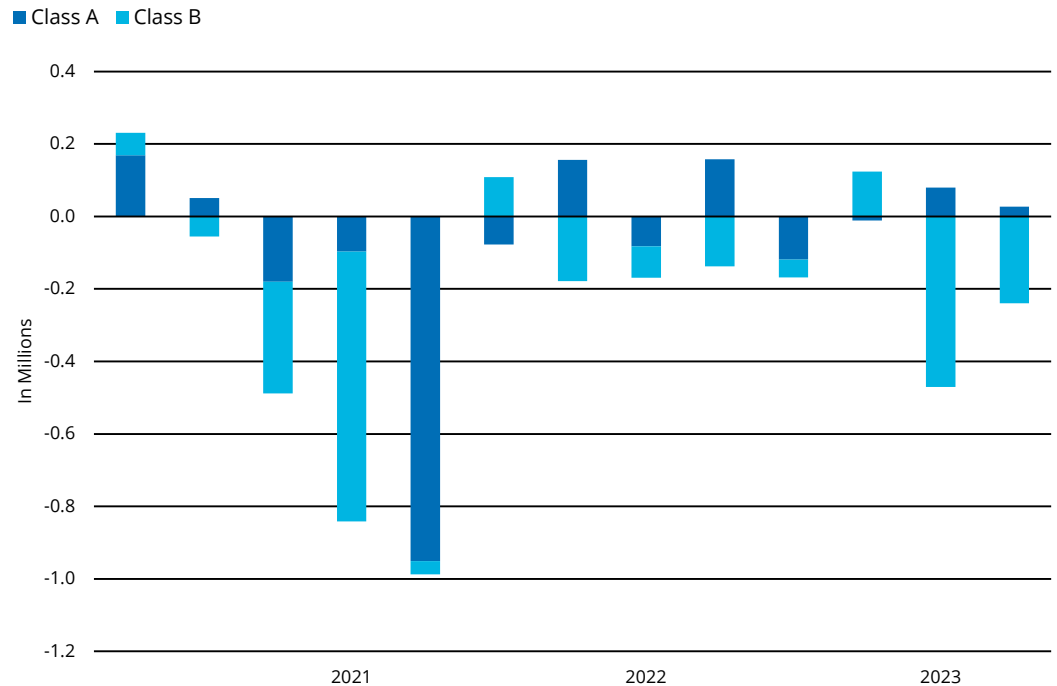


NET ABSORPTION

Net Absorption Increased Slightly

- Q2 2023 net absorption was (177,010) SF, significantly lower than Q1 2023's total of (363,035) SF.
- Net absorption has somewhat stabilized as the market saw leasing activity totaling 1.164 million SF in 294 transactions.
- Class A office space continues to outpace other classes. Class A space had a net absorption of 26,775 SF, compared to class B which had a net absorption of (239,183) SF.
- Available sublease space increased by 5% from the previous quarter as 187,650 SF was added. There is now 3.73 million SF of sublease space available in the market.
- As companies continue to reevaluate office space needs, net absorption will likely continue to trend negative.

NET ABSORPTION BY CLASS



Source: MNCAR, Transwestern

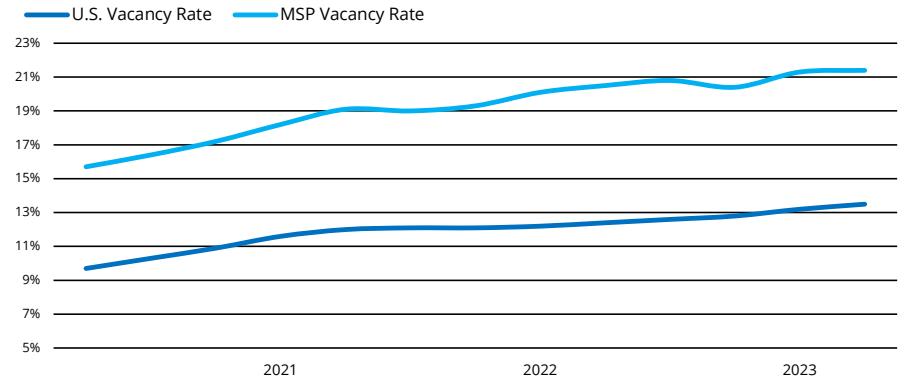


VACANCY

Vacancy Rate Increases

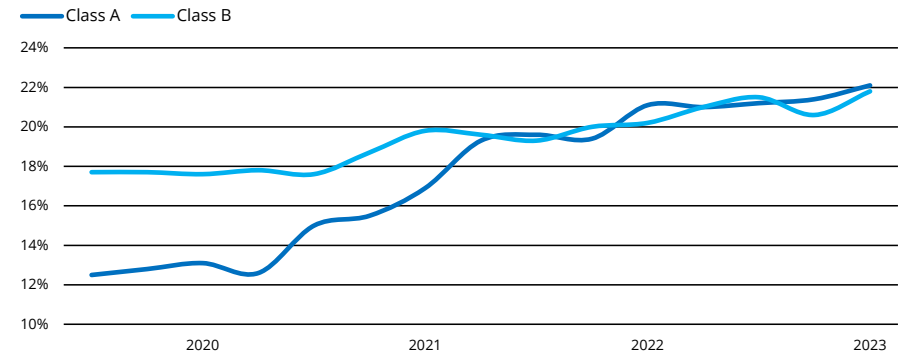
- Overall market vacancy for Q2 2023 was 21.4%, an increase of 0.2% from the previous quarter. Year-over-year vacancy increased by 0.5%.
- Minneapolis CBD vacancy rates were 27.7% for the quarter, a decrease 0.2% from the previous quarter and year-over-year increased by 0.9%.
- The Suburban submarkets vacancy rate totaled 17.8% for the quarter, an increase of 0.5% from the previous quarter. Vacancy increased by 0.3% year-over-year.
- Class-A vacancy increased by 1.4% from the previous year, landing at 22.4%. Class-B vacancy, at 21.8%, increased by 0.8% from the previous year.

OVERALL VACANCY RATE



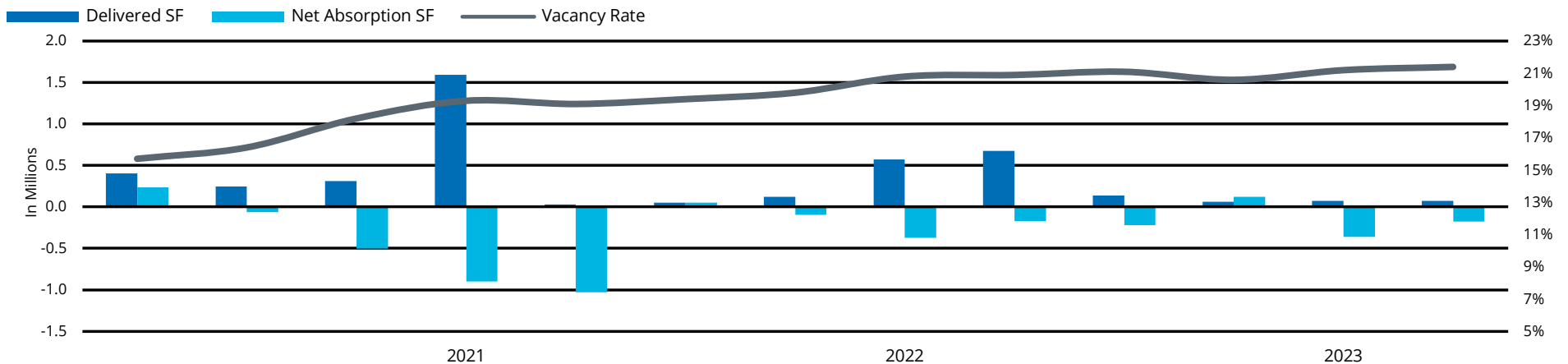
Source: MNCAR, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: MNCAR, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

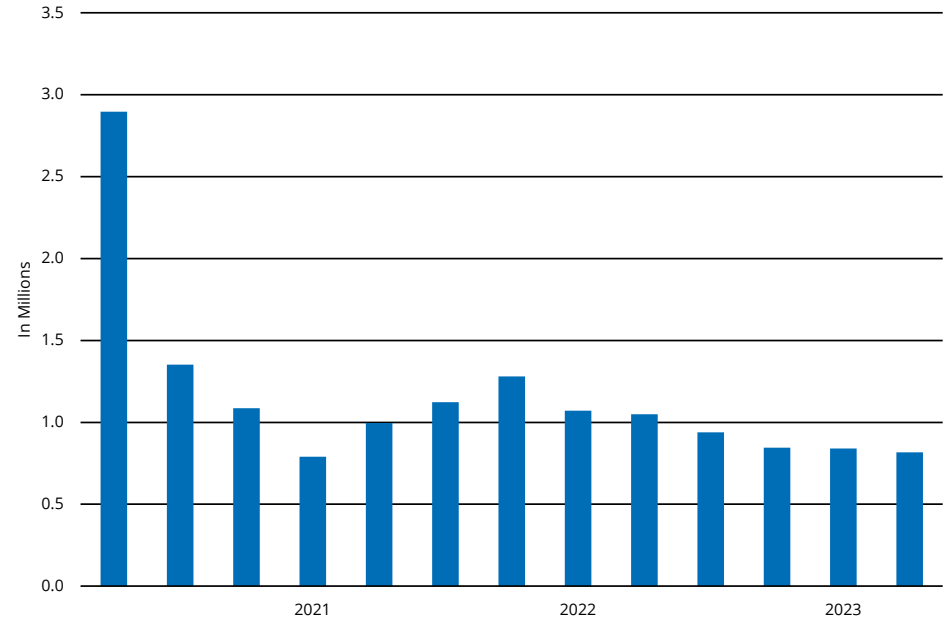


UNDER CONSTRUCTION

Construction Has Slowed Down

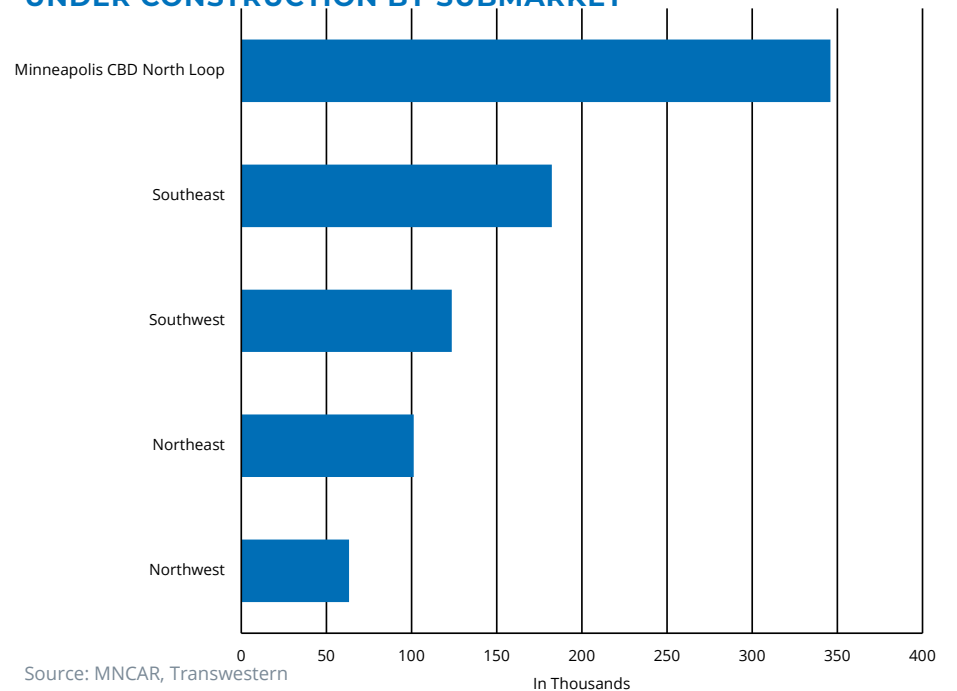
- 816,616 SF of space is currently under construction in the MSP region as of Q2 2023.
- The North Loop submarket led overall with 345,927 SF under construction, followed by the Southeast submarket with 182,435 SF under construction.
- Market-wide, we saw a 22.2% decrease in SF under construction compared to last year.
- Net deliveries totaled 74,376 SF in Q2, a slight increase from the previous quarter when deliveries totaled 72,000 SF.
- The vast majority of office space under construction is medical office space: 12 buildings totaling over 380,000 SF. The only general office building under construction in the region is Xcel Energy's 90,000 SF Operations Center in Northeast Minneapolis.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

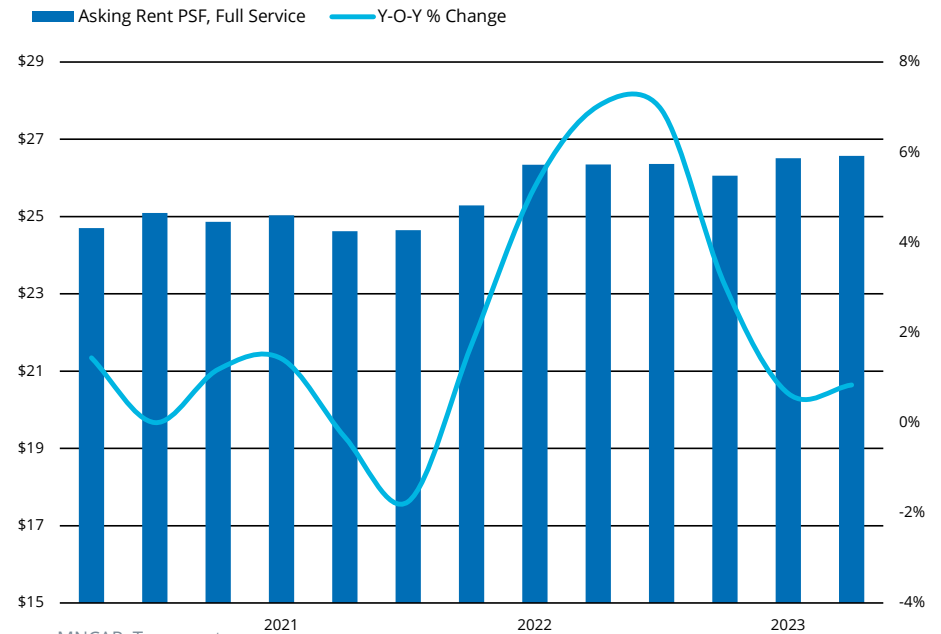


LEASE RATES

Rents Continue to Increase

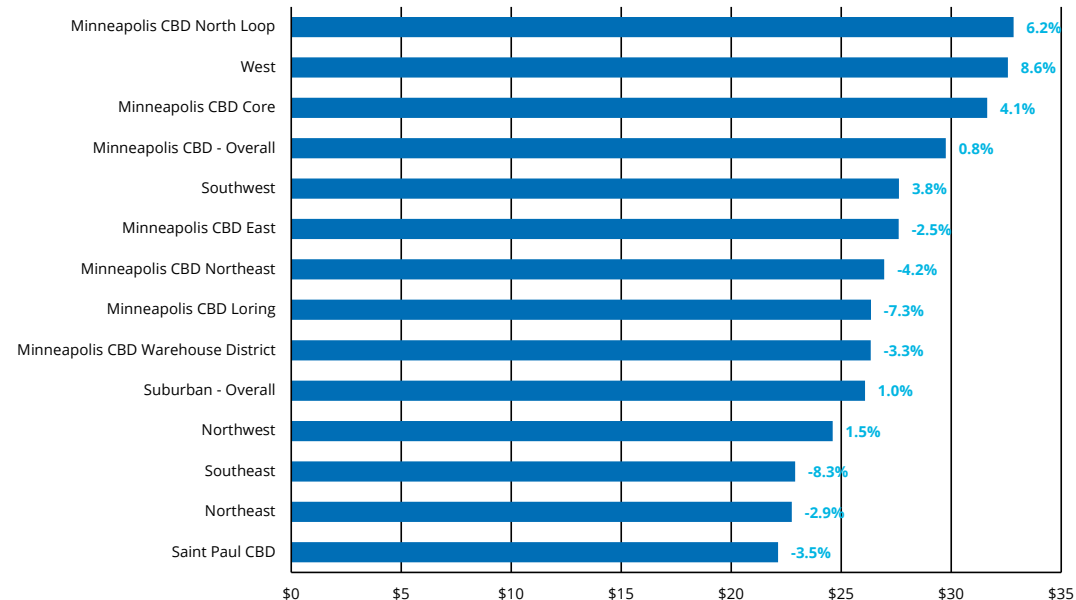
- Average asking rents increased by 0.8% from the previous year to \$26.57/PSF full service gross (FSG) led by the increases for Class A space.
- Average asking rent increased by 0.2% from the previous quarter.
- Year-over-year, rent increased the most in the West submarket, increasing by 8.6%. The Minneapolis CBD-North Loop submarket increased by 6.2% highlighting the increased demand for space in these submarkets.
- Minneapolis CBD submarket rents increased by 0.8% from the previous year and Suburban submarket rents increased by 1% 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

Asking Rent PSF, Full Service

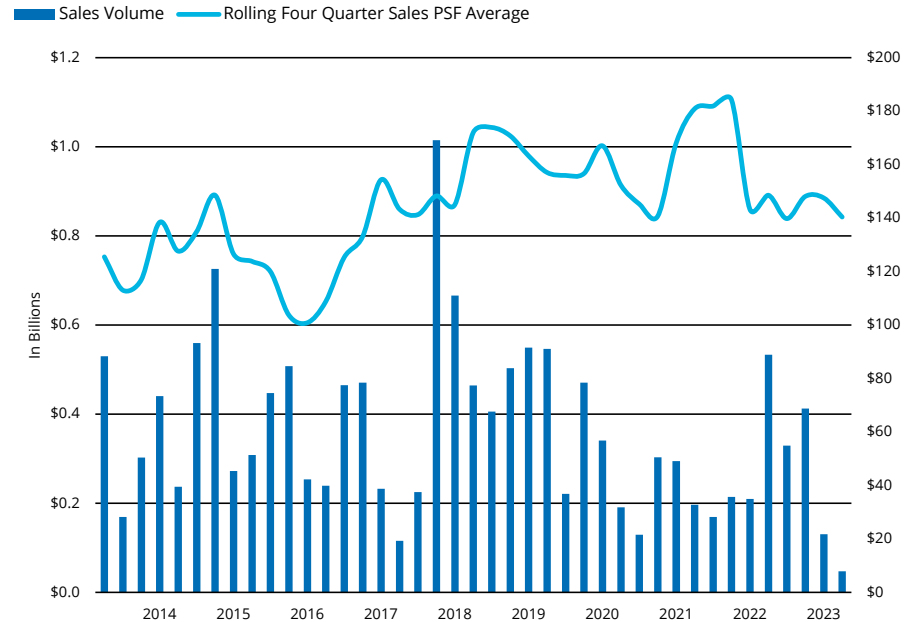


SALES

Sales Slowing in A Challenging Environment

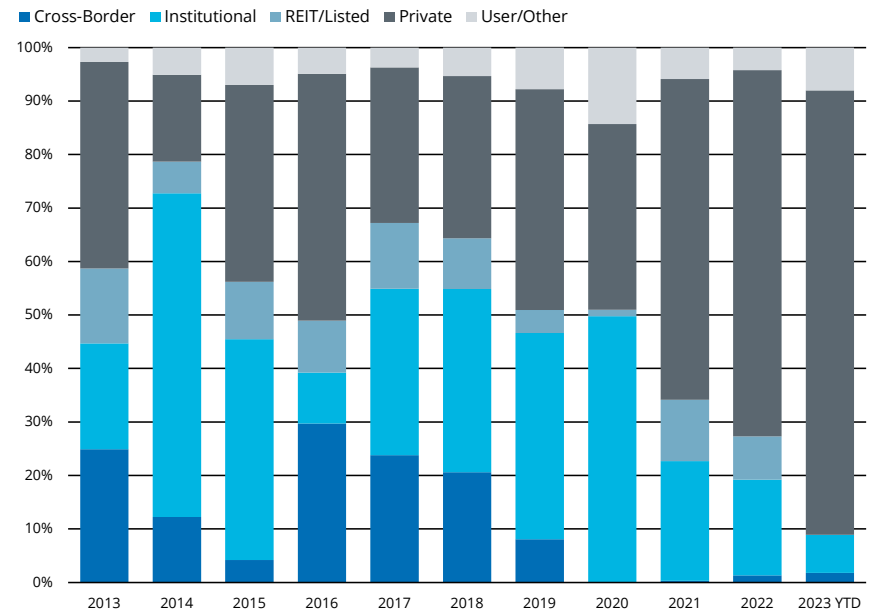
- Preliminary reported sales volume totaled \$93.5 million in Q2, an 82.5% decrease from the previous year.
- Sales volume decreased due to several factors including interest rate increases, continued decline in demand for office space, and continued reduced access to institutional capital.
- The most notable sale of the quarter was LaSalle Plaza, which sold for approximately \$46 million. The buyer was Hempel Cos. and the seller was Northwestern Mutual via auction.
- 85.5% of sale transaction volume came from private buyers in Q1, with no transactions made by institutional investors or REITs. Users/Other buyers made up 11.9% of transactions.
- While Interest rate increases are predicted to slow, the lack of demand for office space and reduced price per SF compared to historical averages will continue to be challenging for sales into the next quarter.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
PENTAIR	5500 Wayzata Blvd	West	New	120,350
WINTHROP & WEINSTINE	225 S 6th St	Minneapolis CBD - Core	Renewal	107,000
INSPIRE MEDICAL	5500 Wayzata Blvd	West	Renewal	105,610
KPMG	350 N 5th St	Minneapolis CBD - North Loop	New	56,118
POLARIS	7225 Northland Dr N	Northwest	New	54,000

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
800 LASALLE AVE	Mpls CBD - Core	\$46,000,000	651,393	\$71	Hempel Cos.	Northwestern Mutual
14000 NORTHDAL BLVD	Northwest	\$9,900,000	43,143	\$229	Unity Medical Properties, LLC	Eyde Development
4620 W 77TH ST	Southwest	\$5,340,506	54,264	\$98	Solhem Companies	Hillcrest Development, LLLP
4810 WHITE BEAR PKWY	Northeast	\$4,710,000	25,817	\$182	Inventure Real Estate	Sterling Real Estate Trust
1515 CENTRAL PKWY	Southeast	\$4,450,000	88,165	\$50	IAG Commercial	American National Insurance Company

 = Transwestern deal

* = Portfolio Sale



MARKET INDICATORS

All Classes of Space | Q2 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	22,043,031	5,304,070	5,246,763	1,402,735	23.8%	29.0%	0	173,184	\$31.64
MINNEAPOLIS CBD EAST	1,024,664	250,225	165,154	59,477	16.1%	21.9%	0	(9,950)	\$27.61
MINNEAPOLIS CBD LORING	141,531	22,196	22,196	14,640	15.7%	26.0%	0	0	\$26.35
MINNEAPOLIS CBD NORTHEAST	2,810,470	489,573	482,927	28,886	17.2%	18.1%	0	(11,176)	\$26.96
MINNEAPOLIS CBD NORTH LOOP	2,383,116	484,243	498,457	270,468	20.9%	28.7%	345,927	15,021	\$32.84
MINNEAPOLIS CBD WAREHOUSE	1,893,873	491,906	448,413	102,996	23.7%	27.9%	0	0	\$26.34
MINNEAPOLIS CBD - TOTAL	30,296,685	7,042,213	6,863,910	1,879,202	22.7%	27.7%	345,927	167,079	\$29.75
NORTHEAST	9,215,561	1,375,230	1,276,846	142,554	13.9%	15.0%	101,242	2,089	\$22.75
NORTHWEST	4,375,312	771,388	696,211	152,297	15.9%	17.5%	63,352	(43,739)	\$24.61
SAINT PAUL CBD	7,716,421	1,645,943	1,432,667	158,058	18.6%	20.6%		(95,273)	\$22.13
SOUTHEAST	8,959,628	2,178,299	1,736,156	97,280	19.4%	20.2%	182,435	(38,325)	\$22.91
SOUTHWEST	17,555,539	3,196,548	2,441,434	1,010,748	13.9%	17.4%	123,660	(51,272)	\$27.63
WEST	10,381,159	1,985,953	1,900,553	299,537	18.3%	19.1%		(35,596)	\$32.58
SUBURBAN - TOTAL	50,487,199	9,507,418	8,051,200	1,702,416	15.9%	17.8%	470,689	(166,843)	\$26.08
TOTAL	88,500,305	18,195,574	16,347,777	3,739,676	18.5%	21.4%	816,616	(177,010)	\$26.57



MARKET INDICATORS

Class A | Q2 2023

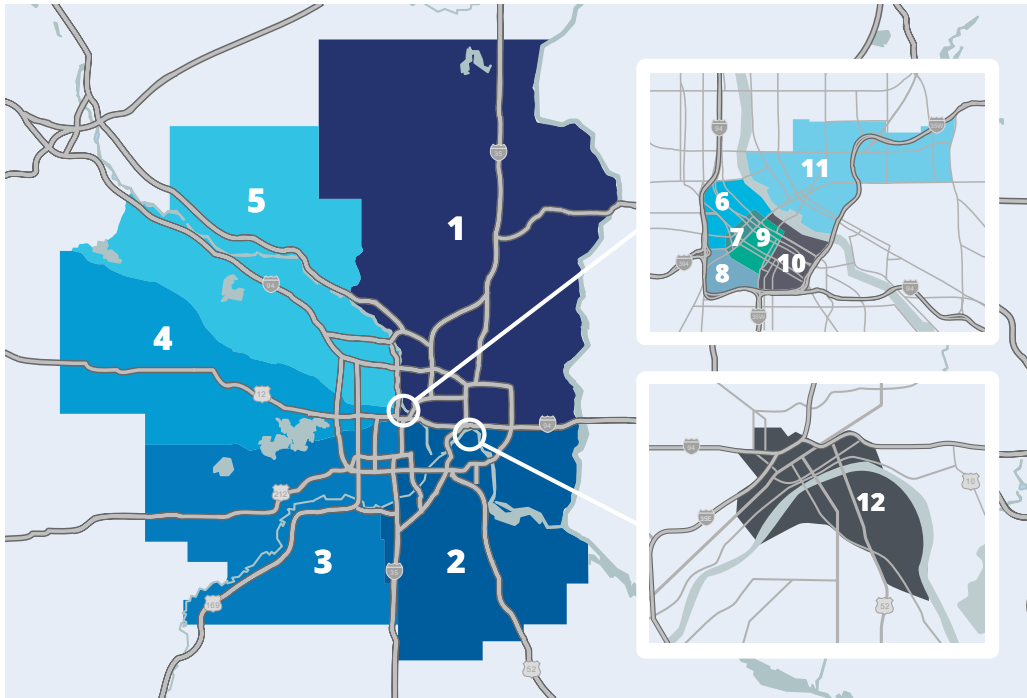
SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	14,290,900	3,260,320	3,072,728	1,210,094	21.5%	29.0%	225,266	\$36.85
MINNEAPOLIS CBD EAST	318,955	58,575	30,989	59,477	9.7%	28.4%	0	\$36.44
MINNEAPOLIS CBD LORING	0	0	0	0		N/A	N/A	N/A
MINNEAPOLIS CBD NORTHEAST	461,642	77,597	88,615	18,807	19.2%	23.3%	(13,252)	\$33.93
MINNEAPOLIS CBD NORTH LOOP	1,203,483	201,230	195,333	84,961	16.2%	21.7%	0	\$38.50
MINNEAPOLIS CBD WAREHOUSE	181,516	33,385	21,418	0	11.8%	11.8%	0	N/A
MINNEAPOLIS CBD - TOTAL	16,456,496	3,631,107	3,409,083	1,373,339	20.7%	28.1%	212,014	\$36.62
NORTHEAST	315,076	85,015	74,668	0	23.7%	23.7%	(24,214)	\$30.66
NORTHWEST	389,244	80,084	96,593	25,307	24.8%	31.0%	0	\$34.29
SAINT PAUL CBD	3,043,672	473,695	394,960	51,791	13.0%	14.7%	(1,949)	\$28.42
SOUTHEAST	1,663,133	416,744	260,563	27,171	15.7%	16.2%	(2,080)	\$30.16
SOUTHWEST	7,245,289	1,346,888	826,283	340,176	11.4%	14.6%	(110,889)	\$34.27
WEST	4,792,924	988,574	1,004,708	132,136	21.0%	21.2%	(17,631)	\$39.38
SUBURBAN - TOTAL	14,405,666	2,917,305	2,262,815	524,790	15.7%	17.6%	(154,814)	\$35.23
TOTAL	33,905,834	7,022,107	6,066,858	1,949,920	17.9%	22.4%	26,775	\$34.56



MARKET INDICATORS

Class B | Q2 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	NET ABSORPTION SF	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	7,082,675	1,923,315	2,000,448	192,641	28.2%	29.5%	(32,785)	\$26.67
MINNEAPOLIS CBD EAST	533,812	82,805	27,583	0	5.2%	5.2%	0	\$29.53
MINNEAPOLIS CBD LORING	114,683	22,196	22,196	14,640	19.4%	32.1%	0	\$26.35
MINNEAPOLIS CBD NORTHEAST	1,860,637	390,009	380,340	1,718	20.4%	20.4%	2,693	\$26.46
MINNEAPOLIS CBD NORTH LOOP	992,657	240,340	245,075	183,166	24.7%	36.7%	15,021	\$30.75
MINNEAPOLIS CBD WAREHOUSE	1,643,107	458,521	426,995	102,996	26.0%	30.9%	0	\$26.34
MINNEAPOLIS CBD - TOTAL	12,227,571	3,117,186	3,102,637	495,161	25.4%	27.8%	(15,071)	\$27.37
NORTHEAST	7,249,099	1,204,194	1,113,429	123,554	15.4%	16.9%	29,715	\$22.82
NORTHWEST	3,472,818	673,288	576,642	126,990	16.6%	17.9%	(60,040)	\$24.85
SAINT PAUL CBD	4,288,946	1,031,328	895,672	91,449	20.9%	23.0%	(74,755)	\$19.65
SOUTHEAST	5,882,804	1,492,055	1,302,110	67,113	22.1%	23.2%	(41,813)	\$22.83
SOUTHWEST	9,481,547	1,749,231	1,513,818	670,572	16.0%	20.1%	(13)	\$26.34
WEST	4,928,913	970,372	867,360	77,574	17.6%	18.4%	(19,293)	\$30.09
SUBURBAN - TOTAL	31,015,181	6,089,140	5,373,359	1,065,803	17.3%	19.4%	(91,444)	\$25.04
TOTAL	47,531,698	10,237,654	9,371,668	1,652,413	19.7%	21.9%	(239,183)	\$26.08



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.

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