



TRANSWESTERN

# MINNEAPOLIS - SAINT PAUL OFFICE MARKET

## Q4 2023



### TRENDLINES

INDICATOR	Q4 2023	Q4 2022	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.5	2.3	↑	3.2	↑
NET ABSORPTION (THOUSANDS SF)	(102.7)	122.1	↓	(294.1)	↑
OVERALL VACANCY RATE	21.8%	20.9%	↑	20.6%	↑
OVERALL VACANT SF (MSF)	19.2	19.0	↑	18.5	↑
UNDER CONSTRUCTION (MSF)	0.4	0.8	↓	0.9	↓
AVERAGE ASKING RENT, FULL SERVICE GROSS (FSG), PER SF	\$26.77	\$26.02	↑	\$25.67	↓
SALES VOLUME (MILLIONS)	\$83.6	\$397	↓	\$231.6	↓

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

### MARKET OVERVIEW

Minneapolis-Saint Paul's (MSP) office market ended 2023 challenged as net absorption continues to be negative and the vacancy rate slightly increased. Q4 2023 net absorption was negative 102,715 square feet (SF) and the total for 2023 was negative 811,185 SF. Q4 2023 vacancy rate was 21.8%, up by nearly 1 percentage point from the previous year. Office sales were negatively impacted by high interest rates and declining demand for office buildings as 2023 sales volume totaled \$533.3 million, a 63% decline from 2022 when sales totaled \$1.43 billion.

Leasing activity for 2023 totaled 898 deals comprised of 4.90 million SF, an average of 5,464 SF per deal. While the number of deals were down by 17% from 2022, the amount of space per deal leased increased by 15% from 4,744 SF to 5,464 SF.

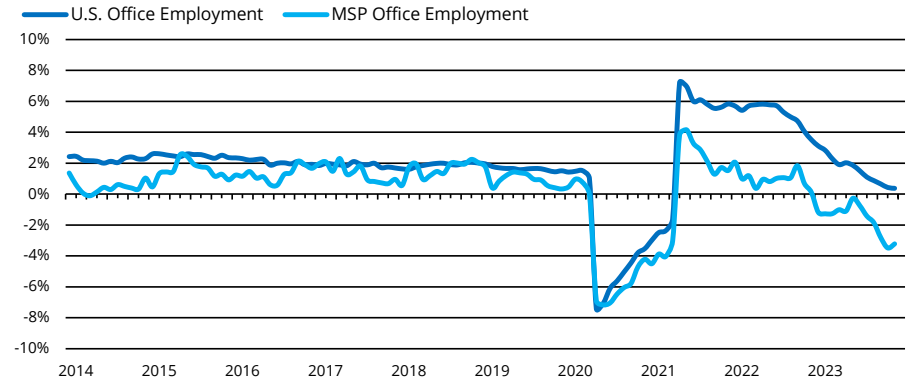


### ECONOMY

#### Job Growth Slows

- Minneapolis - Saint Paul unemployment decreased from Q3 2023, reaching a historical low of 1.9% in November.
- Total employment in the Minneapolis - Saint Paul metro area grew by 1.5% from the previous year. While solid growth, MSP employment growth continues to be lower than the United States overall, which was 1.8%.
- Office employment continues to decline in the region. Office employment decreased by 3.2% annually to 473,217 in November, the fifth consecutive month where office employment decreased from the previous year.
- The continued loss of office employment is a concerning trend that could have an impact on the need for office space in the market, as employers may need less office space.

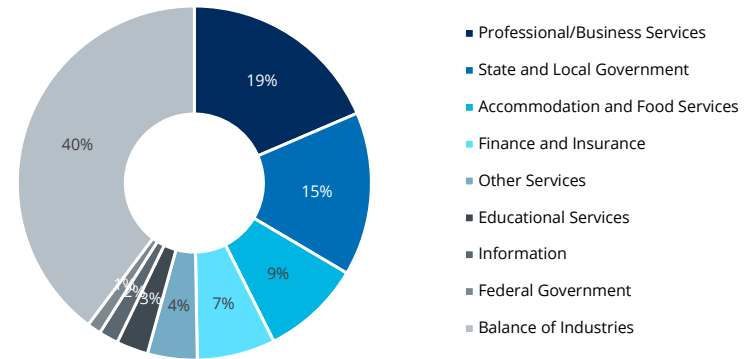
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

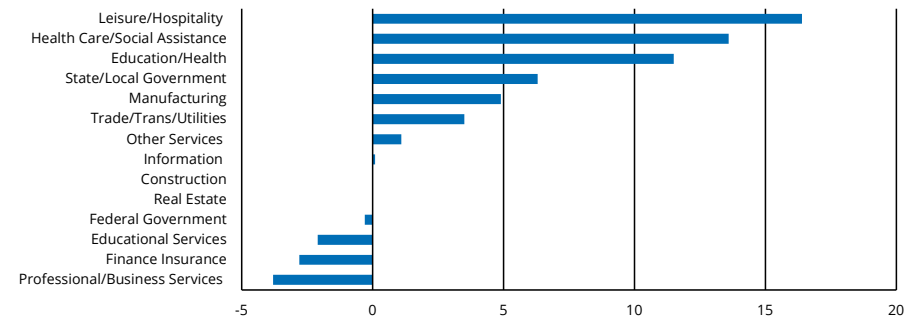
Minneapolis - Saint Paul | November 2023



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis-Saint Paul | November 2023



Source: Bureau of Labor Statistics, Transwestern

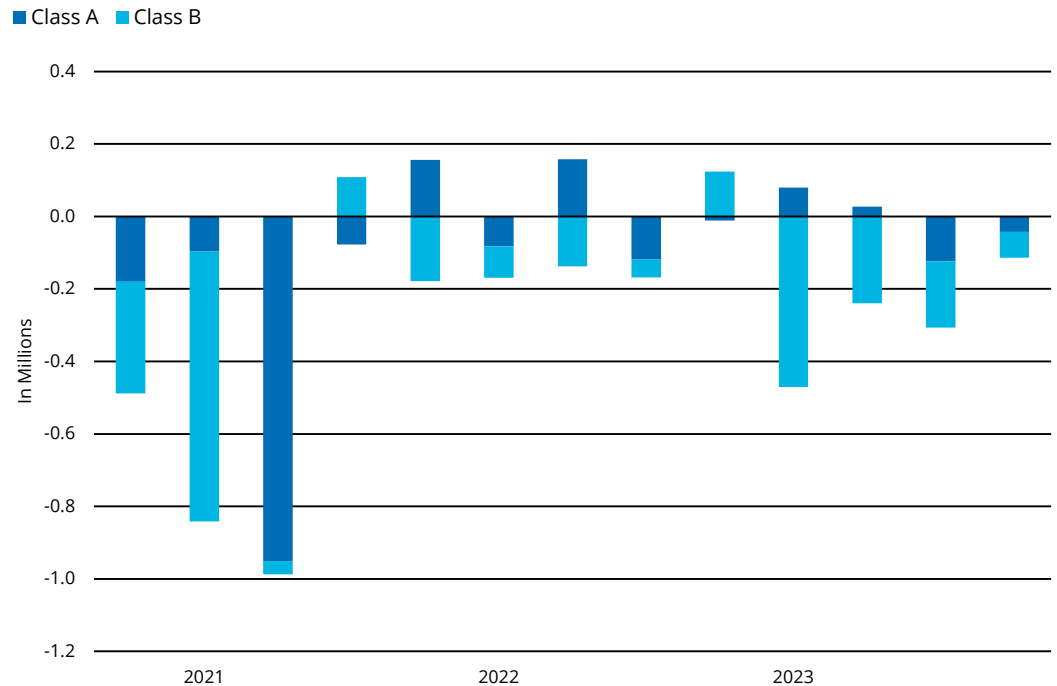


## NET ABSORPTION

### Negative Net Absorption Increases

- There was negative net absorption in each quarter of 2023. The fourth quarter had 102,715 SF of negative net absorption, bringing the year's total down to negative 811,185 SF.
- The majority of negative absorption in 2023 came from the Class B sector, which contributed 729,090 SF of negative absorption. The Class A sector had 68,267 SF of negative absorption in 2023.
- The Minneapolis CBD net absorption for the quarter was negative 164,992 SF and for 2023 overall the total was negative 162,465 SF. North Loop was the only submarket in the Minneapolis CBD to have positive net absorption, with 77,842 SF of positive absorption in Q4 and 117,781 SF of total positive absorption for the year.
- The suburban submarkets had 60,891 SF of positive absorption in Q4, bringing the year's total up to negative 474,607 SF. This was significantly more negative absorption than the negative 82,378 SF seen in 2022. The West submarket had the most positive absorption of the suburban submarkets, with 70,765 SF of positive absorption in Q4 and a total of 92,900 SF of positive absorption in 2023.

## NET ABSORPTION BY CLASS



Source: MNCAR, Transwestern

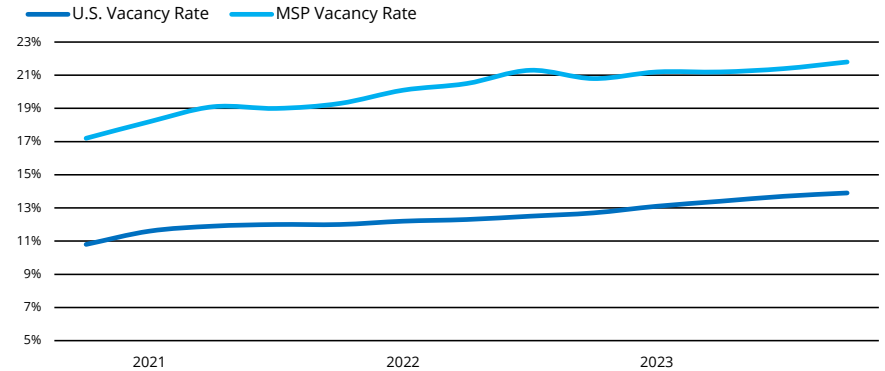


### VACANCY

#### Vacancy Rate Increases

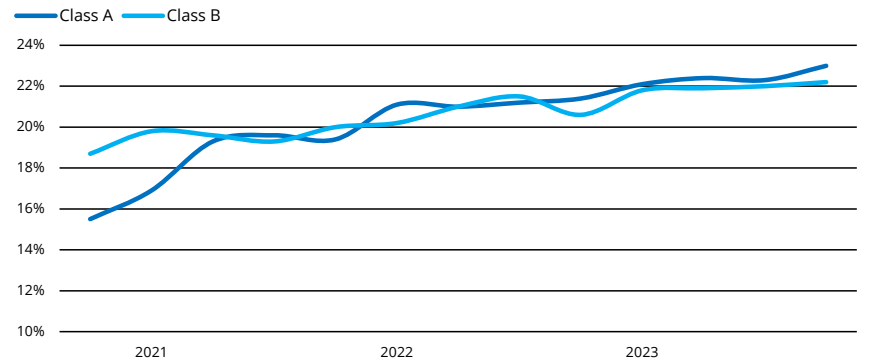
- Overall market vacancy for Q4 2023 was 21.8%, an increase of 20 basis points from Q3 2023. Year-over-year market vacancy increased by 90 basis points.
- The Minneapolis CBD vacancy rate was 28.3% at the end of the Q4,, an increase of 60 basis points from Q3 2022 and year-over-year an increase of 10 basis points.
- The Q4 Suburban submarket vacancy rate was 18.2%; there was no change from the previous quarter. Vacancy increased by 120 basis points year-over-year from Q4 2022's rate of 16.9%.
- Vacancy rates continue to increase as office users continue to downsize the amount of space needed. A good example is U.S. Bancorp renewing its lease in Downtown Minneapolis while announcing to vacate its office space at Meridian Commons in Richfield.

### OVERALL VACANCY RATE



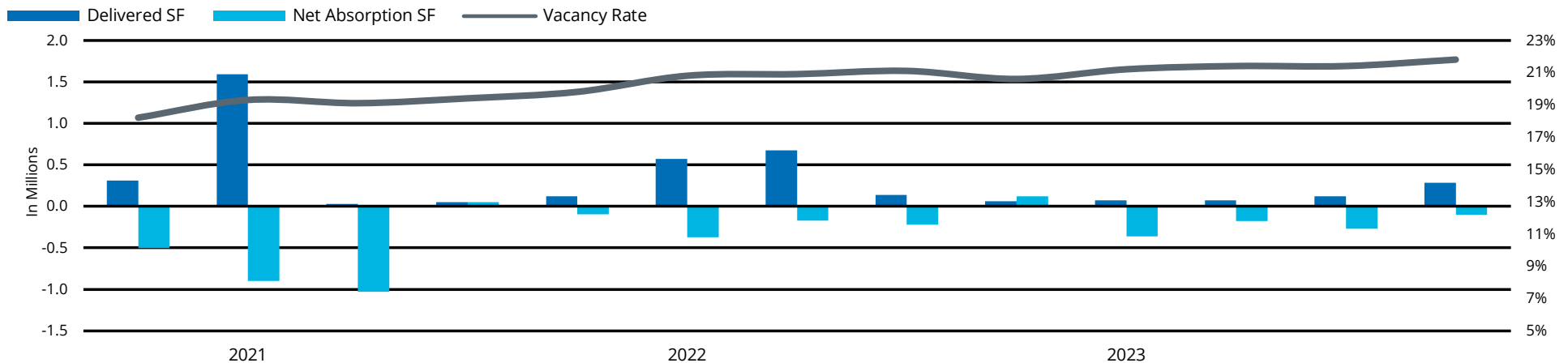
Source: MNCAR, Transwestern

### OVERALL VACANCY RATE BY CLASS



Source: MNCAR, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: MNCAR, Transwestern

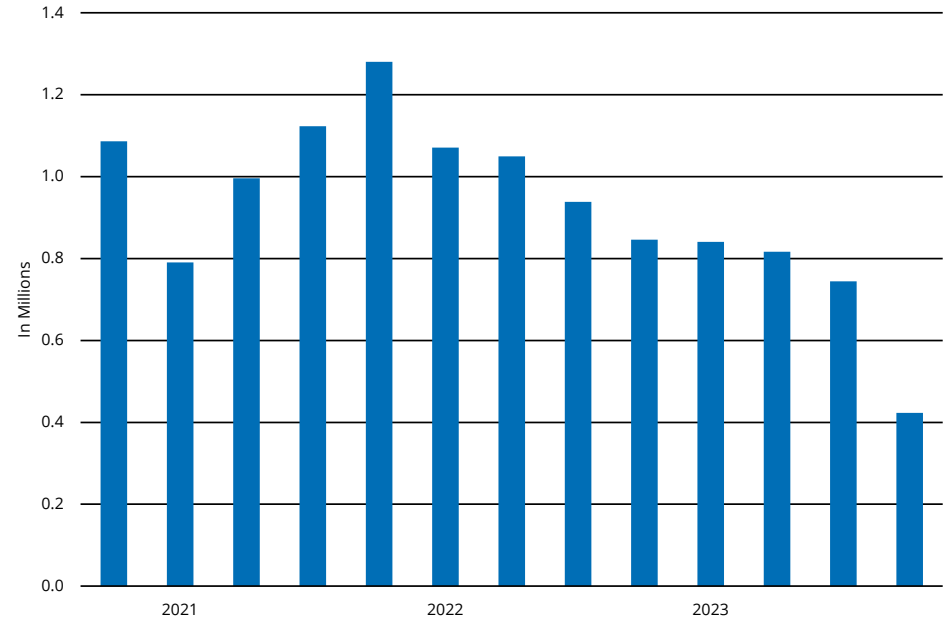


### UNDER CONSTRUCTION

#### Construction Has Slowed Down

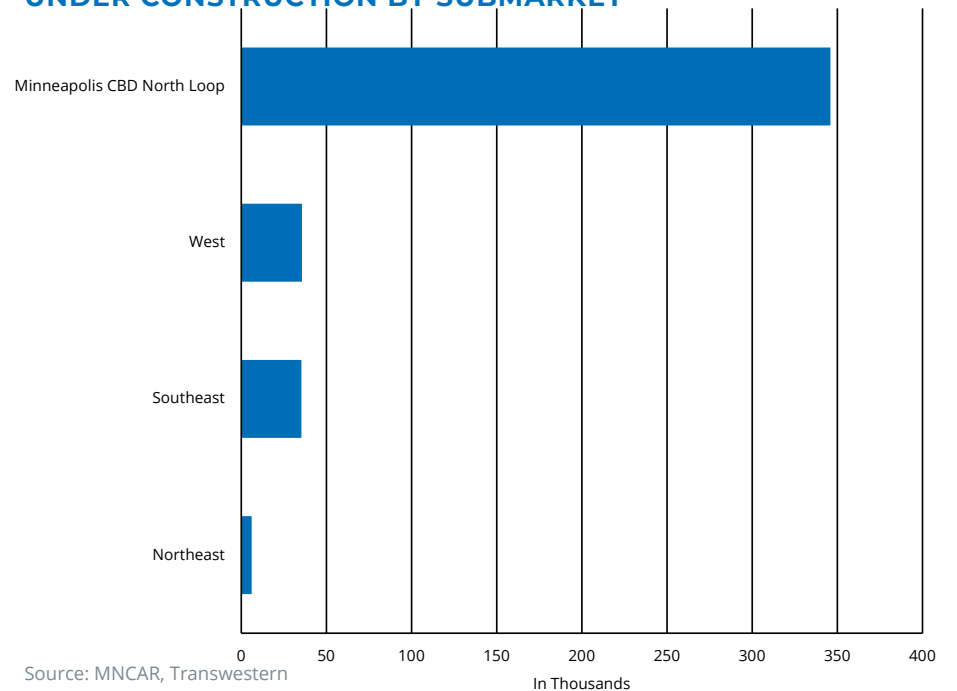
- There was 423,187 SF under construction in the MSP region for Q4 2023. North Loop submarket led the market with 345,927 SF under construction, followed by the West subregion with 35,666 SF under construction.
- Space under construction year-over-year decreased by 50%, highlighting that demand continues to be depressed for new space.
- New deliveries totaled 554,121 SF in 2023, a 36% decline from 2022. The Southeast submarket had the largest amount of space delivered totaling 215,902 SF, followed by the Southeast submarket with 145,167 SF delivered.
- Construction in 2023 continued to lag as there was tepid demand for new office space as well as the difficulty of obtaining financing for office projects as interest rates increased to the highest level in 20 years.

### UNDER CONSTRUCTION



Source: MNCAR, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

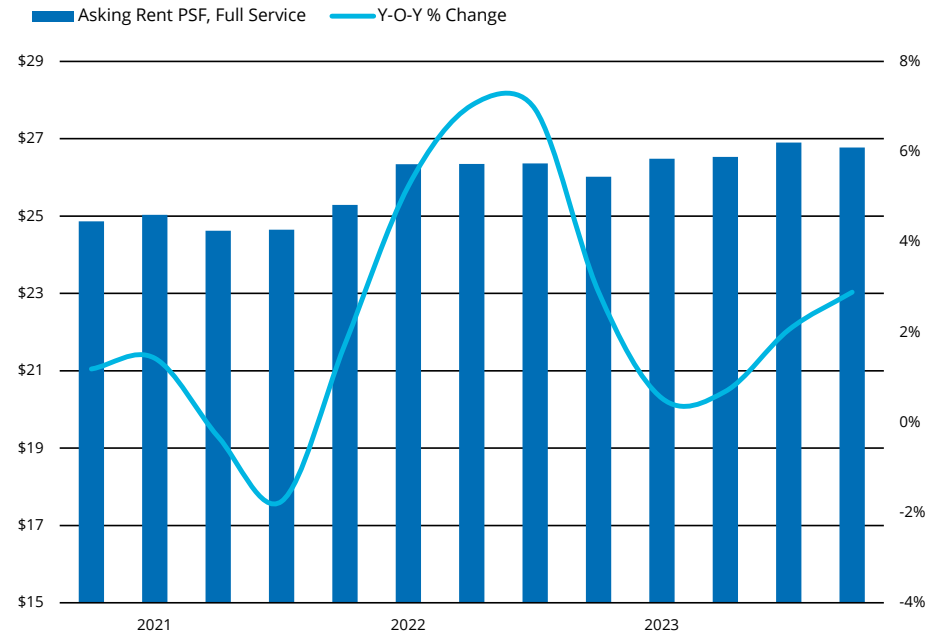


### LEASE RATES

#### Rents Continue to Increase

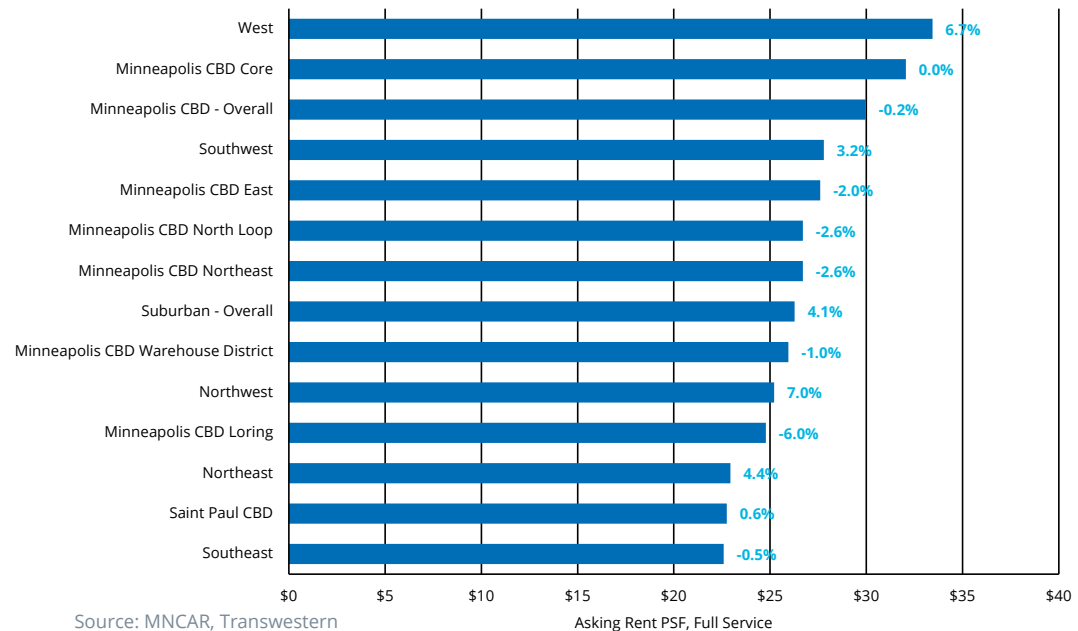
- Average asking rents for the Minneapolis Saint-Paul office market decreased by 0.5% in Q4 2023 to \$26.77 PSF, which was 2.9% higher than rates were at the end of 2022.
- Average asking rents in the suburban submarkets increased by 4.1% in 2023 to \$26.28 PSF. Minneapolis CBD asking rates decreased by 0.2% in 2023 to \$29.97 PSF.
- The largest year-over-year increase was in the Minneapolis CBD North Loop submarket, where rates increased by 2.7% to \$33.13 PSF.
- Class A asking rents increased in most submarkets year-over-year, increasing 1.5% to \$37.25/PSF in the Minneapolis CBD and 2.2% to \$35.96/PSF in the Suburban submarket.

### LEASE RATES - MSP



Source: MNCAR, Transwestern

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



Source: MNCAR, Transwestern

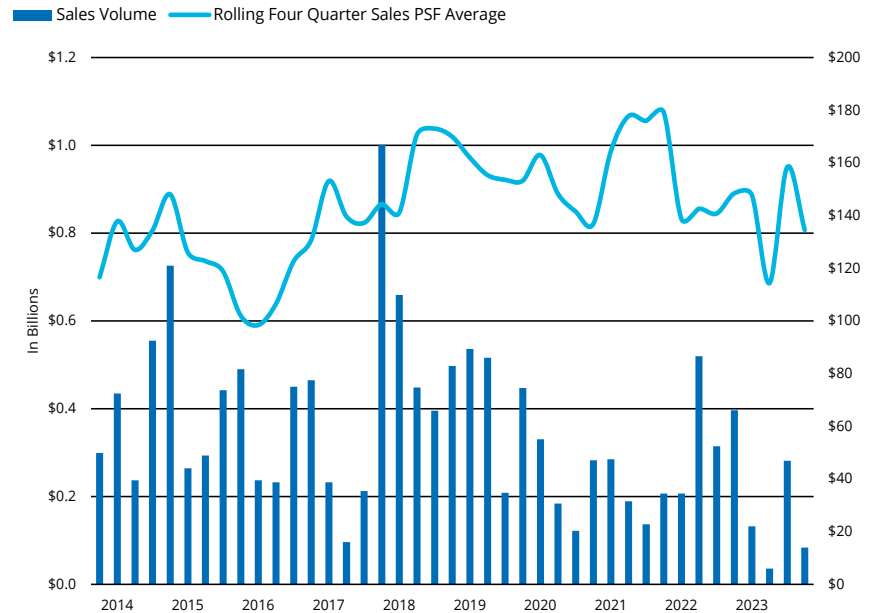


### SALES

#### Sales Slowing in A Challenging Environment

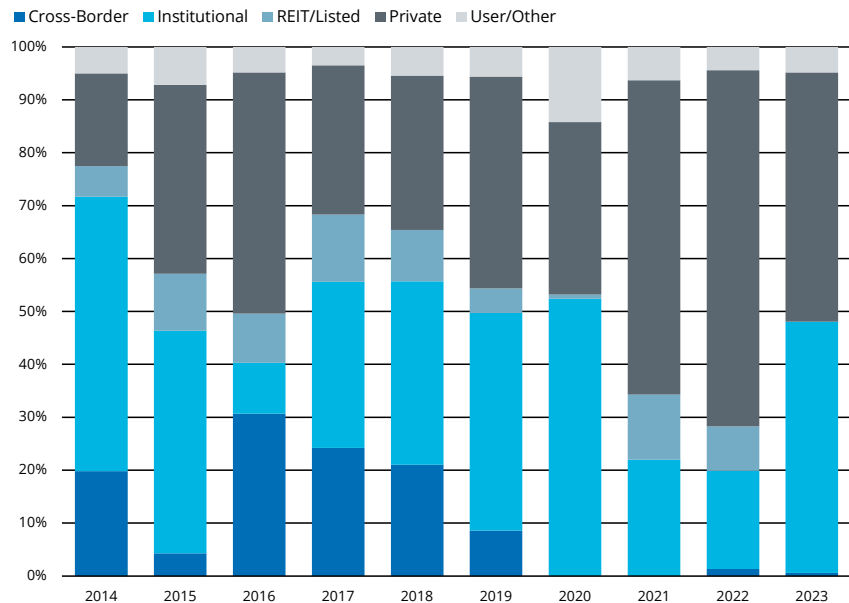
- Sales totaled \$83.5 million in Q4. For 2023 sales totaled \$533.3 million, a 63% decline from 2022 when sales totaled \$1.43 billion.
- Factors causing this large decrease were the increase in interest rates, continued decline in demand for office space, and reduced per SF price per historical average. Additionally the reduction of equity and debt lending by banks to purchase office properties continued to slow sales.
- The most notable sale of the quarter was Barrel House at 111 3rd Ave S in Minneapolis which sold for \$8.5 million; the buyer was DLR Group and the seller was ICM Realty Group. The most notable sale for 2023 was RBC Gateway for \$225 million in July; the buyer was Spear Street Capital and the seller was United Properties.
- Institutional and Private sources made up the vast majority of buyer capital for properties in 2023 which totaled nearly 95% of all capital used in 2023.

### SALES VOLUME



Source: CoStar, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
US BANCORP	800 Nicollet Mall, Minneapolis	Minneapolis CBD - Core	Renewal	440,000
MCKNIGHT FOUNDATION	921 Washington Ave S, Minneapolis	Minneapolis CBD - East	New	59,804
CIRCLE K	6000 Clearwater Dr, Bloomington	Southwest	New	40,000
HOLMES MURPHY	10 West End, St. Louis Park	West	New	34,967
REVO HEALTH	3500 American Blvd W, Minneapolis	Southwest	New	33,449

## NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
111 3RD AVE S, MINNEAPOLIS	Minneapolis CBD - East	\$8,500,000	96,824	\$88	DLR Group	ICM Realty Group Ltd.
13305 12TH AVE, PLYMOUTH	West	\$7,750,000	31,780	\$244	Independent School District 284	Solutran Inc
3010 DENMARK AVE, EAGAN	Southeast	\$4,600,000	12,593	\$365	MSP Commercial	Emergency Physicians Professional Association
7807 CREEKRIDGE CIR, BLOOMINGTON	Southwest	\$4,300,000	42,303	\$102	Ernie Rose Golf	Juno Investments Corp.
615 N 3RD ST, MINNEAPOLIS	Minneapolis CBD - North Loop	\$4,010,000	109,942	\$36	Northstar Capital	Industrial Equities LLP

= Transwestern deal

\* = Portfolio Sale



MARKET INDICATORS

All Classes of Space | Q4 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YEAR TOTAL NET ABSORPTION SF	OVERALL VACANCY RATE	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	21,708,349	5,441,468	5,400,349	1,495,267	0	(249,502)	(162,586)	30.3%	\$32.05
MINNEAPOLIS CBD EAST	1,024,664	251,773	166,702	59,477	0	0	(14,760)	22.1%	\$27.61
MINNEAPOLIS CBD LORING	141,531	29,365	22,196	14,640	0	14,640	14,640	15.7%	\$24.78
MINNEAPOLIS CBD NORTHEAST	2,810,470	427,701	475,813	72,492	0	(2,581)	(16,219)	17.9%	\$26.70
MINNEAPOLIS CBD NORTH LOOP	2,383,116	396,082	387,170	201,760	345,927	77,842	117,781	24.0%	\$33.13
MINNEAPOLIS CBD WAREHOUSE	1,893,873	448,640	477,775	102,996	0	(5,391)	(101,321)	29.5%	\$25.95
MINNEAPOLIS CBD - TOTAL	29,962,003	6,995,029	6,930,005	1,946,632	345,927	(164,992)	(162,465)	28.3%	\$29.97
NORTHEAST	9,328,888	1,298,898	1,432,481	57,664	6,192	(44,908)	(102,356)	15.8%	\$22.94
NORTHWEST	4,375,312	826,751	711,939	152,134	0	29,651	(123,803)	17.7%	\$25.21
SAINT PAUL CBD	7,287,210	1,451,545	1,256,782	159,807	0	1,386	(174,113)	19.9%	\$22.75
SOUTHEAST	9,253,725	2,124,180	1,718,518	99,483	35,402	(4,704)	58,921	21.2%	\$22.59
SOUTHWEST	17,510,876	3,446,119	2,762,207	789,191	0	10,087	(400,269)	18.3%	\$27.80
WEST	10,381,159	1,868,913	1,763,486	245,902	35,666	70,765	92,900	17.9%	\$33.44
SUBURBAN - TOTAL	50,449,960	9,564,861	8,388,631	1,344,374	77,260	60,891	(474,607)	18.2%	\$26.28
<b>TOTAL</b>	<b>87,699,173</b>	<b>18,011,435</b>	<b>16,575,418</b>	<b>3,450,813</b>	<b>423,187</b>	<b>(102,715)</b>	<b>(811,185)</b>	<b>21.8%</b>	<b>\$26.77</b>



## MARKET INDICATORS

## Class A | Q4 2023

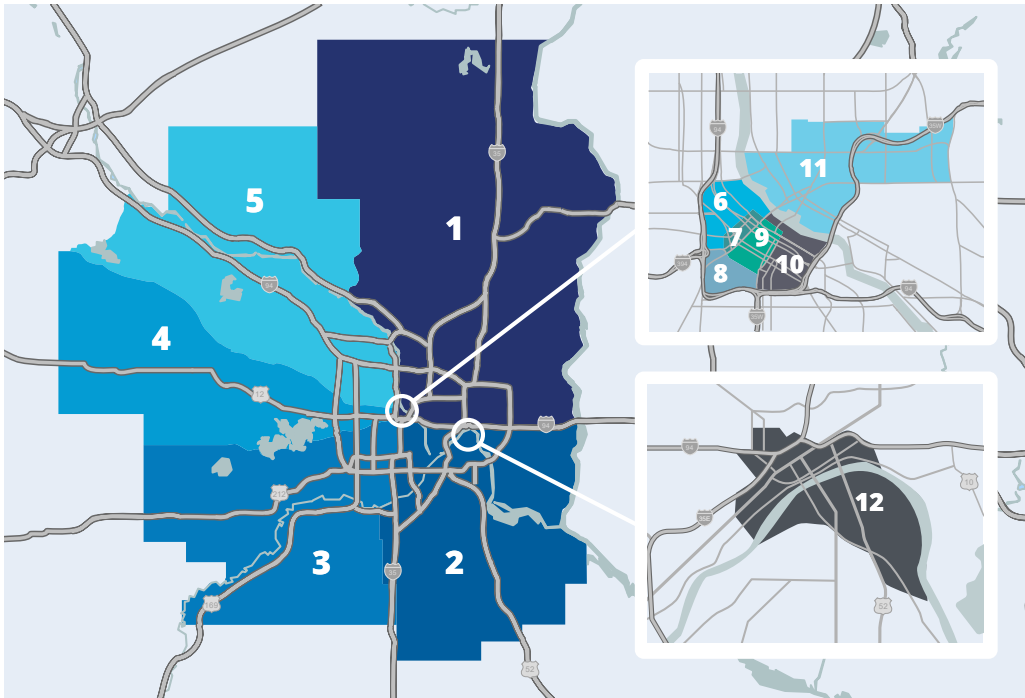
SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	NET ABSORPTION SF	YEAR TOTAL NET ABSORPTION SF	OVERALL VACANCY RATE	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	15,558,512	3,611,229	3,511,967	1,262,564	(183,649)	(44,888)	29.6%	\$37.18
MINNEAPOLIS CBD EAST	318,955	58,575	30,989	59,477	0	0	28.4%	\$36.44
MINNEAPOLIS CBD LORING	0	0	0	0	N/A		N/A	N/A
MINNEAPOLIS CBD NORTHEAST	461,642	65,284	70,892	21,955	1,283	(1,044)	20.1%	\$36.36
MINNEAPOLIS CBD NORTH LOOP	1,203,483	184,103	191,260	80,978	(4,813)	25,391	21.4%	\$38.41
MINNEAPOLIS CBD WAREHOUSE	181,516	21,672	30,721	0	0	(9,303)	16.9%	N/A
MINNEAPOLIS CBD - TOTAL	17,724,108	3,940,863	3,835,829	1,424,974	(187,179)	(29,844)	28.6%	\$37.25
NORTHEAST	315,076	82,428	87,474	0	(12,521)	(37,067)	27.8%	\$28.62
NORTHWEST	389,244	74,933	59,094	25,308	31,778	55,300	21.7%	\$34.29
SAINT PAUL CBD	2,827,420	454,895	378,181	56,308	2,654	(34,897)	15.8%	\$29.07
SOUTHEAST	2,063,133	585,769	265,426	27,277	(1,904)	(18,163)	21.5%	\$29.99
SOUTHWEST	7,245,289	1,306,712	818,335	304,392	47,197	(76,611)	14.1%	\$35.03
WEST	4,792,924	943,475	959,501	103,328	77,699	73,015	20.0%	\$40.31
SUBURBAN - TOTAL	14,805,666	2,993,317	2,189,830	460,305	142,249	(3,526)	17.6%	\$35.96
<b>TOTAL</b>	<b>35,357,194</b>	<b>7,389,075</b>	<b>6,403,840</b>	<b>1,941,587</b>	<b>(42,276)</b>	<b>(68,267)</b>	<b>22.4%</b>	<b>\$34.09</b>



## MARKET INDICATORS

Class B | Q4 2023

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	NET ABSORPTION SF	YEAR TOTAL NET ABSORPTION SF	OVERALL VACANCY RATE	AVERAGE ASKING RENT, PSF (FSG)
<b>MINNEAPOLIS CBD CORE</b>	5,538,161	1,703,032	1,729,065	232,703	(62,128)	(90,829)	32.9%	\$26.84
<b>MINNEAPOLIS CBD EAST</b>	533,812	84,353	29,131		0	(1,548)	5.5%	\$29.53
<b>MINNEAPOLIS CBD LORING</b>	114,683	29,365	22,196	14,640	14,640	14,640	19.4%	\$24.78
<b>MINNEAPOLIS CBD NORTHEAST</b>	1,860,637	335,926	382,380	44,476	310	(5,378)	20.6%	\$25.38
<b>MINNEAPOLIS CBD NORTH LOOP</b>	992,657	186,271	170,376	118,441	53,638	56,838	29.2%	\$30.99
<b>MINNEAPOLIS CBD WAREHOUSE</b>	1,643,107	426,968	447,054	102,996	(5,391)	(92,018)	32.1%	\$25.95
<b>MINNEAPOLIS CBD - TOTAL</b>	10,683,057	2,765,915	2,780,202	513,256	1,069	(118,295)	28.8%	\$27.03
<b>NORTHEAST</b>	7,362,426	1,115,703	1,258,087	38,664	(29,119)	(74,171)	17.6%	\$23.07
<b>NORTHWEST</b>	3,472,818	735,714	631,781	126,826	771	(196,740)	19.3%	\$25.52
<b>SAINT PAUL CBD</b>	4,075,987	881,018	737,299	91,449	(3)	(109,064)	20.8%	\$20.29
<b>SOUTHEAST</b>	5,792,094	1,152,127	1,247,744	72,206	(1,022)	71,974	22.6%	\$22.81
<b>SOUTHWEST</b>	9,436,884	2,040,682	1,842,352	483,676	(37,014)	(318,047)	22.1%	\$26.30
<b>WEST</b>	4,928,913	915,800	795,172	63,647	(6,610)	15,253	17.4%	\$30.53
<b>SUBURBAN - TOTAL</b>	30,993,135	5,960,026	5,775,136	785,019	(72,994)	(501,731)	20.1%	\$25.27
<b>TOTAL</b>	<b>45,752,179</b>	<b>9,606,959</b>	<b>9,292,637</b>	<b>1,389,724</b>	<b>(71,928)</b>	<b>(729,090)</b>	<b>21.9%</b>	<b>\$24.20</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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