



TRANSWESTERN

MINNEAPOLIS - SAINT PAUL OFFICE MARKET

Q1 2024



TRENDLINES

INDICATOR	Q1 2024	Q1 2023	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.9	2.9	↔	2.9	↑
NET ABSORPTION (THOUSANDS SF)	(216.8)	(363.0)	↑	(237.4)	↑
OVERALL VACANCY RATE	22.0%	21.4%	↑	20.8%	↑
OVERALL VACANT SF (MSF)	19.3	19.2	↑	18.7	↑
SUBLEASE AVAILABLE (MSF)	3.2	3.5	↓	2.5	↑
UNDER CONSTRUCTION (MSF)	0.4	0.8	↓	0.9	↓
ASKING RENT, FULL SERVICE (PSF)	\$27.11	\$26.48	↑	\$26.12	↑
SALES VOLUME (MILLIONS)	\$97.8	\$132	↓	\$200.3	↓

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

MARKET OVERVIEW

The Minneapolis-Saint Paul (MSP) office market is experiencing some signs of stabilization. Q1 2024 net absorption was negative 216,894 square feet (SF). A large amount of the negative absorption was due to Cargill consolidating to its headquarters and moving out of over 255,000 SF of space in the Southwest submarket. A positive of the market is that available sublease space continues to decrease as there was over 204,000 SF of positive absorption in the market led by Thompson Reuters leasing 170,000 SF of vacant space at 2900 Ames Crossing Rd in Eagan. The Q1 2024 vacancy rate was 22%, up by 60 basis points from the previous year. Office sales continued to be negatively impacted by a lack of available funding and demand for office buildings. Sales volume for the quarter totaled \$97.8 million.

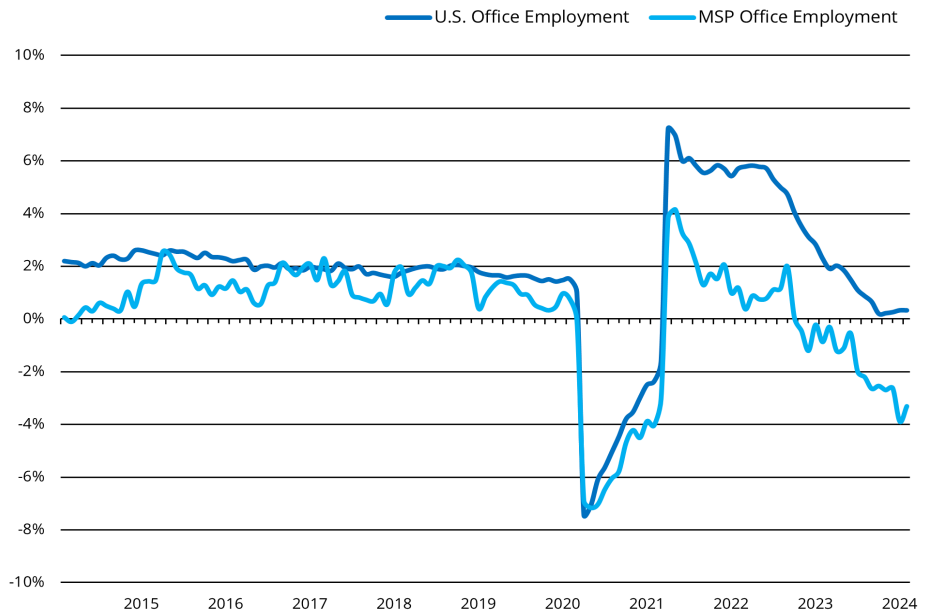


ECONOMY

Job Growth Slows

- The Minneapolis - Saint Paul (MSP) unemployment rate for Q1 2024 was 2.9%, no change from the previous year. The regional labor force increased by 0.6% to 2.02 million people.
- Total employment in the Minneapolis - Saint Paul metro area grew by 1.1% YoY to 1.95 million. While solid growth, MSP employment growth continues to be lower than the United States overall, which was 1.8%.
- MSP Office employment increased slightly from the previous month; the second time in eight months. Office employment increased by 0.2% from January. Year-over-year employment decreased by 2.6% the 16th consecutive month that YoY office employment decreased.
- State/Local Government employment had the largest YoY increase, up by 19,400. Professional & Business Services employment decreased the most YoY, losing a net 10,400 jobs.

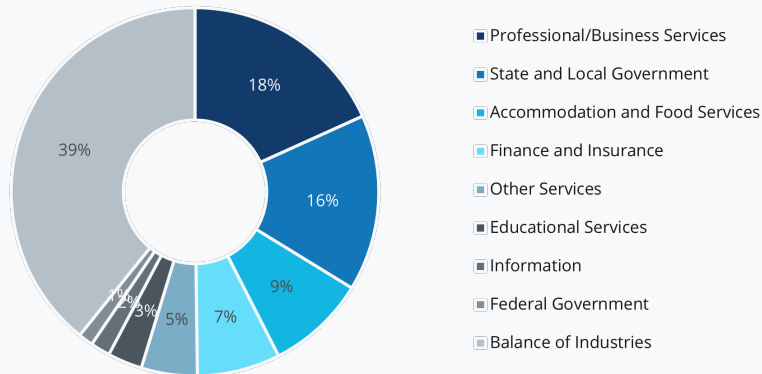
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

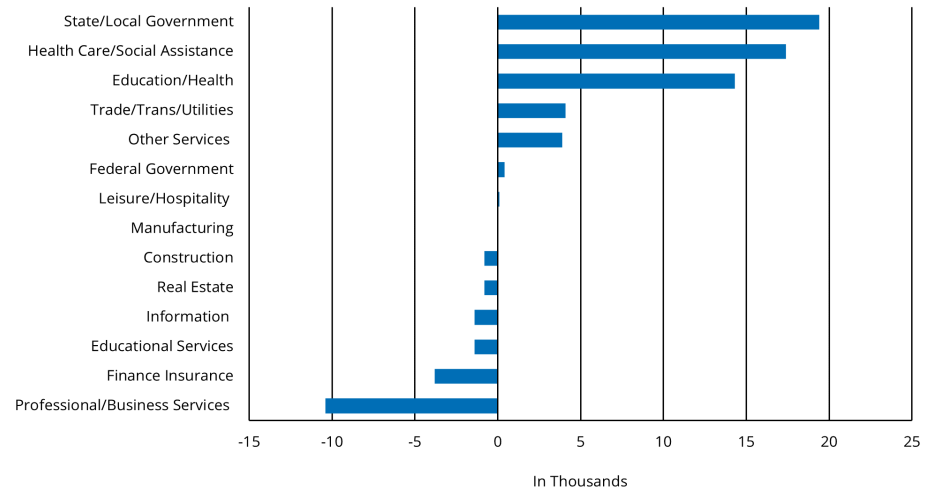
Minneapolis - Saint Paul | February 2024



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis-Saint Paul | February 2024



Source: Bureau of Labor Statistics, Transwestern

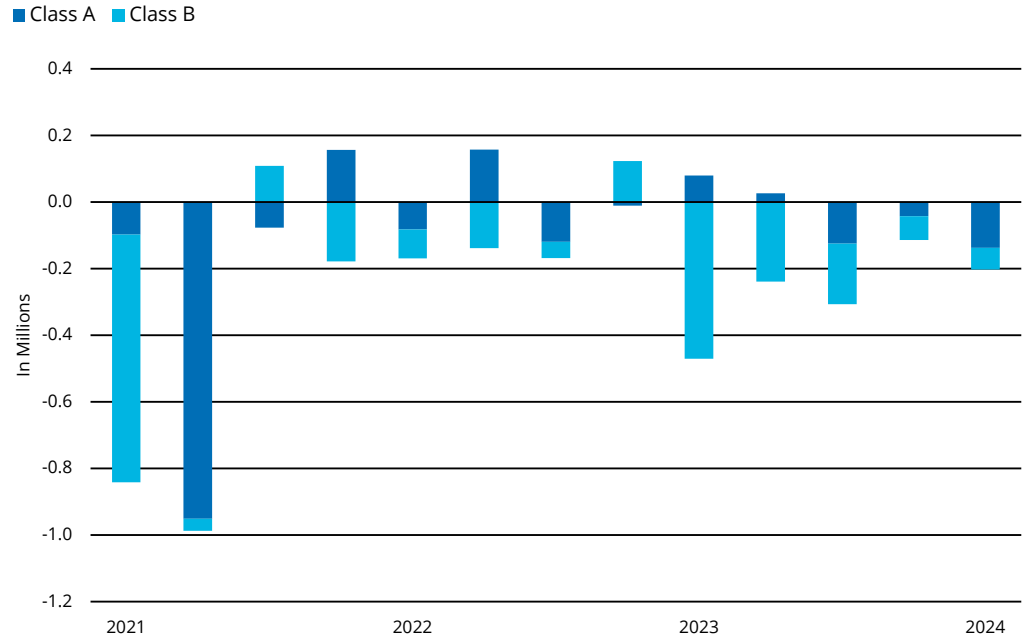


NET ABSORPTION

Negative Net Absorption Increases

- The Minneapolis - Saint Paul office market had negative net absorption to start 2024. The first quarter had 216,894 SF of negative net absorption.
- The majority of negative absorption for the quarter came from the Class A sector, which contributed 137,298 SF of negative absorption. The Class B sector had 65,607 SF of negative absorption during the quarter.
- The Minneapolis CBD net absorption for the quarter was negative 108,074 SF. The two submarkets in the CBD that experienced positive net absorption were North Loop and Warehouse District. The North Loop submarket recorded positive net absorption of 44,984 SF as NetSPI subleased 60,000 SF and JP Morgan subleased 30,000 SF in the Steelman Exchange building. The Warehouse District had positive net absorption of 9,049 as the Timberwolves leased 9,049 SF in Mayo Clinic Square.
- The suburban submarkets had negative 55,660 SF of net absorption in Q1 primarily due to Cargill reducing and consolidating space. While most suburban submarkets experienced positive net absorption, the Southwest submarket had total net absorption of negative 225,577, due to Cargill vacating 258,750 SF at Excelsior Crossing in Hopkins and moving back to their headquarters in Minnetonka.

NET ABSORPTION BY CLASS



Source: MNCAR, Transwestern

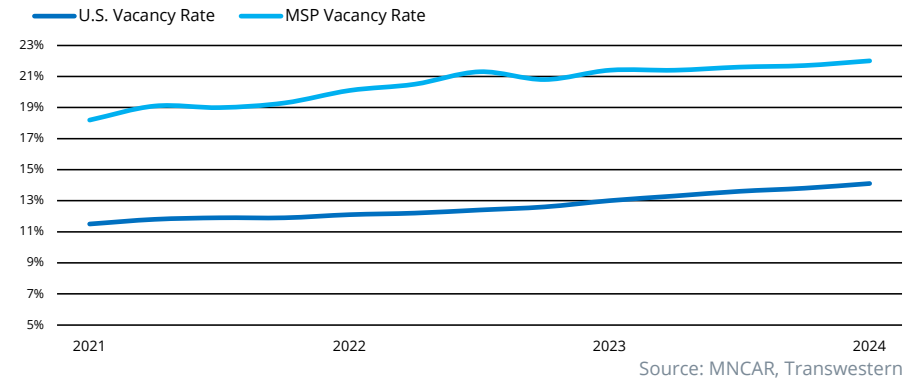


VACANCY

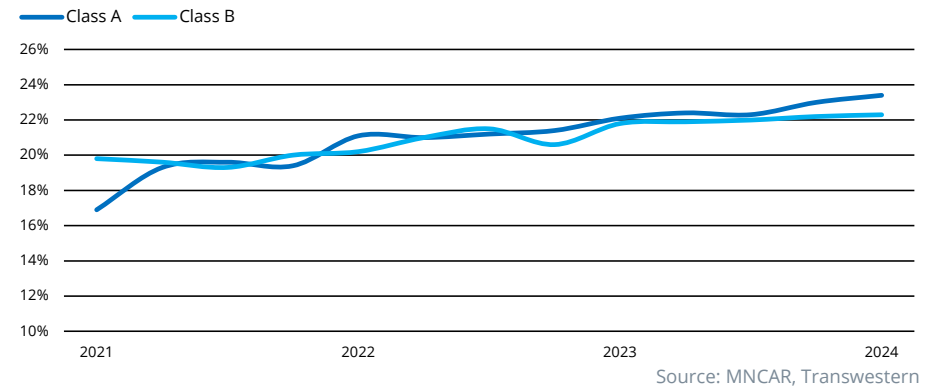
Vacancy Rate Increases

- Overall market vacancy for Q1 2024 was 22%, an increase of 30 basis points from Q4 2023. Year-over-year market vacancy increased by 60 basis points.
- The Minneapolis CBD vacancy rate was 28.5% in Q1 an increase of 40 basis points from Q4 2023 and YoY an increase of 30 basis points.
- The Q1 2024 Suburban submarket vacancy rate was 18.4%, a 20 basis point increase from Q4 2023. Vacancy increased by 100 basis points year-over-year from Q1 2023's rate of 17.4%.
- Vacancy rates continue to increase as office users continue to scale back on the amount of space needed as mentioned with Cargill vacating nearly 260,000 SF of space, Securian vacating 27,030 SF, and Maslon who reduced the amount of space leased by over 10,000 SF.

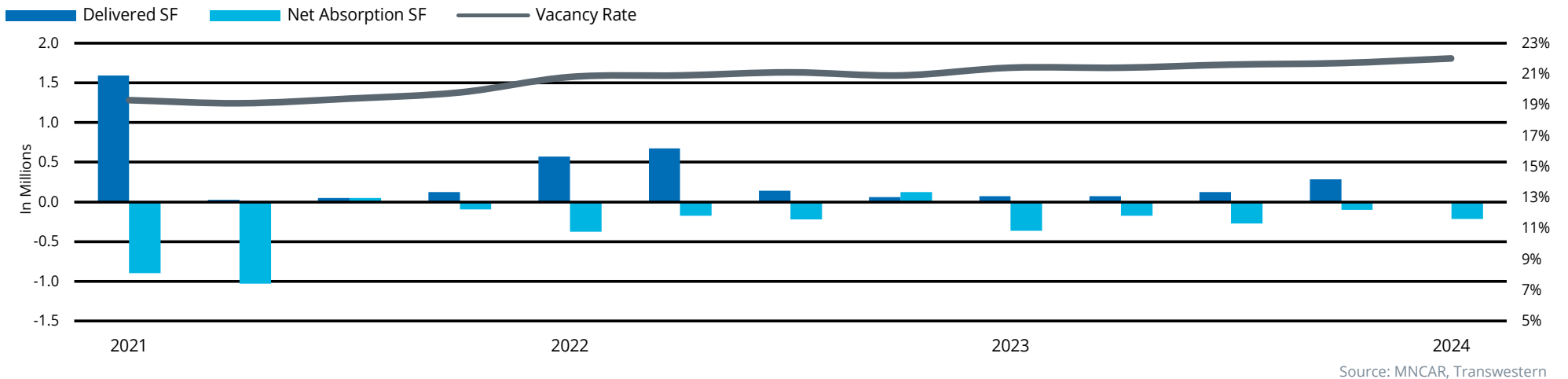
OVERALL VACANCY RATE



OVERALL VACANCY RATE BY CLASS



DELIVERY IMPACT ON KEY INDICATORS



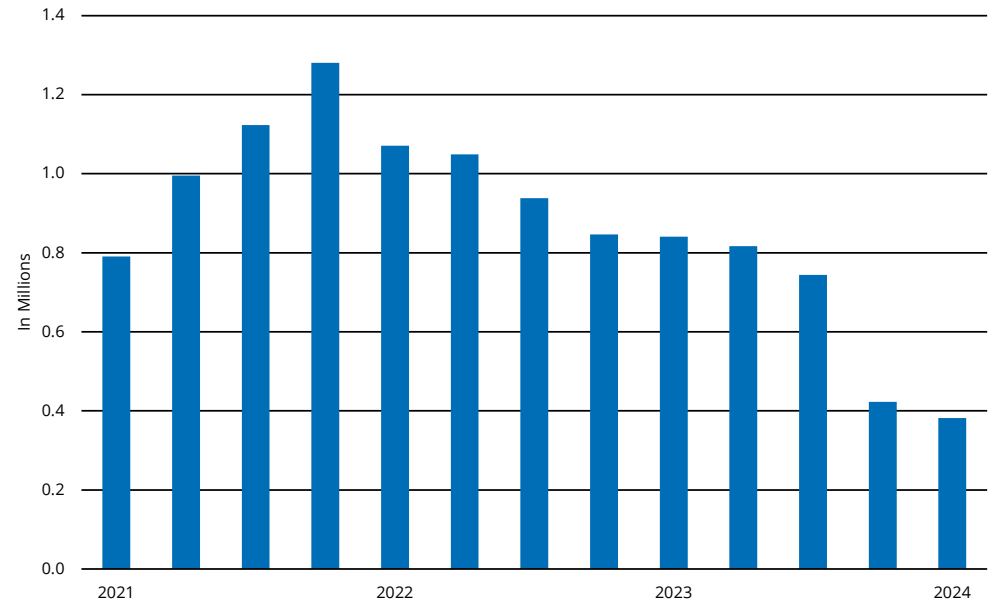


UNDER CONSTRUCTION

Space Under Construction at Historic Lows

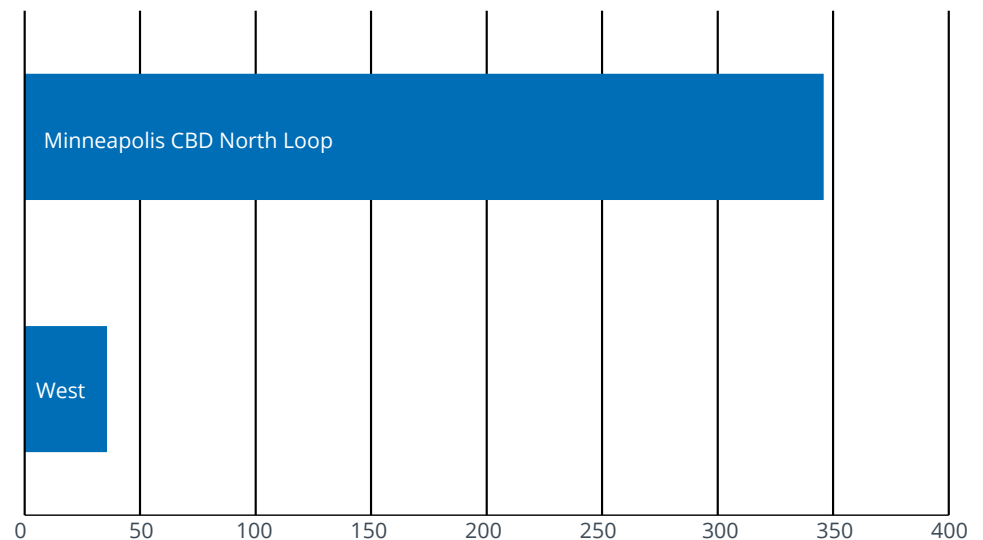
- There was 381,593 SF under construction in the MSP region for Q1 2024. North Loop submarket led the market with 345,927 SF under construction, followed by the West subregion with 35,666 SF under construction.
- Space under construction year-over-year decreased by 54%, highlighting that demand continues to be depressed for new space.
- There was no new space delivered in the market during the quarter. The last time that occurred was Q1 2023.
- New construction projects are not breaking ground due to low demand, high construction costs, as well as financing challenges.

UNDER CONSTRUCTION



Source: MNCAR, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: MNCAR, Transwestern

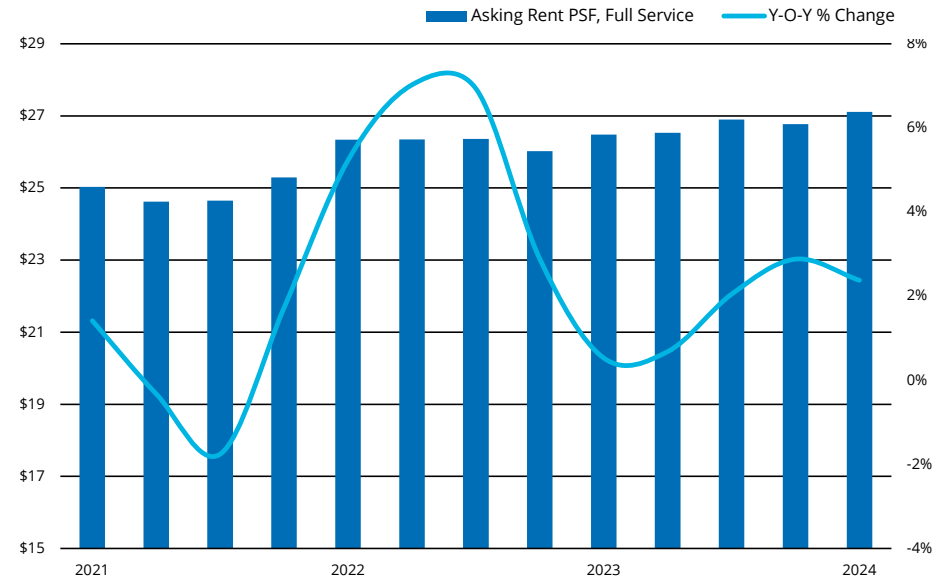


LEASE RATES

Rents Continue to Increase

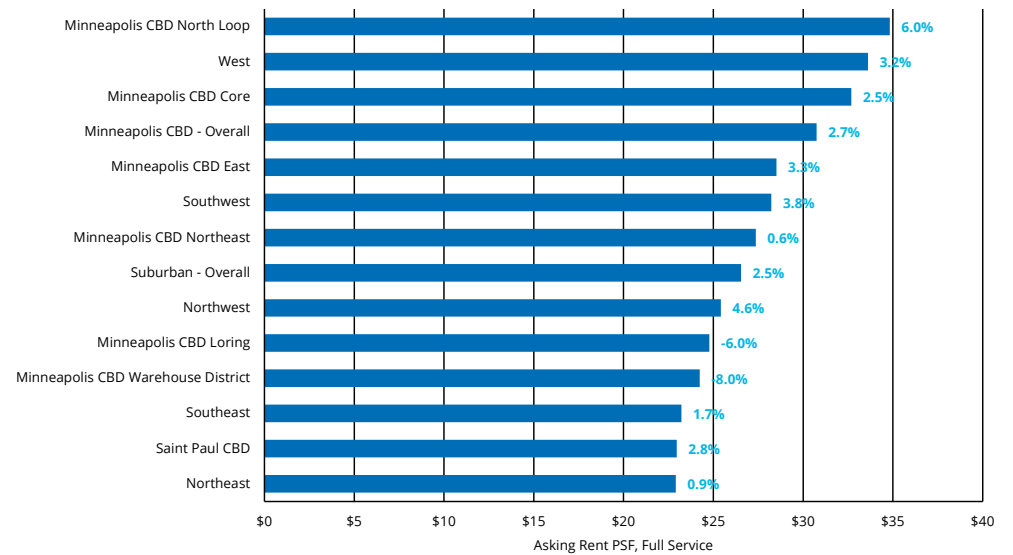
- Average asking rents for the Minneapolis Saint-Paul office market increased by 1.3% in Q1 2024 from the previous quarter to \$27.11 PSF. Year-over-year asking rents increased by 2.4%.
- Average asking rents in the suburban submarkets increased by 2.5% YoY to \$27.11 PSF. Minneapolis CBD asking rates increased by 2.7% YoY to \$30.75 PSF.
- The largest year-over-year increase was in the Minneapolis CBD North Loop submarket, where rates increased by 6% to \$33.13 PSF.
- Class A asking rents increased in most submarkets year-over-year, increasing 4.9% to \$34.83/PSF in the Minneapolis CBD and 1.3% to \$35.74/PSF in the Suburban submarket.

LEASE RATES - MSP



Source: MNCAR, Transwestern

LEASE RATES BY SUBMARKET AND Y-O-Y GROWTH



Source: MNCAR, Transwestern

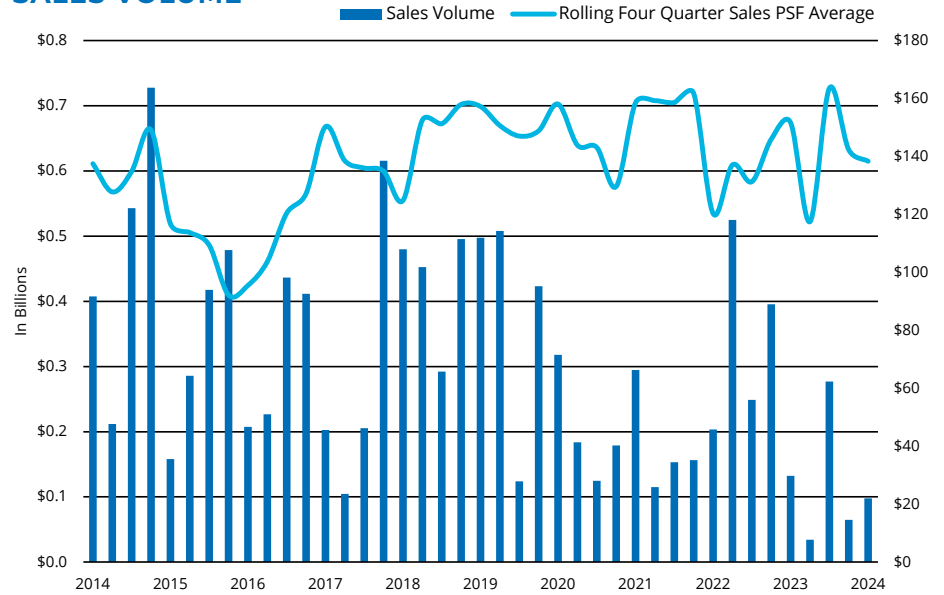


SALES

Sales Continues to be Challenged

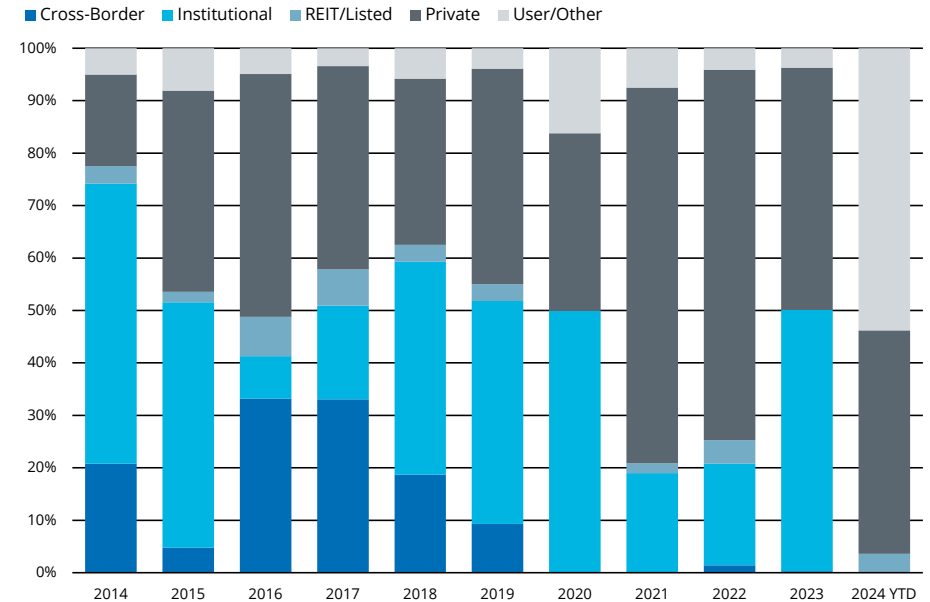
- Sales totaled \$97.7 million for the quarter, a 26.1% decrease from the previous year. The average price square feet was \$125.
- Primary factors causing decreased investment sales were the increase in interest rates and continued decline in demand for office space. Additionally the reduction of equity and debt lending by banks to purchase office properties continued to negatively impact sales.
- The most notable sale of the quarter was CHS headquarters at 5500 Cenex Dr in Inver Grove Heights which sold for \$48.7 million, which is 11% less than what it was sold for in 2018. CHS bought back the property from Truist Bank.
- User/Other and Private sources made up the vast majority of buyer capital for properties in the quarter which totaled over 96%.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
AON	5600 W 83rd St, Bloomington	Southwest	Renewal	81,000
BROWN & BROWN	901 Marquette Ave, Minneapolis	MPLS CBD - Core	New	42,890
CLIFTON LARSON ALLEN	2685 Vikings Cir, Eagan	Southeast	New	30,554
JP MORGAN	241 5th Ave N, Minneapolis	MPLS CBD - North Loop	New/Sublease	30,000
MORTENSON	4150 Olson Memorial Hwy, Golden Valley	Northwest	Expansion	29,550

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
5500 CENEX DR, INVER GROVE HEIGHTS	Southeast	\$48,775,000	320,000	\$152	CHS Inc.	Truist
1708 W CREEK LN, CHASKA	Southwest	\$31,000,000	75,675	\$410	Lightedge Soutions Inc.	Stream Data Centers
7767 ELM CREEK BLVD N, MAPLE GROVE	Northwest	\$8,100,000	58,062	\$140	MSP Commercial	Great Lakes Management Co.
821 RAYMOND AVE	Northeast	\$4,010,000	21,580	\$186	Pat Thompson	Baker East Partners
4255 N LEXINGTON AVE, ARDEN HILLS	Northeast	\$3,875,000	33,000	\$117	Partners In Excellent	PNL Companies

= Transwestern deal

* = Portfolio Sale



MARKET INDICATORS

All Classes of Space | Q1 2024

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	UNDER CONSTRUCTION SF	NET ABSORPTION SF	OVERALL VACANCY RATE	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	21,708,349	5,427,285	5,554,706	1,439,116	0	(138,083)	30.7%	\$32.68
MINNEAPOLIS CBD EAST	1,024,664	259,099	250,050	59,477	0	(23,544)	28.7%	\$28.52
MINNEAPOLIS CBD LORING	141,531	29,365	22,196	14,640	0	0	15.7%	\$24.78
MINNEAPOLIS CBD NORTHEAST	2,810,470	463,285	476,374	68,907	0	(561)	17.9%	\$27.36
MINNEAPOLIS CBD NORTH LOOP	2,383,116	431,420	366,150	162,082	345,927	44,984	20.9%	\$34.83
MINNEAPOLIS CBD WAREHOUSE	1,893,873	425,687	489,684	50,304	0	9,049	29.0%	\$24.24
MINNEAPOLIS CBD - TOTAL	29,962,003	7,036,141	7,179,160	1,794,526	345,927	(108,074)	28.5%	\$30.75
NORTHEAST	9,328,888	1,402,434	1,390,643	59,782	0	14,175	15.4%	\$22.91
NORTHWEST	4,375,312	834,086	678,063	152,572	0	35,289	16.9%	\$25.42
SAINT PAUL CBD	7,287,210	1,599,541	1,309,861	149,821	0	(53,079)	20.5%	\$22.96
SOUTHEAST	9,253,725	2,187,838	1,806,165	124,479	0	43,795	20.7%	\$23.22
SOUTHWEST	17,510,876	3,320,641	2,976,233	739,901	0	(225,577)	19.7%	\$28.23
WEST	10,381,159	2,040,706	1,668,351	242,933	35,666	76,658	17.6%	\$33.61
SUBURBAN - TOTAL	50,449,960	9,785,705	8,519,455	1,319,667	35,666	(55,660)	18.4%	\$26.54
TOTAL	87,699,173	18,421,387	17,008,476	3,264,014	381,593	(216,894)	22.0%	\$27.11



MARKET INDICATORS

Class A | Q1 2024

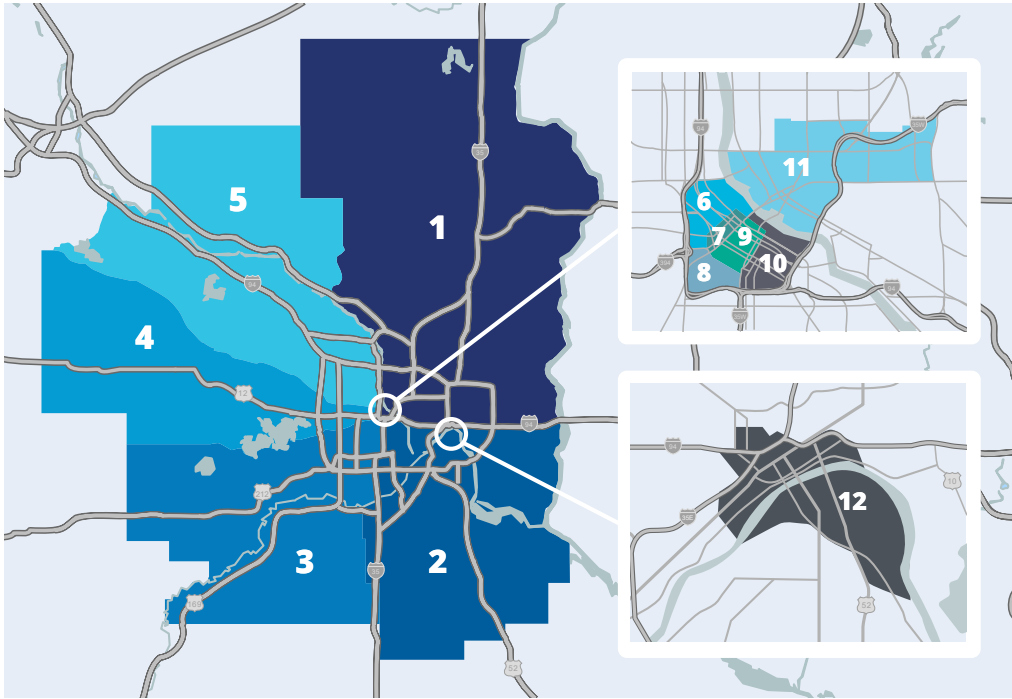
SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	NET ABSORPTION SF	OVERALL VACANCY RATE	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	15,558,512	3,612,200	3,608,580	1,262,564	(130,419)	30.0%	\$37.95
MINNEAPOLIS CBD EAST	318,955	59,848	43,436	59,477	(12,447)	32.3%	\$36.44
MINNEAPOLIS CBD LORING	0	0	0	0	N/A	N/A	N/A
MINNEAPOLIS CBD NORTHEAST	461,642	54,137	45,259	21,955	25,633	14.6%	\$36.69
MINNEAPOLIS CBD NORTH LOOP	1,203,483	184,103	191,260	80,978	42,795	23.8%	\$42.52
MINNEAPOLIS CBD WAREHOUSE	181,516	21,672	21,672	0	9,049	11.9%	N/A
MINNEAPOLIS CBD - TOTAL	17,724,108	3,931,960	3,910,207	1,424,974	(65,389)	29.0%	\$38.65
NORTHEAST	315,076	69,619	73,826	0	13,648	23.4%	\$28.62
NORTHWEST	389,244	86,956	69,763	25,308	(9,256)	24.1%	\$33.42
SAINT PAUL CBD	2,827,420	465,002	433,315	56,308	(55,134)	17.4%	\$29.49
SOUTHEAST	2,063,133	546,952	246,938	27,277	164,502	13.6%	\$28.65
SOUTHWEST	7,245,289	1,227,808	1,086,270	304,392	(282,156)	18.1%	\$35.12
WEST	4,792,924	942,738	863,798	103,328	96,487	17.9%	\$40.63
SUBURBAN - TOTAL	14,805,666	2,874,073	2,340,595	460,305	(16,775)	17.7%	\$35.74
TOTAL	35,357,194	7,271,035	6,684,117	1,941,587	(137,298)	22.9%	\$35.33



MARKET INDICATORS

Class B | Q1 2024

SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	NET ABSORPTION SF	OVERALL VACANCY RATE	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	5,538,161	1,687,878	1,786,809	194,364	(7,664)	33.1%	\$27.95
MINNEAPOLIS CBD EAST	533,812	84,353	91,716	0	(2,781)	15.6%	\$30.57
MINNEAPOLIS CBD LORING	114,683	29,365	22,196	14,640	0	19.4%	\$24.78
MINNEAPOLIS CBD NORTHEAST	1,860,637	370,459	404,252	44,476	(21,872)	21.8%	\$25.83
MINNEAPOLIS CBD NORTH LOOP	992,657	135,624	110,437	62,440	2,446	17.4%	\$29.83
MINNEAPOLIS CBD WAREHOUSE	1,643,107	404,015	468,012	50,304	0	32.1%	\$24.24
MINNEAPOLIS CBD - TOTAL	10,683,057	2,711,694	2,883,422	366,224	(29,790)	28.7%	\$27.17
NORTHEAST	7,362,426	1,224,600	1,234,680	40,782	(4,256)	17.4%	\$23.22
NORTHWEST	3,472,818	731,652	587,063	126,826	44,718	18.0%	\$25.76
SAINT PAUL CBD	4,075,987	1,017,054	732,918	91,449	4,381	20.7%	\$20.61
SOUTHEAST	5,792,094	1,267,198	1,371,500	73,216	(110,035)	24.7%	\$23.78
SOUTHWEST	9,436,884	1,998,153	1,794,400	468,314	50,622	21.5%	\$26.56
WEST	4,928,913	1,089,748	797,158	72,745	(21,247)	19.0%	\$30.53
SUBURBAN - TOTAL	30,993,135	6,311,351	5,784,801	781,883	(40,198)	20.4%	\$25.59
TOTAL	45,752,179	10,040,099	9,401,141	1,239,556	(65,688)	17.6%	\$26.17



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

[Maurice Harris](#)

Research Manager
 Maurice.Harris@transwestern.com
 612.359.1621

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