



TRANSWESTERN

# MINNEAPOLIS - SAINT PAUL OFFICE MARKET

## Q2 2024



### TRENDLINES

| INDICATOR                       | Q2 2024 | Q2 2023 | ONE-YEAR TREND | THREE-YEAR AVERAGE | 12-MONTH FORECAST |
|---------------------------------|---------|---------|----------------|--------------------|-------------------|
| UNEMPLOYMENT RATE               | 2.7     | 2.7     | ↔              | 2.8                | ↑                 |
| NET ABSORPTION (THOUSANDS SF)   | (382.4) | (177.0) | ↑              | (183.7)            | ↑                 |
| OVERALL VACANCY RATE            | 22.6%   | 21.4%   | ↑              | 21.1%              | ↑                 |
| OVERALL VACANT SF (MSF)         | 19.8    | 19.0    | ↑              | 18.9               | ↑                 |
| SUBLEASE AVAILABLE (MSF)        | 3.4     | 3.7     | ↓              | 3.0                | ↑                 |
| UNDER CONSTRUCTION (MSF)        | 0.0     | 0.8     | ↓              | 0.8                | ↓                 |
| ASKING RENT, FULL SERVICE (PSF) | \$27.26 | \$26.52 | ↑              | \$26.33            | ↑                 |
| SALES VOLUME (MILLIONS)         | \$82.9  | \$48    | ↓              | \$238.1            | ↓                 |

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

### MARKET OVERVIEW

The Minneapolis-Saint Paul (MSP) office market continues to see subdued market activity. Q2 2024 net absorption was negative 382,422 square feet (SF). A large amount of negative absorption was due to U.S. Bank consolidating to offices in the Minneapolis CBD and Hopkins as they vacated over 329,000 SF of space from the Southeast submarket. The amount of sublease space continues to decrease, down by 8.6% to 3.4 million SF. The Q2 2024 vacancy rate was 22.6%, up by 120 basis points from the previous year. Office sales recovered slightly from the previous year as some capital from REITs was used to purchase properties. Sales volume for the quarter totaled \$82.8 million.

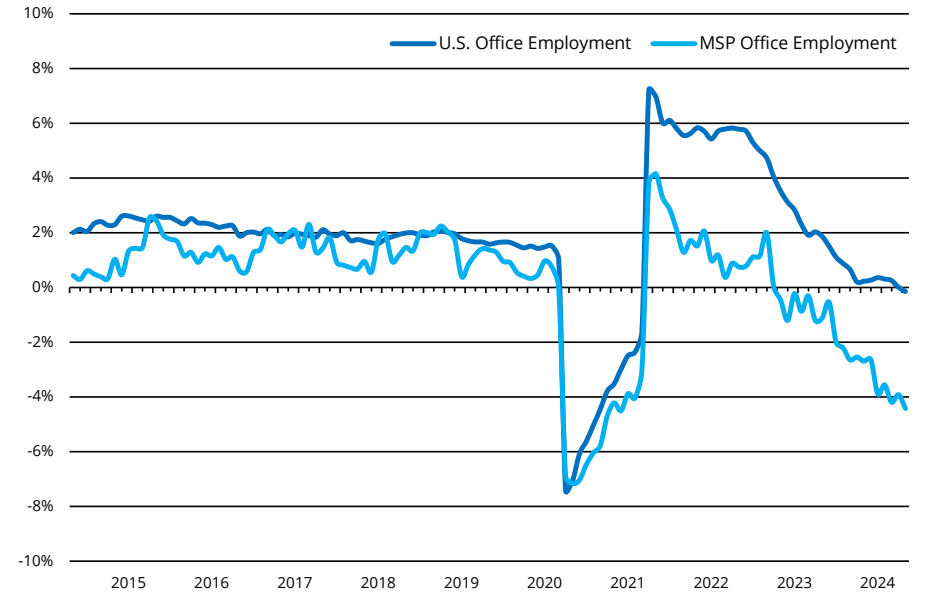


### ECONOMY

#### Job Growth Slows

- The Minneapolis - Saint Paul (MSP) unemployment rate for May 2024 was 2.6%, no change from the previous year. The regional labor force, year-over-year, decreased by 0.9% to 2.15 million people.
- Total employment in the Minneapolis - Saint Paul metro area was down by 1.1% YoY to 1.96 million. Employment, year-over-year, decreased for the first time since March 2021.
- MSP Office employment continues to decline. Office employment decreased by 0.2% from April. Year-over-year employment decreased by 4.4%, the 19th consecutive month that YoY office employment decreased.
- State/Local Government employment had the largest YoY increase, up by 19,800. Professional & Business Services employment decreased the most YoY, losing a net 14,8 jobs.

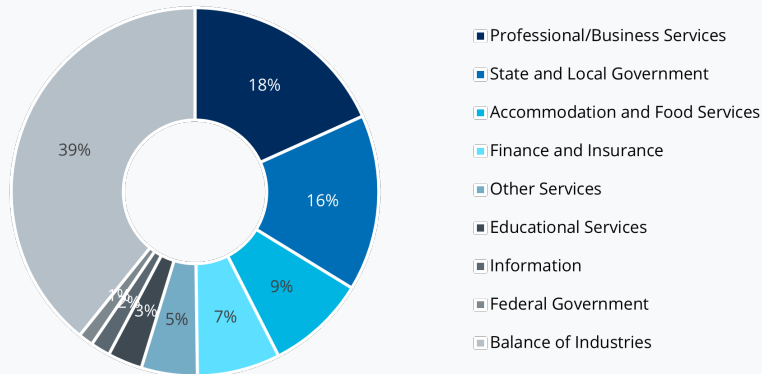
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

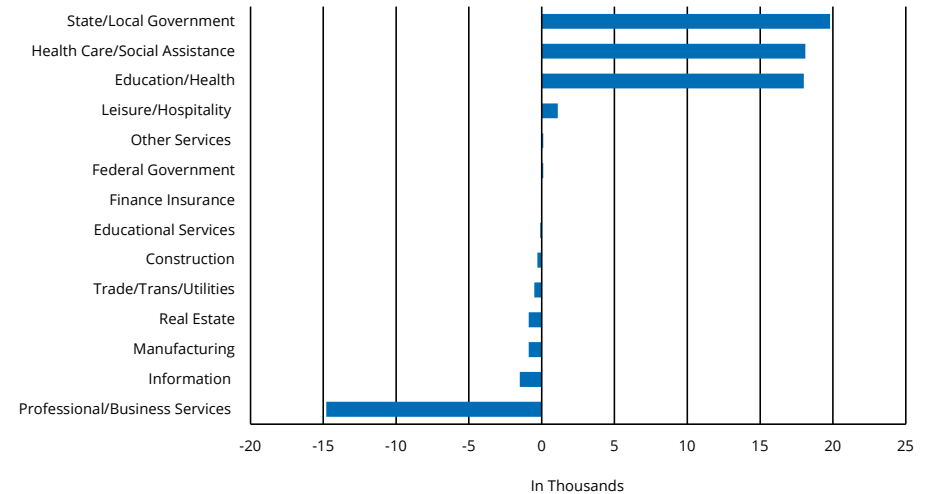
Minneapolis - Saint Paul | May 2024



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis-Saint Paul | May 2024



Source: Bureau of Labor Statistics, Transwestern

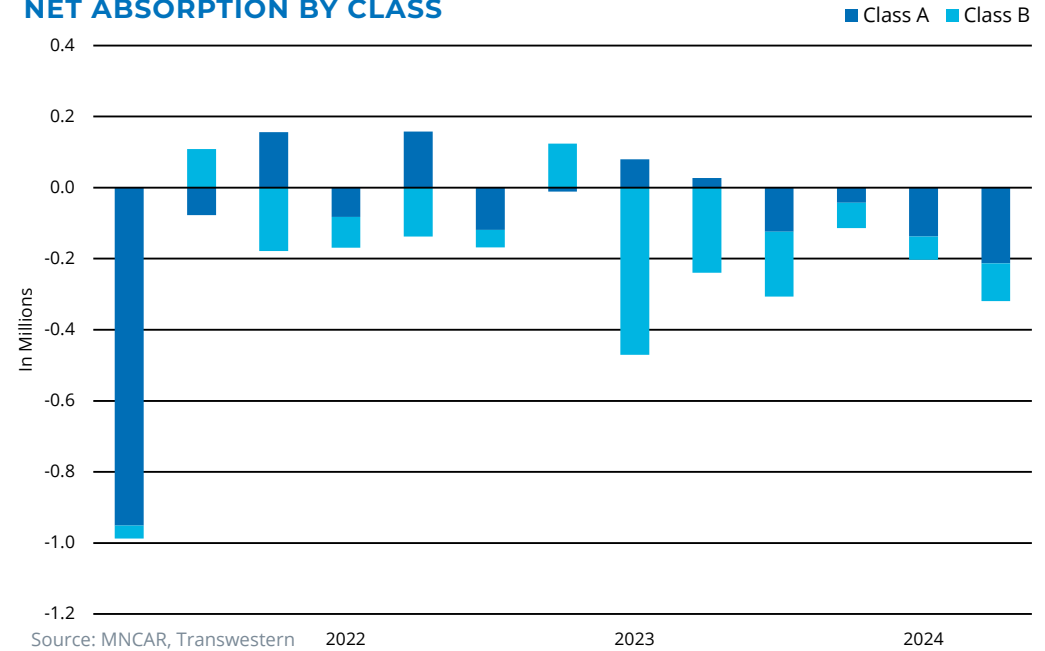


### NET ABSORPTION

#### Negative Net Absorption Increases

- The Minneapolis - Saint Paul office market continues to see negative absorption. The second quarter had 382,422 SF of negative net absorption.
- The majority of negative absorption for the quarter came from the Class A sector, which contributed 212,919 SF of negative absorption. The Class B sector had 106,346 SF of negative absorption during the quarter.
- The Minneapolis CBD net absorption for the quarter was negative 96,092 SF. The only submarket in the CBD that experienced positive net absorption was Northeast. The Northeast submarket recorded positive net absorption of 21,786 SF as BioMade leased 15,693 SF in the Broadway East Building. The Downtown core had the largest amount of negative net absorption, totaling negative 94,665 SF as Brown and Brown vacated 70,723 SF in IDS Center and Newell decreased the spaced leased by approximately 9,700 SF.
- The suburban submarkets had negative 229,023 SF of net absorption in Q2 primarily due to U.S Bank reducing and consolidating space. Only two submarkets had positive absorption: Northwest and West. The Southeast submarket had total net absorption of negative 197,209 SF, due to U.S. Bank vacating 329,680 SF at 1 & 2 Meridian Crossings in Richfield and consolidating space to its Hopkins and Downtown Minneapolis locations.

### NET ABSORPTION BY CLASS



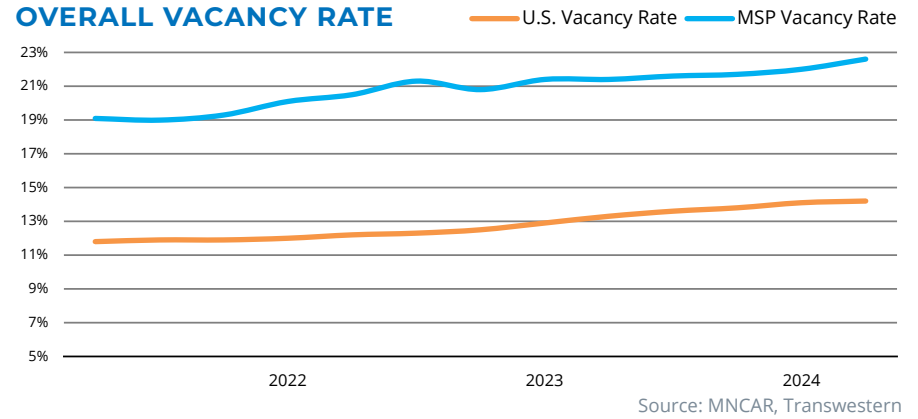


### VACANCY

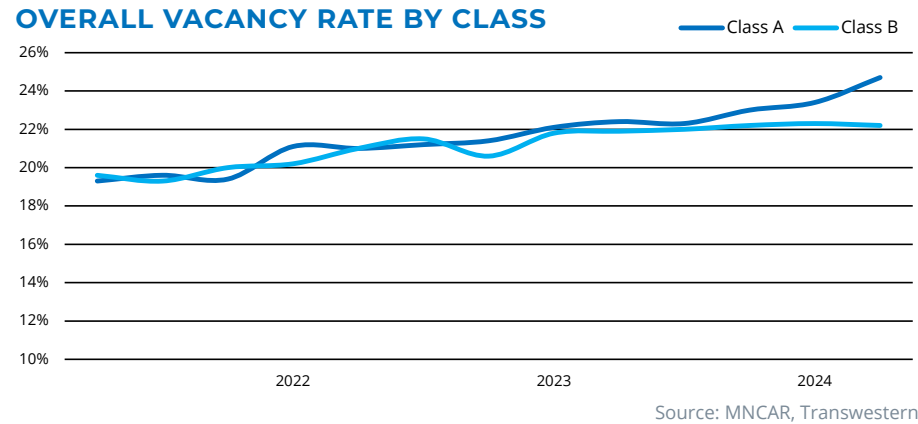
#### Vacancy Rate Increases

- Overall market vacancy for Q2 2024 was 22.6%, an increase of 60 basis points from Q1 2024. Year-over-year market vacancy increased by 120 basis points.
- The Minneapolis CBD vacancy rate was 29.7% in Q2 an increase of 120 basis points from Q1 2024 and YoY an increase of 240 basis points.
- The Q2 2024 Suburban submarket vacancy rate was 18.5%, a 10 basis point increase from Q1 2024. Vacancy increased by 70 basis points year-over-year from Q2 2023's rate of 17.8%.
- Vacancy rates continue to increase as office users continue to scale back on the amount of space needed as mentioned with U.S. Bank vacating nearly 330,000 SF of space, Brown & Brown vacating over 70,000 SF, and Illumifin who reduced the amount of space leased by over 52,000 SF.

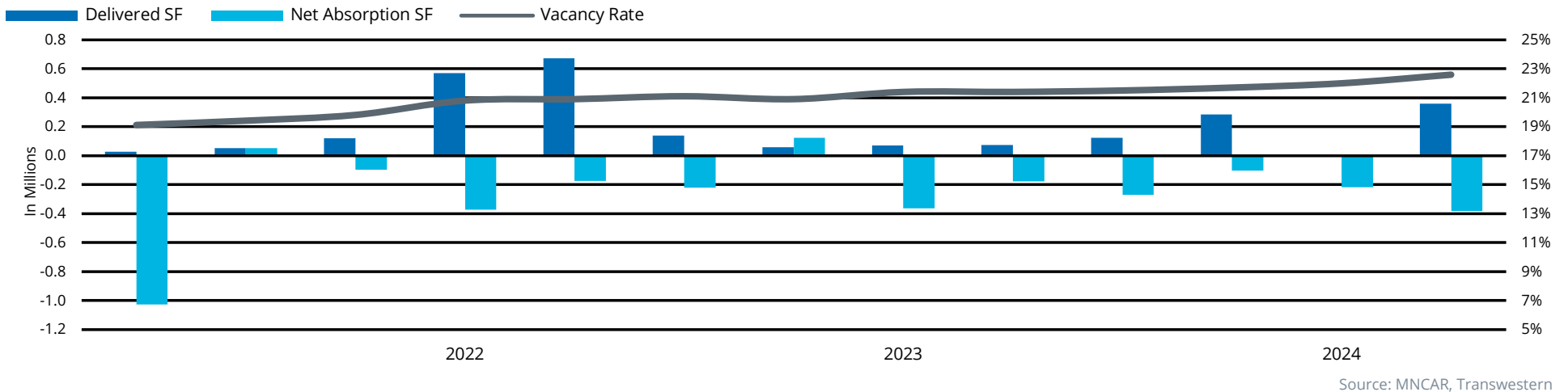
#### OVERALL VACANCY RATE



#### OVERALL VACANCY RATE BY CLASS



### DELIVERY IMPACT ON KEY INDICATORS



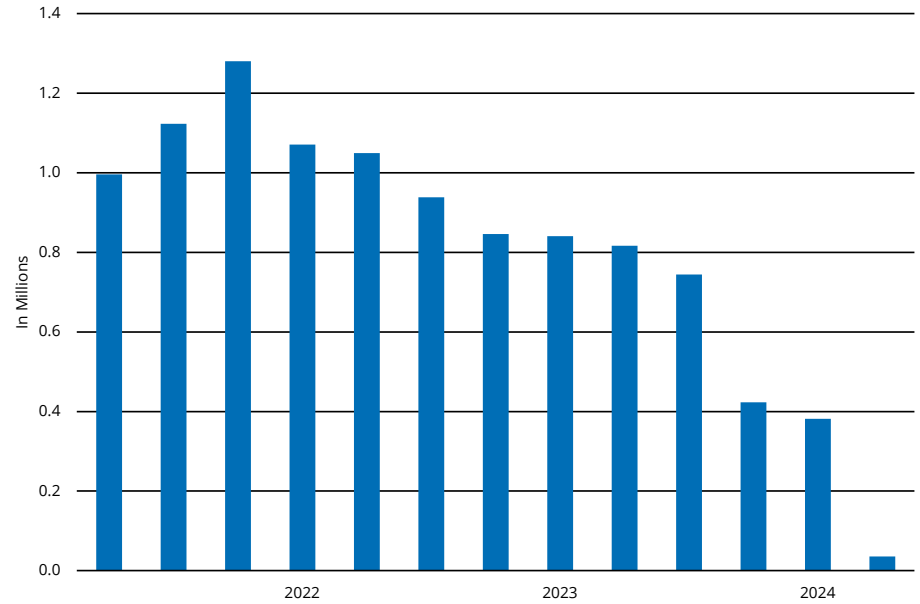


### UNDER CONSTRUCTION

#### Space Under Construction Continues to Be At Historic Lows

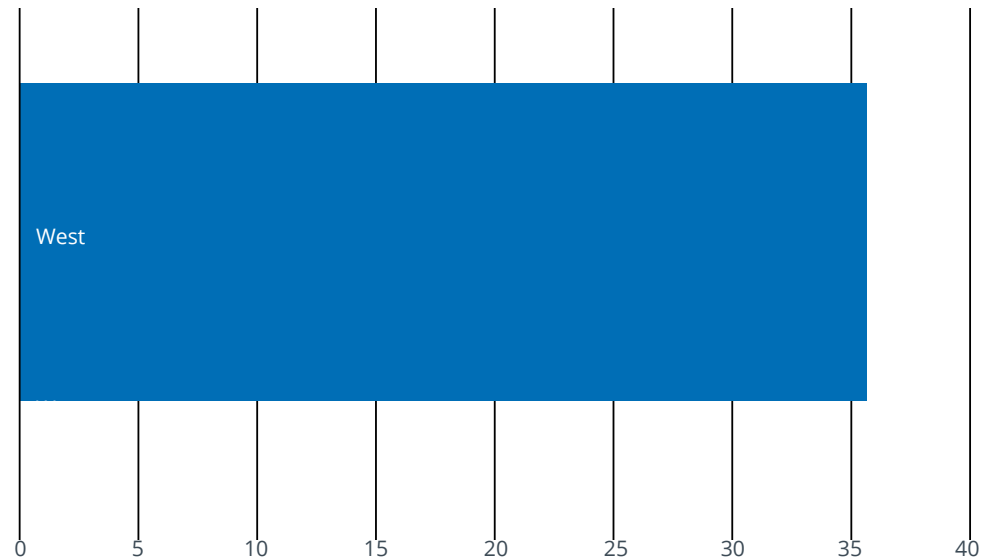
- There was only 35,666 SF under construction in the MSP region for Q2 2024. The West submarket is the only submarket to have any office space under construction.
- This is the lowest level for space under construction since tracking of the statistic.
- Space under construction year-over-year decreased by 95%, highlighting that demand continues to be depressed for new space.
- There was 379,259 SF of office space delivered to the market in Q2. This includes the completion of North Loop Green which totaled 345,927 SF.
- 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

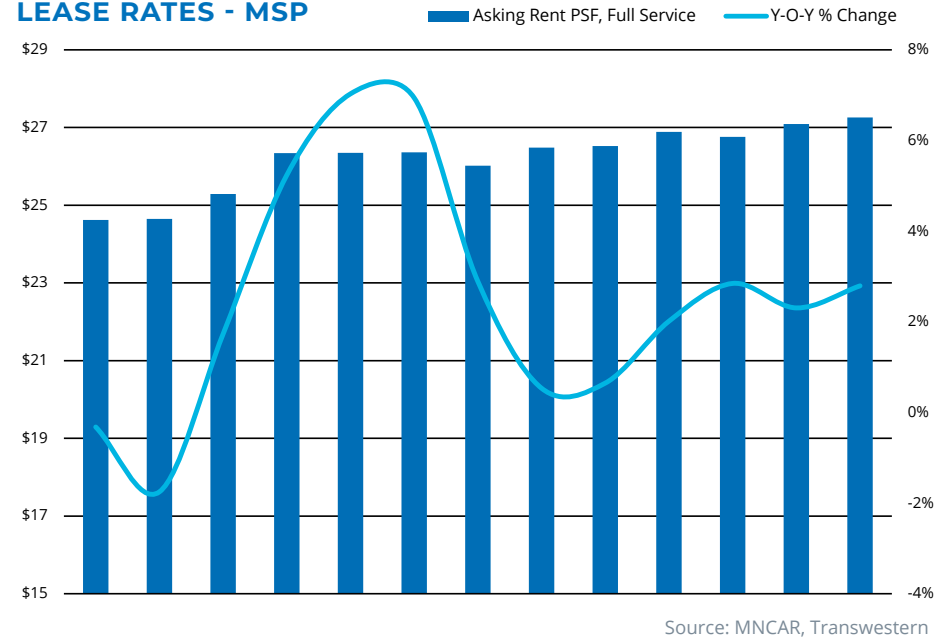


### LEASE RATES

#### Rents Continue to Increase

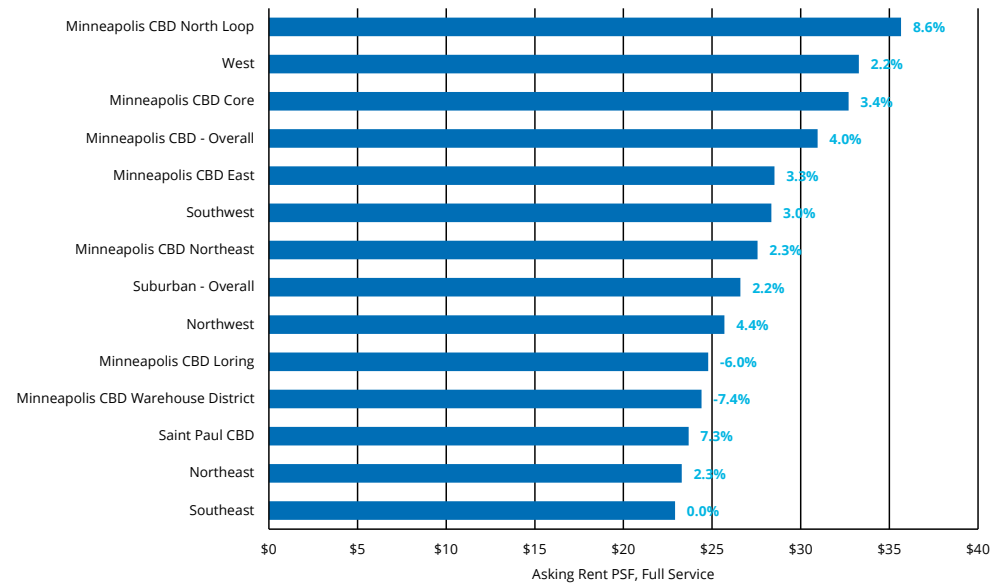
- Average asking rents for the Minneapolis Saint-Paul office market increased by 0.6% in Q2 2024 from the previous quarter to \$27.26 PSF. Year-over-year asking rents increased by 2.8%.
- Average asking rents in the suburban submarkets increased by 2.2% YoY to \$226.60 PSF. Minneapolis CBD asking rates increased by 4% YoY to \$30.95 PSF.
- The largest year-over-year increase was in the Minneapolis CBD North Loop submarket, where rates increased by 8.6% to \$35.66 PSF.
- Class A asking rents increased in most submarkets year-over-year, increasing 5.3% to \$38.72/PSF in the Minneapolis CBD and 0.4% 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

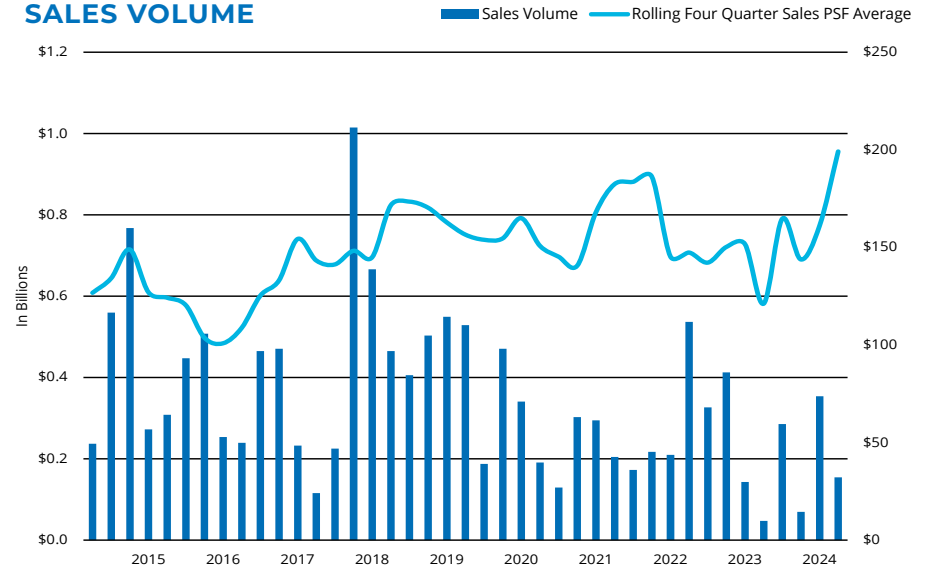


### SALES

#### Sales Increased Significantly

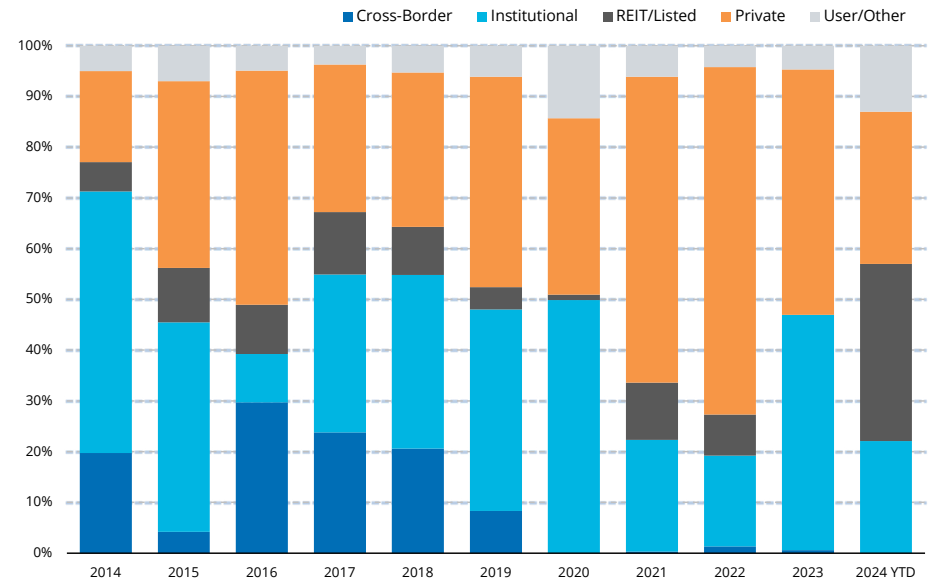
- Sales totaled \$154.6 million for the quarter, a 225.3% increase from the previous year. The average price square feet was \$216.
- Sales activity was driven by large transactions in the market this quarter. Overall market activity continues to be muted as capital continues to wait for interest rates to decline, which may help to increase capital for purchases especially by Institutional and REIT buyers
- The most notable sale of the quarter was the Blue Cross Blue Shields headquarters at 3400 Yankee Dr in Eagan which sold for \$60.7 million in a sale-leaseback deal. The property sold for twice for its assessed value of \$25.7 million.
- REIT/Listed and Private sources made up the majority of buyer capital for properties in the quarter which totaled 65%. Institutional capital sources totaled 22%, with User/Other making up 13%.

### SALES VOLUME



Source: CoStar, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



## NOTABLE LEASES

| TENANT                     | ADDRESS                             | SUBMARKET       | TYPE    | SF LEASED |
|----------------------------|-------------------------------------|-----------------|---------|-----------|
| CAPELLA UNIVERSITY         | 225 S 6th St, Minneapolis           | MPLS CBD - Core | Renewal | 111,700   |
| MN ATTORNEY GENERAL OFFICE | 445 Minnesota St, Saint Paul        | St. Paul CBD    | New     | 97,786    |
| TKDA                       | 3311 E Old Shakopee Rd, Bloomington | Southeast       | New     | 87,352    |
| BTM GLOBAL                 | 7700 France Ave S, Edina            | Southwest       | New     | 19,849    |
| BURNS & MCDONNELL          | 1650 W 82nd St, Bloomington         | Southwest       | Renewal | 17,294    |

## NOTABLE SALES

| ADDRESS                          | SUBMARKET      | SALES PRICE  | BUILDING SF | PRICE PSF | BUYER                       | SELLER                                   |
|----------------------------------|----------------|--------------|-------------|-----------|-----------------------------|--|
| 3400 YANKEE DR, EAGAN            | Southeast      | \$60,700,000 | 333,498     | \$182     | Net Lease Office Properties | Real Capital Solutions, Inc.             |
| 10 RIVER PARK PLAZA, ST PAUL     | Saint Paul CBD | \$24,870,000 | 75,675      | \$329     | Lightedge Soutions Inc.     | Stream Data Centers                      |
| 1000 LAKE HAZELTINE DR, CHASKA*  | Southwest      | \$22,000,000 | 120,789     | \$182     | Beckman Coulter             | Cardbeck Chaska Trust                    |
| 735 DECATUR AVE N, BROOKLYN PARK | Northwest      | \$4,550,000  | 42,303      | \$108     | Ernie Rose Golf             | Juno Investments Corp.                   |
| 600 W TRAVELERS TR, BURNSVILLE   | Southeast      | \$3,150,000  | 33,908      | \$93      | Mohamed Nur                 | American Automobile Association National |

= Transwestern deal

\* = Portfolio Sale



**MARKET INDICATORS**

All Classes of Space | Q2 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) |
|-----------------------------------|-------------------|---------------------|-------------------|-----------------------|-----------------------|-------------------|----------------------|--------------------------------|
| <b>MINNEAPOLIS CBD CORE</b>       | 21,708,349        | 7,015,055           | 6,796,857         | 1,403,824             | 0                     | (94,665)          | 31.2%                | \$32.70                        |
| <b>MINNEAPOLIS CBD EAST</b>       | 1,077,184         | 362,701             | 311,316           | 59,477                | 0                     | (1,789)           | 28.9%                | \$28.52                        |
| <b>MINNEAPOLIS CBD LORING</b>     | 141,531           | 44,005              | 22,196            | 14,640                | 0                     | 0                 | 15.7%                | \$24.78                        |
| <b>MINNEAPOLIS CBD NORTHEAST</b>  | 2,810,470         | 536,369             | 481,958           | 68,907                | 0                     | 21,786            | 17.1%                | \$27.57                        |
| <b>MINNEAPOLIS CBD NORTH LOOP</b> | 2,704,050         | 734,253             | 870,877           | 193,850               | 0                     | (14,272)          | 32.2%                | \$35.66                        |
| <b>MINNEAPOLIS CBD WAREHOUSE</b>  | 1,893,873         | 432,758             | 546,686           | 0                     | 0                     | (7,152)           | 28.9%                | \$24.40                        |
| <b>MINNEAPOLIS CBD - TOTAL</b>    | 30,282,937        | 9,125,141           | 9,029,890         | 1,740,698             | 0                     | (96,092)          | 29.7%                | \$30.95                        |
| <b>NORTHEAST</b>                  | 9,328,888         | 1,361,420           | 1,396,101         | 57,791                | 0                     | (1,975)           | 15.0%                | \$23.29                        |
| <b>NORTHWEST</b>                  | 4,375,312         | 944,384             | 691,713           | 118,452               | 0                     | 31,096            | 15.8%                | \$25.70                        |
| <b>SAINT PAUL CBD</b>             | 7,287,210         | 1,564,090           | 1,515,023         | 195,451               | 0                     | (57,307)          | 21.1%                | \$23.68                        |
| <b>SOUTHEAST</b>                  | 9,253,725         | 2,208,840           | 2,047,340         | 141,411               | 0                     | (197,209)         | 22.2%                | \$22.91                        |
| <b>SOUTHWEST</b>                  | 17,510,876        | 4,225,890           | 3,384,012         | 809,209               | 0                     | (73,307)          | 19.5%                | \$28.34                        |
| <b>WEST</b>                       | 10,381,159        | 2,354,053           | 1,750,965         | 355,673               | 35,666                | 12,372            | 17.6%                | \$33.28                        |
| <b>SUBURBAN - TOTAL</b>           | 50,449,960        | 9,785,705           | 8,519,455         | 1,482,536             | 35,666                | (55,660)          | 18.5%                | \$26.60                        |
| <b>TOTAL</b>                      | <b>88,020,107</b> | <b>20,474,936</b>   | <b>19,064,368</b> | <b>3,418,685</b>      | <b>35,666</b>         | <b>(209,059)</b>  | <b>22.6%</b>         | <b>\$27.26</b>                 |



## MARKET INDICATORS

## Class A | Q2 2024

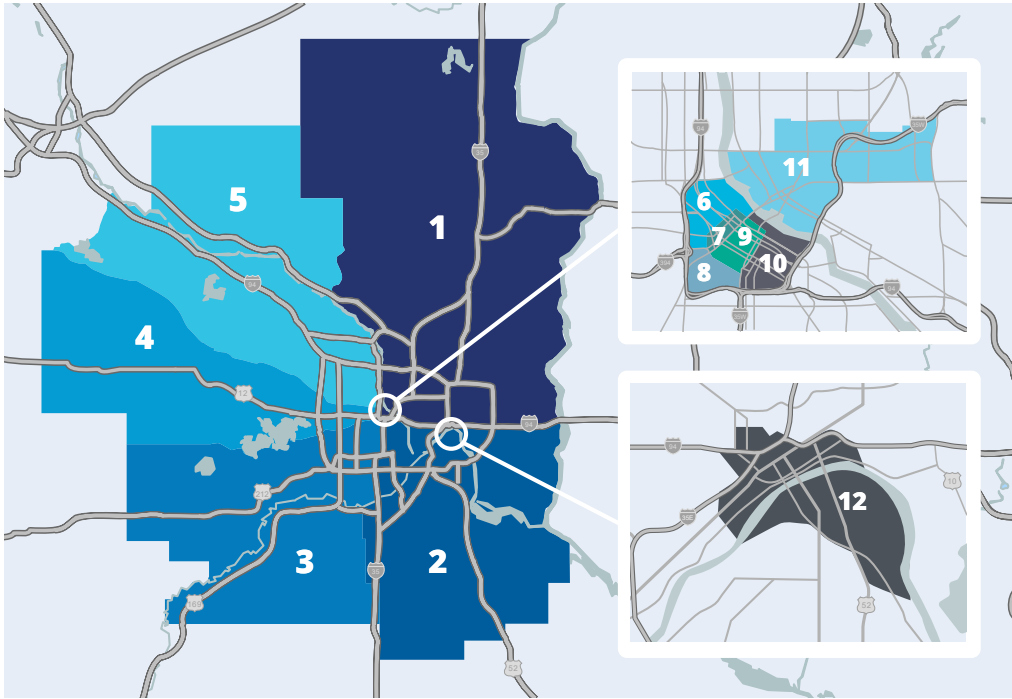
| SUBMARKET                  | INVENTORY SF      | DIRECT AVAILABLE SF | DIRECT VACANT SF | SUBLEASE AVAILABLE SF | NET ABSORPTION SF | OVERALL VACANCY RATE | AVERAGE ASKING RENT, PSF (FSG) |
|----------------------------|-------------------|---------------------|------------------|-----------------------|-------------------|----------------------|--------------------------------|
| MINNEAPOLIS CBD CORE       | 15,558,512        | 3,759,927           | 3,748,332        | 1,209,460             | (127,722)         | 30.8%                | \$37.98                        |
| MINNEAPOLIS CBD EAST       | 318,955           | 102,184             | 43,436           | 59,477                | 0                 | 32.3%                | \$36.44                        |
| MINNEAPOLIS CBD LORING     | 0                 | 0                   | 0                | 0                     | N/A               | N/A                  | N/A                            |
| MINNEAPOLIS CBD NORTHEAST  | 461,642           | 73,733              | 43,336           | 21,955                | 1,923             | 14.1%                | \$36.69                        |
| MINNEAPOLIS CBD NORTH LOOP | 1,752,495         | 371,716             | 608,934          | 126,285               | 0                 | 39.4%                | \$42.79                        |
| MINNEAPOLIS CBD WAREHOUSE  | 181,516           | 21,672              | 21,672           | 0                     | 0                 | 11.9%                | N/A                            |
| MINNEAPOLIS CBD - TOTAL    | 18,273,120        | 4,329,232           | 4,465,710        | 1,417,177             | (125,799)         | 28.9%                | \$38.72                        |
| NORTHEAST                  | 315,076           | 56,445              | 56,445           | 0                     | 17,381            | 17.9%                | \$28.62                        |
| NORTHWEST                  | 389,244           | 86,956              | 69,763           | 23,895                | 0                 | 24.1%                | \$33.42                        |
| SAINT PAUL CBD             | 2,748,765         | 492,995             | 404,891          | 104,002               | 18,156            | 18.5%                | \$29.62                        |
| SOUTHEAST                  | 2,067,026         | 451,120             | 398,839          | 51,992                | (151,901)         | 21.0%                | \$28.65                        |
| SOUTHWEST                  | 7,245,289         | 1,365,779           | 1,115,328        | 291,441               | (25,626)          | 18.6%                | \$35.27                        |
| WEST                       | 4,792,924         | 860,457             | 757,894          | 161,140               | 93,354            | 15.7%                | \$41.12                        |
| SUBURBAN - TOTAL           | 14,809,559        | 1,960,300           | 2,398,269        | 528,468               | (160,146)         | 18.1%                | \$35.74                        |
| <b>TOTAL</b>               | <b>35,831,444</b> | <b>6,782,527</b>    | <b>7,268,870</b> | <b>2,049,647</b>      | <b>(267,789)</b>  | <b>22.9%</b>         | <b>\$34.69</b>                 |



MARKET INDICATORS

Class B | Q2 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         | 1,724,097           | 1,777,999        | 194,364               | 8,810             | 32.9%                | \$27.95                        |
| MINNEAPOLIS CBD EAST       | 533,812           | 84,353              | 91,716           | 0                     | 0                 | 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         | 349,303             | 384,556          | 44,476                | 19,696            | 20.8%                | \$26.22                        |
| MINNEAPOLIS CBD NORTH LOOP | 764,579           | 129,676             | 109,356          | 65,224                | 1,081             | 18.6%                | \$31.31                        |
| MINNEAPOLIS CBD WAREHOUSE  | 1,643,107         | 402,761             | 466,385          | 0                     | 1,173             | 31.4%                | \$24.40                        |
| MINNEAPOLIS CBD - TOTAL    | 10,454,979        | 2,719,555           | 2,852,208        | 318,704               | 30,760            | 28.4%                | \$27.47                        |
| NORTHEAST                  | 7,362,426         | 1,134,063           | 1,209,794        | 38,791                | (14,387)          | 17.0%                | \$23.47                        |
| NORTHWEST                  | 3,472,818         | 717,721             | 571,670          | 92,706                | 4,201             | 16.7%                | \$25.93                        |
| SAINT PAUL CBD             | 4,075,987         | 766,893             | 761,656          | 91,449                | 18,156            | 21.1%                | \$21.24                        |
| SOUTHEAST                  | 5,792,094         | 1,249,553           | 1,317,360        | 87,919                | (7,914)           | 23.9%                | \$23.40                        |
| SOUTHWEST                  | 9,235,543         | 1,957,522           | 1,664,869        | 516,645               | 5,202             | 21.0%                | \$26.62                        |
| WEST                       | 4,511,879         | 1,131,238           | 869,778          | 115,606               | (63,525)          | 21.3%                | \$30.49                        |
| SUBURBAN - TOTAL           | 30,374,760        | 6,190,097           | 5,633,471        | 851,667               | (76,423)          | 20.2%                | \$25.65                        |
| <b>TOTAL</b>               | <b>44,905,726</b> | <b>9,676,545</b>    | <b>9,247,335</b> | <b>1,261,820</b>      | <b>(27,507)</b>   | <b>17.6%</b>         | <b>\$24.79</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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