



TRANSWESTERN

MINNEAPOLIS - SAINT PAUL OFFICE MARKET

Q3 2024



TRENDLINES

INDICATOR	Q3 2023	Q3 2024	ONE-YEAR TREND	THREE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.1	3.8	↑	2.8	↑
NET ABSORPTION (THOUSANDS SF)	(270.3)	(476.4)	↓	(227.6)	↓
OVERALL VACANCY RATE	21.5%	23.8%	↑	21.5%	↑
OVERALL VACANT SF (MSF)	18.8	21.0	↑	19.2	↑
SUBLEASE AVAILABLE (MSF)	3.6	3.4	↓	3.1	↓
UNDER CONSTRUCTION (MSF)	0.7	0.2	↓	0.7	↓
ASKING RENT, FULL SERVICE (PSF)	\$26.89	\$27.31	↑	\$26.56	↑
SALES VOLUME (MILLIONS)	\$285	\$72.5	↓	\$232.9	↓

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

MARKET OVERVIEW

The Minneapolis-Saint Paul (MSP) office market continues to be challenged as vacancy continues to increase as tenants vacate large blocks of space. Q3 2024 net absorption was negative 476,436 square feet (SF). The negative absorption was primarily due to tenants vacating a total of 550,000 SF from suburban locations and the Saint Paul Central Business District (CBD). Notably, CH Robinson vacated 153,000 SF in the Southeast market, and U.S. Bank vacated 118,000 SF. The amount of sublease space continues to decrease, down 3.1% year-over-year (YoY) to 3.48 million SF. The Q3 2024 vacancy rate was 23.8%, up by 220 basis points YoY. Office sales volume for the quarter was \$72.4 million, which is lower than the previous year.

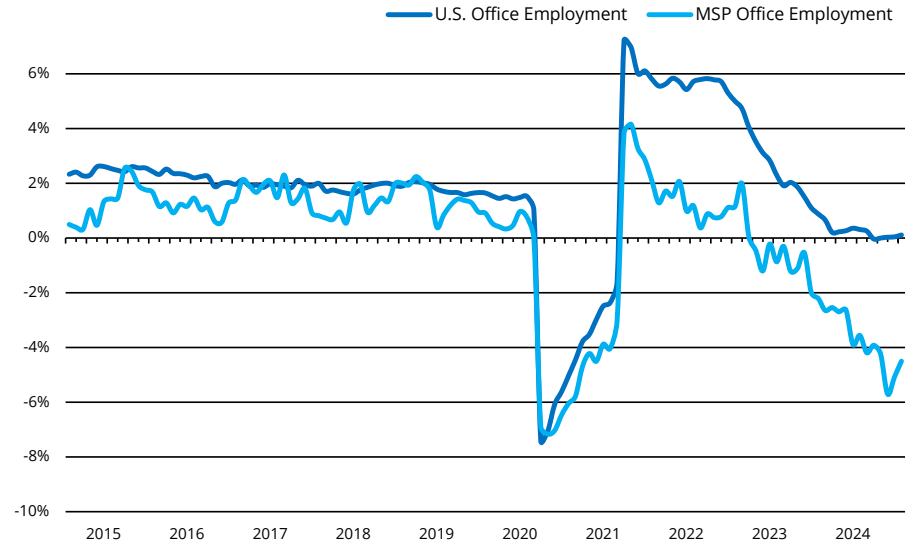


ECONOMY

Job Growth Slows

- The unemployment rate for August 2024 was 3.9%, a 0.8 percentage point year-over-year (YoY) increase. The regional labor force decreased by 1.3% YoY to 2.01 million people.
- Total employment in the metro area was down by 2.6% YoY to 1.93 million. Employment has decreased from the previous year for four consecutive months.
- MSP office employment continues to decline, decreasing by 0.1% from July of this year. Year-over-year employment decreased by 4.5%, marking the fourth consecutive month that YoY office employment decreased by more than 4%.
- Education & Health employment had the largest YoY increase, up by 21,600. Professional & Business Services employment decreased the most YoY, losing a net 13,900 jobs.

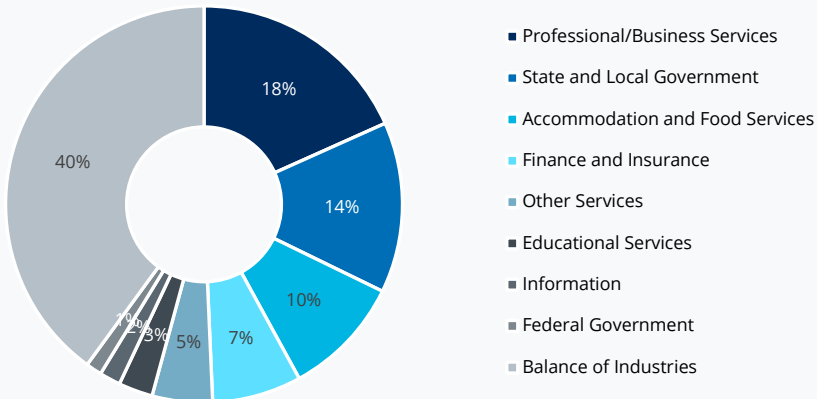
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

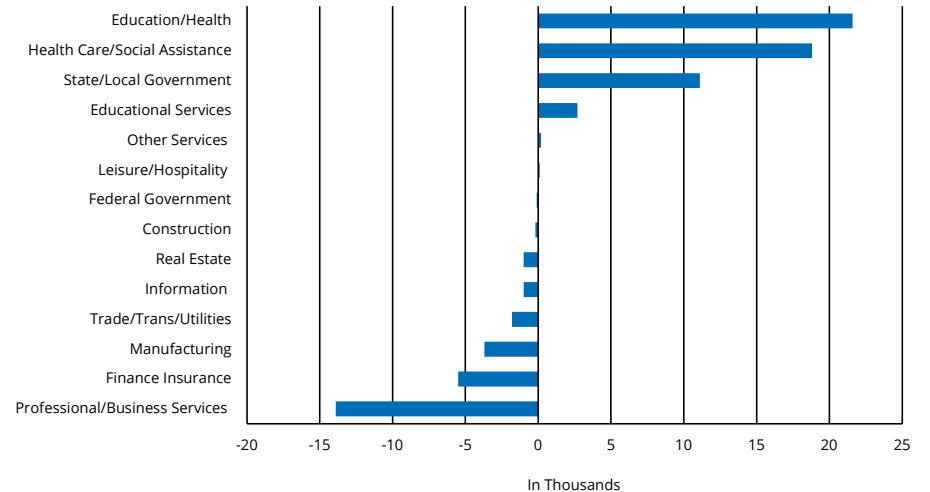
Minneapolis - Saint Paul | August 2024



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Minneapolis-Saint Paul | August 2024



Source: Bureau of Labor Statistics, Transwestern

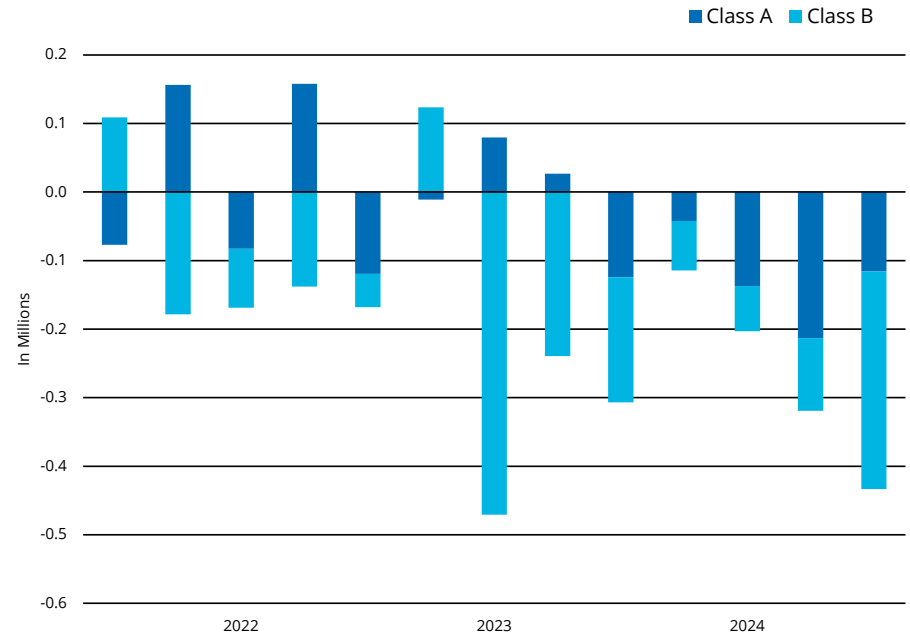


NET ABSORPTION

Negative Net Absorption Increases

- The office market continues to see negative absorption. The third quarter totaled 476,436 SF of negative net absorption.
- The majority of negative absorption for the quarter came from Class B space, which contributed 317,254 SF of negative absorption. Class A space had 115,916 SF of negative absorption during the quarter.
- The Minneapolis CBD net absorption for the quarter was negative 133,980 SF. Two submarkets in the CBD that experienced positive net absorption: North Loop and Warehouse District. The North Loop submarket recorded positive net absorption due to KPMG leasing 56,118 SF and ESG Architectural and Design leasing 28,059 SF in North Loop Green. The Downtown core had the largest amount of negative net absorption, totaling negative 148,377 SF, as KPMG vacated 51,429 SF in Wells Fargo Center and several tenants vacated 33,796 SF from the Forum building.
- The suburban submarkets had negative 122,922 SF of net absorption in the quarter, primarily due to C.H. Robinson vacating space. Only two submarkets had positive absorption: Northeast and Northwest. The Southwest submarket had the largest negative net absorption, totaling negative 101,162 SF as C.H. Robinson vacated 153,000 SF from Eden Bluff Corporate Center in Eden Prairie.

NET ABSORPTION BY CLASS



Source: MNCAR, Transwestern

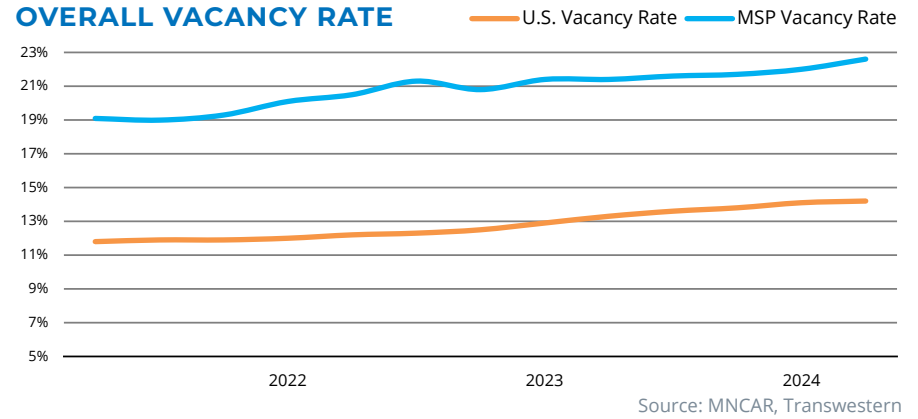


VACANCY

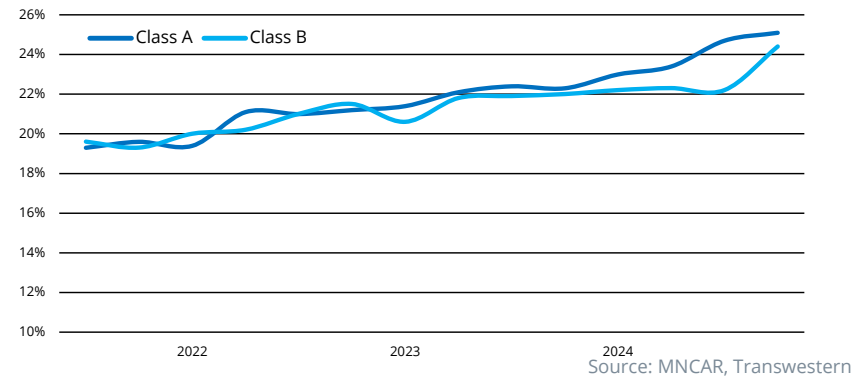
Vacancy Rate Increases

- Overall market vacancy for Q3 2024 was 23.8%, an increase of 120 basis points from Q2 2024. Year-over-year market vacancy increased by 220 basis points.
- The Minneapolis CBD vacancy rate was 30.2% in Q2 an increase of 50 basis points from Q2 2024 and YoY an increase of 260 basis points.
- The Q3 2024 Suburban submarket vacancy rate was 18.6%, a 10 basis point increase from Q2 2024. Vacancy increased by 50 basis points year-over-year from Q3 2023's rate of 18.1%.
- Vacancy rates continue to increase as office users continue to scale back on the amount of space needed as mentioned with C.H. Robinson vacating space, U.S. Bank vacating 118,000 SF of space at U.S Bank Center and The State of Minnesota vacating 119,993 SF at The Golden Rule Building in Saint Paul CBD.

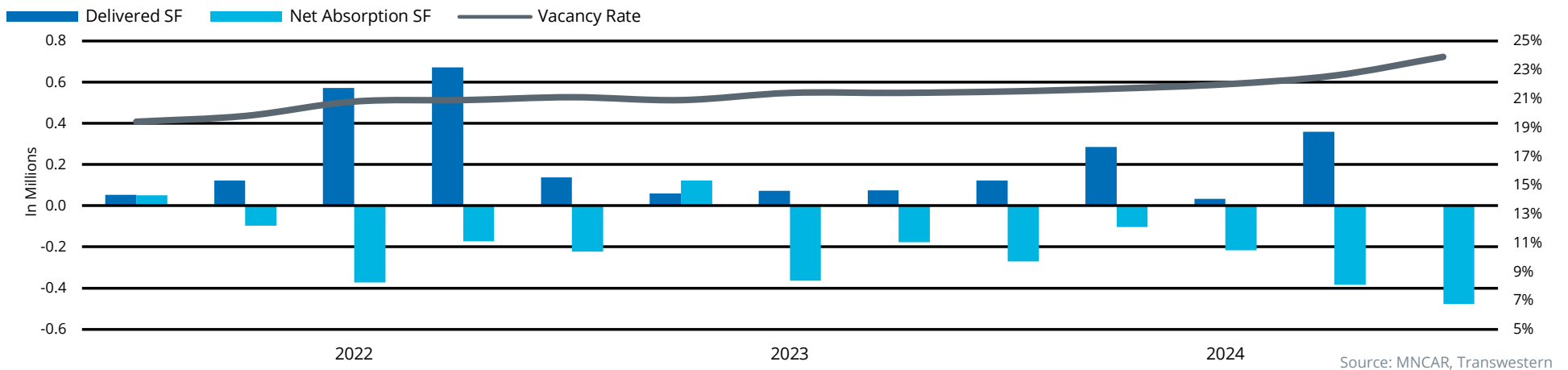
OVERALL VACANCY RATE



OVERALL VACANCY RATE BY CLASS



DELIVERY IMPACT ON KEY INDICATORS



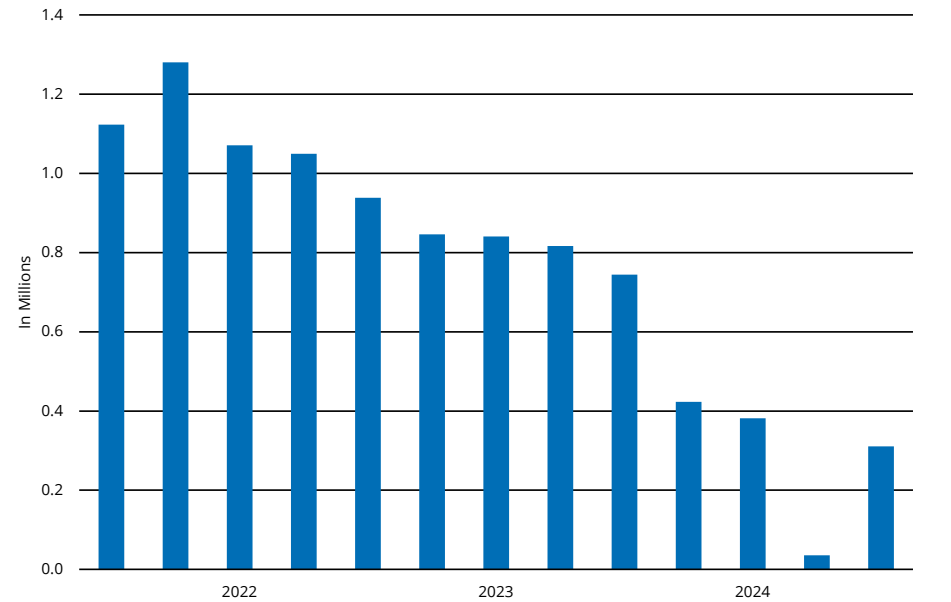


UNDER CONSTRUCTION

Space Under Construction Continues to Be At Historic Lows

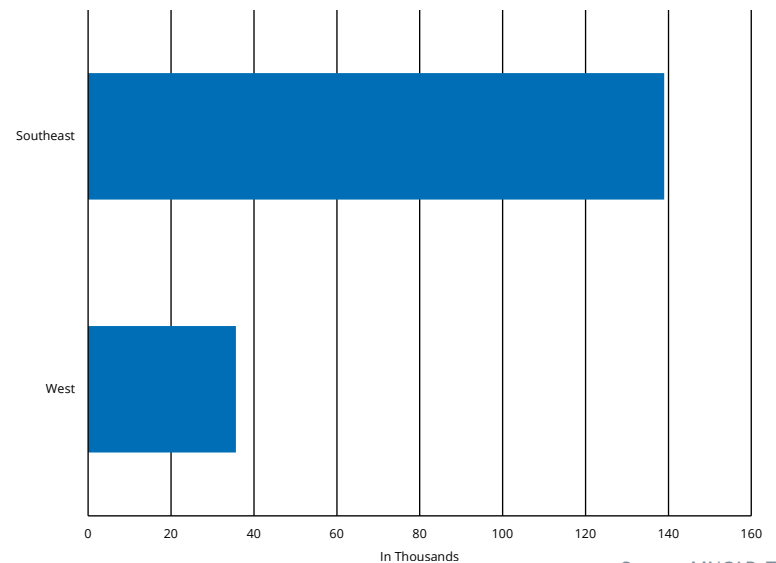
- There was 174,666 SF under construction in the MSP region for Q3 2024. Construction has picked up from previous quarters as construction commences on the Sick expansion in Bloomington started construction.
- Space under construction year-over-year decreased by 76.5%, highlighting that demand continues to be depressed for new space.
- There was no space delivered in the market for this quarter, the first time since Q1 2013 when that occurred.
- 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

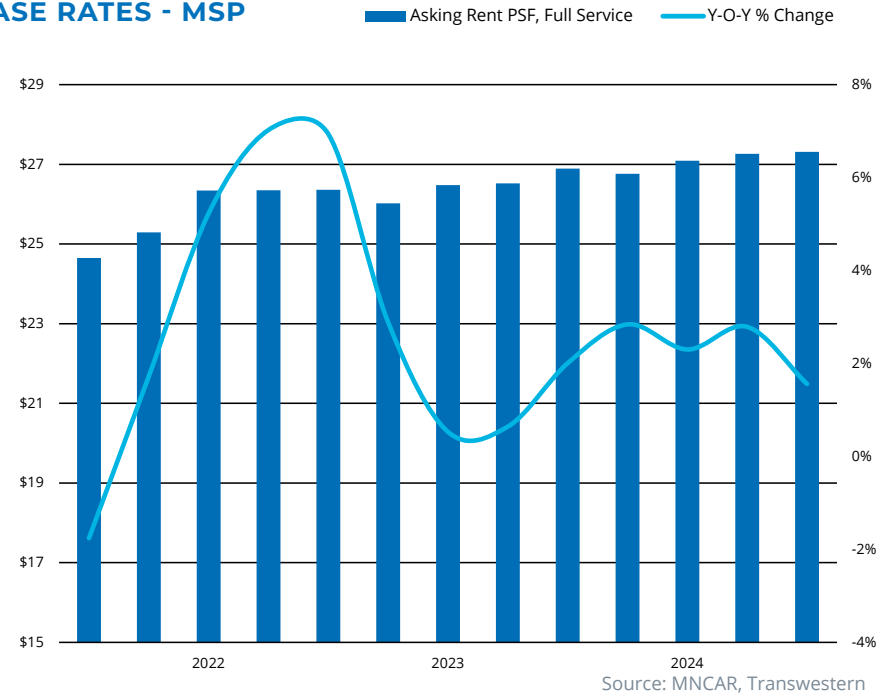


LEASE RATES

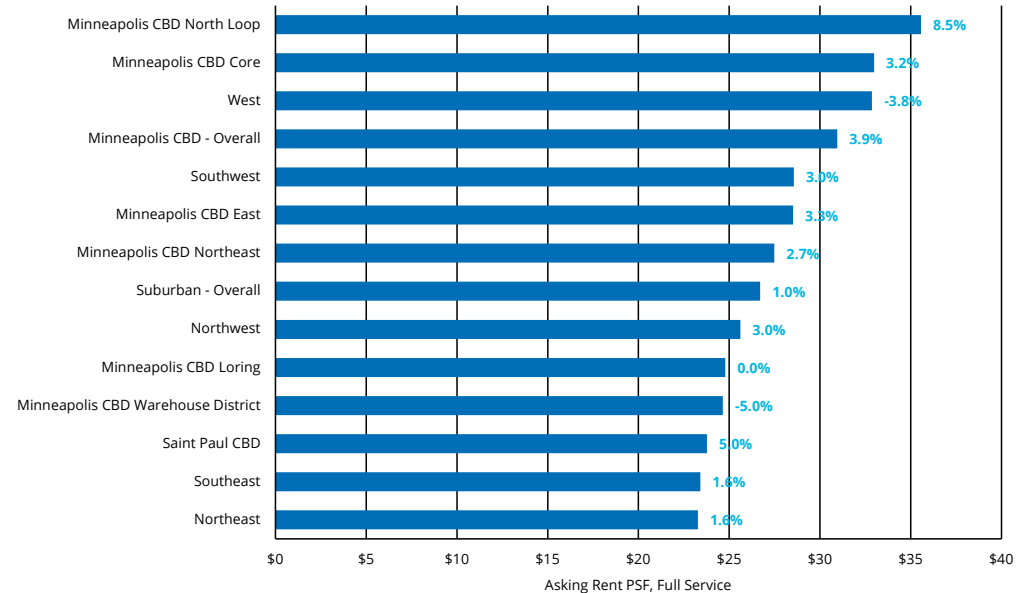
Rents Slightly Increase

- Average asking rents for the Minneapolis Saint-Paul office market increased by 0.2% in Q3 2024 from the previous quarter to \$27.31 PSF. Year-over-year (YoY) asking rents increased by 1.6%.
- Minneapolis CBD asking rates increased by 3.9% YoY from Q3 2023 to \$30.96 PSF. Suburban asking rates increased by 1% YoY to \$26.71 PSF.
- The largest year-over-year increase was in the Minneapolis CBD North Loop submarket, where rates increased by 8.5% to \$35.56 PSF.
- Class A asking rents increased in Minneapolis CBD while decreasing in the Suburban submarkets. Minneapolis CBD Class A asking rates increased by 3.9% to \$38.69 PSF. Suburban Class A asking rates decreased by 0.6% to \$35.91 PSF.

LEASE RATES - MSP



LEASE RATES BY SUBMARKET AND Y-O-Y GROWTH



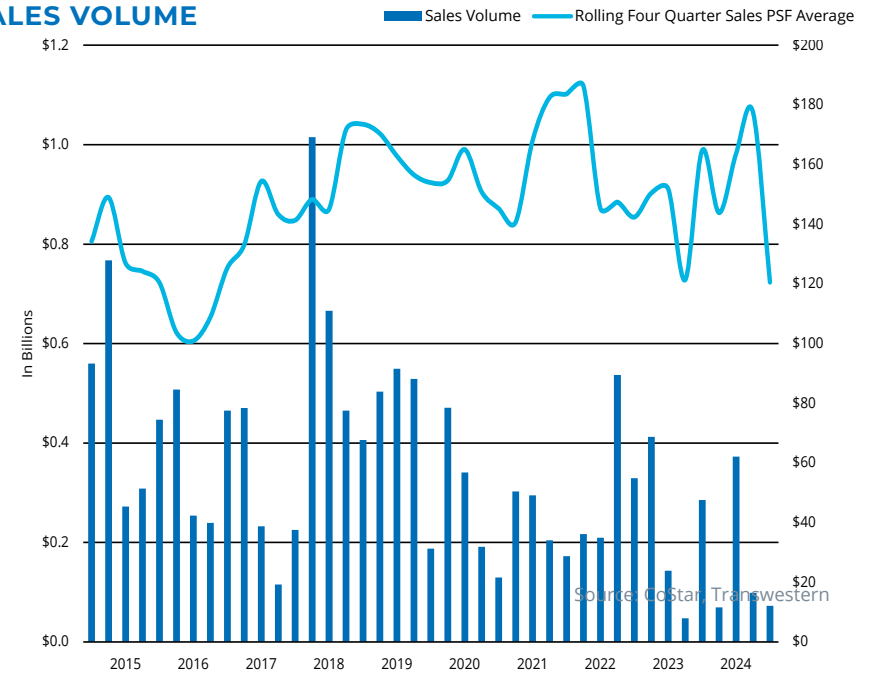


SALES

Sales Activity Decreased

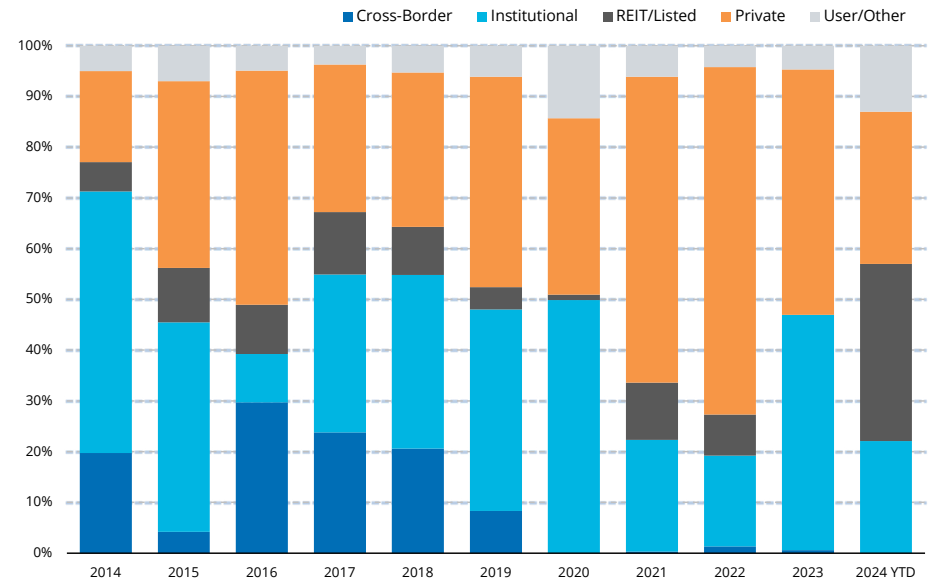
- Sales totaled \$72.4 million for the quarter, a 74.6% decrease from the previous year. The average price per square feet was \$49.
- Sales activity was driven by large transactions in the market this quarter. Overall market activity continues to be muted as capital continues to wait for interest rates 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 Waterford Office Park at 505 U.S. Highway 169 in Plymouth, which sold for \$23.25 million in a sale-leaseback deal. The new sale price is about 66% less than the previous combined sale prices when the towers were transacted in 2015 and 2018.
- REIT/Listed and Private sources made up the majority of buyer capital for properties in the quarter, totaling 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
STRATASYS	5995 Opus Pkwy, Minnetonka	Southwest	New	164,931
BURNS & MCDONNELL	5600 American Blvd, Bloomington	Southwest	New	66,200
COMCAST	10 River Park Plaza, Saint Paul	Saint Paul CBD	Renewal	56,490
EIDE BAILLY	800 Nicollet Mall, Minneapolis	MPLS CBD - Core	Renewal	40,000
ALARM.COM	7900 Xerxes Ave S, Bloomington	Southwest	Renewal	28,400

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
505 & 605 HWY 169, PLYMOUTH	West	\$23,250,000	479,462	\$48	Northpath Investments	DRA Advisors
1305 CORPORATE CENTER DR, EAGAN	Southeast	\$15,100,000	156,500	\$96	Inventure Real Estate	Diversified Healthcare Trust
687 EXCELSIOR BLVD, EXCELSIOR	West	\$12,500,000	17,100	\$731	Tailwind Group	Locorr Funds
1300 CORPORATE CENTER CURVE, EAGAN	Southeast	\$8,250,000	44,298	\$186	MAG Capital Partners	Asset Marketing Services, LLC
2277 W HWY 36, ROSEVILLE	Northeast	\$7,350,000	88,644	\$83	Andrei Brinzila, Sergey Fooks, Obsidian Group, Resource Realty Group	Andrei Brinzila

 = Transwestern deal

* = Portfolio Sale



MARKET INDICATORS

All Classes of Space | Q3 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	5,959,654	5,922,817	1,407,157	0	(148,377)	32.3%	\$32.98
MINNEAPOLIS CBD EAST	1,077,184	265,586	268,251	102,057	0	(16,412)	30.4%	\$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	456,256	444,429	85,265	0	(3,196)	17.3%	\$27.49
MINNEAPOLIS CBD NORTH LOOP	3,054,050	540,140	670,227	236,346	0	31,054	31.1%	\$35.56
MINNEAPOLIS CBD WAREHOUSE	1,893,873	459,738	467,456	21,039	0	2,951	25.8%	\$24.65
MINNEAPOLIS CBD - TOTAL	30,355,457	7,710,739	7,795,376	1,866,504	0	(133,980)	30.2%	\$30.96
NORTHEAST	9,328,888	1,252,109	1,338,762	57,791	0	6,396	14.8%	\$23.27
NORTHWEST	4,375,312	705,725	613,387	115,519	0	39,066	14.7%	\$25.61
SAINT PAUL CBD	7,287,210	2,928,269	2,302,818	124,669	0	(219,534)	33.1%	\$23.78
SOUTHEAST	9,253,725	1,948,615	1,961,455	143,201	139,000	(21,453)	22.4%	\$23.41
SOUTHWEST	17,510,876	3,180,513	2,934,953	864,574	0	(101,162)	19.9%	\$28.56
WEST	10,381,159	1,875,827	1,673,474	316,028	35,666	(45,769)	17.4%	\$32.87
SUBURBAN - TOTAL	50,449,960	8,962,789	8,522,031	1,497,113	174,666	(122,922)	18.6%	\$26.71
TOTAL	88,092,627	19,601,797	18,620,225	3,488,286	174,666	(476,436)	23.8%	\$27.31



MARKET INDICATORS

Class A | Q3 2024

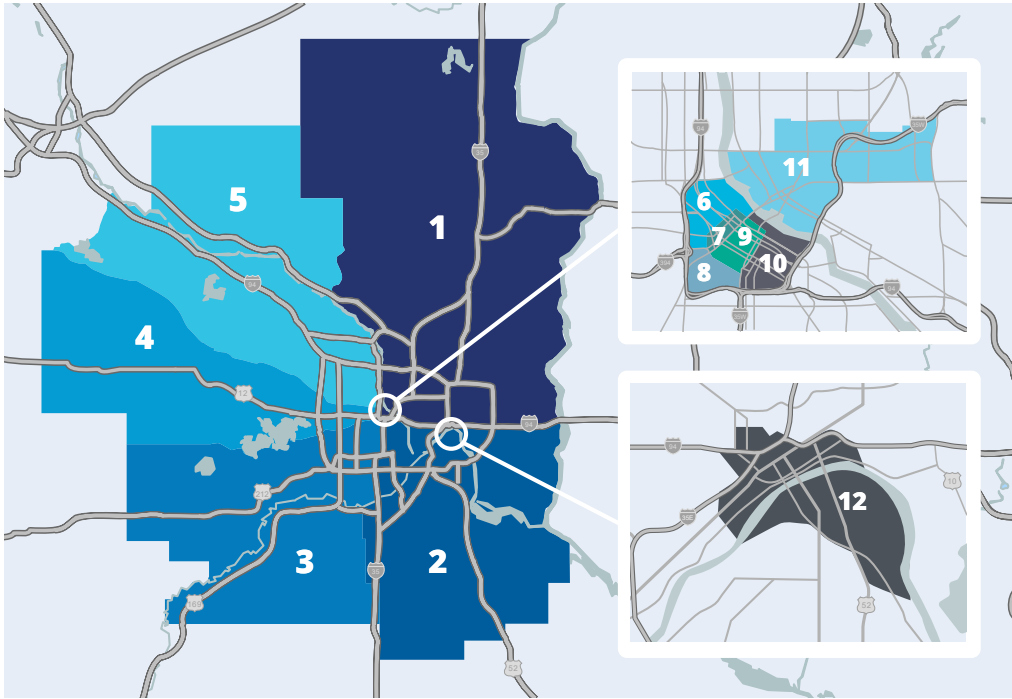
SUBMARKET	INVENTORY SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	SUBLEASE AVAILABLE SF	NET ABSORPTION SF	OVERALL VACANCY RATE	AVERAGE ASKING RENT, PSF (FSG)
MINNEAPOLIS CBD CORE	15,558,512	4,060,777	3,904,321	1,209,460	(118,550)	31.6%	\$37.98
MINNEAPOLIS CBD EAST	318,955	59,848	59,848	59,477	(16,412)	37.4%	\$36.44
MINNEAPOLIS CBD LORING	0	0	0	0	N/A	N/A	N/A
MINNEAPOLIS CBD NORTHEAST	461,642	70,136	39,408	21,955	7,076	12.6%	\$36.69
MINNEAPOLIS CBD NORTH LOOP	2,102,495	389,084	524,963	126,285	28,829	37.8%	\$42.79
MINNEAPOLIS CBD WAREHOUSE	181,516	21,672	21,672	0	0	11.9%	N/A
MINNEAPOLIS CBD - TOTAL	18,267,242	4,601,517	4,550,212	1,417,177	(99,057)	31.6%	\$38.72
NORTHEAST	315,076	56,445	56,445	0	0	17.9%	\$28.62
NORTHWEST	389,244	86,956	69,763	23,895	0	24.1%	\$33.42
SAINT PAUL CBD	2,748,765	516,384	389,740	104,002	15,151	18.0%	\$29.62
SOUTHEAST	2,067,026	442,975	393,391	51,992	5,448	20.7%	\$28.65
SOUTHWEST	7,245,289	1,297,413	1,141,672	291,441	(16,699)	18.8%	\$35.27
WEST	4,792,924	826,259	753,118	161,140	(20,759)	16.3%	\$41.12
SUBURBAN - TOTAL	14,809,559	2,710,048	2,414,389	528,468	(32,010)	18.4%	\$35.74
TOTAL	35,825,566	7,827,949	7,354,341	2,049,647	(115,916)	25.1%	\$35.33



MARKET INDICATORS

Class B | Q3 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	1,741,726	1,859,179	189,725	(28,615)	34.9%	\$27.95
MINNEAPOLIS CBD EAST	533,812	89,051	91,716	0	0	17.2%	\$30.57
MINNEAPOLIS CBD LORING	114,683	29,365	22,196	14,640	0	19.4%	\$24.78
MINNEAPOLIS CBD NORTHEAST	1,860,637	339,773	377,149	57,047	(3,337)	20.9%	\$26.22
MINNEAPOLIS CBD NORTH LOOP	764,579	113,387	111,167	49,578	3,883	18.3%	\$31.31
MINNEAPOLIS CBD WAREHOUSE	1,643,107	429,741	437,459	21,039	2,951	27.9%	\$24.40
MINNEAPOLIS CBD - TOTAL	10,454,979	2,743,043	2,898,866	332,029	(25,118)	29.0%	\$27.47
NORTHEAST	7,362,426	1,071,179	1,192,454	38,791	6,340	16.7%	\$23.47
NORTHWEST	3,472,818	586,514	524,369	91,624	39,066	24.1%	\$25.93
SAINT PAUL CBD	4,075,987	2,263,259	1,740,967	6,242	(236,841)	42.9%	\$21.24
SOUTHEAST	5,792,094	1,239,227	1,338,229	89,709	(19,326)	24.3%	\$23.40
SOUTHWEST	9,235,543	1,763,516	1,681,211	533,377	(65,824)	21.9%	\$26.62
WEST	4,511,879	1,033,424	905,037	87,280	(15,551)	21.8%	\$30.49
SUBURBAN - TOTAL	30,374,760	5,693,860	5,641,300	840,781	(55,295)	20.3%	\$25.65
TOTAL	44,905,726	10,700,162	10,281,133	1,179,052	(317,254)	24.4%	\$24.79



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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