

# MARKETBEAT

## Minneapolis/St. Paul

Office Q3 2019



### MINNEAPOLIS/ST. PAUL OFFICE

#### Economic Indicators\*

	Q3 18	Q3 19	12-Month Forecast
Minneapolis Employment	2.0M	2.0 M	▲
Minneapolis Unemployment	2.6%	3.1%	▼
U.S. Unemployment	3.8%	3.7%	▲

\*Q3 19 data based on the latest available data

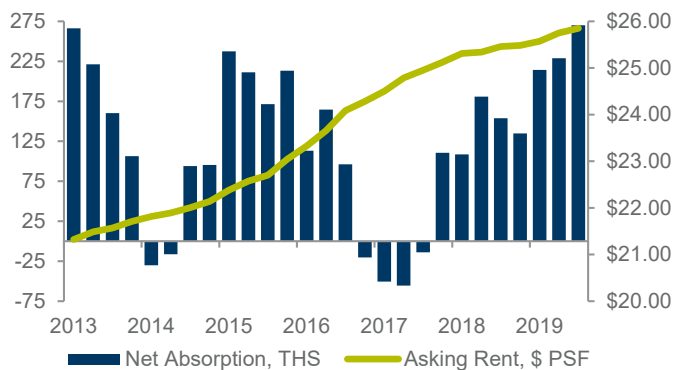
#### Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	17.5%	17.1%	■
YTD Net Absorption (sf)	243k	784k	▲
Under Construction (sf)	2.1M	2.6M	▼
Average Asking Rent*	\$25.65	\$26.06	▲

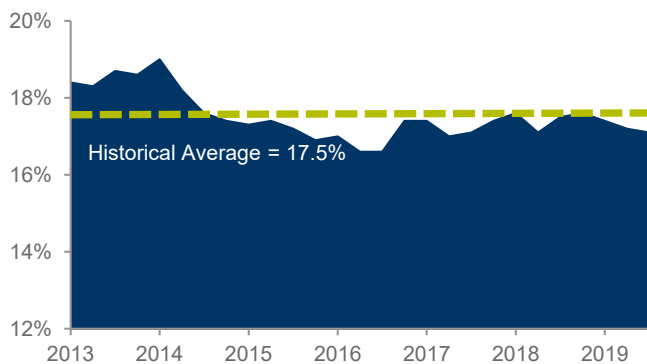
\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent

##### 4-QTR TRAILING AVERAGE



#### Overall Vacancy



### Economy

At 3.1%, the unemployment rate in the Twin Cities remains below the national average, and hiring continues to present challenges despite a 50-basis-point (bp) uptick in the unemployment rate compared to third quarter 2018. Employers across industries face a shortage of available talent with statewide labor force participation among the highest in the nation at more than 70%.

### Market Overview

Steady office leasing activity in the third quarter brought absorption to nearly 800,000 square feet (sf) year to date as overall vacancy fell 40 bps year-over-year. Asking rates have experienced consistent growth, and the gap between the “haves and have-nots” persists. Landlords of top performing buildings in both the suburbs and Minneapolis Central Business District (CBD) continue to push rents as tenants recognize the importance of quality space and amenities for attracting talent in the tight labor market. Select premier assets in the Minneapolis CBD and West submarkets are setting new high-water marks with achieved net rents pushing \$25 per square foot (psf) and up.

Recent sale transactions have set the foundation for another wave of property enhancements as investors look to take advantage of value-add opportunities. High-profile redevelopment projects, for example at the recently purchased Wells Fargo Center, Oracle & International Center, and Two22 in the Minneapolis CBD, aim to elevate the not yet renovated office buildings to levels expected by modern tenant demands.

The Twin Cities has proven to be a liquid market as new investors, both national and international, continue to compete for assets across the metro. Several large CBD and suburban properties have come to market with notable upgrades. West End Office Park, for example, has hit the market following a major renovation and repositioning of the property, which led to dominant lease-up among urban and suburban projects. In the Minneapolis CBD, AT&T Tower recently completed significant renovations that spurred increased occupancy before coming to market. Sellers that do not hit their market price can alternatively look to favorable debt markets for refinancing.

### Outlook

Headlining new completions over the next six months is The Dayton’s Project redevelopment in the Minneapolis CBD, delivering 750,000 sf of speculative office space in spring of 2020. The 180,000-sf Swervo development at 405 N. Washington Ave. delivers in the fourth quarter 2019 with Calabrio signed as the anchor tenant. Low vacancy and rising asking rates at prime assets in the West submarket indicate a capacity to absorb additional speculative space.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL Classes)*	OVERALL AVERAGE ASKING RENT (Class A)*
<b>Minneapolis CBD</b>	<b>27,461,343</b>	<b>108,568</b>	<b>5,152,667</b>	<b>19.2%</b>	<b>79,565</b>	<b>290,246</b>	<b>2,202,000</b>	<b>\$28.30</b>	<b>\$34.13</b>
Northeast	8,640,488	38,494	1,186,792	14.2%	20,383	297,915	50,000	\$21.59	\$27.13
Northwest	2,298,471	20,866	287,052	13.4%	9,694	13,202	0	\$20.02	\$24.15
South/Airport	6,061,640	22,730	1,079,311	18.2%	60,854	121,269	257,000	\$24.06	\$27.26
Southwest	14,670,555	195,289	2,200,626	16.3%	-16,464	69,006	0	\$26.17	\$30.37
<b>St. Paul CBD</b>	<b>6,631,571</b>	<b>220,283</b>	<b>1,350,288</b>	<b>23.7%</b>	<b>-19,252</b>	<b>-54,970</b>	<b>0</b>	<b>\$22.11</b>	<b>\$25.49</b>
West	9,513,677	32,846	957,788	10.4%	-354	47,759	84,000	\$29.79	\$34.70
<b>MINNEAPOLIS TOTALS</b>	<b>75,277,745</b>	<b>639,076</b>	<b>12,214,524</b>	<b>17.1%</b>	<b>134,426</b>	<b>784,427</b>	<b>2,593,000</b>	<b>\$26.06</b>	<b>\$31.38</b>

\*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	35,553,774	255,739	4,559,724	13.5%	100,310	463,646	2,403,000	\$31.81	\$31.38
Class B	33,925,385	348,615	6,814,811	21.1%	38,378	291,307	190,000	\$23.45	\$23.26
Class C	5,798,586	34,722	839,989	15.1%	-4,262	29,474	0	\$19.98	\$20.05

\*Rental rates reflect gross asking \$psf/year

## Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
801 Nicollet Mall, Minneapolis	125,000	RSM	Renewal	Minneapolis CBD
3701 Wayzata Blvd., Minneapolis	70,000	SRF Consulting	New	West
733 Marquette Ave. S., Minneapolis	62,612	Merrill Corp	New	Minneapolis CBD
225 S. 6th St., Minneapolis	55,682	U.S. Bank	New	Minneapolis CBD
705 Marquette Ave. S., Minneapolis	15,919	Merrill Corp	New	Minneapolis CBD

## Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
222 S. 9th St., Minneapolis	725,000	Principal Global Investors / Lingerfelt CommonWealth	\$81,000,000 / \$112	Minneapolis CBD
5050 Lincoln Dr., Edina	105,084	Lone Star Funds / Wildamere Properties, Creekside Partners LLC	\$15,450,000 / \$147	Southwest
6820 Wedgewood Rd., Maple Grove	97,377	Westminster Cap LLC / Syndicated Equities	\$22,770,731 / \$234	Northwest
520 N. Washington Ave., Minneapolis	97,092	John W Duffey Sr / Cedar Street Cos	\$13,000,000 / \$134	Minneapolis CBD
2620 Eagan Woods Dr., Eagan	79,279	MSP Commercial / Harrison Street RE Cap	\$29,400,001 / \$371	South/Airport

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