

MARKETBEAT MINNEAPOLIS

Office Q4 2022



CUSHMAN &
WAKEFIELD

YoY Chg 12-Mo. Forecast

24.6%
Vacancy Rate

▲ —

-99.7K
Net Absorption, SF

▲ ▲

\$28.37
Asking Rent, PSF

▲ —

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022

YoY Chg 12-Mo. Forecast

2.0M
Minneapolis Employment

▲ ▲

2.1%
Minneapolis Unemployment Rate

▼ ▲

3.7%
U.S. Unemployment Rate

▼ ▲

Source: BLS

ECONOMIC OVERVIEW

Minneapolis-St. Paul's historically tight labor market maintained its position as one of the lowest unemployment rates among U.S. markets tracked by Cushman & Wakefield. While the fourth quarter's unemployment rate of 2.1% marked a quarter-over-quarter (QOQ) increase of 40 basis points, the local rate remained 160 bps lower than the national average of 3.7%.

SUPPLY: Office Conversions Continue but Downsizings Negate Impact on Overall Vacancy

The vacancy rate in the Twin Cities market remained flat QOQ at 24.6% in Q4 2022 due primarily to ongoing conversion projects. In the Minneapolis Central Business District (CBD) the 247,000-square-foot (sf) 1010 Metrodome Square building was removed from stats as the asset was being redeveloped into a 172-unit multi-family asset. The former 50,000-sf home of Frontier Communications, Burnhaven Financial Plaza in the South/Airport suburban submarket, was also removed from inventory as the building was converted by Step Academy into a charter school after purchase. Although the conversions removed long-standing vacancies from the market, ongoing corporate downsizings and additional sublease offerings muted the overall impact on vacancy.

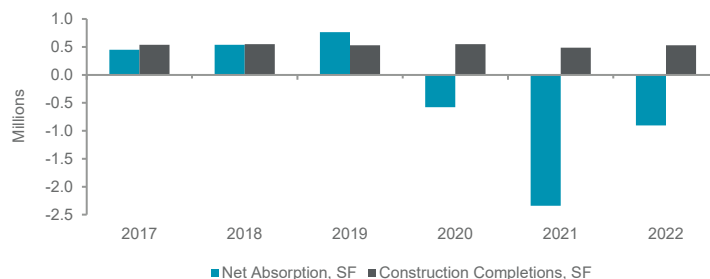
DEMAND: Sublease Inventory Continues Upward Trajectory

Vacant sublease space in the Twin Cities had seemingly plateaued in Q3 2022, but a 6.5% QOQ increase in Q4 2022 brought the high watermark for vacant sublease space in tracked inventory to 2.8 million square feet. New sublease offerings in multi-tenant tracked assets were concentrated primarily in the Minneapolis CBD as tenants continued to work through long-term space needs and workplace strategies. In the suburbs, corporate users concentrated in single-tenant facilities continued migrations to remote work as organizations such as Prime Therapeutics and United Health Group placed large blocks of space on the market.

INVESTMENT SALES: Suburban Deal Activity and Pricing Discovery Continues

Suburban investment activity and pricing discovery continued throughout Q4 2022 which brought overall year-end sales volumes closer to pre-pandemic totals. The highlight of Q4 transactions was 10 West End in the West submarket, which traded for \$342 per square foot (psf). The Class A asset was built in 2021 and was 73% leased at time of sale with a strong mix of tenants on recently signed deals. While suburban sales activity dominated overall activity, the market was not immune to pricing adjustments. One notable transaction was the sale of Colonnade for \$219 psf. Eagle Ridge purchased the Class A tower in the West submarket for approximately 21% less than when the asset traded in 2017. The new owners announced plans to significantly renovate the atrium area and add amenities to make the asset more competitive with other trophy assets in the market.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL GROSS ASKING RENT (ALL CLASSES)*	OVERALL GROSS ASKING RENT (CLASS A)*
Minneapolis CBD	28,468,180	1,719,085	6,722,959	29.7%	-165,233	-637,720	340,000	\$31.54	\$34.34
Northeast	10,131,510	85,044	1,997,478	20.6%	-85,838	-169,576	0	\$21.86	\$28.64
Northwest	2,204,971	17,775	348,597	16.6%	-8,411	24,283	0	\$21.55	\$25.04
South/Airport	6,442,977	65,999	1,670,640	27.0%	-5,750	19,183	0	\$23.66	\$27.82
Southwest	14,918,769	688,267	2,594,856	22.0%	12,608	-252,457	0	\$27.32	\$30.28
St. Paul CBD	6,374,112	115,847	1,534,766	25.9%	-8,747	-107,092	0	\$23.26	\$28.30
West	10,358,210	137,171	1,739,071	18.1%	161,577	219,634	0	\$33.99	\$36.29
MINNEAPOLIS TOTALS	78,898,729	2,829,188	16,608,367	24.6%	-99,794	-903,745	340,000	\$28.37	\$32.76

*Gross rents reflect base rent plus all building operating expenses

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
350 N 5 th St, Minneapolis	Minneapolis CBD	Piper Sandler	113,000	New Lease
7001 France Ave S, Edina	Southwest	Northmarq Capital	52,000	New Lease
180 E 5 th St, St. Paul	St. Paul CBD	Disability Determination Services	43,907	New Lease
400-500 Stinson Blvd NE	Northeast	Minnesota Department of Education	33,417	New Lease
1600 Utica Ave S, St. Louis Park	West	Total Expert	28,643	Renewal

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
5500 Wayzata Blvd., Golden Valley	West	Starwood Capital / Eagle Ridge Partners	360,000	\$79.0M / \$219
10 West End, St. Louis Park	West	The Excelsior Group / Bridge Investment Group	344,224	\$117.3M / \$342
12755 Hwy 55, Plymouth	Northwest	Falcon Ridge Partners / Suprema Inc	320,000	\$30.3M / \$132
775 Prairie Center Dr., Eden Prairie	Southwest	LNR Partners / Altus Properties	150,400	\$21.3M / \$141
12600 Whitewater Dr., Minnetonka	Southwest	Shadegg Mechanical Inc / Shree Whitewater LLC; S & V Whitewater LLC	71,300	\$11.3M / \$158

KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	MAJOR TENANTS	SF	OWNER / DEVELOPER
250 Nicollet Mall, Minneapolis	Minneapolis CBD	RBC Wealth Management, Pohlad Cos., Castlelake, JLL	531,000	United Properties

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