

	YoY Chg	12-Mo. Forecast
25.1% Vacancy Rate	▲	▲
-651.6K Net Absorption, SF	▲	▲
\$28.29 Asking Rent, PSF	▲	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
2.0M Minneapolis Employment	▲	▲
2.9% Minneapolis Unemployment Rate	▲	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMIC OVERVIEW

Minneapolis-St. Paul's economy remained healthy recording an unemployment rate of 2.9%, which was 60 basis points (bps) below the U.S. average. The diverse nature of the local economy, where no single industry typically accounts for more than 20% of employment, has historically insulated the region from significant swings in unemployment metrics over short time intervals.

SUPPLY: Speculative Suite Development Escalates as Additional Owners Contemplate Conversions

The vacancy rate in the Twin Cities market increased 40 bps year-over-year (YOY) to 25.1% in Q1 2023 primarily due to ongoing corporate downsizings and new sublease vacancies. Organizations with active requirements remained focused on vacancies in highly amenitized assets located in vibrant neighborhoods. Tenants in a position to make long term decisions largely excluded second generation space from consideration and have been willing to pay a premium for best-in-class options that will benefit long-term employee attraction and retainment. The result has been an increase in speculative suite development and further discussions of converting obsolete office stock into alternative uses if the economics for a full office renovation are not feasible.

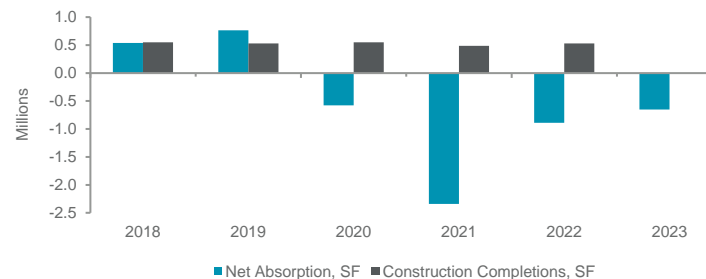
DEMAND: New Leasing Muted as Sublease Inventory Increases

Overall demand remained muted throughout Q1 2023 as new leasing declined 18.3% YOY to nearly 774,000 square feet (sf). Vacant subleases remained on an upward trajectory as sublease vacancy increased 15.9% YOY and pushed the high watermark for vacant sublease space in tracked inventory to 3.0 million sf. What started as an abrupt offering of new sublease and direct vacancies at the height of the COVID-19 pandemic turned into a gradual erosion of fundamentals subtly wearing away at leasing, vacancy, and absorption metrics. However, not all assets or industries have been impacted equally. For example, many large Central Business District (CBD) professional users in the market are committed to staying in the CBD but have been drawn to new opportunities outside the core in neighborhoods like the North Loop and Gateway District.

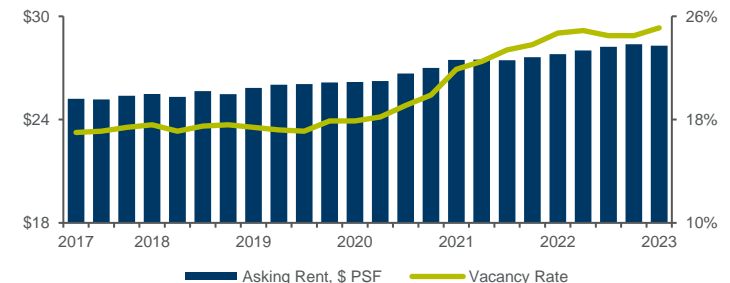
INVESTMENT SALES: Pricing Discovery Ongoing as Some Suburban Pricing Rebounds

Overall investment sales activity remained subdued through Q1 2023. Pricing discovery persisted but bright spots emerged as pricing for some suburban assets were comparable to pre-pandemic values. A prime example was the \$12.5 million sale of Riverpoint Office in Eagan. BridgeCap Partners purchased the asset for \$5.5 million in 2021 and brought occupancy from 52% to 94% at time of sale. The sale of 445 Lake Street in Wayzata for \$638 per square foot was also a clear indication of investors recognizing value for quality assets and tenancy.

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	28,650,446	1,650,720	6,956,871	30.0%	-166,045	-166,045	340,000	\$31.52	\$34.24
Northeast	10,005,874	93,866	1,906,366	20.0%	681	681	0	\$21.50	\$28.48
Northwest	2,204,971	92,253	359,176	20.5%	-85,057	-85,057	0	\$20.96	\$21.83
South/Airport	6,833,998	231,667	1,771,703	29.30%	-270,336	-270,336	0	\$23.56	\$27.54
Southwest	14,816,321	683,408	2,481,139	21.40%	5,465	5,465	0	\$27.53	\$30.14
St. Paul CBD	6,374,112	145,820	1,535,562	26.40%	-30,769	-30,769	0	\$24.17	\$28.89
West	10,358,210	151,288	1,830,515	19.10%	-105,561	-105,561	0	\$33.23	\$35.58
MINNEAPOLIS TOTALS	79,243,932	3,049,022	16,841,332	25.10%	-651,622	-651,622	340,000	\$28.29	\$32.48

*Gross rents reflect base rent plus all building operating expenses

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3033 Campus Dr., Plymouth	West	Copeland and Buhl	29,737	New Lease
50 S. 6 th St., Minneapolis	Minneapolis CBD	Confidential	26,198	Renewal
1601 Utica Ave S., St. Louis Park	West	Insight Global	25,000	New Lease
12501 Whitewater Dr., Minnetonka	Southwest	UVP Management	24,912	New Lease
3601 Minnesota Dr., Bloomington	Southwest	Noran Neurological Clinic	24,422	New Lease

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1715 Yankee Doodle Rd., Eagan	South/Airport	BridgeCap Partners / Shree Investments	99,123	\$12.5M / \$126
Plymouth Office Center Portfolio, Plymouth	West	3030 MLS, LLC / Doran Investments	92,963	\$9.5M / \$102
1625 Radio Dr., Woodbury	Northeast	MSP Commercial / Xenium 55, LLC	52,033	\$13.1M / \$251
1200 – 1210 County Rd. E., Arden Hills	Northeast	Woodside Capital Partners / 8467 Xerxes LLC	48,690	\$6.5M / \$134
445 E. Lake St., Wayzata	West	445 Lake Street LP / Clackamas Commons Property	40,321	\$25.7M / \$638

KEY UNDER CONSTRUCTION PROJECTS Q1 2023

PROPERTY	SUBMARKET	MAJOR TENANTS	SF	OWNER / DEVELOPER
350 N. 5 th St., Minneapolis	Minneapolis CBD	Piper Sandler, ESG Architecture & Design	340,000	Hines / Maquee Development

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