

	YoY Chg	12-Mo. Forecast
<b>25.4%</b> Vacancy Rate	▲	▲
<b>-307K</b> Net Absorption, SF	▲	▲
<b>\$28.21</b> Asking Rent, PSF	▲	▬

(Overall, All Property Classes)

## ECONOMIC OVERVIEW

The Minneapolis-St. Paul economy remained healthy, recording an unemployment rate of 2.7%, which was 90 basis points (bps) below the U.S. average. While the region has added 37,300 jobs year-over-year (YOY), employer concerns regarding available labor pools and existing employee retention remained.

## SUPPLY: Gradual Upward Trend in Vacancy Persists

The overall vacancy rate in the Twin Cities market increased 50 bps YOY to 25.4% as downsizings and remote work decisions continued to outpace expansions and new leasing requirements. As an example, HealthPartners moved a portion of their employees to fully remote and vacated nearly 103,000-square feet (sf) in the St. Paul Central Business District (CBD). Sublease vacancy also remained elevated, increasing nearly 19.0% YOY to 3.1 million square feet, as companies looked to divest themselves of excess space or as an accounting mechanism for current year financials using write offs or impairment charges. While the overall vacancy rate has maintained gradual upward momentum, well positioned owners have reinvested in their assets through increased capital expenditure budgets to better align vacancies and amenity offerings with tenant expectations.

## DEMAND: New Leasing Remains Subdued as Tenants Find Opportunities in Class A

Office tenants continued to exhibit caution at the end of Q2 2023 as new leasing declined 10.7% YOY to 827,000 sf. Elevated vacancy rates across all classes have afforded tenants the opportunity for upward mobility into Class A assets as part of recruitment and retention efforts in a tight labor market. Tenants augmenting their corporate image through class and space upgrades have negotiated increased tenant improvement allowances to limit out of pocket expenses to design spaces that are unique to their corporate identity, as well as flexibility into their leases to account for possible future space requirements. While overall new leasing has remained muted, Class A opportunities have outpaced the rest of the market as nearly 51% of new leases year-to-date have occurred in Class A assets. Since the beginning of 2022 Class A leasing has accounted for just over 53% of all new lease activity.

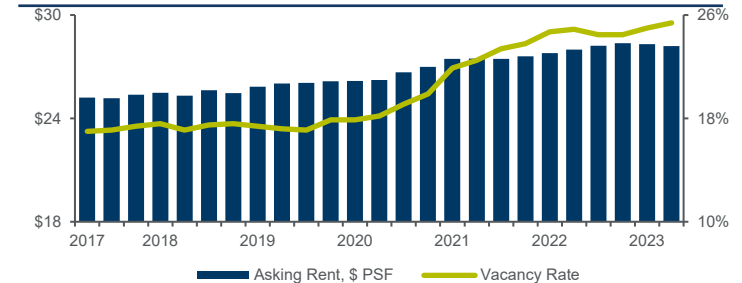
## INVESTMENT SALES: Lender and Conversion Sales Increase

Investment sales activity remained limited through Q2 2023 as many investors point to the later part of 2023 or 2024 before stepping in as pricing discovery was ongoing. The majority of Q2 2023 investment activity was concentrated in lender sales and long planned conversion trades. Examples include Hempel's \$46 million dollar acquisition of LaSalle Plaza in the Minneapolis CBD, a nearly 49% reduction from the last recorded sale, and the sale of the Old Republic Building in the Minneapolis CBD for \$3.5 million. The 12-story Old Republic Building will be converted into a mix of market rate and affordable apartments.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



## ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
<b>2.0M</b> Minneapolis Employment	▲	▲
<b>2.7%</b> Minneapolis Unemployment Rate	▲	▲
<b>3.6%</b> U.S. Unemployment Rate	▬	▲

Source: BLS

## 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	1,664,241	6,871,265	29.8%	67,842	-96,885	340,000	\$31.54	\$34.22
Northeast	10,005,874	88,607	1,923,194	20.1%	-12,049	-11,368	0	\$21.64	\$29.16
Northwest	2,204,971	71,772	382,434	20.6%	-49,417	-113,993	0	\$20.96	\$21.63
South/Airport	6,789,998	233,532	1,713,055	28.7%	9,834	-219,280	0	\$23.64	\$27.84
Southwest	14,783,031	732,312	2,619,619	22.7%	-186,585	-185,537	0	\$27.82	\$30.48
St. Paul CBD	6,374,112	167,856	1,653,064	28.6%	-141,435	-174,429	0	\$23.76	\$29.95
West	10,358,210	139,870	1,853,318	19.2%	4,563	-125,208	0	\$32.74	\$35.07
<b>MINNEAPOLIS TOTALS</b>	<b>79,166,642</b>	<b>3,098,190</b>	<b>17,015,949</b>	<b>25.4%</b>	<b>-307,247</b>	<b>-926,700</b>	<b>340,000</b>	<b>\$28.21</b>	<b>\$32.46</b>

\*Gross rents reflect base rent plus all building operating expenses

## KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
5500 Wayzata Blvd., Golden Valley	West	Pentair	120,350	Renewal - Expansion
225 S. 6 <sup>th</sup> St., Minneapolis	Minneapolis CBD	Confidential	106,859	Renewal - Expansion
5500 Wayzata Blvd., Golden Valley	West	Inspire Medical Systems	105,610	Renewal - Expansion
2340 Energy Park Dr., St. Paul	Northeast	Lockheed Martin	68,308	Sublease
350 N. 5 <sup>th</sup> St., Minneapolis	Minneapolis CBD	Confidential	45,377	New Lease

## KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
LaSalle Plaza, Minneapolis	Minneapolis CBD	Northwestern Mutual / Hempel	621,000	\$46.0M / \$74
Northstar East, Minneapolis	Minneapolis CBD	Ns Propco LLC / Sherman Associates	430,000	\$6.2M / \$14
Old Republic Building, Minneapolis	Minneapolis CBD	Old Republic National Title / Mohamed Elkhateeb	109,942	\$3.5M / \$32
1515 Central Pkwy., Eagan	South/Airport	American National Lakeview Bank / Doug Johnson	88,165	\$4.5M / \$50
4810 White Bear Pkwy., White Bear Lake	Northeast	Sterling RE Trust / Inventure Real Estate	25,145	\$4.7M / \$187

## KEY UNDER CONSTRUCTION PROJECTS Q2 2023

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

## MASON HARDACRE

Analyst

+1 952 225 3054 / [mason.hardacre@cushwake.com](mailto:mason.hardacre@cushwake.com)

## PATRICK HAMILTON

Market Director

+1 952 837 8574 / [patrick.hamilton@cushwake.com](mailto:patrick.hamilton@cushwake.com)

## cushmanwakefield.com

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