



RESEARCH Q1 2021

# Minneapolis – St. Paul Office Market

## Newly Delivered Office Product Increases Vacancy, Creates Opportunities

Demand in the Minneapolis – St. Paul office market remained stagnant in the first quarter of 2021. Leasing activity is slow to build momentum across the market as lease offers continue to incorporate flexible lease terms and include creative tenant improvement packages. Sublease spaces are being steadily added to the market at an average rate of 150,000 square feet per month, and are a prevalent facet of the changing office landscape in both the CBDs and suburban submarkets. The paused office market has led to further negative absorption of 624,000 square feet in the first quarter. Along with negative absorption increasing the rate of vacancy to 14.4% from 11.9% last quarter, two new construction deliveries contributed to higher vacancy in the overall market.

The long-awaited Dayton's Project concluded construction and Ernst & Young signed as the first tenant for 30,000 square feet. The 800,000 square foot renovation in the Minneapolis CBD was delayed and struggled to attract tenants as its key attraction, a fifty-vendor food hall, sat vacant during the pandemic. The second property delivered was 10 West End for 363,000 square feet. Located in the I-394 Corridor, a major thoroughway of the suburban office market, 10 West End obtained two tenants while under-construction. However, as a result of 10 West End construction completion in the first quarter with significant vacancy, the West submarket's vacancy rate rose to 15.6% from the previous quarter's 11.7% vacancy rate.

### Current Conditions

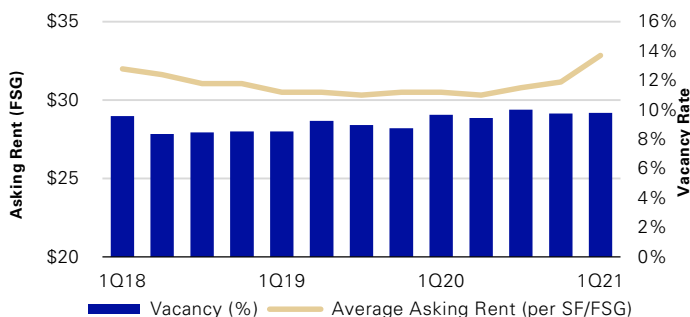
- Office net absorption of (623,898) square feet was a third consecutive quarter of negative absorption
- Overall vacancy rate rose to 14.4%
- 1,591,300 square feet of office product was delivered into the total inventory in quarter one.
- The Southwest was the only submarket with positive absorption at only 848 square feet

### Market Summary

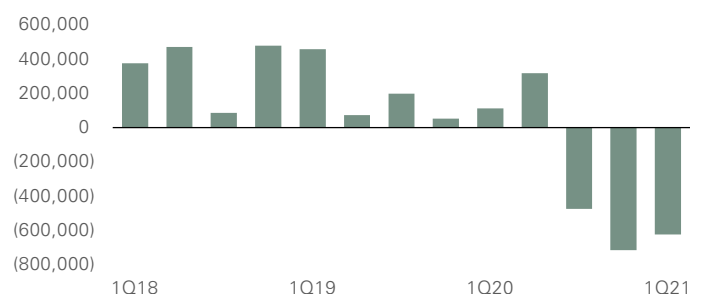
	Current Quarter	Prior Quarter	1 Year Ago Quarter	12-Month Forecast
Total Inventory (SF)	120.5M	118.9M	118.9M	↑
Vacancy Rate	14.4%	11.9%	11.2%	↑
Quarterly Net Absorption (SF)	(623,898)	(716,767)	49,332	↓
Average Gross Asking Rent/SF	\$29.19	\$29.14	\$29.06	↓
Under Construction (SF)	531,000	2,122,300	2,122,300	↓

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



### Large Tenants Shedding Office Space

Some of the Twin Cities largest businesses are downsizing their office space or contemplating the action. Fortune 500 company and consumer goods giant, Target, disclosed that their downtown office presence in City Center will end, unleashing 985,000 available square feet in the Minneapolis CBD. The 3,500 employees will migrate to their Brooklyn Park headquarters, other downtown offices, or adapt a hybrid work schedule. Target executives expressed bullishness on the remote-work trend and plan to release more details about office operations in the months ahead. Prime Therapeutics, a pharmaceutical company whose parent company is Blue Cross Blue Shield, revealed 700 employees will exit their Normandale Lake - 8400 Tower office. Similar to Target's strategy, Prime Therapeutics will either move workers into their new Eagan headquarters or be given a hybrid work schedule. The Normandale Lake space accounts for 180,000 square feet and was set to expire next year.

The Southeast's negative absorption of 299,000 square feet was the most of any submarket during the first quarter. This was led by Wells Fargo's departure of 148,000 square feet at Spectrum Commerce Center in Eagan. Wells Fargo has been an active office user in the Twin Cities having consolidated many of its suburban offices after the 2008 global financial crisis. Financial service institutions, such as Wells Fargo, are impacted at a greater level during financial turmoil, and it's been reported that sizeable layoffs to the company's workforce may be ahead. In the Minneapolis CBD, the City of Minneapolis vacated 65,000 square feet at Crown Roller Mill and the Flour Exchange upon completion of its newly constructed, owner-occupied property at 505 South 4<sup>th</sup> Avenue.

### Escalating Prices in Sales Transactions

A rebound of sale transactions occurred in suburban, Class B office product in the first quarter, deviating from the sizzling office-medical properties seen purchased at a high rate in the second half of 2020. Active in this quarter are new institutional and private buyers as well as developers who look to transform

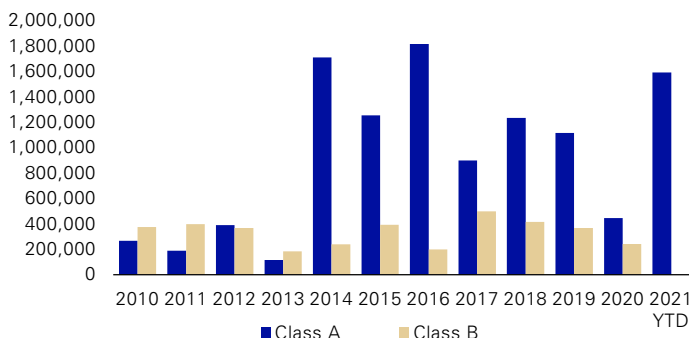
certain areas into high density residential hubs. One of the new institutional buyers is Red Door Enterprises, a group of local investors who paid \$11.6 million for the Interchange Offices in Roseville. Additionally, Larson Financial Group acquired Crest Ridge Corporate Center from Dominion, who sold their former planned headquarters for \$16.19 million. Eagle Pointe Office Center, selling to a private owner for \$4.6 million was another Class B, multi-tenant property sold. In the Southwest submarket, multifamily developers' eye depreciated offices in proximity to the under-construction METRO light-rail line. Bren Road Business Center was bought by Linden Street Partners for \$4.95 million and Aeon paid \$2.9 million for 4100 West 76<sup>th</sup> Street, Edina.

### Future Outlook

In the Twin Cities office market, some tenants are beginning to announce a timetable on returning employees back into the office. Recent surveys have showed that a hybrid work arrangement is most popular among employees. Workers have found balance in the flexibility between remote-working and being present in the office. In addition to manageable schedules, employees are valuing companies with high-tech services and strong safety guidelines. The hybrid work model will compel employers to utilize shared spaces thus reducing square feet of office users, however not drastically. Past appeal of offices with collaborative open spaces and modern amenities will favor landlords that succeeded in these areas before the pandemic. Landlords have been compelled to improve air quality in their properties and install touchless options, seen in doors, common areas, elevators and restrooms. Tenants will continue to favor fully furnished spec-suites due to rising construction costs and the desire to avoid the lengthy and potentially stressful space-planning process. When vaccines have reached the workforce and new expectations of the office environment are met, a rebuilding of office culture will take place. Rates are projected to decrease, and a shift back to the office will occur when a favorable mentality is seen in public health and state restrictions are fully lifted.

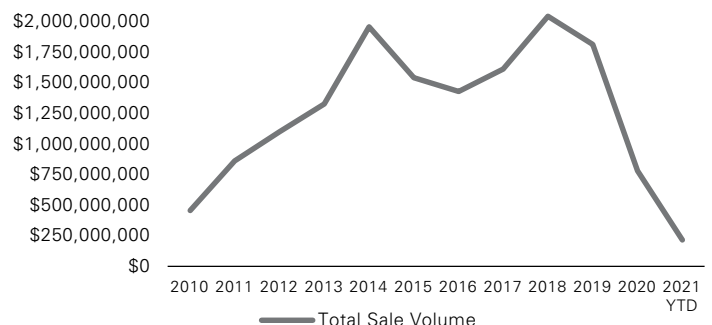
### Office Construction Deliveries

Total Square Feet



### Office Sales Volume

Total Dollars Sold



Select Sales Transactions								
Property	Address	City	Submarket	Buyer	Seller	Price	SF	Price PSF
Thrivent Corporate Office	600 Portland Ave S	Minneapolis	Minneapolis CBD	Benderson Development	Thrivent Financial for Lutherans	\$130,000,000	367,601	\$354.64
Crest Ridge Corporate Center	11055 Wayzata Blvd	Minnetonka	West	Larson Financial Group	Dominium	\$16,190,000	121,576	\$133.17
Interchange Offices	2335, 2355, & 2361 Hwy 36 W	Roseville	Northeast	Red Door Enterprises	Private Owner	\$11,690,000	142,075	\$82.28
Bren Road Business Court	10400-10550 Bren Road E	Minnetonka	West	Linden Street Partners	Newport Partners	\$4,950,000	36,844	\$134.35
Eagle Point Office Center	8519 Eagle Point Blvd	Lake Elmo	Northeast	Private Owner	Private Owner	\$4,600,000	34,847	\$132.01
Maple Grove Medical Building	9645 Grove Circle N	Maple Grove	Northwest	Roers Companies	Ryan Companies	\$4,375,000	30,000	\$145.83
-	4100 West 76 <sup>th</sup> St	Edina	Southwest	Aeon	Housing & Redevelopment Auth. of Edina	\$2,900,000	17,940	\$161.65
Office Ridge Center	7500 Office Ridge Cir	Eden Prairie	Southwest	Sempris	Private Owner	\$2,825,000	46,251	\$61.08
Quinn Building & NXC Imaging	2104-2118 4 <sup>th</sup> Ave S	Minneapolis	Southeast	North Bay Companies	Private Owner	\$2,140,000	16,599	\$128.92
-	983 Hennepin Ave E	Minneapolis	Southwest	Private Owner	Private Owner	\$2,150,000	16,000	\$134.38
Apple Valley Office Center	7373 147 <sup>th</sup> St W	Apple Valley	Southeast	Evegreen Wealth Management	Private Owner	\$2,115,000	25,980	\$81.41
-	2000-2050 Merrimac Lane	Plymouth	Northwest	Private Owner	Private Owner	\$1,815,000	10,672	\$170.07
-	1212 Prosperity Ave E	St. Paul	Northeast	Private Owner	Private Owner	\$1,800,000	7,540	\$238.73
-	2227 University Ave W	St. Paul	Northeast	Yellow Tree Development	Paster Properties	\$1,750,000	14,152	\$123.66
Shorewood Professional Building	19685 Hwy 7	Minnetonka	West	Minnetonka ISD #276	Private Owner	\$1,700,000	8,149	\$208.61
-	4113-4121 Lake Street E	Minneapolis	Southwest	Private Owner	Private Owner	\$1,475,000	11,167	\$132.09
-	2190 Wayzata Blvd	Long Lake	West	Private Owner	Private Owner	\$1,450,000	10,880	\$133.27
-	1750 Commerce Court	White Bear Lake	Northeast	Private Owner	Private Owner	\$1,200,000	10,125	\$118.52
-	2738 Winnetka Ave N	New Hope	Northwest	Private Owner	Private Owner	\$1,095,000	15,002	\$72.99
-	7240 Brooklyn Blvd N	Brooklyn Center	Northwest	Private Owner	Private Owner	\$965,000	9,248	\$104.35

## Select Lease Transactions

Tenant	Property	Address	City	Submarket	Type	Size (SF)
Dept. of Employment and Eco. Development	Great Northern Building	180 5 <sup>th</sup> Street E	Saint Paul	Saint Paul CBD	New	153,288
Sejong Academy	The Merit of Midway	1885 University Ave W	St. Paul	Northeast	New	52,480
Ernst & Young	The Dayton's Project	700-730 Nicollet Mall	Minneapolis	Minneapolis CBD	New	30,536
PBS	7700 France	7700 France Ave S	Edina	Southwest	Sublease	25,416
GetAC Solutions	Bell Plaza	3800 American Blvd W	Bloomington	Southwest	Sublease	23,158
Allina Health Systems	Flagship Corporate Center	775 Prairie Center Dr	Eden Prairie	Southwest	New	22,518
Northrop Grumman	Norman Pointe II	5600 American Blvd W	Bloomington	Southwest	New	21,075
New Generation	Roseville Health	2720 Fairview Ave N	Roseville	Northeast	New	20,000
Bolton & Menk Engineers	4FRONT Technology Office – Building 1	3505 Highpoint Dr N	Oakdale	Northeast	New	18,084
Capital Construction	Gateway Business Park I	501-617 Travelers Trail	Burnsville	Southeast	New	13,780
Morgan Stanley	Infor Commons	380 St. Peter St	Saint Paul	Saint Paul CBD	New	13,469
Preston Kelly	Crown Roller Mill	105 S 5 <sup>th</sup> Ave	Minneapolis	Minneapolis CBD	New	12,455
First Generation	10 West End	10 West End	St Louis Park	West	New	11,776
Broadcom	Mendota Office Center IV	1230 Northland Dr	Mendota Heights	Southeast	New	10,922
Open Systems Technologies	TractorWorks Building	800 Washington Ave N	Minneapolis	Minneapolis CBD	New	10,276
Unknown	Wayzata Specialty Center	1120 Wayzata Blvd E	Wayzata	West	New	8,000
Bluespire	Centennial Lakes Office Park III	3601 W 76 <sup>th</sup> St	Edina	Southwest	Renewal	7,935
Dairy Products	Southwest Crossing	10400 Viking Dr	Eden Prairie	Southwest	New	7,436
NorthRisk Partners	55 West Financial Center	10405 6 <sup>th</sup> Ave N	Plymouth	Northwest	New	7,148
Jellycat	TractorWorks Building	800 Washington Ave N	Minneapolis	Minneapolis CBD	New	6,977
Kids Ability	-	4638 Victor Path N	White Bear Lake	Northeast	New	6,951
FIBT	Centennial Lakes Office Park V	3600 Minnesota Dr	Edina	Southwest	New	6,623
Avnet	Edinborough Corporate Center	3300 Edinborough Way	Edina	Southwest	New	5,484

Minneapolis CBD								
	Total Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy Percentage W/ Sublease	Q1 Absorption (SF)	YTD Absorption	Weighted Avg. Rental Rate (FSG)	Under Construction (SF)
Class A	18,867,963	2,706,210	1,252,128	21.0%	1,428	1,428	\$35.69	531,000
Class B	6,990,259	1,820,897	30,290	26.5%	(85,112)	(85,112)	\$29.38	0
Class C	124,201	30,617	0	24.7%	1,117	1,117	\$18.31	0
<b>Core Total</b>	<b>25,982,423</b>	<b>4,557,724</b>	<b>1,282,418</b>	<b>22.5%</b>	<b>(82,567)</b>	<b>(82,567)</b>	<b>\$34.14</b>	<b>531,000</b>
Class A	1,407,443	5,225	0	0.4%	0	0	\$34.96	0
Class B	879,568	126,373	7,441	15.2%	(58,795)	(58,795)	\$25.02	0
Class C	175,842	15,000	0	8.5%	0	0	-	0
<b>East Total</b>	<b>2,462,853</b>	<b>146,598</b>	<b>7,441</b>	<b>6.3%</b>	<b>(58,795)</b>	<b>(58,795)</b>	<b>\$30.26</b>	<b>0</b>
Class A	0	0	0	-	0	0	-	0
Class B	58,312	3,538	14,640	31.1%	0	0	\$29.28	0
Class C	169,048	0	0	0.0%	3,251	3,251	-	0
<b>Loring Total</b>	<b>227,360</b>	<b>3,538</b>	<b>14,640</b>	<b>8.0%</b>	<b>3,251</b>	<b>3,251</b>	<b>\$29.28</b>	<b>0</b>
Class A	200,739	0	0	-	0	0	\$27.43	0
Class B	1,913,833	177,619	6,762	9.6%	(4,142)	(4,142)	\$24.55	0
Class C	1,159,464	60,970	0	5.3%	(2,526)	(2,526)	\$22.60	0
<b>Northeast Total</b>	<b>3,274,036</b>	<b>238,589</b>	<b>6,762</b>	<b>7.5%</b>	<b>(6,668)</b>	<b>(6,668)</b>	<b>\$24.19</b>	<b>0</b>
Class A	1,236,475	112,134	46,289	12.8%	(43,672)	(43,672)	\$39.52	0
Class B	1,173,777	378,864	24,645	34.4%	6,465	6,465	\$31.00	0
Class C	329,449	86,721	0	26.3%	(7,392)	(7,392)	\$24.53	0
<b>Northloop Total</b>	<b>2,739,701</b>	<b>577,719</b>	<b>70,934</b>	<b>23.7%</b>	<b>(44,599)</b>	<b>(44,599)</b>	<b>\$33.12</b>	<b>0</b>
Class A	434,333	0	0	0.0%	0	0	\$38.38	0
Class B	1,565,289	352,956	0	22.6%	(39,444)	(39,444)	\$27.11	0
Class C	311,165	5,282	0	1.7%	0	0	\$25.91	0
<b>Warehouse Total</b>	<b>2,310,787</b>	<b>358,238</b>	<b>0</b>	<b>15.5%</b>	<b>(39,444)</b>	<b>(39,444)</b>	<b>\$27.02</b>	<b>0</b>
Class A	22,146,953	2,823,569	1,298,417	18.6%	(42,244)	(42,244)	\$35.74	531,000
Class B	12,581,038	2,860,247	83,778	23.4%	(181,028)	(181,028)	\$28.48	0
Class C	2,269,169	198,590	0	8.8%	(5,500)	(5,500)	\$23.33	0
<b>Minneapolis CBD Total</b>	<b>36,997,160</b>	<b>5,882,406</b>	<b>1,382,195</b>	<b>19.7%</b>	<b>(228,822)</b>	<b>(228,822)</b>	<b>\$32.79</b>	<b>531,000</b>

## St. Paul CBD and Suburban Statistics

	Total Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy Percentage W/Sublease	Q1 Absorption (SF)	YTD Absorption	Weighted Avg. Rental Rate (FSG)	Under Construction (SF)
Class A	3,111,558	217,677	31,301	8.0%	(328)	(328)	\$27.48	0
Class B	4,490,322	983,160	8,253	22.1%	(16,179)	(16,179)	\$24.68	0
Class C	411,084	45,871	0	11.2%	(3,589)	(3,589)	\$18.47	0
<b>St. Paul CBD Total</b>	<b>8,462,964</b>	<b>1,246,708</b>	<b>39,554</b>	<b>15.2%</b>	<b>(20,096)</b>	<b>(20,096)</b>	<b>\$25.28</b>	<b>0</b>
Class A	1,245,396	121,280	7,477	10.3%	(10,105)	(10,105)	\$25.55	0
Class B	12,919,362	1,231,092	28,905	9.8%	(160,621)	(160,621)	\$21.32	0
Class C	3,608,967	105,997	3,206	3.0%	(39,154)	(39,154)	\$18.68	0
<b>Northeast Total</b>	<b>17,773,725</b>	<b>1,458,369</b>	<b>39,588</b>	<b>8.4%</b>	<b>(209,880)</b>	<b>(209,880)</b>	<b>\$21.41</b>	<b>0</b>
Class A	971,953	14,072	0	1.4%	(798)	(798)	\$23.45	0
Class B	3,580,367	411,430	18,566	12.0%	(21,116)	(21,116)	\$21.73	0
Class C	1,072,052	27,522	350	2.6%	685	685	\$16.52	0
<b>Northwest Total</b>	<b>5,624,372</b>	<b>453,024</b>	<b>18,916</b>	<b>8.4%</b>	<b>(21,229)</b>	<b>(21,229)</b>	<b>\$21.66</b>	<b>0</b>
Class A	2,611,888	431,195	11,747	17.0%	(1,126)	(1,126)	\$31.43	0
Class B	9,792,713	1,355,800	28,199	14.1%	(280,809)	(280,809)	\$21.83	0
Class C	3,585,165	217,686	0	6.0%	(17,504)	(17,504)	\$20.70	0
<b>Southeast Total</b>	<b>15,989,766</b>	<b>2,004,681</b>	<b>39,946</b>	<b>12.8%</b>	<b>(299,439)</b>	<b>(299,439)</b>	<b>\$23.70</b>	<b>0</b>
Class A	8,016,986	850,366	208,939	13.2%	(102,315)	(102,315)	\$33.08	0
Class B	10,399,270	1,324,736	114,379	13.8%	43,092	43,092	\$26.43	0
Class C	5,330,719	448,523	2,100	8.5%	60,071	60,071	\$23.09	0
<b>Southwest Total</b>	<b>23,746,975</b>	<b>2,623,625</b>	<b>325,418</b>	<b>12.4%</b>	<b>848</b>	<b>848</b>	<b>\$29.11</b>	<b>0</b>
Class A	3,879,931	895,980	57,510	24.6%	(48,174)	(48,174)	\$38.04	0
Class B	6,045,797	734,665	63,567	13.2%	(85,797)	(85,797)	\$29.51	0
Class C	2,013,317	92,440	21,047	5.6%	(8,264)	(8,264)	\$24.64	0
<b>West Total</b>	<b>11,939,045</b>	<b>1,723,085</b>	<b>142,124</b>	<b>15.6%</b>	<b>(142,235)</b>	<b>(142,235)</b>	<b>\$32.19</b>	<b>0</b>
Class A	41,984,665	5,354,139	1,615,391	16.6%	144,910	144,910	\$34.26	531,000
Class B	59,808,869	8,901,130	345,647	15.5%	(755,503)	(755,503)	\$25.79	0
Class C	18,290,473	1,136,629	26,703	6.4%	(13,255)	(13,255)	\$21.91	0
<b>Overall Total</b>	<b>120,534,007</b>	<b>15,391,898</b>	<b>1,987,741</b>	<b>14.4%</b>	<b>(623,898)</b>	<b>(623,898)</b>	<b>\$29.19</b>	<b>531,000</b>

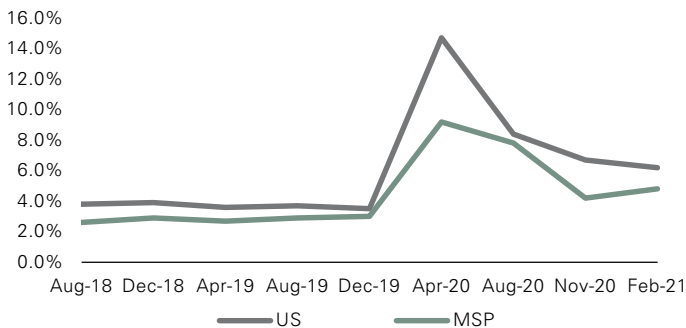
## Economic Conditions

The Minneapolis-St. Paul metropolitan area has a highly educated workforce and a diverse economy that is home to 15 Fortune 500 companies, the most per capita in the United States. Additionally, more than 320 Fortune 500 companies have a local presence. This concentration of corporate heavyweights supports a median income of \$81,000 per year, more than 25.0% above the national average.

Minneapolis-St. Paul is a global leader in biotechnology and biomedical research with deep roots in agriculture, food exports and water technology, and it has one of the highest concentrations of banks and financial talent of any major metropolitan area. Six of the world's 10 leading medical device manufacturers have operations in the area. The area ranks high in quality of life and enjoys a great education system, low cost of living and high-quality, low-cost housing options.

## Unemployment Rate

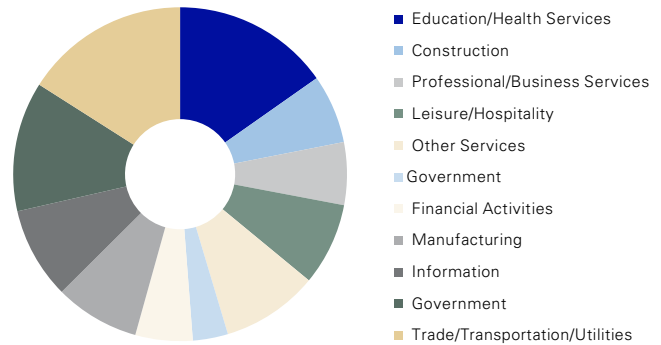
### Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## Employment by Industry

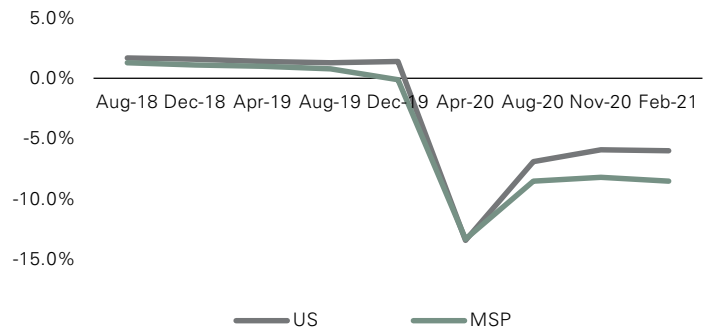
### Employment by Industry Minneapolis-St. Paul



Source: U.S. Bureau of Labor Statistics

## Payroll Employment

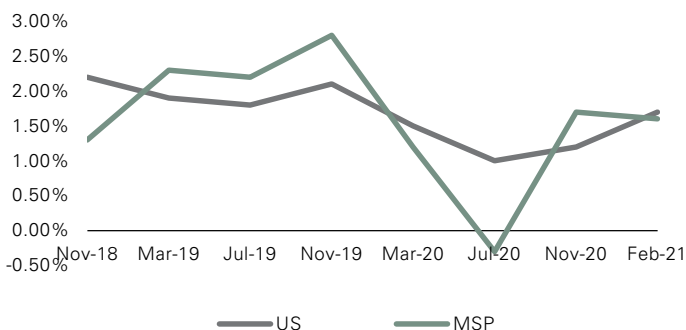
### Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## Consumer Price Index (CPI)

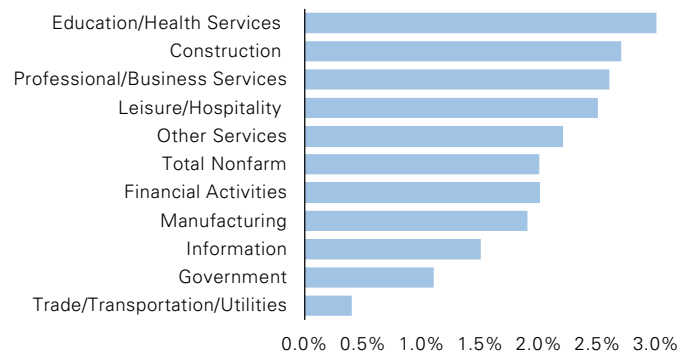
### All items, annual % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## Employment Growth by Industry

### 12-Month % Change



Source: U.S. Bureau of Labor Statistics

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 Milwaukee

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at [ngkf.com/research](http://ngkf.com/research).

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