

# Minneapolis – St. Paul Office Market

## New deliveries and sublease space slow absorption

Leasing activity turned positive for the first time in seven quarters since the onset of the pandemic in 2020. This fundamental shift is measured through total positive absorption of 82,437 SF across all markets in the Metro. As a result, vacancy rates in the Minneapolis-St. Paul market dropped slightly to 16.34% down from 16.41% in the previous quarter. Submarket vacancies remain high, with 2,082,287 SF of vacant space, representing 1.74% of all available space. An additional 94,674 SF of sublease was put on market. Sublease space remains elevated and will need to be substantially paired back before meaningful long-term absorption can take place. Of the notable lease signings, 15 of the 18 from the first quarter of 2022 were new leases and not the taking of sublet space. This signals a preference for long-term commitment by tenants who have made decisions on their real estate needs.

The first new high-rise in Minneapolis in over 30 years has been delivered as RBC Gateway opened its doors this quarter. Due to strong demand for premium office space, the property is 95.0% preleased.

Average gross asking rents continued incremental increases due to rising tax and operating expenses. Quarter One saw an increase of \$0.20/SF or an average direct gross rent of \$29.81/SF Metro-wide. This contrasts with net effective rents that have gone down due to sublet competition as the availability of space applies upward pressure on concession packages. Office occupiers will continue to actively assess their real estate needs to determine long-term space requirements, while balancing the need for culture and collaboration amidst an increasingly competitive labor market.

### Current Conditions

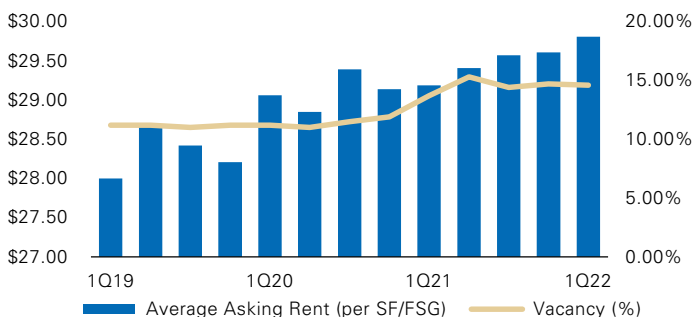
- Office net absorption of 82,437 square feet was the first positive absorption in 7 quarters.
- Overall vacancy rate at 16.34%
- RBC Gateway is delivered to market 95.0% preleased.
- Construction on 344,520 SF North Loop Green has begun.
- Positive absorption in the Southeast and Southwest submarkets.

### Market Summary

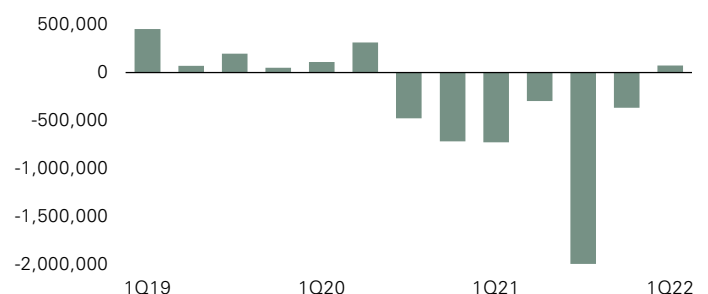
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	121.2M	120.7M	120.5M	↑
Vacancy Rate	16.34%	16.41%	15.23%	↑
Quarterly Net Absorption (SF)	75,706	(366,901)	(623,898)	↓
Average Asking Rent/SF	\$29.81	\$29.61	\$29.19	↓
Under Construction (SF)	344,520	531,000	2,122,300	↓
Deliveries (SF)	531,000	0	1,591,000	↓

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



### Submarket Analysis

The Southwest submarket had the most positive absorption, with 140,450 SF, followed by the Southeast at 103,479. This follows closely with the prior quarter's trend of positive absorption in the suburban corridors.

Accounting for the Southwest submarket's absorption was a pair of move-ins into the newly renovated One Southwest Crossings in Eden Prairie. Agility Health and Help Systems respectively took 75,246 SF and 34,228 SF. In Edina, Portico Benefits occupied 25,416 SF of space in the 7700 France Building after vacating their space downtown. The Minnesota Center in Bloomington picked up 14,000 SF of positive absorption as Cross County Mortgage and Sam Nutrition each took approximately 7,000 SF. Notable vacancies in the submarket include TSC and Nycor vacating a combined 15,154 SF at One Corporate Center in Edina.

In the Southeast, there was a positive absorption of 103,479 SF. Contributing to the positive absorption was DCM Services occupying 56,429 SF of The BLOC in Bloomington, Loeffler Construction occupying 20,000 SF at 9200 202nd St. W. in Lakeville and DSB Rock Island signing a lease for 9,518 SF in Mendota Office Plaza. Move-outs in the Southeast submarket include Black Knight vacating 16,983 SF and Aerotek vacating 4,701 SF within Mendota Office Center.

In the Minneapolis CBD, total absorption (121,249 square feet) resulted in an overall vacancy rate of 31.14%. Substantial positive activity occurred as Royal Bank of Canada became the anchor tenant moving into 345,000 SF at RBC Gateway tower and Microsoft/Flipgrid occupied 38,588 of space in 100 Washington Square. This activity was not enough to offset the remaining 186,000 SF of new space put on the market at RBC Gateway, Portico Benefits vacating 59,265 SF in RSM Plaza, Foodsby vacating 34,416 SF of space at 733 Building at Baker Center and RBC vacating 274,800 at 60 South sixth.

Activity in the Northeast submarket was positive, with 83,077 SF of positive absorption in the first quarter of 2022. This activity was largely the result of Champlain Associates occupying 75,601 square feet as an owner-user of 1275 Red Fox Rd. in Arden Hills.

Expect the supply and demand balance to remain favorable to occupiers in the short term as sublease space remains high. Long term lease activity volume will increase as short-term lease-taking at the onset of the pandemic begins to expire. This activity should meaningfully pare back the available sublease space and create the foundation for future sustained growth in the office market.

### Investments Sales

Investment sale activity started the first quarter of 2022, with trading taking place primarily in the Southern suburban submarkets.

Activity increased in single-tenant office campuses such as 11000 Viking Dr., which traded in a sale-leaseback for \$23.4 million to Arkansas-based Tempus Realty Partners from Shutterfly. Plans to raze the vacant "west building" have been approved by the city.

The stabilized Crosstown Corporate Center located at 6385 Old Shady Oak Rd. in Eden Prairie was purchased by Carlson Partners from Altus Properties for \$11.7 million, or \$196/SF.

Excelsior Crossing, a portfolio of stabilized office properties, located in Hopkins was sold through equity and debt assumption to Bridge Investment Group from Digital Bridge for \$82.5 million.

A notable sale transaction occurred in the Minneapolis CBD The Andrus building, located at 500 Nicollet Mall, for \$23.0 million from Davis Construction to private investor Richard Cargill.

Total sales volume in the metro ending the first quarter of 2022 stands at \$172.0 million. Volume is substantially down in comparison to \$341.0 million in the first quarter of 2020. Investors remain on the sidelines unless a clear and focused strategy exists amongst the uncertainty of long-term work plans amid rate and political uncertainty.

### Future Outlook

Moving forward, expect an increased focus on user experience as operators provide an extensive suite of quality amenities to attract and elevate the tenant experience. This includes providing or contracting fitness, hospitality and technological services. To this end, turnkey and sublease options can be positioned as a service to help capture the dynamic needs of tenants. Additional repurposing of Class C and single-story office campus will be the target of redevelopment into industrial and multi-family products.

Opportunities remain for both occupiers and owners willing to take advantage of subdued levels of competition and increased concession packages. The outlook remains favorable to tenants willing to relocate or negotiate a renewal. Fundamental uncertainty remains as firms continue to measure and reassess the impact of hybrid and in-person strategies on space requirements. Adding to growing uncertainties are incoming interest rate hikes.

RESEARCH Q1 2022

Select Sales Transactions

Property	Address	City	Submarket	Buyer	Seller	Price	SF	Price PSF
Excelsior Crossings	9350 Excelsior Blvd	Hopkins	West	Bridge Investment Group	Colony Capital	\$82,500,000	508,590	\$162
11000 Viking Dr.	11000 Viking Dr.	Eden Prairie	Southwest	Tempus Realty	Shutterfly	\$23,000,000	292,491	\$78
Andrus	500 Nicollet Mall	Minneapolis	Minneapolis CBD	Richard Cargill	Davis Construction	\$23,000,000	141,381	\$162
University Crossings	2200 University Ave W	St Paul	Northeast	Capital Partners	Essjay Investments	\$14,800,000	84,150	\$176
7001 France Ave S	7001 France Ave S	Edina	Southwest	MDI France	US bank	\$12,000,000	64,954	\$194
Cross Town Corporate Center	6385 Old Shady Oak Rd	Eden Prairie	Southwest	Carlson Partners	Altus Properties	\$11,795,000	59,953	\$196
Shuman Campus	655 Lone Oak Dr	Eagan	Southeast	Ecolab	CSM Corp	\$8,100,000	290,466	\$28
1275 Red Fox	1275 Red Fox Rd.	Arden Hills	Northeast	Scott Lloyd	James Korman	\$7,650,000	75,601	\$101
55 West Financial Center	10405 6 <sup>th</sup> Ave N	Plymouth	Northwest	Darren Nauss	Dakota REIT	\$6,500,000	53,544	\$121
Parkwood Place	7650 Currell Blvd	Woodbury	Southeast	St Paul Development Corp	Griffith Group	\$5,950,000	41,655	\$141
Mendota Office Plaza	1333 Northland Dr.	Mendota Heights	Northeast	DSB Rock Island	Orbit Systems	\$4,068,845	33,812	\$106
2303 Wycliff	2303 Wycliff St.	St Paul	Northeast	Revel Investments	Exeter	\$5,500,000	42,316	\$130

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Select Lease Transactions

Tenant	Property	Address	City	Submarket	Type	Size (SF)
MN Dept of Education	400-500 Stinson Blvd.	400-500 Stinson Blvd.	Minneapolis	Northeast	New	91,200
Delta Airlines	Normandale Lakes Office Park	5600 W 84th St	Bloomington	Southwest	New	79,728
Epicor	Jett 55 Corporate Center	Jet 55 corporate Center 12755 HWY 55	Plymouth	West	New	43,599
Voya	The Marq	250 South Marquette	Minneapolis	Minneapolis-CBD	New	37,388
Premier Disability	Northland Corporate Center	7225 Northland Dr. N	Brooklyn Park	Northwest	New	36,000
Sovos	Excelsior Crossings	9350 Excelsior Blvd.	Hopkins	Southwest	New	34,781
Dermatology Consultants	Highland Bridge Medical	2270 Ford Pkwy	Saint Paul	Southeast	New	26,000
Old National Bank	10 West End	Utica	Saint Louis Park	West	New	25,522
Loeffler Construction	9200 202 <sup>nd</sup> St. W	9200 202 <sup>nd</sup> St. W	Lakeville	Southeast	New	20,000
Rust Consulting	Forum	920 2 <sup>nd</sup> Ave S	Minneapolis	Minneapolis-CBD	New	19,324
TSR Law group	Normandale Lake Office Park	8300 Norman Center Dr.	Bloomington	Southwest	Sublease	16,340
Yardbird	Northwestern	219 N 2 <sup>nd</sup> St.	Minneapolis	Minneapolis- CBD	Sublease	16,112
Rani Engineering	Broadway West	1300 Godward St. NE	Minneapolis	Northeast	Sublease	15,956
Walker Methodist	Crest Ridge Corporate Center	11055 Wayzata Blvd	Minnetonka	West	New	14,446
Katun	Minnesota Center	7760 France Ave S	Bloomington	Southwest	New	14,243
Unilever	Dayton's Project	700 Nicollet Mall	Minneapolis	Minneapolis-CBD	New	13,445

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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	19,398,963	3,910,337	1,314,805	26.94%	57533	57533	\$36.53	359,729
Class B	6,990,259	1,770,090	64,861	26.25%	-67612	-67612	\$28.95	0
Class C	124,201	30,594	0	4207.00%	0	0	\$18.31	0
<b>Core Total</b>	<b>26,513,423</b>	<b>5,711,021</b>	<b>1,379,666</b>	<b>26.74%</b>	<b>-10,079</b>	<b>-10,079</b>	<b>\$34.42</b>	<b>359,729</b>
Class A	1,407,443	5,225	37,048	3.00%	0	0	\$33.54	0
Class B	879,568	114,249	0	12.99%	8,101	8,101	\$26.24	0
Class C	175,842	15,000	0	8.53%	3,654	3,654	0	0
<b>East Total</b>	<b>2,462,853</b>	<b>134,474</b>	<b>37,048</b>	<b>6.96%</b>	<b>11,755</b>	<b>11,755</b>	<b>\$30.09</b>	<b>0</b>
Class A	0	0	0	0	0	0	-	0
Class B	58,312	18,178	0	31.17%	3538	3538	\$29.51	0
Class C	169,048	28,279	0	16.73%	3404	3404	\$21.00	0
<b>Loring Total</b>	<b>227,360</b>	<b>46,457</b>	<b>0</b>	<b>20.43%</b>	<b>6,942</b>	<b>6,942</b>	<b>\$25.15</b>	<b>0</b>
Class A	200,739	11,755	0	5.86%	0	0	\$28.18	0
Class B	1,901,478	246,927	34,645	14.81%	-22,075	-22,075	\$24.39	0
Class C	1,142,186	15,638	1,640	1.51%	-42,578	-42,578	\$18.68	0
<b>Northeast Total</b>	<b>3,244,403</b>	<b>274,320</b>	<b>34,645</b>	<b>9.52%</b>	<b>-64,653</b>	<b>-64,653</b>	<b>\$22.90</b>	<b>0</b>
Class A	1,236,475	129,932	140,894	21.90%	-72,500	-72,500	\$38.54	0
Class B	1,173,777	400,966	34,437	37.09%	12,231	12,231	\$31.53	0
Class C	329,449	98,743	4,000	31.19%	442	442	\$25.91	0
<b>North Loop Total</b>	<b>2,739,701</b>	<b>629,641</b>	<b>179,331</b>	<b>29.53%</b>	<b>-59,827</b>	<b>-59,827</b>	<b>\$33.73</b>	<b>0</b>
Class A	434,333	0	0	0%	0	0	\$38.37	0
Class B	1,565,289	383,552	59,068	28.28%	12,793	12,793	\$27.96	0
Class C	311,165	14,929	0	4.80%	-14,776	-14,776	\$24.76	0
<b>Warehouse Total</b>	<b>2,310,787</b>	<b>398,481</b>	<b>59,068</b>	<b>19.80%</b>	<b>-1,983</b>	<b>-1,983</b>	<b>\$27.66</b>	<b>0</b>
Class A	22,677,953	6,854,481	339,214	31.72%	-14,967	-14,967	\$36.54	359,729
Class B	12,568,683	2,933,962	87,970	24.04%	-53,024	-53,024	\$28.51	0
Class C	2,251,891	203,183	0	9.02%	-53,258	-53,258	\$21.23	0
<b>Minneapolis CBD Total</b>	<b>37,510,882</b>	<b>9,991,626</b>	<b>1,689,758</b>	<b>31.14%</b>	<b>-121,249</b>	<b>-121,249</b>	<b>\$33.08</b>	<b>359,729</b>

RESEARCH Q1 2022

**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	316,565	43,227	11.56%	850	850	\$27.36	0
Class B	4,490,322	898,567	18,136	20.42%	-86,288	-86,288	\$24.44	0
Class C	411,084	43,618	0	10.61%	1263	1,263	\$16.89	0
<b>St. Paul CBD Total</b>	<b>8,462,964</b>	<b>1,663,313</b>	<b>61,363</b>	<b>20.38%</b>	<b>-84,175</b>	<b>-84,175</b>	<b>\$25.07</b>	<b>0</b>
Class A	1,245,396	117,389	10,900	10.30%	22,840	22,840	\$24.86	0
Class B	13,090,362	1,349,080	37,239	10.59%	88,993	88,993	\$20.62	0
Class C	3,608,967	33,096	23,284	1.56%	-28,756	-28,756	\$19.93	0
<b>Northeast Total</b>	<b>17,944,725</b>	<b>1,499,565</b>	<b>71,423</b>	<b>8.75%</b>	<b>83,077</b>	<b>83,077</b>	<b>\$20.91</b>	<b>0</b>
Class A	971,953	23,686	0	2.44%	-1,575	-1,575	\$23.79	0
Class B	3,580,367	445,856	28,876	13.26%	-7,931	-7,931	\$21.22	0
Class C	1,072,052	19,373.00	0	1.81%	5,858	5,858	\$16.67	0
<b>Northwest Total</b>	<b>5,624,372</b>	<b>488,915</b>	<b>28,876</b>	<b>9.21%</b>	<b>-3,648</b>	<b>-3,648</b>	<b>\$21.37</b>	<b>0</b>
Class A	2,611,888	385,449	42,079	16.37%	-17,097	-17,097	\$31.73	0
Class B	9,792,713	1,440,559	153,848	16.28%	126,029	126,029	\$20.92	0
Class C	3,585,165	257,560	6,590	7.37%	-5,453	-5,453	\$20.28	0
<b>Southeast Total</b>	<b>15,989,766</b>	<b>2,083,568</b>	<b>202,517</b>	<b>14.30%</b>	<b>103,479</b>	<b>103,479</b>	<b>\$23.11</b>	<b>0</b>
Class A	8,016,986	1,196,555	266,581	18.25%	99,814	99,814	\$34.62	0
Class B	10,399,270	1,235,779	342,261	15.17%	-2,847	-2,847	\$26.27	0
Class C	5,330,719	429,792	8,172	8.21%	43,483	43,483	\$22.97	0
<b>Southwest Total</b>	<b>23,746,975</b>	<b>2,862,126</b>	<b>617,014</b>	<b>14.65%</b>	<b>140,450</b>	<b>140,450</b>	<b>\$30.20</b>	<b>0</b>
Class A	3,931,631	1,020,114	70,719	27.75%	-53,583	-53,583	\$37.15	0
Class B	6,045,797	853,106	171,397	16.95%	19,642	19,642	\$33.20	0
Class C	2,013,317	122,302	69,220	9.51%	-5,020	-5,020	\$24.67	0
<b>West Total</b>	<b>11,939,045</b>	<b>1,995,522</b>	<b>311,336</b>	<b>19.32%</b>	<b>-38,961</b>	<b>-38,961</b>	<b>\$33.95</b>	<b>0</b>
Class A	42,567,365	7,117,007	1,026,253	19.13%	36,282	36,282	\$34.95	359,729
Class B	60,429,869	9,156,909	943,128	16.71%	84,634	84,634	\$26.03	0
Class C	18,273,195	1,465,187	112,906	8.64%	-38,479	-38,479	\$21.44	0
<b>Overall Total</b>	<b>121,270,429</b>	<b>17,739,103</b>	<b>2,082,287</b>	<b>16.34%</b>	<b>82,437</b>	<b>82,437</b>	<b>\$29.54</b>	<b>359,729</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 remains 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.

### Payroll Employment

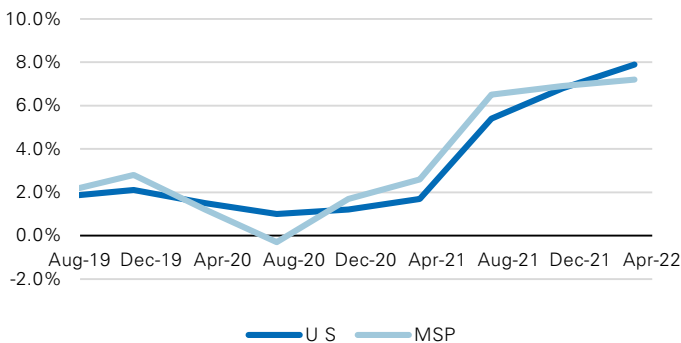
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

### Consumer Price Index (CPI)

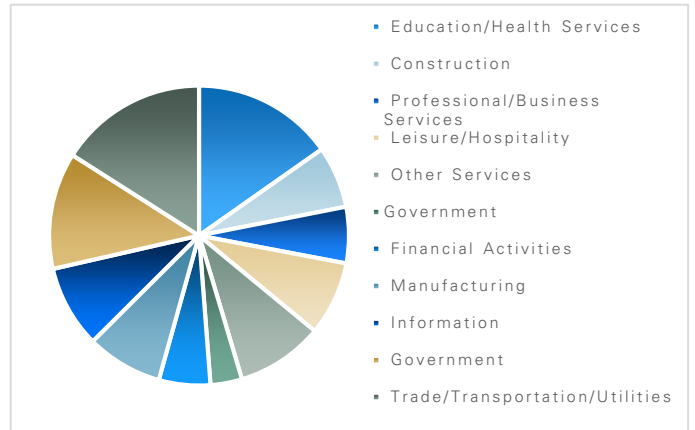
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

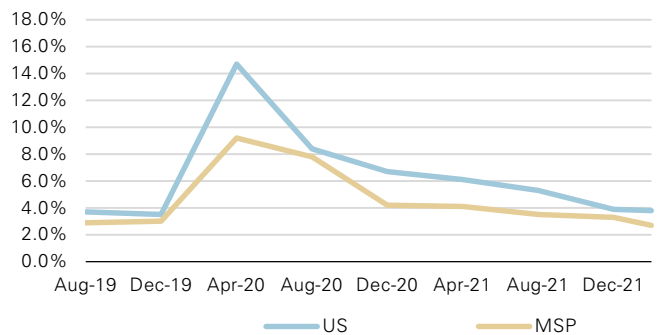
### Employment by Industry

EMPLOYMENT BY INDUSTRY | MINNEAPOLIS-ST. PAUL



### Unemployment Rate

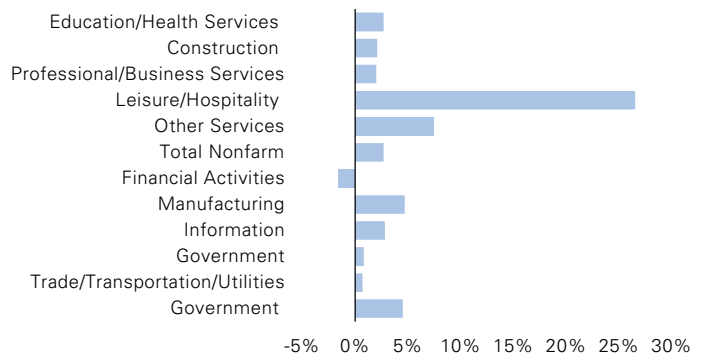
SEASONALLY ADJUSTED, FEBRUARY 2022



Source: U.S. Bureau of Labor Statistics

### Employment Growth By Industry

MINNEAPOLIS, FEBRUARY 2022, 12-MONTH % CHANGE, SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

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 East Brunswick  
 Morristown

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 New York

**NORTH CAROLINA**  
 Charlotte  
 Raleigh

**OHIO**  
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 Cleveland  
 Columbus

**OKLAHOMA**  
 Oklahoma City

**OREGON**  
 Portland/Lake  
 Oswego

**PENNSYLVANIA**  
 Allentown  
 Philadelphia  
 Pittsburgh

**TEXAS**  
 Austin  
 Dallas  
 Houston

**UTAH**  
 Salt Lake City

**VIRGINIA**  
 Tysons Corner

**WASHINGTON**  
 Seattle

**WISCONSIN**  
 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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