

Minneapolis-St. Paul Office Market Overview



Market Observations

Economy

- Minneapolis benefits from the stability and vitality of a strong headquarters economy, home to 14 firms on the Fortune 500 list, the most per capita in the U.S. for a major metropolitan area. In addition, there are more than 320 Fortune 1000 companies with a local presence.
- The region has a committed workforce, with the highest labor force participation rate among major metropolitan areas at 72%.
- Minneapolis’s 12-month job growth as of February was steady, with 26,800 jobs added, a 1.3% increase. Nationally, nonfarm employment grew by 1.9%
- Office-using employment sectors have not returned to pre-pandemic levels. Information, financial activities and professional and business services declined annually by 5.2%, 2.7% and 3.5%, respectively.

Major Transactions

- Ryan Companies intends to purchase 179 acres at the Thomson Reuters campus in Eagan for redevelopment. There is a 1.1 million square foot office building, data center space totaling 333,912 square feet on 90 acres of land. Thomson Reuters will maintain a print manufacturing facility at the campus and sublease 300,000 square feet at the Prime Therapeutics campus, also in Eagan.
- CliftonLarsonAllen leased 40,000 square feet at the Viking Lakes campus in Eagan, adding to other offices it has in Minnesota. The accounting firm plans to use the space for training and teambuilding when it opens in 2025.
- The 164,000-square-foot Kickernick Building in the Warehouse district of the Minneapolis CBD sold for \$3.79 million to Space Unlimited. This represents a discount from the \$19.15 million United Properties paid for the building in 2017.
- Johnson Brothers Liquor has withdrawn its plans for a 460,000 square foot warehouse facility and corporate headquarters at the Blue Cross Blue Shield campus in Eagan. BCBS extended its lease at two of the properties at its 1 MSF campus but did not renew at the remaining four buildings.

Leasing Market Fundamentals

- Quarterly net absorption was negative 131,128 SF after negative 2 MSF in 2023. Negative annual absorption has continued since 2020 led by ongoing corporate downsizing.
- Large corporate users reduced occupancy levels, including UnitedHealth Group, Best Buy, Target, BlueCross BlueShield of Minnesota, Thomson Reuters, US Bank and Prime Therapeutics.
- Amidst significant declines in office space utilization, the Minneapolis market continues to see employment declines in sectors depending on office spaces. Information, financial activities and professional and business services have experienced ongoing declines.
- According to CRED iQ, Minneapolis has the highest commercial property loan distress rate among large metropolitan areas. A few very large loans (IDS Center, Mall of America) push the rate significantly higher than other metro areas. Minneapolis-St. Paul’s current overall distressed rate is 51.5%

Outlook

- North Loop Green, which includes 359,000 square feet of office space, will open in the 2nd quarter. The completion will provide some positive activity, though most companies relocating are leaving larger spaces within the CBD, offsetting positive net absorption.
- North Loop Green has experienced leasing success with tenants Piper Sandler, ESG Architecture & Design and Varde Partners signed as tenants. This is a significant example of “flight to quality”, where most tenants reduce occupancy but prioritize environments that encourage employees to return to the office in a hybrid work environment. While there is no additional large multitenant office projects on the horizon, companies will continue to favor top-tier Class A spaces.
- Concessions will continue to be a significant factor in future negotiations, in the form of both financial incentives and lease flexibility. However, a lack of liquidity among some landlords will force them to lower rents rather than continue to provide elevated concession packages.

1. Economy
2. Leasing Market Fundamentals

1Q24

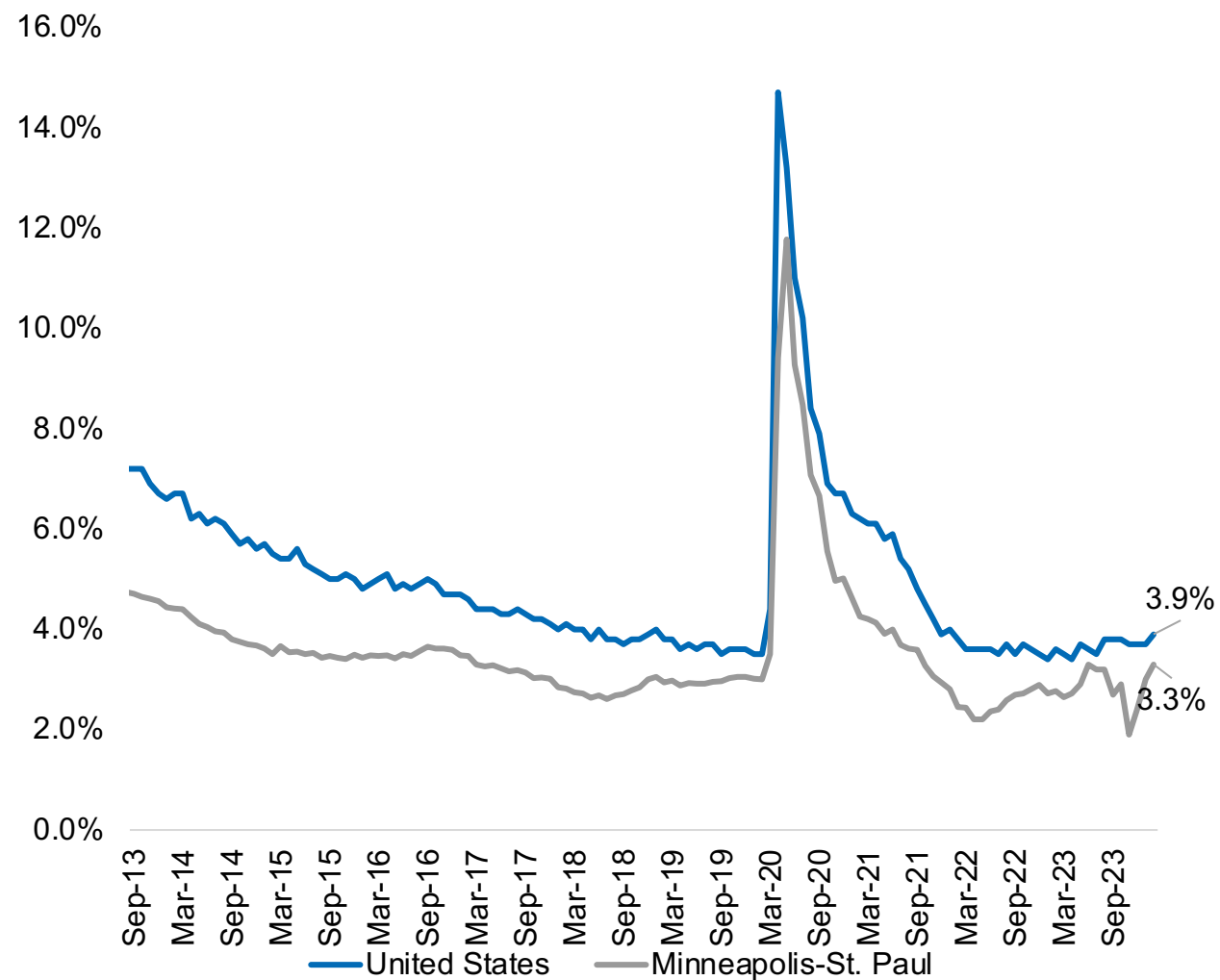
Economy



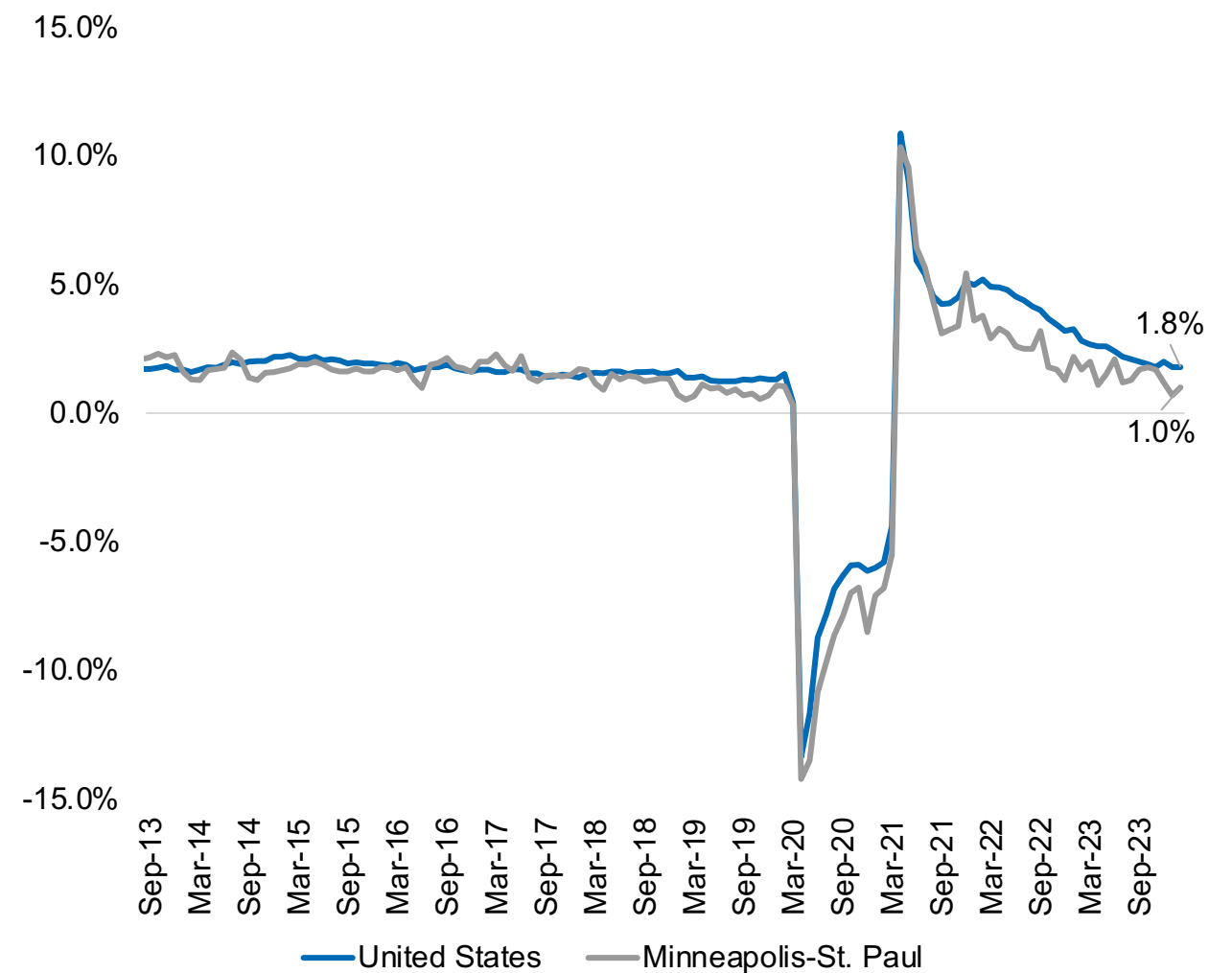
Minneapolis-St. Paul's Total Employment Increases Slightly

Minneapolis-St. Paul's unemployment rate increased from 3.0% in January to 3.3% in February. The U.S. unemployment rate increased to 3.9% from 3.7% in January. Minneapolis-St. Paul's economy grew slightly by 1% since February of 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

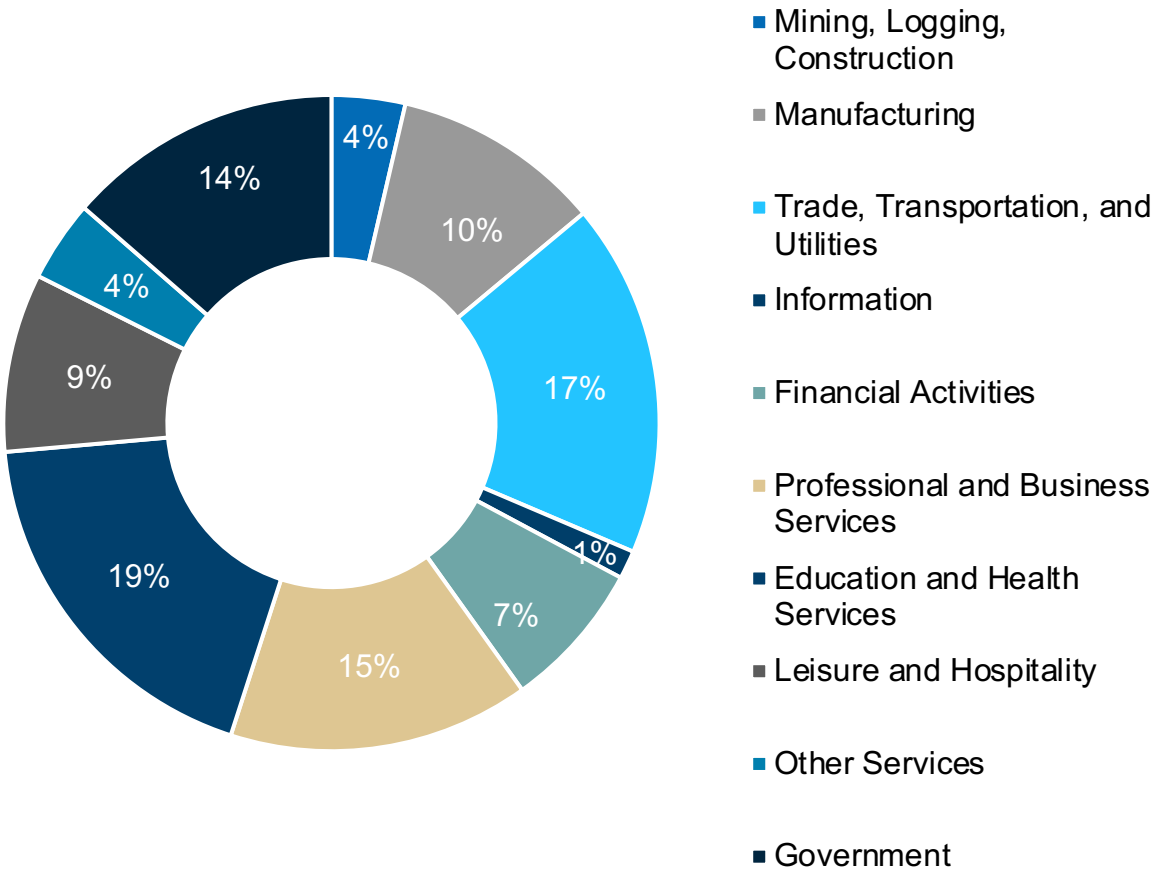


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

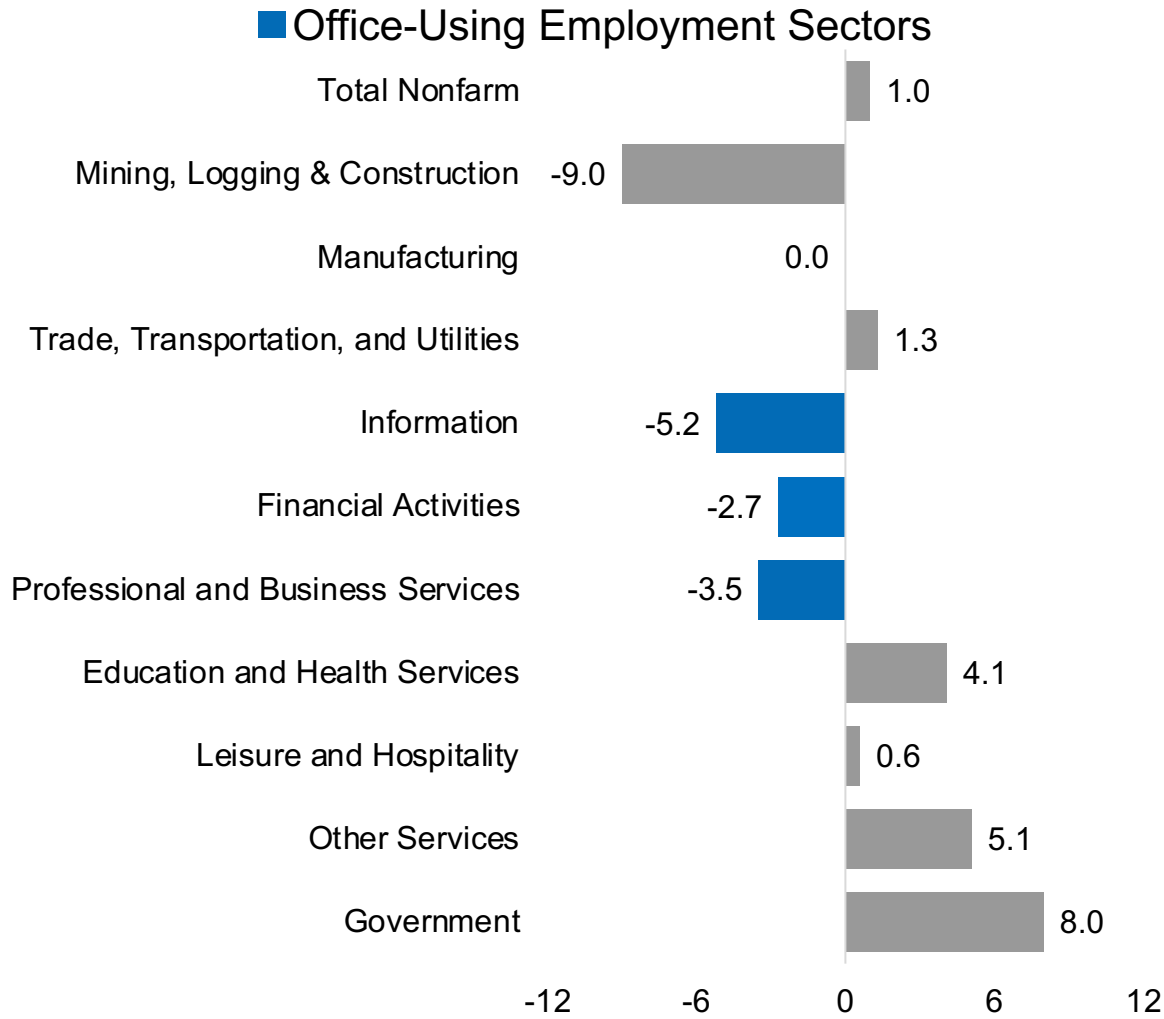
12-month Office-Using Employment Continues its Decline

Government jobs grew the most in addition to Other Services and Education and Health Services.

Employment by Industry, February, 2024



Employment Growth by Industry, 12-Month % Change, February, 2024

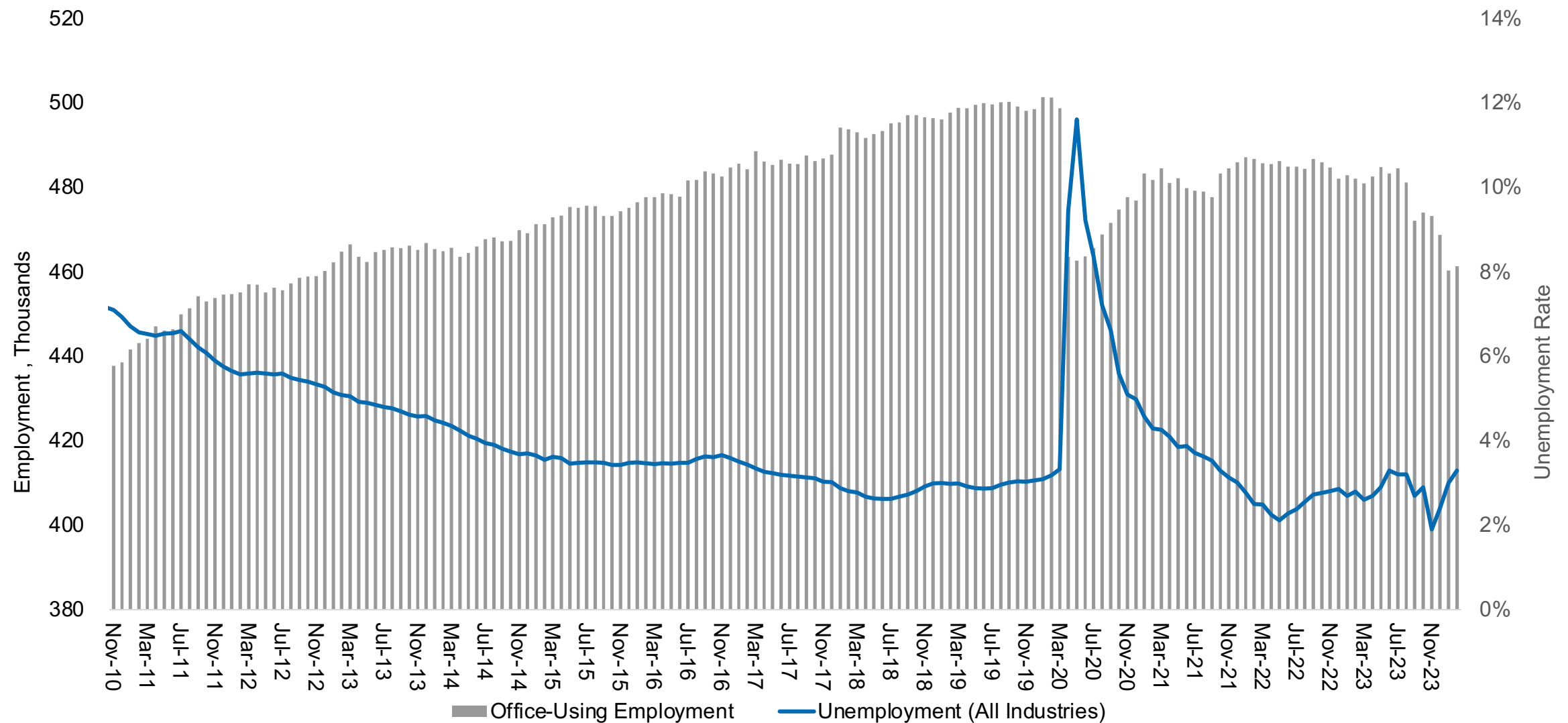


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

Struggling Office-Using Employment Sectors See Slight Increase

The employment sectors that utilize office spaces, including professional and business services, information and financial services, while struggling to reach pre-pandemic levels, increased in February of 2023.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul
 *Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

1Q24

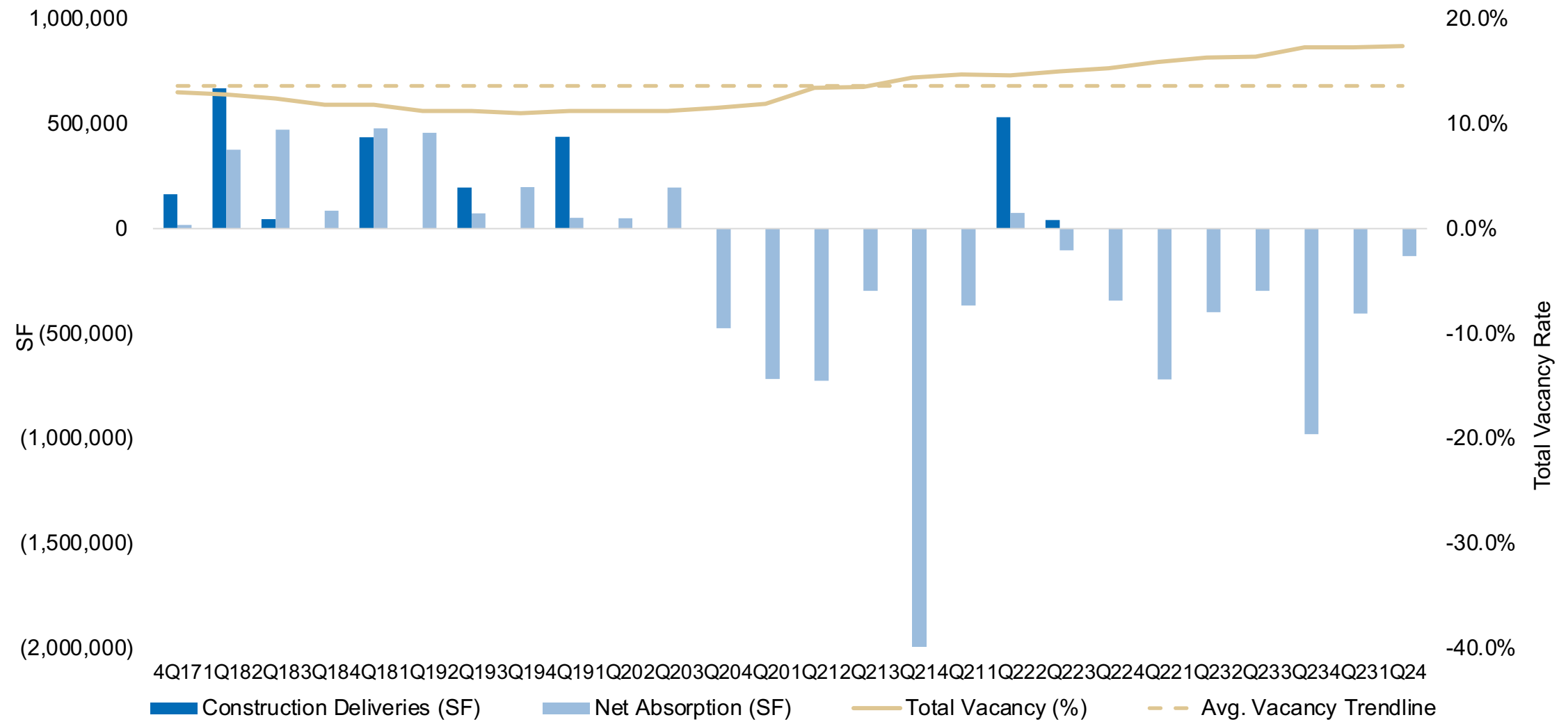
Leasing Market Fundamentals



Absorption Moderates in the 1Q24

After almost 1 SF of negative absorption in the third quarter of 2023, negative absorption totaled 405,000 square feet for the fourth quarter of 2023 and 131,128 in the first quarter of 2024.

Historical Construction Deliveries, Net Absorption, and Vacancy

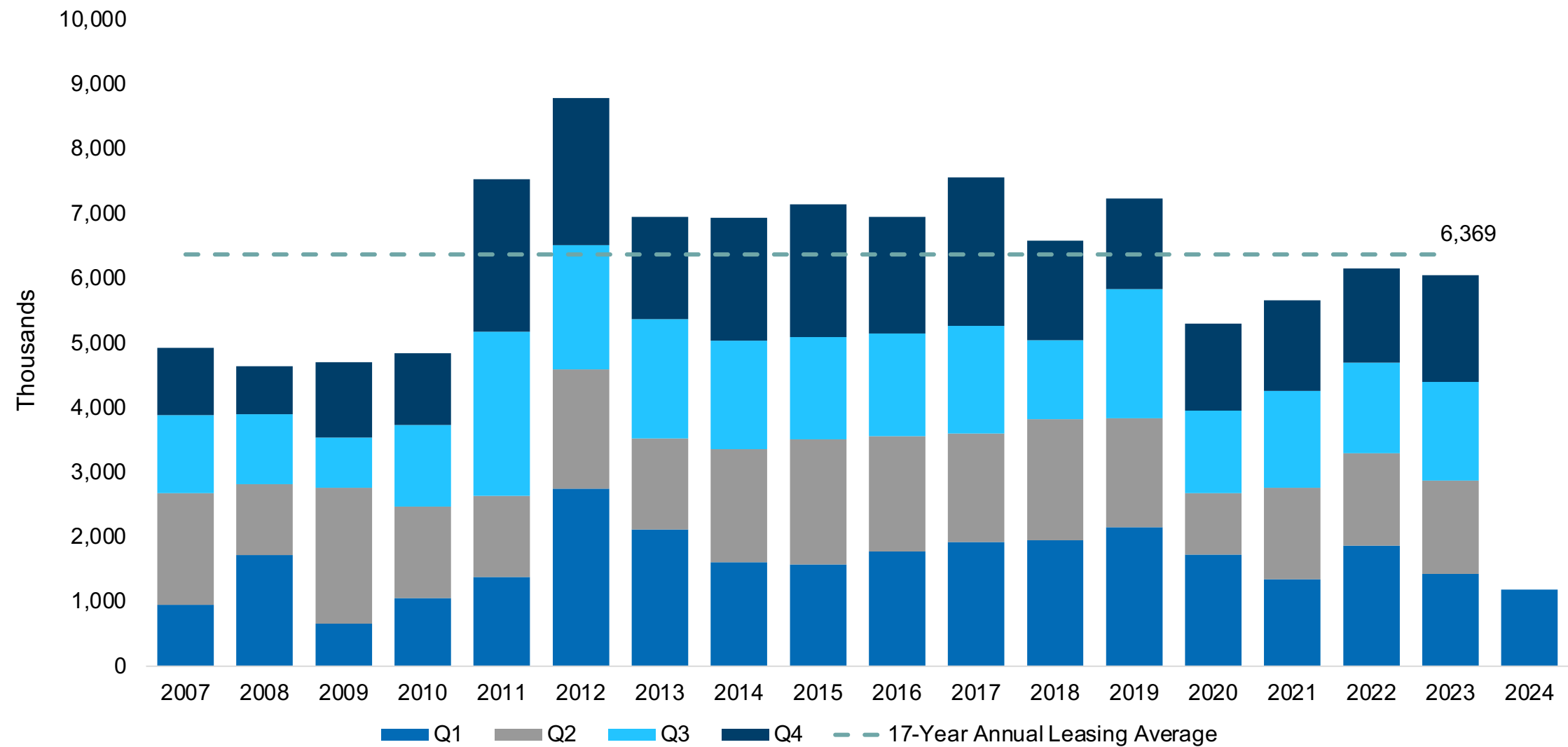


Source: Newmark Research, MNCAR, Costar

Leasing Activity Occurring But Not at Pre-Pandemic Levels

Companies are making longer-term decisions by either committing to new office spaces or renewing for longer terms. Most are reducing the amount of space they occupy.

Total Leasing Activity (thousands)

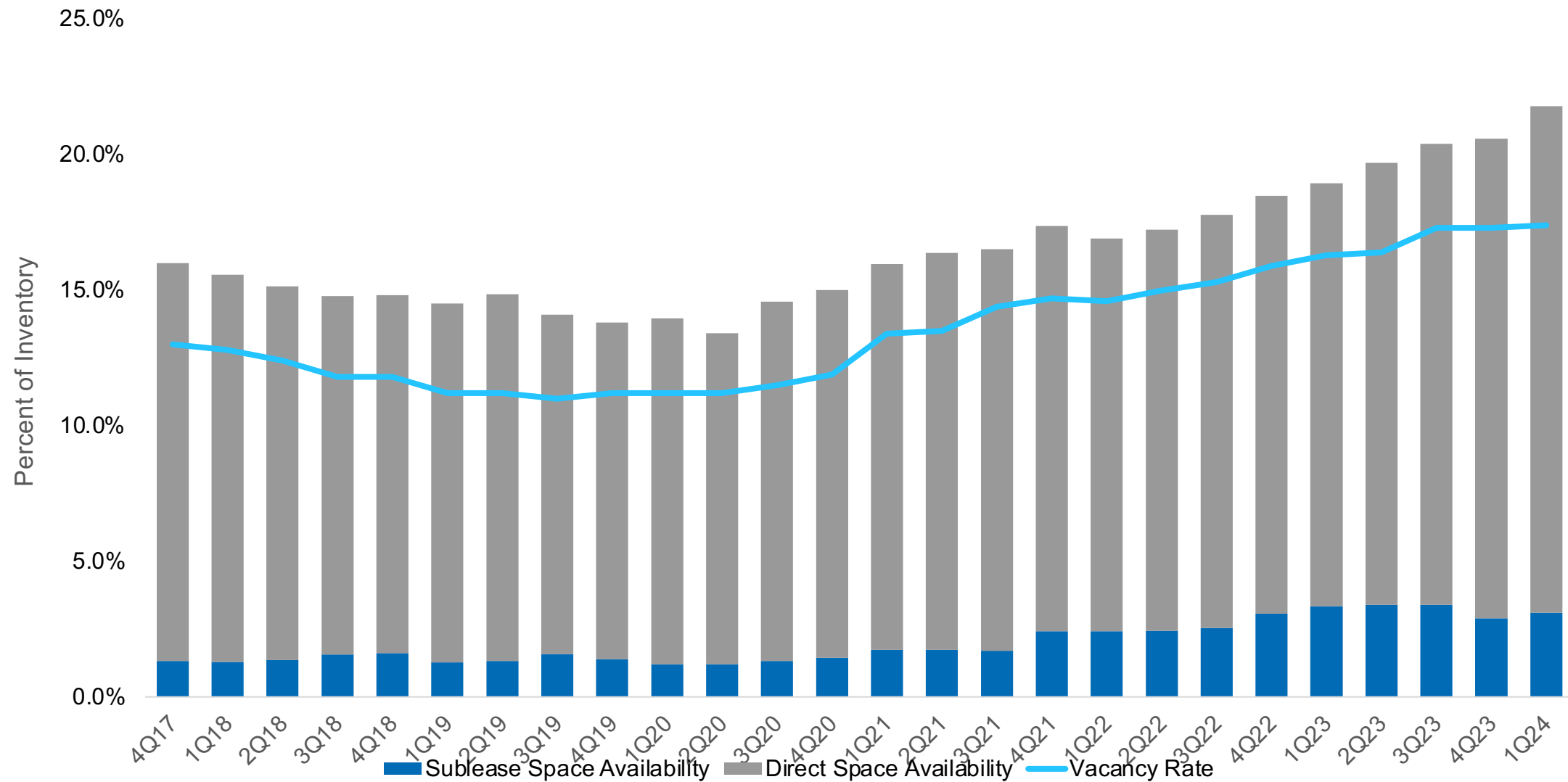


Source: Newmark Research, CoStar

Pace of Sublease Additions Moderates

Corporate consolidations and downsizing trends contributed to increasing sublease space in the past several years. Subleasing is still a significant factor but the rate at which space is added has slowed.

Available Space as Percent of Overall Market

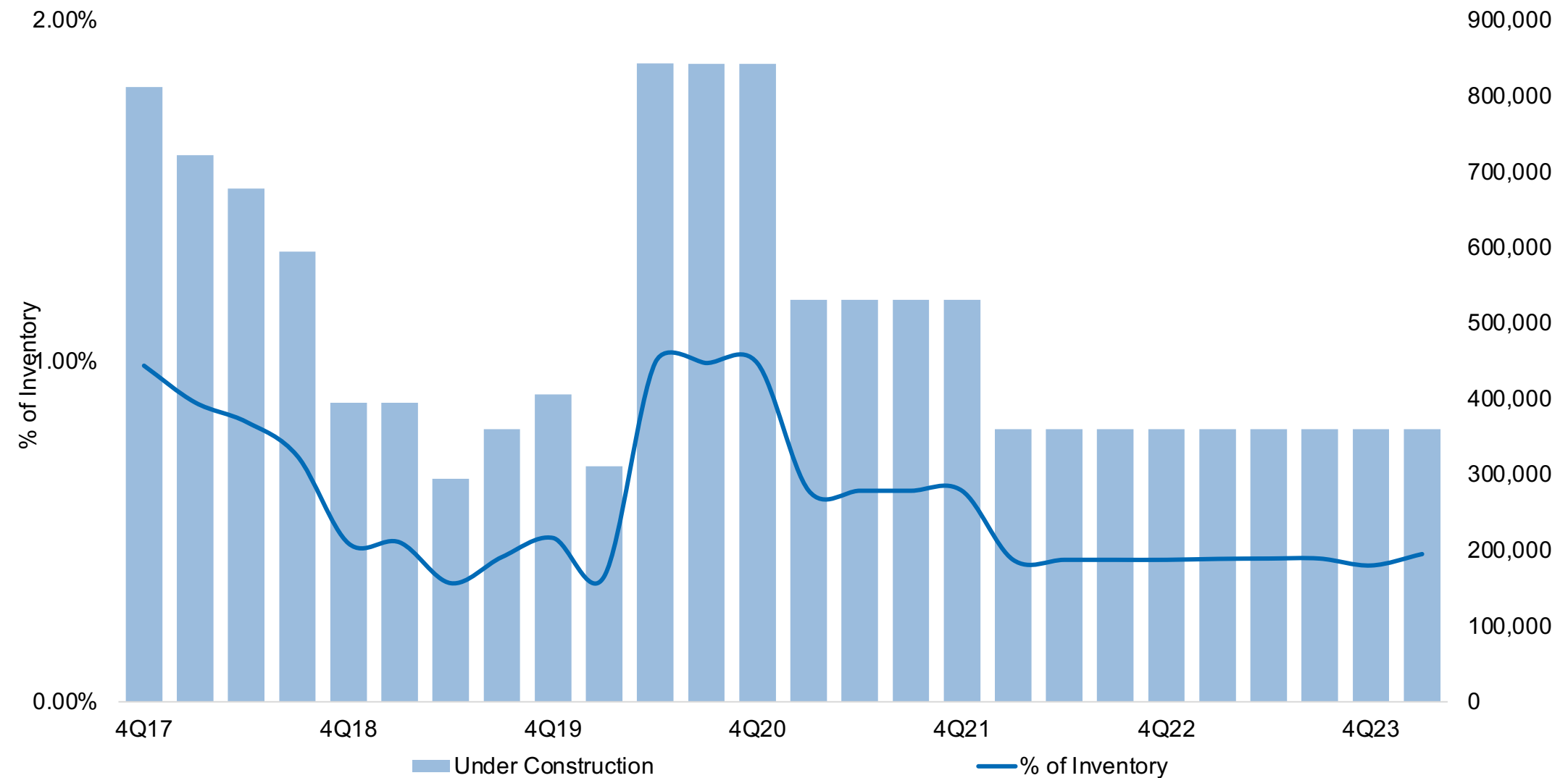


Source: Newmark Research, MNCAR

Drop in Office Demand and High Financing Costs Limit New Construction

Given the ongoing decrease in demand for office space, future construction is not expected to exacerbate vacancy rates.

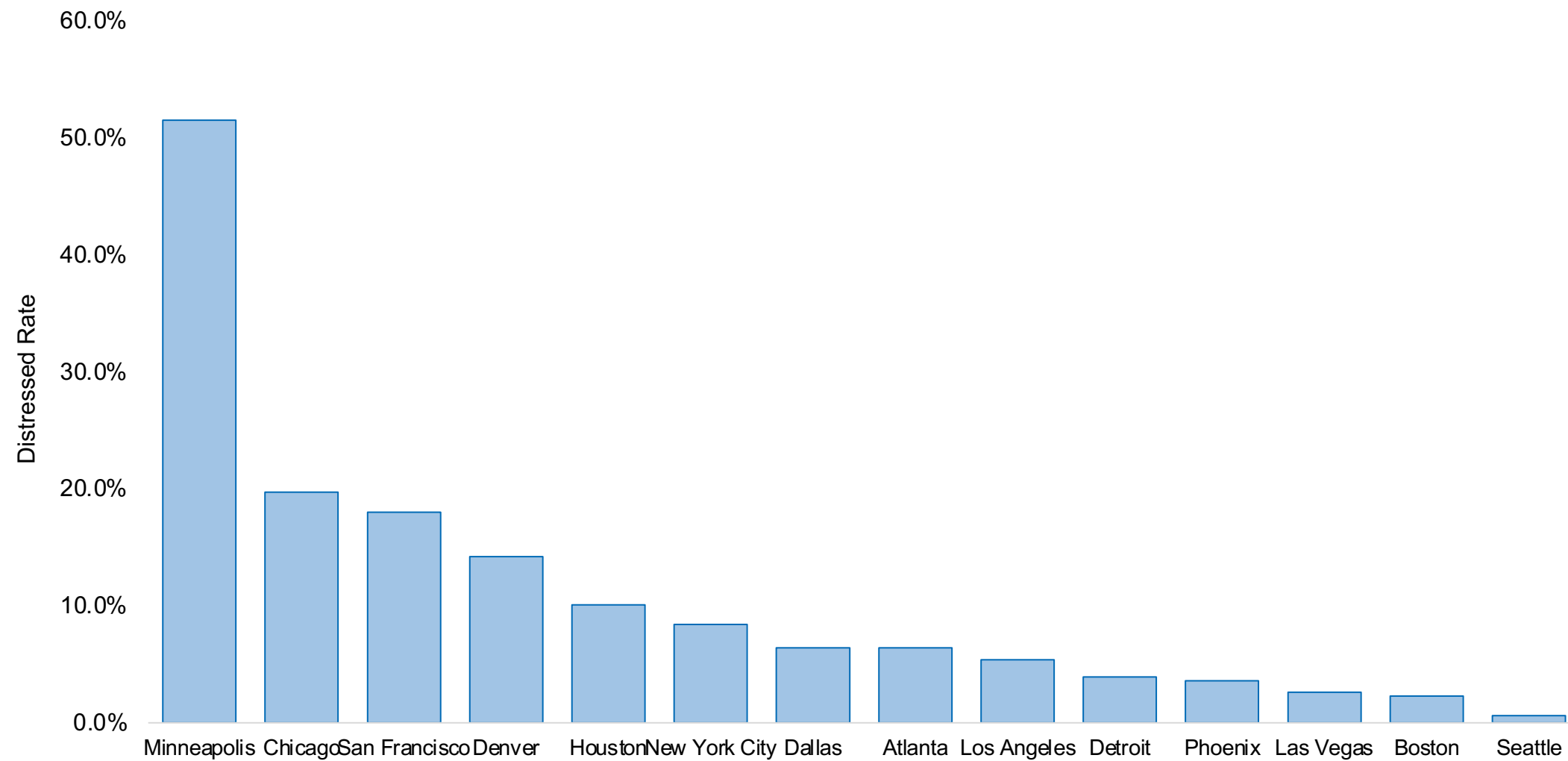
Office Under Construction and % of Inventory



Minneapolis has Highest Overall Distressed Rate

A few very large loans in distress (IDS Center, Mall of America) push the rate significantly higher than other metro areas. Minneapolis-St. Paul's current overall distressed rate is 51.5%

Office Under Construction and % of Inventory

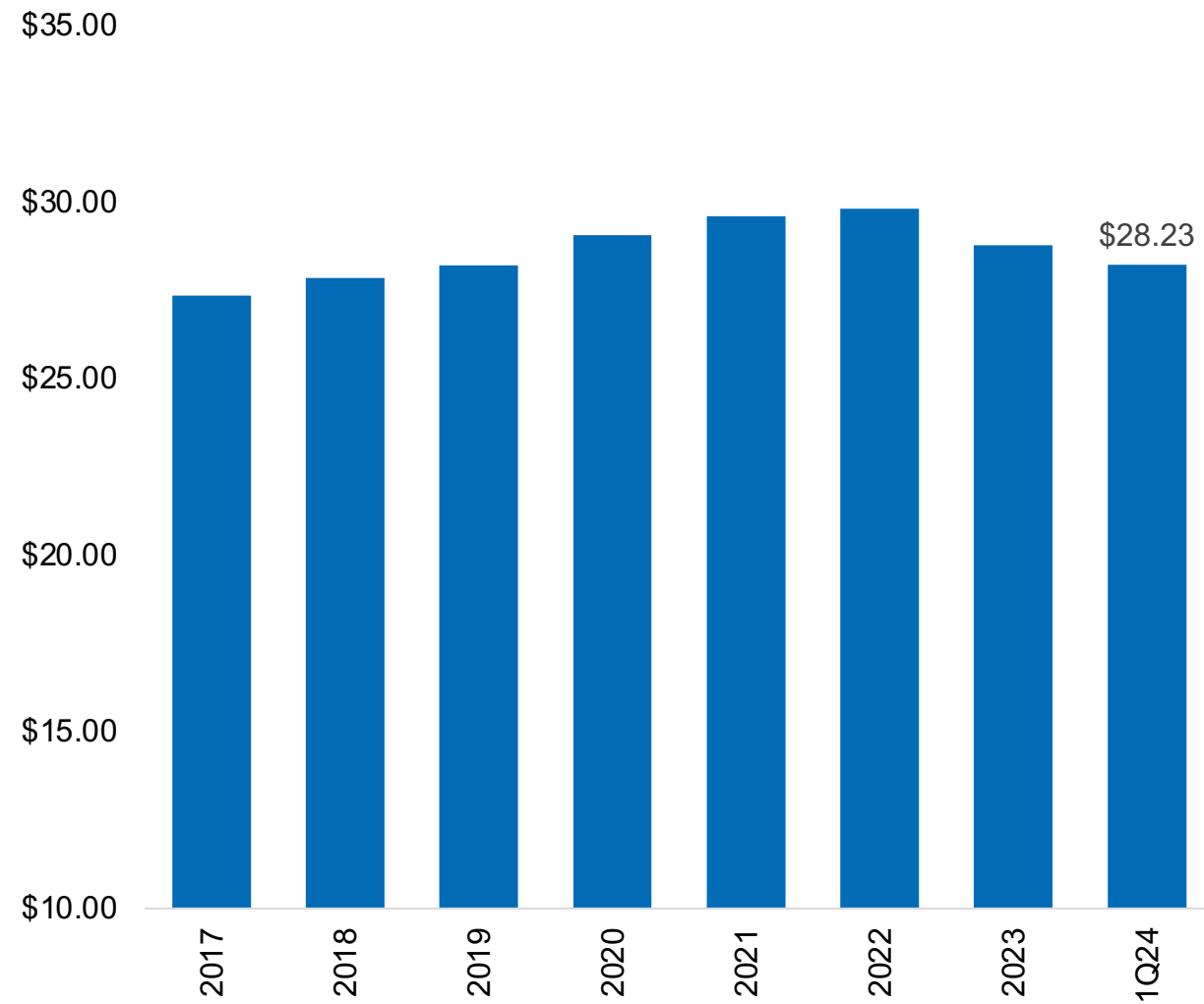


Source: CRED iQ; CRED iQ monitors distressed rates and market performance for nearly 400 MSAs across the United States, covering over \$900 billion in outstanding commercial real estate (CRE) debt. Distressed rates include loans that are specially serviced, delinquent (30 days past due or worse), or a combination of both.

Quoted Rates Stable

Despite slight decreases in quoted rent, rates remain elevated considering current market conditions, while concessions are substantial and increasing.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

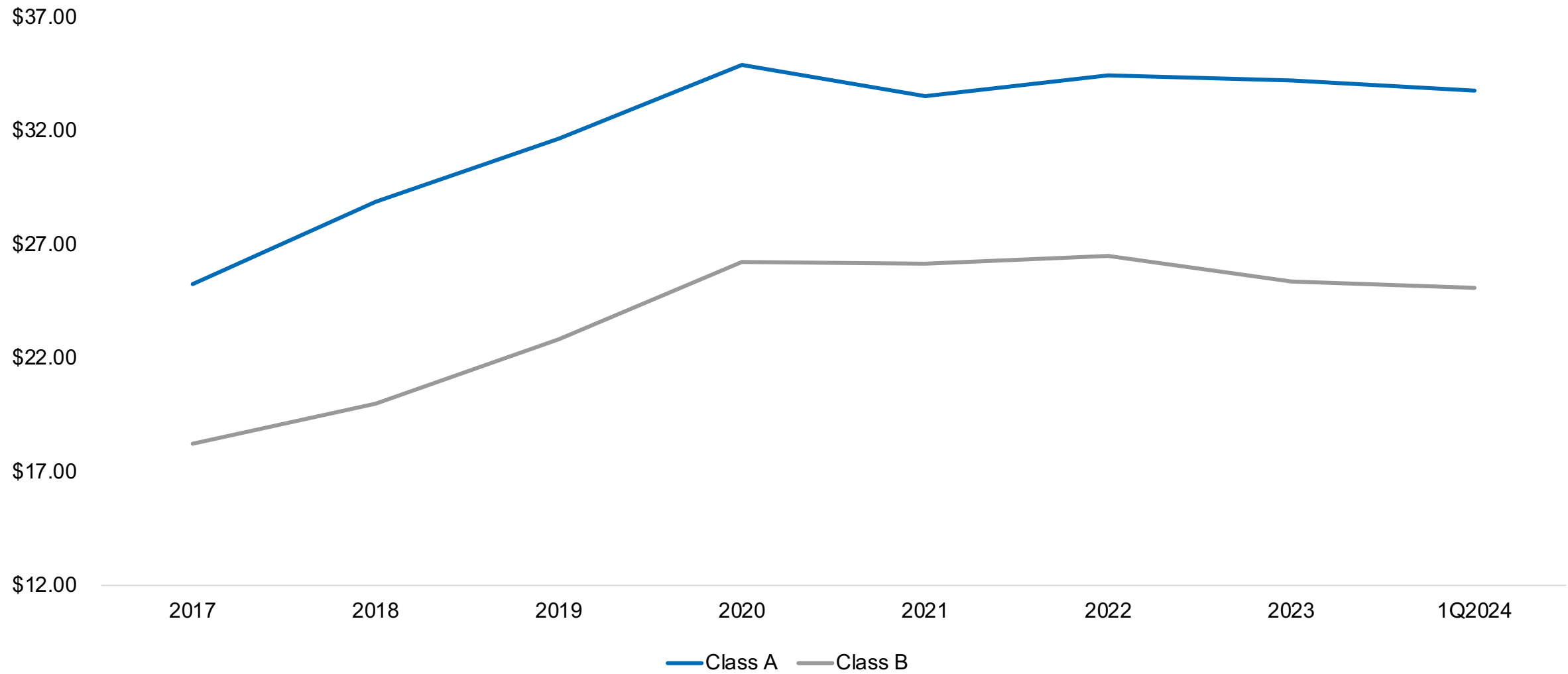


Source: Newmark Research, CoStar

Strong Demand For Highest Quality Class A Properties

Overall class A quoted rates lowered slightly– class B continues to steadily decrease.

Class A and Class B Asking Rents



Source: Newmark Research, CoStar

Minneapolis CBD Absorption and Vacancy Forecast



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Forecast

Office Transactions

Notable 1Q24 Lease Transactions

Tenant	Building	Submarket	Type	SF
Aon	8200 Tower	Southwest	Renewal	81,000
Summit Medical	Viking Lakes	Southwest	Renewal & Expansion	73,000
Brown & Brown	901 Marquette	Minneapolis CBD Core	New	42,890
Clifton Larson Allen	Viking Lakes	Southeast	New	40,000
Holmes Murphy	10 West End	West	Sublease	34,967
JP Morgan	Steelman Exchange	Minneapolis CBD Northloop	Sublease	30,000
Mayo Clinic	Mayo Clinic Square	Minneapolis CBD Warehouse	Renewal	16,000
Officenters	International Plaza	Southeast	Renewal	14,190
Hennepin Theatre Trust	LaSalle Plaza	Minneapolis CBD Core	New	12,868
Choice Hotels	3701 Wayzata Blvd	West	Sublease	10,900
Periscope	The Studio	Minneapolis CBD Northeast	New	10,755
Commercial Partners Title	LaSalle Plaza	Minneapolis CBD Core	New	10,479
LinkUp	The Link	Minneapolis CBD Northeast	New	10,041

Source: Newmark Research, MNCAR



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Forecast



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