

# Minneapolis – St. Paul Office Market

Phased occupancy of employees begins as return-to-work protocols start in the CBD.

The Minneapolis – St. Paul office market operated with an increasing employee occupancy of 20% during the second quarter, up from 9% in the first quarter. However, even with the momentum of employees returning to the office, previous quarterly trajectories of rising vacancy rates continued. The overall vacancy rate rose to 15.3%, nearly a full percentage point from the 14.4% that occurred in quarter one. Increased vacancy was solely based on the market's negative absorption of 296,000 square feet, since no new office construction was completed this quarter. Negative absorption is projected to occur again next quarter even with Deluxe entering the Minneapolis CBD for 94,000 square feet and secondly, the Dept. of Employment and Eco. Development will move into the St. Paul CBD for 147,000 square feet. Downsizing tenants is still a common theme in the CBD and subleases are competing with direct space as sublease space available at less than 50 cents on the dollar.

Average gross asking rent ticked higher from increases in tax and operating expenses in 2021, which equated to average gross rent of \$29.41 metro-wide. Net asking rent remain steady though with free rent being offered by landlords in the Minneapolis CBD. Class A properties attained a new average high in gross asking rent of \$34.95, compared to \$34.26 last quarter. In Class B office, rates stabilized, recording an average of \$25.72. Average asking rates remaining at peak levels continues a trend of short-term leases and increasing concessions from landlords to incent tenants.

## Current Conditions

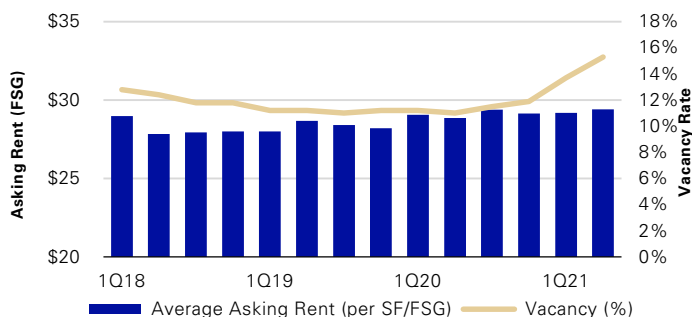
- Office net absorption of (296,404) square feet was a fourth consecutive quarter of negative absorption
- Overall vacancy rate rose to 15.3%
- 531,000 square feet of office product is under construction at RBC Gateway Tower in the Minneapolis CBD
- The West was the only submarket to garner positive absorption on the quarter

## Market Summary

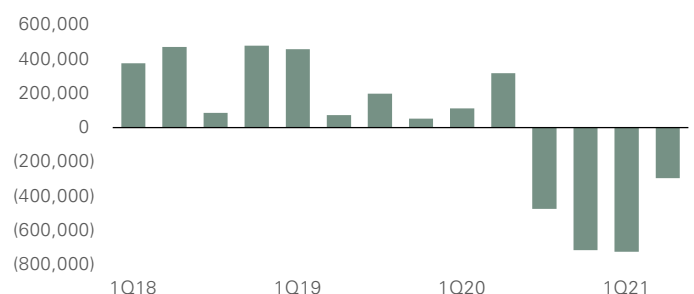
	Current Quarter	Prior Quarter	1 Year Ago Quarter	12-Month Forecast
Total Inventory (SF)	120.5M	120.5M	118.9M	↑
Vacancy Rate	15.3%	14.4%	11.2%	↑
Quarterly Net Absorption (SF)	(296,404)	(725,195)	195,179	↓
Average Gross Asking Rent/SF	\$29.41	\$29.19	\$28.85	↓
Under Construction (SF)	531,000	531,000	2,122,000	↓

## Market Analysis

### ASKING RENT AND VACANCY RATE



### NET ABSORPTION



### Submarket Analysis

The Southeast submarket had the most negative absorption with 89,000 square feet, followed by the Minneapolis CBD's negative absorption of 85,000 square feet. Accounting for a large portion of the Southeast submarket's negative absorption, Valley Office Park in Bloomington had eight tenants vacate for 36,000 square feet. Furthermore, Coldwell Banker left 15,000 square feet at the Pennock Building in Apple Valley in quarter two. In the Minneapolis CBD, Lindquist and Vennum vacated 50,000 square feet in the IDS Center, while at RSM Plaza East, The Wood Group vacated 15,645 square feet. Together collectively, the Minneapolis CBD and Southeast submarket have year-to-date negative absorption of 679,000 square feet.

Only the West submarket garnered positive absorption in quarter two, which totaled 11,000 square feet. Contributing to the West submarket's positive absorption included The Moscoe Group for 22,000 square feet at Crescent Ridge II as well as WFS/Kinect Energy for 9,800 square feet at Crescent Ridge I. The newly built Class A property, 10 West End, became 25% occupied as Charlie & Co and The Excelsior Group moved in for a combined 9,400 square feet. The West submarket currently has the Twin Cities' second highest vacancy rate of 15.7%, while the Minneapolis CBD submarket has the highest vacancy rate with 17.1%.

In the Southwest submarket positive absorption was the result of about by several move-ins at Normandale Lake Office Park. At the 8000 Tower, health insurance company, Bright Health took 43,000 square feet. Additionally, five other tenants moved into the 8300 Tower and 8200 Tower for 31,000 square feet. Nonetheless, the Southwest submarket had negative absorption in the quarter for 47,000 square feet. This was due to tenants vacating in six medium to large size blocks of office space. The largest exit was Old National Bank for 46,000 square feet at 1550 Audubon Drive, Chaska. The Southwest submarket vacancy rate stands at 11.9% on the quarter.

### Office Sale Transactions

Regarding investment sale activity, the Southeast submarket was active in quarter two. Three of the top four highest transacted property types were medical-office buildings in Burnsville, which totaled \$87 million. Healthpeak Partners purchased the properties consisting of 176,000 square feet from Harrison Street Real Estate. Furthermore, in Woodbury there were acquisitions of two former Globe University properties, one was bought by Friends of WLA for \$11.440 million and the second paid by Crossroads Properties for \$3.3 million.

Another asset class that was sought after in quarter two were multi-tenant Class B properties. South Carolina based Asana Partners purchased Colonial Warehouse in the Minneapolis CBD for \$35.380 million from GEM Realty Capital. On the 494 Corridor, One Paramount Plaza sold for \$6.368 million and Valley Office Park went for \$3.3 million.

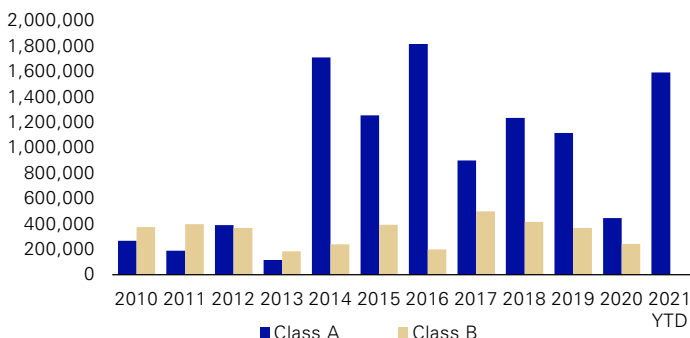
Total sales volume is \$532 million at the halfway point of 2021. Sales volumes will bypass the 2020 total of \$781 million and will likely exceed a billion dollars by the end of the year.

### Future Outlook

Many employers in the Twin Cities will start bringing workers back after Labor Day when youth return to school from summer break. From there prevailing vaccine efficacy and positive health optimism will generate a new competitive layer to the office market and more leasing. Landlords will innovate their properties with systems of well-being, whether new air ventilation, touchless technology or fitness options. Tenants currently having difficulties with a national labor crunch will focus on building culture and modern office design brands. Office culture which fosters collaborative teamwork and improving productivity can woo back those that are favoring flexible work schedules. Along with rebuilding team and culture, attracting top talent into a traditional office may be a tougher task as many top businesses are planning to redesign their offices into more engaging workspaces in 2021 and 2022.

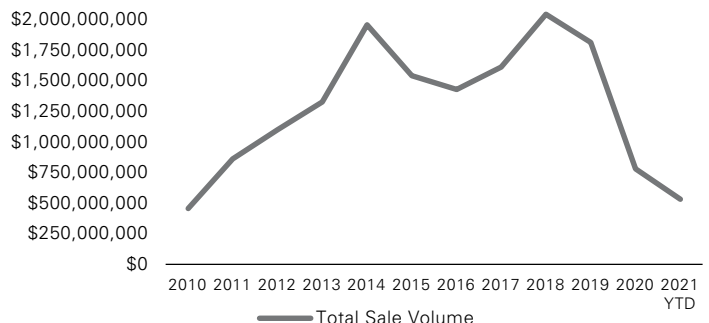
### Office Construction Deliveries

Total Square Feet



### Office Sales Volume

Total Dollars Sold



RESEARCH Q2 2021

Select Sales Transactions

Property	Address	City	Submarket	Buyer	Seller	Price	SF	Price PSF
Minnesota Valley Surgical Center	1000 140 <sup>th</sup> Street W	Burnsville	Southeast	Healthpeak Partners	Harrison Street Real Estate	\$52,000,000	85,602	\$607.46
Colonial Warehouse	212 3 <sup>rd</sup> Avenue N	Minneapolis	Minneapolis CBD	Asana Partners	GEM Realty Capital	\$35,379,350	203,000	\$174.28
303 Ridgeview Medical	303 Nicollet Blvd E	Burnsville	Southeast	Healthpeak Partners	Harrison Street Real Estate	\$21,000,000	53,896	\$389.64
305 Ridgeview Medical	305 Nicollet Blvd E	Burnsville	Southeast	Healthpeak Partners	Harrison Street Real Estate	\$14,000,000	36,199	\$386.64
Westwood Lake Office Park	8401-8441 Wayzata Blvd	Golden Valley	West	Uptown Apartments	Ted Glasrud Asscoaties	\$12,050,000	133,656	\$90.16
Globe Campus Building	8089 Globe Dr	Woodbury	Southeast	Friends off WLA	Globe University & MN School of Business	\$11,440,637	68,581	\$166.82
Former Austin Mutual Building	15490 101 <sup>st</sup> Avenue	Osseo	Northwest	Bell Bank	Austin Mutual Insurance Co.	\$7,500,000	48,000	\$149.17
Apple Valley Commons I	7300 147 <sup>th</sup> Street W	Apple Valley	Southeast	Private Owner	Private Owner	\$7,150,000	54,394	\$131.45
One Paramount Plaza	7801 East Bush Lake Road	Bloomington	Southwest	Private Owner	Carpathian Capital Management	\$6,367,750	52,722	\$120.78
TCA Building	1715 Yankee Doodle Rd	Eagan	Southeast	Bridge Capital Partners	Hudson Advisors	\$5,500,000	102,049	\$53.90
-	3560 Delta Dental Drive	Eagan	Southeast	The Holy Christian Church Int.	Delta Dental of Minnesota	\$5,000,000	66,286	\$75.43
Gage Building	10000 Highway 55	Plymouth	Northwest	MG Kaminski	Edwin Gage	\$4,950,000	62,688	\$78.96
-	2677 Bunker Lake Blvd NW	Andover	Northeast	Private Owner	Boser Construction	\$4,360,000	13,600	\$320.59
Globe University Building	8147 Globe Dr	Woodbury	Southeast	Crossroads Properties	Globe University & MN School of Business	\$3,800,000	27,846	\$136.46
-	3500 Federal Drive	Eagan	Southeast	Kingdom Embassy Worship	Private Owner	\$3,556,400	35,564	\$100.00
Valley Office Park	10800 Lyndale Avenue S	Bloomington	Southeast	Commercial Investors Group	Private Owner	\$3,300,000	63,184	\$52.23
-	14261 Burnsville Parkway W	Burnsville	Southeast	Private Owner	Private Owner	\$2,980,251	30,712	\$97.04
POS Business Center	9905 45 <sup>th</sup> Avenue N	Plymouth	Northwest	Lil Explorers Properties of Plymouth	North Country Business Products	\$2,575,000	29,813	\$86.37
Custom Research Building	10301 Wayzata Blvd	Minnetonka	West	Private Owner	Private Owner	\$2,290,000	14,900	\$153.69
Primetech Office Center II	6458 City West Parkway	Eden Prairie	Southwest	Language of Love Learning Center	Frauenshuh, Inc	\$1,700,000	13,808	\$123.12

## Select Lease Transactions

Tenant	Property	Address	City	Submarket	Type	Size (SF)
Schwan's	Normandale Lake Office Park – 8500 Tower	5800 84 <sup>th</sup> Street W	Bloomington	Southwest	Renewal	83,332
MN Regulatory Licensing Board	Randolph Square	335 Randolph Ave	St. Paul	St. Paul CBD	New	68,500
Storm King BBQ	700 5 <sup>th</sup> Street	700 5 <sup>th</sup> Street	Minneapolis	Minneapolis CBD	New	46,000
Bright Health	Normandale Lake Office Park – 8000 Tower	8331 Norman Center Dr	Bloomington	Southwest	New	42,978
Radisson Hospitality Group	10 West End	1601 Utica Avenue	Saint Louis Park	West	New	34,697
Two Harbors	10 West End	1601 Utica Avenue	Saint Louis Park	West	New	34,640
Marco Technologies	Whitewater Office Center I	12501 Whitewater Dr	Minnetonka	Southwest	New	25,000
MNGI Digestive Health	Maple Grove Specialty Center	10300 Maple Grove Parkway N	Maple Grove	Northwest	New	22,489
Tradition Mortgage	Centennial Lake Office Park II	7601 France Ave S	Edina	Southwest	New	22,393
Ovative	The Nordic	729 Washington Ave N	Minneapolis	Minneapolis CBD	New	19,150
Allina Health/Surgical Care Affiliates	610 Medical	610 Zane Ave N	Brooklyn Park	Northwest	New	18,000
Purcell Plumbing & Heating	Hampshire Technology Center	10900 Hampshire Ave S	Bloomington	Southwest	New	17,791
Intelligere	Gage Building	10000 Highway 55	Plymouth	West	Renewal	14,500
Avionte	One MarketPointe	4300 Marketpointe Dr	Bloomington	Southwest	New	14,276
Cygnus	Northland Center II	3600 American Blvd W	Bloomington	Southwest	New	13,132
Prime Therapeutics	Eagandale Corporate Center	1305 Corporate Center Dr	Eagan	Southeast	New	11,526
USI	Normandale Lake Office Park – 8000 Tower	8331 Norman Center Dr	Bloomington	Southwest	Sublease	10,530
Naviga	International Plaza	7900 International Dr	Bloomington	Southwest	New	10,376
Horizontal Integration	West End Plaza	1660 Highway 100 S	St. Louis Park	West	Expansion	10,161
WFS/Kinect Energy	Crescent Ridge Corporate Center	11100 Wayzata Blvd	Minnetonka	West	New	9,721
Arux Software	The 15 Building	15 S 15 <sup>th</sup> St	Minneapolis	Minneapolis CBD	New	9,713
Modus	Barrel House	111 3 <sup>rd</sup> Ave S	Minneapolis	Minneapolis CBD	New	8,523
Lockton	Normandale Lake Office Park – 8000 Tower	8331 Norman Center Dr	Bloomington	Southwest	New	8,270
PKT Enterprises	Switch House	110 5 <sup>th</sup> Ave SE	Minneapolis	Minneapolis CBD	New	7,900
Wilary & Winn	4FRONT Technology Office – Campus 1	3505 Highpoint Dr NE	Oakdale	Northeast	New	7,898

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Minneapolis CBD									
	Total Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy Percentage W/ Sublease	Q1 Absorption (SF)	Q2 Absorption (SF)	YTD Absorption	Weighted Avg. Rental Rate (FSG)	Under Construction (SF)
Class A	18,867,963	2,665,194	295,542	15.7%	1,518	(38,243)	(36,725)	\$36.48	531,000
Class B	6,990,259	1,897,820	30,290	27.6%	(49,630)	(22,224)	(71,864)	\$29.18	0
Class C	124,201	30,617	0	24.7%	1,117	0	1,117	\$18.31	0
<b>Core Total</b>	<b>25,982,423</b>	<b>4,593,631</b>	<b>325,832</b>	<b>18.9%</b>	<b>(47,005)</b>	<b>(60,467)</b>	<b>(107,472)</b>	<b>\$34.43</b>	<b>531,000</b>
Class A	1,407,443	5,225	0	0.3%	0	0	0	\$34.72	0
Class B	879,568	125,822	7,441	15.2%	(58,795)	551	(58,244)	\$25.02	0
Class C	175,842	15,000	15,000	0.9%	0	0	0	-	0
<b>East Total</b>	<b>2,462,853</b>	<b>146,047</b>	<b>7,441</b>	<b>6.2%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$30.13</b>	<b>0</b>
Class A	0	0	0	-	0	0	0	-	0
Class B	58,312	3,538	14,640	6.0%	0	0	0	\$29.51	0
Class C	169,048	0	0	-	3,251	0	3,251	\$21.00	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>0</b>	<b>3,251</b>	<b>\$25.15</b>	<b>0</b>
Class A	200,739	2,791	0	0	0	0	0	\$27.43	0
Class B	1,913,833	186,105	6,762	10.1%	(4,142)	(8,486)	(12,628)	\$24.36	0
Class C	1,159,464	13,668	0	1.2%	(2,526)	1,078	(1,448)	\$22.84	0
<b>Northeast Total</b>	<b>3,274,036</b>	<b>202,564</b>	<b>6,762</b>	<b>6.4%</b>	<b>(6,668)</b>	<b>(7,408)</b>	<b>(14,076)</b>	<b>\$24.18</b>	<b>0</b>
Class A	1,236,475	112,134	43,672	12.6%	(43,672)	2,617	(41,055)	\$38.00	0
Class B	1,173,777	381,087	28,837	32.5%	(1,635)	1,685	50	\$30.16	0
Class C	329,449	91,554	0	27.8%	(7,392)	(4,833)	(12,225)	\$25.02	0
<b>Northloop Total</b>	<b>2,739,701</b>	<b>584,775</b>	<b>72,509</b>	<b>24.0%</b>	<b>(52,699)</b>	<b>(531)</b>	<b>(53,230)</b>	<b>\$32.38</b>	<b>0</b>
Class A	434,333	11,888	0	2.7%	0	(11,888)	(11,888)	\$38.37	0
Class B	1,565,289	351,972	0	22.5%	(39,444)	984	(38,460)	\$27.73	0
Class C	311,165	11,960	0	3.8%	0	(6,678)	(6,678)	\$25.91	0
<b>Warehouse Total</b>	<b>2,310,787</b>	<b>375,820</b>	<b>0</b>	<b>16.3%</b>	<b>(39,444)</b>	<b>(17,582)</b>	<b>(57,026)</b>	<b>\$27.56</b>	<b>0</b>
Class A	22,146,953	2,797,232	339,214	14.2%	(42,244)	(47,514)	(89,668)	\$36.41	531,000
Class B	12,581,038	2,946,344	87,970	24.1%	(153,636)	(27,510)	(181,146)	\$28.46	0
Class C	2,269,169	162,799	0	7.2%	(5,550)	(10,443)	(15,983)	\$23.48	0
<b>Minneapolis CBD Total</b>	<b>36,997,160</b>	<b>5,906,375</b>	<b>427,184</b>	<b>17.1%</b>	<b>(201,440)</b>	<b>(85,457)</b>	<b>(286,797)</b>	<b>\$33.06</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)	Q2 Absorption (SF)	YTD Absorption	Weighted Avg. Rental Rate (FSG)	Under Construction (SF)
Class A	3,111,558	215,956	5,409	7.1%	(328)	(4,756)	(5,084)	\$25.62	0
Class B	4,490,322	983,917	8,253	20.0%	(16,179)	(757)	(16,936)	\$21.04	0
Class C	411,084	44,518	0	10.8%	(3,589)	1,353	(2,336)	\$20.15	0
<b>St. Paul CBD Total</b>	<b>8,462,964</b>	<b>1,244,391</b>	<b>13,662</b>	<b>14.9%</b>	<b>(20,096)</b>	<b>(4,160)</b>	<b>(24,256)</b>	<b>\$21.33</b>	<b>0</b>
Class A	1,245,396	102,601	7,477	8.8%	(10,105)	18,679	8,574	\$22.90	0
Class B	12,919,362	1,295,747	25,972	10.2%	(123,374)	(66,396)	(189,770)	\$22.03	0
Class C	3,608,967	194,230	14,362	5.8%	(39,154)	(31,392)	(70,586)	\$16.67	0
<b>Northeast Total</b>	<b>17,773,725</b>	<b>1,592,578</b>	<b>47,811</b>	<b>9.2%</b>	<b>(172,633)</b>	<b>(79,109)</b>	<b>(251,782)</b>	<b>\$21.89</b>	<b>0</b>
Class A	971,953	12,175	0	1.3%	(798)	1,897	1,099	\$31.74	0
Class B	3,580,367	395,200	18,566	11.3%	13,342	(7,984)	5,358	\$21.83	0
Class C	1,072,052	24,009	0	2.2%	685	3,863	4,548	\$20.28	0
<b>Northwest Total</b>	<b>5,624,372</b>	<b>431,384</b>	<b>18,566</b>	<b>8.0%</b>	<b>13,229</b>	<b>(2,224)</b>	<b>11,005</b>	<b>\$23.70</b>	<b>0</b>
Class A	2,611,888	433,100	11,747	17.0%	(1,126)	(13,072)	(14,198)	\$34.87	0
Class B	9,792,713	1,344,725	32,244	14.1%	(283,591)	(63,528)	(347,119)	\$26.26	0
Class C	3,585,165	2,238,844	6,590	6.4%	(17,504)	(13,378)	(30,882)	\$23.05	0
<b>Southeast Total</b>	<b>15,989,766</b>	<b>1,989,922</b>	<b>50,581</b>	<b>12.8%</b>	<b>(302,221)</b>	<b>(89,978)</b>	<b>(392,199)</b>	<b>\$29.81</b>	<b>0</b>
Class A	8,016,986	938,627	168,931	13.8%	(70,190)	(49,833)	(120,023)	\$27.51	0
Class B	10,399,270	1,152,813	135,876	12.4%	86,362	(13,235)	73,127	\$24.90	0
Class C	5,330,719	426,802	2,100	8.0%	66,401	16,343	82,744	\$17.72	0
<b>Southwest Total</b>	<b>23,746,975</b>	<b>2,518,242</b>	<b>306,907</b>	<b>11.9%</b>	<b>82,573</b>	<b>(46,725)</b>	<b>35,848</b>	<b>\$25.43</b>	<b>0</b>
Class A	3,879,931	937,450	57,510	25.6%	(48,174)	(6,362)	(54,536)	\$37.27	0
Class B	6,045,797	727,726	60,166	12.0%	(68,166)	(6,991)	(75,157)	\$29.38	0
Class C	2,013,317	67,841	21,047	4.4%	(8,267)	24,602	16,335	\$24.58	0
<b>West Total</b>	<b>11,939,045</b>	<b>1,733,017</b>	<b>138,723</b>	<b>15.7%</b>	<b>(124,607)</b>	<b>11,249</b>	<b>(113,358)</b>	<b>\$31.92</b>	<b>0</b>
Class A	41,984,665	5,437,141	590,288	14.4%	(172,965)	(100,961)	(273,836)	\$34.95	531,000
Class B	59,808,869	8,846,472	369,047	15.4%	(545,252)	(186,401)	(731,643)	\$25.72	0
Class C	18,290,473	3,159,043	44,099	17.5%	(6,978)	(9,052)	(16,160)	\$22.02	0
<b>Overall Total</b>	<b>120,534,007</b>	<b>17,442,656</b>	<b>1,003,434</b>	<b>15.3%</b>	<b>(725,195)</b>	<b>(296,404)</b>	<b>(1,021,839)</b>	<b>\$29.41</b>	<b>531,000</b>

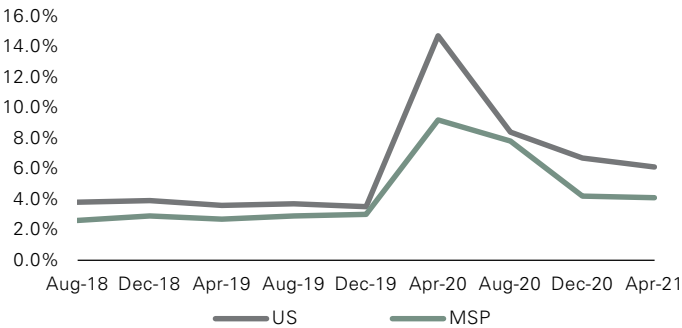
### Economic Conditions

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

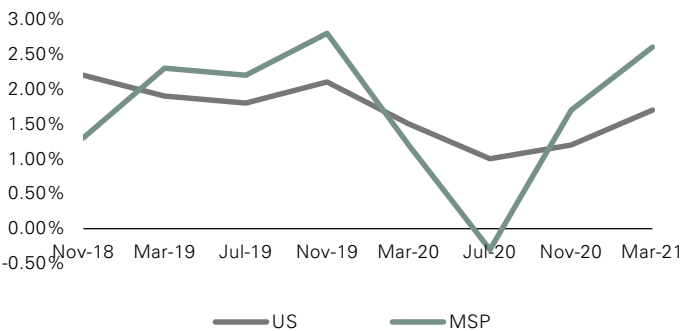
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

### Consumer Price Index (CPI)

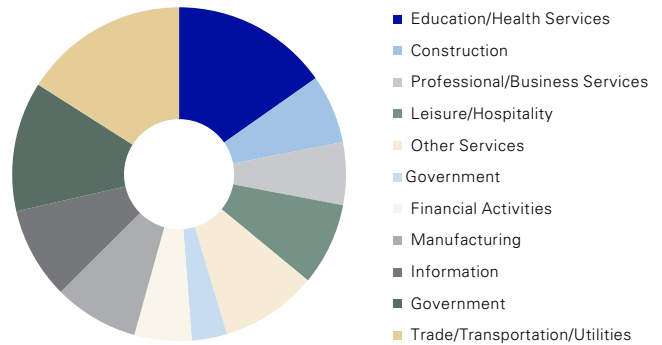
All items, annual % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

### Employment by Industry

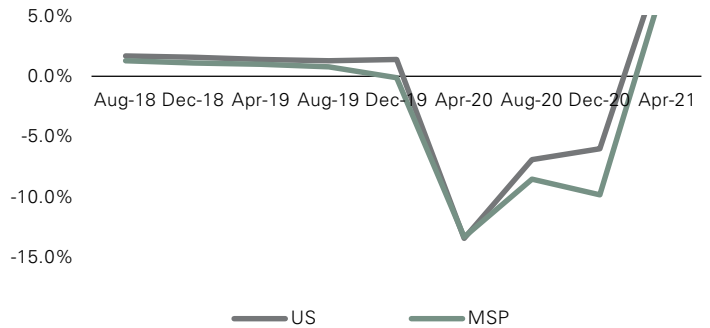
Employment by Industry Minneapolis-St. Paul



Source: U.S. Bureau of Labor Statistics

### Payroll Employment

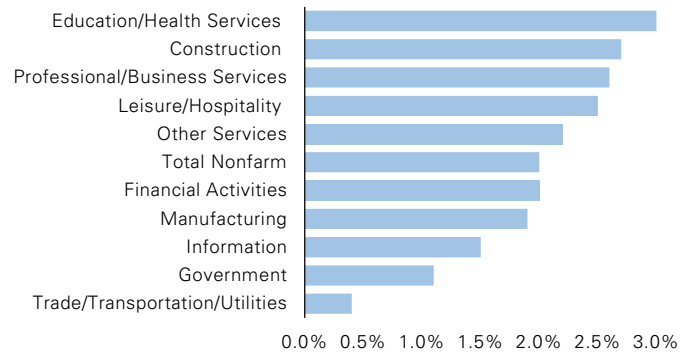
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

### Employment Growth by Industry

12-Month % Change



Source: U.S. Bureau of Labor Statistics

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**GEORGIA**

Atlanta

**IDAHO**

Boise

**ILLINOIS**

Chicago

**INDIANA**

Indianapolis

**KANSAS**

Wichita

**LOUISIANA**

New Orleans

**MARYLAND**

Baltimore  
 Salisbury

**MASSACHUSETTS**

Boston

**MICHIGAN**

Detroit

**MINNESOTA**

Minneapolis

**MISSOURI**

Kansas City  
 St. Louis

**NEVADA**

Las Vegas  
 Reno

**NEW JERSEY**

Rutherford  
 East Brunswick  
 Morristown

**NEW YORK**

Buffalo/Amherst  
 New York

**NORTH CAROLINA**

Charlotte  
 Raleigh

**OHIO**

Cincinnati  
 Cleveland  
 Columbus  
 Dayton

**OKLAHOMA**

Oklahoma City  
 Tulsa

**OREGON**

Portland

**PENNSYLVANIA**

Allentown  
 Philadelphia  
 Pittsburgh  
 Wayne

**TENNESSEE**

Memphis  
 Nashville

**TEXAS**

Austin  
 Dallas  
 Houston

**UTAH**

Clearfield  
 Orem  
 Salt Lake City

**VERMONT**

Burlington

**VIRGINIA**

Tysons Corner

**WASHINGTON**

Bellevue  
 Seattle

**WISCONSIN**

Brookfield  
 Madison  
 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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