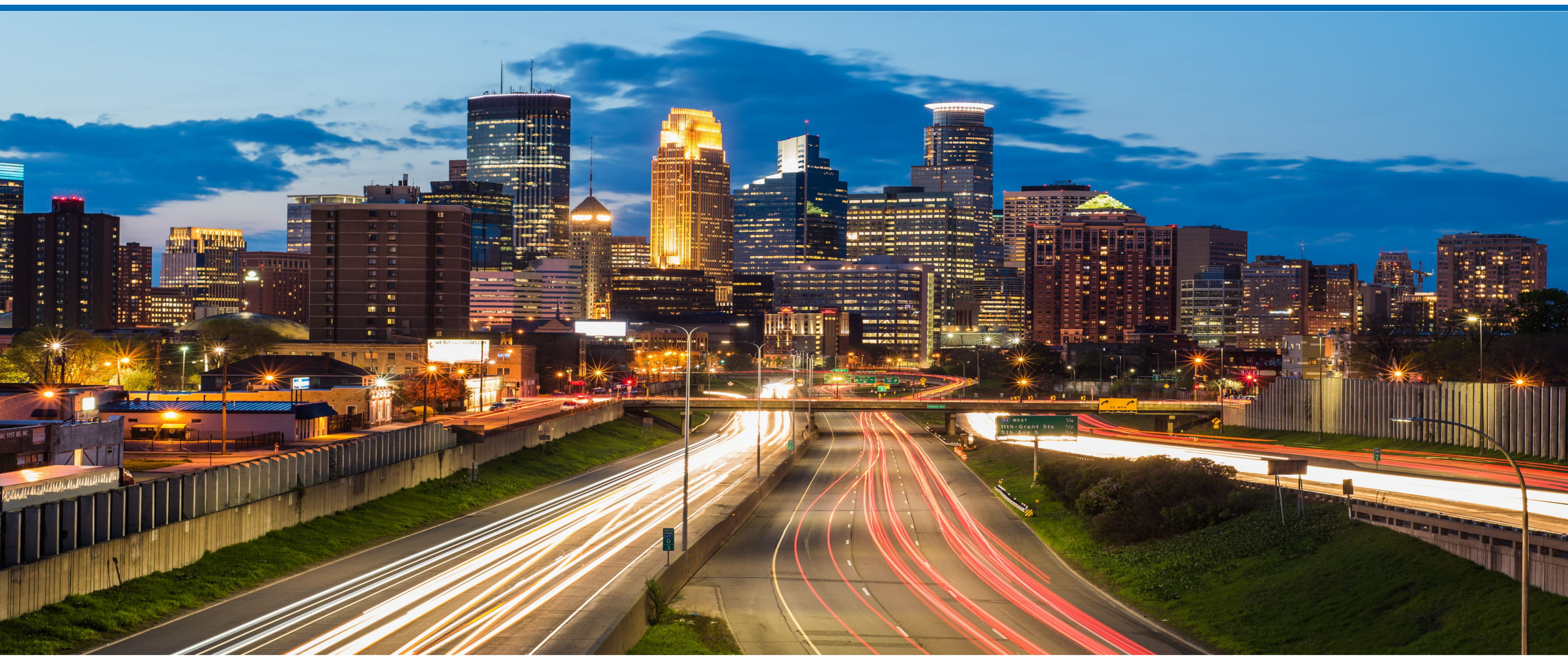


2Q24

# 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 area has a historically low unemployment rate, consistently lower than the national rate. The unemployment rate is 2.6% as of April 2024, compared to the national rate of 3.9%.
- Office-using employment sectors have not returned to pre-pandemic levels. Information, financial activities and professional and business services declined annually by 5.2%, 3.0% and 4.3%, respectively.

## Major Transactions

- Construction was completed on North Loop Green, which includes 359,000 square feet of office space, a residential tower with 450 units, retail space, 470 parking spaces and a park. Tenants include Piper Sandler, KPMG, ESG Architecture & Design and Varde Partners.
- Lender MetLife will assume ownership of Capella Tower after owner Shorenstein surrendered control following a failed attempt at selling the property.
- The 1.2 million-square-foot Wells Fargo Center in downtown Minneapolis is up for sale. It is expected to sell at a significant discount compared to its most recent sale in 2019 when Starwood Capital purchased it for \$314 million.
- US Bank is vacating the St. Paul CBD. While it will maintain its branch location at US Bank Center, it will vacate 118,000 square feet of space. This decision comes after last fall's announcement that the bank will leave 340,000 square feet at Meridian Crossings in Richfield, while committing long term to the Minneapolis CBD as it renewed its lease for 440,000 square feet at the US Bancorp Center.

## Leasing Market Fundamentals

- After absorption moderated in late 2023 and early 2024, the market experienced an increase in negative absorption, totaling 496,134 square feet in the 2nd quarter. This was largely due to US Bank vacating 340,000 square feet at Meridian Crossings in Richfield.
- Leasing activity slowed to 886,793 square feet in the 2nd quarter, down from an average of 1.6 million square feet per quarter during the previous five quarters. Most companies are reducing the amount of space they occupy but are making longer-term decisions by either committing to new office spaces or renewing for longer terms.
- Tenants have greater clarity in their hybrid work strategies, with increasing confidence that remote work levels have stabilized. Companies continue to mandate a specific number of in-office workdays rather than merely encouraging them.
- 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.

## Outlook

- In a positive note for the Minneapolis CBD, Minneapolis has experienced a surge in entertainment activities, leading to increased vibrancy. A recent study by the University of Toronto's School of Cities, analyzing cell phone activity, indicated heightened use, particularly on weeknights and weekends.
- Tenants in new construction either signed long-term leases immediately prior to the pandemic, which now expire in 5+ years, or signed long-term leases post-pandemic while incorporating hybrid work strategies. This bodes well for these properties to maintain strong occupancy in the future.
- Tenants are increasingly scrutinizing landlords' stability and in some cases avoiding buildings where financially-distressed landlords might struggle to maintain and operate the property. Concessions will continue to be a significant factor in future negotiations, in the form of both financial incentives and lease flexibility.

1. Economy
2. Leasing Market Fundamentals

2Q24

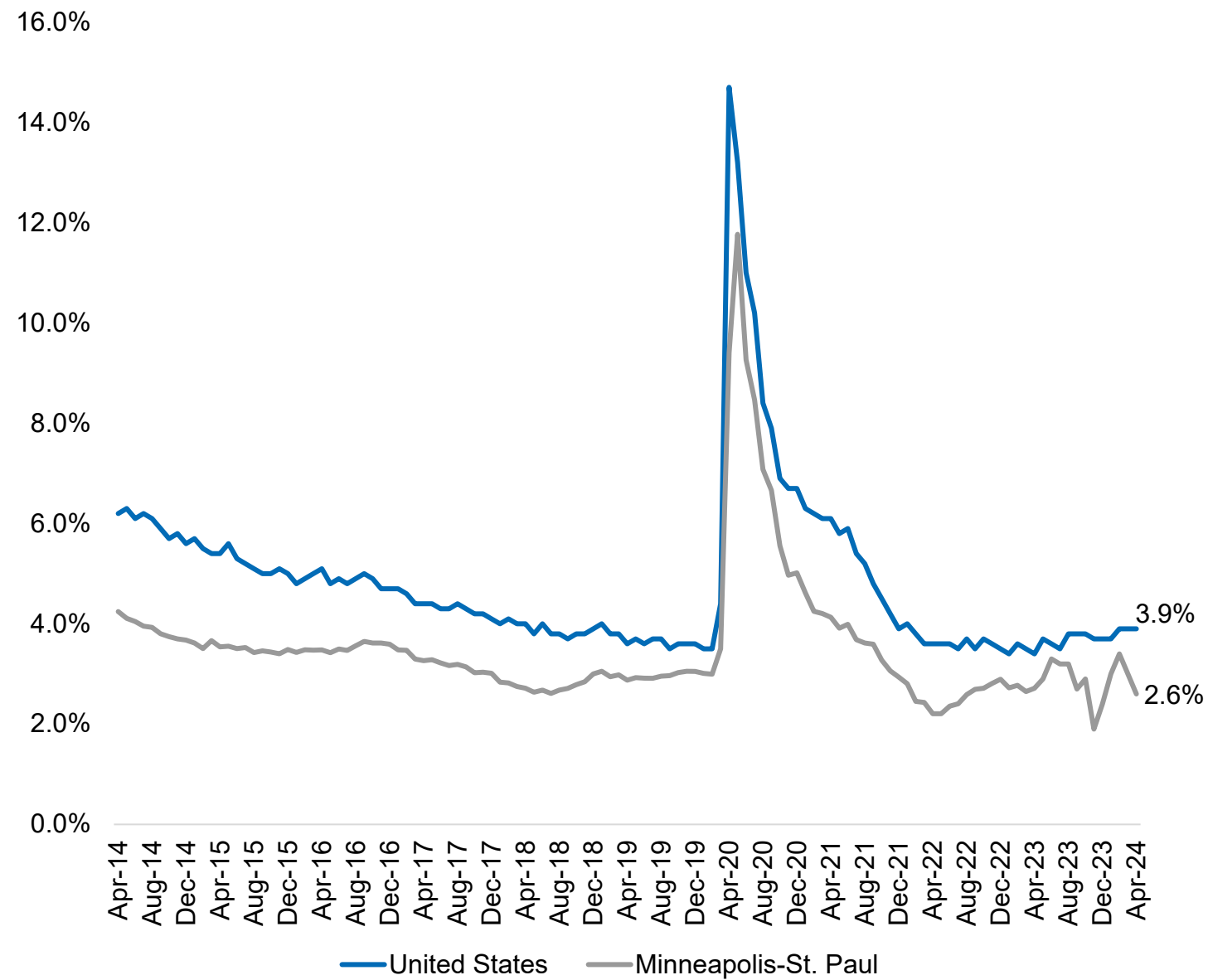
# Economy



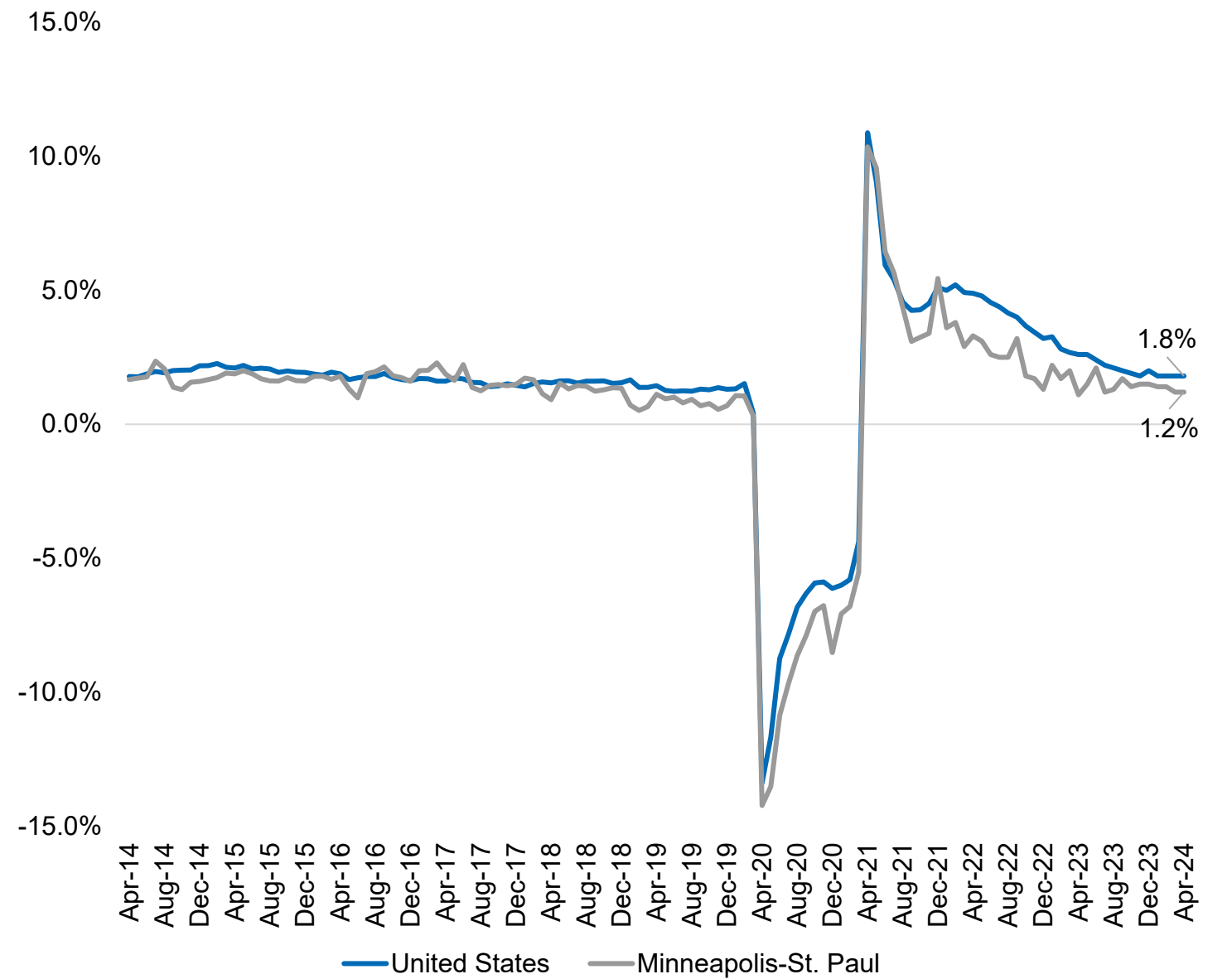
# Minneapolis-St. Paul's Total Employment Increases Slightly

Minneapolis-St. Paul's unemployment rate decreased from 3.0% in March to 2.6% in April. The U.S. unemployment rate was steady at 3.9%. Minneapolis-St. Paul's economy grew slightly by 1.2% since April of 2023.

Unemployment Rate, Seasonally Adjusted



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

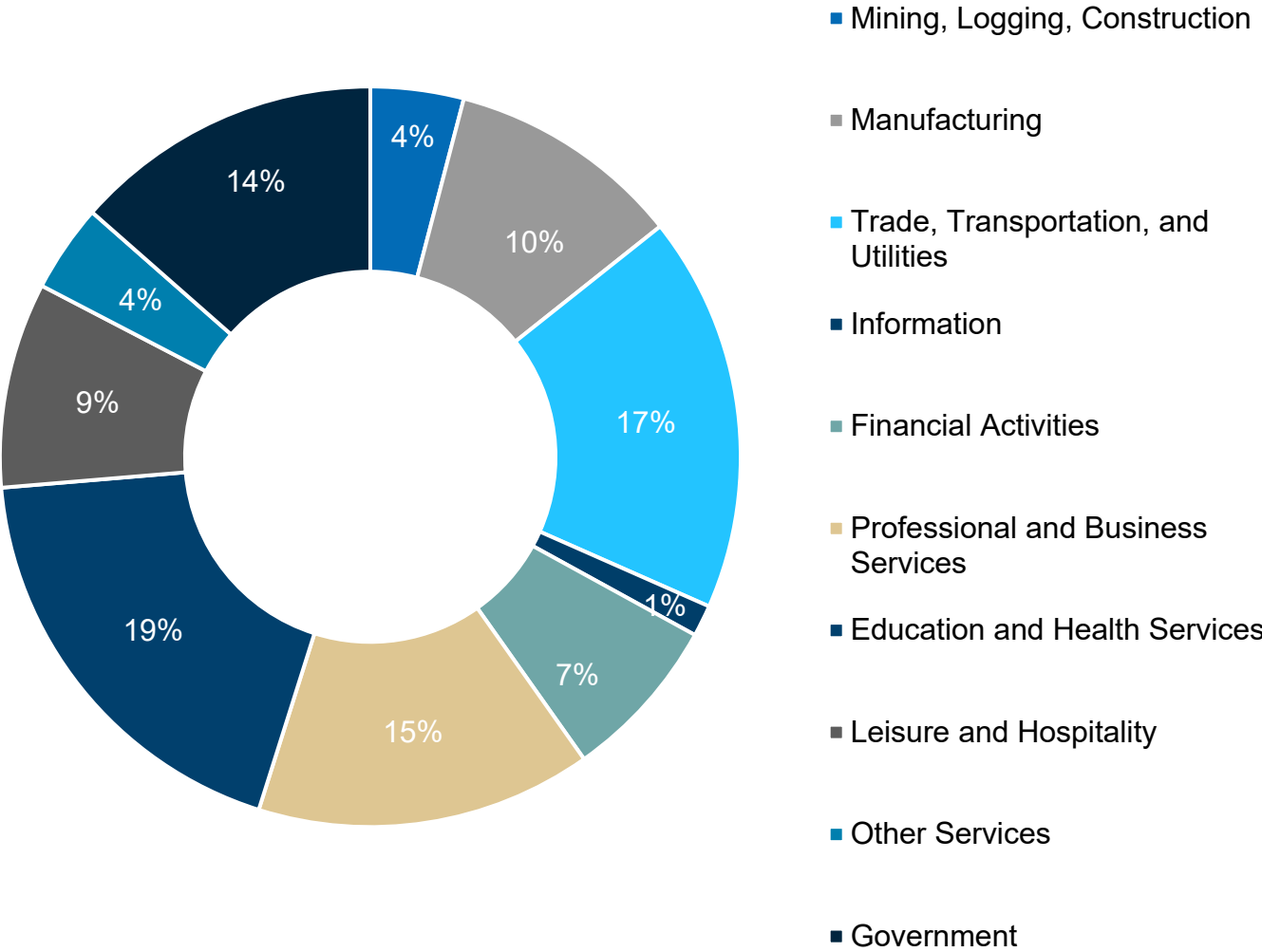


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

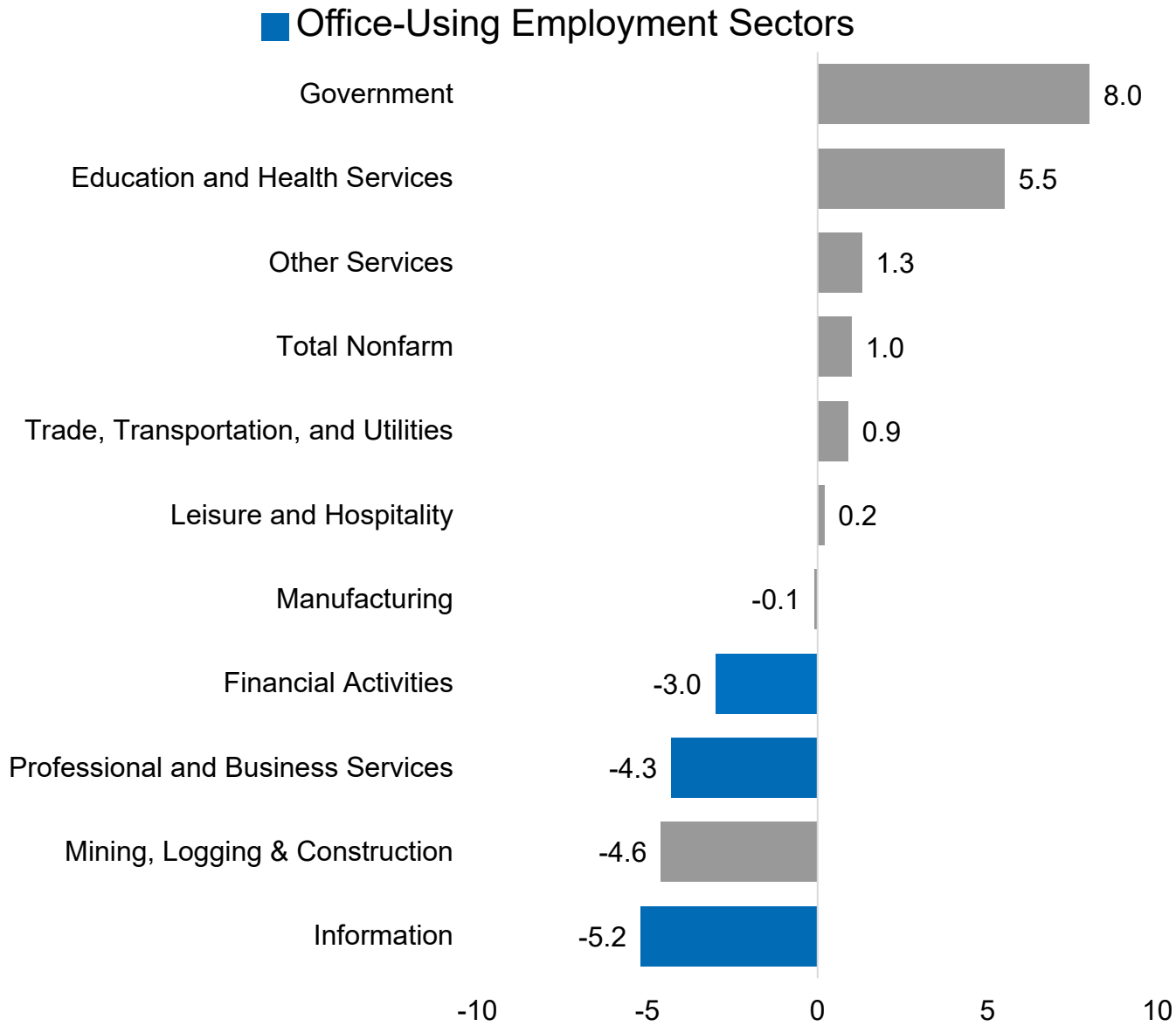
# 12-month Office-Using Employment Continues its Decline

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

Employment by Industry, April, 2024



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

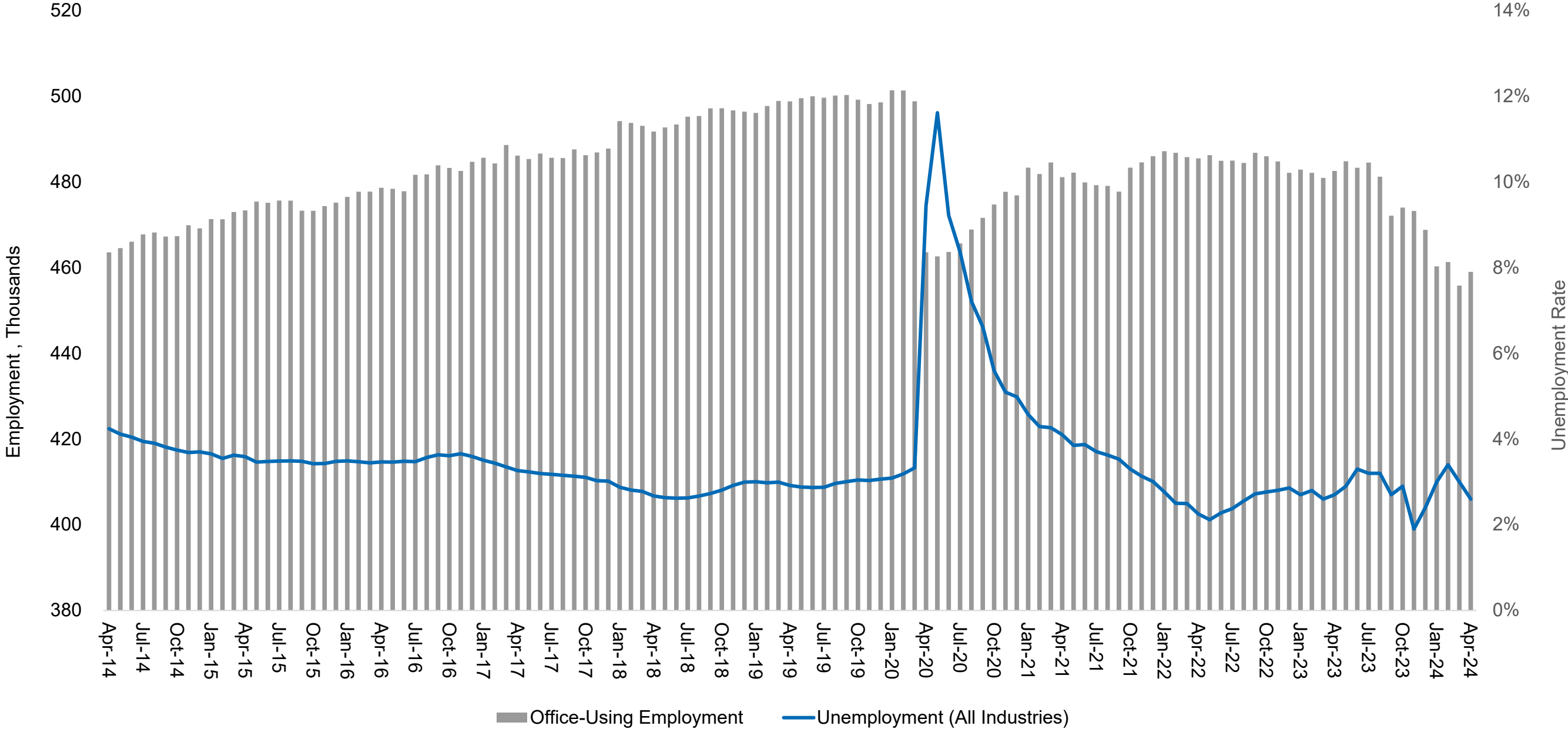


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

# 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 April of 2024.

**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.

2Q24

# Leasing Market Fundamentals

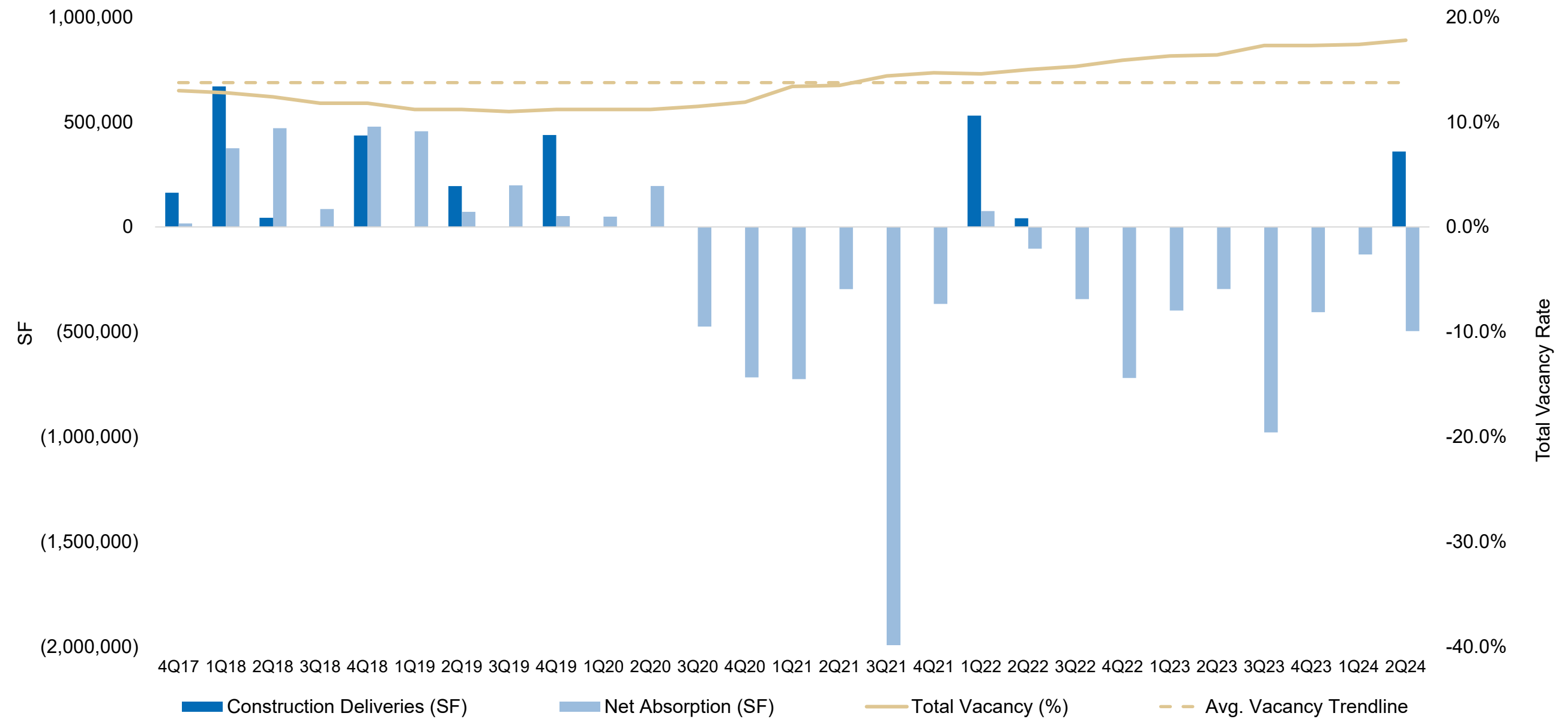




# Another Corporate Downsizing Hits Market

After absorption moderated in late 2023 and early 2024, the market experienced an increase in negative absorption, totaling 496,134 square feet in the 2nd quarter. This was largely due to US Bank vacating 340,000 square feet at Meridian Crossings in Richfield.

## Historical Construction Deliveries, Net Absorption, and Vacancy

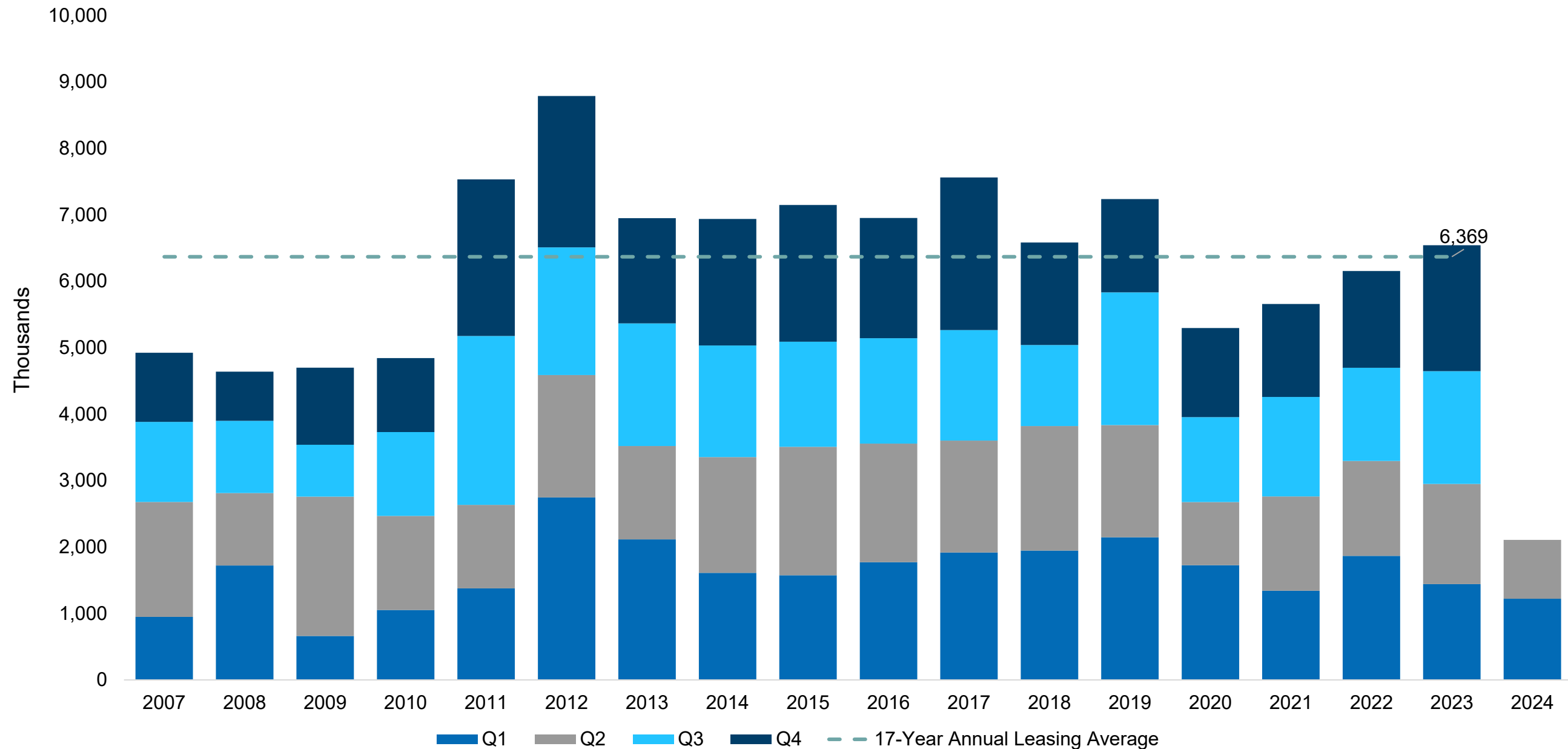


Source: Newmark Research, MNCAR, Costar

# Leasing Activity Occurring But Not at Pre-Pandemic Levels

Leasing activity slowed to 886,793 square feet in the 2nd quarter, down from an average of 1.6 million square feet per quarter during the previous five quarters. Most companies are reducing the amount of space they occupy but are making longer-term decisions by either committing to new office spaces or renewing for longer terms.

Total Leasing Activity (thousands)

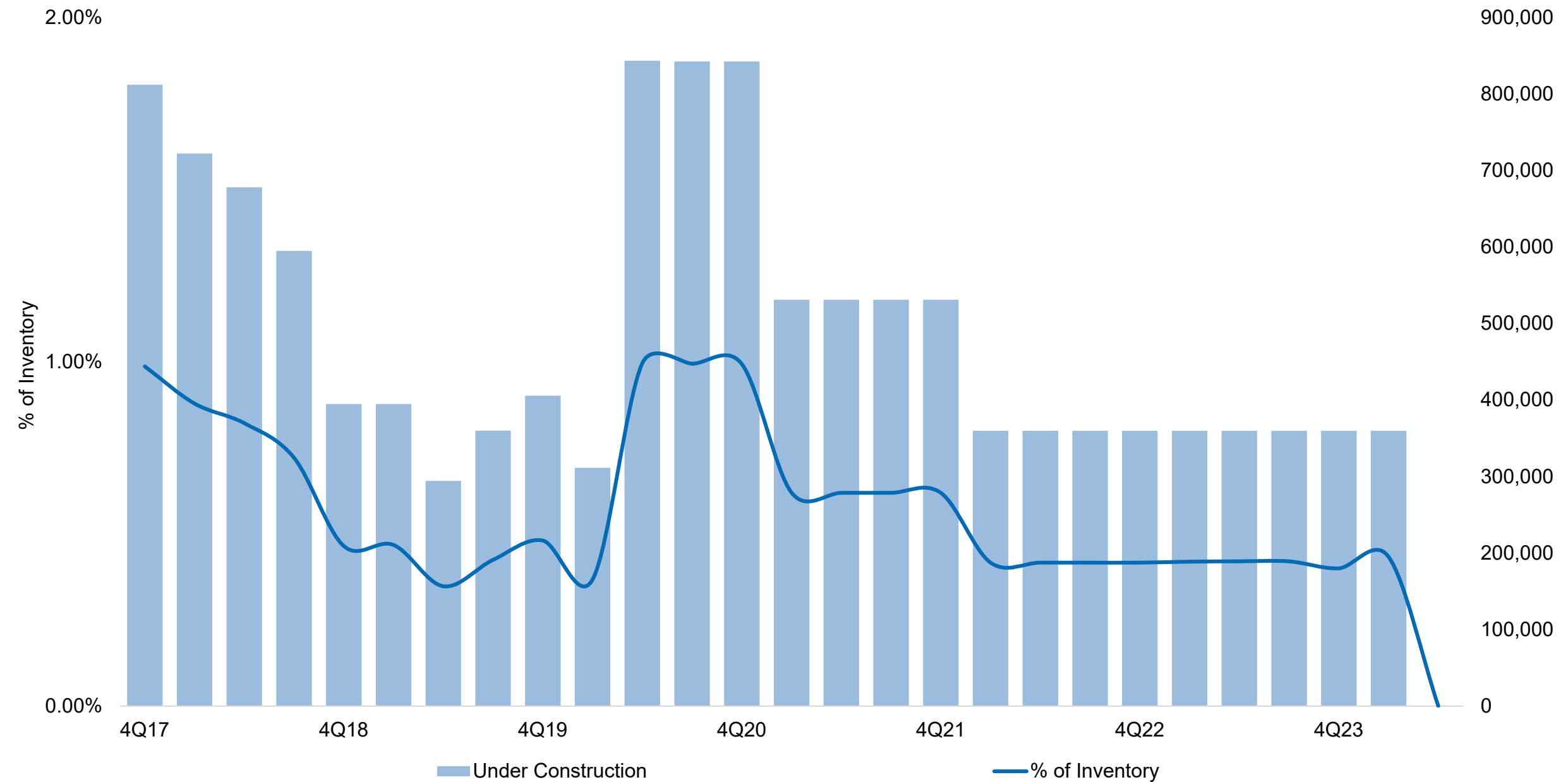


Source: Newmark Research, CoStar

# North Loop Green Construction Complete, No Further Projects Underway

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

## Office Under Construction and % of Inventory

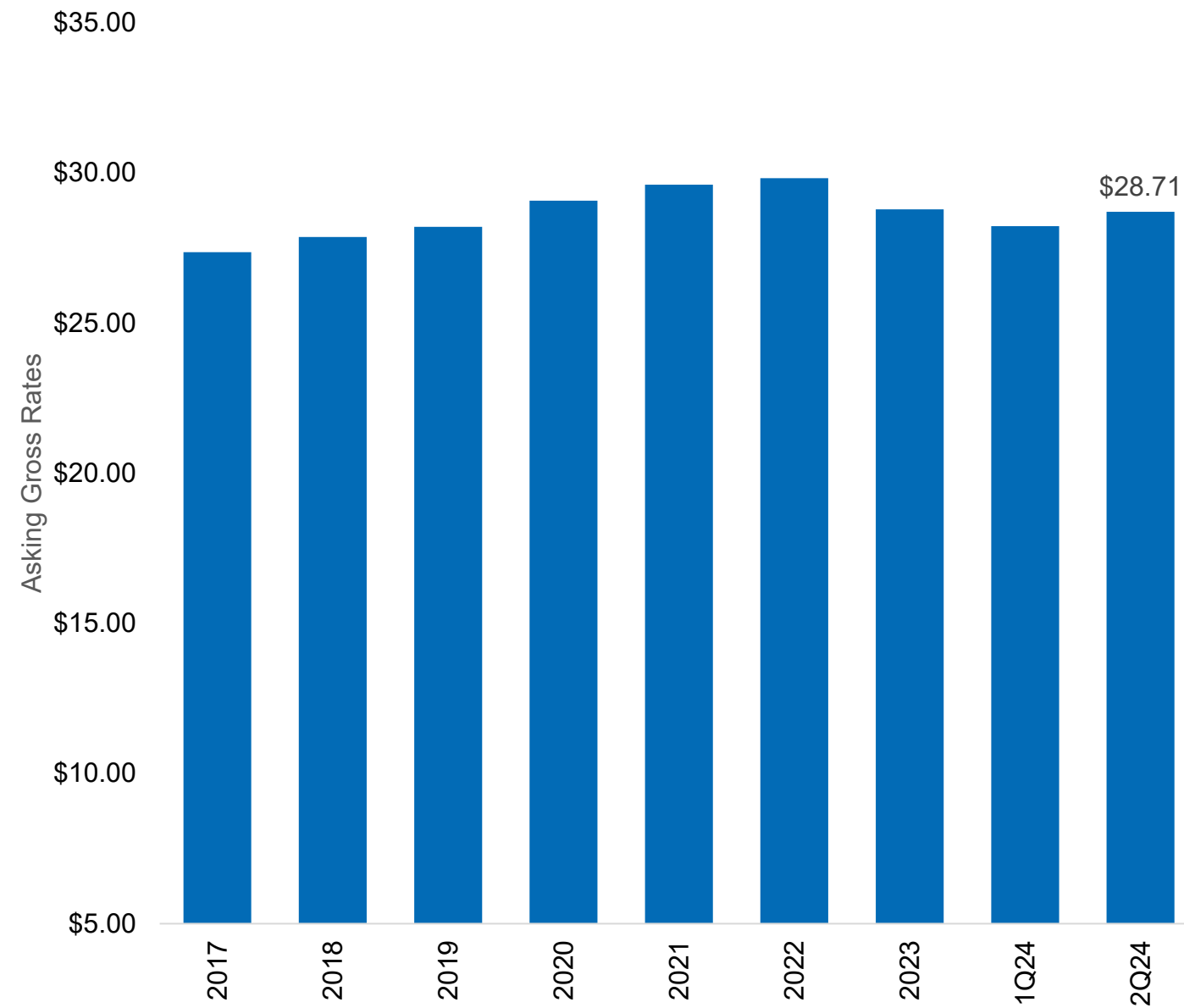


Source: Newmark Research, CoStar, MNCAR

# Quoted Rates Increase Slightly

Rates remain elevated considering current market conditions, while concessions are substantial. In the future, a lack of liquidity among some landlords may force them to lower rents rather than continue to provide elevated concession packages.

Office Average Asking Rent, \$/SF, Gross



Year-over-Year Asking Gross Rent Growth Rate

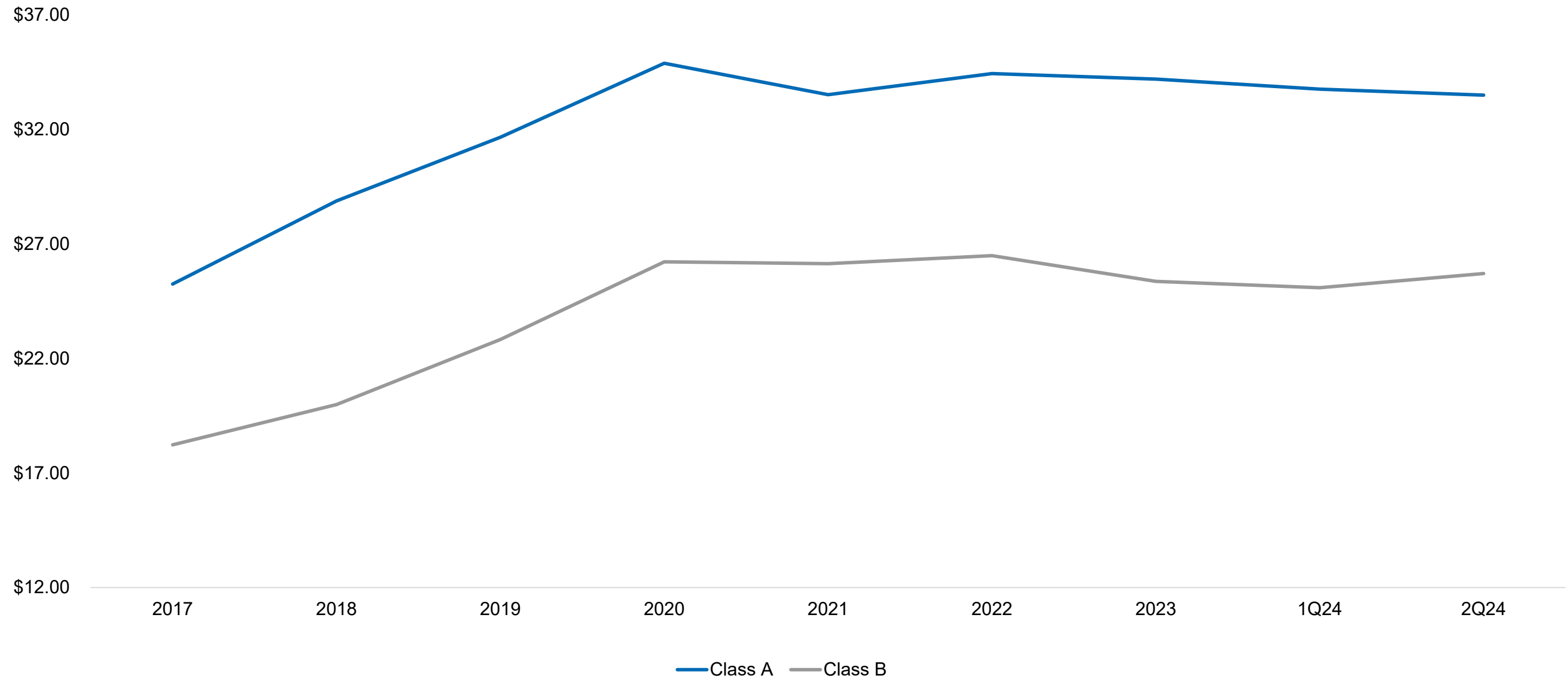


Source: Newmark Research, CoStar

# Strong Demand For Highest Quality Class A Properties

Quoted rates for overall Class A were down slightly while Class B increased slightly.

## Class A and Class B Asking Rents



Source: Newmark Research, CoStar

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# Minneapolis CBD Absorption and Vacancy Forecast



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## Trophy A vs. Commodity A vs. B



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*Forecast*

# Office Transactions

## Notable 2Q24 Lease Transactions

Tenant	Building	Submarket	Type	SF
Capella University	Capella Tower	Mpls CBD - Core	Renewal/Downsize	111,700
TKDA	Solo 3311	Southeast	New	87,352
BTM Global	7700 France Ave S	Southwest	New	19,849
Burns & McDonnell	Southpoint Office Center Tower	Southwest	Sublease	17,294
Nepsis	2 Meridian Crossings	Southeast	New	15,409
Sportsdigita	Centennial Lakes Office Park IV	Southwest	New	14,632
Yarkstik	100 Washington Square	Minneapolis CBD	Jamf Sublease	14,000
Life Link III	Shoreview Business Campus	Northeast	New	12,827
Office at Attorney General	Town Square Tower	Saint Paul CBD	Renewal	12,313
Agrex Inc	Crescent Ridge II	West	New	10,731
The St Paul & Minnesota Foundation	Osborn 370	Saint Paul CBD	New	10,694

Source: Newmark Research, MNCAR





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