

Minneapolis-St. Paul Office Market Overview



Market Observations

Economy

- Minneapolis thrives with a strong headquarters economy, hosting 15 Fortune 500 firms—the most per capita of any major U.S. metro area. Additionally, over 320 Fortune 1000 companies maintain a local presence. The region enjoys a historically low unemployment rate, currently at 3.8% as of August 2024, compared to the national rate of 4.2%.
- However, office-using employment sectors have yet to fully recover to pre-pandemic levels. Information, financial activities, and professional/business services sectors have experienced annual declines of 3.5%, 4.6%, and 4.6%, respectively.

Leasing Market Fundamentals

- Absorption has been negative for 16 of the past 17 quarters. In Q3, negative absorption reached 724,456 SF, raising the vacancy rate to 18.7%.
- Some tenants, seeking to downsize, are opting to pay termination fees to exit leases.
- With many needing to reduce their space by 50% or more, paying the fee and negotiating a smaller, more affordable lease often proves more cost-effective than restructuring an existing lease.
- While rents have remained relatively stable, tenant concessions are on the rise. Tenants are increasingly attracted to top-tier properties that offer superior amenities.

Major Transactions/Outlook

- Positive developments include KPMG and ESG Architecture & Design leasing 56,118 SF and 28,059 SF, respectively, at the newly constructed North Loop Green. However, this was offset by KPMG vacating 51,000 SF at Wells Fargo Center, the State of Minnesota vacating 120,000 SF at the Golden Rule Building in St. Paul's CBD due to remote work policies, and US Bank vacating 118,000 SF as it consolidates operations in its Minneapolis CBD and Hopkins locations.
- In July, DRA Advisors and City Center Realty Partners, owners of Wells Fargo Plaza in Bloomington, defaulted on a \$44.8 million loan. Hennepin County officials issued a legal notice to sell the 450,000 SF building at auction.
- Wold Architects will relocate from the St. Paul CBD to the Minneapolis CBD, moving 250 workers from the First National Bank building to 50 South Sixth Street in the summer of 2025.
- A judge from Hennepin County District Court appointed Lighthouse Management Group Inc. as the receiver of the Dayton's Project after the property's lender sued for foreclosure. Owner 601W Cos. completed a \$350 million renovation on the 1.2 million SF property in 2021.
- Over the past 12+ months, landlords of 19 office properties totaling 8,326,821 SF have fallen behind on mortgage payments, leading to ownership transfers to lenders. Of these properties, 73% are in central business districts (CBDs), and with more properties in distress, additional transfers are expected.
- The upcoming wave of maturing loans could drive further distressed transactions, creating new opportunities for investors.

1. Economy
2. Leasing Market Fundamentals

3Q24

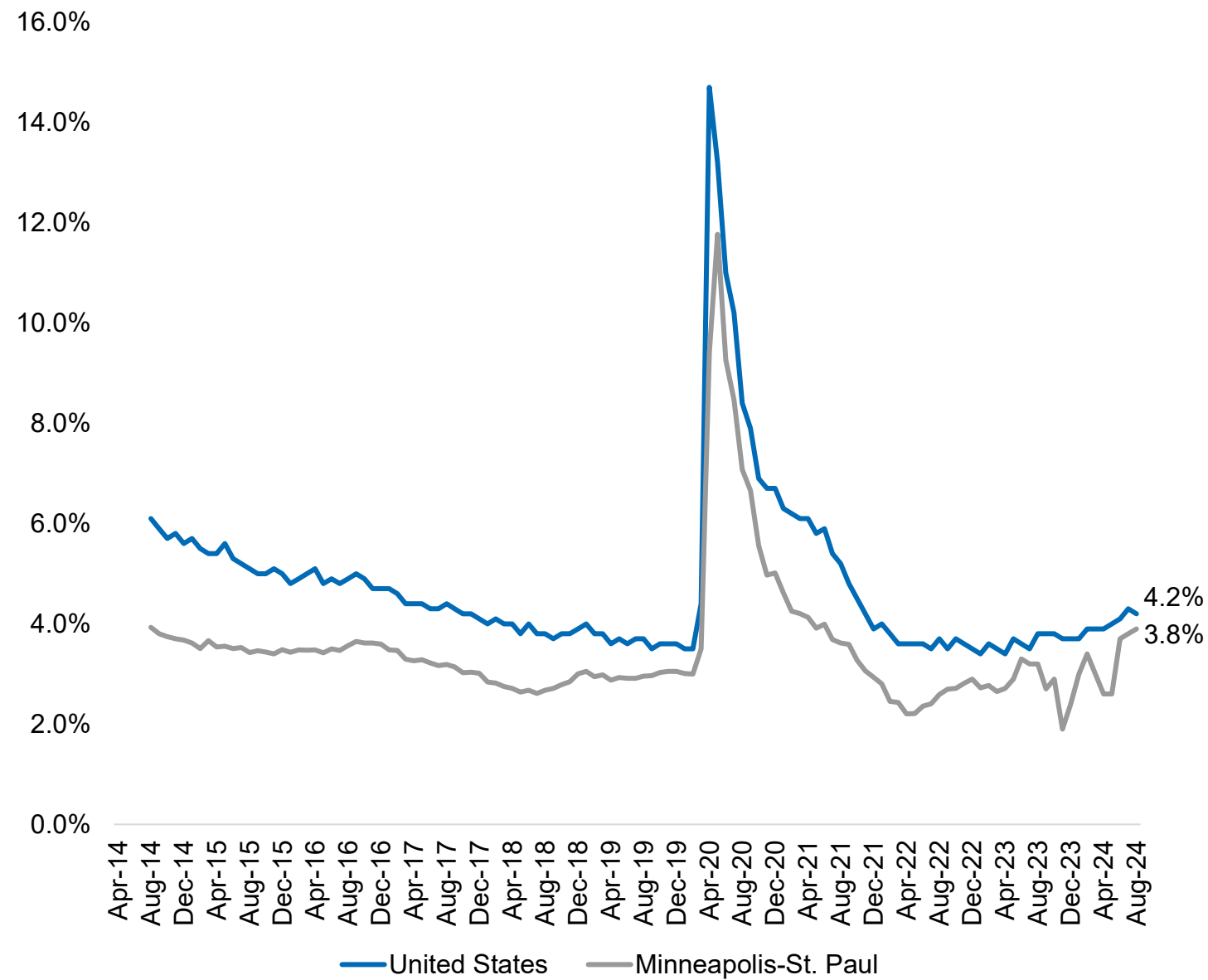
Economy



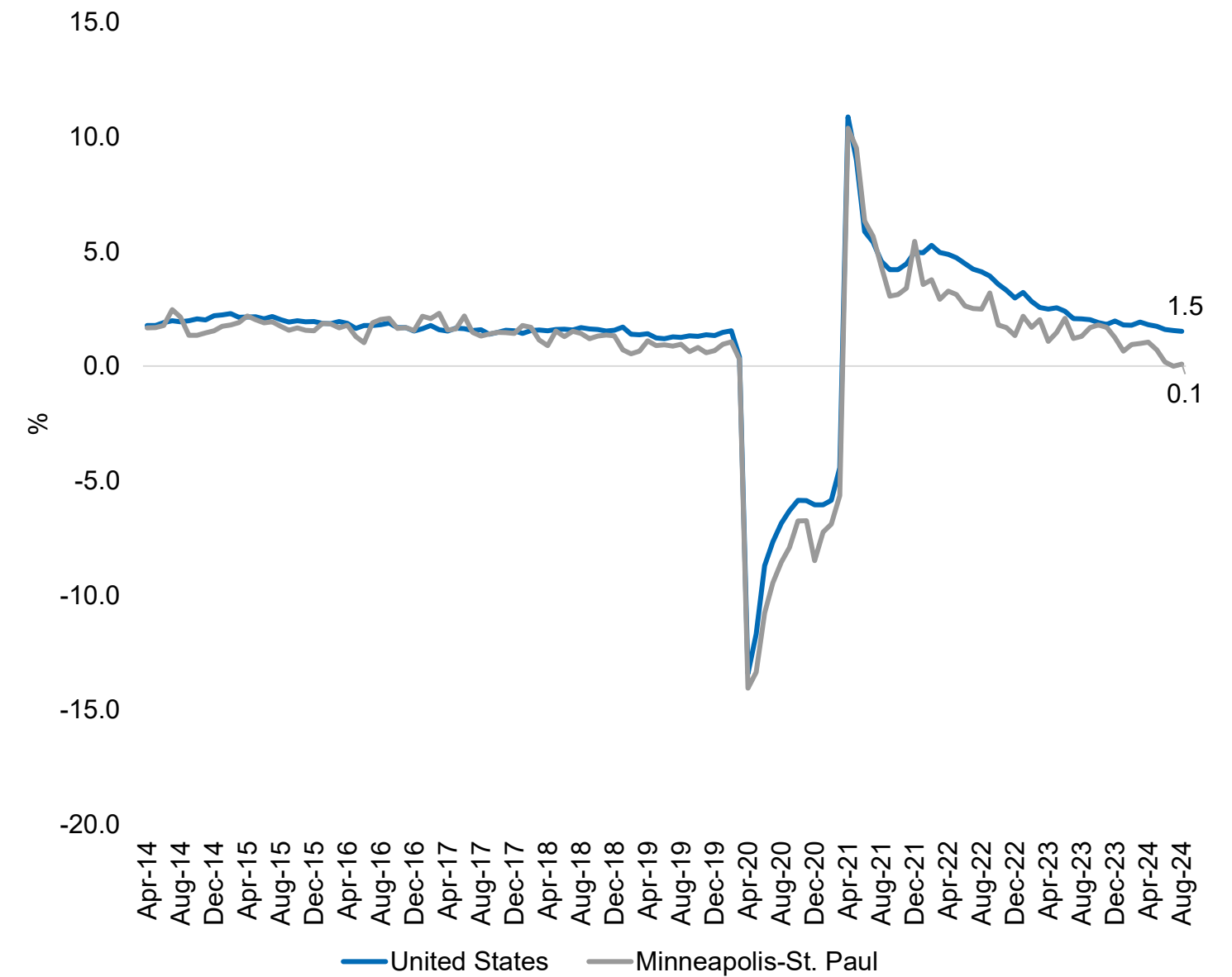
Local & National Employment Up Versus The Previous Year

Minneapolis-St. Paul's unemployment rate rose from 3.8% in July to 3.9% in August, up from 3.2% in August 2023. The U.S. unemployment rate is currently 4.2%, an increase from 3.8% in August 2023.

Unemployment Rate, Seasonally Adjusted



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

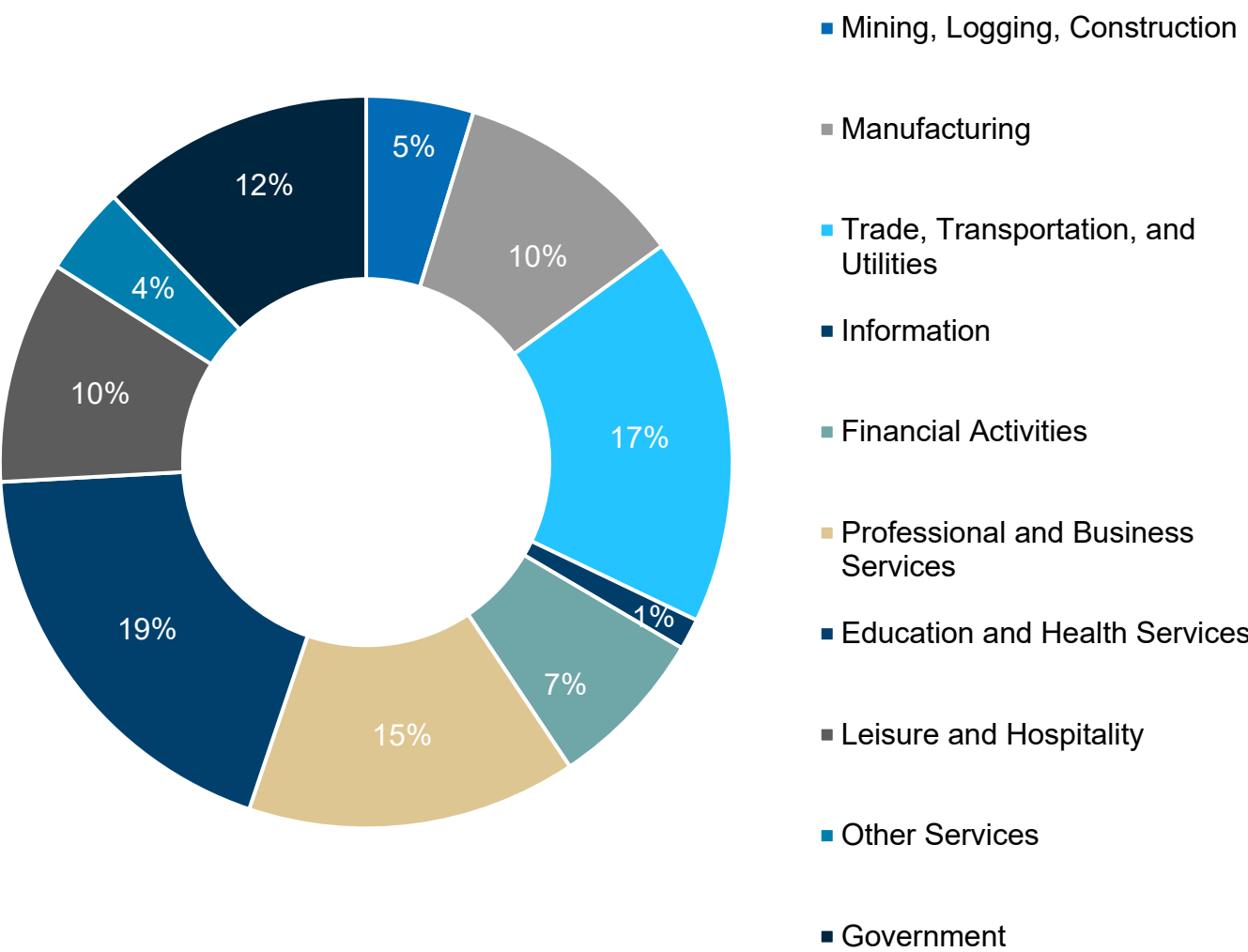


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

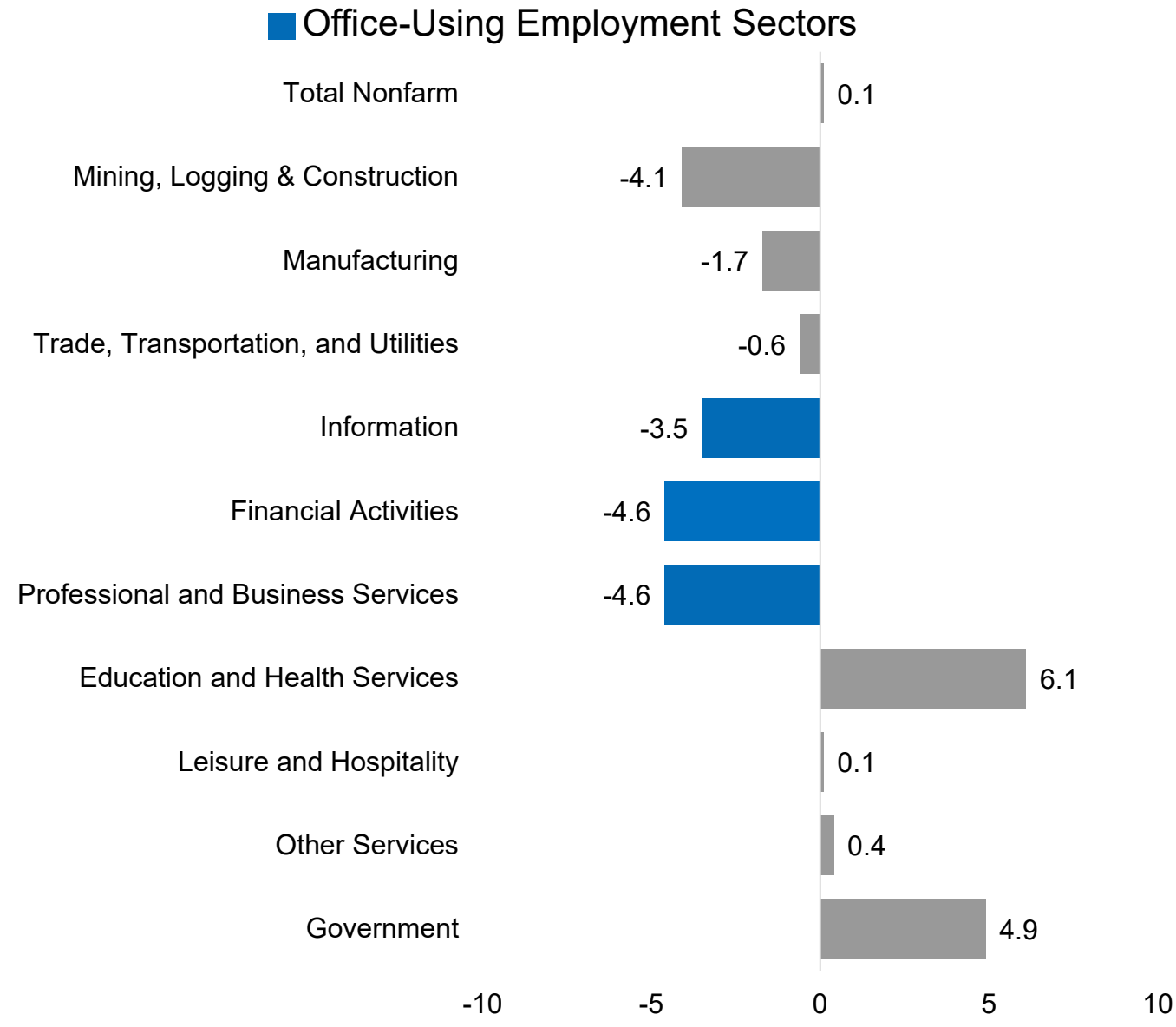
12-Month Office-Using Employment Continues Decline

Education and Health Services grew by 6.1%, and Government increased by 4.9%, marking the only sectors with significant positive 12-month growth. All office sectors experienced declines.

Employment by Industry, August, 2024



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

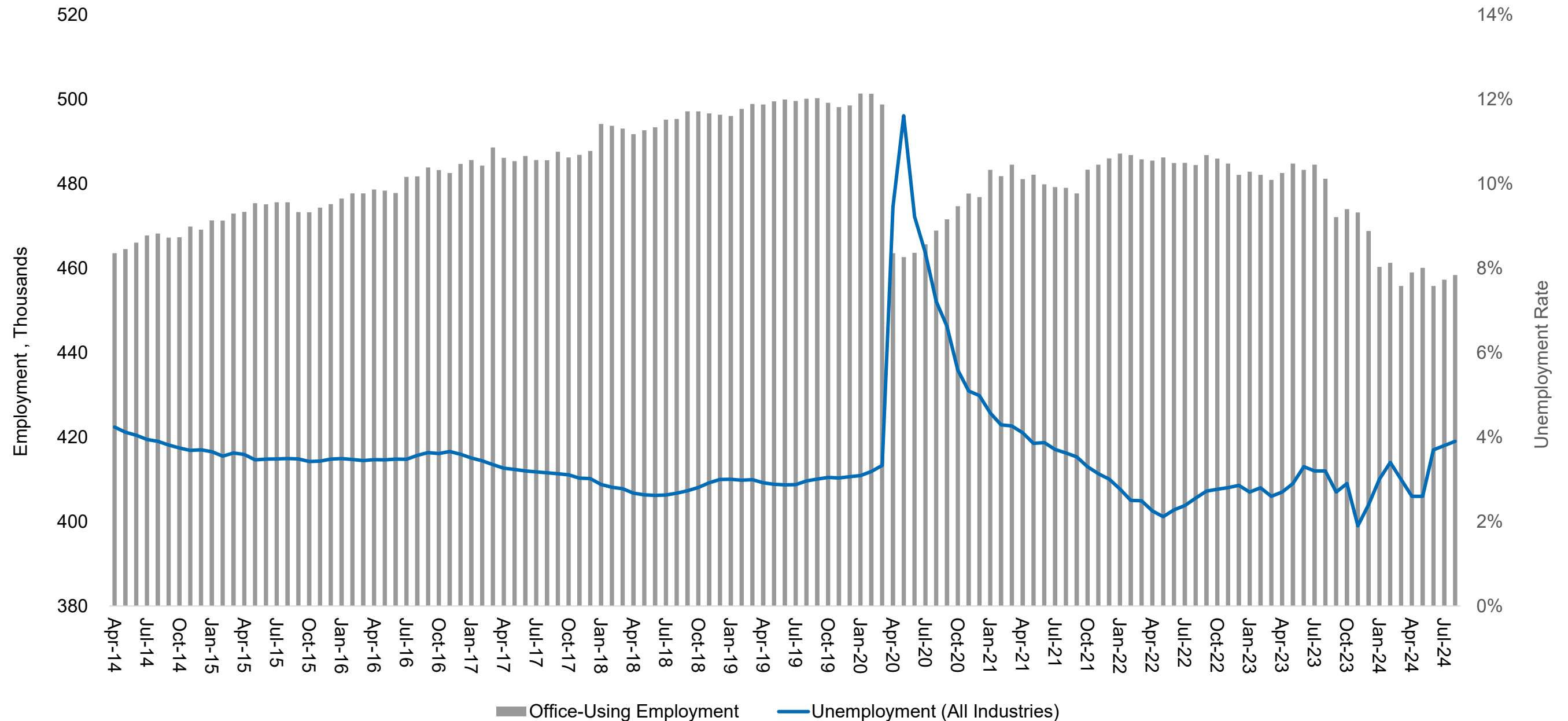


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

Office Sector Declines Weigh On Regional Employment Growth

Office-dependent sectors, including Information, Financial, and Professional and Business Services, posted slight gains compared to the previous quarter but remain down year-over-year. Minneapolis-St. Paul ranks among the bottom 10 largest metropolitan areas for annual employment growth, driven by ongoing declines in office-using employment.

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.

3Q24

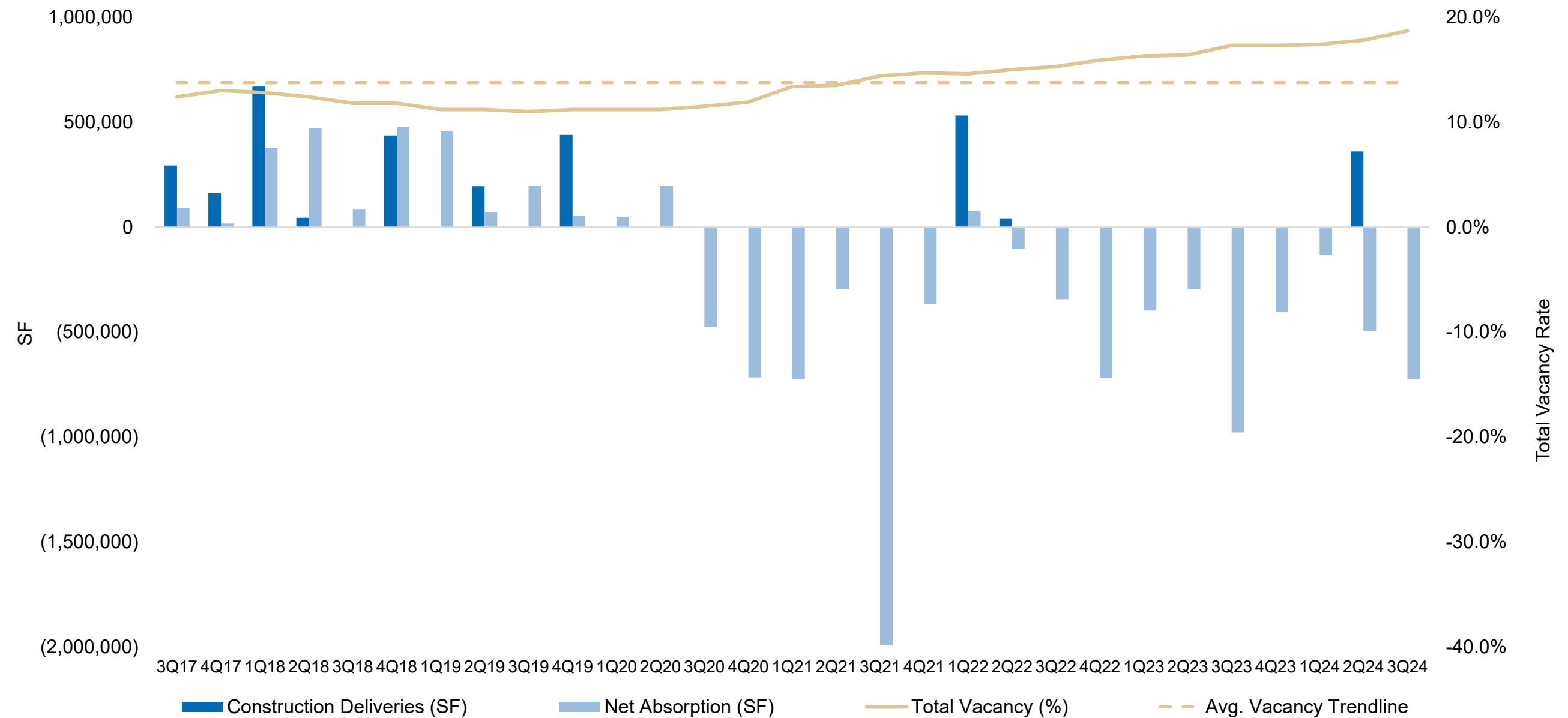
Leasing Market Fundamentals



Absorption Negative 16 Of Last 17 Quarters

Leasing activity remains strong, but tenants continue to downsize during renewals or relocations. In the St. Paul CBD, the State of Minnesota vacated 120,000 SF at the Golden Rule Building due to remote work policies, while US Bank left 118,000 SF, consolidating operations at US Bancorp in the Minneapolis CBD and Excelsior Crossings in the Southwest submarket.

Historical Construction Deliveries, Net Absorption, and Vacancy

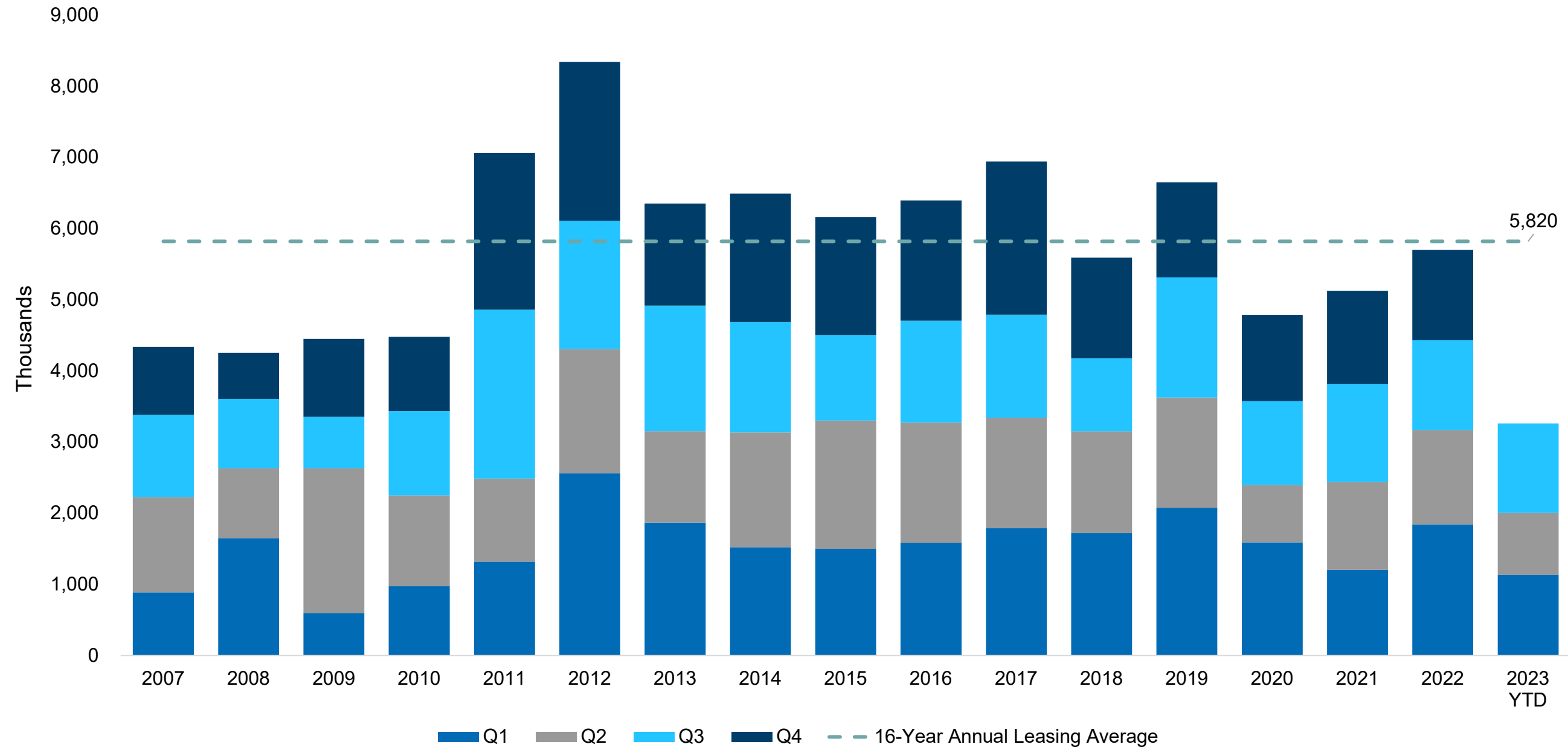


Source: Newmark Research, MNCAR, Costar

Strong Leasing Activity, Though Lower Occupied Space

Companies are making long-term decisions by committing to new office spaces or renewing for extended terms. Tenants are increasingly drawn to top-tier properties with premier amenities while simultaneously reducing the amount of space they occupy.

Total Leasing Activity (thousands)

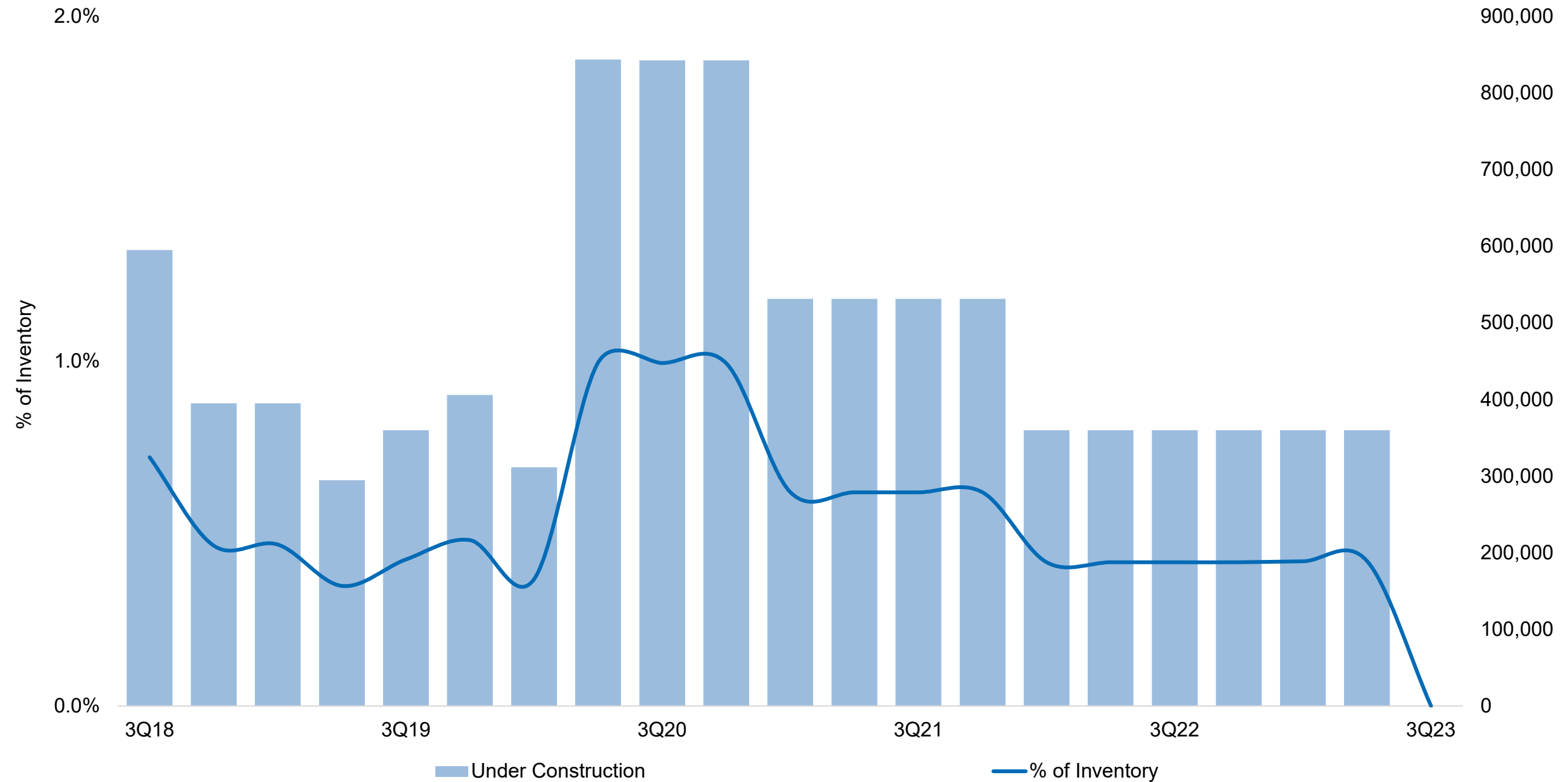


Source: Newmark Research, CoStar

Declining Demand Limits New Office Construction

Given the continued decline in office space demand, future construction is unlikely to further increase vacancy rates.

Office Under Construction and % of Inventory

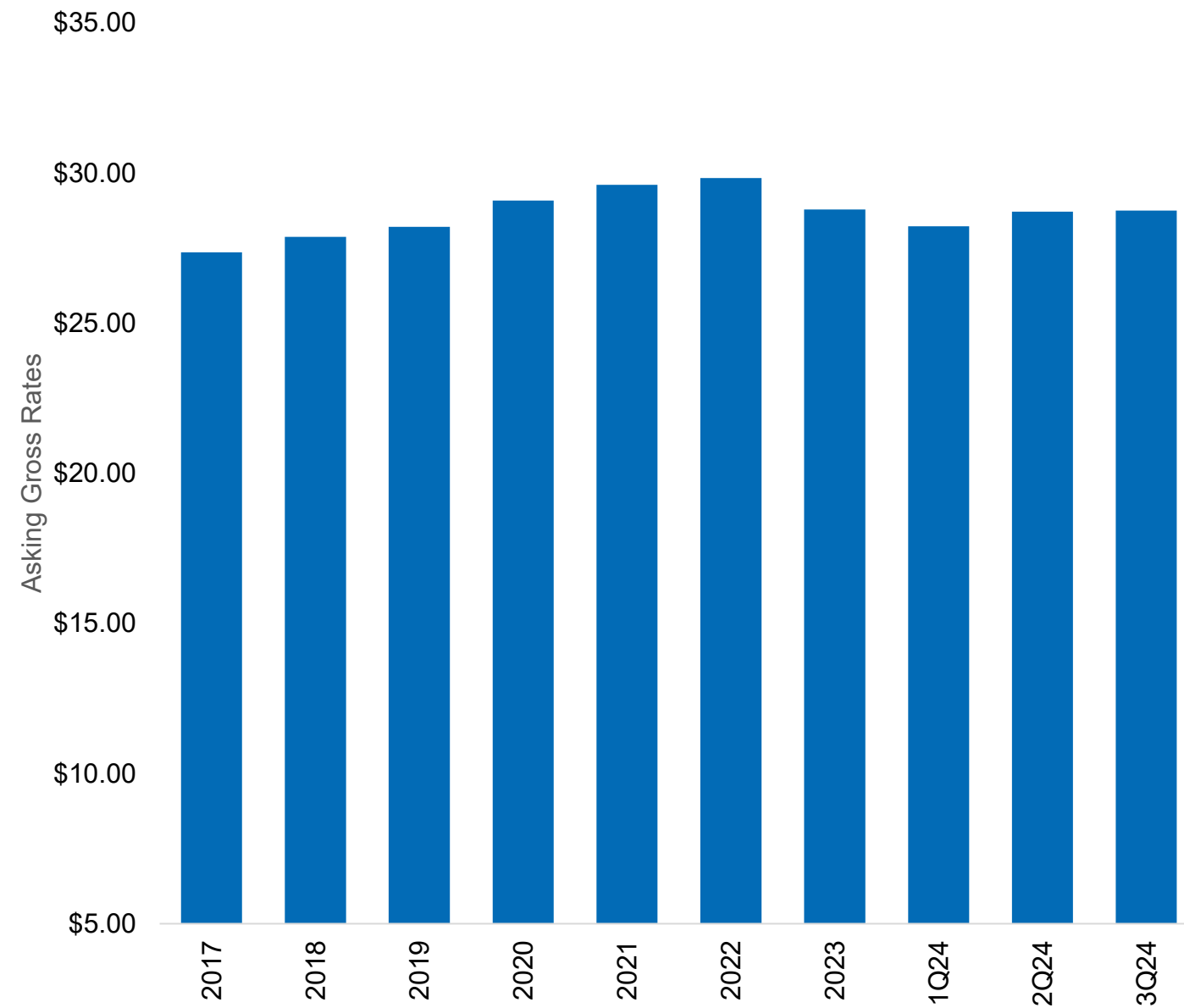


Source: Newmark Research, CoStar, MNCAR

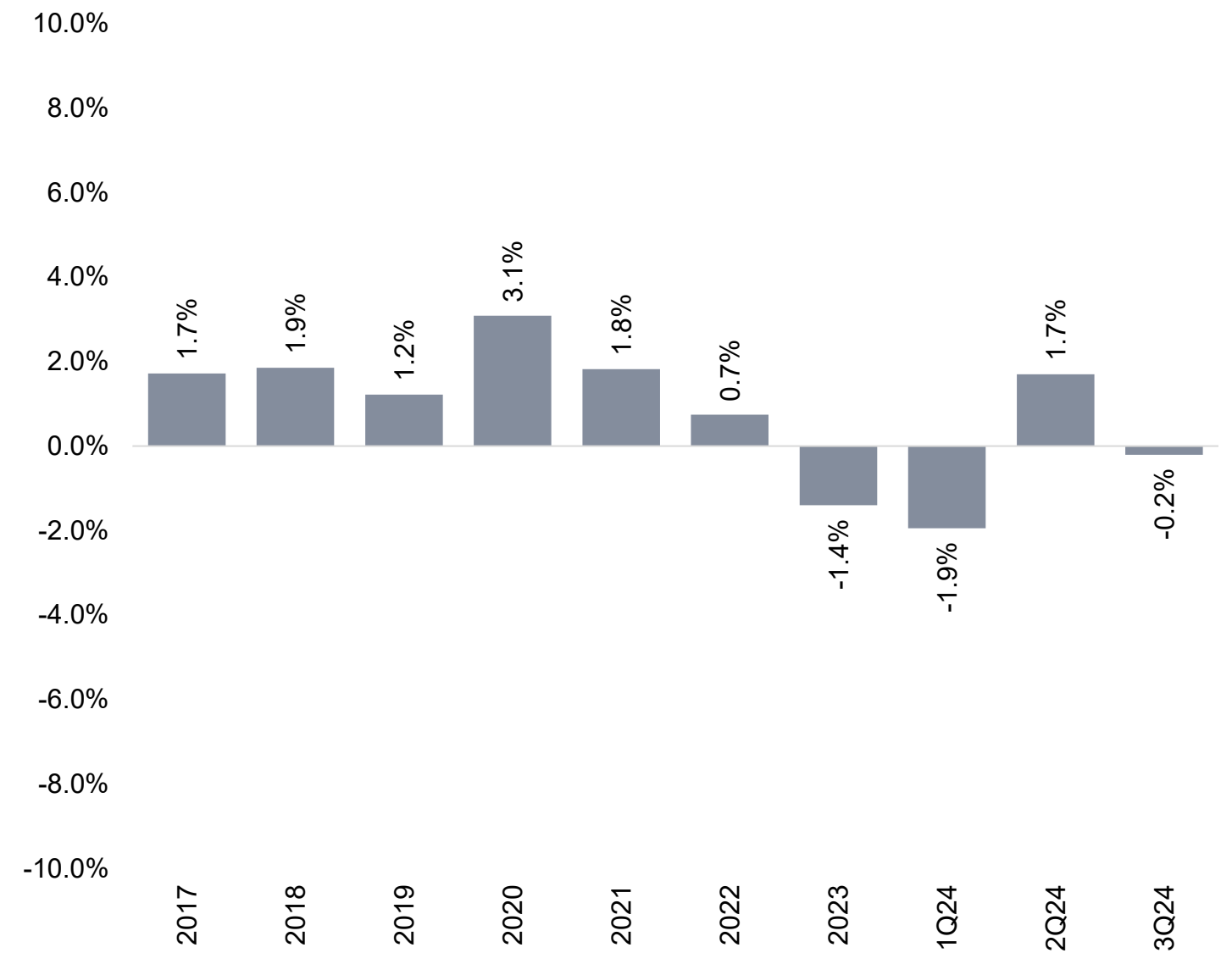
Quoted Rates Steady Despite Increasing Vacancy

Rates remain elevated despite current market conditions, and concessions are substantial. Some tenants looking to downsize are opting to pay termination fees to exit leases and negotiate smaller, more cost-effective leases rather than restructuring their existing agreements.

Office Average Asking Rent, \$/SF, Gross



Year-over-Year Asking Gross Rent Growth Rate

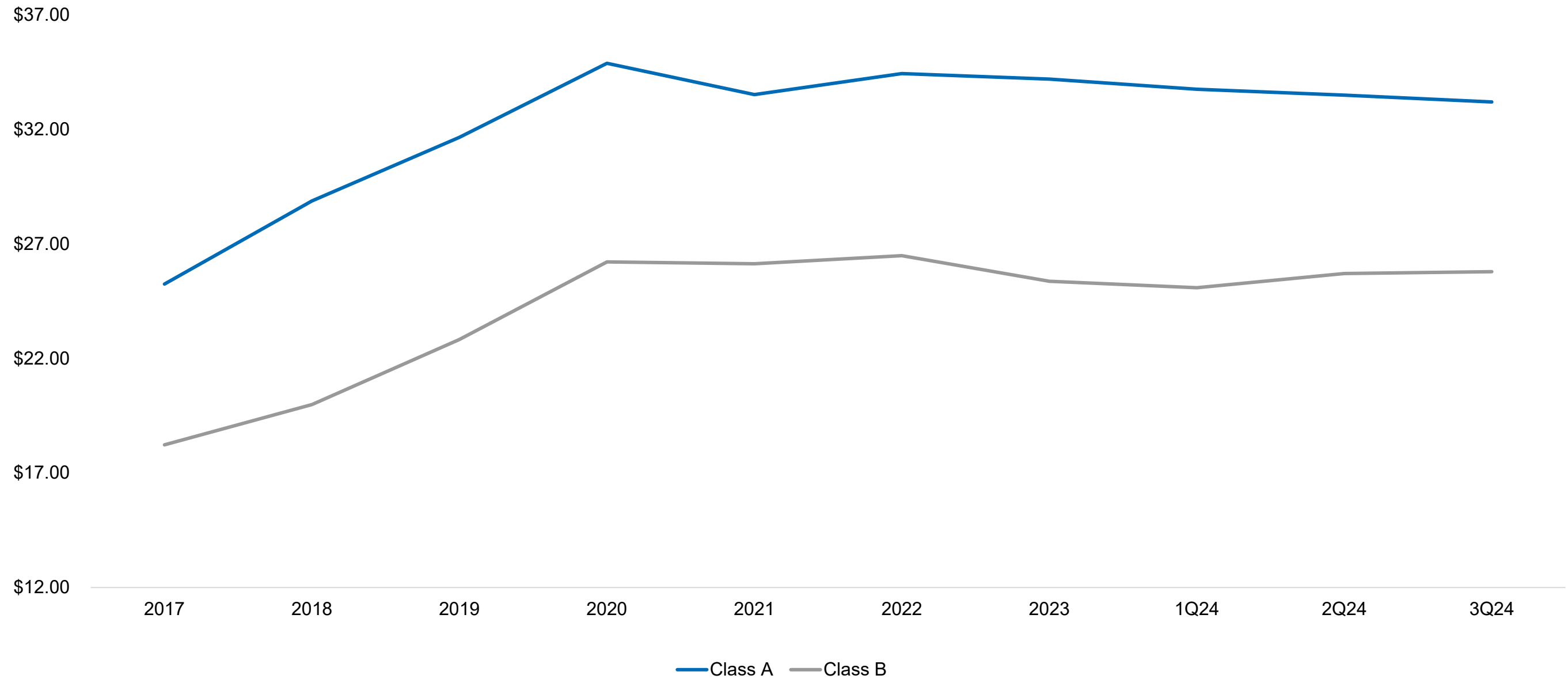


Source: Newmark Research, CoStar

Strong Demand For Highest Quality Class A Properties

Tenants are favoring new construction or properties with substantial upgrades. North Loop Green, completed in the second quarter, saw strong leasing activity before its completion and is now nearly two-thirds leased.

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 3Q24 Lease Transactions

Tenant	Building	City	Submarket	Type	SF
Stratasys	5995 Opus Pkwy	Minnetonka	Southwest	New	164,931
Comcast	River Park Plaza	St Paul	Saint Paul CBD	Renewal	56,490
Barnes & Thornburg	Capella Tower	Minneapolis	Minneapolis CBD - Core	Renewal	25,000
Virtual Radiology	Centennial Lakes V	Edina	Southwest	New	12,413
Zinpro	7500 Flying Cloud Dr	Eden Prairie	Southwest	New	25,978
Baxter	3701 Wayzata Blvd	Minneapolis	West	Sublease	18,427
Enclos	Northland Center II	Bloomington	Southwest	New	17,160
Gravie	8400 Tower	Bloomington	Southwest	Sublease	13,990
The Social Lights	Steelman Exchange	Minneapolis	Mpls CBD - Northloop	New	10,777

Source: Newmark Research, MNCAR



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Forecast



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