

MARKETBEAT

Minneapolis/St. Paul

Office Q2 2018



MINNEAPOLIS/ST. PAUL OFFICE

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Minneapolis Employment	2.0M	2.0M	▲
Minneapolis Unemployment	3.2%	2.9%	▼
U.S. Unemployment	4.3%	3.8%	▼

*Numbers above are quarterly averages; Q2 2018 data based on May values

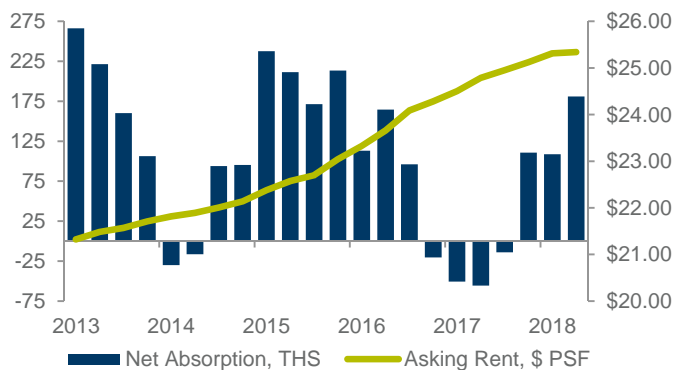
Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	17.0%	17.1%	■
YTD Net Absorption (sf)	149k	274k	■
Under Construction (sf)	1.2M	2.2M	■
Average Asking Rent*	\$25.21	\$25.32	▲

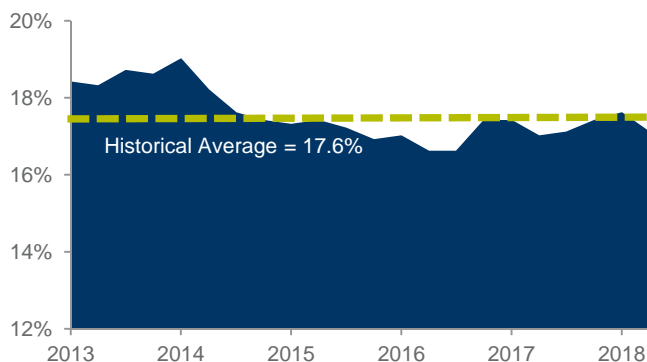
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Twin Cities employment market continued to tighten in the second quarter of 2018 as 22,100 jobs were added year-over-year. The region is effectively at full employment as unemployment has fallen -30 basis points (bps) from second quarter 2017 to its current rate of 2.9%. The constrained labor pool continues to influence commercial real estate decisions as access to transit, amenities and housing are top of mind in the employee attraction and retention equation.

Market Overview

Driven by a strong economy, high employment and steady job growth, the overall vacancy in the second quarter 2018 decreased -50 bps from first quarter 2018 in the Twin Cities office market. In a continuing trend, leasing remained active as a subset of tenants gave back space to reduce their footprints. That downsizing, along with large users that traded multi-tenant space in favor of single-tenant and corporate campuses, continued to limit more impressive improvements to absorption and vacancy rates.

The overall market continued to battle an excess inventory of Class B space as 20.8% of product in the asset class remains vacant. Competition amongst Class B properties offering generic commodity space is forcing landlords to become more innovative with layout options, and aggressive with tenant allowances and asking rates, to better position their buildings to attract tenants.

Landlords have taken note of recent leasing success by co-working operators and have started marketing fully furnished spec suites as co-working spaces. The Twin Cities is also seeing evidence of the national trend of large "enterprise" or corporate users that are occupying co-working spaces as a more flexible alternative to traditional leased space.

The office investment sales market continues working its way through a number of carryover transactions that are still pending. Most of the deals trading in the first half of 2018 were stabilized properties. That is not surprising as buyers had been focused on executing value-add strategies over the past few years and are now looking to capitalize on higher values as lease-up strategies were executed.

Outlook

The expectation is for flat to slightly negative absorption in the second half of 2018. Companies may pause expansion plans due to the length of the current growth cycle, which is approaching a record. Tenants could continue to expand their search criteria due to more remote working, improving transit/connectivity and a desire to appeal to a broader employee base in a tight labor market. Transaction costs are continuing to escalate with construction costs being a main factor.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL Classes)*	OVERALL AVERAGE ASKING RENT (Class A)*
Minneapolis CBD	27,040,097	73,438	5,232,341	19.6%	229,427	86,168	1,378,700	\$27.43	\$32.20
Northeast	8,218,576	78,366	1,077,913	14.1%	54,164	64,471	258,612	\$20.47	\$29.62
Northwest	2,331,471	10,543	420,905	18.5%	-17,183	-10,331	0	\$19.51	\$22.88
South/Airport	6,119,640	20,023	978,518	16.3%	-17,601	-53,193	457,000	\$22.98	\$27.70
Southwest	14,635,436	65,821	2,249,270	15.8%	130,084	128,712	0	\$26.03	\$29.71
St. Paul CBD	6,615,071	91,109	1,307,246	21.1%	-20,253	-55,599	64,850	\$21.49	\$25.73
West	9,166,314	29,960	1,012,515	11.4%	79,320	113,760	65,000	\$29.22	\$33.29
MINNEAPOLIS TOTALS	74,126,605	369,260	12,278,708	17.1%	437,958	273,988	2,224,162	\$25.32	\$30.64

*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	35,055,566	73,736	4,807,275	13.9%	171,790	82,971	1,844,550	\$30.69	\$30.64
Class B	33,121,534	268,500	6,621,669	20.8%	280,886	190,478	379,612	\$22.43	\$22.20
Class C	5,949,505	27,024	849,764	14.7%	-14,718	539	0	\$18.55	\$18.65

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
30 3 rd St. S., Minneapolis	310,000	RBC	Direct	Minneapolis CBD
9800 59 th Ave. N., Plymouth	159,084	Cantel Medical	Direct	West
12125 Technology Dr., Eden Prairie	155,000	UHG	Renewal	Southwest
8000 Norman Center Dr., Bloomington	60,000	IDQ	Direct	Southwest
200 S 6 th St., Minneapolis	58,000	US Bank	Direct	Minneapolis CBD

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
33 S 6 th St., Minneapolis	1,618,206	HNA Group / Samsung Life Insurance	\$320,000,000 / \$198	Minneapolis CBD
316 3 rd Ave. N., Minneapolis	224,000	Hines / LaSalle Investment	\$87,000,000 / \$388	Minneapolis CBD
3300 Edinborough Way, Edina	101,568	DHL International JV / Altus Properties	\$14,400,000 / \$142	Southwest
7630 Bush Lake Rd., Edina	77,020	David Shoenecker / Jeffrey Peterson	\$5,600,000 / \$73	Southwest
3200 Main St. N.W., Minneapolis	47,628	Jim Stanton / Bill Bailey	\$4,600,000 / \$97	Northwest

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