

MARKETBEAT

Minneapolis/St. Paul

Office Q3 2018



MINNEAPOLIS/ST. PAUL OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Minneapolis Employment	2.0M	2.0M	▲
Minneapolis Unemployment	3.1%	2.7%	▼
U.S. Unemployment	4.4%	3.9%	▼

*Numbers above are quarterly averages; Q3 2018 data based on July values

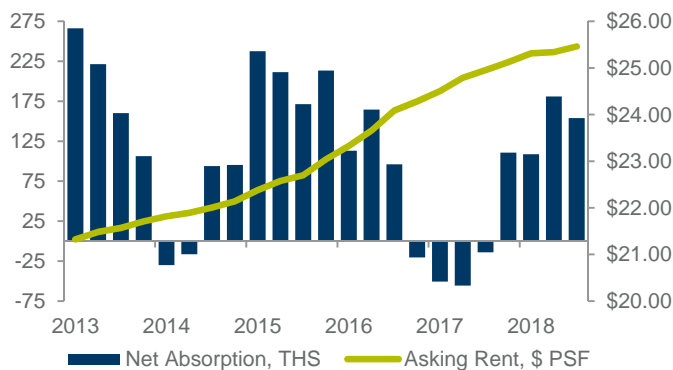
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	17.1%	17.5%	■
YTD Net Absorption (sf)	77k	243k	■
Under Construction (sf)	1.5M	2.1M	■
Average Asking Rent*	\$25.17	\$25.65	▲

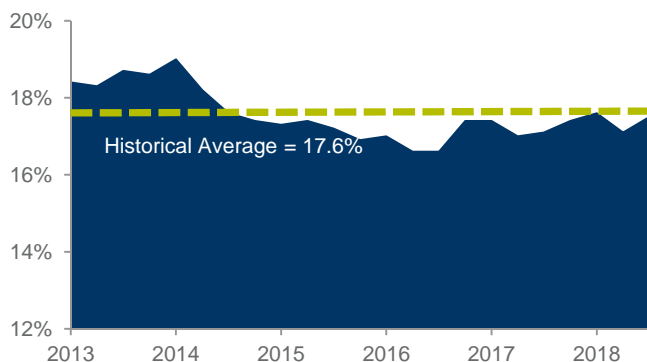
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Twin Cities business environment continued to strengthen in the third quarter of 2018, as more than 33,000 jobs were added year-over-year. According to the Bureau of Labor Statistics, the Twin Cities had the lowest unemployment rate of 51 metropolitan areas with a population of 1.0 million or more.

Market Overview

Overall vacancy in third quarter 2018 increased 40 basis points from second quarter 2018 in the Twin Cities office market. The increase was spread across the suburban submarkets, headlined by Prime Therapeutics vacating more than 140,000 square feet (sf) of Class A, multi-tenant space to occupy their recently completed headquarters.

Tenants' desire for ever-evolving amenities, open space concepts and connectivity to green space continued to drive the market, as did persistent leasing activity with co-working operators. WeWork doubled the size of its lease at Mozaic East in the Uptown neighborhood of Minneapolis. They will occupy more than half of the 186,000-sf building upon construction completion at year-end. The co-working universe has grown to more than 900,000 sf in the Twin Cities, up from 630,000 sf at the end of third quarter 2017.

The Dayton's redevelopment project broke ground in the Minneapolis Central Business District (CBD), with 750,000 sf of speculative office space scheduled for delivery in late 2019. Four speculative redevelopment projects account for nearly 1.0 million square feet of office space under construction. With only 265,000 sf of speculative construction pre-leased, more than 80.0% of the space coming to market is available.

Investment capital remained bullish given the strong fundamentals and highly-skilled workforce in the Twin Cities office market. The appetite for stabilized assets in the Minneapolis CBD was robust, as demand for value-add opportunities tapered in the suburbs.

Outlook

Tenant activity is expected to remain steady, augmented by co-working companies and tech start-up accelerators scouting the Twin Cities for office space. Despite this activity, flat absorption is forecasted as corporate users continue to vacate the multi-tenant universe for owned space and speculative construction completions enter the market with significant availability. As landlords spend more money to provide revitalized and creative environments, it remains to be seen how much rent tenants will pay for these expensive redevelopments.

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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	50,203	5,243,950	19.6%	135,994	222,162	1,716,700	\$27.53	\$32.57
Northeast	8,473,264	103,260	1,287,193	16.4%	17,657	82,128	60,000	\$21.16	\$30.01
Northwest	2,298,471	2,543	324,769	14.2%	71,136	60,805	0	\$20.33	\$22.64
South/Airport	6,119,640	20,023	1,161,798	19.3%	-181,034	-234,227	257,000	\$23.41	\$26.84
Southwest	14,419,596	133,385	2,097,592	15.5%	-77,470	51,242	0	\$26.63	\$29.72
St. Paul CBD	6,663,571	149,206	1,312,281	21.9%	49,326	-6,273	0	\$22.47	\$27.46
West	9,166,314	27,348	1,067,686	11.9%	-46,377	67,383	65,000	\$29.29	\$33.94
MINNEAPOLIS TOTALS	74,180,953	485,968	12,495,269	17.5%	-30,768	243,220	2,098,700	\$25.65	\$30.79

*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	35,104,066	140,532	4,968,737	14.6%	-124,815	-41,844	1,977,700	\$30.86	\$30.79
Class B	33,188,301	318,412	6,662,572	21.0%	124,483	314,961	121,000	\$22.75	\$22.51
Class C	5,888,586	27,024	863,960	15.1%	-30,436	-29,897	0	\$19.72	\$19.79

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
445 Minnesota St., St. Paul	174,000	State of Minnesota	Renewal	St. Paul CBD
200 S. 6 th St., Minneapolis	165,000	Clifton Larson Allen	Renewal	Minneapolis CBD
901 Marquette Ave. S., Minneapolis	97,358	AT&T	Renewal	Minneapolis CBD
80 S. 8 th St., Minneapolis	93,463	Briggs & Morgan	Renewal	Minneapolis CBD

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
2900 Ames Crossing Rd., Eagan	410,000	United Properties / Artis REIT	\$98,500,000 / \$240	South/Airport
505 Hwy. 169, Plymouth	252,165	CA Student Living / DRA Advisors	\$36,100,000 / \$143	West
9800 59 th Ave. N., Plymouth	167,486	Tranamerica / Cantel Medical	\$31,000,000 / \$185	West
576 Bielenberg Dr., Woodbury	62,080	LNR Partners / Eyde Co	\$7,800,000 / \$126	Northeast

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