

MARKETBEAT

Minneapolis/St. Paul

Office Q1 2019



MINNEAPOLIS/ST. PAUL OFFICE

Economic Indicators*

	Q1 18	Q1 19	12-Month Forecast
Minneapolis Employment	2.0M	2.0 M	▲
Minneapolis Unemployment	2.9%	2.7%	▼
U.S. Unemployment	4.1%	3.8%	▼

*Numbers above are quarterly averages; Q1 2019 data based on February values

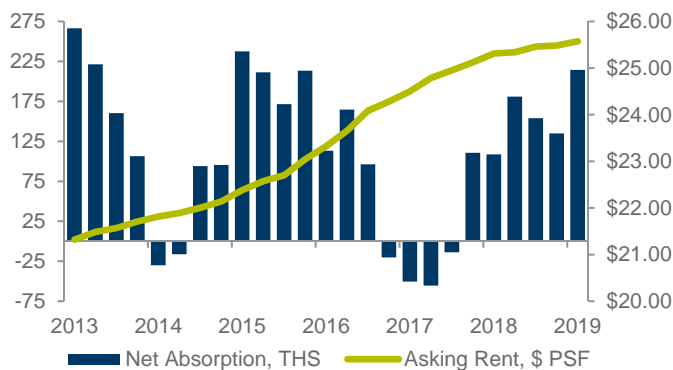
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	17.6%	17.4%	■
YTD Net Absorption (sf)	-164k	154k	▲
Under Construction (sf)	1.7M	2.5M	▼
Average Asking Rent*	\$25.49	\$25.84	▲

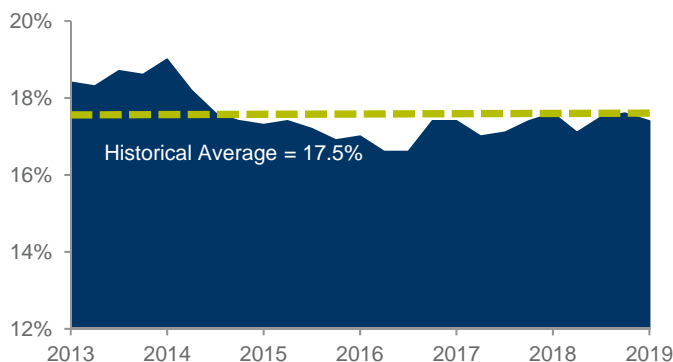
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Twin Cities unemployment rate dropped 20 basis points from first quarter 2018 to 2.7% in first quarter 2019. According to Moody's Analytics, labor force growth in the Minneapolis market was three times the Midwest average. Employment gains were driven by the expansion of office-using services including the professional/business services sector, technology start-ups and growth in corporate management.

Market Overview

The Minneapolis office market remained stable as overall vacancy decreased 20 basis points from first quarter 2018 to 17.4% in first quarter 2019. New leasing activity was concentrated primarily in the suburban markets and absorption was buoyed by mid-size tenants occupying space in Class B buildings, particularly in the Northeast. The tale of trading spaces continued as firms relocated to new buildings or submarkets. Overall, solid market fundamentals continued to draw companies to the Twin Cities. As an example, technology firm Alula relocated its headquarters from Hudson, Wisconsin to St. Paul, occupying nearly 70,000 square feet (sf) in the Northeast.

The co-working phenomenon accelerated in the Twin Cities. The subsector has nearly doubled since 2017, and co-working companies continued to expand in the Minneapolis market during the first quarter 2019. Recent examples include WeWork's new 60,000 sf lease at The Nordic development in the Minneapolis Central Business District (CBD). CommonGrounds Workspace also leased approximately 28,000 sf in the Minneapolis CBD at the remodeled 801 Marquette Ave building.

The Minneapolis office market continued to experience strong investment demand given its fundamentals. 2019 will be a notable year in office sale activity as several notable assets are in the market or will come to market later this year. Investors are consistently drawn to Minneapolis given its durable fundamentals and rent growth.

Outlook

Absorption is expected to remain positive in the short term sparked by companies like Digi vacating owned space to occupy multi-tenant buildings. The market could be tested long term as tenant 'right sizing' and space option flexibility requirements persist. In the Minneapolis CBD, nearly 1.3 million square feet of speculative space is scheduled to come online over the next 12 months with less than 20% of the space currently pre-leased. The Dayton's project accounts for more than half of the new space coming to market with significant availability. However, both The Nordic and 419 Washington developments are scheduled to open nearly 50% occupied upon construction completion in the second quarter 2019.

MARKETBEAT

Minneapolis/St. Paul

Office Q1 2019



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	27,266,643	32,374	5,310,342	19.6%	-12,333	-12,333	1,996,700	\$28.25	\$33.57
Northeast	8,640,488	116,797	1,247,727	15.8%	158,677	158,677	60,000	\$20.69	\$27.29
Northwest	2,298,471	20,866	285,532	13.3%	-788	-788	0	\$19.96	\$24.10
South/Airport	6,061,640	20,082	1,165,312	19.6%	44,389	44,389	257,000	\$23.90	\$27.03
Southwest	14,419,596	150,041	2,218,191	16.4%	-56,287	-56,287	0	\$26.09	\$29.85
St. Paul CBD	6,631,571	168,768	1,317,624	22.4%	11,823	11,823	0	\$22.42	\$26.76
West	9,438,658	22,110	928,683	10.1%	8,274	8,274	149,000	\$29.51	\$34.96
MINNEAPOLIS TOTALS	74,757,067	531,038	12,473,411	17.4%	153,755	153,755	2,462,700	\$25.84	\$31.16

*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	35,289,339	159,020	4,748,001	13.9%	119,382	119,382	2,257,700	\$31.38	\$31.16
Class B	33,669,142	348,351	6,911,398	21.6%	14,367	14,367	205,000	\$23.13	\$22.79
Class C	5,798,586	23,667	814,012	14.4%	20,006	20,006	0	\$19.72	\$19.84

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
901 Marquette Ave., Minneapolis	118,000	Thrivent Financial	New	Minneapolis CBD
3701 Wayzata Blvd., Minneapolis	100,000	Tactile Systems	New	West
6820 Wedgwood Rd., Maple Grove	97,389	St. Jude	New	Northwest
9350 Excelsior Blvd., Hopkins	73,330	Element Fleet Management	New	Southwest
2340 Energy Park Dr., St. Paul	69,437	Alula	New	Northeast

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
333 S. 7 th St., Minneapolis	650,000	CalSTRS / Sumitomo Corporation	\$144,000,000 / \$222	Minneapolis CBD
900 S. 2 nd Ave., Minneapolis	622,173	Investcorp / DRA Advisors	\$73,700,000 / \$118	Minneapolis CBD
860-950 Blue Gentian Rd., Eagan	548,036	Equus Capital Partners / RMC Equities	\$70,000,000 / \$128	South/Airport
3033 Campus Dr., Plymouth	351,000	Talcott Realty / Pembroke Hobson LLC	\$55,500,000 / \$158	West
55 E. 5 th St., St. Paul	240,830	Kelly Brothers / Madison Equities	\$18,250,000 / \$76	St. Paul CBD

Cushman & Wakefield
3500 American Blvd W, Ste 200
Bloomington, MN 55431
cushmanwakefield.com

For more information, contact:
Patrick Hamilton, Market Director
Tel: +1 952 837 8574
patrick.hamilton@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 51,000 employees in approximately 400 offices and 70 countries. In 2018, the firm had revenue of \$8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2019 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.