

MARKETBEAT

Minneapolis/St. Paul

Office Q4 2018



MINNEAPOLIS/ST. PAUL OFFICE

Economic Indicators*

	Q4 17	Q4 18	12-Month Forecast
Minneapolis Employment	2.0M	2.0M	▲
Minneapolis Unemployment	3.0%	2.6%	▼
U.S. Unemployment	4.1%	3.7%	▼

*Numbers above are quarterly averages; Q4 2018 data based on October values

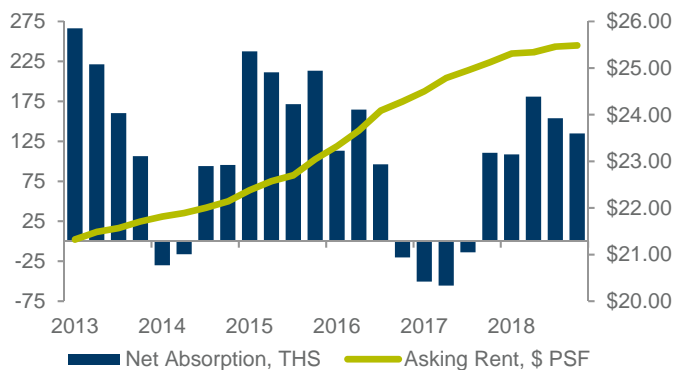
Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	17.4%	17.6%	■
YTD Net Absorption (sf)	450k	539k	▲
Under Construction (sf)	1.5M	2.2M	■
Average Asking Rent*	\$25.38	\$25.48	▲

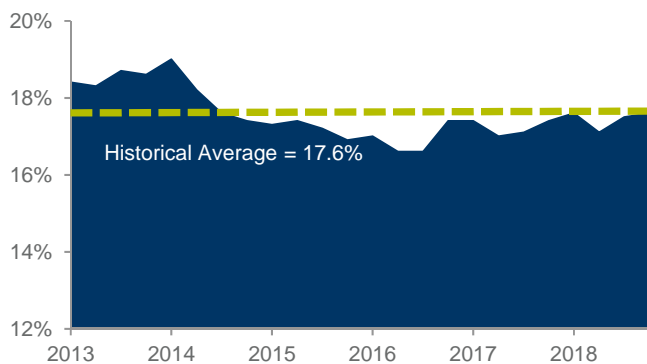
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Twin Cities unemployment rate dropped 40 basis points from fourth quarter 2017 to a 19-year low of 2.6% in fourth quarter 2018. With constrained labor availability, employers continued to be creative and aggressive in talent retention and recruitment strategies.

Market Overview

Stability was the main theme dominating the Twin Cities office market in the fourth quarter of 2018. Leasing activity was steady and end-of-year 2018 overall absorption nearly reached 540,000 square feet (sf). Broadly, fundamentals remained healthy as occupiers and owners viewed the Twin Cities as a steady performer with a diverse economy not prone to extreme highs and lows in its market cycles.

Co-working providers continued to fuel demand for space throughout 2018. The Twin Cities is currently home to over 30 co-working companies operating in leased or owned facilities. The top three providers – Regus, Novel and WeWork – account for more than half of the co-working market, which now encompasses nearly 1.1 million square feet. Corporate users also exhibited a growing appetite for co-working space options and term flexibility. For example, Syngenta will vacate 116,000 sf at Crest Ridge Corporate Center in the West submarket when it moves nearly 200 employees to WeWork’s facility at Mozaic East in Minneapolis in June 2019.

The Twin Cities office investment market continued to see favorable liquidity. Out-of-state investment groups were attracted to the strong economy and higher yields compared to peer metropolitan areas. A majority of that capital was focused on acquiring assets in the Minneapolis Central Business District (CBD) along with suburban hotspots, such as the West End and I-494/France Avenue in the West and Southwest submarkets. Buyers had a big appetite to acquire value-add assets and were willing to take on risk because of what they viewed as strong underlying economic and property sector fundamentals. Several Minneapolis CBD properties are expected to trade in the first half of 2019, and new ownership could pump more capital into the market with building renovations and repositioning.

Outlook

Absorption is expected to tick higher in the first half of 2019 with a forecast of approximately 620,000 sf of positive absorption. Demand for co-working space is expected to accelerate, particularly among corporate users. Lines will continue to blur between Class A and Class B space due to renovations and upgrades as building owners that invest in improvements are rewarded with higher occupancy and rents. Concern remains about how tariffs on building materials will impact construction costs, including tenant improvements and asking rents on office development and redevelopment projects.

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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	27,408,114	42,330	5,310,145	19.5%	316,879	539,041	1,856,700	\$27.12	\$32.94
Northeast	8,473,264	116,797	1,299,060	16.7%	4,446	86,574	60,000	\$21.06	\$27.89
Northwest	2,298,471	20,866	284,744	13.3%	21,702	82,507	0	\$20.22	\$23.71
South/Airport	6,061,640	20,023	1,209,760	20.3%	2,511	-231,716	257,000	\$23.90	\$27.46
Southwest	14,419,596	171,325	2,161,160	16.2%	-101,508	-50,266	0	\$26.57	\$30.07
St. Paul CBD	6,631,571	176,802	1,333,390	22.8%	-79,913	-86,186	0	\$22.22	\$26.57
West	9,166,314	22,110	936,957	10.5%	132,110	199,493	65,000	\$29.22	\$34.23
MINNEAPOLIS TOTALS	74,458,970	570,253	12,535,216	17.6%	296,227	539,447	2,238,700	\$25.48	\$30.83

*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	205,544	4,817,035	14.2%	284,812	242,968	2,173,700	\$30.98	\$30.83
Class B	33,371,045	334,100	6,891,105	21.7%	-47,450	267,511	65,000	\$22.78	\$22.51
Class C	5,798,586	30,609	827,076	14.8%	58,865	28,968	0	\$19.70	\$19.80

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5951 Earle Brown Dr., Brooklyn Center	42,661	Brooklyn Center ISD	New	Northwest
7831 Glenroy Rd., Bloomington	42,268	Radius	Renewal	Southwest
900 S. 2 nd Ave., Minneapolis	39,134	SureScripts	Sublease	Minneapolis CBD
12600 Whitewater Dr., Minnetonka	36,302	Accra Care	New	Southwest
222 S. 9 th St., Minneapolis	33,000	CBIZ	Renewal	Minneapolis CBD

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
50 S. 10 th St., Minneapolis	498,768	Union Investment / Menlo Equities	\$171,000,000 / \$343	Minneapolis CBD
3701 Wayzata Blvd., Minneapolis	310,000	Target Corporation / The Opus Group	\$22,100,000 / \$71	West
9320 Excelsior Blvd., Hopkins	254,915	Hines Global REIT / Piedmont REIT	\$49,500,000 / \$194	Southwest
1600 Utica Ave. S., St. Louis Park	248,541	DRA Advisors / Accesso Partners	\$59,044,487 / \$238	West
1550 Utica Ave. S., St. Louis Park	237,643	DRA Advisors / Accesso Partners	\$56,455,510 / \$238	West

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