

Third Quarter 2019 / Office Market Report

Minneapolis-St. Paul

Highlights from Around the Market

Construction of The Nordic, a 195,284 square foot (sf) mixed-use project, was completed in the North Loop neighborhood of the Minneapolis Central Business District (CBD). Upon completion, the class A building was nearly 70% occupied. In the metro overall, speculative development continued an upward trend, increasing significantly over the past two years from 581,000 sf under construction in 2017 to 1.8 million sf (msf) under construction at the close of third quarter 2019.

Coworking space continues to compete in the Minneapolis-St. Paul market. WeWork opened a third location, occupying 80,000 sf at The Nordic. CommonGrounds entered the market opening nearly 30,000 sf; the first coworking space on the skyway level in the Minneapolis CBD. The "homegrown" group, The Coven, expanded into the St. Paul market with nearly 10,000 sf.

Global and national investors scout the Twin Cities for investment opportunities. New-to-market investor, Lingerfelt Commonwealth purchased the former Campbell Mithun Tower, renaming it Two22. Lingerfelt plans a \$20 million renovation to reposition the building.

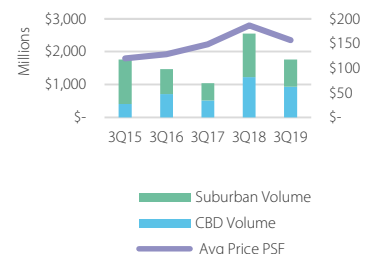
The 12-month total for investment sales surpassed \$1.7 billion with volume spread evenly between the CBDs and the suburbs. Despite a drop in overall volume year-over-year, investment sales exceeded \$1.0 billion each year for the past five years.



Labor Force Participation Rate MNDEED 2019

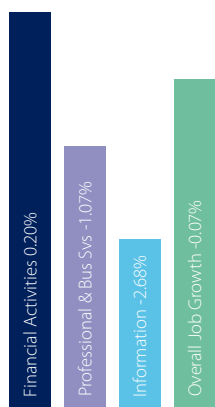
Minnesota ranks #2 at 70.2% compared to the national rate of 63.2%

Investment Sales (Rolling 12-Month)



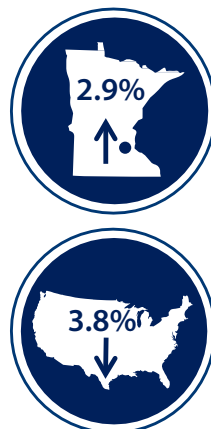
Metro Minneapolis-St. Paul Employment Update

Office-Using Employment Growth



August 2018 – August 2019

August 2019 Unemployment Rate

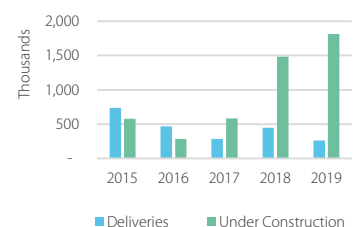


Arrows indicate YOY change from August 2018

Historical Overall Gross Rent



Development

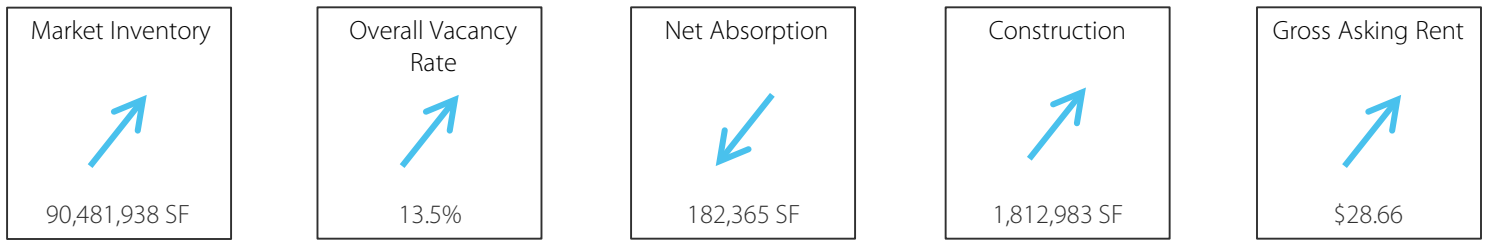


Market by the Numbers

Submarket	Inventory SF	Overall Vacant SF	Overall Vacancy	Q3 19 Net Absorption SF	YTD Net Absorption SF	YTD Overall Leasing SF	Overall Gross Asking Rent
Minneapolis CBD	30,385,633	4,137,976	13.6%	98,664	134,682	1,143,412	\$31.83
Class A	17,879,700	2,036,464	11.4%	159,213	295,561	771,899	\$34.69
Class B	11,604,492	1,957,408	16.9%	(11,263)	(125,662)	327,526	\$26.91
St. Paul CBD	7,086,923	1,277,008	18.0%	9,802	(128,415)	62,039	\$26.76
Class A	3,525,834	295,914	8.4%	(8,691)	(70,694)	16,005	\$29.83
Class B	3,350,336	963,584	28.8%	14,401	(54,379)	32,629	\$23.48
West/Northwest	14,740,593	2,035,389	13.8%	(62,737)	39,522	736,129	\$28.86
Class A	5,195,518	744,516	14.3%	(17,551)	59,576	308,744	\$33.52
Class B	7,546,667	1,148,455	15.2%	(50,060)	8,463	390,390	\$25.88
Northeast	10,579,242	1,140,772	10.8%	36,171	90,440	314,541	\$21.96
Class A	848,141	186,491	22.0%	(3,521)	(33,055)	18,445	\$24.95
Class B	8,008,028	856,996	10.7%	66,305	118,921	271,932	\$20.68
Southwest/494 Corridor	20,249,194	2,893,343	14.3%	91,182	(135,882)	663,443	\$26.94
Class A	8,572,988	846,375	9.9%	38,714	(44,666)	275,857	\$31.90
Class B	9,077,679	1,762,439	19.4%	42,194	(83,898)	347,360	\$24.93
Southeast	7,440,353	715,297	9.6%	9,283	(128,829)	120,029	\$23.09
Class A	1,054,364	211,632	20.1%	(2,159)	(17,814)	2,060	\$27.40
Class B	5,094,136	388,836	7.6%	20,833	(90,802)	90,594	\$23.23
Total Market	90,481,938	12,199,735	13.5%	182,365	(128,482)	3,039,593	\$28.66

The data contained in this market report is obtained from The CoStar Group, Inc. and is used under licensed permission. The report is based on the seven-county metropolitan Minneapolis-St. Paul markets for office buildings at least 20,000 sf in size. It does not include any government or healthcare space or single-tenant owner occupied buildings. Current and historical data has been adjusted with corrected information after it was obtained. This may prevent comparisons to previously released reports.

Market Indicators (arrows indicate YOY change from Q3 2018)



Top Leases

Building Name	Submarket	Tenant	Transaction Type	Transaction Size
RSM Plaza	Minneapolis CBD	RSM	Renewal/Expansion	125,000
Baker Center	Minneapolis CBD	Merrill Corporation	New	78,000
Target West	West/Northwest	SRF Consulting	New	70,000
Capella Tower	Minneapolis CBD	US Bank	New	55,000
The Marq	Minneapolis CBD	Nilan Johnson Lewis	New	37,424

Top Sales

Building Name	Submarket	Buyer (HQ)	Building Size	Sale Price	Sale Price PSF
Two22	Minneapolis CBD	Lingerfelt Commonwealth (VA)	725,000	\$81,000,000	\$112
Quadrant Office	Northwest	Sara Investment (WI)	106,679	\$11,850,000	\$111
Interlachen Corporate Center	Southwest	Wildamere Properties (MN)	105,084	\$15,450,000	\$147
Former Hartford Building	Northwest	Syndicated Equities (IL)	97,377	\$22,785,000	\$234
Summit Orthopedic	Southeast	Harrison Street RE Cap (IL)	79,279	\$29,400,000	\$371

Trends to Watch

Look for these key trends to continue throughout 2019 in the Minneapolis office market.



Impact of Labor Demographics



Construction Costs



Coworking

Avison Young at a Glance

Founded:	1978
Total Real Estate Professionals:	5,000
Offices:	124
Countries:	20
Brokerage Professionals:	1,600+
Property Under Management:	290 msf

Avison Young is one of the world's fastest growing commercial real estate firms, and we are expanding globally. This growth is a testament to the commitment we've made to our clients and our employees. We're different. We've designated our organization to be highly collaborative and focused on one thing: creating the best solutions for our clients to deliver long-term success. And because of the value we deliver, our culture and our unique approach, clients and talent are joining us every day. Our experts provide value-added, client-centric investment sales, leasing, advisory, management and financing services to clients across the office, retail, industrial, multi-family and hospitality sectors.



Transaction Services

- Tenant representation, lease acquisition and disposition
- Investment acquisition and disposition for owners and occupiers
- Landlord representation – all property types – office, industrial, retail, build-to-suit, land and multi-family

Consulting & Advisory Services

- Portfolio review and analysis
- Valuation and appraisal
- Benchmarking
- Transaction management
- Asset rationalization
- Mergers and acquisitions
- Workplace solutions
- Acquisitions and dispositions
- Property tax services

Management Services

- Project management
- Property and operations review
- Property/facility management
- Tenant relations
- Financial reporting
- Lease administration
- Operations consulting
- Asset management
- Portfolio management

Enterprise Solutions

- Integrated services coordination
- Transaction management
- Optimization strategies
- Portfolio lease administration
- Project coordination and reporting

Investment Management

- Acquisitions
- Asset management
- Portfolio strategy
- Capital repositioning

Debt Capital Services

- Permanent & construction
- Structured finance
- Portfolio mark to market
- Mezzanine & bridge



Platinum member

For further information:

Sara Peterson, *Research Analyst*
612.351.4151
sara.peterson@avisonyoung.com

Mark Evenson, *Principal & MD*

612.913.5641
mark.evenson@avisonyoung.com

avisonyoung.com