

## Fourth Quarter 2019 / Office Market Report

# Minneapolis-St. Paul

### Market Overview

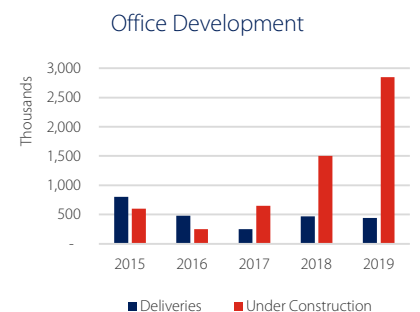
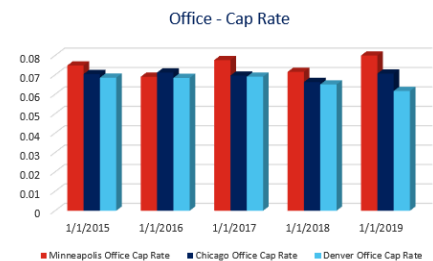
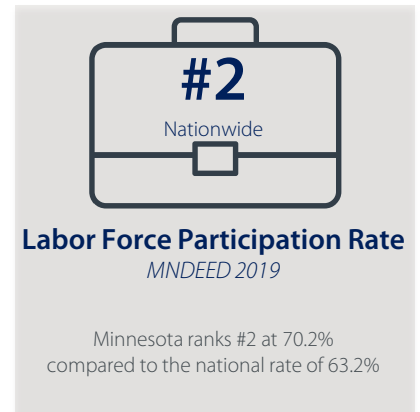
The core cities of Minneapolis and St. Paul's population is on track to grow for the first time in nearly a century. Employers continue to look for ways to attract high-quality employees. Those employees are looking for a place that has plenty to do in and around the workplace. Through renovation and new construction, Minneapolis wrapped up the fourth quarter of 2019 by delivering amenities that reflect the area's ability to meet those expectations.

Minnesota's stable economic situation attracted out-of-state and local real estate investors looking at the Minneapolis metro area for higher yields. Investment sales totaled \$1.7 billion in 2019. Sentinel, out of New York, paid \$487 per square foot (psf) for the Xcel Energy headquarters in the Central Business District of Minneapolis, making the sale one of the most expensive (psf) of the decade.

Renovation of office buildings continues to be a strong trend. The Oracle and International Center Towers have been renamed collectively "The Forum". Construction started in December to create a new skyway-level tenant lounge, conference space and speculative suites.

Construction of 10 West End broke ground in November. This speculative 11-story office tower is the first new class A building in 18 years located in the western I-394 suburban office market.

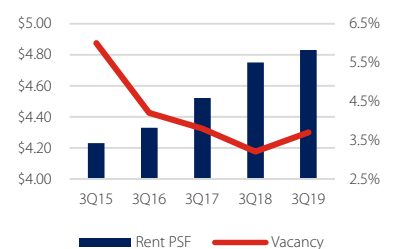
Tenants and landlords are concerned about the continued increase of real estate taxes and operating expenses. Most of this has been caused by the increased value of properties. This increase is potentially due to building renovations and their increased values in the investment market.



### Compare Office Submarkets

	Minneapolis CBD	St. Paul CBD	Northwest	Southwest
Submarket Size	30,726,357	7,082,187	14,728,221	20,253,165
Q4 2019 Vacancy	15.1%	15.5%	10.2%	10.5%
2019 YTD Net Absorption (SF)	198,653	-140,398	28,508	-208,031
Average Rental Rate	\$25.85	\$23.72	\$26.79	\$24.30

### Office Net Rent vs. Vacancy



## Market by the Numbers

Submarket	Inventory SF	Overall Vacant SF	Overall Vacancy	Q4 19 Net Absorption SF	YTD Net Absorption SF	YTD Overall Leasing SF	Overall Gross Asking Rent
<b>Minneapolis CBD</b>	<b>30,726,357</b>	<b>4,219,487</b>	<b>15.1%</b>	<b>126,592</b>	<b>198,653</b>	<b>1,386,414</b>	<b>\$25.85</b>
Class A	18,079,700	2,011,117	11.1%	205,347	500,908	927,485	\$34.69
Class B	11,764,716	2,059,797	17.5%	-74,286	-262,569	410,687	\$26.91
Class C	881,941	148,573	16.8%	-4,469	-39,686	48,242	\$15.95
<b>St. Paul CBD</b>	<b>7,082,187</b>	<b>1,302,575</b>	<b>15.5%</b>	<b>-11,983</b>	<b>-140,398</b>	<b>71,843</b>	<b>\$23.72</b>
Class A	3,525,834	551,292	16%	-273	-70,967	17,598	\$29.83
Class B	3,345,600	733,104	21.9%	-5,740	-60,119	32,629	\$23.48
Class C	210,753	18,179	8.6%	-5,970	-9,312	21,616	\$17.84
<b>West/Northwest</b>	<b>14,728,221</b>	<b>1,696,532</b>	<b>10.2%</b>	<b>-21,450</b>	<b>28,508</b>	<b>845,930</b>	<b>\$26.79</b>
Class A	5,153,408	614,765	11.9%	-92,508	-38,267	365,019	\$33.52
Class B	7,651,637	962,079	12.6%	51,775	76,009	473,199	\$25.88
Class C	1,923,176	119,688	6.2%	19,283	-9,234	7,712	\$20.98
<b>Northeast</b>	<b>10,670,167</b>	<b>1,033,898</b>	<b>9.9%</b>	<b>5,331</b>	<b>-14,906</b>	<b>449,039</b>	<b>\$20.42</b>
Class A	848,141	122,849	14.5%	21,167	-11,888	75,902	\$24.95
Class B	8,098,953	823,641	10.2%	-13,171	12,291	314,839	\$20.68
Class C	1,723,073	87,408	5.1%	-2,665	-15,309	58,298	\$15.64
<b>Southwest/494 Corridor</b>	<b>20,253,165</b>	<b>2,485,387</b>	<b>10.5%</b>	<b>4,452</b>	<b>-208,031</b>	<b>561,508</b>	<b>\$24.30</b>
Class A	8,572,988	707,860	8.3%	-25,842	-105,197	407,334	\$31.90
Class B	9,106,160	1,648,281	18.1%	6,385	-69,186	109,814	\$23.23
Class C	2,574,017	129,246	5.0%	23,909	-33,648	44,360	\$17.76
<b>Southeast</b>	<b>7,216,029</b>	<b>668,404</b>	<b>11%</b>	<b>-1,849</b>	<b>-130,670</b>	<b>200,734</b>	<b>\$22.09</b>
Class A	1,054,364	169,278	16.1%	-64	-17,878	40,527	\$27.40
Class B	4,901,848	377,962	7.6%	13,449	-75,130	118,956	\$23.23
Class C	1,259,817	121,164	9.4%	-15,234	-37,670	41,251	\$15.63
<b>Total Market</b>	<b>90,676,126</b>	<b>11,406,283</b>	<b>12.1%</b>	<b>101,093</b>	<b>-266,852</b>	<b>3,515,468</b>	<b>\$23.86</b>

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 Q4 2018)

Positive Negative Stable



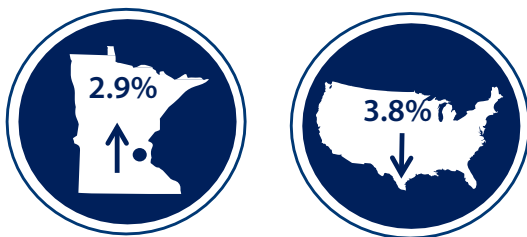
Top Leases

Building Name	Submarket	Tenant	Transaction Type	Transaction Size
US Bank Financial Center	I-494 Corridor	Matrix Care	New – Direct	49,562 sf
Flying Cloud Corporate Campus C	I-494 Corridor	Liberty Property Trust	New – Sublease	39,862 sf
Crescent Ridge II	I-394 Corridor	Siemens – Digital Factory	Renewal	34,654 sf
Norman Pointe I	I-494 Corridor	Kiewit	New – Direct	32,151 sf

Top Sales

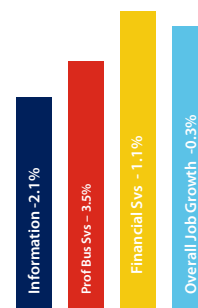
Building Name	Submarket	Buyer (HQ)	Building Size	Sale Price	Sale Price PSF
Xcel Energy HQ	Minneapolis CBD	Sentinel	222,000 sf	\$108m	\$487.73
510 Marquette Building	Minneapolis CBD	RREEF America	198,700 sf	\$61m	\$258.63
One Marketpointe	I-494 Corridor	Crestlight Capital	236,939 sf	\$47.4m	\$200.05
701 S Xenia Avenue	I-394 Corridor	Altus Properties	190,758 sf	\$43.1m	\$225.94

December 2019 Unemployment Rate



Arrows indicate YOY change from December 2018

Office-Using Employment Growth



November 2018 – November 2019

Trends to Watch

Look for these key trends to continue through into 2020 in the Minneapolis office market.



The continuous involvement of workplace



Renovating to be competitive

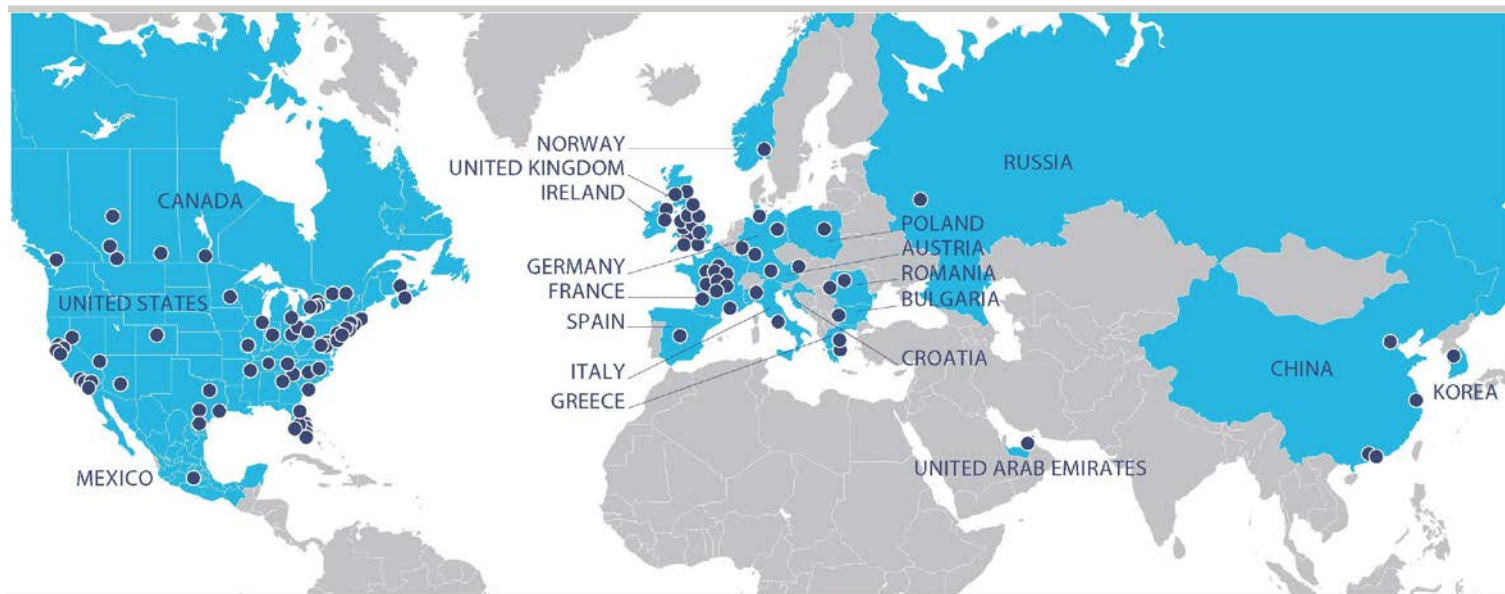


Controlling taxes and expenses

## 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 market to market
- Mezzanine & bridge



Platinum member

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