

FIGURES | MINNEAPOLIS OFFICE | Q4 2022

Minneapolis office sublease availability reaches 3.7 million sq. ft. at year-end

▲ 21.1%
Vacancy Rate

▲ (124,794)
SF Net Absorption

◀ 350,000
SF Under Construction

▲ \$17.29 PSF
Average Asking Rate (NNN)

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- In the Minneapolis office market, Q4 absorption was (68,244) sq. ft. bringing the 2022 YTD net absorption to (248,436), a 12% increase over 2021 annual absorption.
- Overall, net absorption was led by Class A properties with nearly 380,000 sq. ft. of positive absorption in 2022 compared to Class B properties with (190,000) and Class C overall with (248,000) this year, a continued signal towards flight to quality trends.
- Sublease availability increased to 3.7M sq. ft. in Q4, a 29% increase from the previous quarter. Suburban sublease availability saw the largest growth this quarter following recent activity from the Prime Therapeutics campus in Eagan listing 424,000 sq. ft. available. Another new suburban sublease listing comes from 12700 Whitewater Dr in the 494 submarket with over 155,000 sq. ft. available.
- Total leasing velocity in 2022 was 3.25M, a positive increase of 9% from total 2021 leasing activity. The majority of leasing activity in Q4 was focused primarily with Class A space with nearly 550,000 sq. ft. of activity, representing 69% of total leasing velocity this quarter.

FIGURE 1: Historic Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q4 2022.

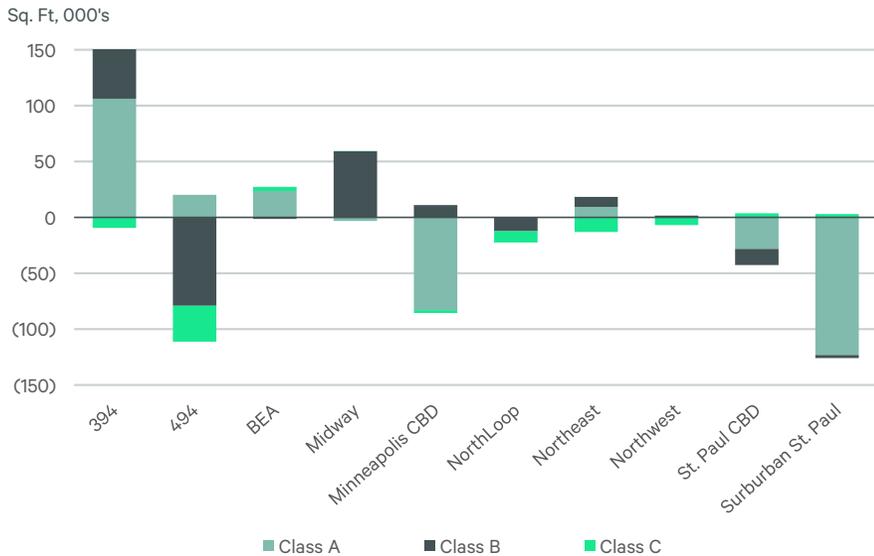
Absorption, Vacancy, and Lease Rates

In the Minneapolis office market, Q4 absorption was (68,244) sq. ft. bringing the 2022 YTD net absorption to (248,436), a 12% increase over 2021 annual absorption. Overall, net absorption was led by Class A properties with nearly 380,000 sq. ft. of positive absorption in 2022 compared to Class B properties with (190,000) and Class C overall with (248,000) this year.

Overall, vacancy rates remained steady this quarter at 20.3%. The lowest vacancy rates are seen in Class A buildings downtown at just 16% compared to 30% for Class B and 27% for Class C. The suburban vacancy rate remains relatively constant between class sizes near 20%.

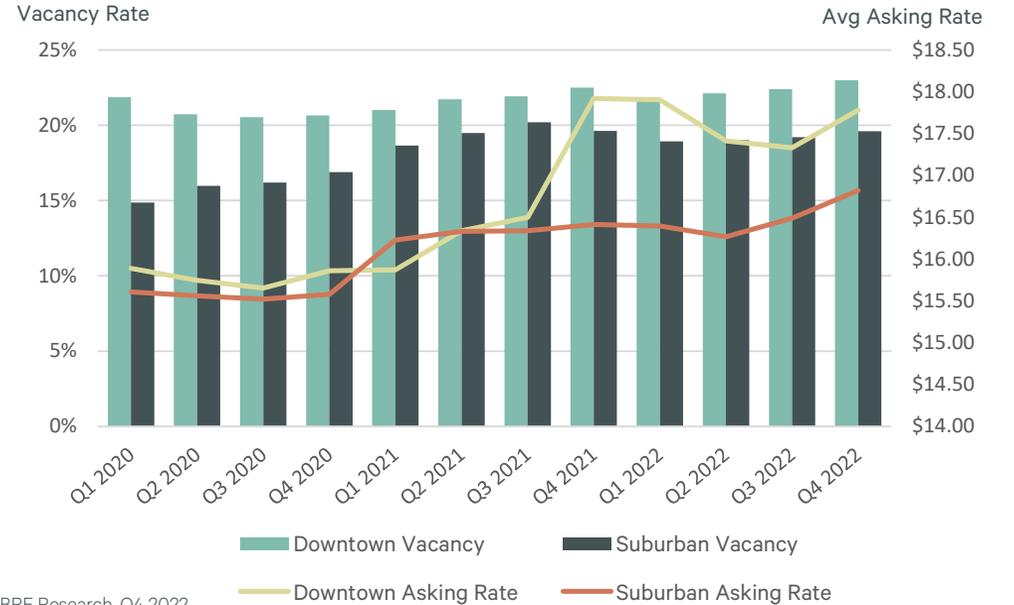
The highest Class A asking lease rates in the market were in the North Loop submarket with an average gross asking rate of \$40.04 per sq. ft. That is 24% higher than the overall metro market Class A average of \$32.32 per sq. ft. Downtown asking rates are 8% higher than suburban rates, with a gross average of \$29.29 per sq. ft. compared to \$26.95 for suburban properties.

FIGURE 2: Q4 2022 Net Absorption by Submarket and Class



Source: CBRE Research, Q4 2022.

FIGURE 3: Historical Vacancy Rates vs Asking Rates



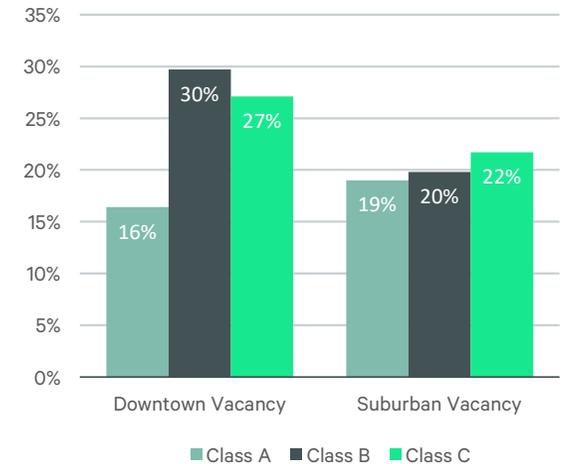
Source: CBRE Research, Q4 2022.

FIGURE 4: 2022 YTD Net Absorption by Class



Source: CBRE Research, Q4 2022.

FIGURE 5: Q4 2022 Downtown vs Suburban Vacancy by Class



Source: CBRE Research, Q4 2022.

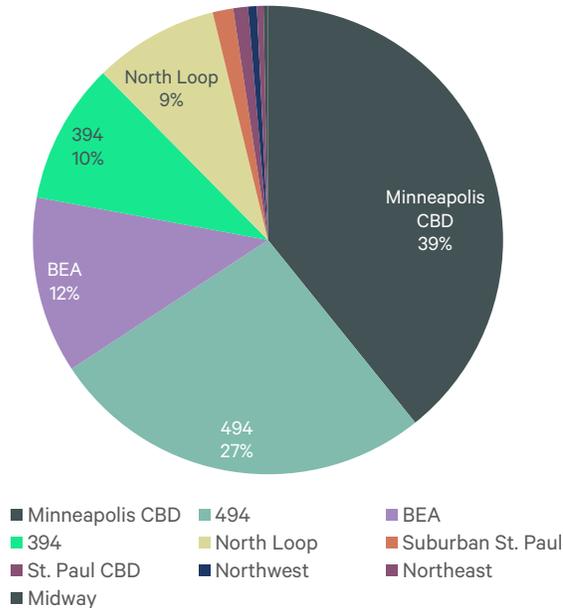
Subleasing

Sublease availability increased to 3.7M sq. ft. in Q4, a 29% increase from the previous quarter. This represents 16% of the total available space in the market and 4.2% of NRA. Currently, 63% of total availabilities on the market are large spaces 50k sq. ft. or more with 46% of market availabilities blocks of 100k sq. ft. or more.

Suburban sublease availability saw the largest growth this quarter following recent activity from the Prime Therapeutics campus in Eagan listing 424,000 sq. ft. available. Another new suburban sublease listing comes from 12700 Whitewater Dr in the 494 submarket with over 155,000 sq. ft. now available.

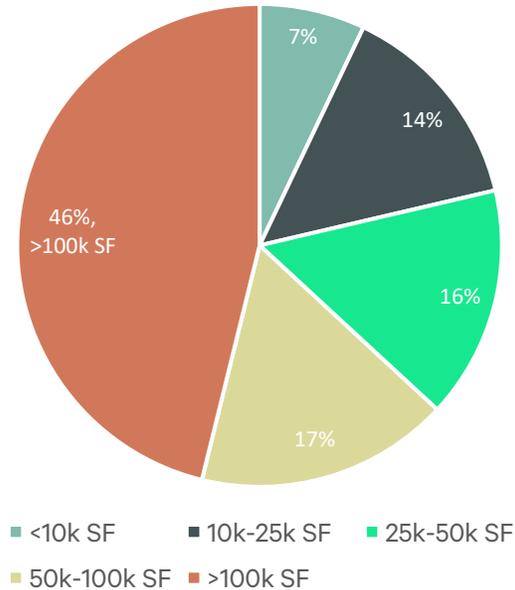
The average remaining term on sublease availabilities is 3.4 years with 43% of available space with terms seven years or greater. The two largest blocks of sublease spaces currently available have a term of at least 8 years.

FIGURE 6: Sublease Availability by Submarket



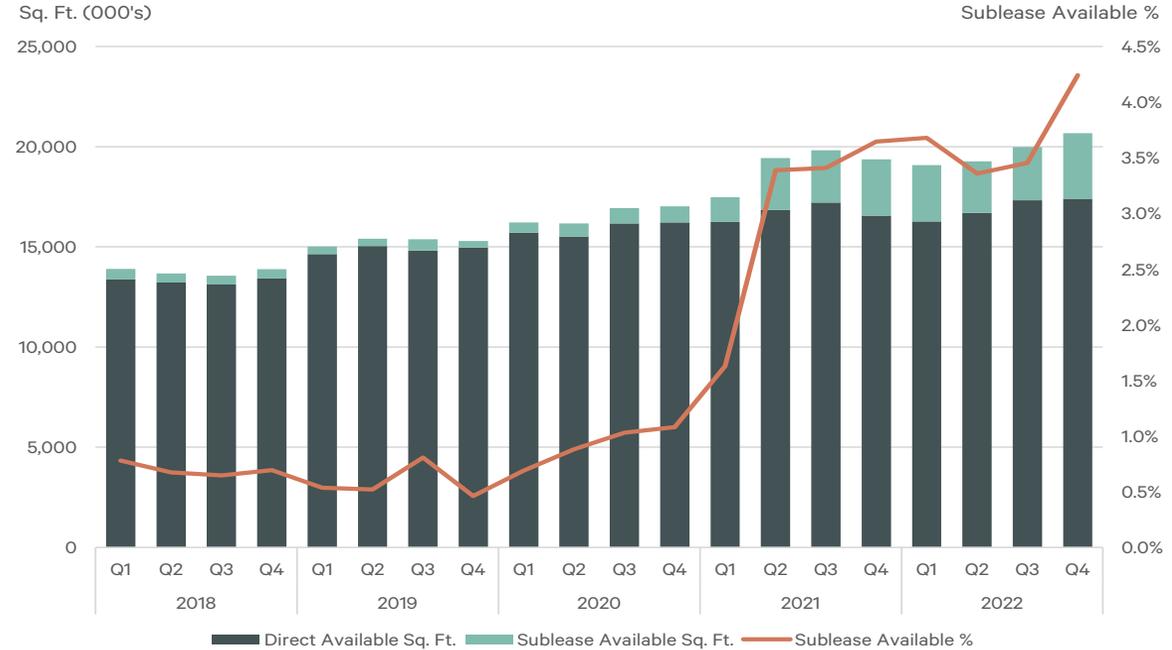
Source: CBRE Research, Q4 2022.

FIGURE 7: Sublease Available Spaces by Size



Source: CBRE Research, Q4 2022.

FIGURE 8: Historical Sublease vs Direct Availability



Source: CBRE Research, Q4 2022.

FIGURE 9: Top Sublease Spaces

Block Size	Property Name	Submarket	Lease Expiration
825,776	33 South Sixth	Minneapolis CBD	12/13/2030
424,000	Prime Therapeutics	BEA	9/30/2034
155,650	12125 Technology Drive	494	3/31/2026
152,220	12700 Whitewater	494	6/30/2026
132,604	10380 Bren Rd	494	7/31/2026
85,856	Capella Tower	Minneapolis CBD	10/31/2028

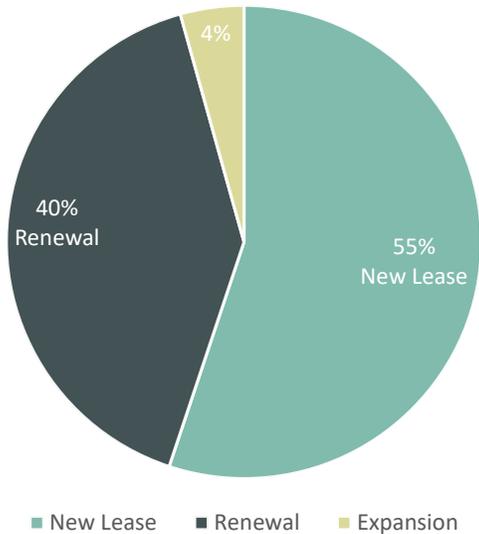
Source: CBRE Research, Q4 2022.

Leasing Velocity

In the Minneapolis market, Q4 leasing activity exceeded to 790,000 sq. ft., and increase of 70% from the previous quarter. Total leasing velocity in 2022 was 3.25M, a positive increase of 9% from total 2021 leasing activity. The majority of activity in Q4 was focused primarily with Class A space with nearly 550,000 sq. ft. of activity, representing 69% of total leasing velocity this quarter, a continued signal towards flight to quality trends.

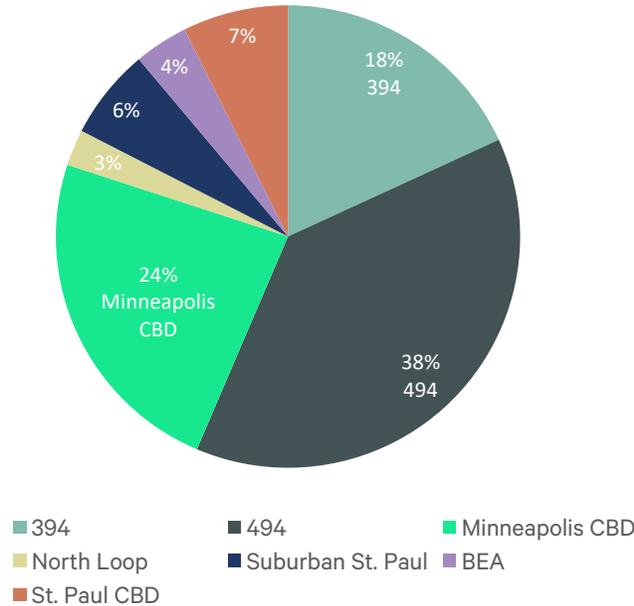
New leases outpaced renewals this quarter with 55% of total leasing volume in Q4, demonstrating that tenants are continuing to stay active in the market. Among the most notable deals, AT&T renewed for 81k sq. ft. at Wells Fargo Plaza in the 494 submarket. Several new leases signed include NorthMarq at 70th & France, MN DEED at the Great Northern Building, and Maslon LLP at Capella Tower.

FIGURE 10: Lease Transaction Types



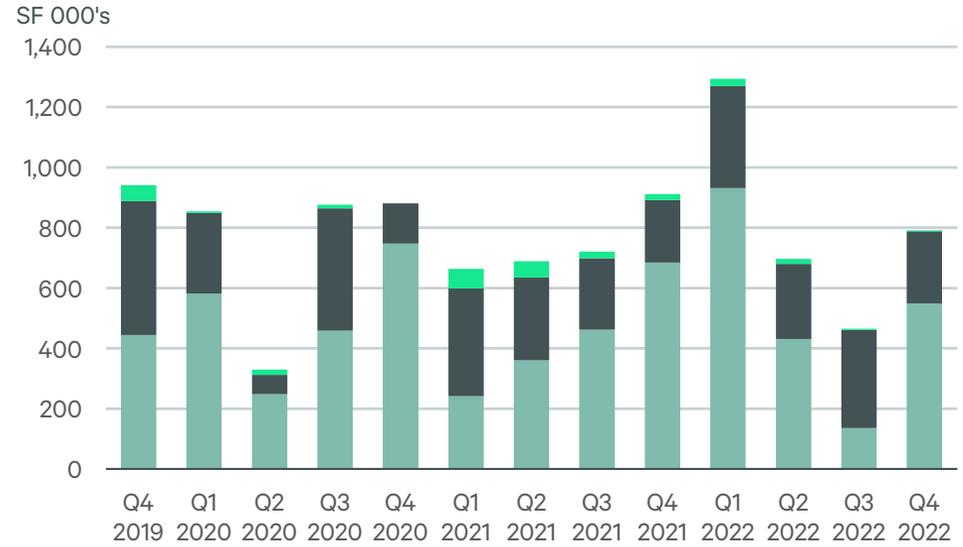
Source: CBRE Research, Q4 2022.

FIGURE 11: Lease Activity by Submarket



Source: CBRE Research, Q4 2022.

FIGURE 12: Historical Leasing Velocity by Class



Source: CBRE Research, Q4 2022.

FIGURE 13: Key Transactions

Transaction Type	Size (SF)	Tenant	Property	Submarket
Renewal	81,138	AT&T	Wells Fargo Plaza	494
New Lease	52,000	NorthMarq	70th & France	494
Renewal	48,984	SFM Mutual	3500 Northland Center	494
New Lease	43,907	MN DEED	Great Northern Building	St. Paul CBD
New Lease	35,179	Confidential Legal Services Company	Capella Tower	Minneapolis CBD

Source: CBRE Research, Q4 2022.

Investment Sales

- Volume:** Investment sales volume totaled \$338 million in Q4, bringing the 2022 year-to-date total volume to \$1.3 billion. This is a 30% increase from Q3 2022 total volume and a 50% increase year-over-year.
- Buyer Composition:** Private sales account for the largest percentage of 2022 YTD activity at 72% followed by institutional buyers with 17% and Listed/REITs with 5.4% of all sales.
- Property Type:** Q4 sales were predominantly led by suburban sales. In 2022, there was \$1.28 billion in total volume for suburban sales, a 121% increase from 2021. CBD sales volume was \$55M in 2022, representing 4% of total market activity for the year.

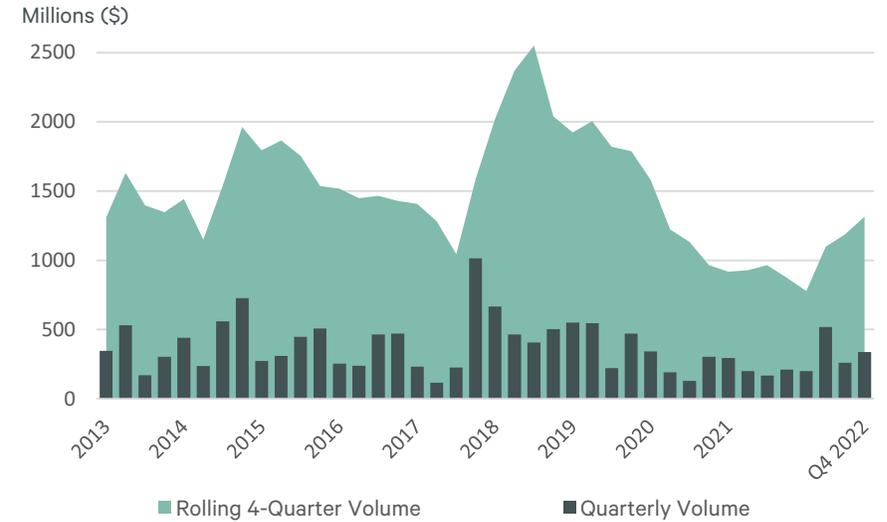
CBRE represented the seller in the sales of the Colonnade and Flagship Office Building. In total, CBRE transacted \$100.25M of total office sales this quarter, representing 30% of the market activity.

FIGURE 14: Notable Minneapolis Office Investment Sales, Q4 2022

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
10 West End	Saint Louis Park	Bridge Investment Group	117M	343,000	342
Colonnade	Golden Valley	Eagle Ridge Partners BLG Capital Advisors	79M	366,427	216
Jet 55	Plymouth	Suprema Inc	30.3M	218,795	138.5
Flagship Office Building	Eden Prairie	Altus Properties	21.53M	139,353	154.5
Tech West 55	Plymouth	Investcorp	18.5M	106,500	174
SixtyOne60	Brooklyn Center	Inventure Real Estate	11.4M	104,179	109

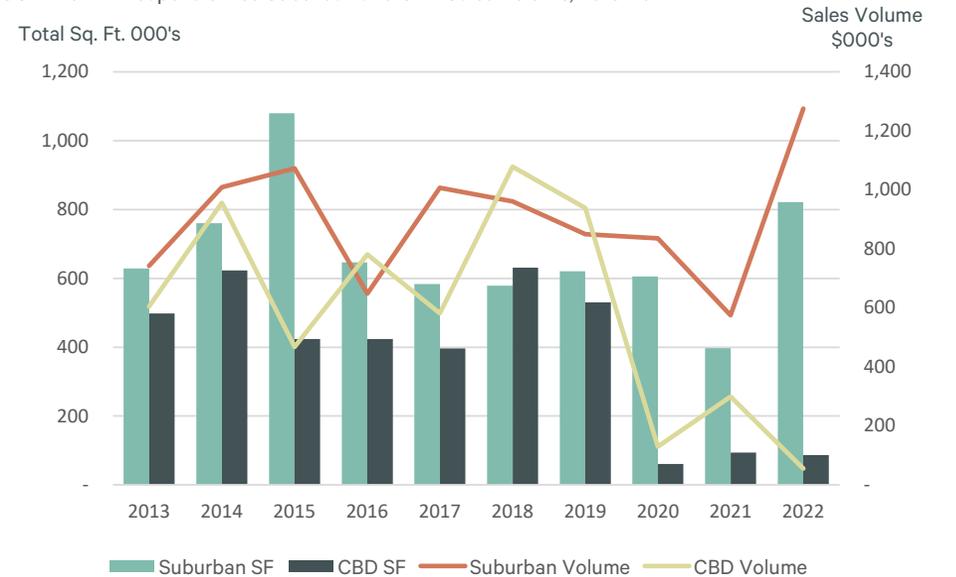
Source: CBRE Research, Q4 2022

FIGURE 15: Minneapolis Office Investment Sales Volume, 2013 – Q4 2022



Source: Real Capital Analytics

FIGURE 16: Minneapolis Office Suburban and CBD Sales Volume, 2013-2022



Source: Real Capital Analytics

Market Summary Statistics

FIGURE 17: Minneapolis/St. Paul Office Market Statistics, Q4 2022 (cont. on next page)

Submarket	MT Rentable Area (Sq. Ft.)	MT Direct Availability Rate	MT Direct Vacancy Rate	Y-o-Y Vacancy Trend	Avg Gross Asking Ls Rate	Y-o-Y Asking Rate Trend	Q4 Net Absorption (Sq. Ft.)	Y-o-Y Quarterly Absorption Trend	2022 Full-Year Net Absorption (Sq. Ft.)	Multi-Tenant and Single-Tenant Combined Stats	
										MT & ST Rentable Area (Sq. Ft.)	MT & ST Vacancy Rate
Metro Overall	76,767,589	22.2%	20.2%	→	\$28.11	↑	(125,794)	↓	(59,634)	96,275,394	16.2%
A	37,598,299	19.0%	17.0%	→	\$32.32	↑	(78,674)	↑	379,488	49,535,759	13.0%
B	31,940,104	25.5%	23.4%	↓	\$25.23	↑	16,679	↓	(190,686)	38,810,479	19.2%
C	7,229,186	24.6%	23.2%	↑	\$21.88	↑	(63,799)	↓	(248,436)	8,354,798	20.3%
Minneapolis CBD	22,982,931	23.8%	22.2%	↑	\$31.35	↑	(74,713)	↓	27,526	12,985,044	16.2%
A	14,243,494	17.2%	15.9%	↑	\$35.55	↑	(83,128)	↓	171,008	7,105,727	15.2%
B	7,172,093	36.0%	34.0%	→	\$27.88	↑	10,900	↓	(90,573)	4,861,019	19.3%
C	1,567,344	27.5%	26.0%	↑	\$23.51	↑	(2,485)	↓	(52,909)	1,018,298	8.3%
North Loop	4,176,263	27.0%	24.5%	↑	\$28.44	↓	(22,611)	↓	(24,821)	20,130,093	15.2%
A	877,775	11.1%	10.8%	↑	\$40.04	↑	0	↓	(27,596)	10,396,835	11.9%
B	2,244,628	32.3%	28.7%	↓	\$28.49	↓	(12,508)	↓	11,654	8,248,198	18.1%
C	1,053,860	29.1%	27.2%	↑	\$24.02	↑	(10,103)	↓	(8,879)	1,485,060	21.6%
394	11,727,655	20.1%	17.9%	↓	\$31.78	↑	143,083	↑	154,148	28,912,541	17.8%
A	6,070,277	19.4%	17.8%	↓	\$36.31	↑	106,104	↑	287,385	19,546,300	11.7%
B	4,639,080	23.5%	20.2%	↑	\$27.12	↑	46,454	↑	(112,101)	7,275,368	33.5%
C	1,018,298	9.2%	8.3%	→	\$19.82	↓	(9,475)	↓	(21,136)	2,090,873	20.3%
494	16,981,264	19.9%	18.0%	→	\$27.42	↓	(91,178)	↓	(65,697)	4,413,763	23.2%
A	8,478,788	18.5%	14.6%	↓	\$30.08	↑	20,173	↓	72,854	1,115,275	8.5%
B	7,017,416	21.3%	21.3%	↑	\$25.41	→	(79,171)	↓	(113,340)	2,244,628	28.7%
C	1,485,060	21.9%	21.6%	↓	\$20.71	↓	(32,180)	↓	(25,211)	1,053,860	27.2%

Source: CBRE Research, Q4 2022.

FIGURE 17: Minneapolis/St. Paul Office Market Statistics, Q4 2022 (cont. from previous page)

Submarket	MT Rentable Area (Sq. Ft.)	MT Direct Availability Rate	MT Direct Vacancy Rate	Y-o-Y Vacancy Trend	Avg Gross Asking Ls Rate	Y-o-Y Asking Rate Trend	Q4 Net Absorption (Sq. Ft.)	Y-o-Y Quarterly Absorption Trend	2022 Full-Year Net Absorption (Sq. Ft.)	Multi-Tenant and Single-Tenant Combined Stats	
										MT & ST Rentable Area (Sq. Ft.)	MT & ST Vacancy Rate
BEA	3,644,915	24.3%	22.1%	↓	\$22.22	↑	25,828	→	33,811	4,680,213	17.2%
A	1,806,727	20.1%	18.4%	↓	\$23.48	↑	23,548	↑	59,179	1,921,765	17.3%
B	1,709,176	29.2%	27.2%	↓	\$21.43	↑	(1,482)	↓	(28,270)	2,629,436	17.7%
C	129,012	19.5%	5.9%	↓	\$22.33	↑	3,762	↑	2,902	129,012	5.9%
Midway	2,534,180	14.8%	14.2%	→	\$24.25	↑	56,093	↑	5,416	3,608,522	10.6%
A	603,984	24.7%	24.7%	↑	\$27.50	↑	(3,186)	↑	(15,386)	603,984	24.7%
B	1,531,962	11.6%	11.3%	→	\$23.89	↓	59,113	↑	12,196	2,325,917	8.5%
C	398,234	11.7%	9.2%	↓	\$20.25	↑	166	↑	8,606	678,621	5.4%
Northeast	2,376,556	9.7%	8.6%	↓	\$23.26	↑	5,199	↑	155,184	2,661,710	7.7%
A	465,813	20.0%	16.6%	↓	\$24.19	↑	9,289	↓	28,409	465,813	16.6%
B	1,771,117	5.6%	5.2%	↓	\$22.77	↓	9,045	↑	128,424	2,056,271	4.5%
C	139,626	27.0%	25.1%	↑	\$21.55	↑	(13,135)	↓	(1,649)	139,626	25.1%
Northwest	1,374,588	23.9%	19.9%	↓	\$21.33	↑	(5,267)	↓	19,538	2,564,191	10.7%
A	244,850	11.5%	4.5%	↓	\$19.63	↑	0	↓	6,402	1,245,981	0.9%
B	851,663	26.5%	22.2%	↑	\$22.23	↑	1,621	↓	25,593	1,040,135	18.2%
C	278,075	26.6%	26.6%	↑	\$19.17	↑	(6,888)	↓	(12,457)	278,075	26.6%
St. Paul CBD	6,112,012	26.0%	21.1%	→	\$23.58	↓	(39,154)	↓	(85,285)	9,228,219	14.0%
A	2,685,792	23.3%	21.1%	↑	\$26.09	↑	(28,220)	↓	(58,635)	3,240,792	17.5%
B	3,047,791	27.9%	20.3%	↓	\$22.18	↓	(14,452)	↓	(38,823)	4,868,498	12.7%
C	378,429	29.6%	27.4%	↑	\$20.09	→	3,518	↑	12,173	1,118,929	9.3%
Suburban St. Paul	4,857,225	27.4%	27.0%	↑	\$19.97	↑	(123,074)	↑	(279,454)	7,516,740	17.5%
A	2,120,799	28.0%	27.6%	↑	\$24.73	→	(123,254)	↓	(144,132)	3,893,287	15.0%
B	1,955,178	21.1%	20.9%	↓	\$16.65	↑	(2,841)	↑	14,554	2,520,509	16.2%
C	781,248	41.4%	40.9%	↑	\$14.68	↓	3,021	↑	(149,876)	1,102,944	29.0%

Source: CBRE Research, Q4 2022.

Economic Overview

Everybody from Jerome Powell to single parents and Wall Street banks have been laser focused on inflation during the past year. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates, which are curtailing demand for housing and autos. Despite this good news inflation remains a menace. Food and shelter prices are heightened, and fears persist that inflation is embedded in the labor market.

Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent rate hikes has been the most dramatic in decades and this has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023, means that firms are looking to cut costs, helping to fulfill recessionary prophecies.

Some positive signals can be found in monthly payroll gains, but other labor market metrics are not so sanguine. Data from Challenger, Gray & Christmas shows that the current level of layoff announcements is consistent with past recessions. This is paired with business surveys exhibiting deteriorating activity and consumers grappling with eroding savings. The upshot is we believe the economy will face a moderate recession in 1H 2023.



