

FIGURES | MINNEAPOLIS OFFICE | Q1 2023

# Suburban office market leads leasing activity in the first quarter

▲ 20%  
Direct Vacancy Rate

▲ (106,408)  
SF Net Absorption

◀ 350,000  
SF Under Construction

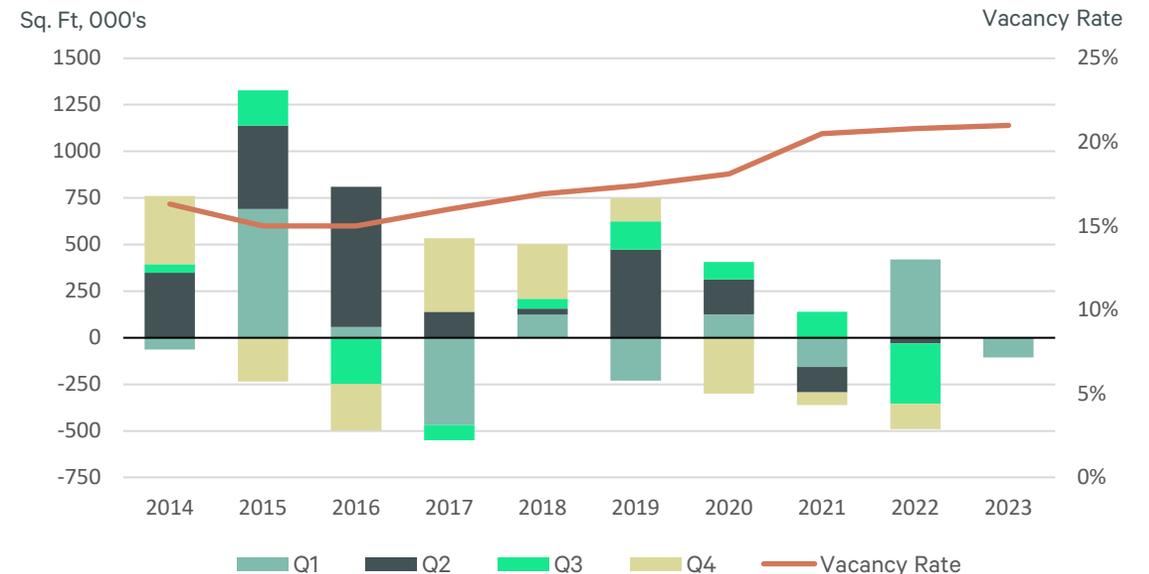
▲ \$17.48 PSF  
Average Asking Rate (NNN)

Note: Arrows indicate change from previous quarter.

## MARKET OVERVIEW

- In the Minneapolis office market, Q1 absorption was (106,408) sq. ft., an increase of 22% from the previous quarter.
- Downtown asking rates were 8% higher than suburban rates, with a net average of \$18.16 per sq. ft. compared to \$16.81 for suburban properties.
- The 394 submarket saw the highest asking rates with an average net rate of \$20.05 per sq. ft., 15% higher than the overall market average.
- Sublease availability rose slightly to 3.8M sq. ft. in Q1. 63% of total availabilities on the market were large spaces >50k sq. ft. or more with several large single-tenant campuses on the market.
- Q1 leasing velocity reached 824,811 sq. ft, with Class A space representing 55% of total activity this quarter. New leases outpaced renewals with 67% of total leasing volume.

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



Source: CBRE Research, Q1 2023.

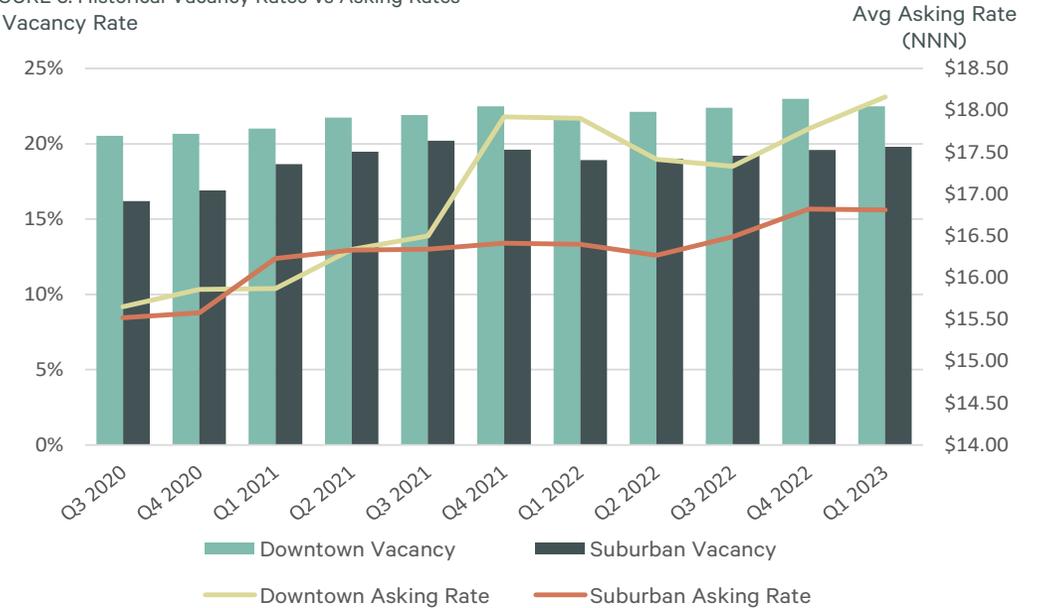
## Absorption, Vacancy, and Lease Rates

In the Minneapolis office market, Q1 absorption was (106,408) sq. ft., an increase of 22% from the previous quarter. Class A buildings in the St. Paul CBD and creative offices in the North Loop account for some of the large move-in activity this quarter with leasing activity at the Great Northern Building, Designer's Guild and TractorWorks.

Overall, direct vacancy rates increased this quarter to average 20%, an increase of 4% year-over-year. The largest variance in vacancy rates are seen between Class A buildings downtown at 17% compared to 30% for Class B and 27% for Class C. Comparatively, the suburban vacancy rate has remained relatively constant between class sizes near 20%.

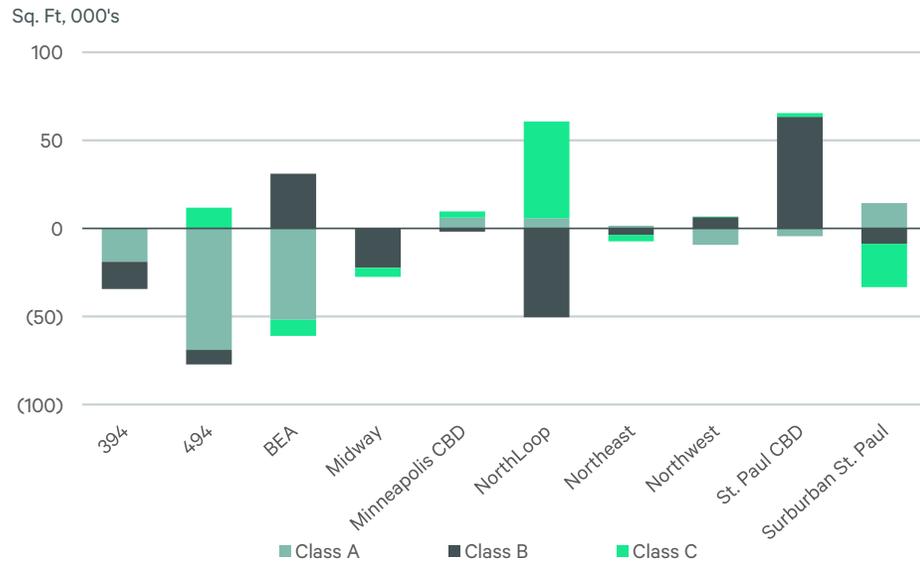
The highest lease asking rates in the market were in the 394 submarket with an average net rate of \$20.05 per sq. ft., which was 15% higher than the overall market average of \$17.48 per sq. ft. Overall, downtown asking rates were 8% higher than suburban rates, with a net average of \$18.16 per sq. ft. compared to \$16.81 for suburban properties.

FIGURE 3: Historical Vacancy Rates vs Asking Rates



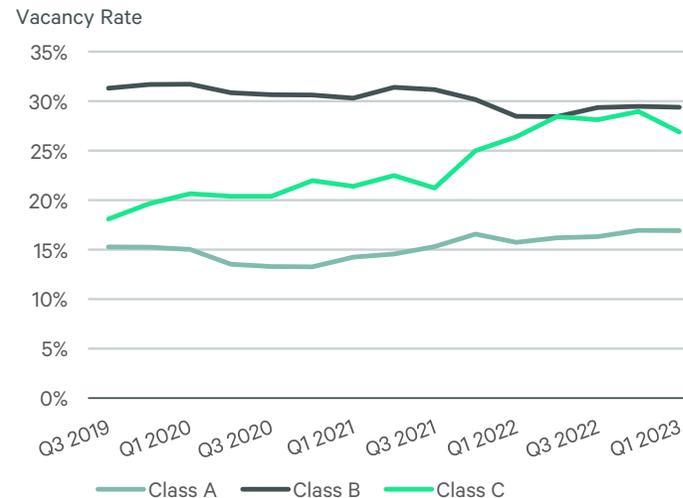
Source: CBRE Research, Q1 2023.

FIGURE 2: Q4 2022 Net Absorption by Submarket and Class



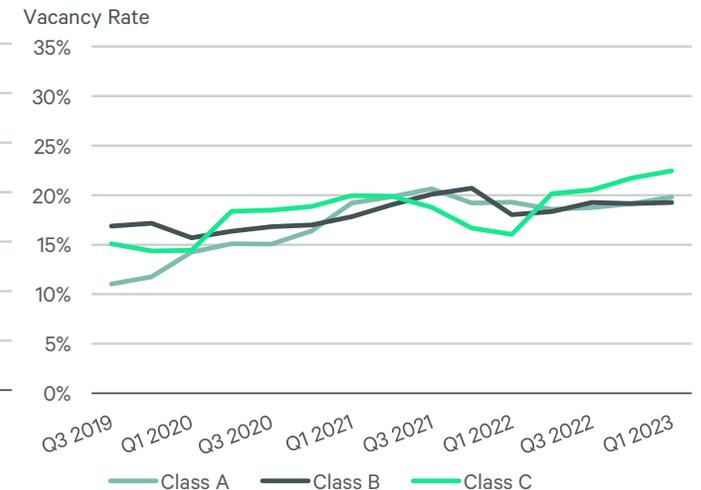
Source: CBRE Research, Q1 2023.

FIGURE 4: Historical Downtown Vacancy by Class



Source: CBRE Research, Q1 2023.

FIGURE 5: Historical Suburban Vacancy by Class



Source: CBRE Research, Q1 2023.

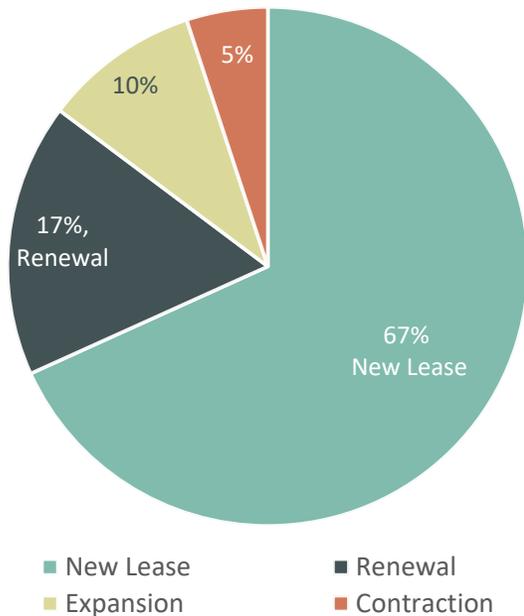
## Leasing Velocity

In the Minneapolis market, Q1 leasing activity reached 824,811 sq. ft., 9% below the average leasing activity from the prior four quarters. Despite negative absorption this quarter, the majority of leasing activity in Q1 was focused on Class A space with 451,127 sq. ft. of activity, representing 55% of total leasing velocity this quarter.

Suburban submarkets led with nearly 530,000 sq. ft. transacted representing 64% of Q1 activity. New leases outpaced renewals this quarter with 67% of total leasing volume in Q1. The market saw more sq. ft. of expansions than contractions with 10% and 5% of total activity, respectively.

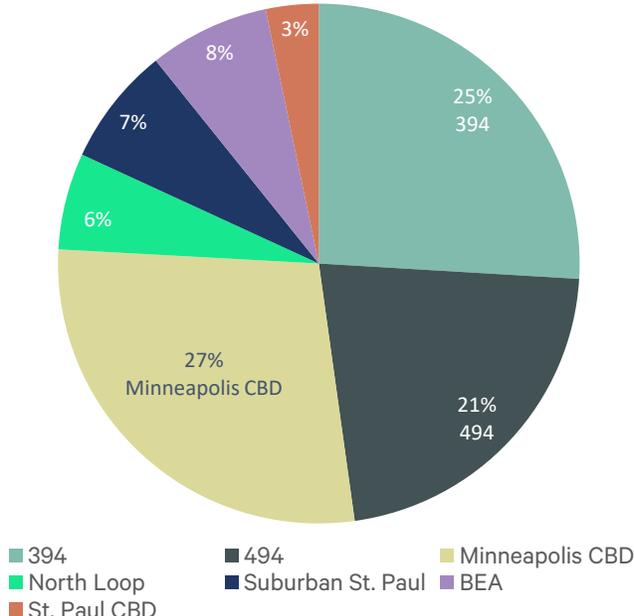
Among the top deals this quarter, CBRE represented the tenant UVP Management at Whitewater Office Center.

FIGURE 6: Lease Transaction Types



Source: CBRE Research, Q1 2023.

FIGURE 7: Lease Activity by Submarket



Source: CBRE Research, Q1 2023.

FIGURE 8: Historical Leasing Velocity by Class



Source: CBRE Research, Q1 2023.

FIGURE 9: Key Transactions

Transaction Type	Size (SF)	Tenant	Property	Submarket
New Lease	42,514	UVP Management	Whitewater Office Center	494
New Lease	29,737	Copeland Buhl	Atria Corporate Center	394
Renewal	26,198	RBC Wealth Management	Fifty South Sixth	Minneapolis CBD
New Lease	22,280	Center ID	400 Metropoint	394

Source: CBRE Research, Q1 2023.

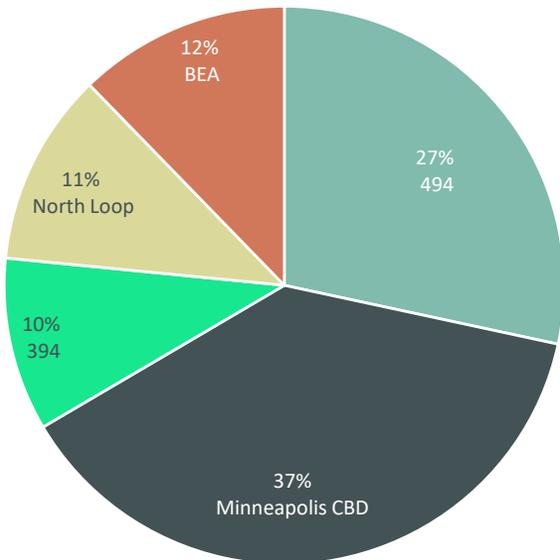
## Subleasing

Sublease availability rose slightly to 3.8M sq. ft. in Q1. This represented 18% of the total available space in the market and 5% of NRA. Since Q1 2020, there has been 2.1M sq. ft. of sublease space added to the market as tenants have continued to navigate changes in workplace strategies and economic shifts.

In Q1, 63% of total availabilities on the market were large spaces >50k sq. ft. or more with several large single-tenant campuses on the market. More may be anticipated in the coming year with the announcement this quarter from BlueCross BlueShield to exit their headquarters in Eagan because of the shift to hybrid work.

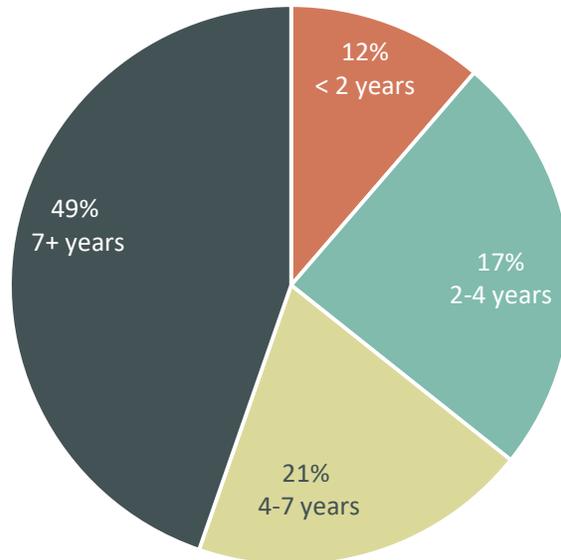
The average remaining term on sublease availabilities was 3.2 years with nearly half of available space with terms seven years or greater. The three largest blocks of sublease spaces currently available have a term of at least 7 years.

FIGURE 10: Sublease Availability by Submarket



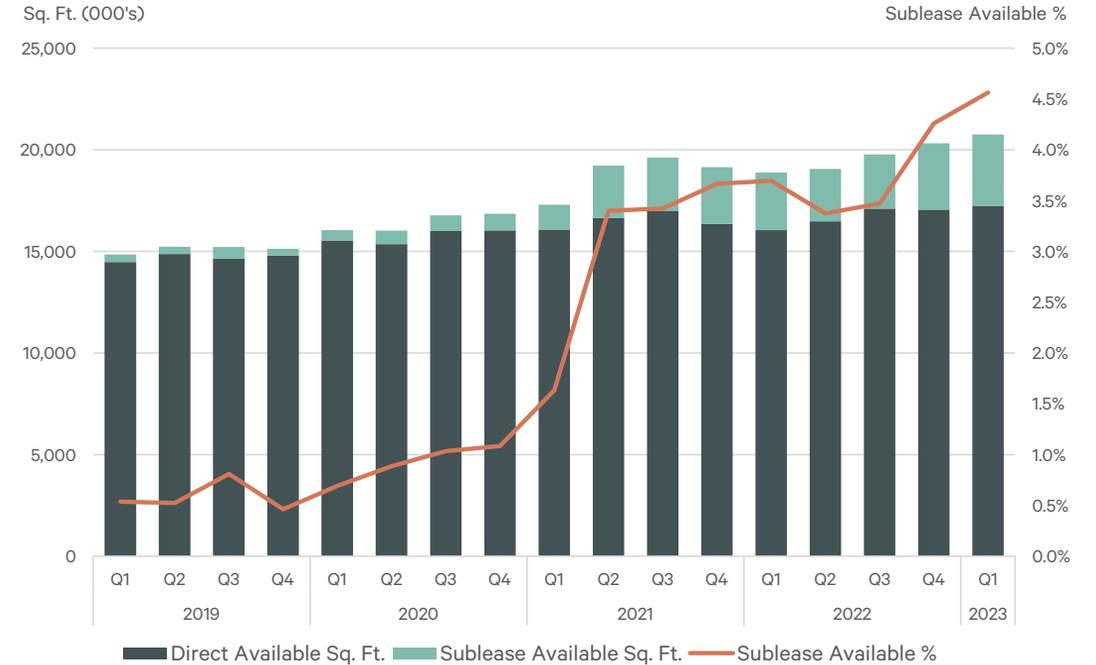
Source: CBRE Research, Q1 2023.

FIGURE 12: Sublease Available Spaces by Term Length



Source: CBRE Research, Q1 2023.

FIGURE 13: Historical Sublease vs Direct Availability



Source: CBRE Research, Q1 2023.

FIGURE 14: Top Sublease Spaces

Block Size	Property Name	Address	Submarket	Lease Expiration
850,546	33 South Sixth	33 S 6th St	Minneapolis CBD	10/28/2030
424,000	Prime Therapeutics	2900 Ames Crossing Rd	BEA	9/30/2034
155,650	12125 Technology Drive	12125 Technology Dr	494	3/31/2026
152,220	12700 Whitewater	12700 Whitewater Dr	494	6/30/2026
150,000	Two41	241 5th Ave N	North Loop	4/30/2030
132,604	10380 Bren Rd	10350 W Bren Rd	494	7/31/2026
85,856	Capella Tower	225 S 6th St	Minneapolis CBD	10/31/2028

Source: CBRE Research, Q4 2022.

## Investment Sales

- **Volume:** Investment sales volume totaled \$109 million in Q1, a 45% decrease year-over-year.
- **Buyer Composition:** Private sales account for the largest percentage of Q1 activity at 90% followed by user owners with 7% and cross-border buyers with 3%.
- **Property Type:** Q1 sales were predominantly led by suburban sales, with 74% of total sales volume.

Several notable Q1 sales will lead to office conversions in the future. Recent plans have been announced for the former Ecolab University Center at 386 Wabasha St N to be converted into multi-family housing. Plans for Century Plaza have won city approval to be converted into a hotel with space devoted to use as a new precinct office for the Minneapolis Police Department.

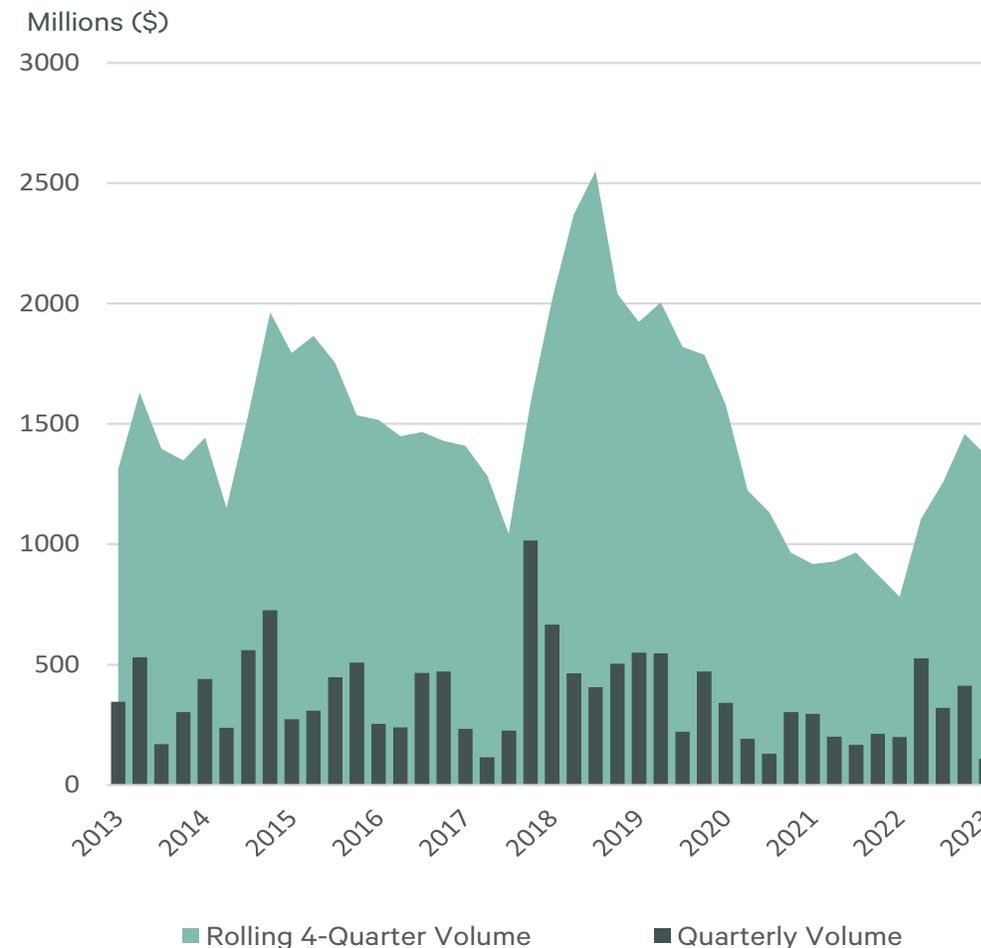
FIGURE 115: Notable Minneapolis Office Investment Sales, Q1 2023

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
445 E Lake St	Wayzata	Clackamas Commons Property Management LLC	27.5M	40,128	640
*386 Wabasha St N	Saint Paul	Inland RE Group	17.9M	153,763	116
1625 Radio Dr	Woodbury	Xenium 55 LLC	13.1M	54,810	238.4
1715 Yankee Doodle Rd	Eagan	Shree Investments, LLC	12.4M	106,207	116.8
*Plymouth Office Center	Plymouth	Doran Investments	9.5M	92,963	102
*Century Plaza	Minneapolis	Swervo Development	7.5M	117,640	64
Northpark Corporate Center (1200 1210)	Arden Hills	HBI Holdings	6.5M	48,690	134

\* Indicates future office conversion

Source: CBRE Research, Q1 2023

FIGURE 16: Minneapolis Office Investment Sales Volume, 2013 – Q1 2023



Source: Real Capital Analytics

## Market Summary Statistics

FIGURE 17: Minneapolis/St. Paul Office Market Statistics, Q1 2023 (cont. on next page)

Submarket	MT Rentable Area (Sq. Ft.)	MT Direct Vacancy Rate	Y-o-Y Vacancy Trend	MT Direct Availability Rate	MT Total Availability Rate	Avg Gross Asking Ls Rate	Y-o-Y Asking Rate Trend	Q1 Net Absorption (Sq. Ft.)	Y-o-Y Quarterly Absorption Trend	Multi-Tenant and Single-Tenant Combined Stats	
										MT & ST Rentable Area (Sq. Ft.)	MT & ST Vacancy Rate
Metro Overall	76,459,743	20.0%	↑	22.1%	26.7%	\$28.36	↑	(106,408)	↓	99,064,639	16.2%
A	37,531,570	17.3%	↑	19.3%	27.1%	\$32.16	↓	(126,123)	↓	52,882,556	13.1%
B	31,740,987	22.6%	↑	25.0%	26.4%	\$25.84	↑	(10,207)	↓	37,869,285	19.5%
C	7,187,186	23.0%	↑	24.1%	26.1%	\$22.06	↑	29,922	↑	8,312,798	21.2%
Minneapolis CBD	22,982,931	22.2%	↑	24.7%	30.8%	\$31.43	↑	7,679	↓	28,912,541	18.2%
A	14,243,494	15.9%	↑	18.3%	27.1%	\$35.38	↓	6,015	↓	19,546,300	12.0%
B	7,172,093	34.0%	↓	37.0%	38.9%	\$27.97	↑	(1,844)	↓	7,275,368	34.0%
C	1,567,344	25.8%	↓	27.0%	27.2%	\$23.42	↑	3,508	↑	2,090,873	21.0%
North Loop	4,176,263	24.2%	↓	25.8%	35.7%	\$30.09	↓	10,164	↓	4,413,763	25.1%
A	877,775	10.1%	↑	10.4%	32.9%	\$40.01	↑	5,812	↑	1,115,275	10.4%
B	2,244,628	30.2%	→	32.4%	37.6%	\$30.49	↓	(50,517)	↓	2,244,628	31.4%
C	1,053,860	23.0%	↓	24.3%	33.8%	\$25.01	↑	54,869	↑	1,053,860	27.3%
394	11,727,655	18.3%	↓	19.2%	22.3%	\$32.10	↓	(34,468)	↓	14,563,608	16.0%
A	6,070,277	18.1%	↓	18.7%	23.3%	\$36.48	↓	(19,033)	↑	8,684,291	13.8%
B	4,639,080	20.9%	↑	22.0%	23.2%	\$27.71	↓	(15,484)	↓	4,861,019	20.8%
C	1,018,298	8.3%	↑	9.4%	12.1%	\$20.65	↓	49	↓	1,018,298	10.9%
494	16,869,019	17.6%	↑	20.9%	25.2%	\$27.87	↓	(65,500)	↓	20,017,848	16.1%
A	8,478,788	14.8%	↓	19.7%	27.6%	\$30.20	↓	(68,964)	↓	10,396,835	14.1%
B	6,947,171	20.4%	↑	22.1%	22.8%	\$26.12	↑	(8,225)	↓	8,177,953	17.7%
C	1,443,060	21.0%	↑	21.8%	22.2%	\$21.67	↓	11,689	↑	1,443,060	21.3%

Source: CBRE Research, Q1 2023.

FIGURE 17: Minneapolis/St. Paul Office Market Statistics, Q1 2023 (cont. from previous page)

Submarket	MT Rentable Area (Sq. Ft.)	MT Direct Vacancy Rate	Y-o-Y Vacancy Trend	MT Direct Availability Rate	MT Total Availability Rate	Avg Gross Asking Ls Rate	Y-o-Y Asking Rate Trend	Q1 Net Absorption (Sq. Ft.)	Y-o-Y Quarterly Absorption Trend	Multi-Tenant and Single-Tenant Combined Stats	
										MT & ST Rentable Area (Sq. Ft.)	MT & ST Vacancy Rate
BEA	3,600,617	21.4%	↑	22.3%	34.7%	\$20.93	↑	(29,974)	↓	5,820,877	13.2%
A	1,806,727	21.3%	↑	22.1%	45.6%	\$20.23	↓	(51,841)	↓	3,106,727	18.0%
B	1,664,878	22.1%	↑	23.2%	24.5%	\$21.62	↑	31,058	↑	2,585,138	14.3%
C	129,012	13.1%	↑	13.9%	13.9%	\$21.72	↑	(9,191)	↓	129,012	13.1%
Midway	2,534,180	15.3%	↑	16.9%	17.3%	\$23.64	↑	(27,598)	↓	3,608,522	11.7%
A	603,984	24.7%	↑	28.7%	29.3%	\$27.00	↓	0	↑	603,984	25.2%
B	1,531,962	12.8%	↑	13.2%	13.7%	\$22.99	↑	(22,301)	↓	2,325,917	9.8%
C	398,234	10.5%	↓	13.0%	13.0%	\$19.88	↑	(5,297)	↓	678,621	6.2%
Northeast	2,424,556	8.5%	↓	8.9%	9.5%	\$22.89	↓	(5,928)	↓	2,709,710	7.9%
A	465,813	16.3%	↓	17.4%	18.6%	\$23.84	↓	1,432	↑	465,813	16.3%
B	1,819,117	5.1%	↓	5.2%	5.6%	\$22.40	↓	(3,784)	↓	2,104,271	4.8%
C	139,626	27.7%	↑	30.0%	30.0%	\$21.55	↑	(3,576)	↓	139,626	27.7%
Northwest	1,374,588	20.0%	↓	25.2%	26.8%	\$20.98	↓	(2,719)	↓	3,212,614	8.6%
A	244,850	8.3%	↑	15.3%	15.3%	\$20.20	↓	(9,385)	↓	1,895,981	1.1%
B	851,663	21.3%	↓	27.6%	30.2%	\$21.68	↑	6,354	↑	1,038,558	17.6%
C	278,075	26.5%	↑	26.5%	26.5%	\$19.10	↓	312	↑	278,075	26.5%
St. Paul CBD	5,979,438	18.4%	→	21.3%	22.4%	\$23.97	↓	60,982	↑	8,355,145	13.5%
A	2,685,792	21.5%	↑	18.5%	19.8%	\$26.48	↓	(4,467)	↑	3,240,792	17.8%
B	2,915,217	14.5%	↓	22.8%	23.6%	\$22.70	↓	63,250	↑	4,735,924	9.4%
C	378,429	26.8%	↑	29.0%	31.2%	\$20.24	↓	2,199	↑	378,429	26.8%
Suburban St. Paul	4,790,496	27.8%	↑	27.5%	28.4%	\$20.19	↑	(19,046)	↓	7,450,011	18.5%
A	2,054,070	28.3%	↑	27.2%	28.6%	\$24.78	↓	14,308	↑	3,826,558	15.9%
B	1,955,178	20.7%	↑	20.9%	21.8%	\$16.57	↑	(8,714)	↓	2,520,509	16.8%
C	781,248	44.1%	↑	44.5%	44.5%	\$18.20	↑	(24,640)	↓	1,102,944	31.2%

Source: CBRE Research, Q1 2023.

