RESEARCH Q1 2023

Minneapolis-St Paul Office Market

Office Vacancy Steadily Rising as Companies Integrate Hybrid and Remote Work

Absorption in the overall office market during the first quarter of 2023 was negative 398,086 square feet. Despite elevated vacancy, gross asking rental rates increased slightly to $30.13/SF, while concessions are up dramatically as landlords continue to offer significant tenant improvement allowances and free rent. Leasing activity has picked up, but sublease space continues to increase and companies are taking less space, resulting in negative absorption. Overall vacancy increased from 15.9% in the fourth quarter of 2022 to 16.3%. Hybrid and remote workplace strategies continue to lead to downsizing among office space users. For example, Voya vacated over 182,000 square feet at 20 Washington Square in the Minneapolis Central Business District, downsizing with a move across the street to 37,000 square feet at The Marq.

Sublease Availabilities

There is 2.9 million square feet of sublease space available, with over 50% of that space located in the Minneapolis CBD. Calabrio added to this amount by putting 90,000 square feet of its space at The Steelman Exchange in the North Loop on the market for sublease. In the suburbs, sublease availability is dominated by options from corporate users, including Prime Therapeutics and United Health Group.

UnitedHealth has its 150,000-square-foot office at 12700 Whitewater Dr. in Minnetonka available for sublease, while its subsidiary Optum is seeking to sublease 155,000 square feet at 12125 Technology Dr. in Eden Prairie.

UnitedHealth's corporate headquarters at 9900 Bren Rd. in Minnetonka is available. Owner LCN Capital Partners is offering the 344,000-square-foot property for sale or lease. Optum also occupies the former ADC campus on Technology

Current Conditions

– Net absorption of (398,086) square feet

– Vacancy rate 16.3%

– 2.9 million square feet of space is available for sublease Rental rates up slightly

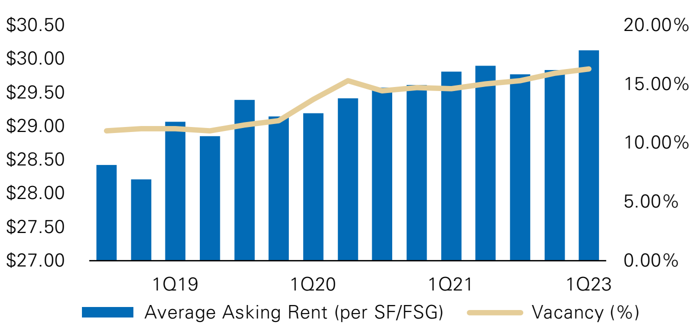
– Concessions in the form of free rent and tenant improvement allowances continue to increase

Market Summary

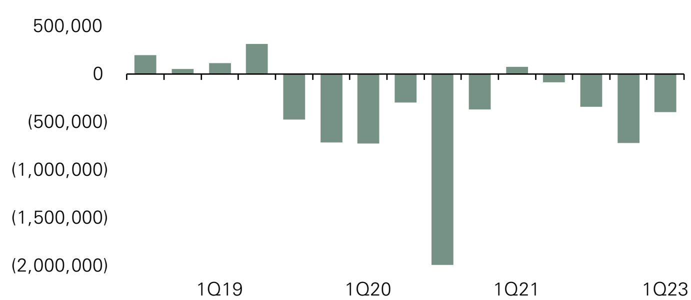
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	120.2	121.0 M	120.5M	↑
Vacancy Rate	16.3%	15.9%	15.2%	↑
Quarterly Net Absorption (SF)	(398,086)	(719,654)	(623,898)	↓
Average Asking Rent/SF	$30.13	$29.83	$29.19	↓
Under Construction (SF)	359,729	359,729	2,122,300	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Dr. in Eden Prairie, with a lease expiring at the end of 2023. Owner Virtus has that 473,000-square-foot space available for lease in case Optum doesn't renew. In addition, there is a 32,000-square-foot property in Plymouth for sale, currently occupied by Optum subsidiary Solutran.

Subleases offer designed and furnished move-in ready spaces; however, it can be a challenge to attract tenants to subleases. These options must compete with direct space where landlords are providing significant tenant improvement dollars and free rent.

Future Outlook

Increasing interest rates continue to challenge capital markets. Investment in commercial real estate is credit-dependent, and the abrupt shift to higher interest rates that began in March of 2022 has turned off capital inflows. There is little inventory for sale and values are difficult to discern with such a drastic increase in the cost of credit. The significant number of loans on office properties coming due in 2023 will challenge office owners facing higher interest rates and decreasing revenue from lower occupancy and significant concessions. The general consensus is that interest rates will not go back to previous levels.

Prime Class A space will continue to be as in-demand as ever while commodity office space in Class B and Class C properties will see little activity. Minneapolis's mayor has indicated there is room for some government financial assistance to convert obsolete office space into residential.

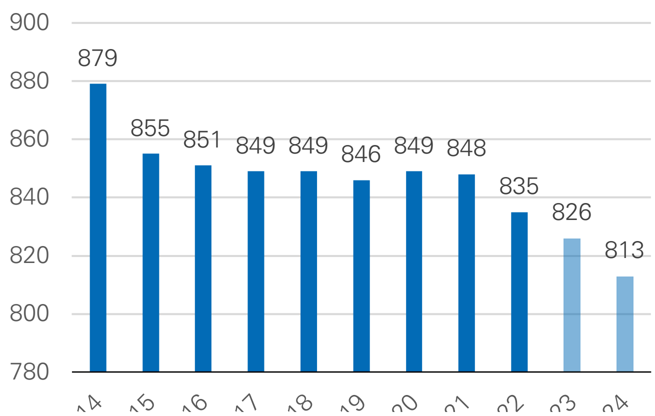
A three-to-five-year period of uncertainty is expected as the market works through the future of office demand and a new normal is found.

LAW FIRM LEASING TRENDS

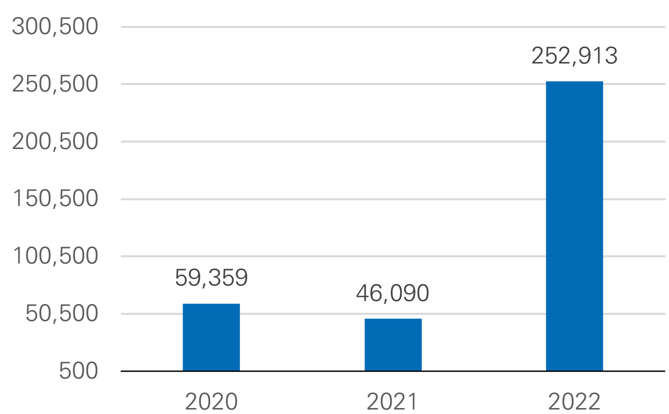
- Leasing activity among law firms picked up; total square feet signed by law firms in 2020 and 2021 averaged 52,725 square feet, compared to 252,913 total square feet leased in 2022.
- Law firms have been downsizing their office footprints for years; the pandemic accelerated this trend, resulting in the average square foot per lawyer decreasing by 7.5% since 2014.
- The square foot per lawyer at firms that renewed or moved since 2020 went from 787 square feet to 632 square feet, a 20% decrease.
- In the two most recent law firm office leases signed, the square feet per lawyer was 438 and 500 square feet.
- Among law firms that renewed or moved since 2020, 60% chose to contract, 30% chose to expand and 10% had no negligible change in their size.

FIRM	YEAR	SQUARE FEET PREVIOUS	SQUARE FEET NEW
Fredrikson & Byron, P.A.	2023	200,000	160,000
Taft	2022	93,500	109,500
Ballard Spahr	2022	69,960	45,898
Fox Rothschild LLP	2022	95,000	40,000
Maslon	2024	45,000	35,000
Chestnut & Cambronne, P.A.	2020	10,000	23,915
Greenberg Traurig	2022	14,722	22,323
Kennedy & Graven	2020	18,042	19,568

AVERAGE SF/LAWYER



GROSS LEASING VOLUME – LAW FIRMS



Activity Highlights

- AT&T announced it is pulling out of the CBD, moving from its namesake tower at 901 Marquette Ave. to an existing office it has at 7900 Xerxes Ave. in Bloomington.
- Riverpoint Office Center in Eagan sold for $12.4 million when BridgeCap Partners sold the property to Riverpoint Eagan LLC. BridgeCap purchased the property in 2021, repositioned it by investing in upgrades and attracted new tenants Target, Progressive and Coldwell Banker. The sale is more than double the $5.5 million BridgeCap purchased it for.
- In the St. Paul CBD, Ecolab University Center was sold to Inland Real Estate Group for $17.87 million. The developer plans to convert the property into an apartment building with 175 units.
- Maslon LLP is relocating its offices within the Minneapolis CBD, moving from 45,000 square feet at Wells Fargo Center to 35,000 square feet at Capella Tower.
- SFM Mutual insurance company renewed its lease for 49,000 square feet at Northland Center in Bloomington, where it will keep its headquarters.
- LSE Architects bought and renovated 1401 Glenwood Ave. in Minneapolis, a 36,000-square-foot building just west of town. They will occupy approximately 22,000 square feet, while Eyebobs occupies the remainder.

AT&T will leave AT&T Tower in the Minneapolis CBD for Bloomington. The company will be out of the 687,854 square foot tower by the end of the third quarter of 2023.

BridgeCap Partners sold Riverpoint Office Center for more than twice the price it paid for it in 2021.

Notable Lease Transactions

Tenant	Market	Building	Type	Square Feet
SFM Mutual Insurance	Southwest	Northland Center I	Renewal	28,000
Maslon Law	Mpls CBD - Core	Capella Tower	New	35,000
Copeland Buhl & Company	West	ATRIA Corporate Center	New	24,049
insight Global	West	10 West End	New	22,000
NorthPoint Logistics	Mpls CBD - Core	The Marq	New	17,641
Kemps	West	10 West End	New	16,503
Nelson Mullins	West	1600 Tower at West End	New	16,000
HNTB	Minneapolis CBD	60 South Sixth	New	15,000
Kinney & Lange	Minneapolis CBD	SPS Tower	New	13,000

Notable Sales Transactions

Building	Market	SF	Sale Price	Price/SF	Buyer	Seller
445 Lake Building	West	40,128	$25,700,000	$640	Clackamas Commons Prop. Mngmt	Tamarack Investments
Ecolab University	SP CBD	155,000	$17,870,000	$115	Inland Real Estate Group	Treadwell Capital Partners
City Centre	SE	54,810	$13,069,246	$238	Xenium 55 LLC	MSP Commercial
Riverpoint Office	SE	100,000	$12,400,000	$124	Riverpoint Eagan LLC	BridgeCap Partners
Plymouth Office	NW	91,292	$9,500,000	$104	Doran Cos.	CEC Tonka LLC
Eagandale Bs Park	SE	44,000	$3,700,000	$84	Interstate Companies Inc.	Shree, Apex, NAS, S&V Ventures Eagan
Radtke Building	NE	31,282	$3,200,000	$102	Land Bank Twin Cities	Sunrise Banks
3rd & 3rd	Mpls CBD	71,610	$2,700,000	$38	Finer Housing LLC	Ryan Companies

Submarket Statistics

	Total Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy Percentage(with Sublease)	Q1 Absorption (SF)	YTD Absorption (SF)	Weighted AVG Rental Rate (FSG)	Under Construction (SF)
Minneapolis CBD Total	**36,751,269**	**6,752,949**	**1,522,537**	**22.5%**	**(142,893)**	**(142,893)**	**$33.82**	**359,729**
Core - CBD	26,151,141	5,362,417	1,167,878	25.0%	(121,806)	(121,806)	$35.31	359,729
East - CBD	2,224,853	140,831	59,477	9.0%	0	0	$31.60	0
Loring – CBD	227,360	24,875	14,640	17.4%	0	0	$25.15	0
Northeast - CBD	3,097,417	274,773	4,776	9.0%	6,168	6,168	$23.41	0
Northloop -CBD	2,739,711	503,665	228,285	26.7%	(47,233)	(47,233)	$34.71	0
Warehouse - CBD	2,310,787	446,388	47,481	21.4%	19,978	19,978	$27.53	0
Suburban Total	**74,980,609**	**8,571,000**	**1,306,478**	**13.2%**	**(169,696)**	**(169,696)**	**$25.37**	**0**
Northeast	17,891,222	1,752,745	99,593	10.4%	(37,787)	(37,787)	$19.93	0
Northwest	5,571,218	483,045	31,808	9.2%	(46,888)	(46,888)	$22.39	0
Southeast	16,071,766	1,976,121	422,075	14.9%	(19,957)	(19,957)	$22.23	0
Southwest	23,455,658	2,763,942	590,334	14.3%	(94,895)	(94,895)	$30.62	0
West	11,990,745	1,595,147	162,668	14.7%	29,831	29,831	$31.69	0
St.Paul CBD	**8,462,964**	**1,394,638**	**62,971**	**17.2%**	**(85,497)**	**(85,497)**	**$24.06**	**0**
Overall Total	**120,194,842**	**16,718,587**	**2,891,986**	**16.3%**	**(398,086)**	**(398,086)**	**$30.13**	**359,729**

Minneapolis CBD

	Total Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy Percentage (with sublease)	Q1 Absorption (SF)	YTD Absorption (SF)	Weighted AVG Rental Rate (FSG)	Under Construction (SF)
Class A	19,398,963	3,381,900	1,140,224	23.3%	46,245	46,245	$37.37	359,729
Class B	6,627,977	1,949,923	27,654	29.8%	(168,051)	(168,051)	$29.74	0
Class C	124,201	30,594	0	24.6%	0	0	$18.56	0
Core Total	**26,151,141**	**5,362,417**	**1,167,878**	**25.0%**	**(121,806)**	**(121,806)**	**$35.31**	**359,729**
Class A	1,407,443	10,310	59,477	5.0%	0	0	$36.76	0
Class B	641,568	116,666	0	18.2%	0	0	$30.80	0
Class C	175,842	13,855	0	7.9%	0	0		0
East Total	**2,224,853**	**140,831**	**59,477**	**9.0%**	**0**	**0**	**$31.60**	**0**
Class A						0		
Class B	58,312	0	14,640	25.1%	0	0	$29.51	0
Class C	169,048	24,875	0	14.7%	0	0	$21.00	0
Loring Total	**227,360**	**24,875**	**14,640**	**17.4%**	**0**	**0**	**$25.15**	**0**
Class A	200,739	15,917	0	7.9%	(4,162)	(4,162)	$26.86	0
Class B	1,754,492	204,640	0	11.7%	16,137	16,137	$26.31	0
Class C	1,142,186	54,216	4,776	5.2%	(5,807)	(5,807)	$18.45	0
Northeast Total	**3,097,417**	**274,773**	**4,776**	**9.0%**	**6,168**	**6,168**	**$23.41**	**0**
Class A	1,236,485	113,095	192,830	24.7%	(52,166)	(52,166)	$38.96	0
Class B	1,173,777	265,336	35,455	25.6%	838	838	$32.62	0
Class C	329,449	125,234	0	38.0%	4,095	4,095	$27.62	0
Northloop Total	**2,739,711**	**503,665**	**228,285**	**26.7%**	**(47,233)**	**(47,233)**	**$34.71**	**0**
Class A	434,333	0	0	0.0%	0	0	$35.53	0
Class B	1,565,289	419,647	32,705	28.9%	19,978	19,978	$28.02	0
Class C	311,165	26,741	14,776	13.3%	0	0	$22.78	0
Warehouse Total	**2,310,787**	**446,388**	**47,481**	**21.4%**	**19,978**	**19,978**	**$27.53**	**0**
Class A	22,677,963	3,521,222	1,392,531	21.7%	(10,083)	(10,083)	$36.99	359,729
Class B	11,821,415	2,956,212	110,454	25.9%	(131,098)	(131,098)	$29.49	0
Class C	2,251,891	275,515	19,552	13.1%	(1,712)	(1,712)	$21.38	0
Minneapolis CBD Total	**36,751,269**	**6,752,949**	**1,522,537**	**22.5%**	**(142,893)**	**(142,893)**	**$33.82**	**359,729**

St. Paul CBD and Suburban Statistics

	Total Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy Percentage (with sublease)	Q1 Absorption (SF)	YTD Absorption (SF)	Weighted AVG Rental Rate (FSG)	Under Construction (SF)
Class A	3,111,558	373,629	50,201	13.6%	(36,026)	(36,026)	$28.67	0
Class B	4,940,322	949,702	12,770	19.5%	(41,315)	(41,315)	$22.14	0
Class C	411,084	71,307	0	17.3%	(8,156)	(8,156)	$17.38	0
St. Paul CBD Total	**8,462,964**	**1,394,638**	**62,971**	**17.2%**	**(85,497)**	**(85,497)**	**$24.06**	**0**
Class A	1,245,396	118,557	47,532	13.3%	(47,980)	(47,980)	$25.89	0
Class B	13,043,372	1,294,284	31,466	10.2%	13,489	13,489	$19.36	0
Class C	3,602,454	339,904	20,595	10.0%	(3,296)	(3,296)	$19.13	0
Northeast Total	**17,891,222**	**1,752,745**	**99,593**	**10.4%**	**(37,787)**	**(37,787)**	**$19.93**	**0**
Class A	971,953	28,207	29194	5.9%	(9,385)	(9,385)	$23.83	0
Class B	3,553,319	447,738	2,614	12.7%	(39,945)	(39,945)	$22.40	0
Class C	1,045,946	7,100.00	0	0.7%	2,442	2,442	$17.92	0
Northwest Total	**5,571,218**	**483,045**	**31,808**	**9.2%**	**(46,888)**	**(46,888)**	**$22.39**	**0**
Class A	2,611,888	282,662	413,434	26.7%	(5,160)	(5,160)	$27.97	0
Class B	9,874,713	1,453,239	8,641	14.8%	(19,723)	(19,723)	$21.09	0
Class C	3,585,165	240,220	0	6.7%	4,926	4,926	$18.96	0
Southeast Total	**16,071,766**	**1,976,121**	**422,075**	**14.9%**	**(19,957)**	**(19,957)**	**$22.23**	**0**
Class A	8,016,986	962,307	231,144	14.9%	(90,276)	(90,276)	$35.86	0
Class B	10,289,740	1,427,341	350,978	17.3%	(23,031)	(23,031)	$27.54	0
Class C	5,148,932	374,294	8,212	7.4%	18,412	18,412	$22.52	0
Southwest Total	**23,455,658**	**2,763,942**	**590,334**	**14.3%**	**(94,895)**	**(94,895)**	**$30.62**	**0**
Class A	3,931,631	810,526	39,283	21.6%	93,310	93,310	$38.25	0
Class B	6,045,797	706,723	64,548	12.8%	(62,412)	(62,412)	$29.12	0
Class C	2,013,317	77,898	58,837	6.8%	(1,067)	(1,067)	$24.46	0
West Total	**11,990,745**	**1,595,147**	**162,668**	**14.7%**	**29,831**	**29,831**	**$31.69**	**0**
Class A	42,567,375	6,097,110	2,203,319	19.5%	(105,600)	(105,600)	$36.02	359,729
Class B	59,568,678	9,235,239	581,471	16.5%	(304,035)	(304,035)	$26.13	0
Class C	18,058,789	1,386,238	107,196	8.3%	11,549	11,549	$21.91	0
Overall Total	**120,194,842**	**16,718,587**	**2,891,986**	**16.3%**	**(398,086)**	**(398,086)**	**$30.13**	**359,729**

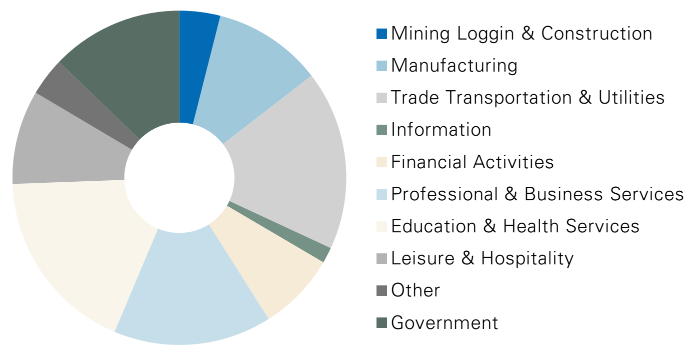
Economic Conditions

The Minneapolis-St. Paul metropolitan area has a highly educated workforce and a diverse economy that is home to 15 Fortune 500 companies, the most per capita in the United States. Additionally, more than 320 Fortune 500 companies have a local presence. This concentration of corporate heavyweights supports a median income of $81,000 per year, more than 25.0% above the national average.

Minneapolis-St. Paul remains a global leader in biotechnology and biomedical research with deep roots in agriculture, food exports and water technology, and it has one of the highest concentrations of banks and financial talent of any major metropolitan area. Six of the world's 10 leading medical device manufacturers have operations in the area. The area ranks high in quality of life and enjoys a great education system, low cost of living and high-quality, low-cost housing options.

Employment By Industry

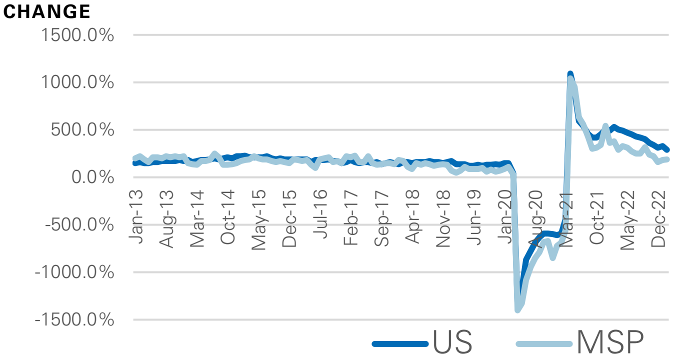
EMPLOYMENT BY INDUSTRY | MINNEAPOLIS-ST. PAUL



Source: US Bureau of Labor

Payroll Employment

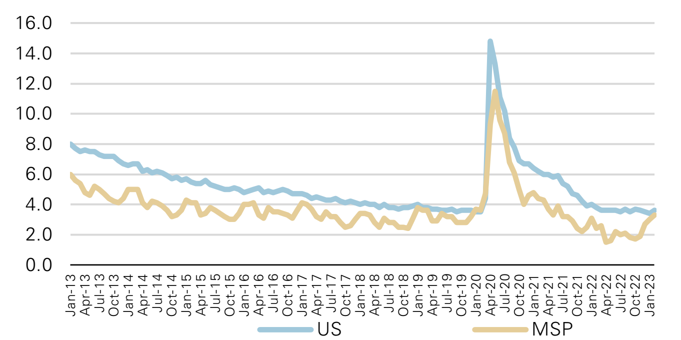
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: US Bureau of Labor

Unemployment Rate

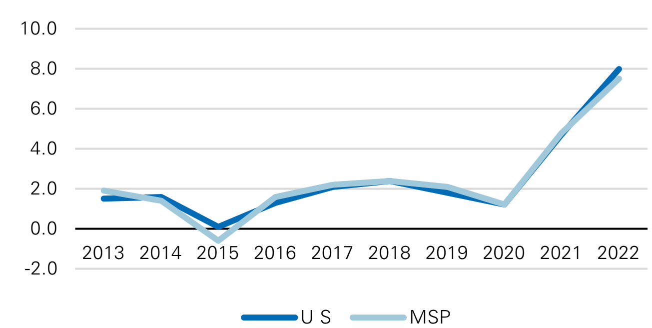
SEASONALLY ADJUSTED, NOVEMBER 2022



Source: US Bureau of Labor

Consumer Price Index (CPI)

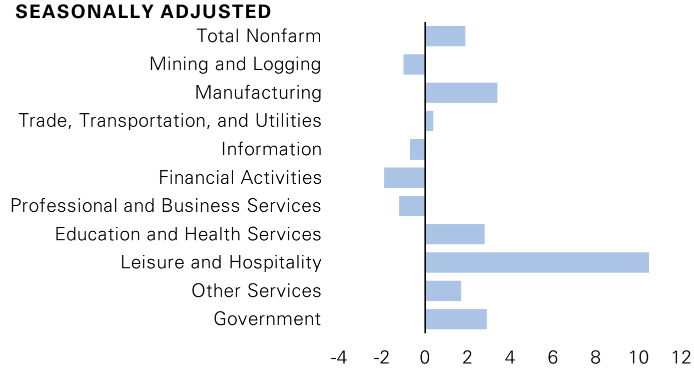
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: US Bureau of Labor

Employment Growth By Industry

MINNEAPOLIS, FEBRUARY 2022, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: US Bureau of Labor

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