

MINNEAPOLIS – ST. PAUL OFFICE MARKET

MARKET TRENDS

The Covid-19 pandemic had a unfavorable impact to the Minneapolis – St. Paul office market, which slowed deal velocity in the first half of the second quarter. Office tenants with expiring leases have signed shorter renewal terms which provide flexibility. Users with greater capabilities of remote-work are contemplating downsizing as many businesses are finding that employees can work from home longer than some state governments have mandated. Also, an increase in sublease availability was exhibited toward the end of the quarter. In June, there were seven new subleases, each at different properties, accounting for 75,000 square-feet in the Minneapolis CBD. Sublease availability is forecasted to trend upward over multiple quarters as tenants will look to off-load unused space.

Landlords have reacted to the pandemic with a series of actions and guidelines focusing on safely protocols and building improvements as properties have started to reopen later in the quarter. Both landlords and tenants would like to see congressional liability protections passed. Operating without the threat of lawsuits would bolster the commercial real estate industry on top of the stimulus that has buoyed the United States economy. So far government stimulus through the Paycheck Protection Program hasn't yielded any shifts in traditional market indicators such as vacancy, absorption and rental rates.

The vacancy rate in the Minneapolis-St. Paul office market was 11.0% during the second quarter, a slight drop from 11.2% in the previous quarter. Absorption was positive for the thirteenth consecutive quarter at 106,866 square-feet. Positive absorption was highest in the Northeast submarket with 85,316 square feet and the Southeast submarket with 60,692 square feet. Shoreview Corporate Center captured the most absorption in the Northeast, bringing in Progressive Insurance for 34,906 square-feet and PTC for 28,380 square-feet. In addition to the Northeast submarket, Benedictine Health Systems also moved into 37,490 square-feet at 6499 University Ave. NE. The largest Southeast commencement was City & County Credit Union for 72,000 square-feet, at newly renovated 1315 Mendota Heights Rd.

The Minneapolis CBD market ended the second quarter positively with 30,861 square-feet absorbed. Class A properties in the CBD performed better than Class B, as Class A properties tallied 199,464 square-feet of positive absorption. Class A has continued to garner more positive absorption as tenants chose new Class A space instead of repositioned Class B space. This quarter, positive Class A absorption gains were negated by Provation vacating 61,423 square-feet at TractorWorks and SureScripts downsizing by 54,190 square-feet at The Forum, which are Class B properties.

CURRENT CONDITIONS

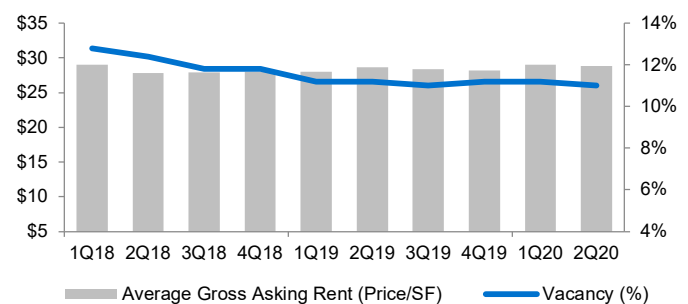
Quarterly net absorption of 125,406 square feet

Overall vacancy rate of 11.0%

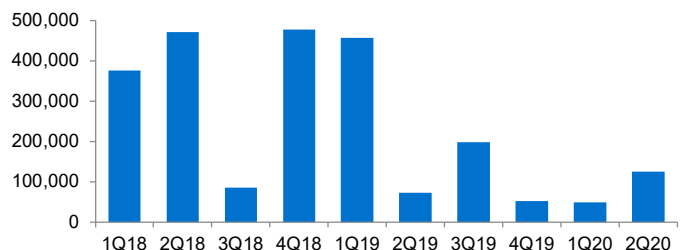
1,192,300 square feet under construction

MARKET ANALYSIS

Gross Asking Rent and Vacancy



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	12 Month Forecast
Total Inventory	118.9M	118.9M	↑
Vacancy Rate	11.2%	11.2%	↑
Quarterly Net Absorption	195,179	49,332	↓
Average Gross Asking Rent	\$28.85	\$29.06	↓
Under Construction	2,122,000	2,122,000	↓
Deliveries	0	0	↑

CONSTRUCTION

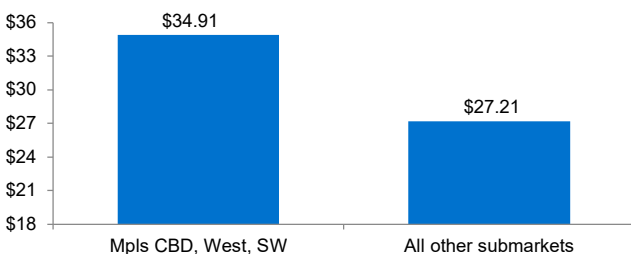
In the Minneapolis CBD North Loop neighborhood, two newly built office properties completed last year filled over 100,000 square-feet in the second quarter. Swervo completely leased out Two41 by bringing in Agosto and Broadhead, each for 30,000 square-feet. Business and technology consulting firm West Monroe leased 41,592 square-feet of space at the Nordic during the second quarter, leaving only one floor left in the other newly constructed North Loop property.

The pipeline of office construction is set to deliver three properties in third quarter. One of the deliveries is a single-tenant headquarters for Fortune 500 company, Thrivent Financial. The eight story, 240,000 square-foot HQ development is located two blocks west of US Bank Stadium. Also, in the Minneapolis CBD, the Dayton's Project will finish construction after being delayed due to the pandemic. Also, completing next quarter is Bridgewater Corporate Center for 80,000 square-feet. The property, anchored by Bridgewater Bank, has already had three other tenants leased and will be set to complete construction in September.

RENTAL RATES

The average rental rate for the Twin Cities Metro dropped on a small scale to \$28.85 from the all-time peak of \$29.06 in the previous quarter. A similarly scaled decrease happened among rates in the Minneapolis CBD where rates were \$32.13 compared to last quarter's \$32.93. Class A rent did drop from \$36.17 last quarter to a current \$34.89 in the Core properties of the Minneapolis CBD. This decline by over a dollar-per-square-foot could be a possible cue to future market trends. Nonetheless, premier Class A office submarkets including the Minneapolis CBD, West submarket and Southwest submarket have a twenty-two percent higher asking rent than other metro submarkets.

Class A Average Gross Asking Rate

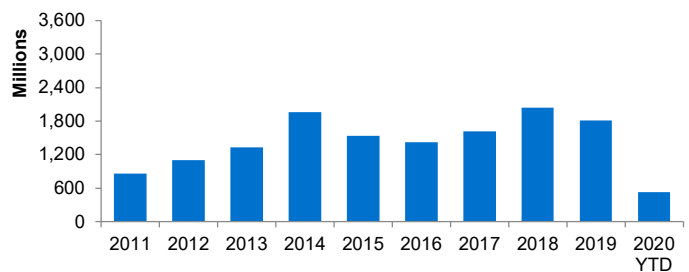


An absence of comparable data did not signal any shifts in landlord's asking rates during the second quarter. Future changes in tenant flexibility and vacancy levels throughout the market will influence landlords decisions on how to remain competitive when it comes to rent. Rent growth had been strong up to the pandemic increasing nearly thirteen percent in the Minneapolis CBD from two years ago. The trend was even greater metro-wide, where rent growth increased at a fifteen percent rate during the two year time span.

SALES

The slowdown in leasing and consumerism simultaneously led to a slump in capital markets activity across the country. At the half year mark, Minneapolis St. Paul total office sales stood at \$526 million, which is a decrease of 38% compared to office product sold at the 2019 mid-point. Transactions are difficult to appraise as there are little to no comparable sales.

Office Sales Volume



Source: Real Capital Analytics

The largest sale of the quarter was University Park Plaza in northeast Minneapolis for \$19,848,916. The 136,634 square-foot, nine story building was 100% leased when it sold in late April for \$145.27 per-square-foot to the Regents of the University of Minnesota. The second largest sale was a single tenant transaction at 9705 Data Park, which is located in the southwest metro city of Minnetonka, where United HealthCare Services, Inc paid \$12.5 million to Comcast of St. Paul for the 106,384 square-foot property. University Park Plaza and 9705 Data Park were the only properties sold over \$10 million in quarter two, the fewest properties sold since quarter three of 2011.

Suburban office continues to be the main driver of sale transactions in the Twin Cities office market especially among value-add properties. No office transactions occurred in the Minneapolis CBD in quarter two, which followed one lone CBD sale in quarter one. Of the seventeen largest office deals that sold this quarter, eight properties were a part of CSM's portfolio sold to Link/Blackstone REIT, which primarily contained industrial product.

FUTURE TRENDS

There has been some positive signals to the market with the rehiring of furloughed workers and an employment bounce of 7.5 million jobs in May and June. A strong and educated workforce will also pay dividends to the Minneapolis-St. Paul market. However, rising coronavirus cases in other states, increasing bankruptcies of major businesses, and a lack of principal economic fundamentals are among a host of red flags preventing a sound recovery. In the short-term, a passive wait-and-see approach to leasing and investment sales may extend into the upcoming months of 2020 and 2021, which could stall market activity and set back a potential return of normalcy.

SELECT LEASE TRANSACTIONS

Tenant	Property	Address	City	Submarket	Type	Size (SF)
Cigna Health & Life Insurance	6625 W 78 th St	6625 W 78 th St	Bloomington	Southwest	New	72,120
Daikin	ATRIA Corporate Center	3033 Campus Dr	Plymouth	Northwest	New	45,000
Kewit (Cherne/Ibberson)	Norman Pointe I	5601 Green Valley Dr	Bloomington	Southwest	New	32,151
Total Expert	1600 Tower at West End	1600 S Utica Ave	Saint Louis Park	West	New	28,380
Artic Wolf	Flying Cloud Corporate Campus – Bldg D	8939 Columbine Rd	Eden Prairie	Southwest	Sublease Expansion	26,208
Buffalo Wild Wings	The Colonnade	5500 Wayzata Blvd	Golden Valley	West	Renewal	24,070
ERM	Two22	222 S 9 th St	Minneapolis	Minneapolis CBD	New	22,225
Women's Health (Allina)	Mercy Health Center	3960 NW Coon Rapids Blvd	Coon Rapids	Northeast	New	17,918
Blue Sky Online Academy	South Loop Office Center II	2051 Killebrew Dr	Bloomington	Southeast	New	16,509
MSP Communications	Bassett Creek Business Center	901 N 3 rd ST	Minneapolis	Minneapolis CBD	New	15,111
Courage Kenny Rehab	Mercy Healthcare Center	3960 NW Coon Rapids Blvd	Coon Rapids	Northeast	New	14,197
Minnesota ROKKR E-Sports	Viking Lakes Innovation Center	2685 Viking Cir	Eagan	Southeast	New	12,717
Engie	The 428	428 Minnesota St	Saint Paul	Northeast	New	12,617
Central Logic	Osborn370	370 Wabasha St N	Saint Paul	Saint Paul CBD	New	10,740
Maurices	Osborn370	370 Wabasha St N	Saint Paul	Saint Paul CBD	Sublease	10,740
Physician's Reliance	Minnesota Center	7760 France Ave S	Southwest	Southwest	New	10,289

SELECT SALES TRANSACTIONS

Property	Address	City	Submarket	Buyer	Seller	Price	SF	Price PSF
University Park Plaza	2829 University	Minneapolis	Northeast	Regents of the University of Minnesota	Private Owner	\$19,848,916	136,634	\$145.27
9705 Data Park Dr	9705 Data Park Dr	Minnetonka	Southwest	United Healthcare Services, Inc	Comcast of Arkansas	\$12,500,000	113,094	\$110.52
Arden Hills Corporate Center IV	4285 Lexington Ave N	Arden Hills	Northeast	Link Industrial/Blackstone REIT	CSM Corp	\$5,000,000	51,931	\$96.28
Merrill Corp	1 Merrill Circle	Saint Paul	Northeast	Accord	Forum-Epp, LLC	\$4,000,000	50,686	\$78.92
4040 70 th St W	4040 70 th St W	Edina	Southwest	Edina Housing Redevelopment Authority	American Collectors Association	\$3,650,000	30,000	\$121.67
1201 Lake St E	1201 Lake St E	Minneapolis	Southeast	Blue Horn Properties, LLC	Private Owner	\$3,100,000	30,478	\$101.71
Arden Hills Corporate Center III	4265 Lexington Ave N	Arden Hills	Northeast	Link Industrial/Blackstone REIT	CSM Corp	\$2,880,000	32,856	\$87.66
Dell Five Business Park D & E	18860-18902 Lake Dr E	Chanhassen	Southwest	Link Industrial/Blackstone REIT	CSM Corp	\$2,830,000	28,023	\$100.98
North Central I	500 73 rd Ave NE	Fridley	Northeast	Link Industrial/Blackstone REIT	CSM Corp	2,802,318	31,699	\$88.40
Arden Hills Corporate Center I	4255 Lexington Ave N	Arden Hills	Southwest	Link Industrial/Blackstone REIT	CSM Corp	\$2,600,000	32,652	\$79.63
42 Water St W	42 Water St W	Saint Paul	Saint Paul CBD	Kindeva Drug Delivery, LP	3M Company	\$2,500,000	52,047	\$48.03
Dell Five Business Park Bldg F	18940 Lake Dr E	Chanhassen	Southwest	Link Industrial/Blackstone REIT	CSM Corp	\$2,190,000	32,890	\$66.58
Arden Hills Corporate Center II	4295 Lexington Ave N	Arden Hills	Northeast	Link Industrial/Blackstone REIT	CSM Corp	\$2,060,000	52,548	\$39.20
Dell Five Business Park A	18860 Lake Dr E	Chanhassen	Southwest	Link Industrial/Blackstone REIT	CSM Corp	\$1,449,070	13,504	\$107.31
American National Bank Building	17267 Yale St NW	Elk River	Northwest	Charter Schools Development Corporation	American National Bank Building	\$1,134,805	11,364	\$99.86
4725 Olson Memorial Dr	4725 Olson Memorial Drive	Golden Valley	West	Private Owner	Alliance Home Health Care Service	\$1,122,500	10,000	\$112.25
3017 S 4 th Ave	3017 S 4 th Ave	Minneapolis	Southeast	Private Owner	Private Owner	\$1,050,000	8,848	\$118.67

ECONOMIC CONDITIONS

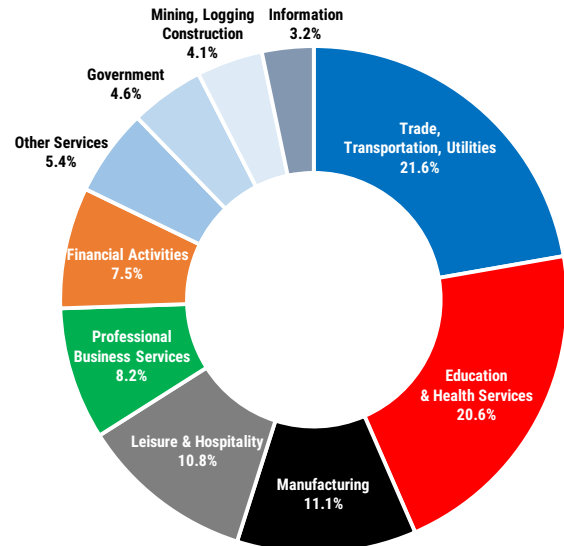
The Minneapolis-St. Paul metropolitan area has a highly educated workforce and a diverse economy that is home to 16 Fortune 500 companies, more than anywhere else in the world. Additionally, more than 320 Fortune 500 companies have a local presence. This concentration of corporate heavyweights supports a median income of \$81,000 per year, more than 25.0% above the national average.

Minneapolis-St. Paul's unemployment rate jumped to 9.2% in April of 2020 due to the coronavirus. The United States unemployment rate spiked to 14.7% in March and has since dropped to 11.1% with the injection of government stimulus. The Twin Cities boasted a strong work ethic: Its labor force participation rate in June 2020 tied for the second best in the nation at 68.1%, compared with 61.5% nationally.

Minneapolis-St. Paul is 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

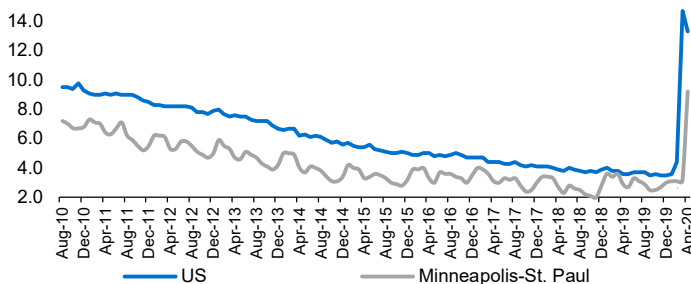
Employment by Industry Minneapolis-St. Paul



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

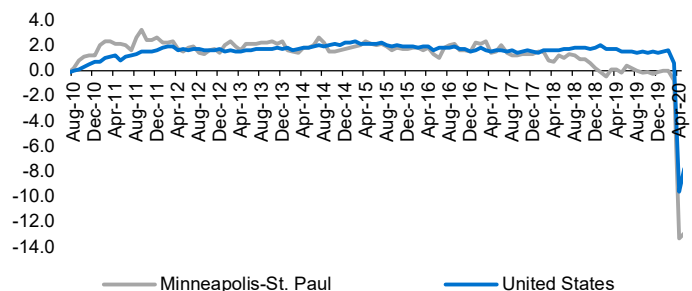
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

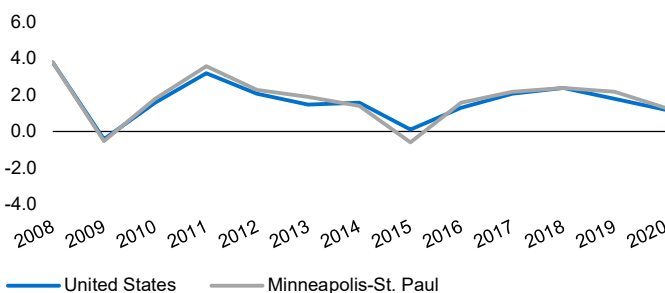
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

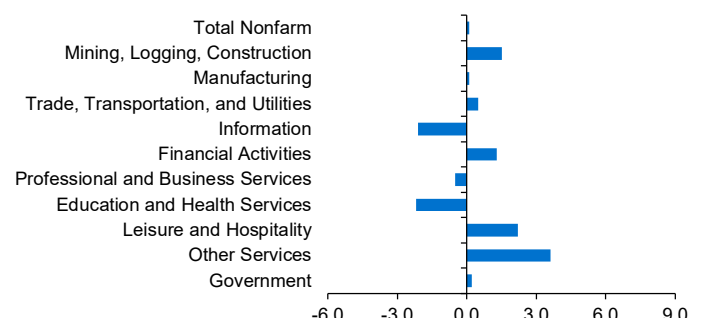
All Items, annual % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

12-Month % Change



Source: Bureau of Labor Statistics

MINNEAPOLIS CBD STATISTICS

	Total Inventory (SF)	Total Vacant	With Sublease Vacant	Q1 2020 Absorption	Q2 2020 Absorption	YTD Absorption	Weighted Avg. Rental Rate (FSG)	Under Construction
Core								
Class A	17,577,963	1,935,450	11.0%	(78,708)	41,048	(37,660)	\$34.89	1,731,000
Class B	6,989,659	1,729,408	24.7%	74,447	(70,225)	4,222	\$27.69	0
Class C	148,201	29,500	19.9%	0	0	0	\$18.56	0
Totals	24,691,973	3,694,358	15.0%	(4,261)	(29,177)	(33,438)	\$33.01	1,731,000
East								
Class A	1,407,443	5,225	0%	5,225	56,824	62,049	\$34.97	0
Class B	879,568	66,063	7.5%	(18,333)	10,043	(8,290)	\$27.55	0
Class C	175,842	17,841	10.1%	(10,609)	1,400	(9,209)	\$23.61	0
Totals	2,462,853	89,129	3.6%	(23,717)	68,267	44,550	\$29.16	0
Loring								
Class A	0	0	-	0	0	0	-	0
Class B	58,312	18,178	31.2%	(3,538)	0	(3,538)	\$29.28	0
Class C	165,797	0	0%	0	0	0	\$16.16	0
Totals	224,109	18,178	8.1%	(3,538)	0	(3,538)	\$24.90	0
Northeast								
Class A	200,739	2,791	1.4%	0	0	0	\$24.51	0
Class B	1,791,478	161,317	9.0%	66,280	1,344	67,624	\$23.16	0
Class C	1,187,464	56,839	4.7%	4,696	(4,941)	(245)	\$20.53	0
Totals	3,274,036	220,947	6.7%	70,976	(3,597)	67,379	\$23.01	0
Northloop								
Class A	1,036,475	65,275	6.3%	1,246	101,592	102,838	\$39.03	0
Class B	1,173,777	297,957	25.4%	(10,245)	(79,955)	(90,200)	\$31.46	0
Class C	329,449	100,477	30.5%	(16,776)	(1,372)	(18,148)	\$25.65	0
Totals	2,539,701	463,709	18.3%	(25,775)	20,265	(5,510)	\$33.67	0
Warehouse								
Class A	434,333	0	0%	0	0	0	\$23.73	0
Class B	1,565,289	345,548	22.1%	(62,761)	(21,030)	(83,791)	\$27.45	0
Class C	311,165	8,146	2.6%	0	0	0	\$23.00	0
Totals	2,310,787	353,694	15.3%	(62,761)	(21,030)	(83,791)	\$27.30	0
Overall								
Class A	20,656,953	2,008,741	9.7%	(72,237)	199,464	127,227	\$34.94	1,731,000
Class B	12,458,083	2,618,471	21.0%	45,850	(159,823)	(113,973)	\$27.59	0
Class C	2,317,918	212,803	9.2%	(18,825)	(4,913)	(23,738)	\$22.32	0
Totals	35,432,954	4,840,015	13.7%	(45,212)	34,728	(10,484)	\$32.13	1,731,000

Data includes single and multi-tenant office buildings; does not include owner-occupied properties (75% or more occupied by owner)

SUBMARKET STATISTICS

	Total Inventory (SF)	Total Vacant	w/Sublease Vacant	Q1 2020 Absorption	Q2 20 Absorption	YTD Absorption	Weighted Avg. Rental Rate (FSG)	Under Construction
St. Paul CBD								
Class A	3,111,558	364,440	11.7%	(28,816)	(38,681)	(67,497)	\$27.38	0
Class B	4,940,322	971,591	19.7%	15,692	(1,753)	13,939	\$23.58	0
Class C	411,084	28,819	7.0%	(587)	870	283	\$17.28	0
Totals	8,462,964	1,364,850	16.1%	(13,711)	(39,564)	(53,275)	\$24.45	0
Northeast								
Class A	1,245,396	117,394	9.4%	14,136	17,581	31,717	\$27.52	0
Class B	12,998,812	1,024,488	7.9%	(16,665)	34,627	17,962	\$20.56	0
Class C	3,740,967	163,223	4.4%	31,914	33,108	65,022	\$17.78	0
Totals	18,090,175	1,305,105	7.2%	29,385	85,316	114,701	\$21.09	0
Northwest								
Class A	971,953	15,452	1.6%	15,608	(739)	14,869	\$24.37	0
Class B	3,580,367	353,218	9.8%	(54,694)	(20,049)	(74,743)	\$21.72	0
Class C	1,072,052	25,138	2.3%	(5,876)	(847)	(6,723)	\$19.95	0
Totals	5,618,457	393,808	7.0%	(44,962)	(21,635)	(66,597)	\$22.03	0
Southeast								
Class A	2,611,888	300,828	11.5%	25,430	1,919	27,349	\$29.58	0
Class B	9,815,573	849,431	8.7%	(38,820)	54,853	16,033	\$22.57	0
Class C	3,647,290	184,702	5.0%	556	3,920	4,476	\$20.39	0
Totals	16,074,751	1,334,961	8.3%	(12,834)	60,692	47,858	\$23.94	0
Southwest								
Class A	8,016,986	861,377	10.7%	10,053	57,709	67,762	\$32.79	0
Class B	10,399,270	1,310,292	12.6%	16,204	78,559	94,763	\$26.42	0
Class C	5,330,719	406,638	7.6%	41,392	(137,443)	(96,051)	\$23.93	0
Totals	23,746,975	2,578,307	10.9%	67,649	(1,175)	66,474	\$29.13	0
West								
Class A	3,568,631	496,502	13.9%	15,146	18,820	33,966	\$37.01	391,300
Class B	6,091,438	662,592	10.9%	57,542	(48,678)	8,864	\$28.18	0
Class C	2,070,111	96,216	4.6%	(3,671)	18,562	14,891	\$23.57	0
Totals	11,713,044	1,255,310	10.7%	69,017	(11,296)	57,721	\$30.97	391,300
Total Market								
Class A	40,377,365	4,164,734	10.3%	(20,680)	255,893	235,213	\$33.64	391,300
Class B	60,089,950	7,790,083	13.0%	25,109	(62,264)	(37,155)	\$25.35	0
Class C	18,527,005	1,108,762	6.0%	44,903	(86,743)	(41,840)	\$21.75	0
Totals	118,994,320	13,063,579	11.0%	49,332	106,886	156,218	\$28.85	2,122,300

Data includes single and multi-tenant office buildings; does not include owner-occupied properties (75% or more occupied by owner)