

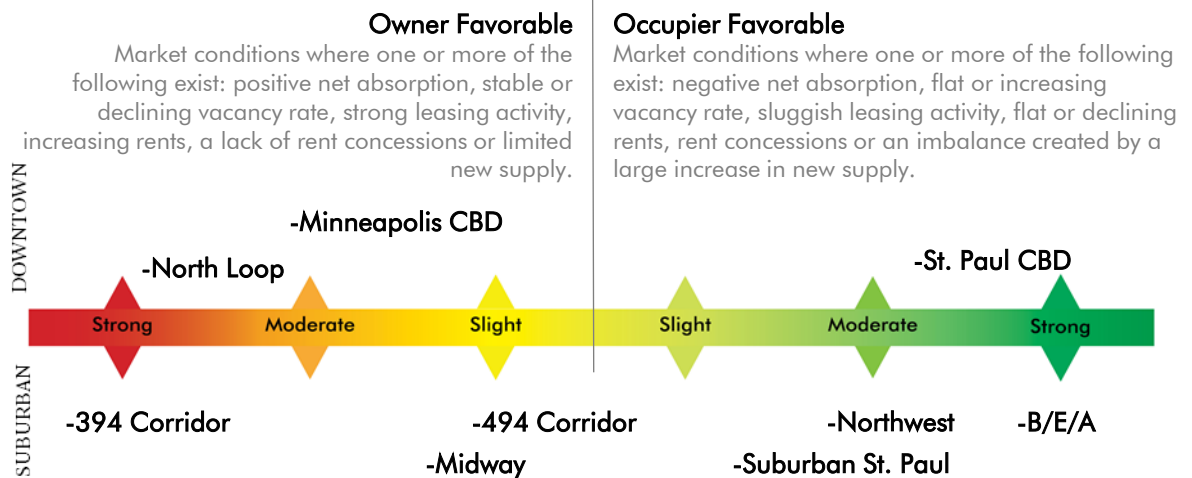
Minneapolis/St. Paul Office, Q2 2015

# Halfway through 2015, absorption over half a million square feet

▼ Vacancy Rate 15.3%
▲ Net Asking Rate \$13.43
▲ Net Absorption 369,148 Sq. Ft.
▲ Under Construction 180,000 Sq. Ft.

Figure 1: Owner-Favorable vs. Occupier-Favorable Submarkets

\*Arrows indicate change from previous quarter.



Source: CBRE Research, Q2 2015.

- Leasing trends continued upward trajectory into Q2 2015 with overall positive absorption almost double that of Q1 2015
- Tenants relocating within Central Business Districts (CBDs) of Minneapolis and St. Paul
- Single tenant construction dominates the market
- CBRE Institutional Properties team completes largest suburban building sale to date in 2015 and sales of portfolios rounded out the top four transactions
- Class A buildings near the West End area of the I-394 submarket leading the market in low vacancy, high asking rates

**MARKET OVERVIEW**

Q2 2015 continued the steady start from Q1 2015 with decreasing vacancy, steady asking rates and higher absorption quarter-over-quarter. Overall metro vacancy rates dropped to 15.3% which is 70 basis points less than Q1 2015. Net asking rates came in steady at \$13.43, but Class A average asking rates are up 2%. Net absorption for the metro was 369,148 sq. ft. which brings the current Minneapolis-St. Paul office market to over half a million sq. ft. of positive absorption for 2015.

The Downtown Minneapolis submarkets saw steady absorption, consistent asking rates and decreasing vacancy. The North Loop vacancy rate of 8.1% is still the lowest of any submarket in the metro. The lowest vacancy rate in the suburban submarkets is found in the I-394 area at 11.8%.

**LEASING ACTIVITY STEADILY CONTINUES**

Overall metro absorption was positive this quarter at 369,148 sq. ft. The I-494 submarket led the market with 102,659 sq. ft. of total absorption. This was due in large part to tenants taking occupancy on deals completed in prior quarters. The North Loop was the next strongest submarket with 64,221 sq. ft. of absorption, primarily due to AIMIA moving into Butler Square. The Minneapolis CBD was a close third at 40,187 sq. ft. of positive absorption. All markets saw positive overall absorption, except the Midway submarket which lost 9,806 sq. ft. overall.

The largest lease of Q2 2015 was Children’s Hospital located at Lincoln Corporate Center in Edina. The new 203,214-sq.-ft. space will bring in employees from several other offices and consolidate into one location. The space will be ready for occupancy Q2 2016.

JAMF Software made local headlines with their announcement of relocation to 100 Washington in Downtown Minneapolis. Their new space is nearly double what they previously occupied at the Grain Exchange Building. The company is up from 160 employees in 2012 to 450 in 2015. This growth trend is expected to continue in their new space.

Another CBD relocation and 2<sup>nd</sup> largest lease was Green Tree Servicing. They signed a lease at 180 E. 5<sup>th</sup> St., a historic building constructed by Minnesota tycoon James J. Hill. Green Tree will relocate 600 employees from Landmark Towers and another 200 from Lawson Commons, both buildings are located in the St. Paul CBD. A renovation of approximately \$7 million will begin in the space and employees should start moving in Q4 2015.

Figure 2: Notable Lease Transactions

Tenant	Property	Address	City	Size (sq. ft.)
Children's Hospital	Lincoln Corporate Center	5901 Lincoln Drive	Edina	203,134
Green Tree Servicing	180 E. 5th St.	180 E. 5th St.	St. Paul	141,109
JAMF Software	100 Washington	100 Washington Ave S	Minneapolis	52,084
Pine River Domestic Management*	601 Tower	601 Carlson Parkway	Minnetonka	41,860
Social Security Administration	First National Bank	332 Minnesota St	St. Paul	24,000

\*Renewal

Source: CBRE Research, Q2 2015.

Rounding out the CBD relocations was the Social Security Administration. They had previously been located in Sibley Square at Mears Park in Downtown St. Paul. They moved to the First National Bank Building, a Class B office building just a few blocks away. Sibley Square at Mears Park is being redeveloped into a multi-family property following many such trends in the Lowertown neighborhood of St. Paul.

The final lease marking the top five for Q2 2015 was Pine River Domestic Management. A global investment management firm, they expanded their current 28,860-sq.-ft. space by 45% at the Class A 601 Tower building off of Carlson Parkway in Minnetonka.

**CONSTRUCTION BRINGING NEW SUPPLY**

Construction around the metro remains highly focused on single tenant buildings. The only multi-tenant construction project underway (Offices @ MOA) isn’t expected to open to tenants until Q4 2015.

Figure 3: Notable Twin Cities Office Construction Projects

Project/Tenant	Sq. Ft.	Submarket
Wells Fargo	1,100,000	Minneapolis CBD
UHG/Optum	505,900	I-494
Be The Match	240,000	Minneapolis CBD
Xcel Energy	222,000	Minneapolis CBD
Offices @ MOA	180,000	I-494
Minnesota Senate	167,000	St. Paul CBD
OATI, Inc	110,023	I-494

Source: CBRE Research, Q2 2015  
\* Gray shading denotes multi tenant construction



**Plymouth Corporate Center**

**Location:** 1405 Xenium Lane, Plymouth

**Total RBA:** 628,436 sq. ft.

**Buyer:** Wildamere Capital Management

**Seller:** Carlson Real Estate

**Price:** \$62.5 Million

**Key Tenants:** TCF Bank, Polaris Industries Inc., Time Insurance Company, Comm-Works LLC, Meritain Health

Plymouth Corporate Center is a well located, suburban asset that was originally built in 1973 as a warehouse and converted to creative office space in 1998. It was most recently renovated in 2009 to bring Class A finishes to the exterior and interior. This two story office building boasts high ceilings, large floor plates, full service cafeteria, fitness center and abundant parking options.

**LARGE SUBURBAN SALE AND PORTFOLIOS KICK OFF CAPITAL INVESTMENTS IN Q2 2015**

The CBRE Institutional Properties team completed the largest suburban sale to date in 2015: Plymouth Corporate Center at a price tag of \$62.5 million. The building is a 628,436-sq.-ft. office property which will soon be home to 200 TCF bank employees. Following interior renovations, employees will be relocating from the Minneapolis CBD. The building will be 96% leased following the move.

Minneapolis saw three office portfolio sales in Q2 2015, the first being a three building portfolio owned by Minneapolis-based Swervo Development. For over a decade, Swervo has been investing in the downtown area of Minneapolis with the goal of acquiring, re-purposing and holding assets for the long term. Prior to renovation and lease up, the 510 Marquette building sold for \$6.7 million in 2013 or \$32 per sq. ft. The other two buildings are located in the North Loop: Colwell Building at 123 N. 3rd St. and the 300 1st Ave. N. building.

A Texas-based REIT was busy buying up local properties this quarter as well. Lone Star Funds which has capital commitments of \$5.8 billion, purchased a 628,436-sq.-ft. office portfolio. The sale works out to \$91 per sq. ft.

Hillcrest Development sold six of its Northeast Minneapolis properties to a Wisconsin-based investor. The buildings were primarily office and warehouse properties. One asset, the Crown Center, had recently completed major renovations that created a truly unique aesthetic.

Figure 4: Notable Sale Transactions

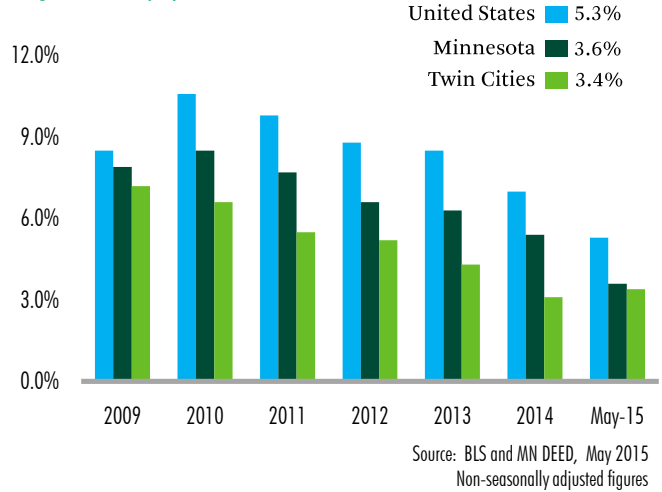
Property/Portfolio	Size (Sq. Ft.)	City	Buyer	Price	Price (per sq. ft.)
Swervo Portfolio	420,150	Minneapolis	Spear Street Capital	\$85,000,000	\$208
Plymouth Corporate Center	628,436	Plymouth	Wildamere Capital Management	\$62,500,000	\$99
Equity Common Wealth Portfolio	614,838	Multiple	Lone Star Funds	\$56,000,000	\$91
Hillcrest Portfolio	300,000	Minneapolis	Sara Investment Real Estate	\$25,600,000	\$85

Source: CBRE Research, Q2 2015.

**UNEMPLOYMENT DOWN FOR Q2 2015**

Not seasonally-adjusted unemployment numbers for Q2 2015 are reported at 3.4% for the Twin Cities metro. The State of Minnesota saw a decrease from 4.6% in Q1 2015 to 3.6% in Q2 2015. According to the Minnesota Department of Employment and Economic Development (DEED), the rate of participation in the labor force is up for the fifth consecutive month to 70.8%. Nationally, Minnesota is still well below the average unemployment rate of 5.3% (not seasonally adjusted figure).

Figure 5: Unemployment



**WEST END ASKING RATES LEADING THE MARKET**

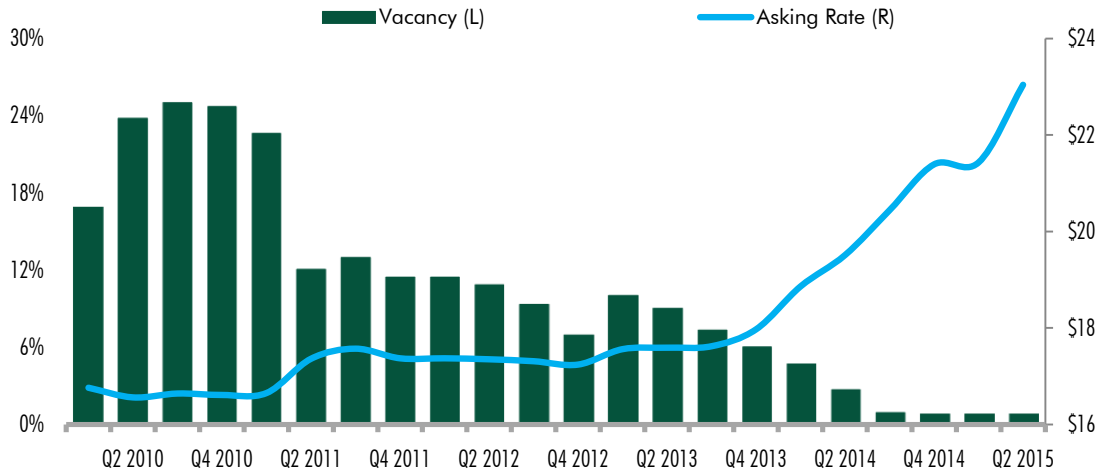


Asking rates in the Class A office buildings surrounding the West End development near Highway 100 and Interstate 394 are leading the Minneapolis-St. Paul office market in 2Q 2015. In the graph above, vacancy rates have been steadily

decreasing as the asking rates continue to increase. They're up 37.5% since Q1 2010. Buildings in this survey include the 1550 and 1600 Towers, Golden Hills, The Colonnade and the West End Offices. The average asking rate for these buildings is \$23.04 net and vacancy is currently 0.9%.

While an increase in asking rates in this specific location is most clearly seen, overall asking rates for all the Class A buildings in the I-394 submarket are the highest in the market. The average metro asking rate is currently \$13.43 compared to \$18.48 for I-394. Landlords of Class A buildings are not the only ones enjoying this increase in rates. Class B buildings are also up year-over-year from \$12.79 in to \$13.53.

Figure 6: West End Class A Buildings Historical Vacancy Vs. Asking Rates



Source: CBRE Research, Q2 2015.

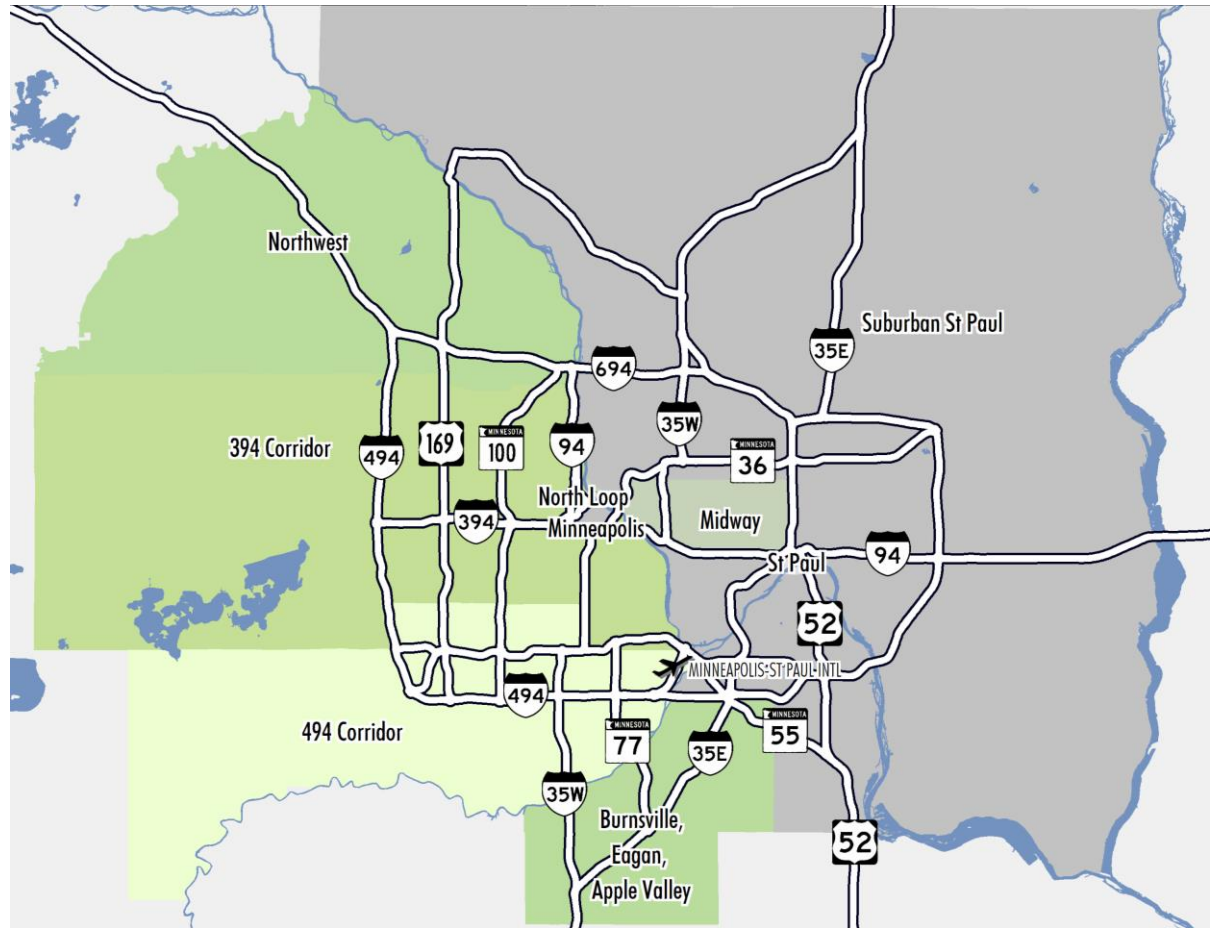
Figure 7: Minneapolis/St. Paul Multi-Tenant Office Market Statistics

Submarket	Rentable Area (Sq. Ft.)	Direct Vacancy Rate (%)	Y-o-Y Vacancy Trend	Average Net Asking Rate (\$/Sq. Ft./Yr)	Y-o-Y Asking Rate Trend	Q2 Net Absorption (Sq. Ft.)	Y-o-Y Net Absorption Trend	YTD Net Absorption (Sq. Ft.)	Multi-Tenant Construction (Sq. Ft.)
<b>Metro Overall</b>	69,141,243	15.3	↓	\$13.43	→	369,148	↓	528,411	180,000
Class A	34,094,089	12.6	↓	\$15.65	↑	355,254	↑	345,747	180,000
Class B	24,465,128	18.6	↓	\$11.70	↑	-10,921	↓	125,012	-
Class C	7,252,829	16.5	→	\$10.27	↑	24,815	↓	57,652	-
<b>394 Corridor</b>	8,570,749	11.8	↓	\$15.19	↑	35,698	↓	35,890	-
Class A	3,983,280	7.9	↓	\$18.48	↑	99,113	↓	67,607	-
Class B	3,508,477	17.1	↑	\$13.53	↑	-58,234	↑	-51,045	-
Class C	1,078,992	9.4	↓	\$10.16	↑	-5,181	↓	19,328	-
<b>494 Corridor</b>	17,244,153	16.5	↑	\$13.37	↓	102,659	↑	186,864	180,000
Class A	8,448,397	13.8	↓	\$15.84	→	72,734	↑	88,890	180,000
Class B	7,095,170	18.9	↓	\$12.12	↑	59,585	↑	67,329	-
Class C	1,700,586	20.3	→	\$9.38	↑	8,464	↑	30,645	-
<b>BEA</b>	2,227,767	19.0	↓	\$11.74	↑	18,305	↑	53,298	-
Class A	1,092,162	10.8	↓	\$13.44	→	22,065	↓	45,096	-
Class B	832,987	24.6	↓	\$11.94	→	-6,452	↑	-17,858	-
Class C	302,618	32.7	↓	\$9.25	↑	2,692	↑	26,060	-
<b>Midway</b>	4,316,967	12.6	↑	\$11.94	↑	-9,806	↑	25,228	-
Class A	1,051,485	13.4	↓	\$13.38	↑	8,508	↑	36,726	-
Class B	2,452,901	12.9	↑	\$10.01	↑	-18,314	↓	16,200	-
Class C	812,581	10.5	↑	\$6.00	↓	0	↑	-27,698	-
<b>Northwest</b>	1,310,796	22.9	↓	\$11.26	↑	35,974	↑	64,262	-
Class A	127,000	44.5	↓	\$13.23	↑	0	↑	7,495	-
Class B	846,937	22.5	↓	\$10.63	↑	38,834	↑	62,152	-
Class C	336,859	15.6	↓	\$10.21	↓	-2,860	↑	-5,385	-
<b>Suburban St. Paul</b>	3,454,010	21.9	↑	\$10.34	↓	25,517	↑	56,306	-
Class A	1,191,572	14.0	↓	\$12.16	↑	13,479	↑	41,860	-
Class B	1,505,027	23.1	↓	\$10.03	↓	9,583	↑	11,991	-
Class C	757,411	32.1	→	\$8.94	↓	2,455	↓	2,455	-
<b>Minneapolis CBD</b>	21,864,614	14.1	↓	\$14.73	↑	40,187	↓	-10,714	-
Class A	15,634,401	13.1	↑	\$16.20	→	25,008	↓	-32,660	-
Class B	4,470,924	17.3	↓	\$11.65	↓	2,196	↓	10,219	-
Class C	1,759,289	15.8	↑	\$11.15	↑	12,983	↑	11,727	-
<b>North Loop</b>	3,329,197	8.1	N/A	\$14.45	N/A	64,221	N/A	75,478	-
Class A	1,118,914	7.8	N/A	\$14.49	N/A	61,414	N/A	68,364	-
Class B	1,082,414	5.9	N/A	\$14.62	N/A	4,643	N/A	5,450	-
Class C	1,127,869	10.5	N/A	\$14.36	N/A	-1,836	N/A	1,664	-
<b>St. Paul CBD</b>	6,822,990	19.4	↓	\$11.17	↓	19.4	↑	41,799	-
Class A	2,565,792	13.8	↓	\$13.15	↑	13.8	↑	22,369	-
Class B	3,752,705	24.2	↓	\$10.22	↓	24.2	↓	20,574	-
Class C	504,493	12.6	↑	\$8.00	↓	12.6	↓	-1,144	-

Note: The tracked base includes all multi-tenant office buildings larger than 30,000 sq. ft. and does not include any single-tenant buildings

Source: CBRE Research, Q2 2015.

Figure 8: Minneapolis/St. Paul Office Submarket Map



**CONTACTS**

***Allyn Thorpe***  
*Researcher*  
 4400 W 78<sup>th</sup> Street  
 Minneapolis, MN 55435  
 +1 952 924 4810  
 allyn.thorpe@cbre.com

***Blake Hastings***  
*Managing Director*  
 4400 W 78<sup>th</sup> Street  
 Minneapolis, MN 55435  
 +1 952 924 4638  
 blake.hastings@cbre.com

To learn more about CBRE Research,  
 or to access additional research reports,  
 please visit the Global Research Gateway at  
[www.cbre.com/researchgateway](http://www.cbre.com/researchgateway).

Disclaimer: Information contained herein, including projections, has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to confirm independently its accuracy and completeness. This information is presented exclusively for use by CBRE clients and professionals and all rights to the material are reserved and cannot be reproduced without prior written permission of CBRE.