

Minneapolis/St. Paul, Q4 2020

Steady leasing amid absorption challenges

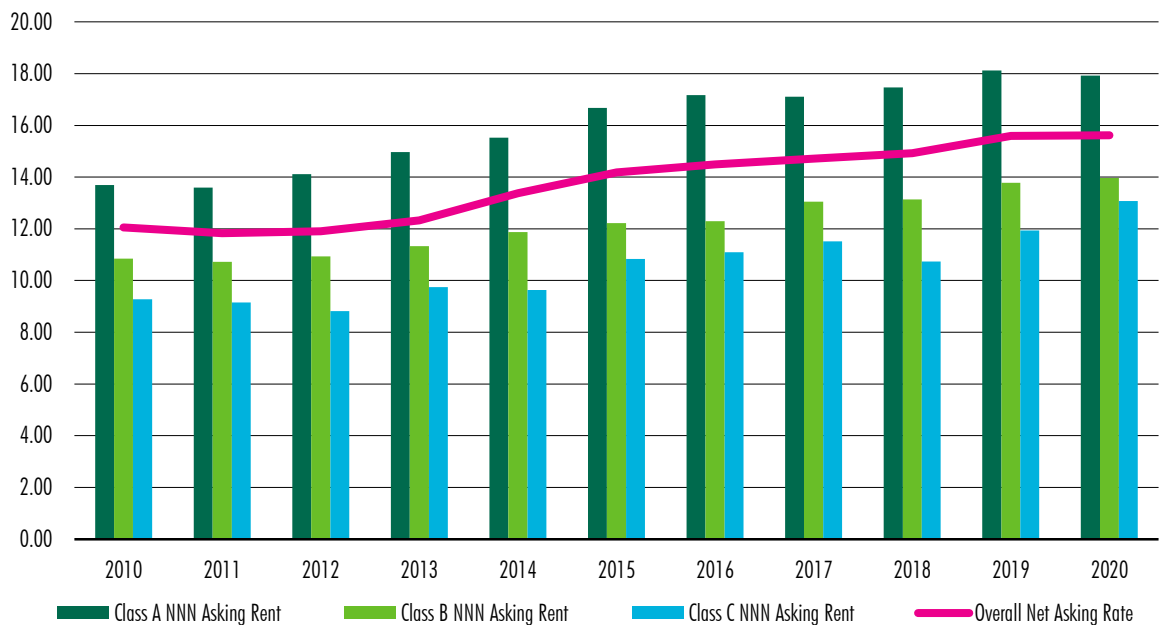
 Vacancy Rate
18.6%

 Net Asking Rate
\$15.62 per sq. ft.

 Under Construction
847,280 sq. ft.

 Net Absorption
(277,635) sq. ft.

Figure 1: Historical Annual Net Asking Rates



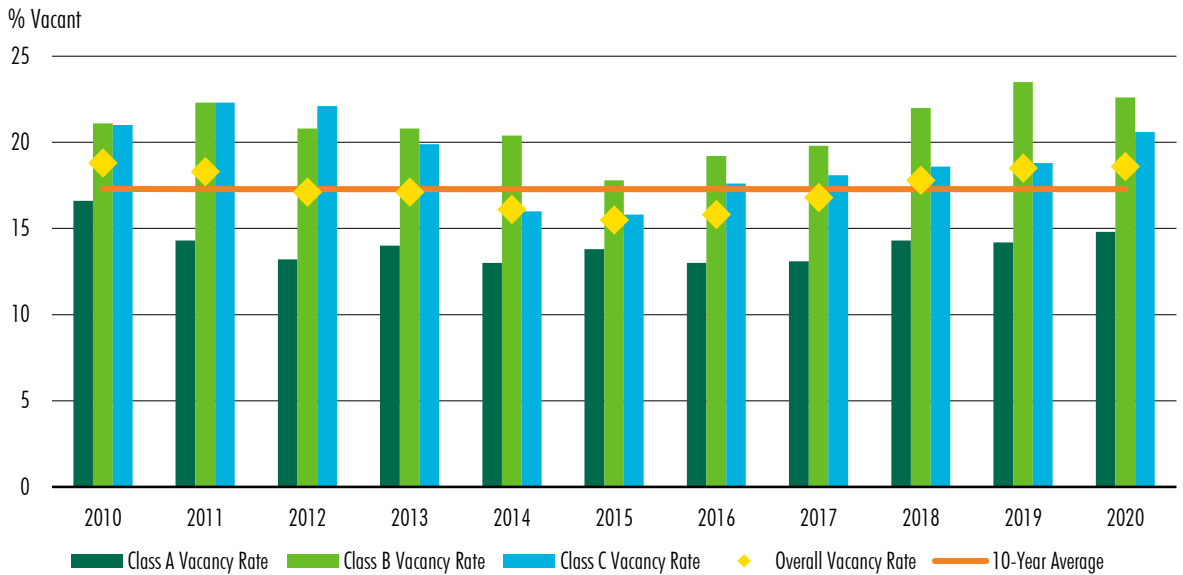
Source: CBRE Research, Q4 2020.

- The uncertainty of the office market was reflected in Q4 negative absorption that pushed vacancy to 18.6%
- Leasing remained steady overall, reflective of many companies' delaying decisions until 2021
- The Minneapolis CBD led all submarkets in Q4 leasing activity

MARKET OVERVIEW

The Minneapolis/St. Paul office market remained steady in Q4, with rents flat overall, a modest 0.3% rise in vacancy, and limited new leasing activity. Overall office leasing was steady, and renewals were up versus Q3. Activity was evenly distributed across industry sectors and was geographically focused on the Minneapolis CBD submarket.

Figure 2: Annual Vacancy Rate Overall and by Class With 10-Year Average



Source: CBRE Research, Q4 2020.

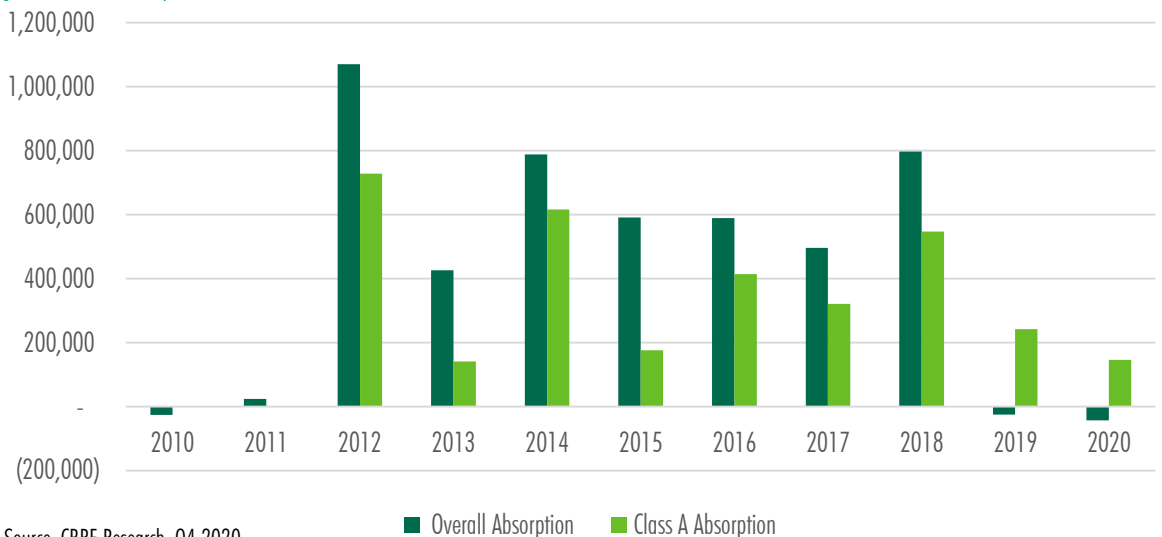
Average net asking rates increased 71 basis points (bps) to \$15.62 per sq. ft. The 394 Corridor continued to maintain the highest Class A net asking rates among major submarkets at \$20.14 per sq. ft, followed by the Minneapolis CBD at \$19.12.

Vacancy increased just 10 bps to 18.6% in Q4 2020 as a result of several major move outs. Class A vacancy increased to 14.2% from 14.8% in Q4, and the Minneapolis CBD Class A vacancy declined to 11.9%. in Q4, the lowest rate among submarkets.

Q4 2020 showed negative absorption of 277,635 sq. ft., despite the 394 Corridor having positive absorption of 118,233 sq. ft. Nearly 850,000 sq. ft. of sublease space has been added to the Minneapolis/St. Paul market since late March, an indication of the continued fallout from the economic downturn.

Whereas Q4 absorption largely negated positive absorption from earlier in 2020, Class A absorption was nearly 150,000 sq. ft. for the year, slightly less than 2019, an indication that office tenants continue to be drawn to quality.

Figure 3: Historic Absorption Overall and Class A



Source: CBRE Research, Q4 2020.

TOP TRANSACTIONS

The Minneapolis CBD topped all submarkets for Q4 2020 leasing activity, with Fredrickson & Byron committing to 178,000 sq. ft. at RBC Plaza. The Minneapolis CBD accounted for 58% of all Q4 leasing, followed by the 494 Corridor at 18%. AVI Systems represented the largest suburban lease with a 46,648 sq. ft. renewal in the 494 Corridor.

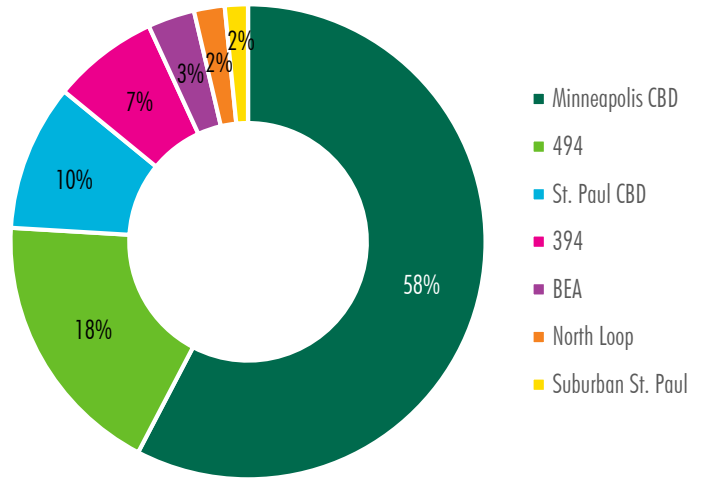
Renewals accounted for 54% of all Q4 leasing activity, an indication that many companies are not ready to commit to new space, and there were no major cross-submarket moves announced in the quarter.

The leading industry for office leasing was Legal at 26%, followed by Technology at 22% and Business Services at 15%.

INVESTMENT SALES

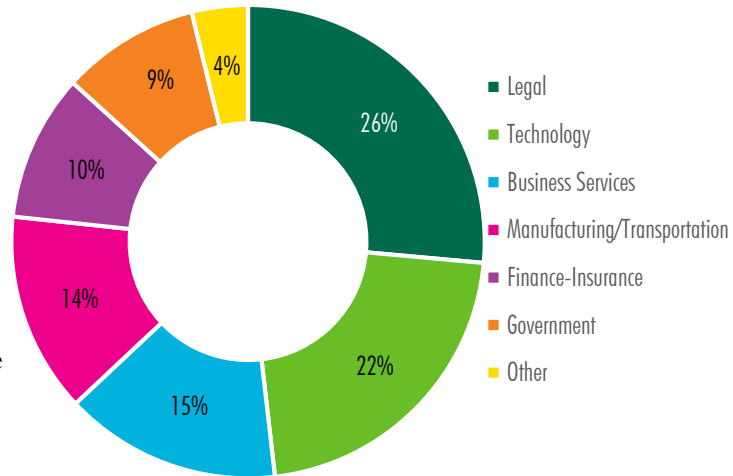
Office investment activity continued to be minimal in Q4 2020, as many offices remained closed or at limited capacity and buyers remained selective. Sales activity was just 58% of the 10-year average, and a limited uptick in office sales could occur in 2021.

Figure 5: Top Transactions by Sq. Ft. by Submarket



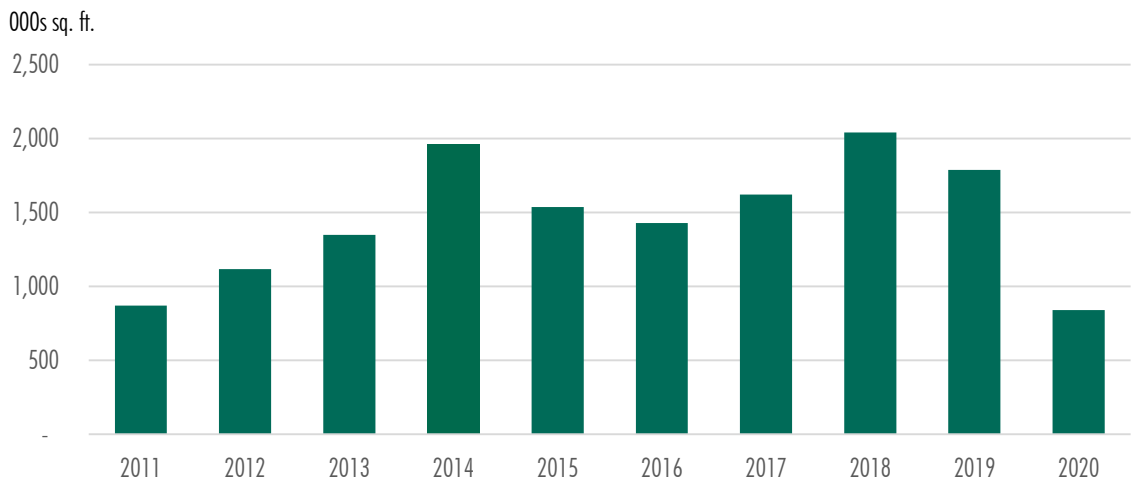
Source: CBRE Research, Q4 2020.

Figure 6: Top Transactions by Industry Type



Source: CBRE Research, Q4 2020.

Figure 7: Annual Historical Investment Sale Volume

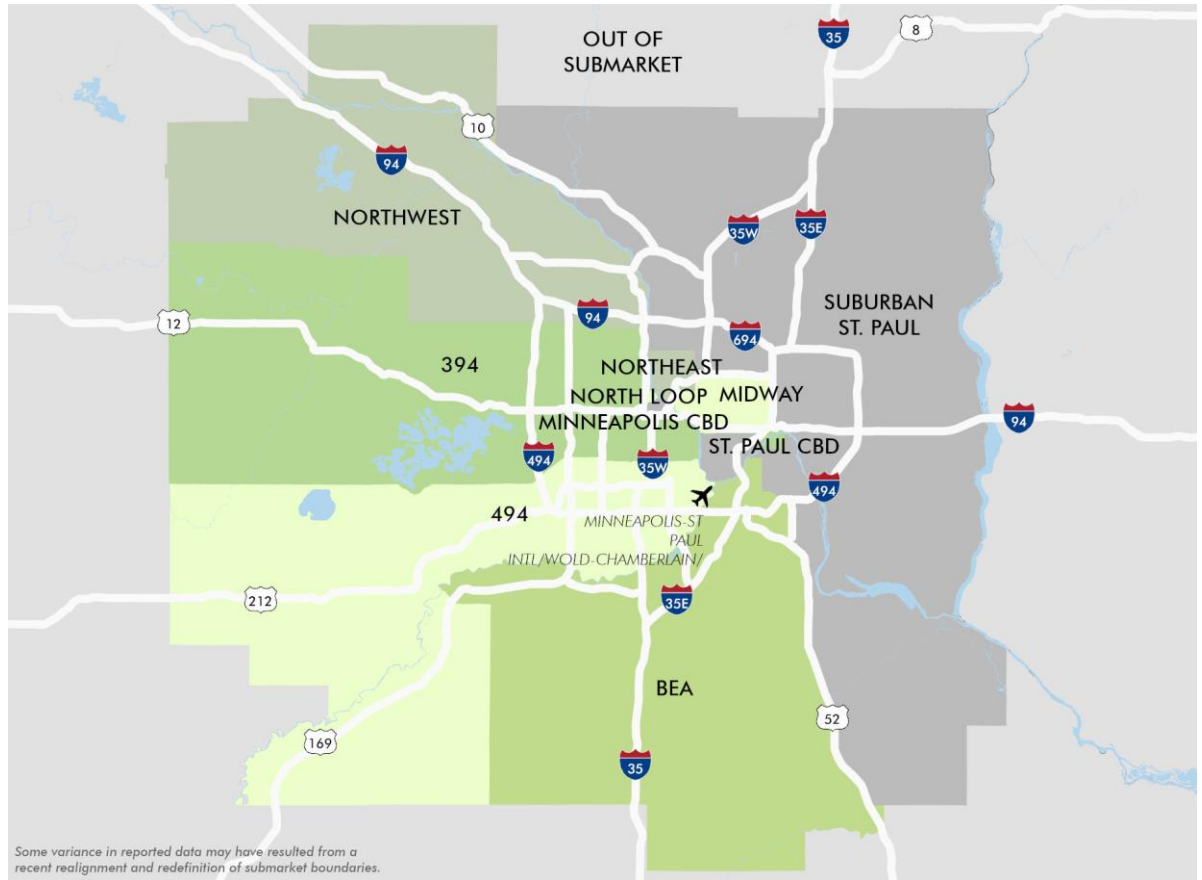


Source: CBRE Research, Real Capital Analytics, Q4 2020.

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	Q4 Net Absorption (Sq. Ft.)	Y-o-Y Net Absorption Trend	YTD Net Absorption (Sq. Ft.)	Multi-Tenant Construction (Sq. Ft.)
Metro Overall	73,806,398	18.6	↑	15.62	↑	(277,635)	↓	(47,598)	912,170
Class A	35,701,397	14.8	↑	17.92	↓	(362,125)	↓	132,719	912,170
Class B	31,032,816	22.6	↓	13.96	↑	79,154	↑	(139,127)	-
Class C	7,071,893	20.6	↑	13.07	↑	5,336	↓	(49,950)	-
Minneapolis CBD	22,118,856	19.1	↓	16.40	→	27,708	↓	126,703	532,000
Class A	13,593,494	11.9	↓	19.12	↑	19,363	↓	150,409	532,000
Class B	7,086,165	31.9	↑	13.39	↓	8,345	↓	(28,125)	-
Class C	1,439,197	23.5	↑	14.54	↑	0	↓	4,419	-
394 Corridor	11,066,119	14.2	↑	18.69	↑	118,233	↑	105,756	315,280
Class A	5,575,921	13.4	↑	20.14	↑	136,827	↑	209,589	315,280
Class B	4,474,866	15.9	↑	17.66	↑	(18,594)	↑	(114,036)	-
Class C	1,015,332	11.3	↓	11.58	↑	0	↑	11,103	-
494 Corridor	16,464,736	17.8	↑	15.59	↑	(416,217)	↓	(339,087)	-
Class A	8,451,898	14.8	↑	17.95	↓	(503,656)	↓	(398,930)	-
Class B	6,546,661	20.7	↓	13.18	↓	87,439	↑	36,041	-
Class C	1,466,177	22.5	↑	10.85	↑	0	→	(17,390)	-
North Loop	4,252,579	22.3	↑	17.44	↓	(18,533)	↓	(63,316)	-
Class A	877,775	17.8	↓	21.80	↑	0	↓	55,401	-
Class B	2,166,704	25.1	↑	17.65	↓	(23,869)	↑	(90,757)	-
Class C	1,208,100	20.6	↑	15.16	↑	5,336	↑	(27,960)	-
Midway	2,534,180	15.9	↑	13.81	↑	(6,627)	↓	393	-
Class A	603,984	24.4	↑	14.43	↓	(6,627)	↓	3,186	-
Class B	1,531,962	12.7	↑	13.63	↓	0	↑	(1,892)	-
Class C	398,234	15.3	↑	13.35	↑	0	↑	(901)	-
Northeast	2,422,400	12.5		14.78		0		9,090	-
Class A	465,813	19.9		15.90		0		9,815	-
Class B	1,816,961	9.8		15.46		0		531	-
Class C	139,626	23.2		8.03		0		(1,254)	-
BEA	3,036,598	23.3	↑	12.93	↓	(27,309)	↑	(23,112)	-
Class A	1,283,912	27.2	↑	14.66	↓	(12,806)	↑	3,449	-
Class B	1,623,674	21.0	↑	12.42	↑	(14,503)	↑	(28,075)	-
Class C	129,012	13.0	↑	11.13	↓	0	↓	1,514	-
Northwest	1,357,864	18.7	↑	12.71	↑	7,028	↑	2,709	-
Class A	212,626	18.0	↓	13.32	↑	0	→	(3,295)	-
Class B	867,163	14.0	↓	13.08	↑	7,028	↑	16,174	-
Class C	278,075	34.0	↑	11.00	↑	0	→	(10,000)	-
St. Paul CBD	6,149,030	27.1	↓	12.76	↓	26,314	↑	72,871	-
Class A	2,685,792	18.5	↓	12.96	↓	4,774	↓	44,473	-
Class B	3,154,245	34.2	↓	12.73	↑	21,540	↑	31,055	-
Class C	308,993	27.6	↓	11.76	↓	0	→	(2,657)	-
Suburban St. Paul	4,404,036	17.0	↑	12.65	↑	11,768	↑	102,775	-
Class A	1,950,474	20.3	↑	13.30	↑	(320)	↓	68,212	-
Class B	1,764,415	12.2	↓	11.82	↓	11,768	↑	40,137	-
Class C	689,147	20.1	↑	12.87	↑	0	→	(5,576)	-

Source: CBRE Research, Q4 2020.



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