

FIGURES | MINNEAPOLIS OFFICE | Q3 2021

# Signs of life as the office market begins slow rebound

▲ 21.2%  
Vacancy Rate

▲ 107,177  
SF Net Absorption

▲ 649,821  
SF Under Construction

▲ \$16.48 PSF  
Average Asking Rate (NNN)

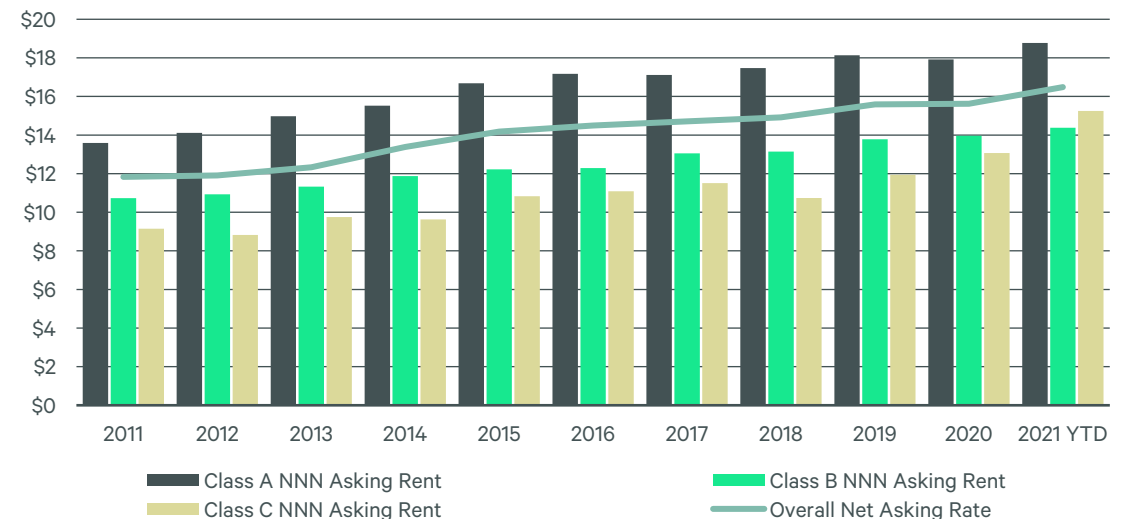
Note: Arrows indicate change from previous quarter.

## MARKET OVERVIEW

- The Minneapolis office market experienced 107,177 sq. ft. of positive absorption in Q3 2021, a marked increase over the first two quarters of the year.
- Q3 leasing was 38% higher than the previous quarter, and 61% of activity was new leases or expansions.
- Three buildings are under construction, including the much-anticipated RBC Gateway, the first new multitenant office tower in the Minneapolis CBD in 20 years, which will open in early 2022.
- Average net asking rates increased to \$16.48 per sq. ft. and the vacancy rate increased to 21.2%.

The Minneapolis office market showed signs of improvement in Q3 as the economy continued to reopen. Despite increases in vacancy, leasing was stronger than Q2 and absorption was positive for the first quarter since Q1 2020.

FIGURE 1: Historical Annual Net Asking Rates



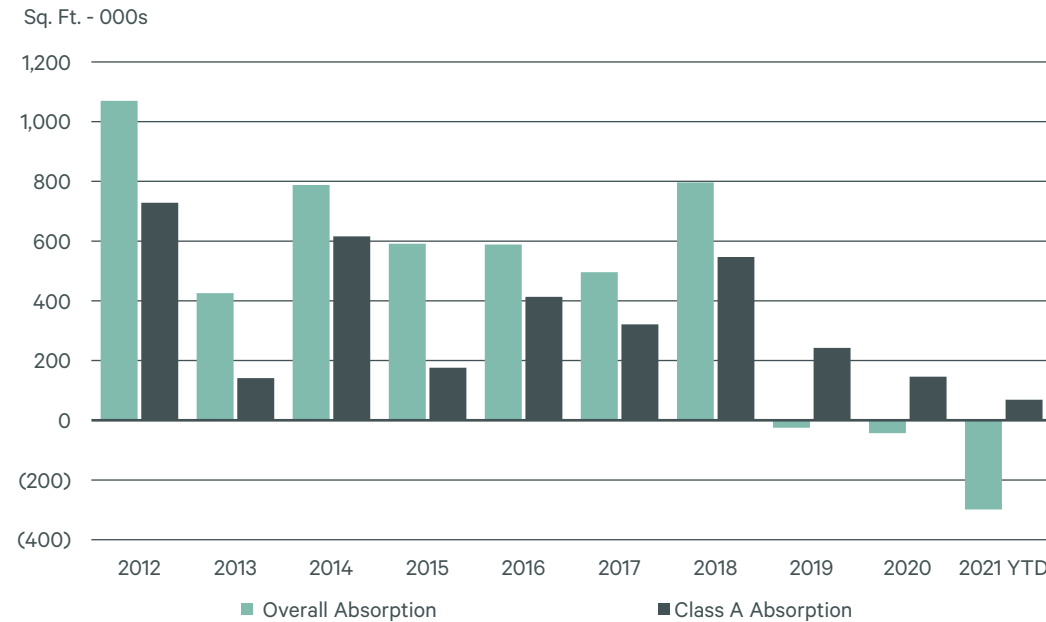
Source: CBRE Research, Q3 2021.

## Market Overview

Q3 absorption was 107,177 sq. ft., making for the market’s first quarter of positive net absorption since Q1 2020.

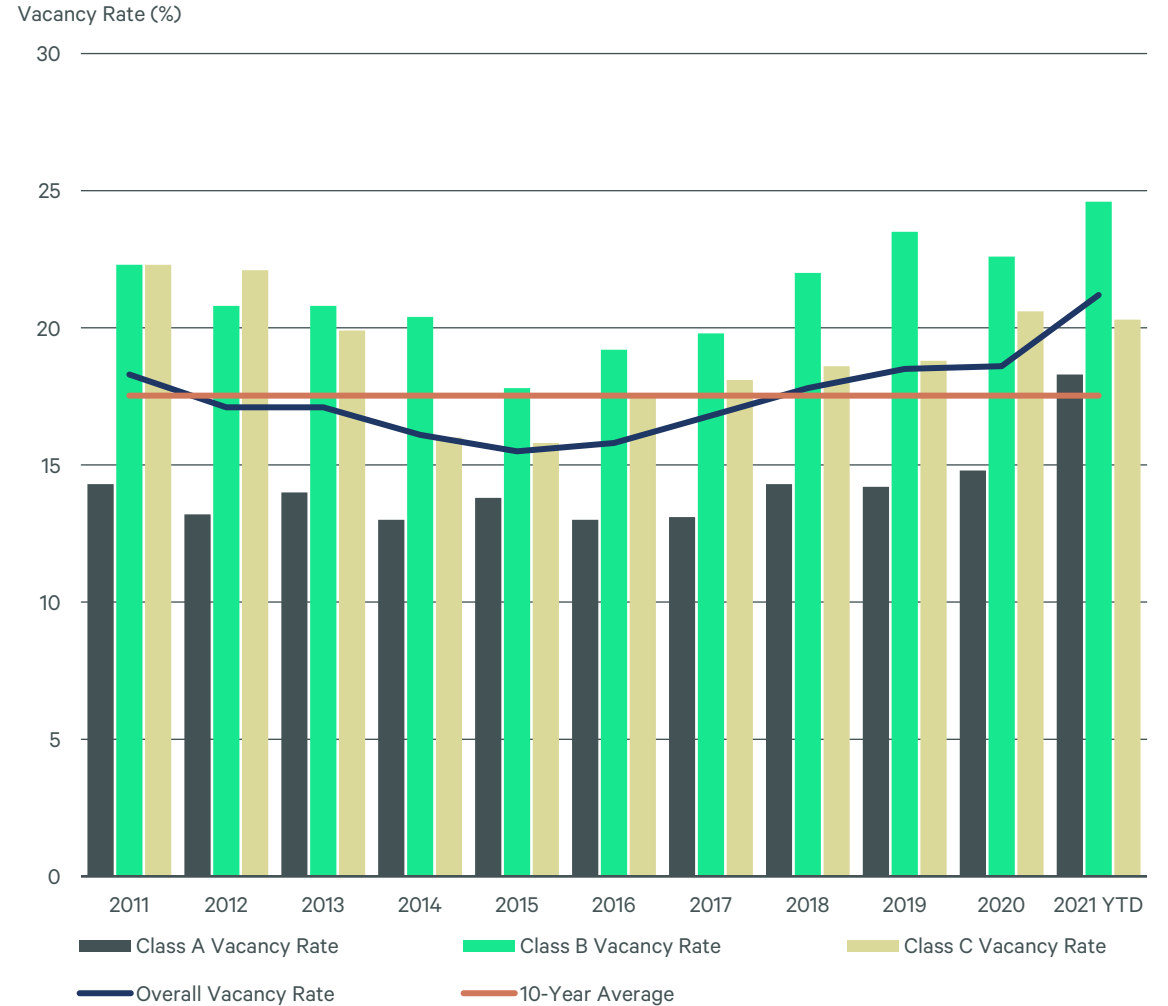
Class A office continues to outperform the overall market by a relatively wide margin. Class A vacancy is 18.3%, 290 basis points lower than the overall vacancy rate. Class A absorption is outpacing overall absorption for the third year in a row, and new Class A buildings such as RBC Gateway and 10 West End continue to attract new tenants, with recent signings by Castlelake and the Radisson Hotel Group, respectively.

FIGURE 2: Historical Total Absorption vs. Class A Absorption



Source: CBRE Research, Q3 2021.

FIGURE 3: Historical Vacancy and Vacancy by Class



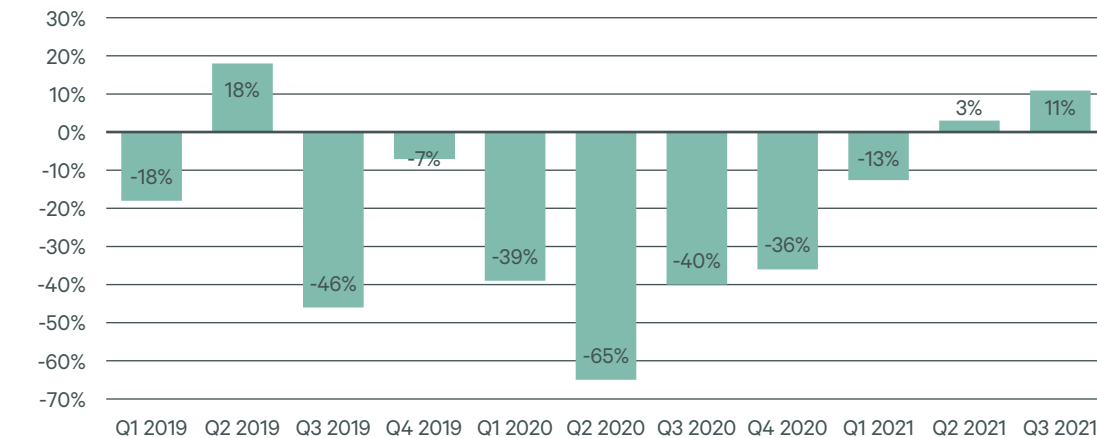
Source: CBRE Research, Q3 2021.

## Leasing

Leasing activity was up 38% from Q2. The quarter's volume of 827,443 sq. ft. represented an 11% increase over Q3 2020, indicating an acceleration of the gently positive trend in year-over-year growth seen in Q2 2021 following seven quarters of year-over-year decreases.

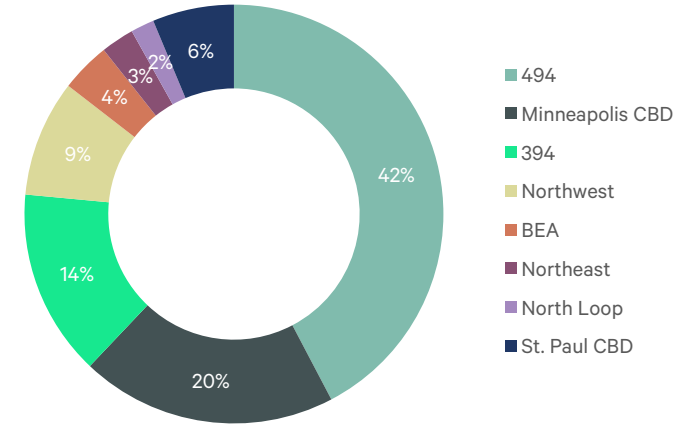
- New leases and expansions accounted for 61% of all market activity in Q3, with renewals at 22% and Use Sales at 17%.
- The 494 submarket led the Minneapolis Office market with 39% of all Q3 activity, with 350,027 sq. ft. transacted. The Minneapolis CBD followed with 163,558 sq. ft., representing 20% of remaining activity, with the 394 corridor's 119,311 sq. ft. of activity making it the third most active submarket for Q3 leasing.
- Tenants in Business Services industries made up a quarter of Q3 leasing activity, closely followed by Technology users at 21% and Finance-Insurance users at 19%.
- The remainder of the quarter's leasing activity was generated by users in Manufacturing, Transportation, Healthcare, Education, and the Creative Industries, among others.

FIGURE 4: Year over Year Change in Quarterly Volume



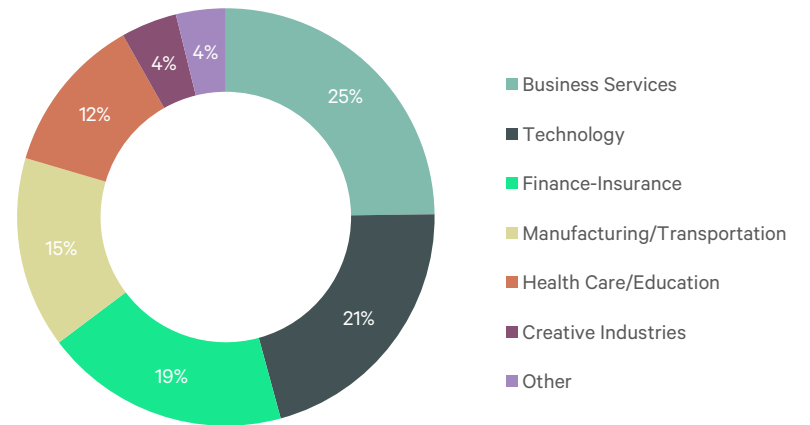
Source: CBRE Research, Q3 2021.

FIGURE 5: Top Transactions by Submarket and Sq. Ft.



Source: CBRE Research, Q3 2021.

FIGURE 6: Top Transactions by Industry and Sq. Ft.



Source: CBRE Research, Q3 2021.

## Investment Sales

Third-quarter office investment sales volume in the Minneapolis market—that is, transactions excluding sales for redevelopment or occupancy—saw a 9.7% decrease from Q2 to \$130.5 million, bringing the 2021 YTD investment sales volume to \$452.7 million. The YTD volume represents a 19% improvement over the total volume transacted during the first three quarters of 2020.

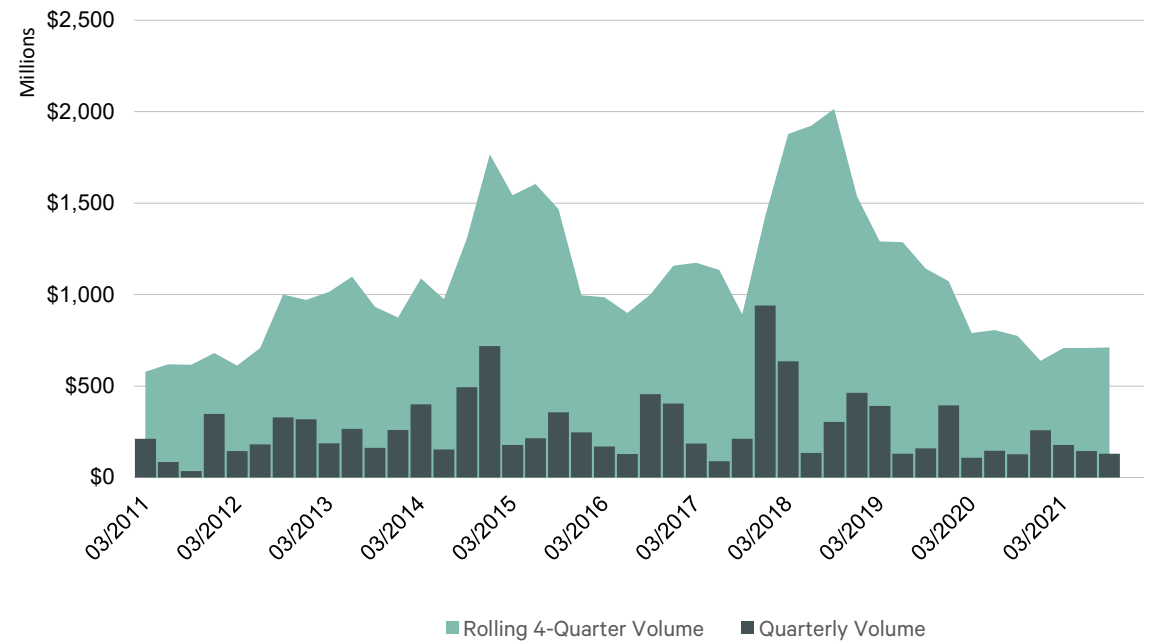
The quarter’s largest transaction was the sale of the Metropoint Office Portfolio to ABS Management for \$63.5 million. CBRE represented the seller in the sale of West Ridge to Altus Properties.



FIGURE 7: Notable Minneapolis Office Investment Sales, Q3 2021

Property	Location	Buyer	Sale Price (\$)	Size (Sq. Ft.)	Price Per Sq. Ft. (\$)
Metropoint Office Portfolio	St. Louis Park	ABS Management	63,500,000	541,000	117
Superior Office Center	Eden Prairie	Buhl Investors	12,000,000	93,000	129
West Ridge	St. Louis Park	Altus Properties	11,400,000	64,118	178

FIGURE 8: Minneapolis Office Investment Sales Volume, 2011 – 2021



Source: Real Capital Analytics

## Market Summary Statistics

FIGURE 9: Minneapolis/St. Paul Office Market Statistics, Q3 2021 (cont. on next page)

Submarket	Rentable Area (Sq. Ft.)	Total Vacancy Rate	Y-o-Y Vacancy Trend	Average Net Asking Rate (Sq. Ft./Yr)	Y-o-Y Asking Rate Trend	Q3 Net Absorption (Sq. Ft.)	Y-o-Y Net Absorption Trend	YTD Net Absorption (Sq. Ft.)	Multi-Tenant Under Construction (Sq. Ft.)	Multi-Tenant & Single-Tenant Combined Stats	
										Rentable Area (Sq. Ft.)	Vacancy Rate
<b>Metro Overall</b>	<b>76,003,356</b>	<b>21.2%</b>	↑	<b>\$16.48</b>	↑	<b>107,177</b>	↑	<b>(298,603)</b>	<b>649,821</b>	<b>96,712,505</b>	<b>16.7%</b>
Class A	36,691,173	18.3%	↑	\$18.77	↑	60,848	↓	68,805	649,821	49,501,002	13.6%
Class B	32,143,290	24.6%	↑	\$14.38	↑	(27,133)	↑	(382,592)	-	38,793,565	20.4%
Class C	7,168,893	20.3%	↑	\$15.25	↑	73,462	↑	15,184	-	8,417,938	17.3%
<b>Minneapolis CBD</b>	<b>22,247,477</b>	<b>21.4%</b>	↑	<b>\$17.57</b>	↑	<b>154,474</b>	↑	<b>109,281</b>	<b>532,000</b>	<b>28,604,889</b>	<b>16.7%</b>
Class A	13,711,494	14.5%	↑	\$19.88	↑	59,543	↑	67,403	532,000	19,498,669	10.3%
Class B	6,976,155	35.2%	↑	\$14.30	↑	68,535	↑	32,433	-	7,094,430	34.6%
Class C	1,559,828	20.5%	↓	\$14.81	↑	26,396	↑	9,445	-	2,011,790	15.9%
<b>394 Corridor</b>	<b>11,841,259</b>	<b>19.3%</b>	↑	<b>\$20.35</b>	↑	<b>(40,120)</b>	↓	<b>(106,121)</b>	<b>37,821</b>	<b>13,098,648</b>	<b>17.4%</b>
Class A	6,009,290	21.0%	↑	\$21.90	↑	(36,453)	↓	(94,377)	37,821	7,044,740	17.9%
Class B	4,816,637	19.2%	↑	\$17.82	↑	2,359	↑	(3,808)	-	5,038,576	18.4%
Class C	1,015,332	9.0%	↓	\$16.27	↑	(6,026)	↓	(7,936)	-	1,015,332	9.0%
<b>494 Corridor</b>	<b>16,958,104</b>	<b>19.8%</b>	↑	<b>\$16.49</b>	↑	<b>(6,976)</b>	↓	<b>13,568</b>	-	<b>19,633,608</b>	<b>17.1%</b>
Class A	8,588,649	18.5%	↑	\$17.95	↑	(28)	↓	57,499	-	10,506,696	15.2%
Class B	6,903,278	20.3%	↓	\$14.24	↑	(8,145)	↓	(47,111)	-	7,660,735	18.3%
Class C	1,466,177	24.3%	↑	\$17.27	↑	1,197	↑	3,180	-	1,466,177	24.3%
<b>North Loop</b>	<b>4,177,056</b>	<b>26.0%</b>	↑	<b>\$18.83</b>	↑	<b>(21,677)</b>	↓	<b>(54,695)</b>	-	<b>4,414,556</b>	<b>24.6%</b>
Class A	877,775	18.7%	↑	\$22.11	↑	0	→	0	-	1,115,275	14.7%
Class B	2,211,812	30.1%	↑	\$19.35	↑	(22,946)	↓	(29,728)	-	2,211,812	30.1%
Class C	1,087,469	23.6%	↑	\$15.21	↑	1,269	↑	(24,967)	-	1,087,469	23.6%

FIGURE 9: Minneapolis/St. Paul Office Market Statistics, Q3 2021 (cont. from previous page)

Submarket	Rentable Area (Sq. Ft.)	Total Vacancy Rate	Y-o-Y Vacancy Trend	Average		Q3 Net Absorption (Sq. Ft.)	Y-o-Y Net Absorption		YTD Net Absorption (Sq. Ft.)	Multi-Tenant Under Construction (Sq. Ft.)	Multi-Tenant & Single-Tenant Combined Stats	
				Net Asking Rate (Sq. Ft./Yr)	Y-o-Y Asking Rate Trend		Trend	Trend			Rentable Area (Sq. Ft.)	Vacancy Rate
<b>Midway</b>	<b>2,534,180</b>	<b>15.7%</b>	↑	<b>\$15.32</b>	↑	<b>53,807</b>	↑	<b>89,279</b>	-	<b>3,803,522</b>	<b>10.4%</b>	
Class A	603,984	23.5%	↑	\$15.46	↑	0	→	0	-	603,984	23.5%	
Class B	1,531,962	14.4%	↑	\$15.70	↑	3,181	↑	40,360	-	2,325,917	9.5%	
Class C	398,234	8.7%	↓	\$12.86	↓	50,626	↑	48,919	-	873,621	4.0%	
<b>Northeast</b>	<b>2,526,556</b>	<b>14.3%</b>	↑	<b>\$14.00</b>	↓	<b>27,451</b>	↑	<b>(132,062)</b>	-	<b>2,811,710</b>	<b>12.9%</b>	
Class A	465,813	24.0%	↑	\$15.18	↓	25,415	↑	(2,790)	-	465,813	24.0%	
Class B	1,921,117	11.4%	↑	\$14.82	↑	2,036	↑	(129,272)	-	2,206,271	9.9%	
Class C	139,626	23.1%	↓	\$8.38	↑	0	→	0	-	139,626	23.1%	
<b>BEA</b>	<b>3,220,915</b>	<b>33.1%</b>	↑	<b>\$12.77</b>	↓	<b>0</b>	↑	<b>(193,355)</b>	-	<b>4,644,213</b>	<b>23.0%</b>	
Class A	1,382,727	31.2%	↑	\$14.04	↓	0	↓	(3,421)	-	1,885,765	22.9%	
Class B	1,709,176	36.2%	↑	\$12.57	↑	0	↑	(189,934)	-	2,629,436	23.5%	
Class C	129,012	12.9%	↓	\$11.13	→	0	→	0	-	129,012	12.9%	
<b>Northwest</b>	<b>1,390,088</b>	<b>22.6%</b>	↑	<b>\$12.69</b>	↑	<b>0</b>	↓	<b>(7,043)</b>	-	<b>2,538,219</b>	<b>12.4%</b>	
Class A	244,850	13.8%	↓	\$13.13	↓	0	→	1,144	-	1,245,981	2.7%	
Class B	867,163	20.9%	↑	\$13.05	↑	0	↓	629	-	1,014,163	17.9%	
Class C	278,075	35.7%	↑	\$11.00	→	0	→	(8,816)	-	278,075	35.7%	
<b>St. Paul CBD</b>	<b>6,244,576</b>	<b>23.9%</b>	↓	<b>\$12.56</b>	↓	<b>13,469</b>	↓	<b>13,448</b>	-	<b>9,640,480</b>	<b>15.5%</b>	
Class A	2,685,792	18.6%	↓	\$13.72	↑	13,469	↓	8,389	-	3,240,792	15.5%	
Class B	3,249,791	27.9%	↓	\$11.58	↓	0	→	5,667	-	6,090,695	14.9%	
Class C	308,993	28.9%	↑	\$16.72	↑	0	→	(608)	-	308,993	28.9%	
<b>Suburban St. Paul</b>	<b>4,863,145</b>	<b>19.9%</b>	↑	<b>\$11.39</b>	↓	<b>(73,251)</b>	↑	<b>(30,903)</b>	<b>80,000</b>	<b>7,522,660</b>	<b>12.9%</b>	
Class A	2,120,799	23.2%	↑	\$14.01	↑	(1,098)	↓	34,958	80,000	3,893,287	12.6%	
Class B	1,956,199	16.2%	↓	\$9.19	↓	(72,153)	↑	(61,828)	-	2,521,530	12.6%	
Class C	786,147	20.5%	↑	\$12.08	↓	0	↑	(4,033)	-	1,107,843	14.6%	

## Economic Overview

The summer of 2021 began with a surge, only to ease back as the Delta variant forced many consumers to rethink their holidays and restaurant visits. Consequently, we pared back our GDP growth outlook for this year by an entire percentage point, to 6%, followed by nearly 4% year-on-year growth in 2022. The labor market has also been volatile, primarily due to a reversal in hiring within the Accommodation & Food Services sector, reflecting uncertainty in the space. But demand for labor remains high and most signals suggest the key problem firms face is finding workers. Thus, employment growth should remain above 3% through 2022. Longer-term hiring in the U.S. will be restrained by a shrinking labor force.

Shortages are not just limited to people. Key economic inputs ranging from raw materials to microchips pushed consumer prices up by 5% year-on-year. Some supply bottlenecks have proven transitory and annual price increases are stalling. Inflation should ultimately settle into the low-2% range next year. The Fed is responding to these labor market and price developments by announcing it might begin tapering its quantitative easing program as soon as this November.

A plausible outlook is that waves of COVID-19 continue but the U.S. economy and health system learn to manage these disruptions. This will allow room for 5% GDP growth in 2022, as business investment and consumer activity normalize. Upside risks include the prospect of greater infrastructure spending, albeit the political dynamics are fluid. Also, the construction of more housing units to correct a historic shortage—estimated at 3.8 million units, per FreddieMac—would also be material tailwind for growth.



## Market Area Overview



## Definitions

**Available Sq. Ft.:** Space in a building, ready for occupancy within six months; can be occupied or vacant. **Availability Rate:** Total Available Sq. Ft. divided by the total building Area. **Average Asking Lease Rate:** A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. **Building Area:** The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. **Gross Activity:** All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. **Gross Lease Rate:** Rent typically includes real property taxes, building insurance, and major maintenance. **Net Absorption:** The change in Occupied Sq. Ft. from one period to the next. **Net Lease Rate:** Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. **Occupied Sq. Ft.:** Building Area not considered vacant. **Vacancy Rate:** Total Vacant Sq. Ft. divided by the total Building Area. **Vacant Sq. Ft.:** Space that can be occupied within 30 days.

## Survey Criteria

Includes multitenant office buildings 10,000 sq. ft. and greater in size in the Minneapolis/St. Paul market, excluding single-tenant owner-occupied buildings, government-owned and -occupied buildings, and medical buildings. Buildings which have begun construction as evidenced by site excavation or foundation work.

## Contact

### Dan Askew

Associate Director, Field Research  
+1 216 363 6464  
dan.askew@cbre.com

### Alida Markgraf

Research Data Analyst  
+1 612 336 4291  
alida.markgraf@cbre.com