

FIGURES | MINNEAPOLIS OFFICE | Q3 2023

# Large blocks of highly amenitized space enter the market in Q3

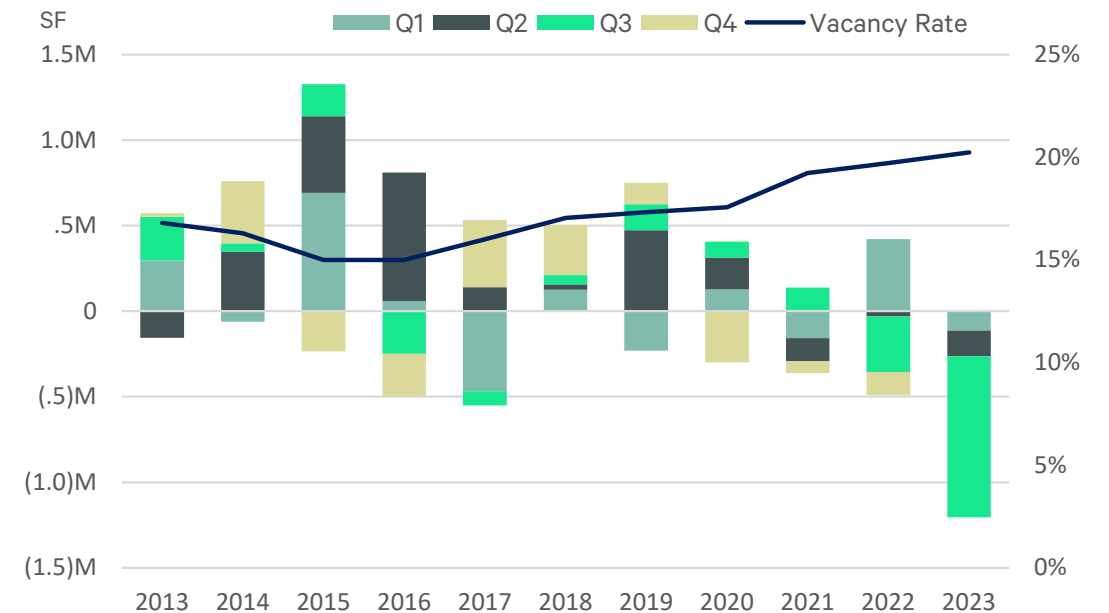


Note: Arrows indicate change from previous quarter.

## MARKET OVERVIEW

- In the Minneapolis office market, Q3 absorption was (940,679) sq. ft., where 95% of this negative absorption was from the addition of two large blocks of Class A space in the 494 submarket.
- Leasing activity remained strong with 1.2M sq. ft. transacted in Q3. Small tenants continue to drive leasing activity, where deals under 20,000 sq. ft. in size represented 61% of total market activity year-to-date in 2023.
- Sublease availability decreased by 9% in Q3 at 3.6M sq. ft. Among the top deals this quarter were several large blocks of sublease spaces where leasing on subleases accounted for 10% of total activity in Q3.
- Following the sale of RBC Gateway, the largest commercial sale for the market this year, office sales volume totaled \$255 million and pricing on top quartile assets saw an increase by 110% year-over-year.

FIGURE 1: Historic Quarterly and Annual Net Absorption vs. Vacancy



Source: CBRE Research, Q3 2023.

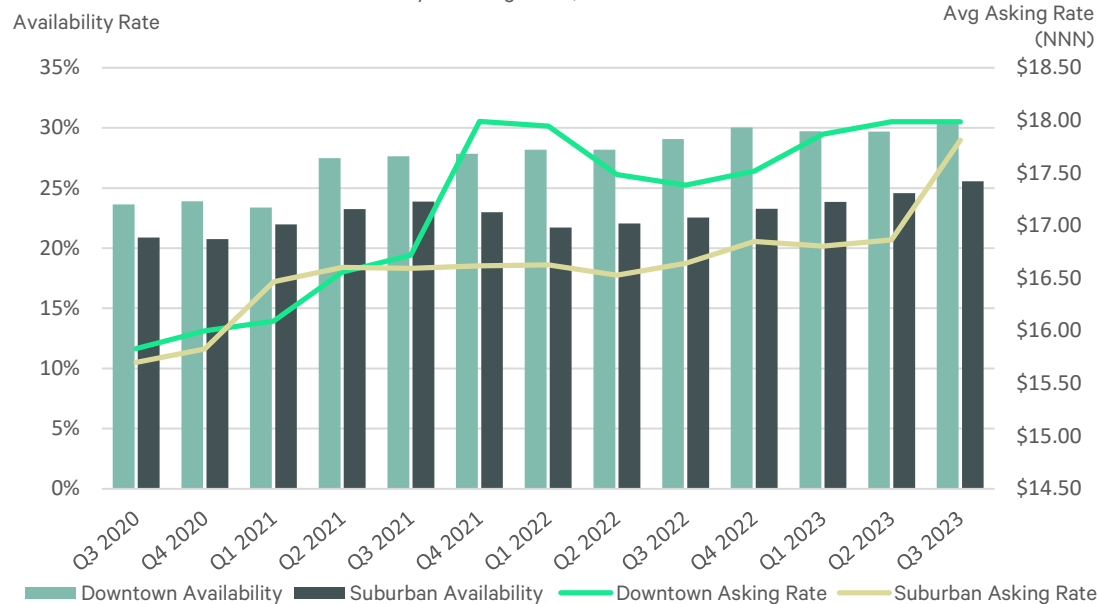
## Absorption, Vacancy, and Lease Rates

In the Minneapolis office market, total Q3 absorption was (940,679) sq. ft., a decrease of 191% year-over-year. 95% of this negative net absorption was a result of two large direct vacancies on highly amenitized spaces that entered the market this quarter. Two full towers at Best Buy’s campus in Bloomington became available for over 700,000 sq. ft., along with 165,000 sq. ft. at 5995 Opus Pkwy in Minnetonka for sale or lease. Without these, net absorption for the market in Q3 would have been (-47,238) sq. ft.

Direct vacancy for the full market increased by .6% from the previous quarter, up to 20.8%. The 494 submarket experienced the highest negative absorption in Q3, with a 24% increase in availability from the previous quarter with the addition of Class A space for lease at 76<sup>th</sup>&Penn.

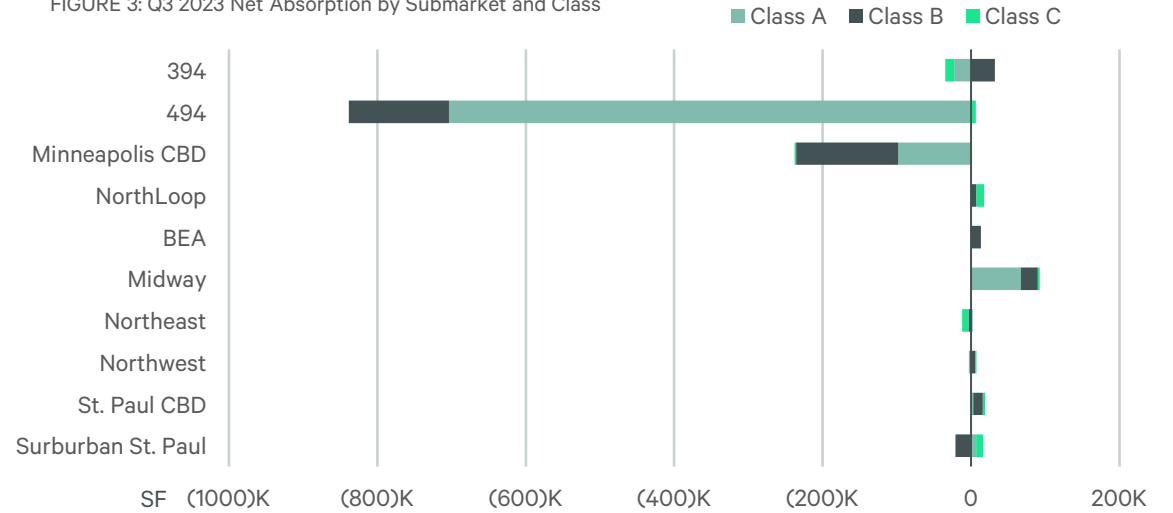
Suburban asking rates saw a 6% increase from the previous quarter whereas downtown asking rates stayed constant. In Q3, average downtown asking rates were just 1% higher than suburban rates overall compared to a 6.7% difference in the previous quarter at \$17.99 and \$17.81, respectively.

FIGURE 2: Downtown vs. Suburban Availability & Asking Rates, 2020-2023



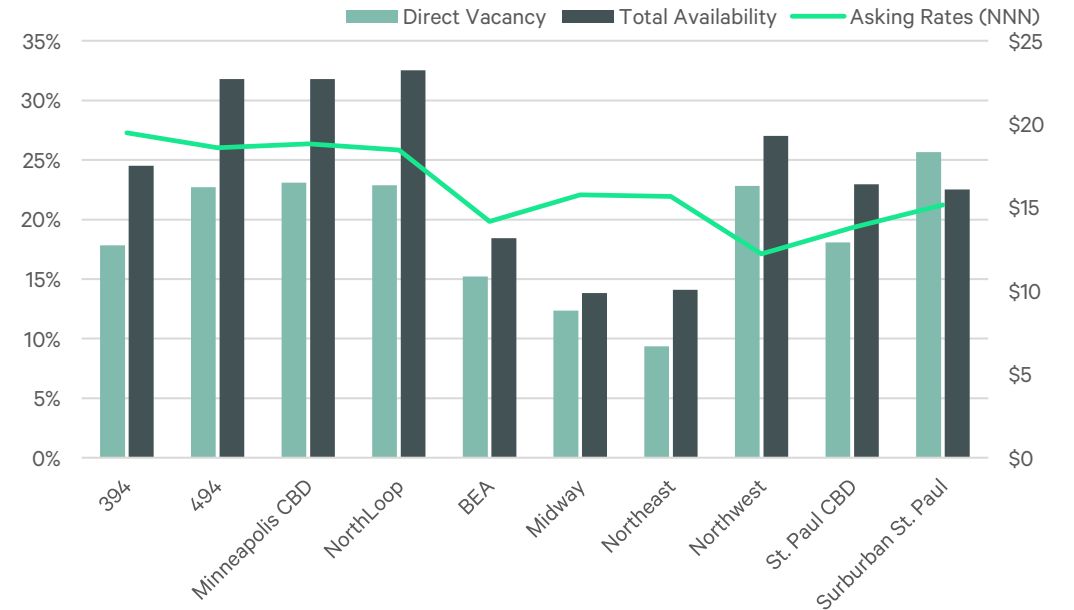
Source: CBRE Research, Q3 2023.

FIGURE 3: Q3 2023 Net Absorption by Submarket and Class



Source: CBRE Research, Q3 2023.

FIGURE 4: Q3 2023 Direct Vacancy, Availability, & Asking Rates by Submarket



Source: CBRE Research, Q3 2023.

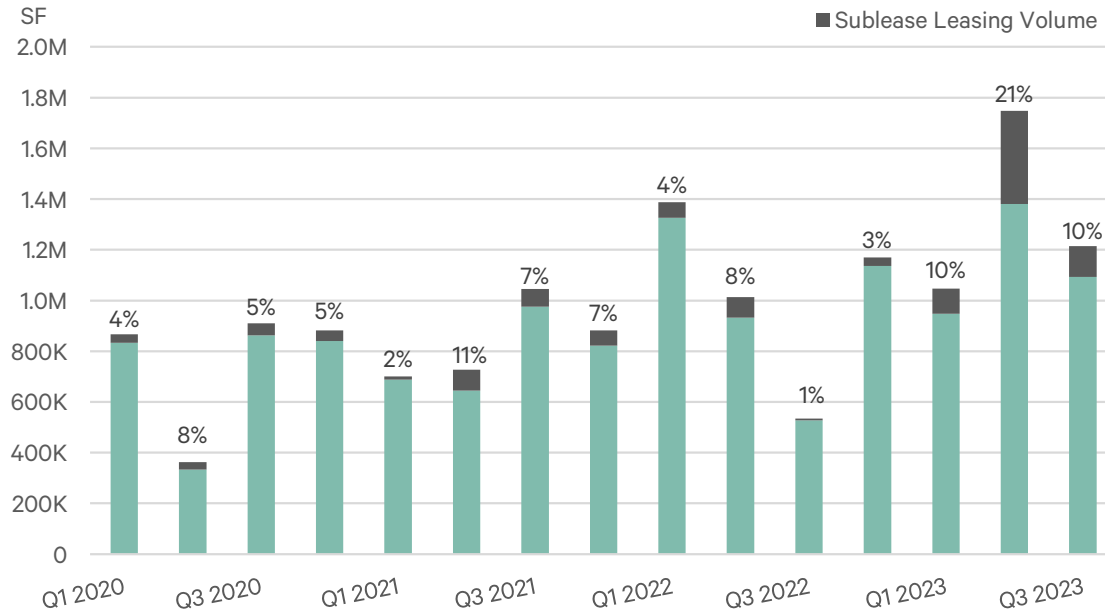
## Leasing Velocity

In the Minneapolis market, Q3 leasing activity reached 1.2M sq. ft., a 127% increase year over year. Small tenants continue to drive leasing activity, where deals under 20,000 sq. ft. in size represented 61% of total market activity so far in 2023. In 2023 year-to-date, leasing on large transactions greater than 100,000 sq. ft. has increased 22% from the previous year and down just 8% from the pre-pandemic annual average.

Among the top deals this quarter were several large sublease spaces with Thomson Reuters leasing over 300,000 sq. ft. from Prime Therapeutics at the Landing in Eagan and NetSPI leasing 60,000 sq. ft. of sublease space from Calabrio at Steelman Exchange in the North Loop.

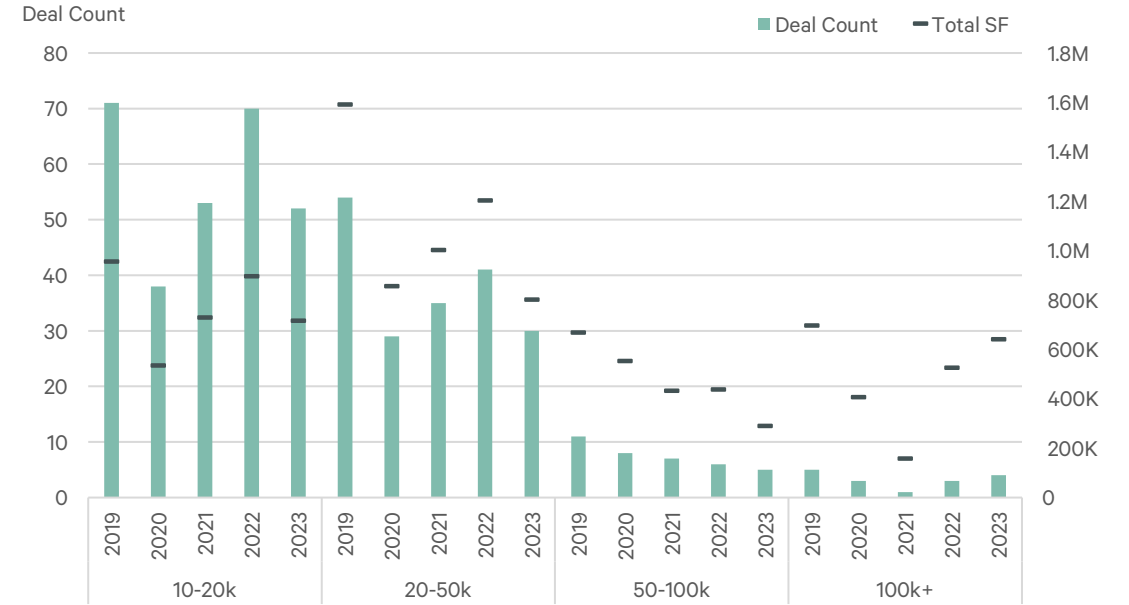
Overall, leasing activity on sublease space has seen an increase since 2020, where sublease transactions represented more than 10% of total leasing activity in Q3 and for the past three quarters in a row.

FIGURE 5: Subleases as a Percent of Total Leasing Activity



Source: CBRE Research, Q3 2023.

FIGURE 6: Deal Count and Total SF Leased by Size Range, 2019-2023



Source: CBRE Research, Q3 2023.

FIGURE 7: Notable Lease Transactions

Transaction Type	Size (SF)	Tenant	Property	Submarket
New Lease	308,070	Thomson Reuters	The Landing	BEA
Renewal	87,862	Arctic Wolf	Flying Cloud Corporate Campus	494
New Lease	68,308	Forward Edge	Midway Innovation Center	Midway
New Lease	60,000	NetSPI	Stelman Exchange	North Loop
Renewal	54,000	Polaris	Northland Corporate Center	Northwest

Source: CBRE Research, Q3 2023.

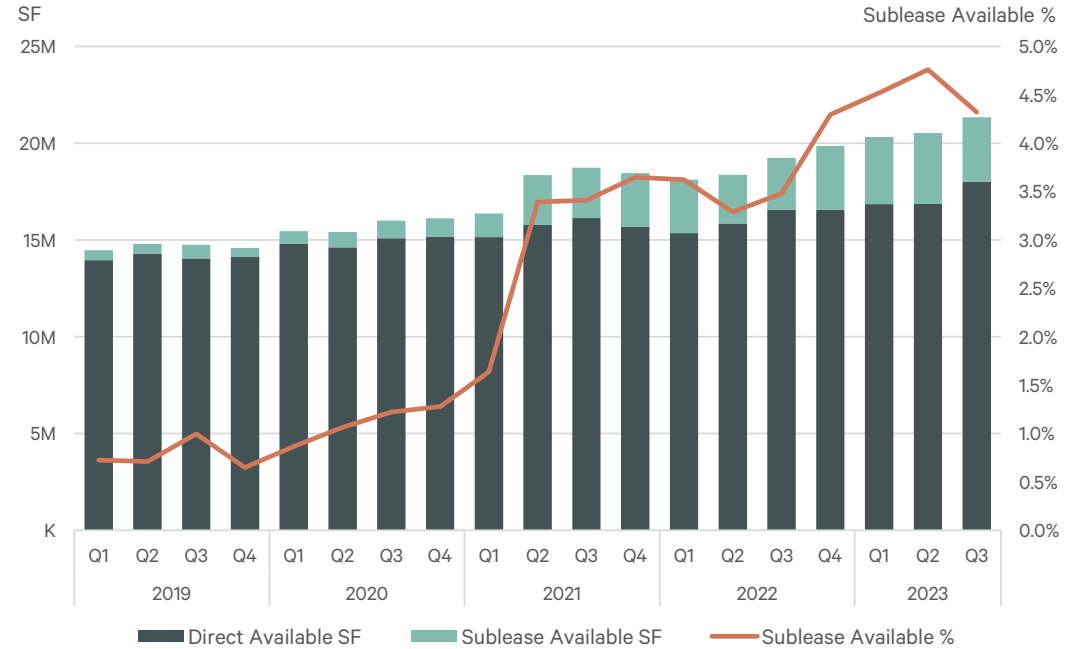
## Subleasing

Sublease availability was 3.5M sq. ft. in Q3, a 9% decrease from the previous quarter. This represented 15% of the total available space in the market and 4.3% of the total market inventory.

In Q3, sublease spaces greater than 100,000 sq. ft. represented 37% of the total available spaces, a decrease of 30% from the previous quarter given recent leasing activity. Fewer large block sublease availabilities, greater than 50,000 sq. ft., have entered the market in 2023 compared to the previous year as well, a decrease of 83% from 2022.

The majority of available sublease space is in the Minneapolis CBD and 494 submarkets, with 73% of total market sublease availability and several of the largest available blocks of space. The majority (55%) of sublease availabilities have a term of at least 4 years remaining, where 33% have a remaining term of at least 7 years.

FIGURE 9: Historical Sublease vs Direct Availability



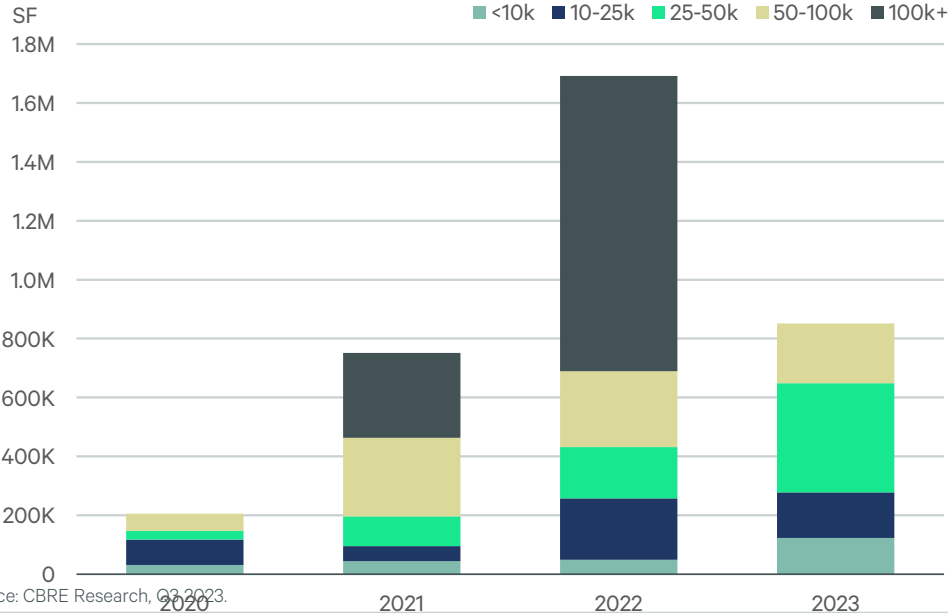
Source: CBRE Research, Q3 2023.

FIGURE 10: Largest Sublease Block Spaces

Block Size	Property Name	Submarket	Lease Expiration	Term Remaining
850,546	33 South Sixth	Minneapolis CBD	10/28/2030	7 years
155,650	12125 Technology Drive	494	3/31/2026	3 years
149,718	12700 Whitewater	494	6/30/2026	3 years
132,604	10380 Bren Rd	494	7/31/2026	3 years
89,827	3701 Wayzata Boulevard	394	7/24/2030	7 years
88,094	701 Carlson	394	6/30/2030	7 years

Source: CBRE Research, Q3 2023.

FIGURE 8: Sublease Availability by Size & Year Listed



Source: CBRE Research, Q3 2023.

## Office Sales

In Minneapolis, office sales volume totaled \$255 million in Q3, a 22% decrease year-over-year and a 165% increase from the previous quarter.

In Q3, sales volume was predominantly led by CBD sales, with 94% of total sales volume following the sale of RBC Gateway. Likewise, pricing on top quartile assets saw an increase by 110% year-over-year whereas the median and bottom quartile price per square feet decreased 43% and 47%, respectively.

CBRE represented in the sale of RBC Gateway, the largest commercial sale for the Minneapolis market this year. In the third quarter, CBRE’s market share was 88% of total sales volume.

Of notable Q3 sales, Landmark Towers and the Elliot Park Life Sciences buildings have sold with plans to be converted into multi-family housing.

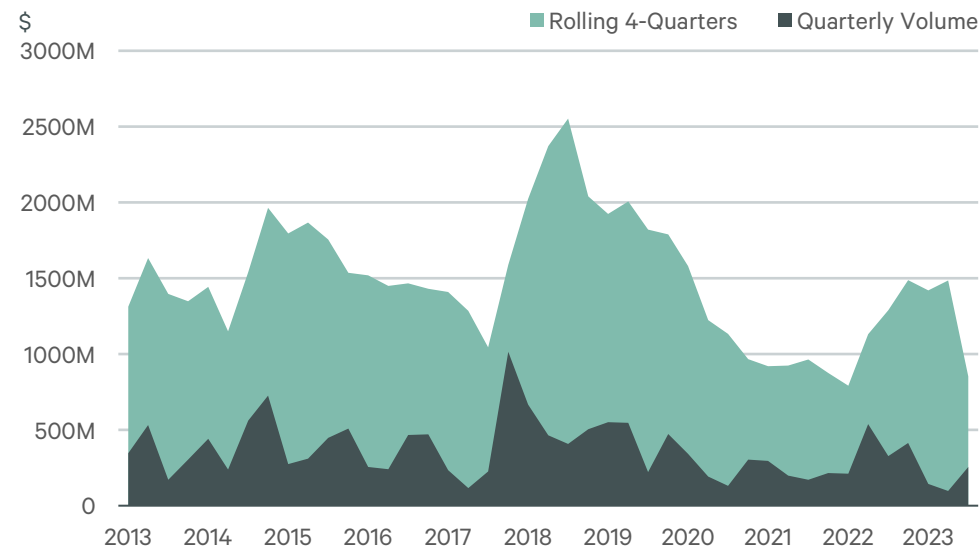
FIGURE 11: Notable Minneapolis Office Sales, Q3 2023

Property	Location	Buyer	Sale Price	Size (SF)	Price Per SF (\$)
RBC Gateway	Minneapolis	Spear Street Capital	225M	524,000	429
Woodbury Medical	Woodbury	WE Partners Medical	8.4M	23,000	366
*Landmark Towers	St. Paul	Sherman Associates	8.15M	213,000	38
7th on Nic (Condo)	Minneapolis	Zuru US	4.15M	27,000	155
*Elliot Park Life Sciences	Minneapolis	Alliance Housing Inc	2.4M	66,000	36
**2035 County Rd D	Maplewood	Toufong Towing & Auto Body	2.2M	12,000	187
7700 Equitable Dr	Eden Prairie	GBM Realty Southcross LLC	2.18M	20,000	109

\*Indicates Future Office Conversion  
 \*\*Indicates Owner User Sale

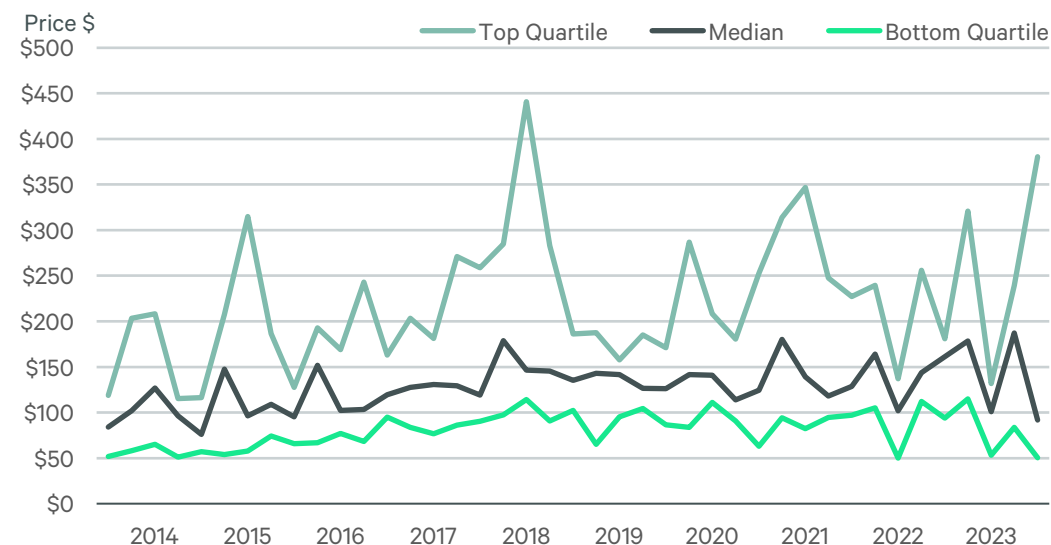
Source: CBRE Research, Q3 2023.

FIGURE 12: Minneapolis Office Sales Volume, 2013 – Q3 2023



Source: Real Capital Analytics, CBRE Research, Q3 2023

FIGURE 13: Minneapolis Office Price per Sq. Ft., 2013 – Q3 2023



Source: Real Capital Analytics

## Market Summary Statistics

FIGURE 14: Minneapolis/St. Paul Office Market Statistics, Q3 2023 (cont. on next page)

Submarket	MT Rentable Area (SF)	MT Direct Vacancy Rate	Y-o-Y Vacancy Trend	MT Total Availability Rate	Avg Gross Asking Ls Rate	Y-o-Y Asking Rate Trend	Q3 Net Absorption (SF)	Y-o-Y Quarterly Absorption Trend	Multi-Tenant and Single-Tenant Combined Stats	
									MT & ST Rentable Area (Sq. Ft.)	MT & ST Vacancy Rate
Metro Overall	76,475,362	20.8%	↑	27.7%	\$29.04	↑	(940,679)	↓	103,186,746	17.2%
A	38,558,753	18.6%	↑	28.4%	\$32.37	↑	(748,266)	↓	56,074,341	15.5%
B	31,210,336	23.5%	↑	27.5%	\$26.79	↑	(202,105)	↓	39,280,520	19.2%
C	6,706,273	21.3%	↓	25.0%	\$22.08	↑	9,692	↑	7,831,885	19.7%
Minneapolis CBD	22,636,832	23.1%	↑	31.8%	\$30.92	↑	(237,908)	↓	28,566,442	18.8%
A	14,243,494	17.6%	↑	28.2%	\$34.48	↓	(98,163)	↓	19,546,300	13.2%
B	6,897,604	34.2%	→	40.3%	\$28.06	↑	(137,576)	↓	7,000,879	34.2%
C	1,495,734	24.2%	↓	26.3%	\$24.30	↑	(2,169)	↓	2,019,263	18.8%
North Loop	4,176,263	22.9%	↓	32.5%	\$29.18	↑	17,467	↑	4,413,763	24.0%
A	877,775	10.8%	→	28.8%	\$40.84	↑	0	→	1,115,275	11.0%
B	2,244,628	28.9%	↑	35.1%	\$29.31	↓	7,343	↑	2,244,628	30.1%
C	1,053,860	20.1%	↓	30.2%	\$23.78	↑	10,124	↑	1,053,860	24.8%
394	11,787,266	17.8%	↓	24.5%	\$29.86	↓	(2,427)	↑	15,026,219	15.1%
A	6,129,888	18.0%	↓	27.5%	\$32.20	↓	(22,521)	↓	8,743,902	13.8%
B	4,639,080	19.7%	↓	23.3%	\$27.51	↓	32,265	↑	5,264,019	18.0%
C	1,018,298	8.5%	↑	12.3%	\$21.51	↑	(12,171)	↓	1,018,298	10.9%
494	17,586,859	22.7%	↑	31.8%	\$30.00	↑	(832,204)	↓	23,065,940	19.2%
A	9,678,788	21.3%	↑	34.5%	\$33.10	↑	(703,521)	↓	13,761,437	17.8%
B	6,875,894	24.4%	↑	28.6%	\$26.66	↑	(135,073)	↓	8,272,326	20.6%
C	1,032,177	25.0%	↑	28.1%	\$22.57	↑	6,390	↑	1,032,177	25.4%

Source: CBRE Research, Q3 2023.

FIGURE 14: Minneapolis/St. Paul Office Market Statistics, Q3 2023 (cont. from previous page)

Submarket	MT Rentable Area (SF)	MT Direct Vacancy Rate	Y-o-Y Vacancy Trend	MT Total Availability Rate	Avg Gross Asking Ls Rate	Y-o-Y Asking Rate Trend	Q3 Net Absorption (SF)	Y-o-Y Quarterly Absorption Trend	Multi-Tenant and Single-Tenant Combined Stats	
									MT & ST Rentable Area (Sq. Ft.)	MT & ST Vacancy Rate
BEA	3,280,510	15.2%	↓	18.4%	\$25.74	↑	13,452	↑	5,541,974	9.2%
A	1,786,620	18.5%	↑	22.7%	\$27.29	↑	142	↓	3,086,620	16.7%
B	1,364,878	11.9%	↓	14.0%	\$23.25	↑	13,310	↑	2,326,342	7.0%
C	129,012	5.0%	↓	5.9%	\$19.54	↓	0	↑	129,012	5.0%
Midway	2,751,237	12.3%	↓	13.8%	\$23.99	↑	92,715	↑	3,825,579	9.6%
A	603,984	16.6%	↓	17.1%	\$26.72	↓	67,187	↑	603,984	17.1%
B	1,749,019	11.6%	↓	13.4%	\$23.60	↑	22,713	↑	2,542,974	9.0%
C	398,234	9.0%	↓	10.5%	\$19.80	↑	2,815	↑	678,621	5.3%
Northeast	2,507,500	9.4%	↓	14.1%	\$24.02	↑	(9,987)	↓	2,792,654	8.8%
A	465,813	14.7%	↓	21.6%	\$27.26	↑	1,986	↓	465,813	15.5%
B	1,902,061	6.5%	↓	10.5%	\$24.81	↑	(3,563)	↑	2,187,215	6.1%
C	139,626	30.4%	↑	38.1%	\$20.00	↑	(8,410)	↓	139,626	30.4%
Northwest	1,374,588	22.8%	↑	27.0%	\$22.83	↓	4,092	↓	3,212,614	9.8%
A	244,850	9.6%	↑	12.6%	\$26.79	↑	(3,151)	↓	1,895,981	1.2%
B	851,663	27.7%	→	33.4%	\$22.98	↑	6,226	↓	1,038,558	22.8%
C	278,075	19.7%	↓	20.0%	\$19.85	→	1,017	↑	278,075	19.7%
St. Paul CBD	5,583,811	18.1%	↓	23.0%	\$24.79	↑	18,727	↑	9,291,550	11.4%
A	2,473,471	15.2%	↓	20.5%	\$27.55	↑	2,909	↓	3,028,471	12.5%
B	2,730,331	21.8%	↓	26.4%	\$23.30	↑	13,004	↑	5,883,070	10.7%
C	380,009	10.2%	↓	14.5%	\$18.33	↓	2,814	↑	380,009	13.4%
Suburban St. Paul	4,790,496	25.7%	↑	22.5%	\$22.87	↑	(4,606)	↑	7,450,011	17.1%
A	2,054,070	24.0%	↑	25.8%	\$25.52	↑	6,866	↑	3,826,558	13.6%
B	1,955,178	20.5%	↑	10.8%	\$22.35	↑	(20,754)	↑	2,520,509	16.5%
C	781,248	42.9%	↑	43.1%	\$19.51	↑	9,282	↑	1,102,944	30.4%

Source: CBRE Research, Q3 2023.

