Leasing and sublease activity stabilize despite continued negative absorption

▲ 23.9%
Direct Vacancy Rate

▲ (301,601)
SF Net Absorption

◄ 35,660
SF Under Construction

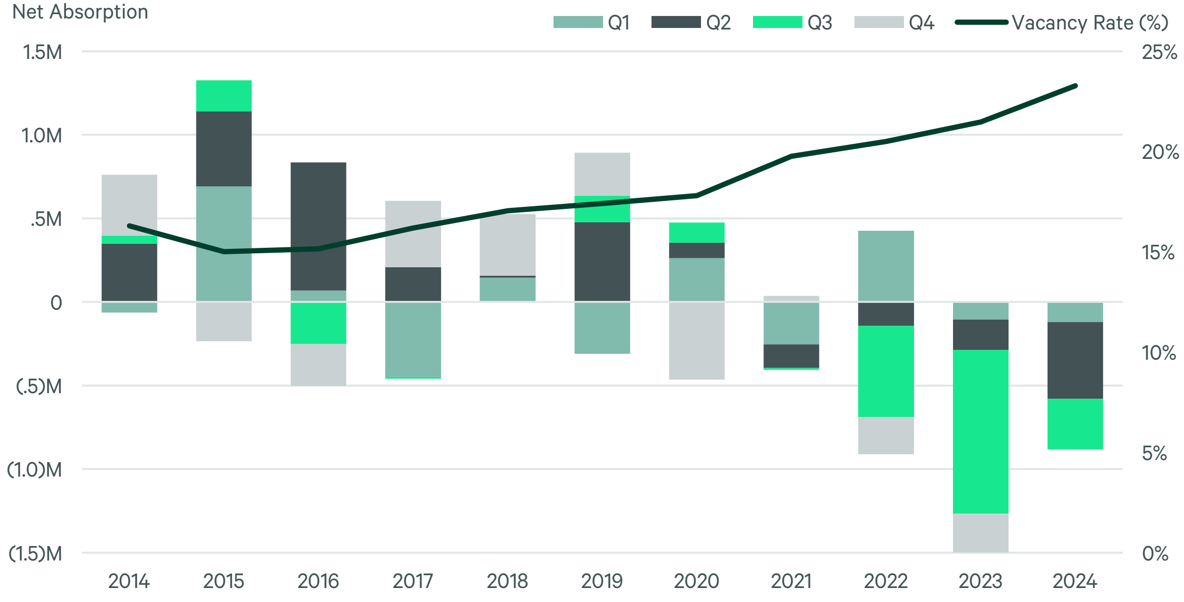
▲ $29.03 PSF
Average Asking Rate (Gross)

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- In the Minneapolis office market, total Q3 absorption was (301,601) sq. ft., a 34% increase from the previous quarter. The largest share of this movement was from downsizing by the State of Minnesota in downtown St. Paul.
- Leasing volume year-to-date in 2024 was the second highest since 2020, a 7% increase over the five-year Q1-Q3 average. Two of the top leases in Q3 were expansions into a larger office footprint.
- For the first quarter since 2019, total sublease availability in the market decreased. Since it's peak over a year ago in Q2 2023, sublease availability has decreased by 18%.
- Office sales volume totaled over $105 million in Q3, bringing the rolling 4-quarter sales volume to nearly $524 million. Investment sales in suburban markets contributed the majority of Q3 sales activity.

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



Source: CBRE Research, Q3 2024.

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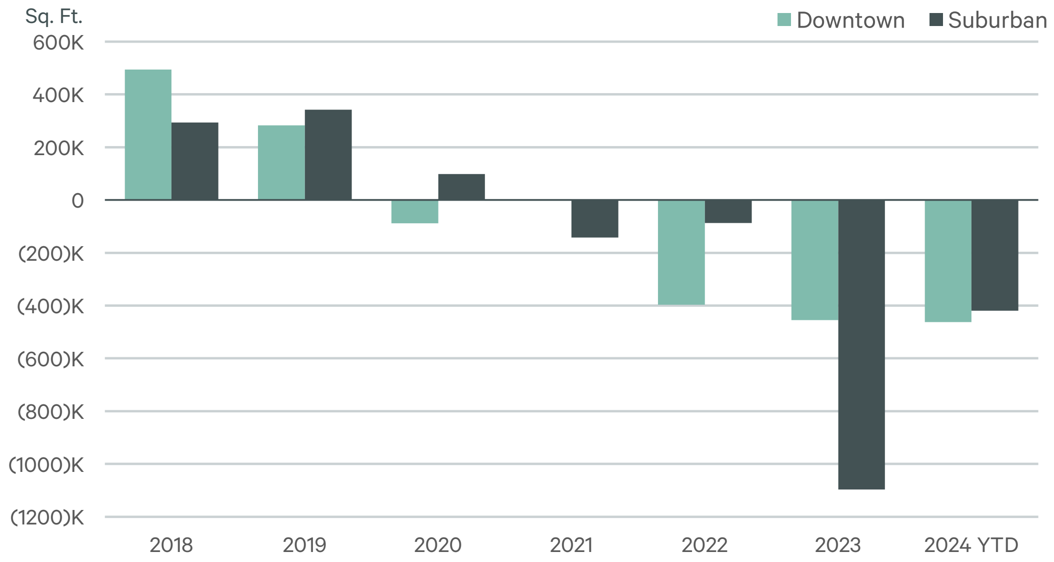
Absorption and Vacancy

Net absorption for the Minneapolis office market in Q3 was (301,601) sq. ft., an increase of 34% from the previous quarter that brought the 2024 year-to-date absorption figure to (881,497) sq. ft. Negative absorption in Q3 was predominantly a result of downsizing by the State of Minnesota in downtown St. Paul which accounted for nearly half of the quarter's negative absorption.

Direct vacancy was 23.9% in Q3 2024, an increase of 0.4% from the previous quarter and an increase of 7.5% from the pre-pandemic average. Overall, the St. Paul CBD had the highest vacancy rate of all submarkets with 32.8% vacant in Q3.

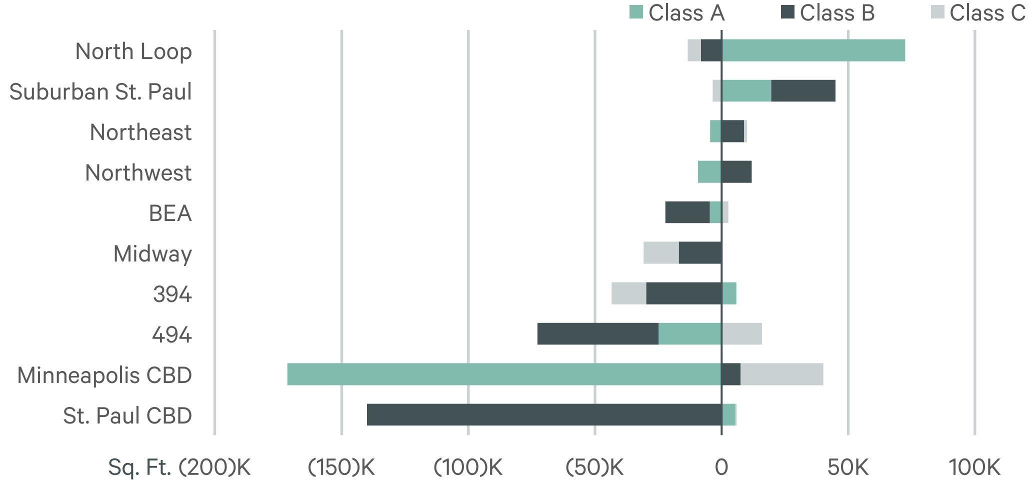
Net absorption in the market since Q1 2020 has exceeded (3M) sq. ft. Suburban submarkets contributed just over half, or 54%, of the negative absorption since 2020. Despite this, in Q3 downtown submarkets had a higher vacancy rate at 27.8% compared to 21.1% for suburban submarket vacancy.

FIGURE 2: Downtown vs. Suburban Historic Net Absorption, 2018-Q3 2024



Source: CBRE Research, Q3 2024.

FIGURE 3: Q3 2024 Net Absorption by Submarket and Class



Source: CBRE Research, Q3 2024.

FIGURE 4: Q3 2024 Direct Vacancy, Availability, & Asking Rates by Submarket

Source: CBRE Research, Q3 2024.

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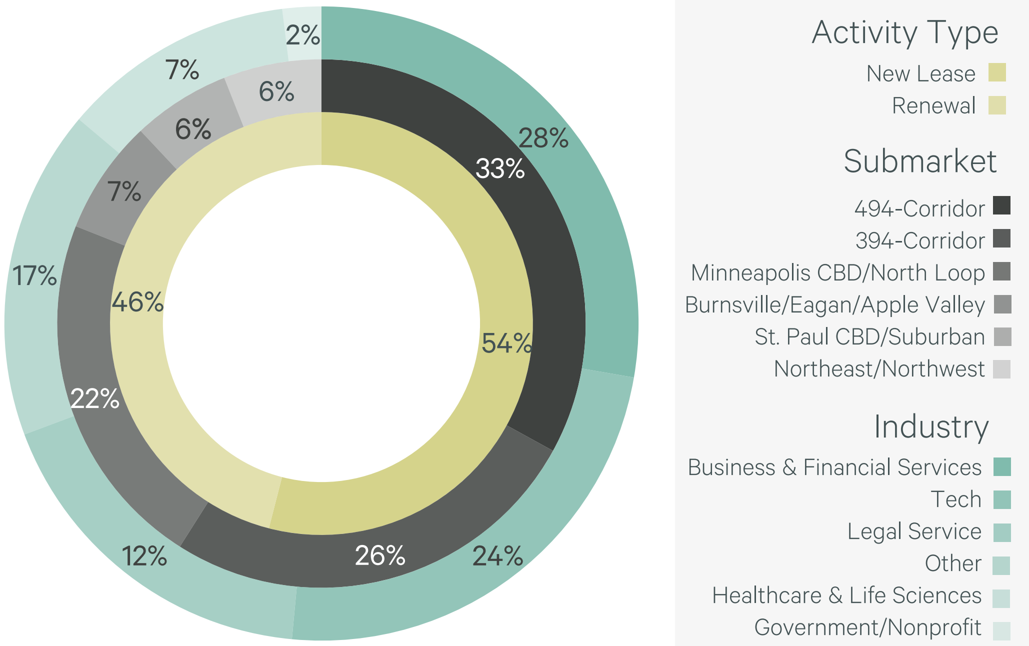
Leasing Velocity

Leasing activity narrowly slowed in Q3 with over 930,000 sq. ft. transacted this quarter, a 22% decrease from the previous quarter. Despite this slight decrease, year-to-date leasing activity was the second highest in volume since 2020, a 7% increase over the five-year Q1-Q3 average.

Of the top leases in Q3, both the transactions for Burns & McDonnell and Kipsu were expansions into larger office footprints. Of the deals completed in Q3 that were greater than 10,000 sq. ft., 85% were either expansions (33%) or deals without any change in total footprint (52%) whereas downsizing represented just 15% of the top deals.

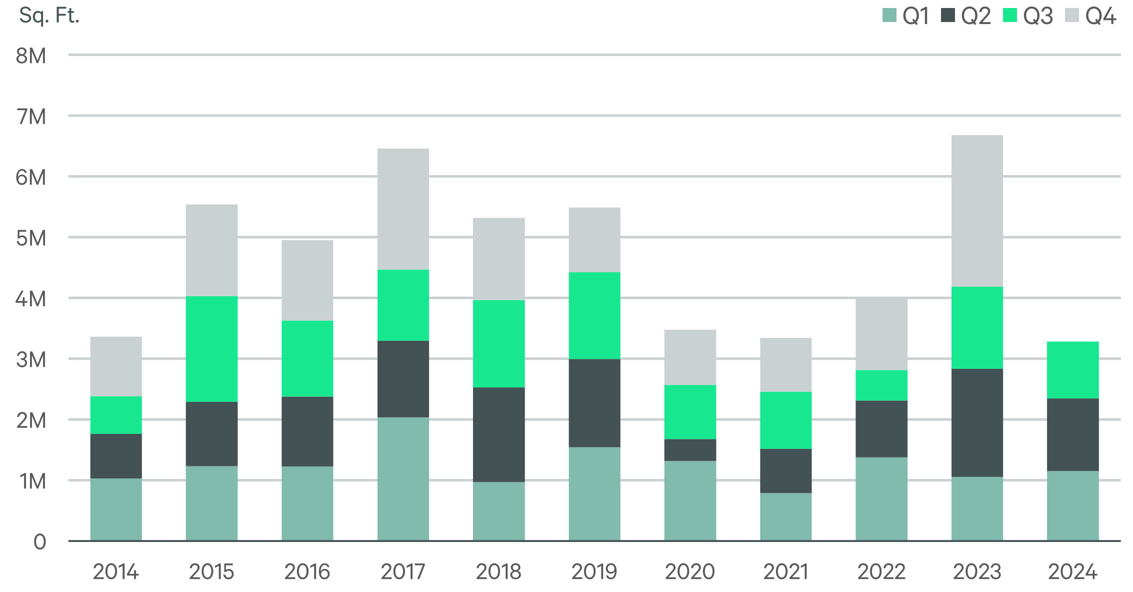
For the second quarter in a row, the suburban 494 and 394 submarkets led the leasing activity in Q3. Combined, they contributed 59% of total market activity this quarter. The Business & Financial Services and Tech industries represented the highest volume of Q3 activity with 52% of the total activity in Q3.

FIGURE 5: Q3 2024 Leasing Activity by Type, Submarket, & Industry



Source: CBRE Research, Q3 2024.

FIGURE 6: Annual Leasing Volume by Quarter, 2014-Q3 2024



Source: CBRE Research, Q3 2024.

FIGURE 7: Notable Lease Transactions, Q3 2024

Transaction	Size (SF)	Tenant	Property	Submarket
New Lease	67,000	Burns & McDonnell	Norman Pointe II	494
New Lease	43,785	Kipsu	Butler Square	North Loop
New Lease	28,208	Image Trend	Eagandale Corporate Center	BEA
Renewal	23,874	Accenture	SPS Tower	Minneapolis CBD
Renewal	23,090	Scoular	The Marq	Minneapolis CBD

Source: CBRE Research, Q3 2024.

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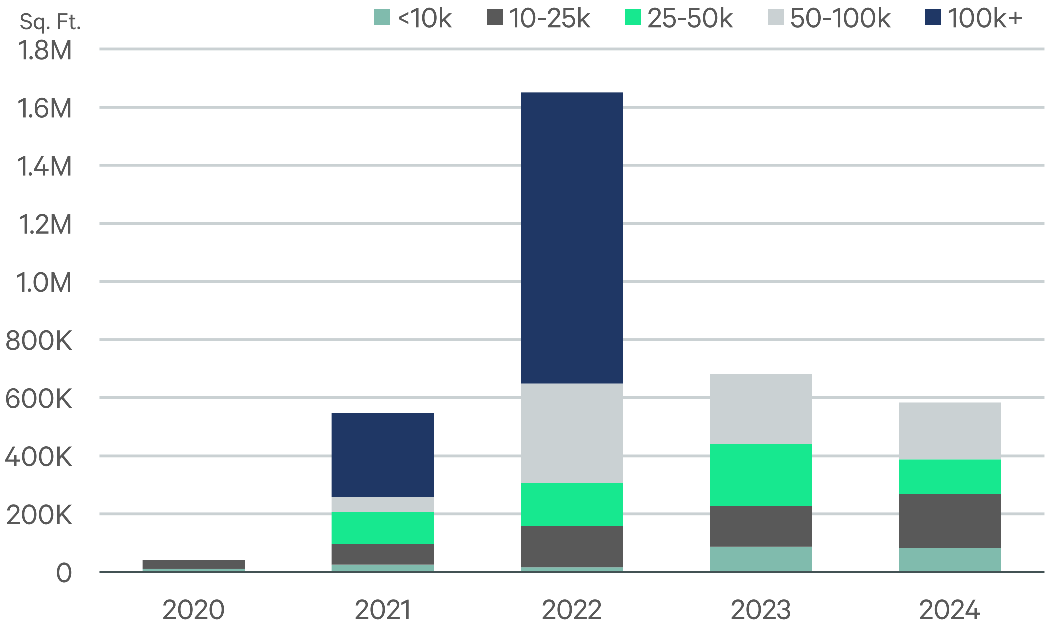
Subleasing

For the first quarter since 2019, total sublease availability in the market decreased by one-tenth of a percent. In total, the Q3 sublease availability was 3.5M sq. ft, an 18% decrease from its peak in over a year ago in Q2 2023, a clear indicator that the total amount of sublease space on the market has stabilized.

Of the active sublease listings on the market in Q3, large blocks (greater than 100,000 sq. ft.) still represented the largest segment of space with 37% of the total available sq. ft. in the market. However, of this size range, none have been listed in over two years.

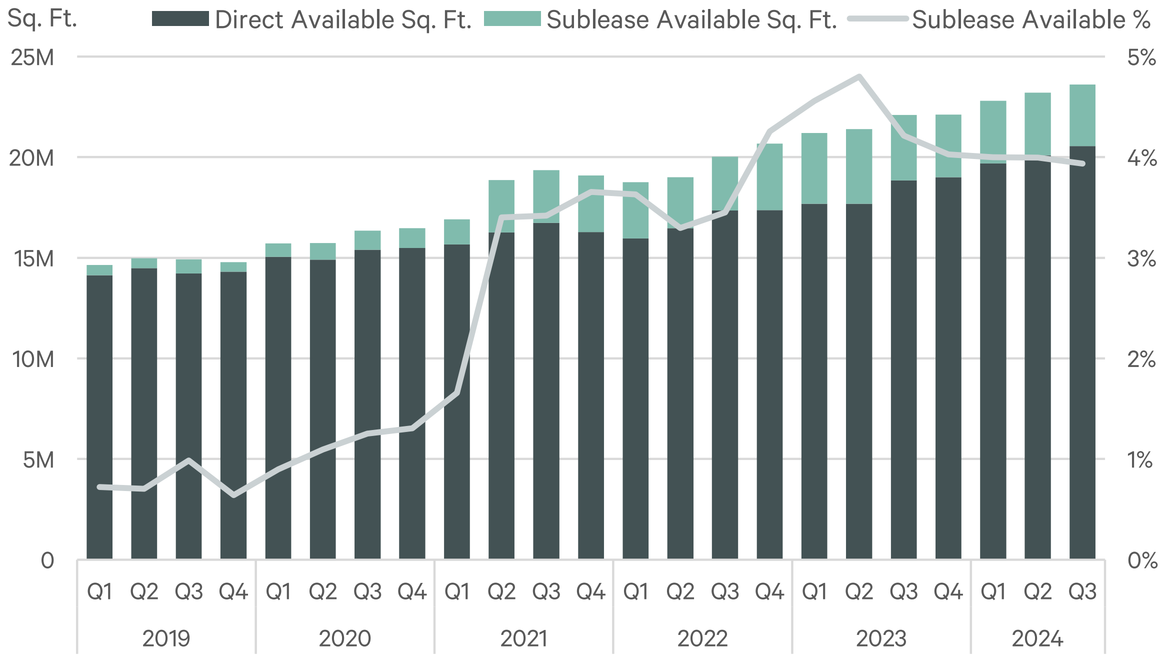
The average number of active days on market for available sublease space in Q3 was 588 days or 1.6 years, with an average term remaining of 3.2 years.

FIGURE 8: Sublease Availability by Size and Year Listed



Source: CBRE Research, Q3 2024.

FIGURE 9: Historical Sublease vs Direct Availability



Source: CBRE Research, Q3 2024.

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	4-7 years
155,650	12125 Technology Drive	494	3/31/2026	< 2 years
152,220	12700 Whitewater	494	6/30/2026	< 2 years
132,604	10380 Bren Rd	494	7/31/2026	2-4 years
96,687	Infor Commons	St. Paul CBD	8/31/2027	2-4 years
88,094	701 Carlson	394	6/30/2030	4-7 years

Source: CBRE Research, Q3 2024.

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Office Sales

In Minneapolis, Office sales volume totaled nearly $105 million in the third quarter of 2024, bringing the rolling 4-quarter sales volume to approximately $524 million. Quarterly volume represents an 14% decrease quarter-over-quarter and a 64% decrease year-over-year.

Suburban transactions continue to dominate office sales volume, representing 92% of the total market volume for the quarter. The trend of suburban sales volume outpacing downtown volume has been consistent in the Minneapolis market for the past several years. Since 2020, suburban office transactions have represented over 81% of the total sales volume.

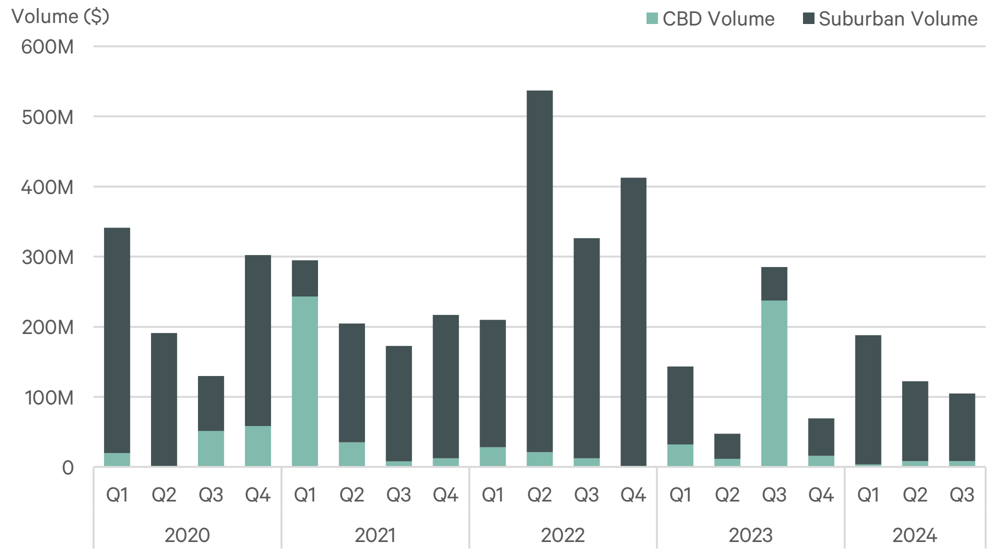
In Q3, Investment sale transactions accounted for over 95% of the total sales volume while owner user transactions represented just 5%. Of the top Office sales transacted this quarter, CBRE participated in the sale marketing of Forum 900 & 920.

FIGURE 11: Notable Minneapolis Office Sales, Q3 2024

Property	Location	Buyer	Sale Price	Size (Sq. Ft.)	Price Per Sq. Ft. ($)
Wells Fargo Plaza	Bloomington	Prime Finance Partners	$40M	458,702	87
Waterford Office Park	Plymouth	Northpath Investments	$23.25	479,288	49
Eagandale Corporate Center	Eagan	Inventure Real Estate	$15.1M	140,813	107
Bay View Office	Excelsior	The Tailwind Group	$12.5M	17,100	731
1300 Corporate Center	Eagan	MAG Capital Partners	$8.25M	44,298	186
Roseville West	Roseville	Local Investor Syndicate	$7.35M	88,644	83
Forum 900 & 920	Minneapolis	Namdar Realty Group	$6.5M	633,691	10

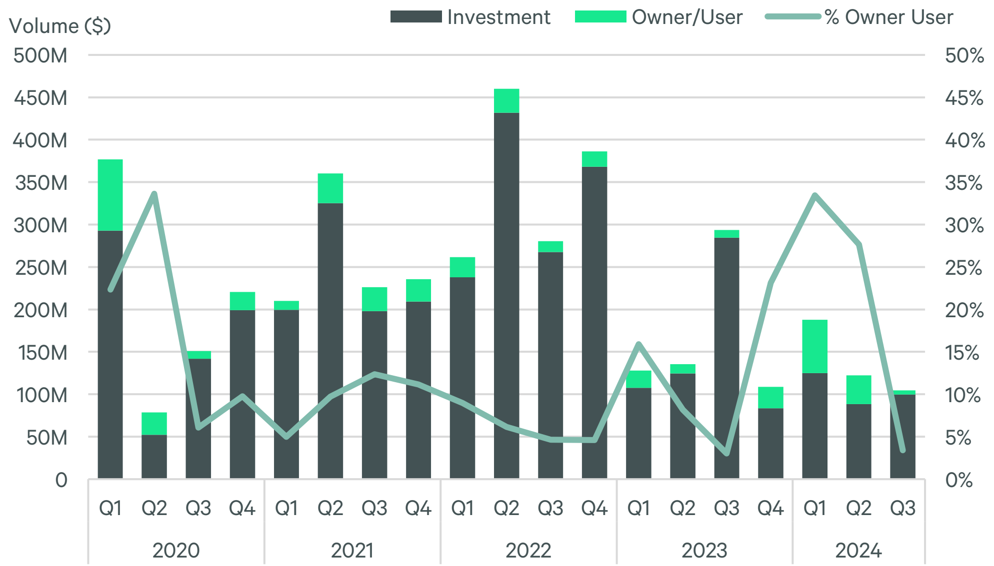
Source: CBRE Research, Q3 2024.

FIGURE 12: CBD vs. Suburban Office Sales Volume, 2020 – Q3 2024



Source: Real Capital Analytics, CoStar, CBRE Research, Q3 2024

FIGURE 13: Investment vs. Owner User Sales Volume, 2019-Q3 2024



Source: Real Capital Analytics, CoStar, CBRE Research, Q3 2024

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Market Summary Statistics

FIGURE 14: Minneapolis/St. Paul Office Market Statistics, Q3 2024

Submarket	MT Renatble Area (Sq. Ft.)	MT Direct Vacancy Rate	Y-o-Y Vacancy Trend	Avg Gross Asking Ls Rate	Y-o-Y Asking Rate Trend	Q3 Net Absorption (Sq. Ft.)	Y-o-Y Quarterly Absorption Trend	2024 YTD Net Absorption (Sq. Ft.)	Multi-Tenant and Single-Tenant Combined Stats: MT & ST Rentable Area (Sq. Ft.)	MT & ST Vacancy Rate
Metro Overall	77,653,818	23.9%	↑	$29.03	↑	(301,601)	↑	(881,497)	101,903,902	18.8%
A	39,160,462	22.0%	↑	$32.51	↑	(111,817)	↑	(587,722)	52,964,705	16.4%
B	31,689,349	27.0%	↑	$26.51	↓	(206,585)	↑	(302,824)	40,926,136	22.0%
C	6,804,007	21.0%	↓	$22.43	↑	16,801	↑	9,049	8,013,061	18.1%
Minneapolis CBD	22,636,832	26.7%	↑	$31.95	↑	(131,277)	↓	(384,525)	26,326,306	24.5%
A	14,243,494	22.4%	↑	$34.81	↑	(171,421)	↓	(344,629)	16,595,029	19.2%
B	6,897,604	36.3%	↑	$28.96	↑	7,408	↓	(71,416)	8,235,543	35.3%
C	1,495,734	23.8%	↑	$24.01	↑	32,736	↑	31,520	1,495,734	23.8%
North Loop	4,548,263	27.0%	↑	$29.68	↓	59,020	↑	91,352	7,696,490	15.9%
A	1,249,775	25.8%	↑	$45.89	↑	72,403	↑	128,479	3,068,520	10.5%
B	2,244,628	31.7%	↑	$28.52	↑	(8,182)	↑	(40,919)	3,574,110	19.9%
C	1,053,860	18.3%	↓	$24.23	↑	(5,201)	↓	3,792	1,053,860	18.3%
394	12,182,184	17.9%	↑	$28.54	↑	(37,566)	↓	(199,657)	13,247,322	16.4%
A	6,198,940	18.8%	↓	$32.10	↑	5,817	↑	(184,393)	6,313,978	18.4%
B	4,935,192	18.3%	↑	$26.35	↑	(29,817)	↓	10,507	5,885,292	15.4%
C	1,048,052	10.3%	↑	$21.96	↑	(13,566)	↓	(25,771)	1,048,052	10.3%
494	17,651,553	25.6%	↑	$29.84	↑	(56,773)	↓	(251,856)	18,833,664	24.2%
A	9,678,788	25.2%	↑	$32.94	↑	(24,902)	↓	(210,039)	9,678,788	25.2%
B	6,940,588	26.7%	↑	$26.31	↑	(47,744)	↓	(68,527)	7,842,312	23.9%
C	1,032,177	22.9%	↑	$23.40	↑	15,873	↑	26,710	1,312,564	18.0%

Source: CBRE Research, Q3 2024.

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FIGURE 14: Minneapolis/St. Paul Office Market Statistics, Q3 2024 (cont. from previous page)

Submarket	MT Renatble Area (Sq. Ft.)	MT Direct Vacancy Rate	Y-o-Y Vacancy Trend	Avg Gross Asking Ls Rate	Y-o-Y Asking Rate Trend	Q3 Net Absorption (Sq. Ft.)	Y-o-Y Quarterly Absorption Trend	2024 YTD Net Absorption (Sq. Ft.)	Multi-Tenant and Single-Tenant Combined Stats	
									MT & ST Rentable Area (Sq. Ft.)	MT & ST Vacancy Rate
BEA	3,280,510	16.3%	↓	$25.83	↓	(19,569)	↑	(41,370)	9,260,615	6.2%
A	1,786,620	22.3%	↑	$27.25	↓	(4,722)	↑	(33,806)	7,089,426	5.9%
B	1,364,878	9.7%	↓	$23.08	↓	(17,469)	↑	(7,894)	1,468,153	9.0%
C	129,012	3.0%	↓	$21.91	↓	2,622	↑	330	703,036	3.1%
Midway	2,819,217	13.9%	↓	$23.65	↓	(30,807)	↓	(22,007)	3,089,664	15.0%
A	603,984	12.5%	↑	$25.48	↓	0	→	340	841,484	17.3%
B	1,749,019	15.2%	↓	$24.18	↓	(16,926)	↓	(2,110)	1,749,019	15.2%
C	466,214	10.9%	↓	$18.65	↓	(13,881)	↓	(20,237)	499,161	10.2%
Northeast	2,507,500	8.9%	↓	$27.10	↑	5,429	↑	(1,562)	3,057,654	7.3%
A	465,813	10.5%	↓	$27.60	↑	(4,558)	↓	12,299	465,813	10.5%
B	1,902,061	6.7%	↑	$28.14	↑	8,870	↑	(8,717)	2,452,215	5.2%
C	139,626	33.6%	↑	$22.52	↑	1,117	↑	(5,144)	139,626	33.6%
Northwest	1,374,588	22.5%	↓	$22.91	↑	2,508	↓	8,686	3,212,614	9.6%
A	244,850	13.5%	↑	$27.31	↑	(9,299)	↓	(10,618)	1,895,981	1.7%
B	851,663	25.9%	↓	$23.01	↑	11,807	↑	20,321	1,038,558	21.2%
C	278,075	20.2%	↓	$19.79	↑	0	↓	(1,017)	278,075	20.2%
St. Paul CBD	5,862,675	32.8%	↑	$24.34	↑	(134,009)	↓	(169,311)	8,729,562	22.4%
A	2,634,128	18.7%	↑	$26.71	↓	5,369	↑	10,407	3,189,128	15.5%
B	2,848,538	48.8%	↑	$22.72	↓	(139,982)	↓	(179,186)	5,160,425	27.6%
C	380,009	10.9%	↑	$31.84	↑	604	↓	(532)	380,009	10.9%
Suburban St. Paul	4,790,496	25.7%	↓	$22.99	↑	41,443	↑	88,753	8,450,011	14.6%
A	2,054,070	22.3%	↓	$25.54	↑	19,496	↑	44,238	3,826,558	12.0%
B	1,955,178	22.2%	↑	$23.77	↑	25,450	↑	45,117	3,520,509	12.4%
C	781,248	43.2%	↓	$19.29	↓	(3,503)	↓	(602)	1,102,944	30.6%

Source: CBRE Research, Q3 2024.

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National Economic Overview

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is steady and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a downturn in the labor market, although the recent bump in unemployment appears mainly driven by an increase in participation.

One reason for concern is the decline in the share of private industries that are creating jobs. The labor market has slowed but it is not slumping, and companies are not letting workers go at a particularly high rate.

While many are focused on November's election, the most consequential policy lever has already been pulled via the FOMC's 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

Minneapolis/St. Paul Employment Update

▲ 3.9%
Unemployment Rate

▼ 2.0M
Labor Force

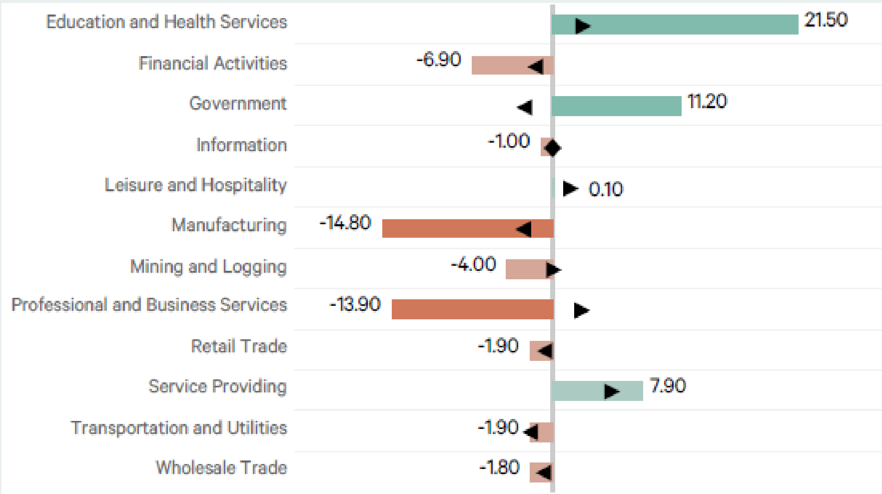
▲ 458.4k
Office Using Jobs

▲ 543.7k
Industrial Using Jobs

▼ 260.7k
Retail Using Jobs

Employment Change by Sector – Yearly + Monthly

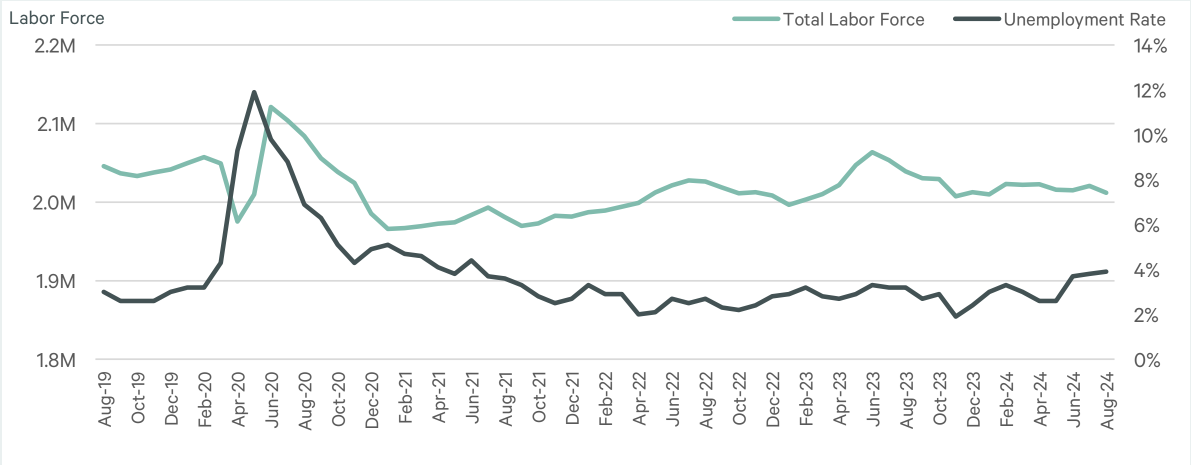
Bars indicate yearly trend, arrows indicate monthly trend



Note: Arrows indicate month-over-month change.

Source: US BLS, August 2024

Minneapolis/St. Paul Unemployment Rate and Labor Force Trends



Source: US BLS, August 2024

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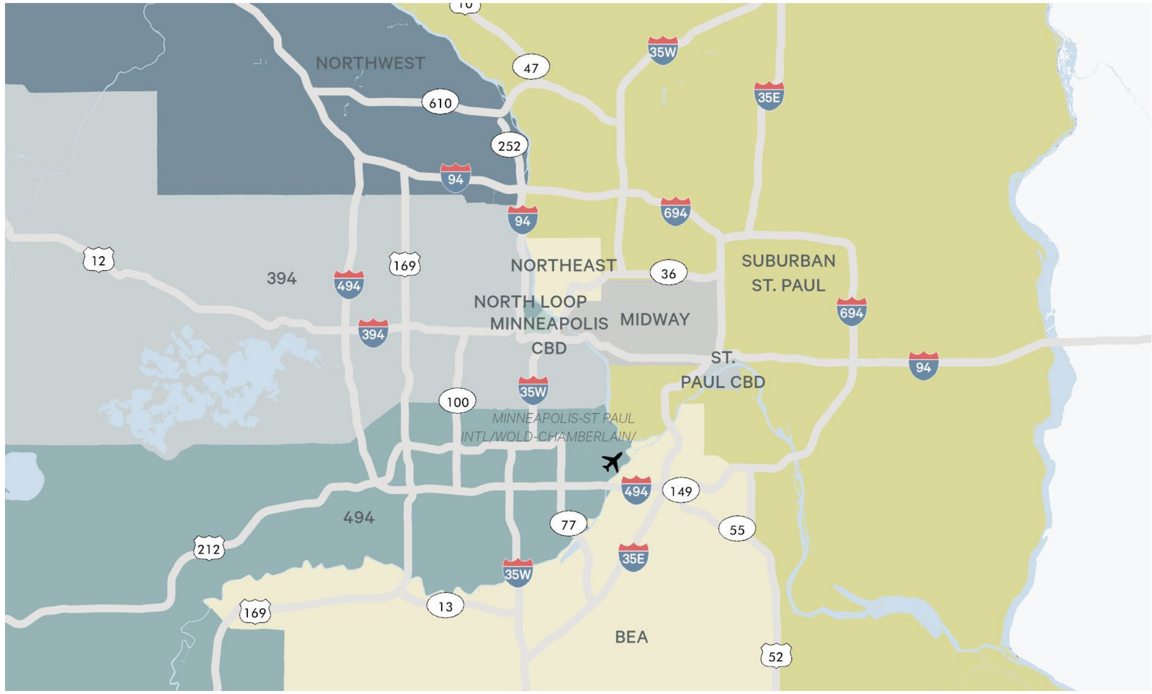
Market Area Overview



Definitions

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

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.

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