

Economic Overview

According to the Bureau of Labor Statistics, the unemployment rate increased 0.3 percentage points from 3.9% in January 2016 to 4.2% in January 2017. This is higher than Minnesota (4.0%) but compares favorably to the US (4.8%). The Mpls-St Paul metropolitan statistical area nonfarm job creation totaled 27,900 over the past year. Office using jobs (information, professional and business services and financial activities) added 7,700 jobs during the past year.

Market Overview

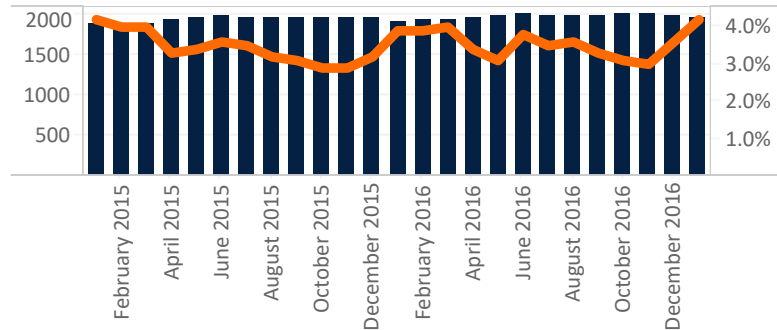
The Mpls-St Paul office market recorded 277,560 square feet of negative absorption during 1Q 2017. The total vacancy rate has increased from 14.8% in 1Q 2016 to 17.1% at the close of first quarter 2017. Direct vacancy rates increased 2.1 percentage points from 14.5% to 16.6% during the same time period. Weighted average rent growth continue to improve during 1Q 2017 especially in Class A properties in Mpls CBD northloop. Weighted average asking rents in all classes decreased 1% recording \$25.07 per square foot (psf) at the close of 1Q 2017 compared to 1Q 2016. Class A weighted average rents improved 0.3% year-over-year, recording \$31.08 psf at the close of 1Q 2017. Class C rents declined 1.5% year-over-year, recording \$18.43 psf at the close of 1Q 2017.

Market Highlights

Mpls-St Paul market recorded the last three quarters of negative absorption primarily due to companies moving from multi-tenant properties to single tenant properties. This trend has slowed down for 1Q 2017 although Wells Fargo vacated another 50,000 sf. The newer large occupancies will be offset in the future by the tenants vacating later in 2017. Cray relocated to 90,000 sf in southeast market but is expected to vacate their current space in St Paul during 2Q 2017. Van Wagenen leased 47,000 sf in the southwest market as they vacate their industrial building later in 2017. Bassford Remele made 14,000 sf positive gains for Mpls CBD as they leased 39,000 sf while vacating 25,000 sf. Class A in southwest market posted the most negative absorption with 158,000 sf as 8 tenants vacated two bldgs in Normandale Towers.

Mpls-St Paul Employment

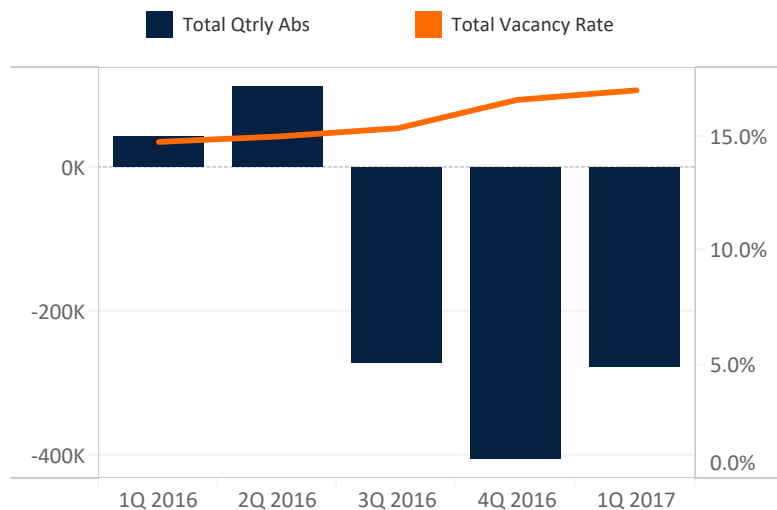
Source: BLS



Market Recap

Inventory (sf)	80,156,559
# of Bldgs	652
Qrtly Abs (sf)	-277,560
Total Avail Rate	20.8%
Total Vacancy Rate	17.1%
U/C Inventory (sf)	1,506,461
Delivered (sf)	23,100
Weighted Average Asking Rate (FSG)	\$25.07

Absorption and Vacancy Rate



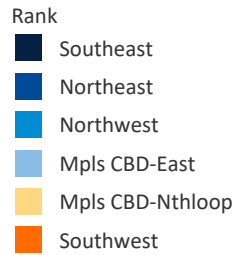
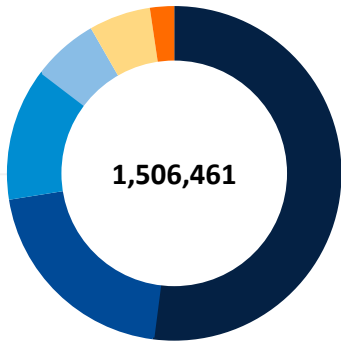
Overview by Class (Total)

Class	Inventory (sf)	Available (sf)	Vacant (sf)	Total	Qrtly Abs (sf)	YTD Net Abs (sf)
A	32,637,100	6,641,121	5,291,146	16.2%	-110,469	-110,469
B	43,125,250	9,206,536	7,670,855	17.8%	-128,224	-128,224
C	4,394,209	799,202	713,680	16.2%	-38,867	-38,867
Overall	80,156,559	16,646,859	13,675,681	17.1%	-277,560	-277,560

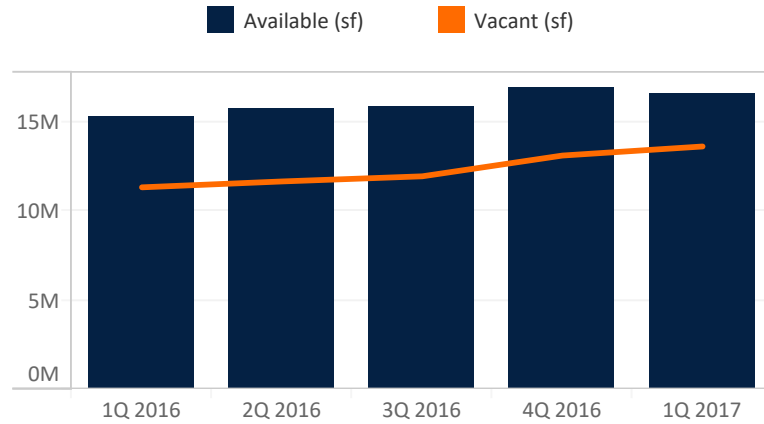
Overview by Market (Total)

Market Name	Class	Inventory (sf)	Available (sf)	Vacant (sf)	Total	Qrtly Abs (sf)	YTD Net Abs (sf)
Mpls CBD-Core	A	14,854,907	2,377,771	2,293,018	15.4%	4,610	4,610
	B	6,168,764	2,012,183	1,945,059	31.5%	19,452	19,452
	C	961,416	249,563	214,163	22.3%	-3,240	-3,240
Mpls CBD-East	A	387,907	111,071	163,400	42.1%	0	0
	B	280,000	10,340	10,340	3.7%	-5,043	-5,043
	C	131,797	1,955	0	0.0%	0	0
Mpls CBD-Loring	B	162,561	9,755	4,042	2.5%	-4,042	-4,042
Mpls CBD-NE	A	200,739	127,670	127,670	63.6%	12,886	12,886
	B	1,789,743	231,131	192,029	10.7%	190	190
	C	148,181	19,131	14,000	9.4%	0	0
Mpls CBD-Nthloop	A	966,782	143,670	250,222	25.9%	2,549	2,549
	B	752,419	132,404	114,171	15.2%	-14,318	-14,318
	C	108,759	18,900	17,000	15.6%	-17,000	-17,000
Mpls CBD-Whse	A	434,333	0	93,390	21.5%	0	0
	B	1,555,491	356,317	178,385	11.5%	-38,228	-38,228
	C	56,000	0	0	0.0%	0	0
Northeast	A	925,289	289,220	286,489	31.0%	6,494	6,494
	B	5,805,015	1,339,941	1,015,425	17.5%	11,241	11,241
	C	470,098	88,166	93,633	19.9%	-4,739	-4,739
Northwest	A	509,685	195,200	49,740	9.8%	-1,103	-1,103
	B	3,002,842	412,884	372,903	12.4%	-45,895	-45,895
	C	433,296	66,988	58,439	13.5%	6,692	6,692
Southeast	A	1,135,262	227,439	155,174	13.7%	84,995	84,995
	B	5,581,621	1,118,391	962,961	17.3%	-41,233	-41,233
	C	933,773	175,608	174,456	18.7%	-4,629	-4,629
Southwest	A	7,051,519	2,075,180	1,133,520	16.1%	-155,986	-155,986
	B	9,055,252	1,926,259	1,628,323	18.0%	66,806	66,806
	C	521,104	86,376	82,359	15.8%	-12,941	-12,941
St Paul CBD	A	2,500,065	499,540	308,765	12.4%	1,037	1,037
	B	4,092,889	859,002	672,399	16.4%	-21,740	-21,740
	C	519,818	80,507	47,622	9.2%	-3,010	-3,010
West	A	3,670,612	594,360	429,758	11.7%	-65,951	-65,951
	B	4,878,653	797,929	574,818	11.8%	-55,414	-55,414
	C	109,967	12,008	12,008	10.9%	0	0
Overall		80,156,559	16,646,859	13,675,681	17.1%	-277,560	-277,560

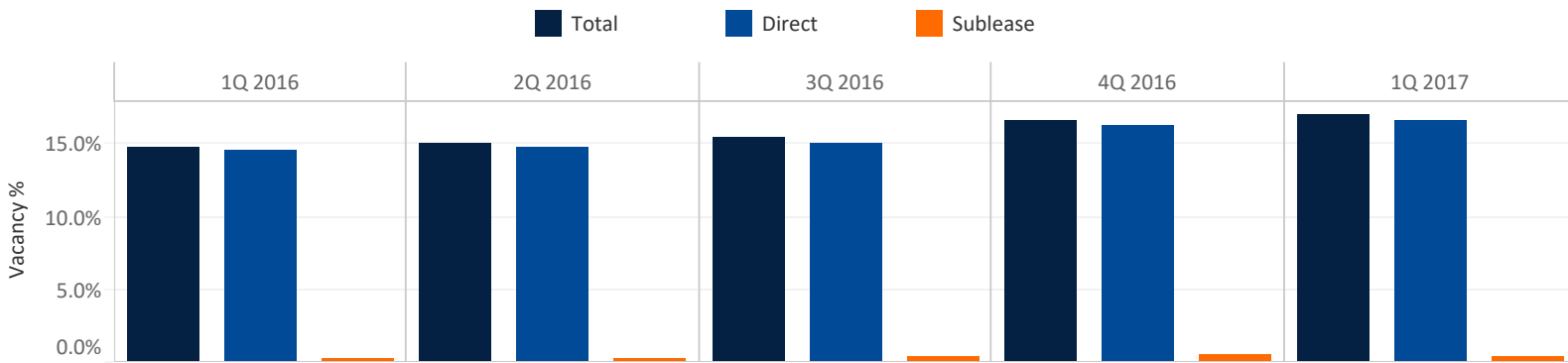
Construction by Market



Total Available and Vacant



Vacancy Rate



Overview by Class (Direct)

Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	32,637,100	6,075,571	5,191,087	15.9%	-138,326	-138,326
B	43,125,250	8,854,332	7,422,240	17.2%	-138,697	-137,109
C	4,394,209	780,277	708,038	16.1%	-33,225	-33,225
Overall	80,156,559	15,710,180	13,321,365	16.6%	-310,248	-308,660

Overview by Class (Sublease)

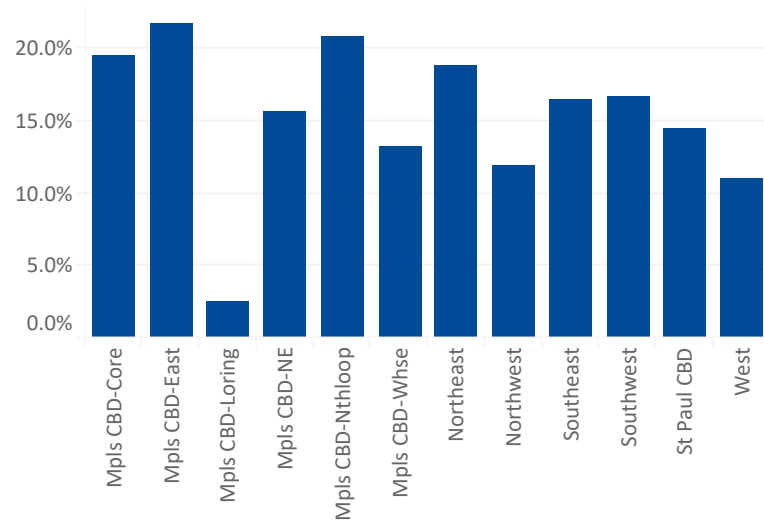
Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	32,637,100	565,550	100,059	0.3%	27,857	27,857
B	43,125,250	352,204	248,615	0.6%	10,473	8,885
C	4,394,209	18,925	5,642	0.1%	-5,642	-5,642
Overall	80,156,559	936,679	354,316	0.4%	32,688	31,100

Direct Vacancy Rates

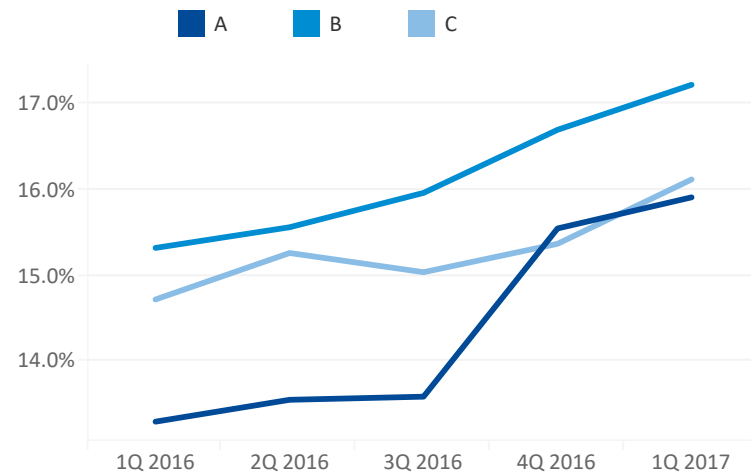
By Market and Class

Market Name	Class	Quarter Year				
		1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017
Mpls CBD-Core	A	12.5%	13.2%	12.9%	15.3%	15.2%
	B	18.2%	18.0%	21.8%	28.4%	29.7%
	C	19.7%	22.5%	22.2%	21.9%	21.9%
Mpls CBD-East	A	0.0%	0.0%	0.0%	42.1%	42.1%
	B	3.5%	2.9%	1.9%	1.9%	3.7%
	C	1.5%	1.5%	0.0%	0.0%	0.0%
Mpls CBD-Loring	B	21.4%	21.4%	17.6%	0.0%	2.5%
Mpls CBD-NE	A	71.2%	71.2%	71.2%	70.0%	63.6%
	B	14.0%	13.2%	11.1%	11.3%	10.7%
	C	26.3%	9.4%	9.4%	9.4%	9.4%
Mpls CBD-Nthloop	A	4.4%	3.2%	6.3%	26.1%	25.7%
	B	10.7%	10.1%	11.6%	13.3%	15.2%
	C	2.9%	2.9%	2.9%	0.0%	15.6%
Mpls CBD-Whse	A	21.5%	21.5%	21.5%	21.5%	21.5%
	B	9.3%	9.1%	9.5%	9.0%	11.5%
	C	0.0%	0.0%	0.0%	0.0%	0.0%
Northeast	A	34.2%	33.0%	32.8%	31.7%	31.0%
	B	14.0%	13.5%	15.2%	16.7%	16.9%
	C	14.7%	15.1%	13.7%	18.9%	19.9%
Northwest	A	14.6%	13.4%	13.1%	9.5%	9.8%
	B	14.3%	14.1%	12.9%	10.7%	12.1%
	C	14.1%	16.3%	16.3%	15.0%	13.5%
Southeast	A	20.0%	19.3%	19.6%	19.7%	12.2%
	B	16.7%	17.2%	17.0%	16.8%	17.0%
	C	20.1%	19.4%	18.7%	18.1%	18.7%
Southwest	A	12.6%	12.8%	13.4%	13.7%	16.0%
	B	17.7%	18.2%	18.3%	18.0%	17.4%
	C	11.4%	11.4%	12.8%	13.3%	15.5%
St Paul CBD	A	11.4%	10.6%	10.7%	10.3%	12.4%
	B	17.0%	16.5%	15.9%	15.8%	16.4%
	C	7.4%	8.6%	8.7%	9.4%	9.2%
West	A	9.7%	10.3%	9.9%	9.5%	10.6%
	B	9.6%	12.5%	11.4%	10.3%	11.4%
	C	14.3%	11.5%	11.1%	10.9%	10.9%
Overall		14.5%	14.8%	15.0%	16.2%	16.6%

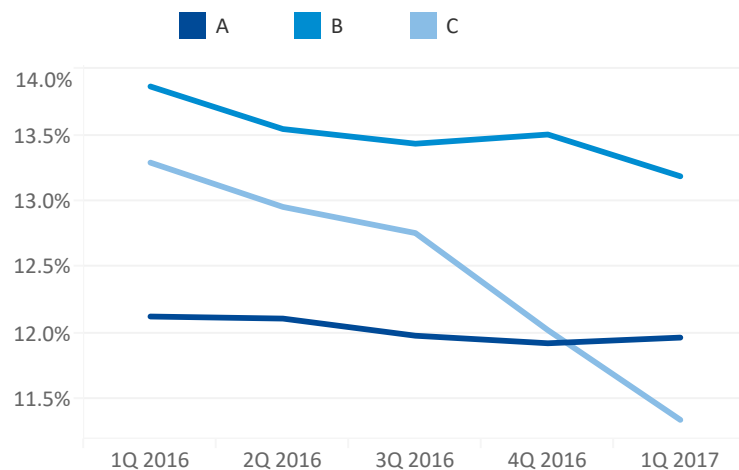
By Market



Mpls-St Paul by Class



National by Class

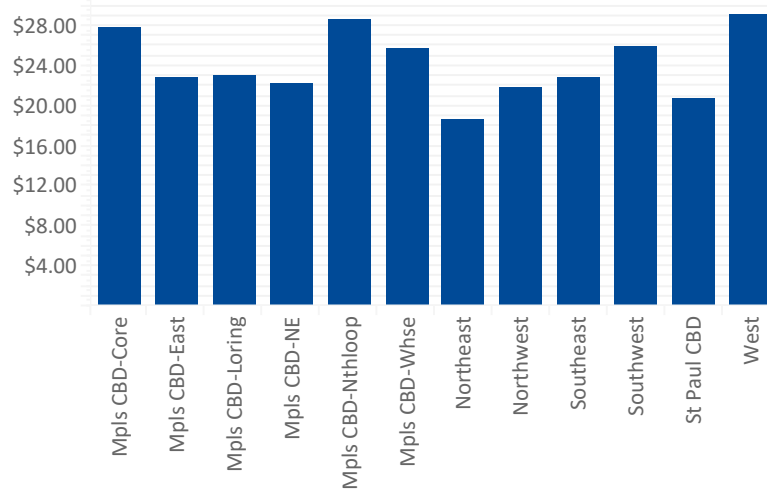


Direct Weighted Average Asking Rates (FSG)

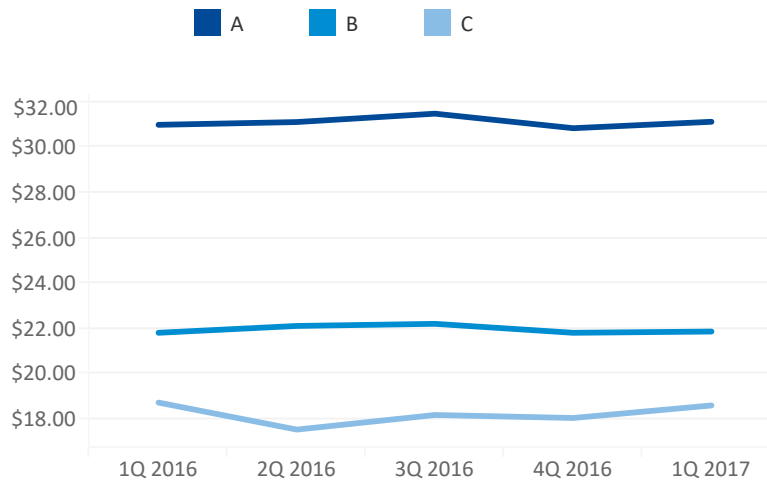
By Market and Class

Market Name	Class	Quarter Year				
		1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017
Mpls CBD-Core	A	\$32.04	\$32.76	\$33.08	\$32.34	\$32.15
	B	\$23.57	\$24.98	\$25.84	\$22.78	\$22.87
	C	\$22.20	\$22.31	\$22.64	\$22.64	\$22.76
Mpls CBD-East	A	\$26.53	\$26.53	\$26.53	\$26.53	\$27.22
	B	\$21.66	\$21.53	\$21.23	\$21.67	\$21.00
	C	\$24.18	\$24.18	\$14.00	\$14.00	\$25.81
Mpls CBD-Loring	B	\$21.86	\$21.86	\$23.00	\$23.00	\$23.00
Mpls CBD-NE	A	\$25.22	\$25.57	\$25.57	\$25.57	\$25.57
	B	\$21.88	\$21.24	\$20.73	\$20.38	\$20.31
Mpls CBD-Nthloop	A	\$27.81	\$28.81	\$28.81	\$31.55	\$31.19
	B	\$22.67	\$22.76	\$22.97	\$23.10	\$25.78
	C	\$23.17	\$29.67	\$31.17	-	\$31.34
Mpls CBD-Whse	A	\$31.59	\$31.59	\$31.59	-	-
	B	\$24.70	\$25.03	\$24.97	\$24.86	\$25.75
	C	\$27.09	-	-	-	-
Northeast	A	\$24.96	\$25.23	\$25.03	\$24.84	\$24.99
	B	\$19.83	\$20.46	\$18.69	\$18.83	\$18.63
	C	\$12.92	\$13.03	\$13.13	\$14.59	\$14.50
Northwest	A	\$27.54	\$27.54	\$27.54	\$26.36	\$26.55
	B	\$19.75	\$19.08	\$19.35	\$19.14	\$19.55
	C	\$15.28	\$15.80	\$15.84	\$15.77	\$16.44
Southeast	A	\$31.50	\$30.43	\$30.22	\$30.07	\$32.14
	B	\$20.62	\$20.86	\$20.76	\$21.16	\$21.26
	C	\$18.74	\$17.09	\$18.82	\$18.80	\$18.65
Southwest	A	\$32.91	\$32.67	\$32.75	\$31.66	\$31.86
	B	\$22.93	\$22.89	\$22.93	\$23.08	\$23.02
	C	\$17.97	\$17.76	\$17.95	\$17.92	\$18.42
St Paul CBD	A	\$22.90	\$23.25	\$23.28	\$23.29	\$23.42
	B	\$18.12	\$19.85	\$19.97	\$19.88	\$20.16
	C	\$12.58	\$12.81	\$13.09	\$12.94	\$13.88
West	A	\$34.98	\$35.28	\$34.62	\$34.59	\$35.15
	B	\$25.58	\$23.09	\$23.15	\$23.29	\$22.94
	C	\$18.53	\$19.23	\$19.34	\$19.33	\$19.47
Overall		\$25.30	\$25.04	\$25.25	\$24.78	\$25.07

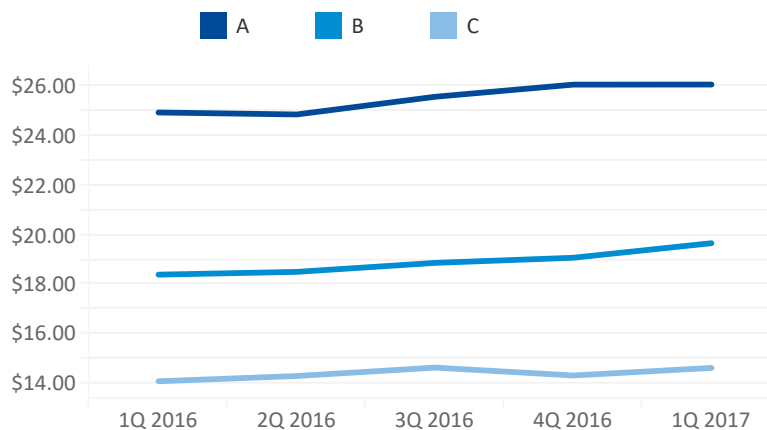
By Market



Mpls-St Paul by Class

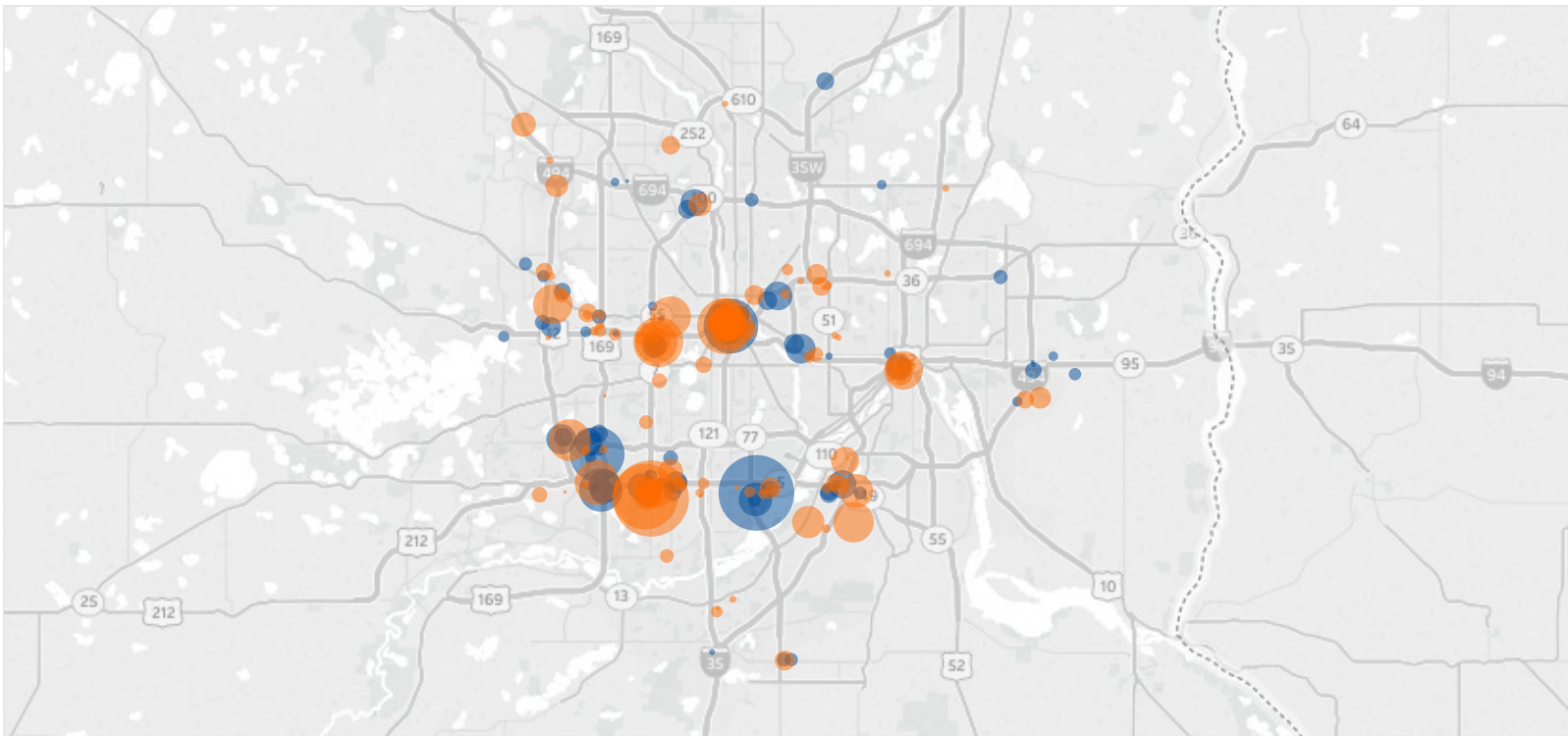


National by Class



Absorption Map

● Negative
 ● Positive



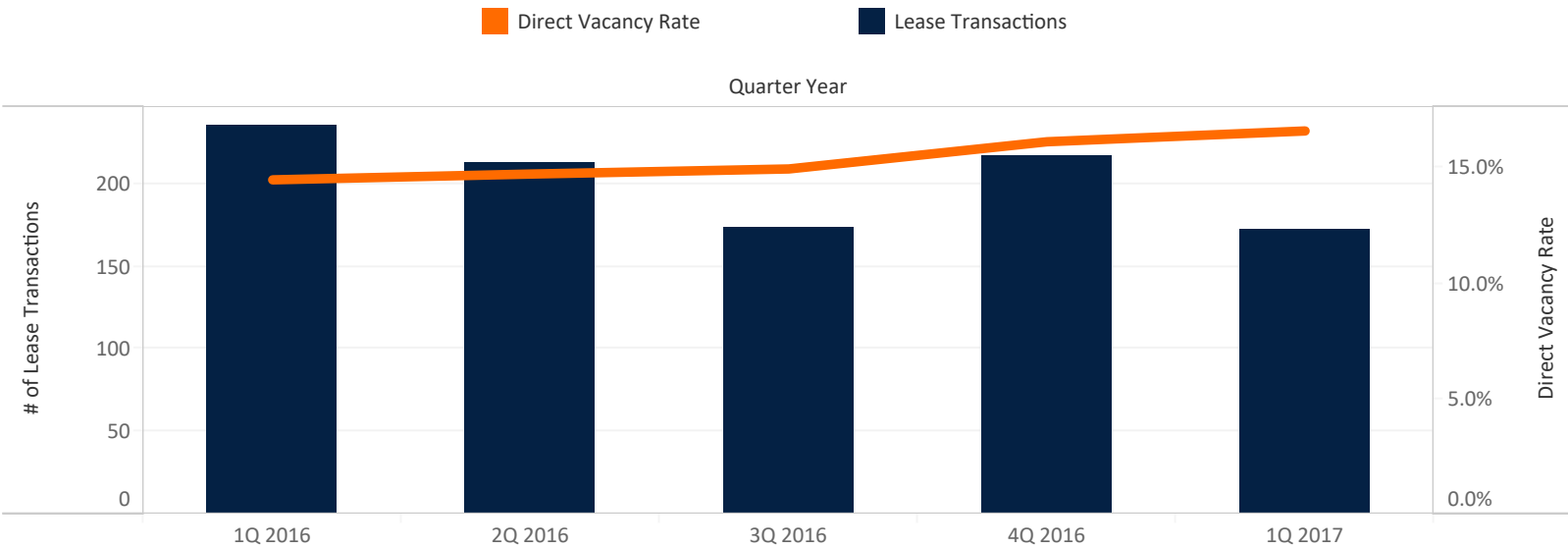
Largest Positives (Direct)

Property Name	Significant Transactions	Market Name	Class	
The Offices @ MOA	Cray	Southeast	A	89,481
Superior Office Center	Van Wagenen	Southwest	B	46,946
Fifth Street Towers	Bassford Remele; Nina Hale; Impark and Wedbush	Mpls CBD-Core	A	46,778
Anderson Lakes Center	Christiansen Group	Southwest	B	29,693
BLN Office Park II	FEMA and Performance Institute for Men	Southeast	B	17,589
RBC Plaza Office	Kutak Rock; GHR Foundation and Arbor Capital	Mpls CBD-Core	A	17,168
Olympic Place	R3 Continuum; Grand Living and The management office	Southwest	B	17,016
100 Washington Square	Code42 lease and Special Olympics Minnesota vacancy	Mpls CBD-Core	B	15,294

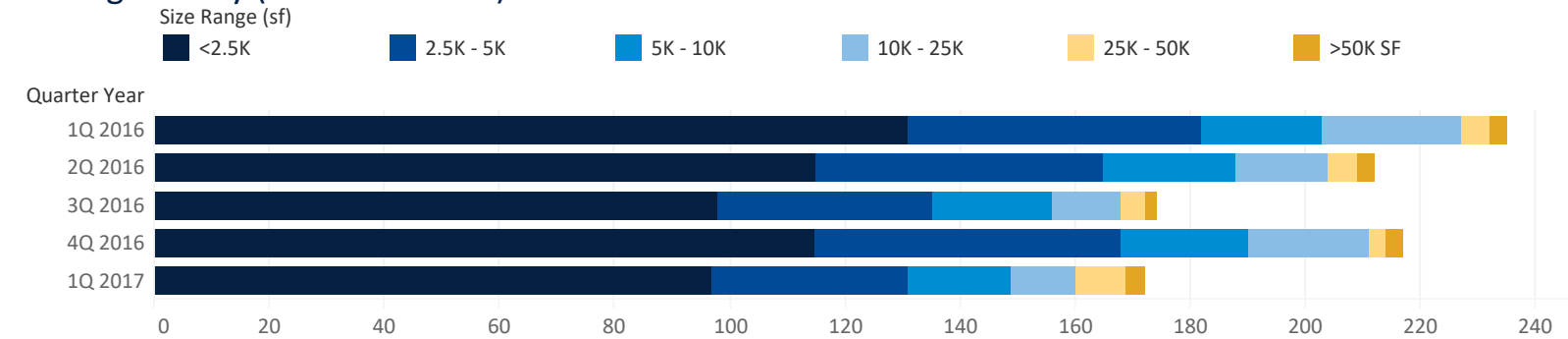
Largest Negatives (Direct)

Property Name	Significant Transactions	Market Name	Class	
Normandale 8000 Tower	Weber Shandwick; Siteimprove, Inc; Oracle and FPX	Southwest	A	-90,639
Normandale 8500 Tower	Verde; CA Inc; Gallup, Inc and Hollingsworth Davis	Southwest	A	-67,360
33 S 6th	Bassford Remele and Peterson Habicht	Mpls CBD-Core	A	-49,233
West End Center	CPP North America and Swat Solutions	West	B	-39,223
Oakview Office Building	Park Nicollet	Southwest	B	-31,116
Wells Fargo Center	Jones Day lease and Wells Fargo divisions vacancy	Mpls CBD-Core	A	-28,054
1600 Tower at West End	Regency Beauty Institute	West	A	-27,833
Whitewater Business Center	Scout Media	Southwest	B	-27,295

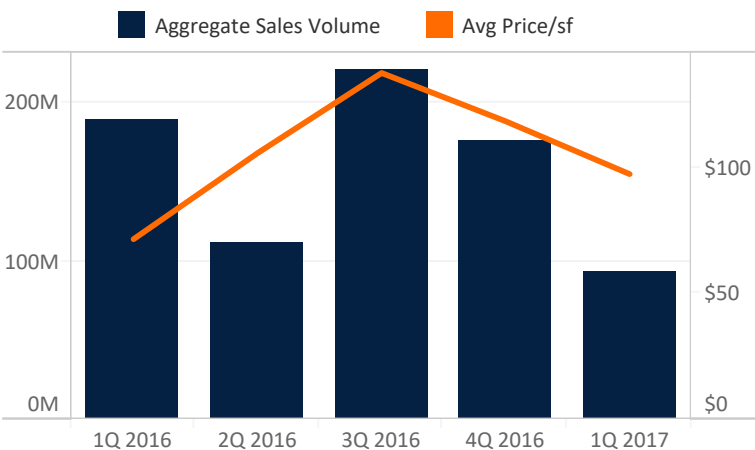
Leasing Activity Trends



Leasing Activity (# of New Deals)



Sales Volume vs. Price/SF



Top Sales

Property	Sale Date	Buyer	Sale Price
Rosedale Corporate Plaza - C	01/13/2017	Essjay MSPN LLC	\$18,900,000
Wirth Park Corporate Center III	03/01/2017	Mortenson Development	\$8,340,000
Crosstown Corporate Center	03/15/2017	Atlas Property Investments	\$8,175,000
1600 Medical Building	03/06/2017	HealthEast	\$5,919,064
Crosstown Office Center	02/13/2017	River Valley Church of Apple Valley	\$5,140,000

Terminology

Term	Definition
Class A	Most prestigious buildings competing for premier office users with asking rents above the market average. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.
Class B	Buildings competing for a wide range of office users with average asking rents. Building finishes are fair to good for the area and systems are adequate, but the property does not compete with Class A product.
Class C	Buildings competing for office users requiring functional office space with asking rents below the market average for the area.
Direct Vacant (sf)	The total of the vacant square footage in a building that is being marketed by an agent representing the landlord.
Inventory	The total square feet (sf) of all existing multi-tenant buildings greater than 20,000 sf or are part of a complex that totals greater than 20,000 sf located in Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington Counties. Medical and Government properties are excluded.
Net Absorption	The net change in occupancy from quarter to quarter, expressed in square feet.
Sublease Space	Space that is offered for lease by a current tenant, or his agent, within a property. Whether the tenant is paying rent or not, the space is considered vacant only if it is unoccupied.
Total Available (sf)	All of the available leasable space within a building, whether it is occupied or vacant, for direct lease or sublease space. Space can be available but not vacant, for example, if the landlord, or his agent, is marketing space that will be coming available at a future date because a tenant is planning to move.
Total Vacant (sf)	The total of all the vacant square feet within a building based on fiscal vacancy.
Weighted Average Rents	The weighted average of all direct asking lease rents expressed as a full service/gross rental rate and weighted on total direct available square feet. Non-full service rents (such as NNN) have been grossed up to reflect a full service/gross rate.
Xceligent Partner	MNCAR

This information has been obtained from sources believed 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 independently confirm its accuracy.

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