MNCAR | MINNESOTA COMMERCIAL ASSOCIATION OF REAL ESTATE/REALTORS®

REDI

MARKET TRENDS

Q4 2018 | Mpls-St Paul | Office

Employment

	Current	Y-o-Y
Employment	1,966,722	
Area Unemployment	2.0	
U.S. Unemployment	3.8	
Office Jobs	513,400	

Source: BLS

*Employment figures and area unemployment are based on Mpls-St Paul MSA data.

Market Recap

Total Inventory (sf)	95,394,066
Total # of Bldgs	794
Availability	16.5%
Vacancy	14.6%
Asking Rate (FSG)	$24.29
Under Construction (sf)	2,233,654

Economic Overview

According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Mpls-St Paul metropolitan statistical area (MSA) decreased 50 basis points from 2.5% in November 2017 to 2.0% in November 2018. The unemployment rate for the US was at 3.8% in October 2018, up from 2.8% for the state of Minnesota. The Mpls-St Paul MSA saw an increase in office job growth, professional, financial and information growing by 6,600 during the same period.

Market Overview

The Mpls-St Paul office market, consisting of over 95 msf of space in seven counties across the metro posting an availability rate of 16.5% for Q4 2018. The vacancy rate for the market stands at 14.6% to close out 2018. The average asking lease rate for Mpls-St Paul came in at $24.29 psf FSG. To date, there are over 12 construction projects throughout the market, totaling just over 2.2 msf.

Market Highlights

At the close of Q4 2018, the market experienced over 1.3 msf of leasing activity and the vacancy rate finished the year at 14.6% in total. Class A properties ended the year at 11.8% with the Mpls CBD Core market posting the lowest rate at 9.7% for class A properties. The top five lease transactions accounted for over 342,788 sf throughout Mpls-St Paul with the largest leased space for Tactile Systems Technology leasing 100,000 sf in the West market.

Market Statistics by Submarkets

Submarket	Class	# of Buildings	Total Building SF	Total Available (SF)	Total Vacant (SF)	Average FSG ($)	Vacancy Rate
Mpls CBD Core	A	23	17,035,433	2,301,407	1,656,821	34.37	9.7%
	B	27	8,241,531	1,364,337	1,433,694	27.17	17.4%
	C	10	968,092	169,478	207,842	25.02	21.5%
Mpls CBD Core Total		**60**	**26,245,056**	**3,835,222**	**3,298,357**	**30.24**	**12.6%**
Mpls CBD Northeast	A	1	191,610	26,331	26,331	26.07	13.7%
	B	23	2,144,817	379,613	338,120	23.03	15.8%
	C	3	293,430	8,716	3,585	26.15	1.2%
Mpls CBD Northeast Total		**27**	**2,629,857**	**414,660**	**368,036**	**23.36**	**14.0%**
Mpls CBD Northloop	A	4	1,022,934	186,165	141,930	36.23	13.9%
	B	14	812,662	232,453	194,686	25.82	24.0%
	C	2	202,300	17,345	17,345	25.43	8.6%
Mpls CBD Northloop Total		**20**	**2,037,896**	**435,963**	**353,961**	**29.08**	**17.4%**
Mpls CBD Warehouse	A	1	325,491				0.0%
	B	14	1,633,117	339,212	254,529	25.05	15.6%
	C	1	69,250				0.0%
Mpls CBD Warehouse Total		**16**	**2,027,858**	**339,212**	**254,529**	**25.05**	**12.6%**
Mpls CBD East	A	4	1,229,061	5,096	5,096		0.4%
	B	4	575,288	288,684	328,385	26.32	57.1%
	C	3	183,316	51,825	40,794	19.73	22.3%
Mpls CBD East Total		**11**	**1,987,665**	**345,605**	**374,275**	**22.56**	**18.8%**
Mpls CBD Loring	B	3	153,449	28,118	20,353	21.17	13.3%
	C	1	26,848				0.0%
Mpls CBD Loring Total		**4**	**180,297**	**28,118**	**20,353**	**21.17**	**11.3%**

Market Statistics by Submarkets Continued

Submarket	Class	# of Buildings	Total Building SF	Total Available (SF)	Total Vacant (SF)	Average FSG ($)	Vacancy Rate
Northeast	A	16	1,351,401	408,329	385,509	23.77	28.5%
	B	103	6,174,268	1,081,592	1,000,427	20.83	16.2%
	C	29	1,408,941	79,756	70,483	15.66	5.0%
Northeast Total		**148**	**8,934,610**	**1,569,677**	**1,456,419**	**20.55**	**16.3%**
Northwest	A	2	426,631	53,470	46,987	29.56	11.0%
	B	55	3,275,780	621,307	490,525	21.41	15.0%
	C	14	568,087	78,184	77,576	17.78	13.7%
Northwest Total		**71**	**4,270,498**	**752,961**	**615,088**	**21.11**	**14.4%**
Saint Paul CBD	A	10	3,720,812	532,730	501,175	23.45	13.5%
	B	25	5,419,166	860,334	1,098,583	19.13	20.3%
	C	6	814,423	158,637	152,783	20.01	18.8%
Saint Paul CBD Total		**41**	**9,954,401**	**1,551,701**	**1,752,541**	**21.29**	**17.6%**
Southeast	A	12	2,260,106	292,932	303,416	27.23	13.4%
	B	101	6,215,543	1,201,006	997,357	20.97	16.0%
	C	25	972,485	64,031	48,381	18.12	5.0%
Southeast Total		**138**	**9,448,134**	**1,557,969**	**1,349,154**	**21.24**	**14.3%**
Southwest	A	35	7,604,214	1,217,201	983,302	30.97	12.9%
	B	127	9,664,630	2,010,226	1,649,174	22.62	17.1%
	C	22	1,296,893	129,727	121,567	21.24	9.4%
Southwest Total		**184**	**18,565,737**	**3,357,154**	**2,754,043**	**25.00**	**14.8%**
West	A	14	3,213,907	699,259	486,138	36.06	15.1%
	B	53	5,324,577	829,585	449,765	26.81	8.4%
	C	7	573,573	22,911	413,202	25.28	72.0%
West Total		**74**	**9,112,057**	**1,551,755**	**1,349,105**	**29.26**	**14.8%**
Grand Total		**794**	**95,394,066**	**15,739,997**	**13,945,861**	**24.29**	**14.6%**

Market Statistics by Building Class

Total

Class	# of Buildings	Total Building Size (SF)	Total Available (SF)	Total Vacant (SF)	Vacancy Rate
A	122	38,381,600	5,722,920	4,536,705	11.8%
B	549	49,634,828	9,236,467	8,255,598	16.6%
C	123	7,377,638	780,610	1,153,558	15.6%
Grand Total	**794**	**95,394,066**	**15,739,997**	**13,945,861**	**14.6%**

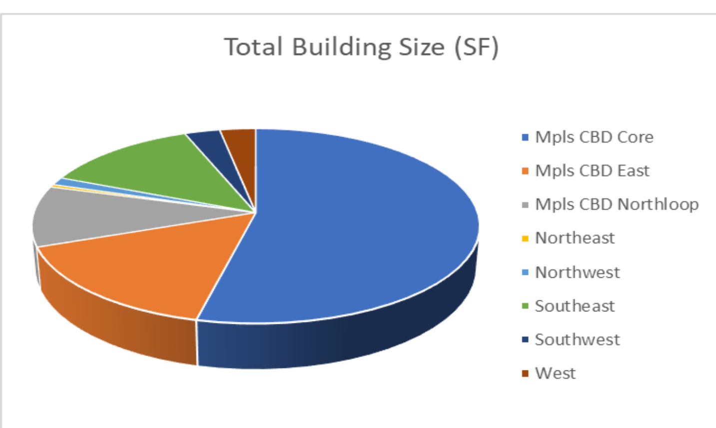
Direct

Class	# of Buildings	Total Building Size (SF)	Total Direct Avail (SF)	Total Direct Vacant (SF)	Vacancy Rate
A	122	38,381,600	5,294,214	4,404,733	11.5%
B	549	49,634,828	8,453,559	7,351,275	14.8%
C	123	7,377,638	767,994	1,111,609	15.1%
Grand Total	**794**	**95,394,066**	**14,515,767**	**12,867,617**	**13.5%**

Sublease

Class	# of Buildings	Total Building Size (SF)	Total Sublease Avail (SF)	Total Sublease Vacant (SF)	Vacancy Rate
A	122	38,381,600	428,706	131,972	0.3%
B	549	49,634,828	782,908	539,877	1.1%
C	123	7,377,638	15,741	6,710	0.1%
Grand Total	**794**	**95,394,066**	**1,227,355**	**678,559**	**0.7%**

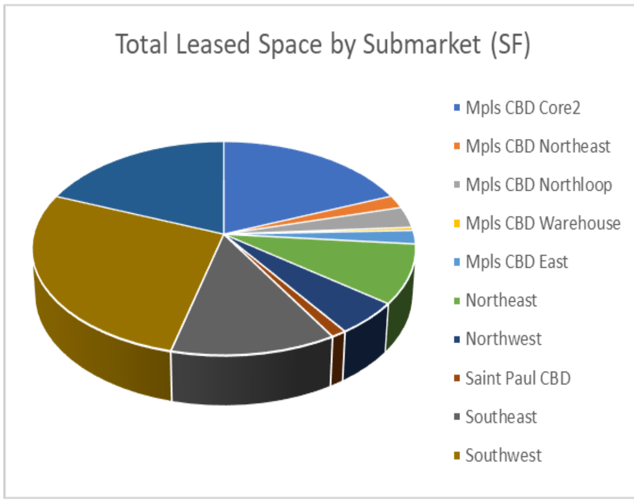
Construction by Submarket



Submarket	Total Building Size SF
Mpls CBD Core	1,200,000
Mpls CBD East	350,000
Mpls CBD Northloop	225,820
Northeast	10,000
Northwest	29,000
Southeast	288,000
Southwest	64,890
West	65,944
Grand Total	**2,233,654**

Leasing Activity

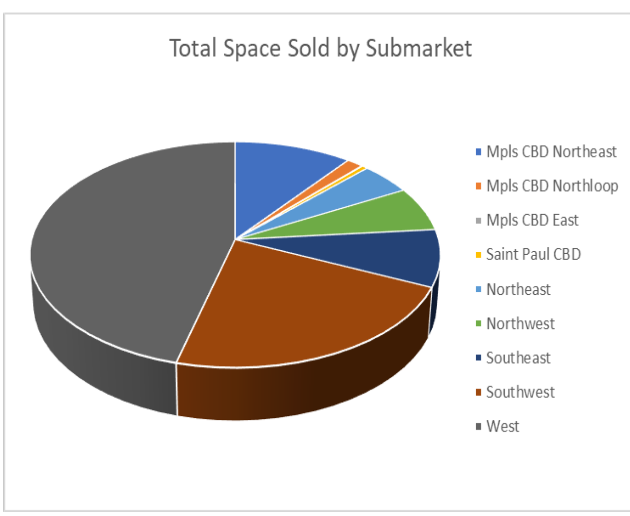
Property Name	Tenant	Occupancy	Submarket	Leased (SF)
Target West 3701 Wayzata Blvd	Tactile Systems Technology Inc	Q4 2019	West	100,000
Excelsior Crossing 9350 Excelsior Blvd	Element Fleet Management	Q3 2019	Southwest	73,330
Midway Innovation Center I & II 2340 Energy Park Dr	Alula	Q1 2019	Northeast	69,437
Excelsior Crossing 9350 Excelsior Blvd	Digi International	Q1 2019	Southwest	59,497
12600 Whitewater Dr	Accra	Q3 2019	Southwest	35,108



Submarket	Leased sf
Mpls CBD Core2	254,602
Mpls CBD Northeast	26,839
Mpls CBD Northloop	43,270
Mpls CBD Warehouse	6,291
Mpls CBD East	27,946
Northeast	121,081
Northwest	67,719
Saint Paul CBD	15,635
Southeast	167,404
Southwest	369,646
West	255,235

Sales Activity

Property Name	Buyer	Seller	Submarket	Sale Price ($)
Target Plaza III 950 Nicollet Mall	Menlo Equities	Union Investment Real Estate GmbH	Mpls CBD	171,000,000
West End Towers 1550-1600 Utica Ave S	Accesso Partners	DRA Advisors	West	115,500,000
Boulder Lakes Prime Therapeutics 2900 Ames Crossing Rd	Artis REIT	United Properties	Southwest	56,900,000
180 E 5th St	Gamma Real Estate	GRE 180 East Fifth LLC	St Paul CBD	51,995,000
Excelsior Crossings 9320 Excelsior Blvd	Piedmont Office Realty Trust Inc	Hines Global REIT	West	49,500,000



Submarket	Sale sf
Mpls CBD Northeast	216,087
Mpls CBD Northloop	30,000
Mpls CBD East	1,804
Saint Paul CBD	10,396
Northeast	94,434
Northwest	131,827
Southeast	168,058
Southwest	460,064
West	945,676

Methodology

The Mpls-St Paul market consists of multi-tenant office buildings 20,000 sf or larger or part of a complex larger than 20,000 sf. The geographic area includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties. The tracked set does not include medical or government properties. All tracked properties are existing. Statistically, net absorption will be calculated based on occupancy change during the current quarter. Asking lease rates are based on an average asking rate and noted on a FSG terms with Net type leases grossed up.

The Mpls-St Paul tracked set consists of an inventory of buildings considered to be competitive by the brokerage community. All buildings within the competitive tracked set have been reviewed and verified by members of the Advisory Boards for each market area.

Terminology

Inventory	The total square feet (sf) of 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.
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 including both direct and sublease space.
Direct Vacant (sf)	The total of the vacant square footage in a building that is being marketed by an agent representing the landlord.
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.
Net Absorption	The net change in occupancy from quarter to quarter, expressed in square feet.
Average Asking Rate	The average lease rated expressed as a per square foot value in FSG terms with Net type leases grossed up.

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