

3Q24

# Minneapolis-St. Paul Office Market Overview





# Market Observations



- Minneapolis benefits from the stability and vitality of a strong headquarters economy, home to 15 firms on the Fortune 500 list, the most per capita in the U.S. for a major metropolitan area. In addition, there are more than 320 Fortune 1000 companies with a local presence.
- The area has a historically low unemployment rate, consistently lower than the national rate. The unemployment rate is 3.8% as of August 2024, compared to the national rate of 4.2%.
- Office-using employment sectors have not returned to pre-pandemic levels. Information, financial activities and professional and business services declined annually by 3.5%, 4.6% and 4.6%, respectively.



## Leasing Market Fundamentals

- Absorption has been negative for 16 of the past 17 quarters. In Q3, absorption was negative 724,456 square feet, increasing the vacancy rate to 18.7%.
- Some tenants looking to downsize are choosing to pay termination fees to exit leases. With many needing to reduce their square footage by 50% or more, it can be more cost-effective to pay the fee and negotiate a smaller, less expensive lease, rather than trying to restructure their current one.
- While rents have remained relatively stable, tenant concessions are on the rise.
- Tenants are increasingly drawn to top-tier properties offering the best amenities.



## Major Transactions/Outlook

- Positive developments included KPMG and ESG Architecture & Design leasing 56,118 and 28,059 square feet, respectively, at the newly-constructed North Loop Green. However, this was offset by KPMG vacating 51,000 square feet at Wells Fargo Center, the State of Minnesota vacating 120,000 square feet at the Golden Rule Building in the St. Paul CBD due to remote work policies, and US Bank leaving 118,000 square feet as it consolidates operations in its Minneapolis CBD and Hopkins locations.
- DRA Advisors and City Center Realty Partners, owners of Wells Fargo Plaza in Bloomington, defaulted on a \$44.8 million loan in July. Hennepin County officials issued a legal notice to sell the 450,000 square foot building at an auction.
- Wold Architects are moving from the St. Paul CBD to the Minneapolis CBD. The company will move 250 workers from the First National Bank building to 50 South Sixth Street in the summer of 2025.
- A judge with the Hennepin County District Court appointed Lighthouse Management Group Inc. as receiver of the Dayton's Project after the property's lender sued to foreclose. Owner 601W Cos. completed a \$350 million renovation on the 1.2 million square foot property in 2021.
- Over the past 12+ months, landlords at 19 office properties totaling 8,326,821 square feet have fallen behind on mortgage payments, leading to the transfer of ownership to lenders.
- Of these properties, 73% are in central business districts (CBDs). With many additional properties in distress, more transfers are anticipated.
- The incoming surge of maturing loans could lead to additional distressed transactions that provide opportunities for new investors.

1. Economy
2. Leasing Market Fundamentals



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# Economy

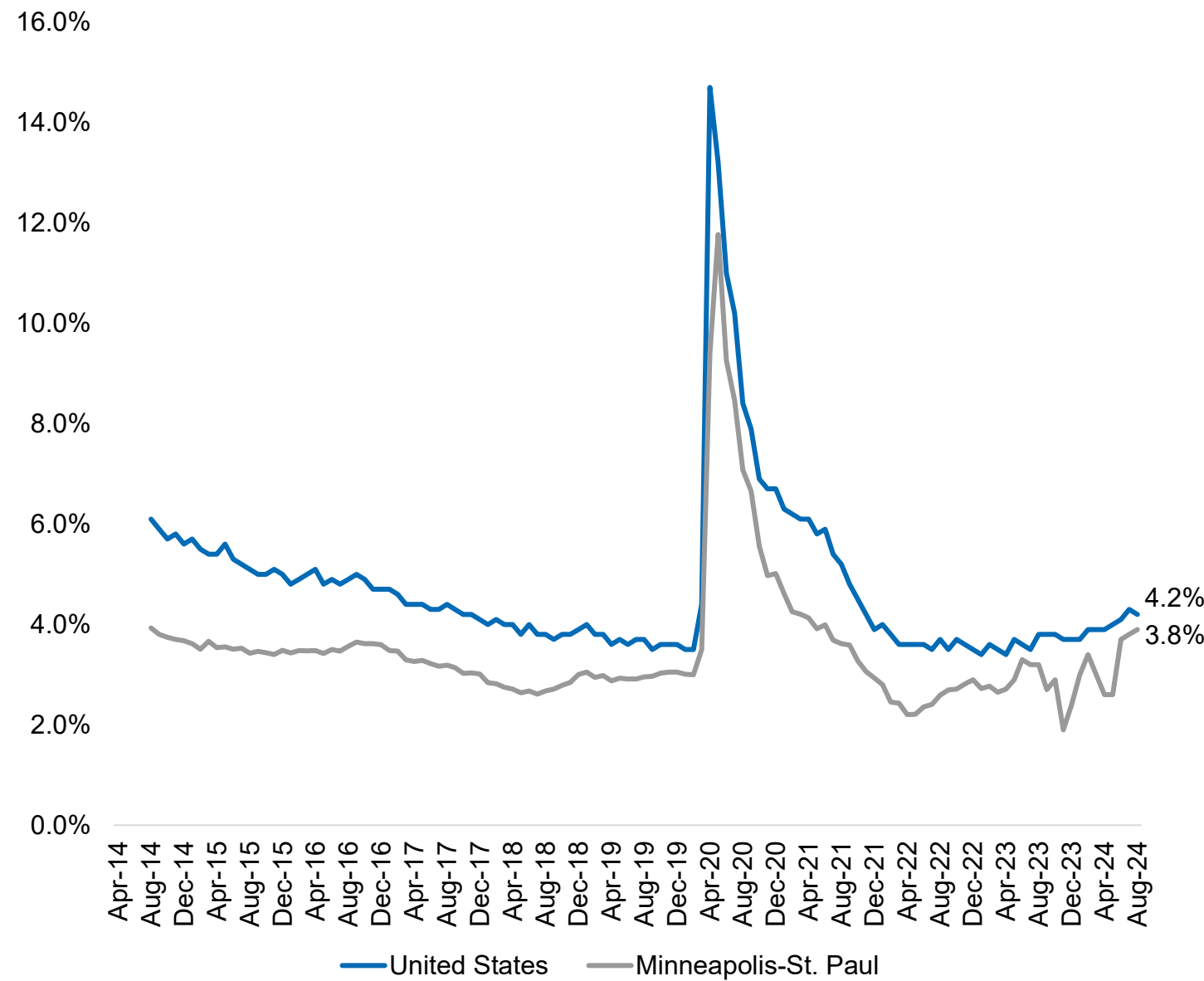




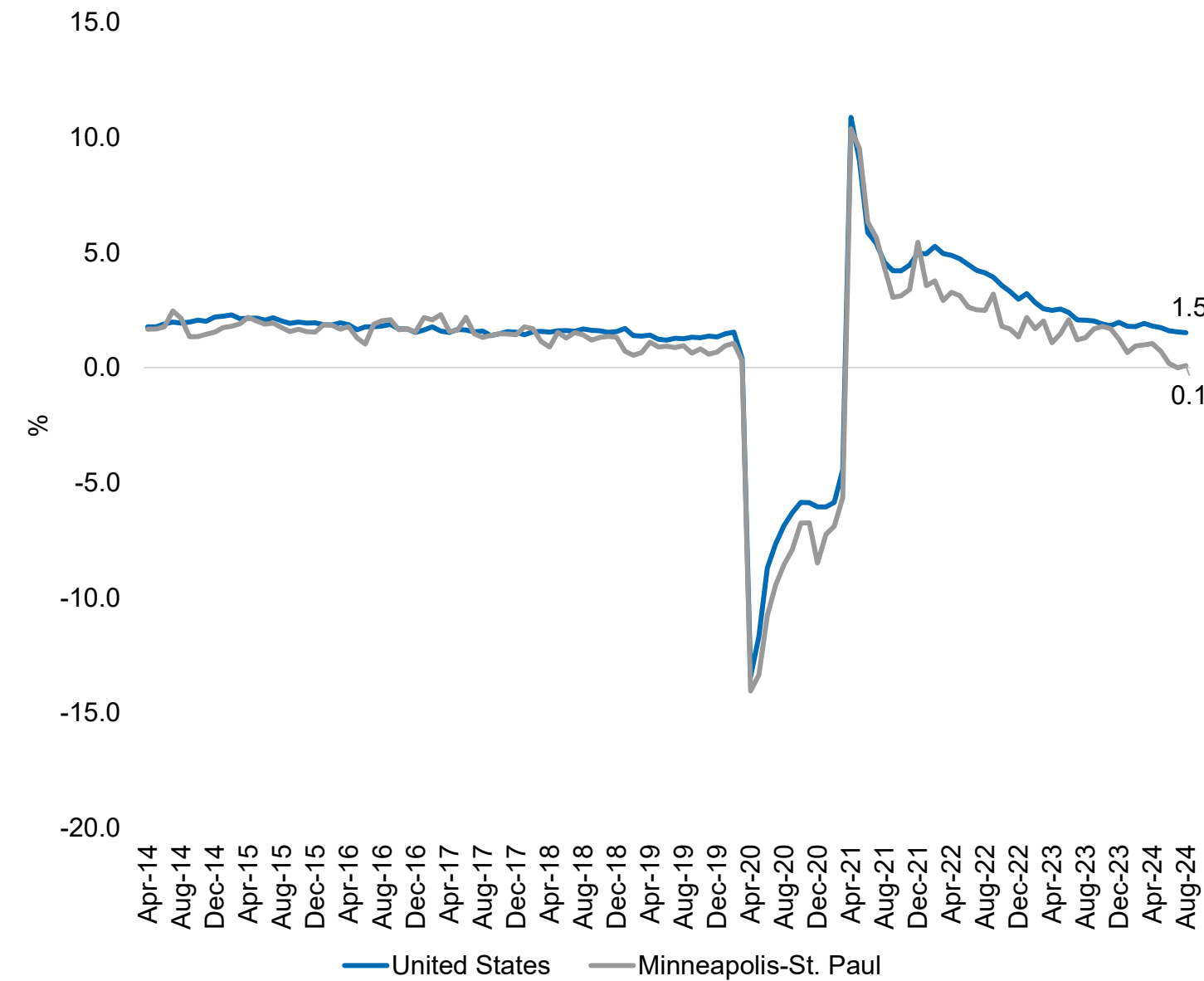
# Unemployment Up Nationally and Locally Over a Year Ago

Minneapolis-St. Paul's unemployment rate increased from 3.8% in July to 3.9% in August and is up from 3.2% in August of 2023. The U.S. unemployment rate stands at 4.2% compared to 3.8% in August of 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

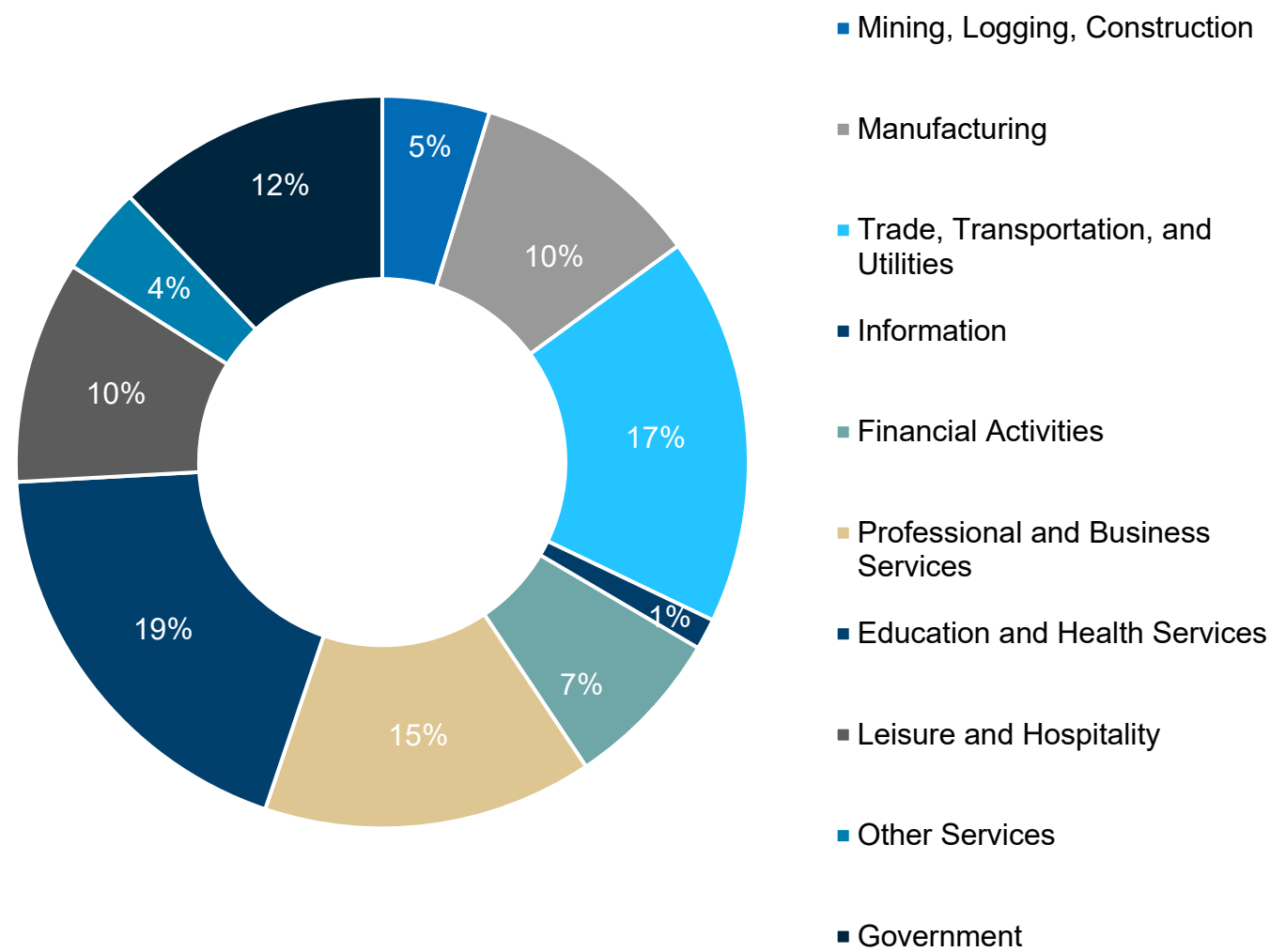


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

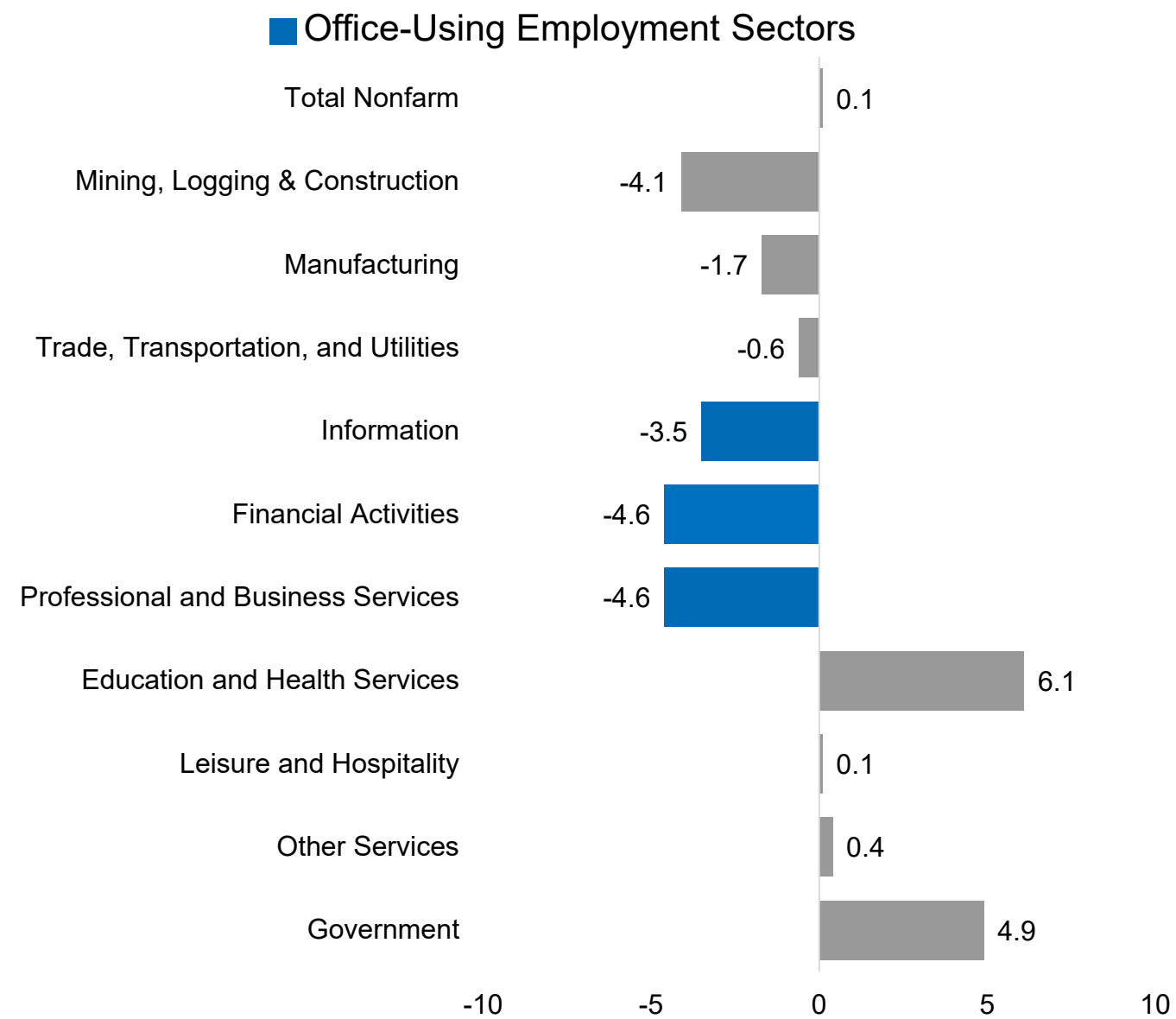
# 12-month Office-Using Employment Continues its Decline

Education and Health Services at 6.1% and Government at 4.9% are the only sectors that saw significant positive 12-month growth. All office sectors saw declines.

Employment by Industry, August, 2024



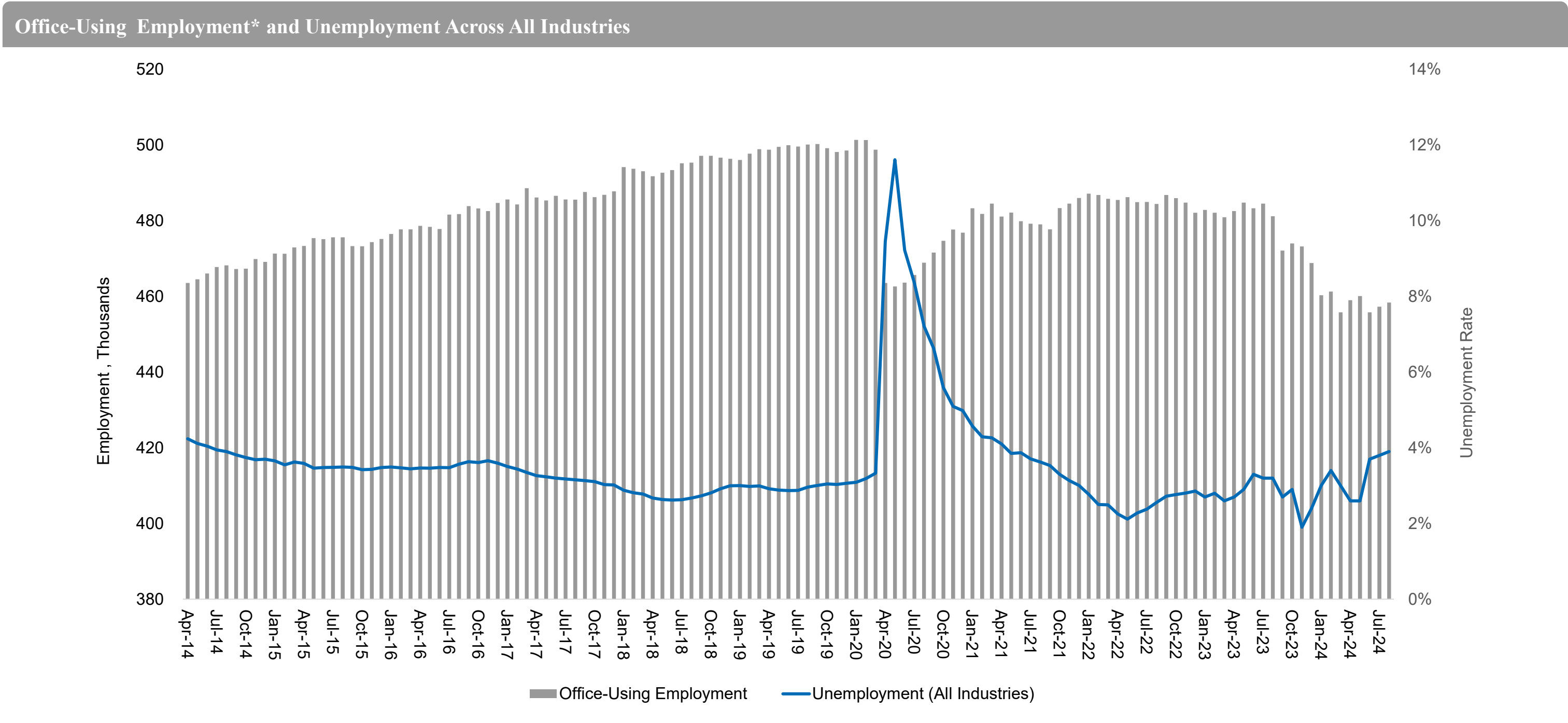
Employment Growth by Industry, 12-Month % Change, August, 2024



Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

# Region Ranks Low in Employment Growth, Driven by Declining Office-Using Sectors

Employment sectors that rely on office spaces, including information, financial and professional and business services, saw a slight increase compared to the previous quarter but remain down year-over-year. Minneapolis-St. Paul ranks in the bottom 10 of the largest metropolitan areas for annual employment growth, driven by continued declines in office-using employment.



Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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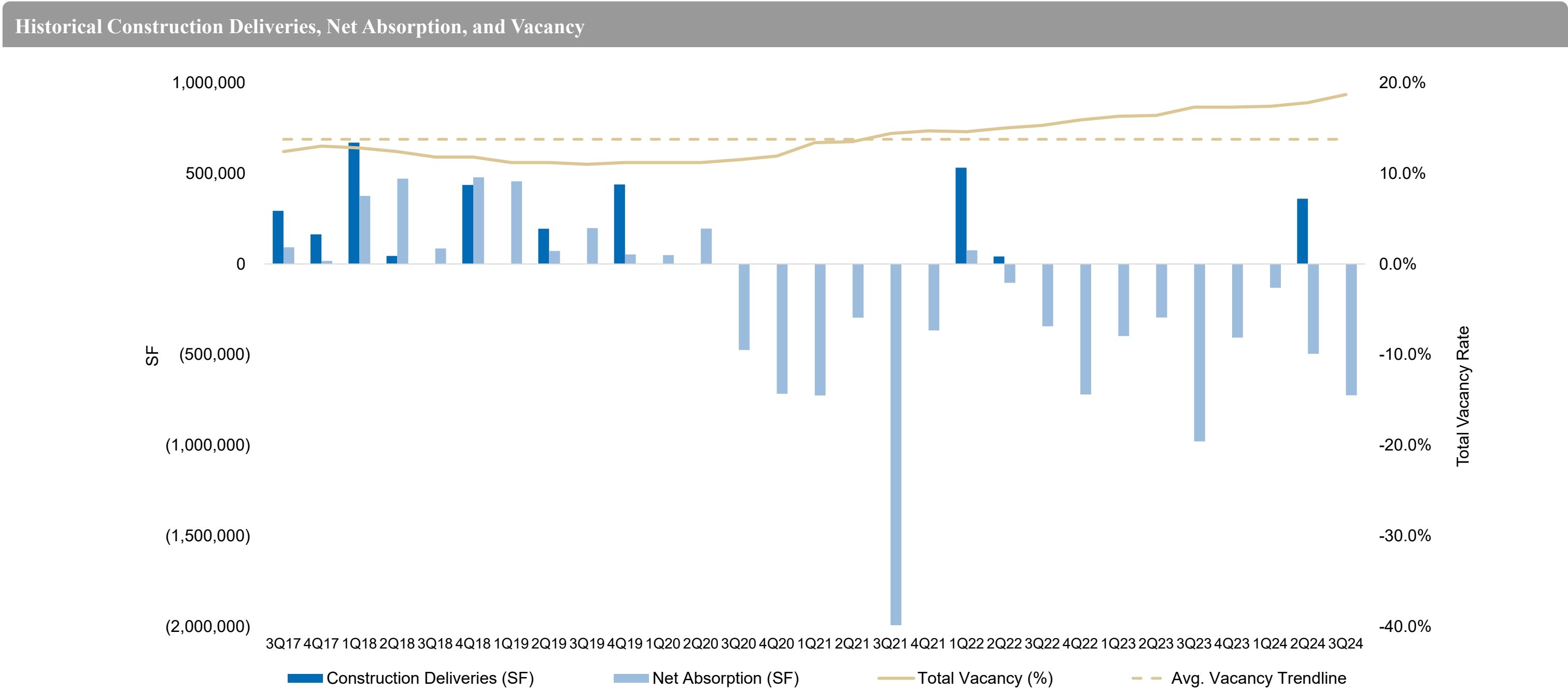
# Leasing Market Fundamentals





# Absorption Negative 16 of Past 17 Quarters

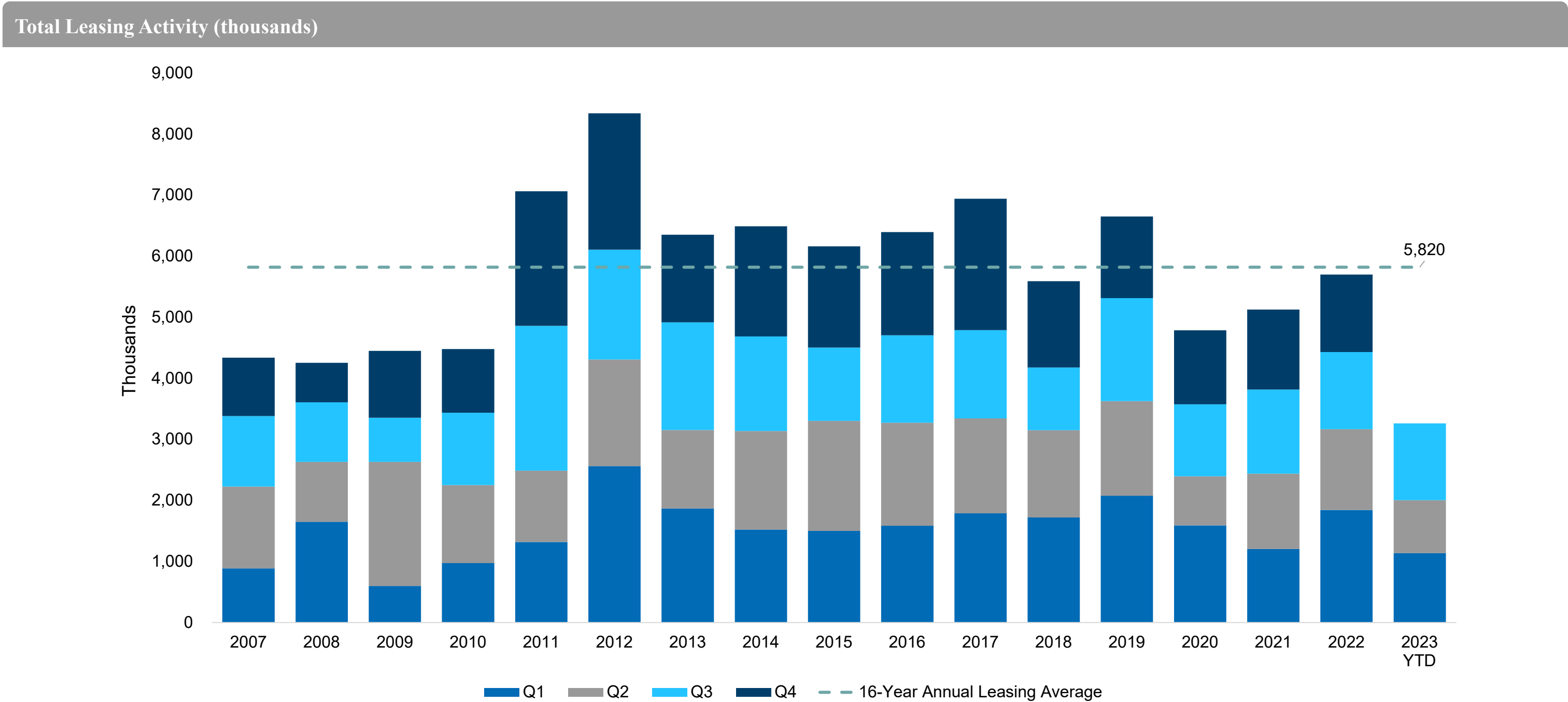
Leasing activity is strong but tenants continue to downsize as they renew or move. In the St. Paul CBD alone, the State of Minnesota vacated 120,000 square feet at the Golden Rule Building due to remote work policies, and US Bank left 118,000 square feet as it consolidates operations at US Bancorp in the Minneapolis CBD and Excelsior Crossings in the Southwest submarket.



Source: Newmark Research, MNCAR, Costar

# Leasing Activity Occurring but Most Companies Reducing Occupied Space

Activity is occurring as companies make longer-term decisions by either committing to new office spaces or renewing for extended terms. Tenants are increasingly drawn to top-tier properties offering the best amenities while reducing the amount of space they occupy.

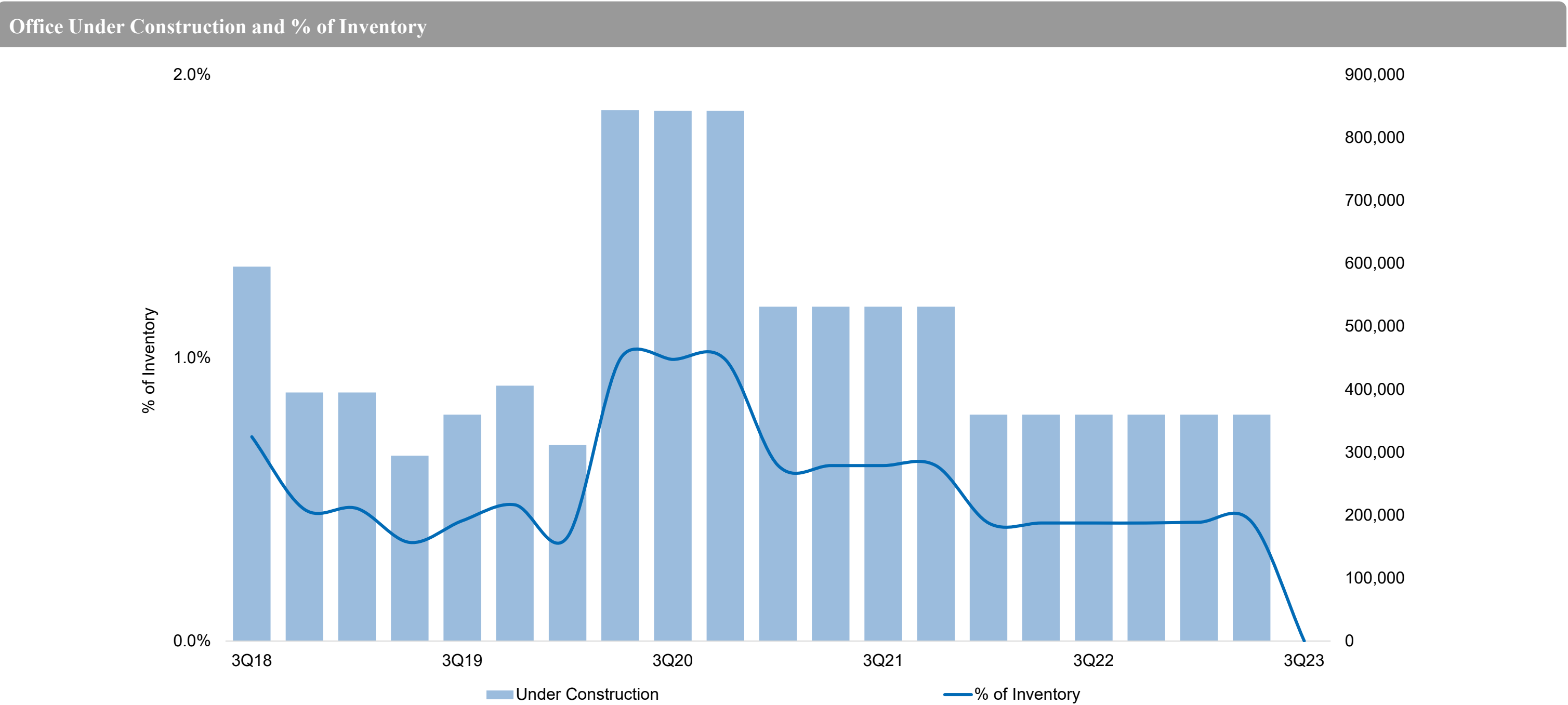


Source: Newmark Research, CoStar



# Drop in Office Demand Limits New Construction

Given the ongoing decrease in demand for office space, future construction is not expected to exacerbate vacancy rates.

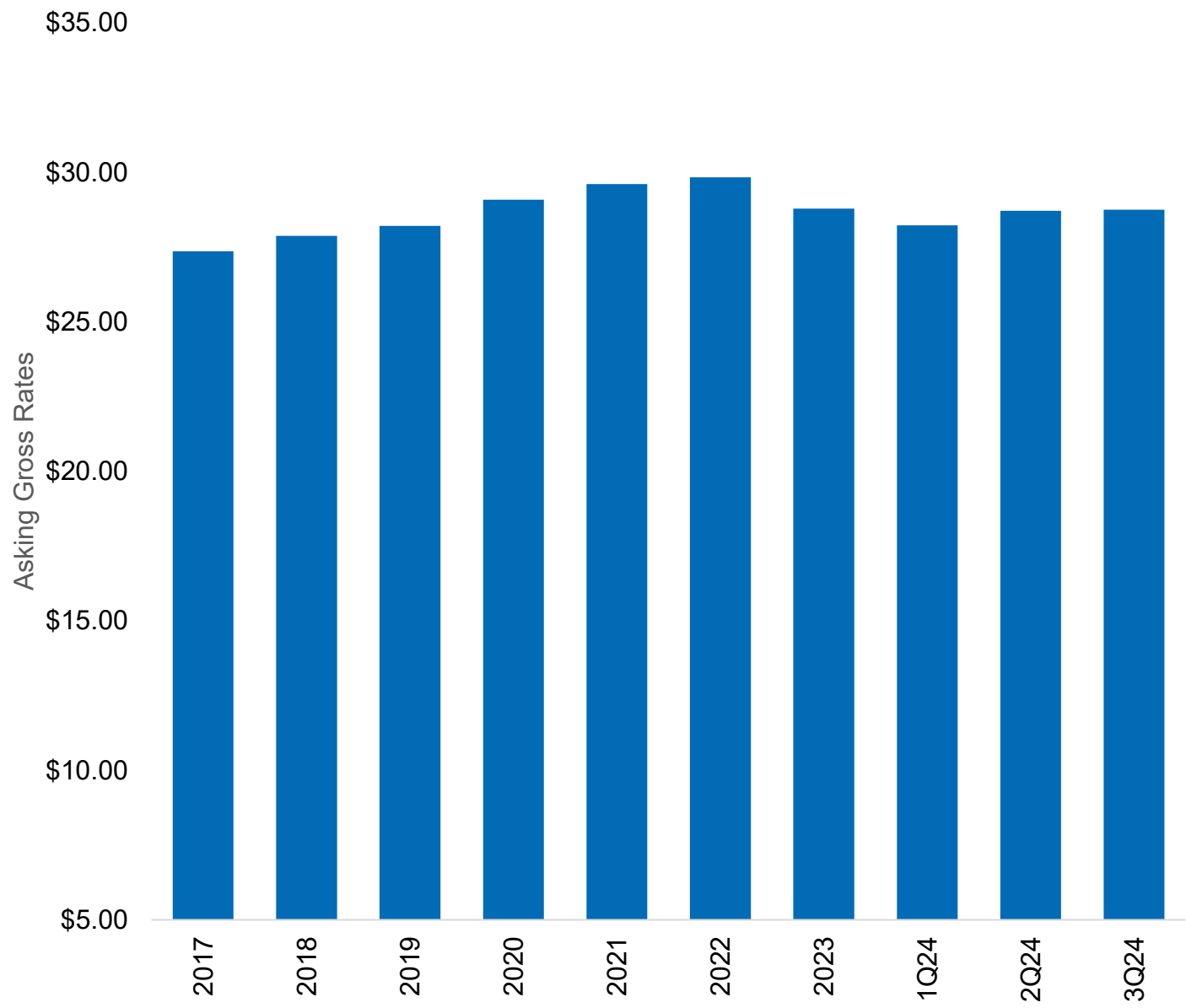


Source: Newmark Research, CoStar, MNCAR

# Quoted Rates Steady Despite Increasing Vacancy

Rates remain elevated considering current market conditions, while concessions are substantial. Some tenants looking to downsize are choosing to pay termination fees to exit leases and negotiate a smaller, less expensive lease, rather than restructuring their current one.

Office Average Asking Rent, \$/SF, Gross



Year-over-Year Asking Gross Rent Growth Rate



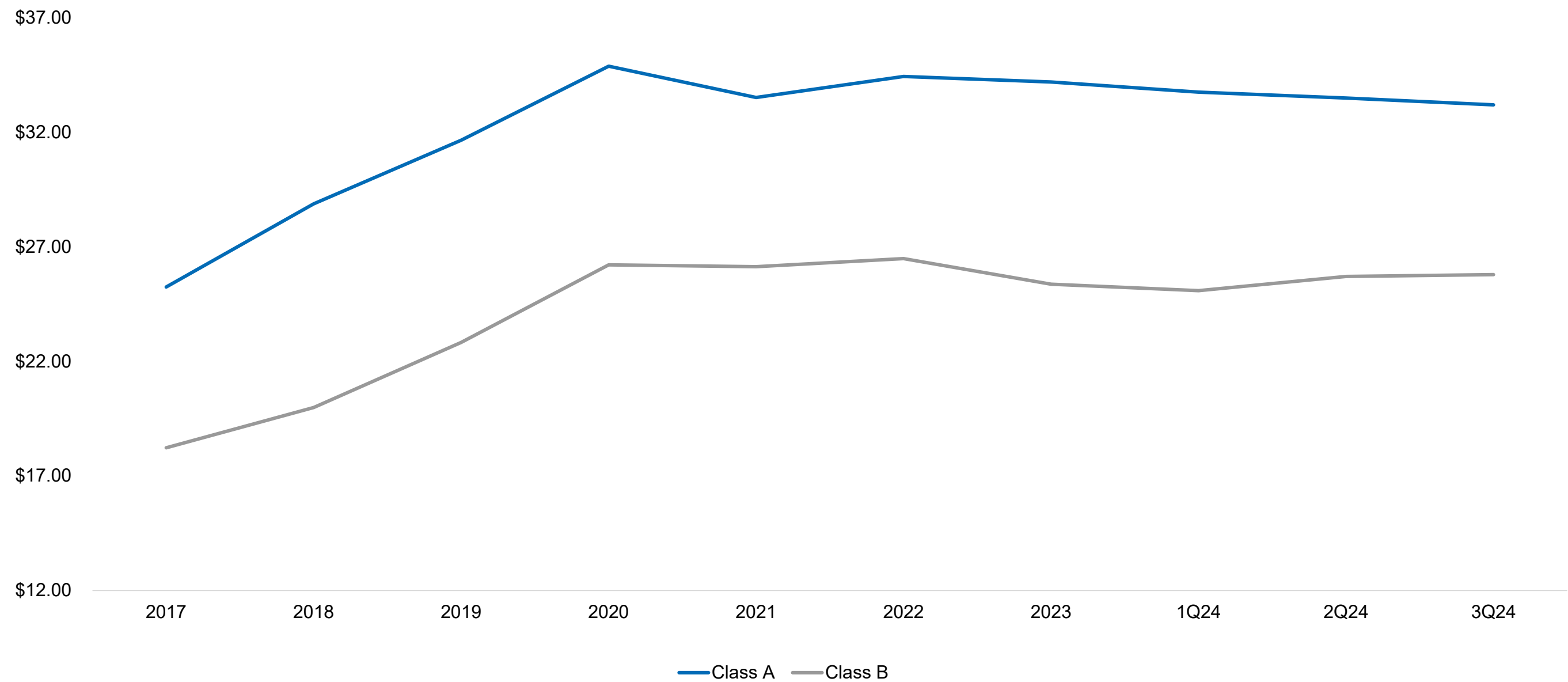
Source: Newmark Research, CoStar



# Strong Demand For Highest Quality Class A Properties

Tenants are choosing new construction or properties with significant upgrades. North Loop Green, completed during the 2<sup>nd</sup> quarter, experienced leasing success prior to completion and is currently nearly two-thirds leased.

Class A and Class B Asking Rents

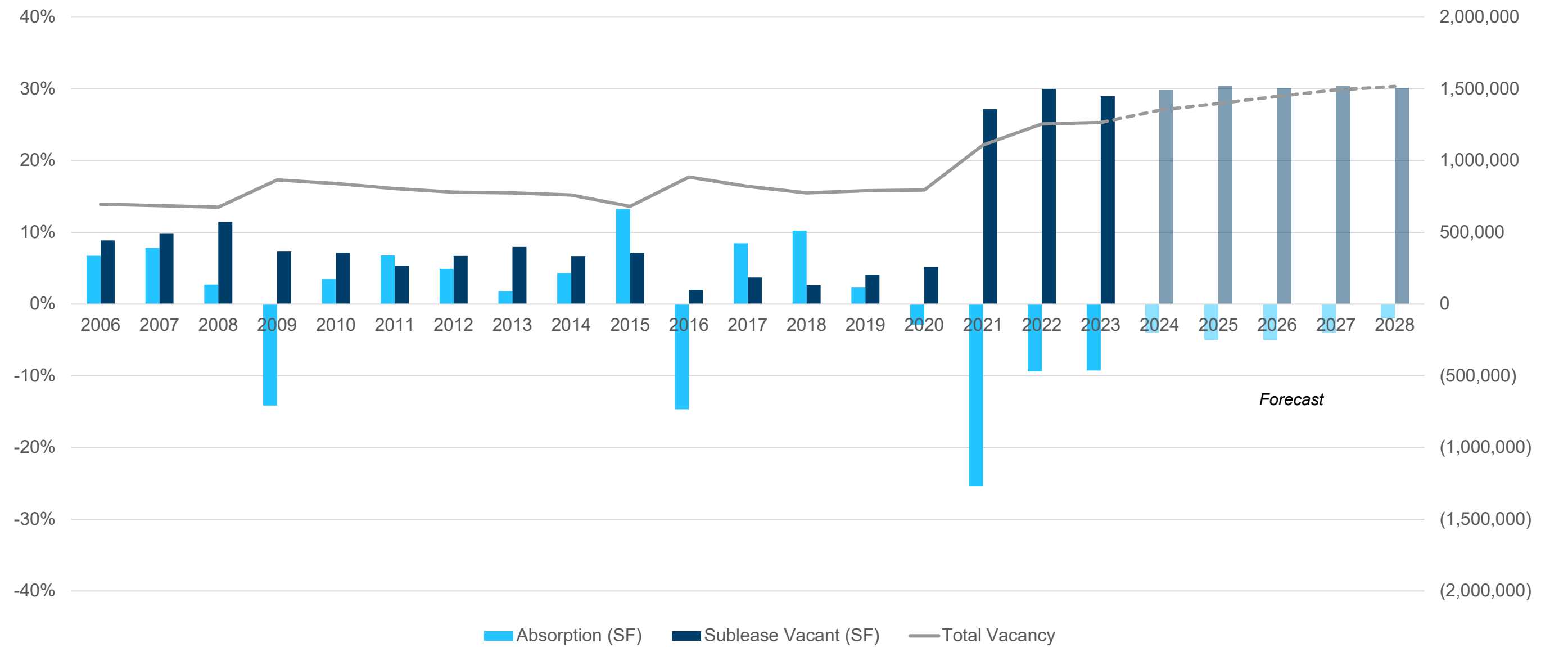


Source: Newmark Research, CoStar

# Minneapolis CBD Absorption and Vacancy Forecast

Vacancy is expected to continue to rise through 2028 – when it is forecasted to reach over 30%. The completion of 360,000 square feet of office space at North Loop Green during the 2<sup>nd</sup> quarter provided some positive activity, though most companies relocating are leaving larger spaces within the CBD, offsetting positive net absorption. Demand for top-tier properties remains robust, while older properties that lack investment in amenities and upgrades continue to face challenges.

Class A and Class B Asking Rents



Source: Newmark Research, CoStar  
\*Multitenant properties 20,000+ SF



# Office Transactions

Notable 3Q24 Lease Transactions

Tenant	Building	City	Submarket	Type	SF
Stratasys	5995 Opus Pkwy	Minnetonka	Southwest	New	164,931
Comcast	River Park Plaza	St Paul	Saint Paul CBD	Renewal	56,490
Barnes & Thornburg	Capella Tower	Minneapolis	Minneapolis CBD - Core	Renewal	25,000
Virtual Radiology	Centennial Lakes V	Edina	Southwest	New	12,413
Zinpro	7500 Flying Cloud Dr	Eden Prairie	Southwest	New	25,978
Baxter	3701 Wayzata Blvd	Minneapolis	West	Sublease	18,427
Enclos	Northland Center II	Bloomington	Southwest	New	17,160
Gravie	8400 Tower	Bloomington	Southwest	Sublease	13,990
The Social Lights	Steelman Exchange	Minneapolis	Mpls CBD - Northloop	New	10,777

Source: Newmark Research, MNCAR

# Statistics (page 1 of 2)

Submarkets – Minneapolis CBD

	Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy % (w/sublease)	Q1 Absorption (SF)	Q2 Absorption (SF)	Q3 Absorption (SF)	YTD Absorption (SF)	Weighted AVG Rate (FSG)	UC (SF)
Class A	18,545,826	3,579,288	974,702	24.6%	(81,057)	60,745	(185,051)	(205,363)	\$34.75	0
Class B	6,050,544	1,670,548	119,502	29.6%	33,504	8,496	(2,975)	39,025	\$27.60	0
Class C	124,201	11,094	0	8.9%	19,500	0	0	19,500	\$21.00	0
Core Total	24,720,571	5,260,930	1,094,204	25.7%	(28,053)	69,241	(188,026)	(146,838)	\$32.72	0
Class A	1,407,443	10,310	59,477	5.0%	2,260	140	0	2,400	\$36.44	0
Class B	641,568	153,823	0	24.0%	(6,777)	(32,570)	4,011	(35,336)	\$30.15	0
Class C	221,726	124,150	0	56.0%	(18,434)	(32,813)	(884)	(52,131)	\$15.56	0
East Total	2,270,737	288,283	59,477	15.3%	(22,951)	(65,243)	3,127	(85,067)	\$27.80	0
Class B	58,312	0	0	0.0%	0	0	0	0	\$23.00	0
Class C	169,048	7,426	1,364	5.2%	300	8,850	8,299	17,449	\$19.00	0
Loring Total	227,360	7,426	1,364	3.9%	300	8,850	8,299	17,449	\$20.96	0
Class A	200,739	6,953	0	3.5%	7,041	1,923	0	8,964	\$28.14	0
Class B	1,754,492	194,776	3,148	11.3%	(16,723)	21,616	7,416	12,309	\$25.97	0
Class C	1,142,186	98,277	10,153	9.5%	11,961	(44,825)	11,348	(21,516)	\$19.94	0
Northeast Total	3,097,417	300,006	13,301	10.1%	2,279	(21,286)	18,764	(243)	\$24.03	0
Class A	1,623,973	362,160	187,972	33.9%	93,288	33,238	10,240	136,766	\$42.82	0
Class B	1,091,959	268,214	28,004	27.1%	(37,889)	2,058	(13,317)	(49,148)	\$35.92	0
Class C	329,449	41,033	2,341	13.2%	(6,445)	(10,855)	10,690	(6,610)	\$27.79	0
Northloop Total	3,045,381	671,407	218,317	29.2%	48,954	24,441	7,613	81,008	\$37.52	0
Class A	434,333	18790	0	4.3%	(21,672)	2,882	0	(18,790)	\$35.81	0
Class B	1,565,289	374,675	71,343	28.5%	2,674	58,592	8,106	69,372	\$28.18	0
Class C	311,165	64,737	0	20.8%	(15,984)	1,208	0	(14,776)	\$23.63	0
Warehouse Total	2,310,787	458,202	71,343	22.9%	(34,982)	62,682	8,106	35,806	\$27.97	0
Class A	22,212,314	3,977,501	1,222,151	23.4%	(140)	98,928	(174,811)	(76,023)	\$35.17	0
Class B	11,162,164	2,662,036	221,997	25.8%	(25,211)	58,192	3,241	36,222	\$28.62	0
Class C	2,297,775	346,717	13,858	15.7%	(9,102)	(78,435)	29,453	(58,084)	\$22.33	0
MPLS CBD Total	35,672,253	6,986,254	1,458,006	23.7%	(34,453)	78,685	(142,117)	(97,885)	\$32.24	0

Source: Newmark Research, MNCAR, Costar  
Data includes single and multitenant leased office properties



# Statistics (page 2 of 2)

Submarkets

	Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy % (w/sublease)	Q1 Absorption (SF)	Q2 Absorption (SF)	Q3 Absorption (SF)	YTD Absorption (SF)	Weighted AVG Rate (FSG)	UC (SF)
Class A	2,877,186	345,355	104,002	15.6%	(4,723)	(79,606)	20,574	(63,755)	\$29.58	0
Class B	4,482,615	1,461,563	14,495	32.9%	(16,767)	5,951	(272,319)	(283,135)	\$20.44	0
Class C	411,084	93,383	0	22.7%	6,091	(4,716)	2,916	4,291	\$15.94	0
St. Paul CBD Total	7,770,885	1,900,301	118,497	26.0%	(15,399)	(78,371)	(248,829)	(342,599)	\$23.75	0
Class A	1,245,396	88,793	23,766	9.0%	(413)	2,689	22,289	24,565	\$24.33	0
Class B	12,722,376	1,210,730	23,530	9.7%	(50,139)	6,887	(4,853)	(48,105)	\$19.76	0
Class C	3,602,454	391,161	3,206	10.9%	5,509	(36,014)	19,081	(11,424)	\$17.90	0
Northeast Total	17,570,226	1,690,684	50,502	9.9%	(45,043)	(26,438)	36,517	(34,964)	\$19.66	0
Class A	972,899	180,836	0	18.6%	1,783	38,441	(159,015)	(118,791)	\$23.86	0
Class B	3,588,776	469,674	1,478	13.1%	(18,286)	(25,965)	55,591	11,340	\$20.83	0
Class C	1,045,946	16,416	0	1.6%	2,698	(4,950)	(1,537)	(3,789)	\$14.84	0
Northwest Total	5,607,621	666,926	1,478	11.9%	(13,805)	7,526	(104,961)	(111,240)	\$21.35	0
Class A	2,678,241	678,948	270,362	35.4%	128,751	(343,163)	(2,720)	(217,132)	\$25.87	0
Class B	8,630,260	1,133,826	35,752	13.6%	(8,249)	(75,214)	7,872	(75,591)	\$22.50	0
Class C	3,585,165	262,614	0	7.3%	34,865	(34,837)	4,091	4,119	\$17.54	0
Southeast Total	14,893,666	2,075,388	306,114	16.0%	155,367	(453,214)	9,243	(288,604)	\$22.11	0
Class A	8,408,747	1,840,882	235,562	24.7%	70,087	(76,118)	(11,547)	(17,578)	\$31.55	0
Class B	10,519,286	2,211,801	415,634	25.0%	(242,167)	3,068	(241,025)	(480,124)	\$28.76	0
Class C	4,541,416	217,088	8,754	5.0%	(6,872)	(14,493)	(5,592)	(26,957)	\$22.66	0
Southwest Total	23,469,449	4,269,771	659,950	21.0%	(178,952)	(87,543)	(258,164)	(524,659)	\$29.75	0
Class A	3,931,631	693,630	26,854	18.3%	59,813	64,829	(6,869)	117,773	\$36.32	0
Class B	5,838,858	652,462	102,114	12.9%	(18,918)	(3,891)	4,562	(18,247)	\$30.58	0
Class C	1,934,633	175,239	0	9.1%	(39,738)	2,283	(13,838)	(51,293)	\$26.27	0
West Total	11,705,122	1,521,331	128,968	14.1%	1,157	63,221	(16,145)	48,233	\$32.58	0
Class A	42,326,414	7,805,945	1,882,697	22.9%	255,158	(294,000)	(312,099)	(350,941)	\$33.20	0
Class B	56,944,335	9,802,092	815,000	18.6%	(379,737)	(30,972)	(446,931)	(857,640)	\$25.79	0
Class C	17,418,473	1,502,618	25,818	8.8%	(6,549)	(171,162)	34,574	(143,137)	\$20.39	0
Overall Total	116,689,222	19,110,655	2,723,515	18.7%	(131,128)	(496,134)	(724,456)	(1,351,718)	\$28.65	0

Source: Newmark Research, MNCAR, Costar  
Data includes single and multitenant leased office properties

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