CUSHMAN & WAKEFIELD

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COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market

OFFICE MARKET

Twin Cities Maintains Steady Course

Despite vibrant leasing activity with companies relocating, expanding, and contracting, annual absorption remained modest at 632,436 square feet (sf).

There is a disconnect between what the data shows and actual activity in the marketplace. Absorption numbers suggest subdued and even sluggish leasing volume, but that is not at all the case.

Leasing is active, with companies relocating, expanding, contracting, and trading into space that is more efficient or better suits their needs. Yet positive momentum continues to be offset by space returning to the market due to downsizing and consolidation that is resulting in modest net absorption.

Landlords have succeeded in pushing rents steadily higher, even as vacancy rates have remained flat since 2014. Rental rates are now showing signs of slowing their growth. The exceptions to that trend are buildings with character and in great locations. Tenant improvement costs are up, which is also contributing to slightly higher rents and longer term leases.

TRENDS TO WATCH

Amenities Arms Race
Landlords are investing considerable capital to renovate and reposition properties and improve amenities. Tenant decisions are less dependent on choosing Class A versus Class B, and more about which owners are "doing it right". Those owners that have the best value proposition and are aggressively managing their assets to tenant demands are being rewarded with higher occupancies. In particular, tenants are gravitating to buildings that have "character" and also are highly amenitized.

Co-working Continues to Expand
There is more than 700,000 sf of third-party co-working space now available throughout the metro through operators such as WeWork, Spaces/Regus and Industrious, among others. Although co-working is still a fraction of the overall office market at

OFFICE VACANCY & ABSORPTION Source: Cushman & Wakefield

SUBMARKET	TOTAL # OF BLDGS	NRA	VACANT SPACE	% VACANT	% VACANT W/SUBLEASE	1ST HALF 17 ABSORPTION	2ND HALF 17 ABSORPTION	2017 ABSORPTION
Mpls CBD	111	27,010,414	5,297,182	19.6%	20.4%	205,863	103,000	308,863
Northeast	131	8,053,725	1,115,090	13.8%	15.7%	(12,918)	112,753	99,835
Northwest	37	2,331,471	409,213	17.6%	18.7%	10,019	50,890	60,909
South/Airport	88	5,980,278	890,445	14.9%	16.1%	115,699	36,057	151,756
Southwest	143	14,635,436	2,331,261	15.9%	17.4%	(163,473)	94,504	(68,969)
St. Paul CBD	39	6,694,998	1,166,454	17.4%	19.8%	(87,121)	149,948	62,827
West	96	8,877,856	1,107,367	12.5%	14.0%	14,196	3,019	17,215
Total Market	645	73,584,178	12,317,012	16.7%	18.1%	82,265	550,171	632,436

700,000 SF
co-working space
now available

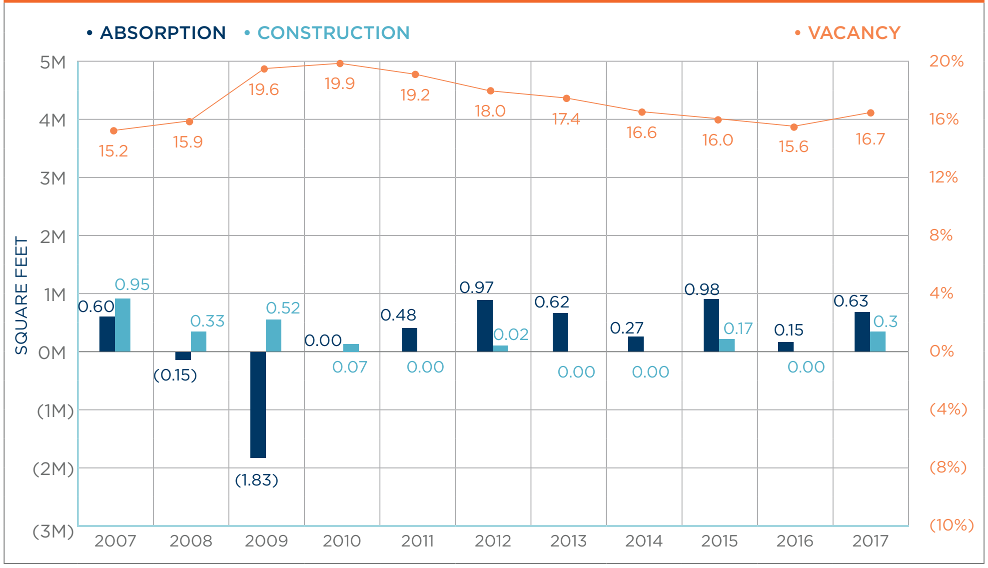
about 1%, landlords are taking note of what those third-party facilitators are doing to energize that space.

Tenants Leverage Space to Attract Workers

The Twin Cities has one of the lowest unemployment rates in the country at 2.4%. Although job growth is not moving the needle much in terms of improving occupancies and absorption, it is having an impact on employers. Companies are willing to invest more in their office space environment in order to attract and retain the right workers, especially when it comes to attracting Millennials and filling tech and other higher-paying white-collar jobs.

OFFICE ABSORPTION, CONSTRUCTION & VACANCY

Source: Cushman & Wakefield



OUTLOOK

The forecast is for flat absorption during the first half of 2018 due to some large blocks of space returning to the market, notably in the St. Paul, South/Airport and Northeast submarkets. Certain properties and pockets within the metro will continue to take advantage of their pricing power. Some suburban landlords have had success pushing rents past $20 psf net.

Construction is underway on four new spec office buildings, all of which are in Minneapolis, and all of which will deliver in early 2019. There are several other significant spec office projects proposed, but it is unlikely that any will move forward in 2018 without significant pre-leasing in place. Meanwhile, some 720,000 sf of single-tenant, build-to-suit space is under construction and due by 2019, although it won't impact the multi-tenant numbers.

ABOUT THE AUTHOR

THE COMPASS REPORT

The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. It is our intent to provide the best possible information while leaving the reader the responsibility of further verification before using this report for business and/or financial decisions. The report was created by experts using Twin Cities commercial property data from the first six months of 2017. The Compass report includes information for multi-tenant office, industrial and retail projects greater than 20,000 SF and multifamily for-rent properties. Not included are owner occupied, government or single-tenant buildings. Not all information and insights we've collected can be published in any given issue.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield is a leading global real estate services firm with 45,000 employees in more than 70 countries helping occupiers and investors optimize the value of their real estate. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $6 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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