

MARKET REPORT

Office
Minneapolis-St. Paul Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

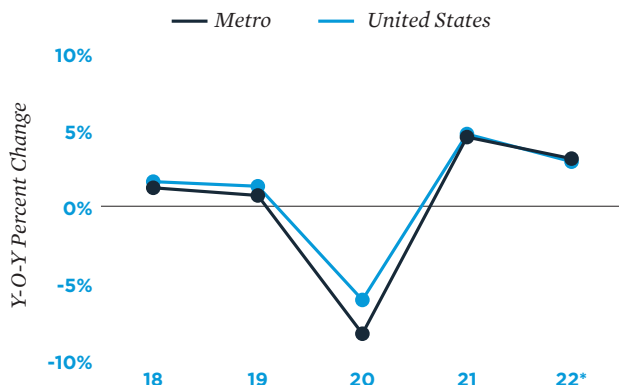
2Q/22

Minneapolis and St. Paul's Urban Cores are Unidentical Twins in Office Performance

Downtown St. Paul is more insulated. Among the nation's major CBDs with at least 12 million square feet of local office inventory, downtown St. Paul is one of just two that boasted sub-10 percent vacancy entering April 2022. More impressive, availability in the St. Paul urban core was in the double digits prior to the onset of the pandemic. While much of the country's other urban corridors saw vacancy rates surge as COVID-19 instituted remote and hybrid operations, the rate in St. Paul declined or held firm in seven of the last nine quarters through March of this year. Limited construction is a contributing factor. The area has not added a complex larger than 30,000 square feet in more than 15 years, and no such space is underway or in the proposal stage. On the demand side, the locale is a hot bed for attorneys and federal agencies. The USDA and U.S. Army Corps of Engineers each moved into offices here in June 2022.

Minneapolis core heavily tested. Contrasting the 9.1 percent first quarter vacancy in the St. Paul CBD, the rate in Minneapolis' urban core is more than twice as high. The 600-basis-point rise here since the end of 2020 is the third most drastic vacancy climb among major CBDs. On a positive note, only one large-scale development will finalize in the submarket this year. The 532,000-square-foot RBC Gateway building opened in February, and less than 5 percent was available in June. Still, the near-500,000 square feet of newly occupied space at the property was not enough to offset relinquishments elsewhere, as net absorption measured negative in the first quarter.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**61,000
JOBS**

will be created

EMPLOYMENT:

Entering May, the unemployment rate was just 2.1 percent, 120 basis points below the year-end 2019 level. Over the same period, the job total in Minneapolis-St. Paul decreased by 57,000 workers, suggesting that labor force participation has declined sharply.



**990,000
SQ. FT.**

will be completed

CONSTRUCTION:

For the first time since 2013, the annual completion total falls under 1 million square feet. Projected supply growth of 0.5 percent in 2022 is a tick slower than other major Midwest markets like Chicago, Milwaukee and Kansas City.



**60
BASIS POINT**

increase in vacancy

VACANCY:

Marking the third consecutive annual vacancy increase of at least 50 basis points, the rate in the Twin Cities rises to 13.8 percent this year. Still, availability will be tighter than the U.S. rate and that of at least 20 other major markets in the country.



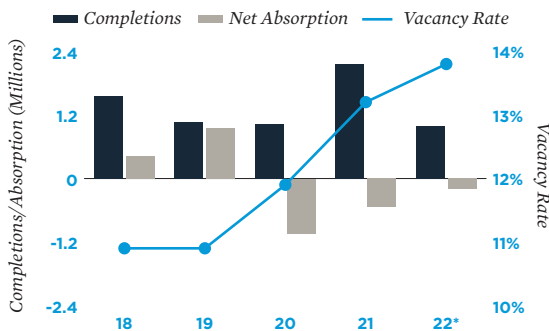
**1.5%
INCREASE**

in asking rent

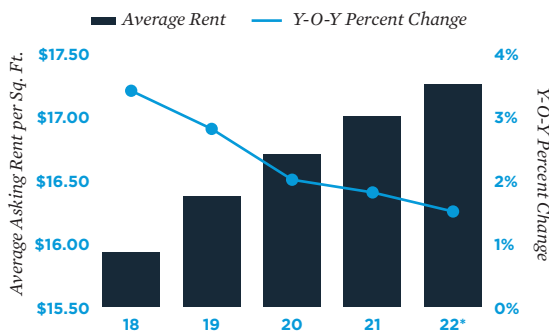
RENT:

Rents in Minneapolis-St. Paul historically rise on a steady, albeit moderate trajectory, and 2022 will be much of the same. The average market rate lifts at a comparable pace to last year's 1.8 percent gain, to \$17.25 per square foot.

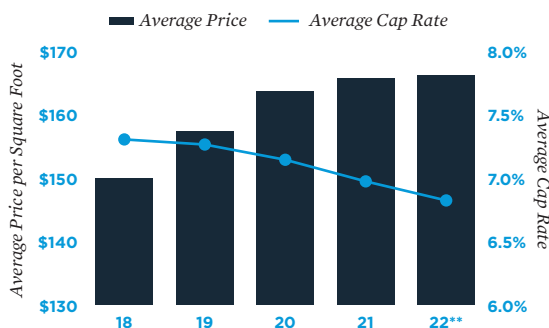
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

Minneapolis Office:

Todd Lindblom

First Vice President, Regional Manager

Tel: (952) 852-9700 | todd.lindblom@marcusmillichap.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

715,000 sq. ft. completed

- Deliveries were sparse during the past year ended in March. The 12-month completion tally was just one-fourth of the prior span's total.
- Medical offices accounted for the bulk of space underway in the second quarter that is scheduled to open in 2022. The largest traditional office being built is in Midway and was over 90 percent pre-leased as of June.



VACANCY

60 basis point increase in vacancy Y-O-Y

- Among the four major submarkets with local inventories exceeding 25 million square feet, vacancy declined year-over-year in March in just one. The rate in the I-394 Corridor fell 40 basis points to 13.8 percent.
- Class B/C vacancy held flat at 12.2 percent, but the Class A rate jumped 200 basis points to 16.3 percent, influencing the overall market average.



RENT

1.7% increase in the average asking rent Y-O-Y

- Midway's average asking rent surged 8.6 percent year-over-year to \$15.51 per square foot in the first quarter. Growth here was facilitated by the Class B/C segment, logging its second-straight noteworthy annual gain.
- In Northwest Minneapolis, a 3.3 percent decline pushed the submarket down a spot, now claiming the lowest average asking rent in the metro.

Investment Highlights

- The number of office deals completed during the past 12 months ended in March surpassed the register of any other year this century. More than 80 percent of transactions in the last four quarters were Class B/C offices with price tags in the \$1 million to \$10 million range, compared to a sub-70 percent share for this category in the five years preceding the pandemic from 2015-2019. A higher proportion of low- and mid-tier assets trading has constrained the growth trajectory of the average sale price, with this metric rising 1 percent in the most recent period to \$166 per square foot.
- Buyers of traditional office space concentrated heavily on the I-394 and I-494 Corridors in recent quarters. These areas both place among the top five highest average asking rents in the metro, and each logged positive net absorption in the first quarter of 2022. Lower-tier complexes in these submarkets generate an average sale price near \$110 per square foot, while mid-tier entry costs are closer to \$160 per square foot. Cap rates in these corridors tend to be a notch below the marketwide mean of 6.8 percent.
- Suburban St. Paul is a favored location for medical office investors, with a local population plentiful with age 55-plus adults. Sale prices here can range from \$150 to \$450 per square foot, depending on property specifics.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

© Marcus & Millichap 2022 | www.ipausa.com