

# INVESTMENT FORECAST

OFFICE

Minneapolis-St. Paul Metro Area

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2020


## Minneapolis Remains Focus of Construction; More Investors Heading to Suburbs


**Developers are concentrating on the major office hubs.** Downtown Minneapolis dominates this year's deliveries, led by a building for the city of Minneapolis and a headquarters for Thrivent Financial. Thrivent's former tower will house Hennepin County workers and both the city and county will be vacating leased space, potentially raising vacancy in some buildings later this year. Minneapolis also has the largest project underway in the metro. The mixed-use RBC Gateway will provide 531,000 square feet of office space, a hotel and street-level retail. The tower is scheduled to open next year and is already roughly 90 percent leased. Class A vacancy holding in the 10 percent range metrowide is spurring speculative construction. The most significant of these developments is 10 West End in the I-394 Corridor. The 343,000-square-foot project will be finalized in 2021. In recent years, new inventory has been focused on the downtown cores and along the Interstate 494 and 394 corridors, resulting in single-digit vacancy in most suburban submarkets. This trend will continue into 2020 as less than 250,000 square feet is completed outside the dominant office hubs, and more than half of this space is medical office.


**Suburban assets gaining favor.** Increased tenant demand for less expensive suburban office space as well as lower entry costs and the potential for higher returns are drawing more investors outside the downtown cores. The heavily trafficked I-494 corridor as well as the growing employment base in Dakota County are two areas in particular that are receiving buyer attention. Metrowide, additional competition for available listings contributed to the average price rising 5.2 percent over the past four quarters as cap rates held steady in the low-7 percent span, more than 200 basis points above large coastal office markets. Medical office assets throughout the metro also garner investor interest as the aging population requires more medical services. Cap rates for these properties are typically in the mid-6 to mid-7 percent range.


## 2020 Market Forecast

- Employment**  up 0.6%
 

A lack of available workers will continue to hamper employment gains as 11,800 jobs are added this year, including 3,000 office-using positions.
- Construction**  1.2 million sq. ft.
 

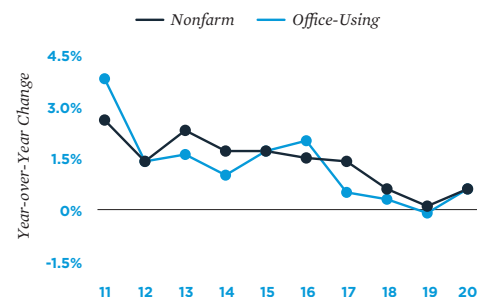
Completions during 2020 fall well below the previous five-year average of 1.5 million square feet. Roughly 108,000 square feet of medical offices will be delivered this year.
- Vacancy**  down 10 bps
 

After falling 20 basis points last year, a restrained delivery pace contributes to vacancy ending 2020 at 11 percent.
- Rent**  up 3.4%
 

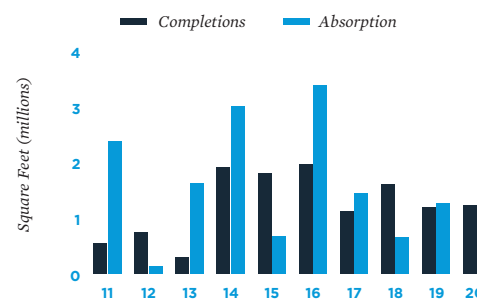
The average asking rent rises to \$23.59 per square foot this year, improving on last year's 3.1 percent advance.
- Investment** 

Tight vacancy coupled with a lack of new office inventory in most suburban submarkets can provide investors with steady cash-flow opportunities.

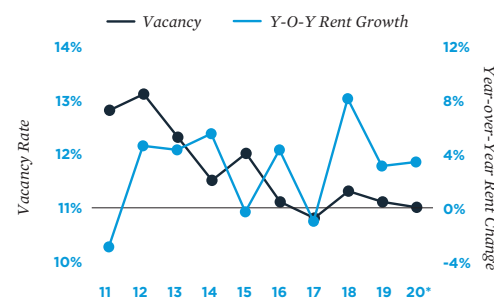
### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.