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Minneapolis-St. Paul office market report

Q3 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- As vaccination rates continue to rise, the Minneapolis-St. Paul unemployment rate is now **3.5%**, a significant improvement from its 11.8% peak in May 2020..
- Office-using job losses across the Twin Cities have totaled **5.4 percent** compared with 3.8 percent for aggregate industries' job losses. Federal government jobs have fared the best with an increase of **1.4 percent**.



Recovery rate

- Minneapolis-St. Paul vaccination rates rose **520 basis points** (bps) in Q3, outpacing the U.S. average. This remains a key indicator for the local economy's guidelines and workplace strategies.
- Office occupiers continue to navigate the return-to-work approach differently as **office usage has slowed throughout Q3**, most notably in Local and State Government sectors.



Office demand

- Leasing activity has paused, decreasing by **17.9 percent** compared with long-term historical averages.
- Vacancy remains at record-high levels totaling **10.9 percent**. Though, the suburban office market is showing signs of a turnaround with increased tenant demand.
- As major corporations continue to shed space across the region, **small companies are a driver** of newfound office demand to accommodate growth milestones.

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Deeper dive

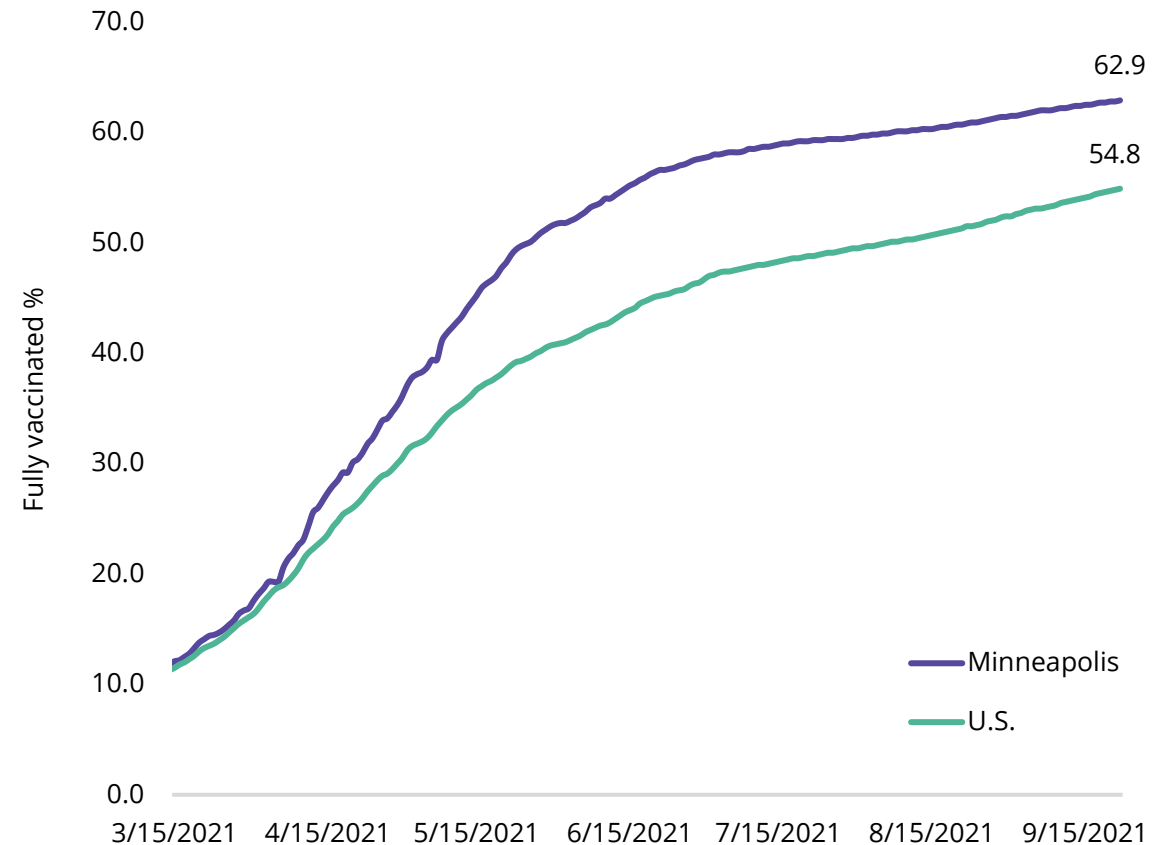
Here we take a look at key return-to-work metrics, including vaccination rates, office occupation recovery rates in Minneapolis-St. Paul and key markets, as well as general market KPIs such as lease activity and sublease supply pipelines.

Vaccination rates

62.9%

Share of total Minneapolis-St. Paul population that is fully vaccinated

Twin Cities proportionate vaccination rates continued to increase in the third quarter rising 520 basis points since late June. Minneapolis-St. Paul continues to outpace U.S. averages.



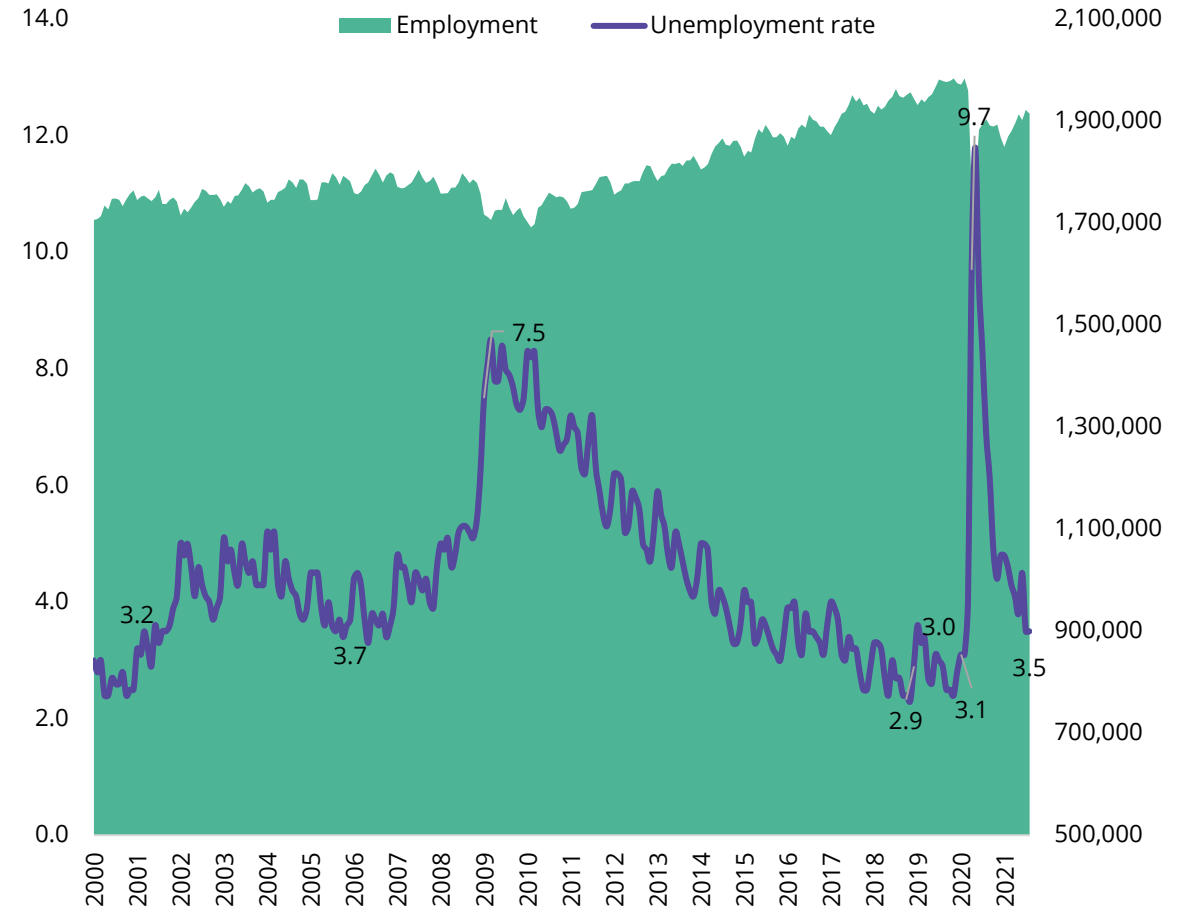
Source: CDC

Employment and unemployment rate

3.5%

Unemployment rate in the Twin Cities as of July 2021, approaching pre-pandemic levels.

The labor market continues to rebound from its historic pandemic lows. Despite nearly 215,000 job losses between February and May 2020, the local economy has added 8.3% jobs through ongoing reopening efforts.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-5.4%

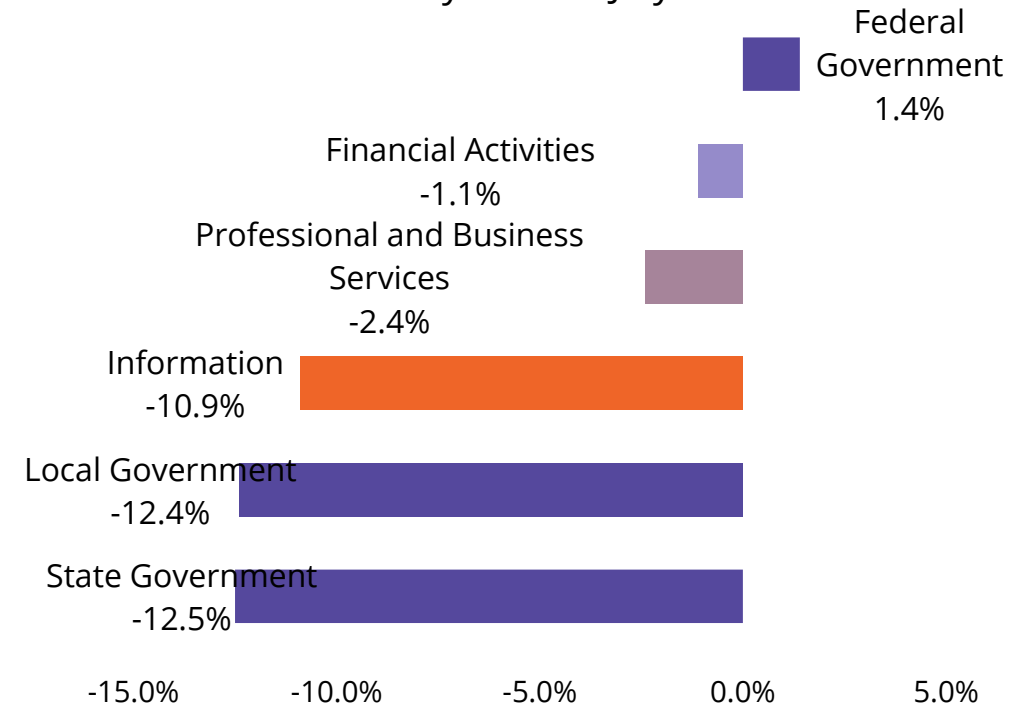
Change in office-using employment during the pandemic

Minneapolis-St. Paul total job losses have declined 3.8% since the start of the pandemic while office-using jobs contracted by 5.4%. Overall, two-thirds of all job losses have been added back since April 2020.

[VIEW DASHBOARD](#)

Total change in Minneapolis-St. Paul* job gains/(losses)

February 2020 to July 2021



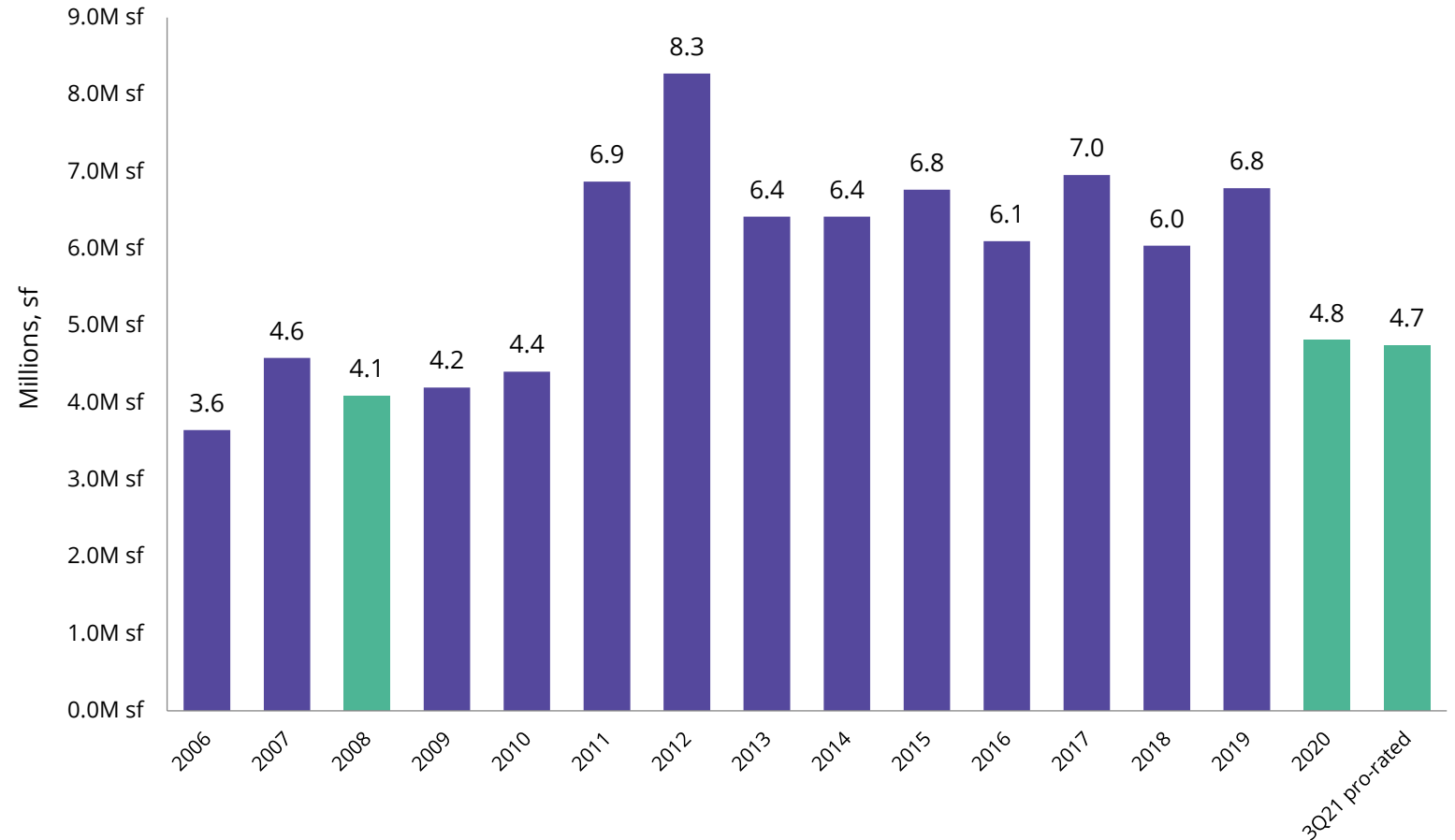
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

-17.9%

**2020-pro-rated 2021 vs.
prior 14-year annual
average leasing activity**

Leasing activity remains stagnant as the Delta variant put a pause on return to office strategies and caused employers to consider long-term workplace needs.



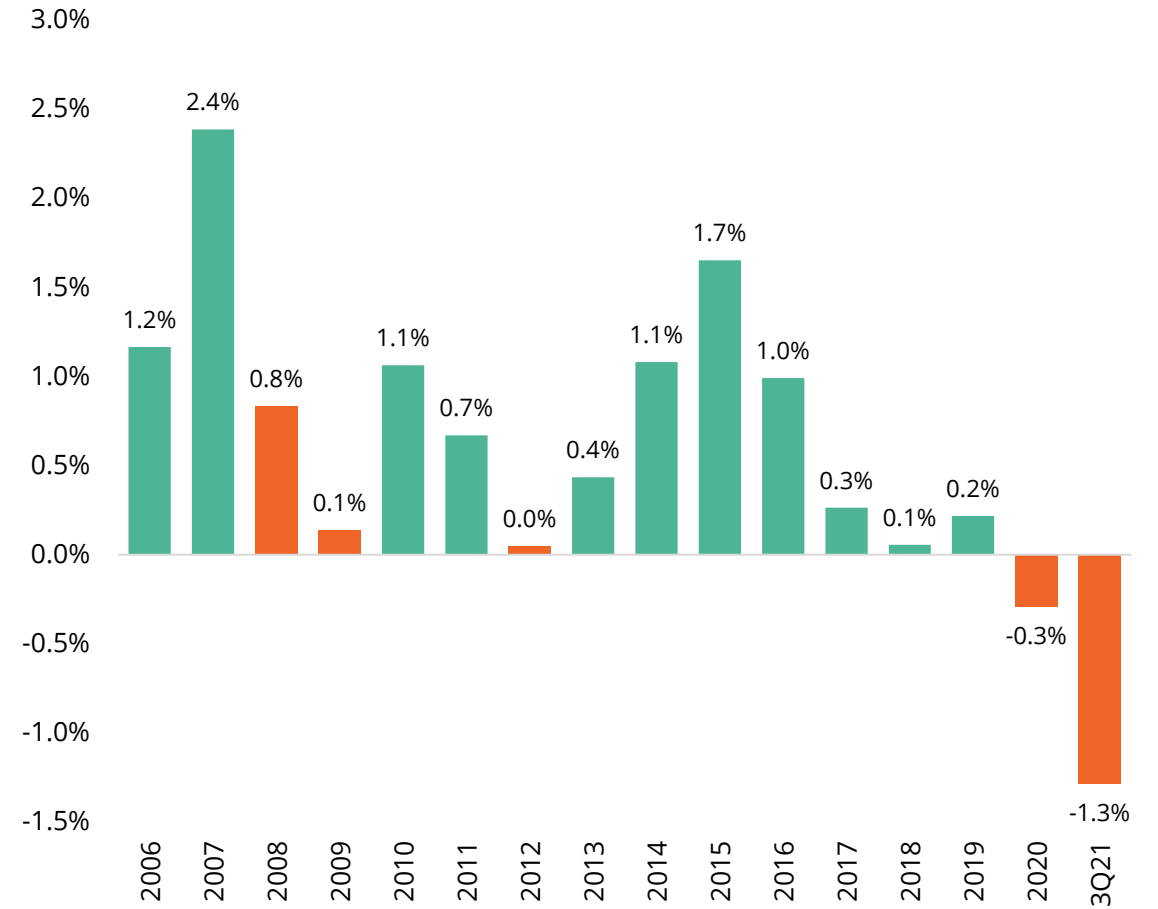
Note: Green columns represent years with financial crisis
Source: AVANT by Avison Young

Absorption

-1.6%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Negative absorption from 2020 to 3Q21 has totaled 2.74 msf, totaling -1.6% of the existing stock. Negative absorption continues to surpass the historic lows of the global financial crisis.



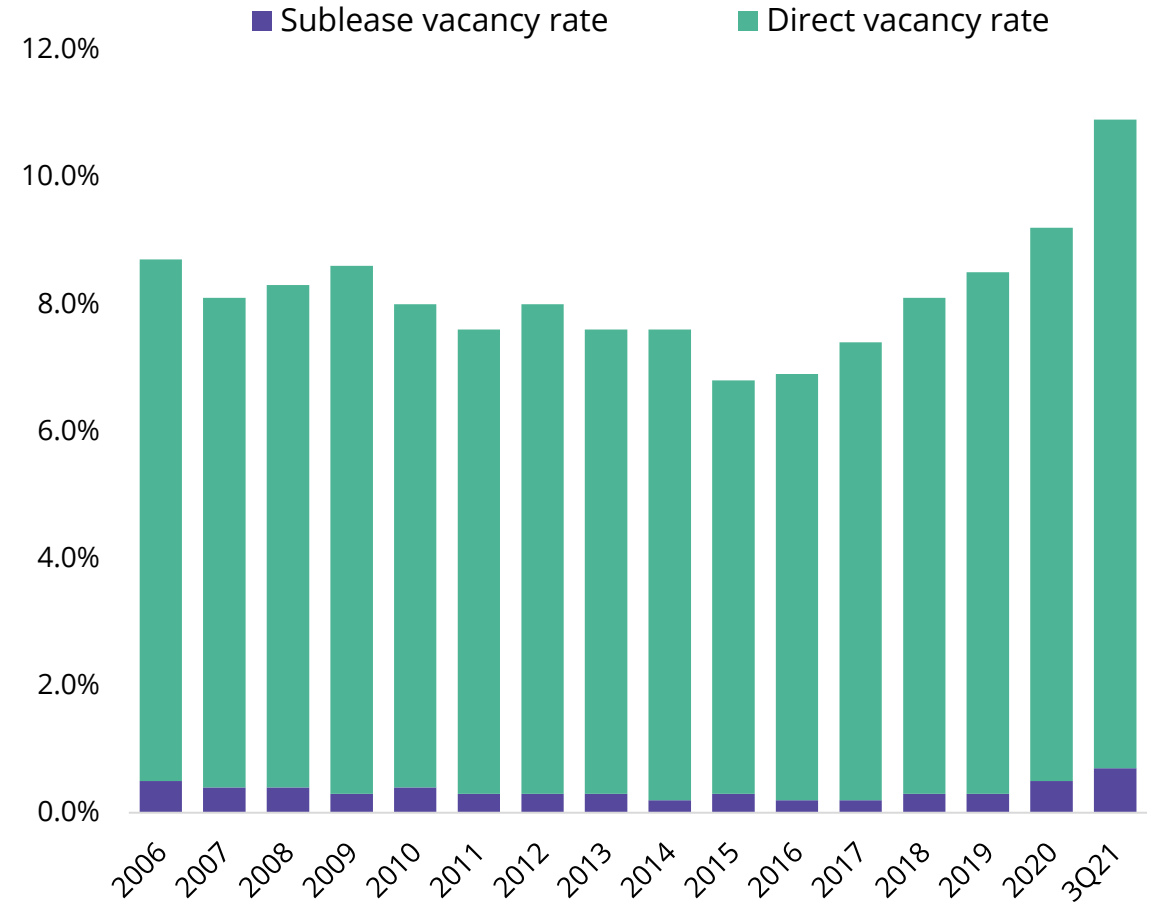
Source: AVANT by Avison Young

Vacancy rate

10.9%

Twin Cities vacancy as of Q3 2021

Vacancy rates continued the upward trend with Q3 2021 recorded at 10.9% - up 260 basis points (bps) from pre-pandemic levels of 8.5%. This spike in vacancy persists as companies continue to analyze and assess office workspace solutions.



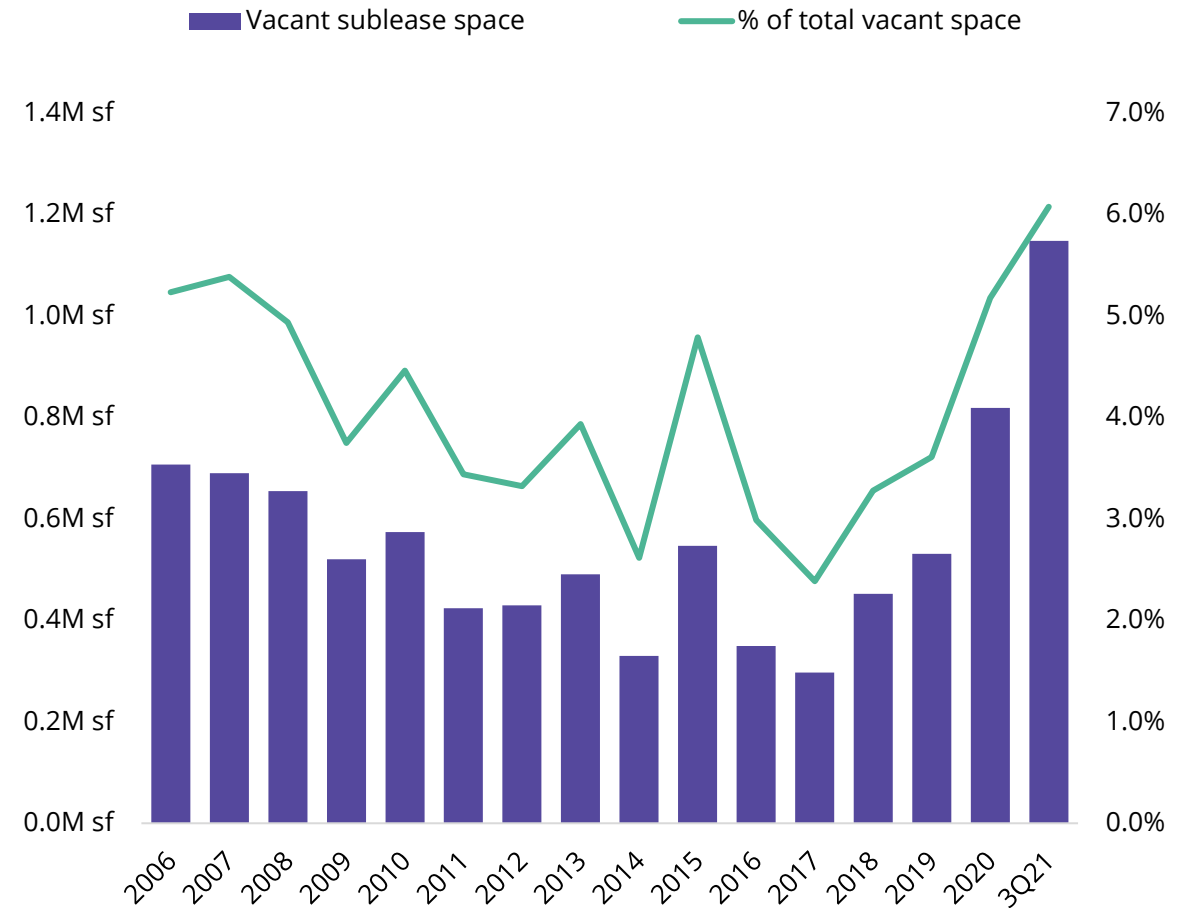
Source: AVANT by Avison Young

Vacant sublease space

1.15 msf

Record levels of sublease vacant space

The share of vacant sublease-to-total vacant space of 6.1% surpasses the 4.9% from the global financial crisis levels. Twin Cities employers are shedding space at a high velocity as hybrid work continues to be embraced.



Source: AVANT by Avison Young

Office development pipeline

55 properties

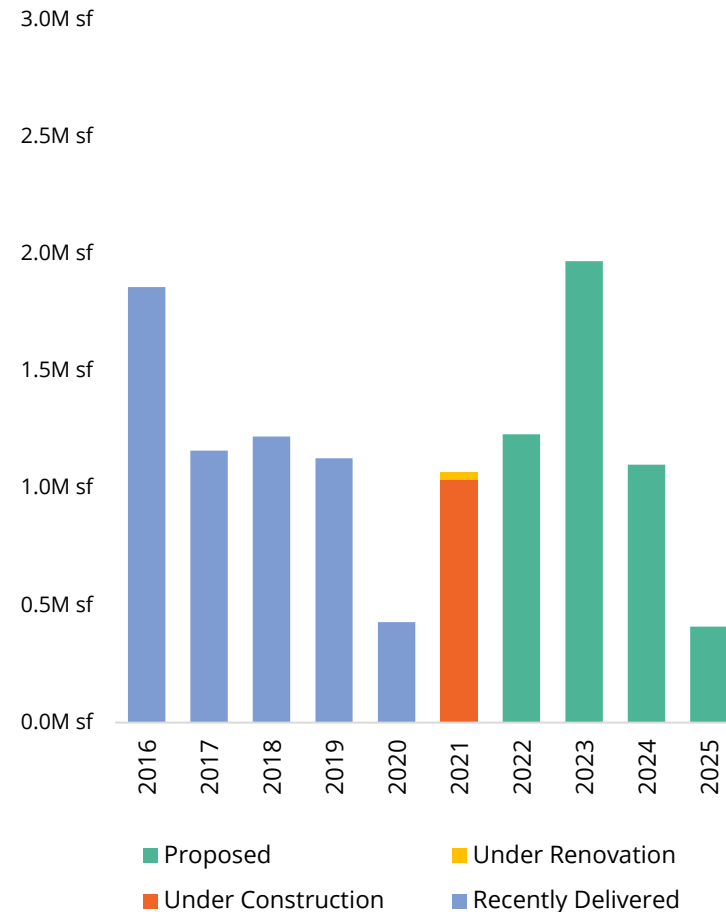
proposed or under construction

12.4 msf

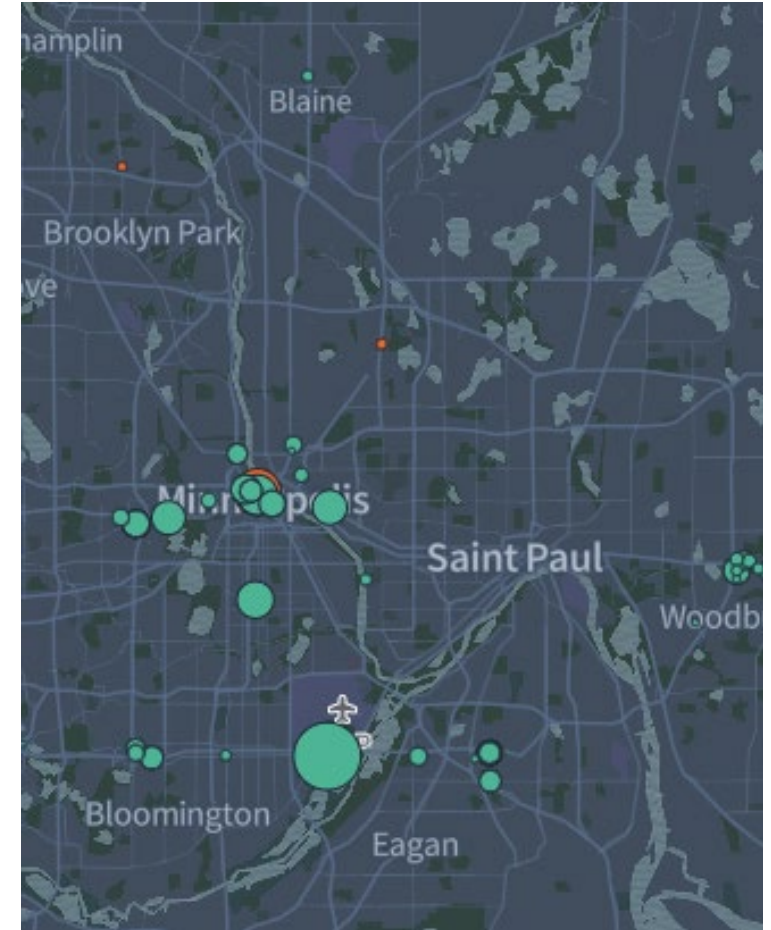
proposed or under construction

7.2%

share of office inventory



Source: AVANT by Avison Young

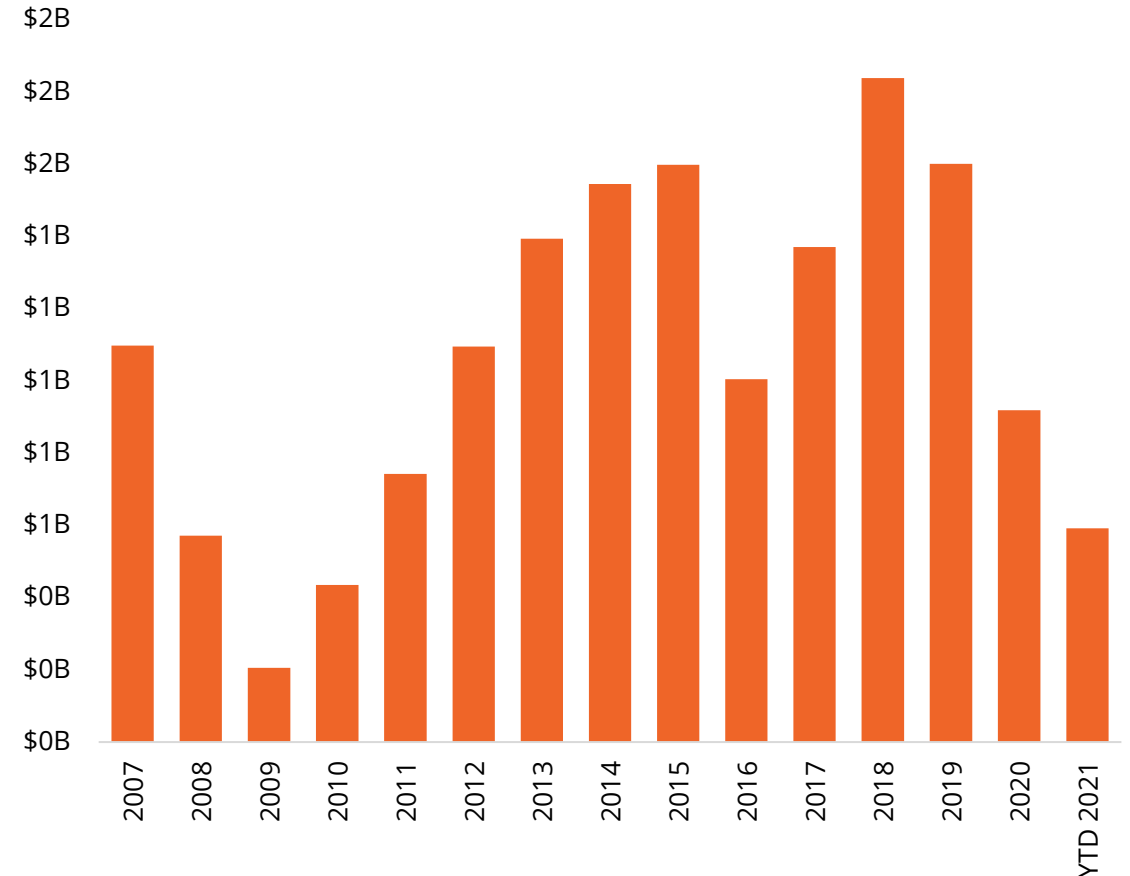


Office investment dollar volume

\$1.5B

Minneapolis-St. Paul office investment sales, 2020 to present

Office sales activity remains stagnant year-to-date, decreasing by an annualized rate of 32.1% compared with the prior five-year average. This is another indicator of uncertainty in the office sector as companies reevaluate their real estate needs.



Source: RCA

Looking forward



Here's what we can expect

- Bellwether **companies are proceeding with caution** when it comes to **return-to-office plans**. Minneapolis- and St. Paul-based banks, specifically, have erred on the side of caution with delayed returns and flexible work schedules. **Wells Fargo** announced an office return slated for January 10, 2022 while **U.S. Bancorp** has loose plans targeting a Q4 return.
- Labor shortage continues to drive up **construction costs**, a significant consideration for companies' long-term strategies around office relocation or expansion.
- The **suburbs remain in the spotlight** with newfound value showcased through higher office leasing and capital markets activity. Tenants and investors alike see long-term opportunities to meet the needs of key stakeholders.
- **Public transportation** has yet to see a rebound in ridership count or frequency as employers work to accommodate immediate commuter needs like parking and drive-time.



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Contact us today

With around-the-corner knowledge, multi-national expert insights and data-driven intelligence, our team is ready to help you unlock economic, social, and environmental value.

Get in touch



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Let's talk

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