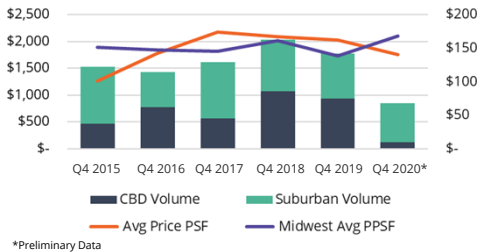


Minneapolis - St. Paul



Minneapolis Investment Sales
(12-month totals - in millions)



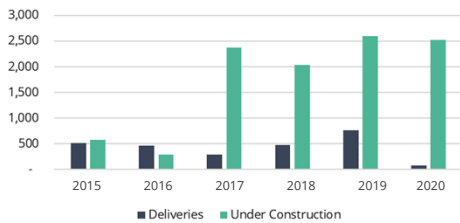
As we exit 2020, office-using employment is approximately 1 million jobs less in the U.S. than it was coming into 2020. Most forecasts see employment numbers returning to January 2020 levels by the end of 2022.

Even with most eligible office workers employed this year, less than 20% of them are working in office buildings. Because Covid-19 continues to be a concern, many employers have extended their work from home orders out until the summer of 2021.

With most people working from home, and with uncertainty still ahead of us, office demand remains weak. This is resulting in negative office space absorption for most cities in 2020.

A very slow office leasing market in the Twin Cities remains a concern. Office leases greater than 30,000 sf were 30% less than in 2019. The slowdown in activity is negatively impacting rent growth, and will continue to do so, well into 2021. Most leasing activity in 2020 was confined to short-term sublease opportunities, and lease renewals, and short-term lease extensions.

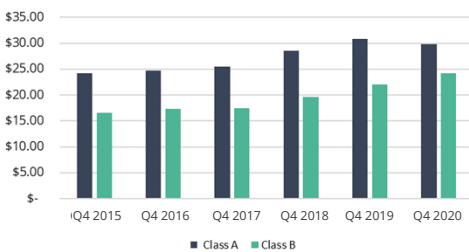
Development
(in thousands)



After strong, consistent growth in the office sector going back to 2012, the Twin Cities will see negative absorption only for the third time in the last nine years.

Given all of the changes in 2020, and the shifting of office space dynamics, both tenants and landlords are asking the question, "how do we negotiate leases when it is difficult to predict the demand for office space in the next few years?" Employers will wrestle with how many of their employees will return to the office full-time - how many will return to the office part time - and how many will work from home on a full-time basis.

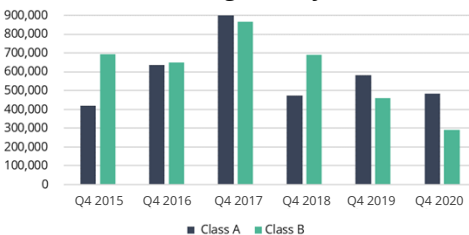
Overall Gross Asking Rent



Given the lack of demand for office space, it would make logical sense that rental rates would begin to drop. Everything indicates that this should be the case, but this reality has yet to be officially acknowledged by most landlords. Landlords are preferring to maintain a wait and see attitude for as long as possible. No building owner will want to commit to establishing lower rental rates until they absolutely have to.

From a tenant perspective, office users will need to decide how to blend work-from-home strategies with traditional ways of running offices. Predictably, the general acceptance of flex work schedules will influence employers' decisions around occupancy footprints and lease terms.

Leasing Activity



Re-evaluating geographical preferences will also occur, along with the operational and design aspects of the office.

From an investment standpoint, average pricing per square foot remained high in 2020, even though deal flow dramatically slowed. One positive aspect is the significant amount of foreign capital that is still trying to invest in the Midwest. The Twin Cities' solid returns, along with a healthy and diverse economy, still makes this area attractive to many investors.

Market by the numbers

Submarket	Inventory SF	Overall Vacant SF	Overall Vacancy %	Q4 20 Net Absorption SF	YTD Net Absorption SF	YTD Overall Leasing SF	Overall Gross Asking Rent
Minneapolis CBD	31,001,451	4,629,150	14.9%	(180,853)	(259,759)	1,155,908	\$31.51
Class A	18,378,024	1,969,075	10.7%	(7,050)	42,001	589,011	\$33.68
Class B	11,968,744	2,599,392	21.7%	(179,972)	(304,595)	552,825	\$28.51
Class C	654,683	60,683	9.3%	6,169	2,835	14,072	\$25.03
St. Paul CBD	7,083,185	1,231,921	17.4%	12,606	30,181	183,882	\$25.12
Class A	3,525,834	269,513	7.6%	(355)	46,881	89,840	\$26.72
Class B	3,370,714	926,126	27.5%	22,090	(3,898)	77,476	\$24.83
Class C	186,637	36,282	19.4%	(9,129)	(12,802)	16,566	\$18.18
West/Northwest	14,714,461	2,155,213	14.6%	(97,305)	43,233	668,726	\$31.76
Class A	5,367,869	767,516	14.3%	(66,279)	59,193	272,104	\$37.35
Class B	7,647,309	1,222,630	16%	(24,830)	(15,072)	359,528	\$25.68
Class C	1,699,283	165,067	9.7%	(6,196)	(888)	37,094	\$21.90
Northeast	10,688,758	1,404,822	13.1%	(68,766)	(264,666)	297,089	\$19.66
Class A	888,141	195,432	22%	(52,024)	(22,308)	13,845	\$24.03
Class B	8,242,649	1,160,470	14.1%	(13,423)	(305,498)	266,462	\$19.63
Class C	1,557,968	48,920	3.1%	(3,319)	63,140	16,782	\$16.95
Southwest/494 Corridor	20,084,955	2,578,486	12.8%	(61,432)	90,384	939,496	\$25.98
Class A	8,935,047	1,032,732	11.6%	(7,837)	(101,359)	485,065	\$31.51
Class B	8,786,139	1,302,348	14.8%	(129,147)	280,352	423,073	\$23.86
Class C	2,363,769	243,406	10.3%	75,552	88,609	31,358	\$19.30
Southeast	7,128,606	855,033	12%	(31,273)	(205,168)	131,291	\$21.13
Class A	1,055,022	333,032	31.6%	(25,956)	(121,336)	31,364	\$25.94
Class B	4,935,988	410,208	8.3%	28,160	(68,377)	74,931	\$22.94
Class C	1,137,596	111,793	9.8%	(33,477)	(15,455)	24,996	\$17.16
Total Market	90,701,416	12,854,625	14.3%	(427,023)	(565,795)	3,376,392	\$25.86

The data contained in this market report is based on the seven-county metropolitan Minneapolis-St. Paul markets for office buildings at least 20,000 sf in size. It does not include any government or healthcare space, or single-tenant owner occupied buildings. Current and historical data has been adjusted with corrected information after it was obtained. This may prevent comparisons to previously released reports.

Market trends

A majority of office workers remain at home until mid 2021

It is a "wait and see" game for both landlords and tenants

Subleasing and short-term renewals are the "order of the day"

Fully built out and furnished spec suites are becoming even more popular

Notable leases

	Tenant	Building Name / Address	Submarket	SF	Lease type
1	Fredrikson & Byron, P.A.	RBC Plaza 555 Nicollet Mall, Minneapolis	Minneapolis-CBD	178,191	New
2	SPS Commerce	SPS Tower 333 S 7 th St, Minneapolis	Minneapolis CBD	118,039	Renewal
3	One 10 Marketing	Butler Square 100-116 N 6th St, Minneapolis	Minneapolis-CBD	30,533	Renewal
4	Milk Specialties	7500 Flying Cloud Dr Eden Prairie	Southwest	30,533	Renewal
5	Hanson Efron	Capella Tower 225 S 6 th St, Minneapolis	Minneapolis-CBD	18,230	New

Notable sales

	Buyer	Building Name / Address	Submarket	SF	Purchase price
1	Eagle Ridge Partners/Long Wharf Capital	One Southwest Crossing 11095 Viking Dr, Eden Prairie	Southwest	233,199	\$16,500,000
2	Woodside Capital Partners	Northpark Corporate Center (4 property portfolio)	Northeast	194,866	\$12,200,000
3	Healthcare Realty Trust Incorporated	Mercy Healthcare Center 3860-3960 Coon Rapids Blvd NW, Coon Rapids	Northeast	92,256	\$16,615,000
4	Davis Real Estate	Cornerstone Medical Building 6025 SE Lake Rd SE, Woodbury	Northeast	53,000	\$24,940,000
5	Healthcare Realty Trust Incorporated	City Center Professional Medical Bldg 15700 37th Ave N, Plymouth	Northwest	50,000	\$15,510,000

Get more market information

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