

4Q23

Minneapolis-St. Paul Office Market Trends



Market Observations



Economy

- Minneapolis benefits from the stability and vitality of a strong headquarters economy, home to 14 firms on the Fortune 500 list, the most per capita in the U.S. for a major metropolitan area. In addition, there are more than 320 Fortune 1000 companies with a local presence.
- The region has a committed workforce, with the highest labor force participation rate among major metropolitan areas at 72%.
- Minneapolis-St. Paul is a global leader in biotechnology and biomedical research, with deep roots in agriculture, food exports and water technology, and has one of the highest concentrations of banks and financial talent of any major metropolitan area.
- The area has a historically low unemployment rate, consistently lower than the national rate. The unemployment rate is 2.9% as of October 2023, compared to the national rate of 3.9%.
- Minneapolis's 12-month job growth as of November was steady, with 31,600 jobs added. November's monthly job growth outpaced the national rate at .4% growth, compared to a .1% growth rate nationally.
- Office-using employment sectors have not returned to pre-pandemic levels. Information, financial activities and professional and business services saw year-over-year employment declines of 3.7%, 4.3% and 2.7%, respectively.
- Job growth was strongest in education and health services, government and leisure and hospitality sectors.



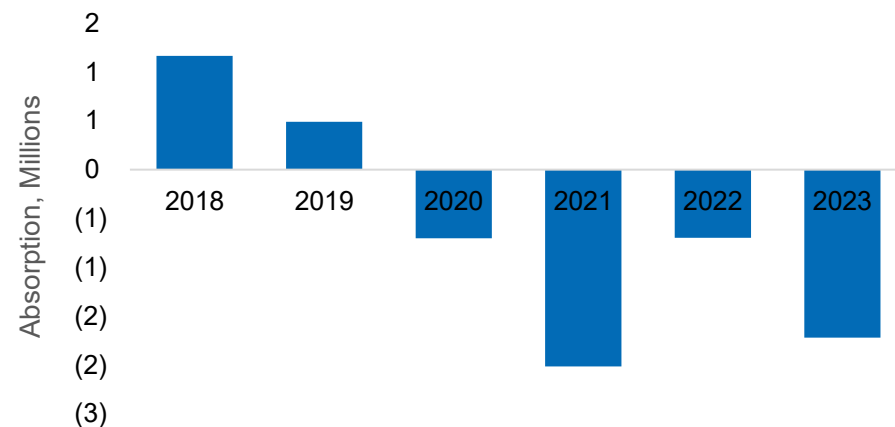
Major Transactions

- U.S. Bancorp announced it is renewing its lease at U.S. Bancorp Center, where its Minneapolis headquarters is located. The company will keep its 440,000-SF footprint at the property but will be leaving 340,000 square feet at Meridian Crossings in Richfield in the Southwest submarket. The move out of the Richfield office will occur in early 2024. The company also maintains a 250,000 SF office at Excelsior Crossings in Hopkins in the Southwest submarket and 118,000 SF at US Bank Center in the St. Paul CBD.
- Blue Cross Blue Shield extended its lease at two of the properties at its 1-MSF campus in Eagan, 3400 Yankee Drive (213,800 SF) and 1800 Yankee Doodle Road (133,200 SF). The company did not renew its leases at the remaining four buildings on the campus. These properties will be redeveloped, including a proposed 460,000-square-foot warehouse facility for wine and liquor distributor Johnson Brothers.
- Accesso Partners, the landlord at IDS Center in the Minneapolis CBD, finalized a 3-year loan extension after failing to meet the May 1st deadline for its mortgage balance. The owner closed on the extension for the commercial mortgage-backed security loan on the property, which had been transferred to special servicing earlier in 2023 due to the approaching deadline.
- Opting not to renew its lease, Optum, a subsidiary of UnitedHealth Group, is moving out of a campus in Eden Prairie located at 13625 and 13675 Technology Drive. The landlord has actively marketed the space for lease since the third quarter of 2022, anticipating the lease expiration at year-end 2023. The campus totals 473,000 square feet on 54 acres and was previously occupied by ADC Telecommunications.
- UnitedHealth Group is also seeking to sell or lease its 164,931 square foot building in the Opus Business Park in Minnetonka. The company is consolidating its operations to its Optum campus in Eden Prairie, which was developed in 2014 and totals more than 1 MSF.
- IWG PLC, under the brand names of Regus and Spaces, is opening 5 new locations in the metro area in 2024. The offices range in size from 6,500 square feet to 22,000 square feet and will be located at Mozaic East in the Uptown neighborhood of Minneapolis, at 4470 78th St in Bloomington, 6160 Summit in Brooklyn Center, in addition to locations in both the Minneapolis and St. Paul CBDs.

Market Observations

Leasing Market Fundamentals

- Quarterly net absorption was negative 189,219 SF, bringing 2023's total to negative 1.7 MSF. Negative annual absorption has continued since 2020 led by ongoing corporate downsizing including Target putting over 900,000 square feet of sublease space on the market in 2021 and Best Buy offering over 600,000 square feet of space at its corporate campus in 2023. Negative absorption totaled over 5MSF from 2020 to 2024.
- Additional large corporate users reducing their occupancy levels include UnitedHealth Group, Best Buy, Target, BlueCross BlueShield of Minnesota, Thomson Reuters, US Bank and Prime Therapeutics.



- Since 2020, quarterly positive absorption only occurred in the first quarter of 2022 when RBC Gateway in the Minneapolis CBD, which included 531,000 square feet of office space, was completed with significant preleasing.
- Amidst significant declines in office space utilization, the Minneapolis market continues to see employment declines in sectors depending on office spaces. Information, financial activities and professional and business services have experienced ongoing declines.
- Challenges in the Minneapolis CBD have contributed to a steep increase in vacancy since the 1st quarter of 2020. The vacancy rate has climbed over 60% from 15.8% in the first quarter of 2020 to 25.3% currently. This compares to a 52.0% increase in the suburbs and a 40.4% increase overall. Currently, the overall market vacancy rate is 21.2% and the suburban vacancy rate is 18.7%.

- Concessions are substantial and increasing, particularly in the Minneapolis CBD. In the 2nd quarter of 2023, asking rates declined slightly for the first time since the start of the pandemic. Rates continued to decrease in the 3rd quarter and lowered again in the 4th quarter, although negligibly, by less than 1%.
- Most tenants are downsizing as they renew or move, and corporate tenants continue to make major moves in reducing overall occupancy.
- UnitedHealth Group subsidiary Optum's announcement that it is not renewing at a 473,000 square foot campus in Eden Prairie adds to a series of moves by the company to reduce their real estate footprint.

Outlook

- In the 1st quarter of 2024, Thomson Reuters will occupy 300,000 square feet on a sublease at the Prime Therapeutics campus. This will somewhat mitigate expected negative absorption, including US Bank's move out of 340,000 SF at Meridian Crossings in the Southwest submarket.
- Concessions will continue to be a significant factor in future negotiations, in the form of both financial incentives and lease flexibility. With a significant amount of loan debt coming due, tenants are assessing landlords' loan status to avoid the uncertainty that arises if a landlord surrenders the property to the lender. Requests for lease clauses that protect tenants from eviction in the case of foreclosure are increasing.
- Among Class A properties, there will be a divergence in rental rates; top-tier properties will maintain rates, while lower-quality Class A properties with fewer amenities will continue to see rates slip.
- Speculative suite activity will continue to rise as tenants seek solutions that reduce time spent on extensive space planning and decision-making processes.
- As mortgages mature, challenges arise when owners are unable to refinance debt and selling the associated property would result in a significant financial loss. This dynamic is fostering collaboration between landlords and lenders to find mutually beneficial solutions.

1. Economy
2. Leasing Market Fundamentals

4Q23

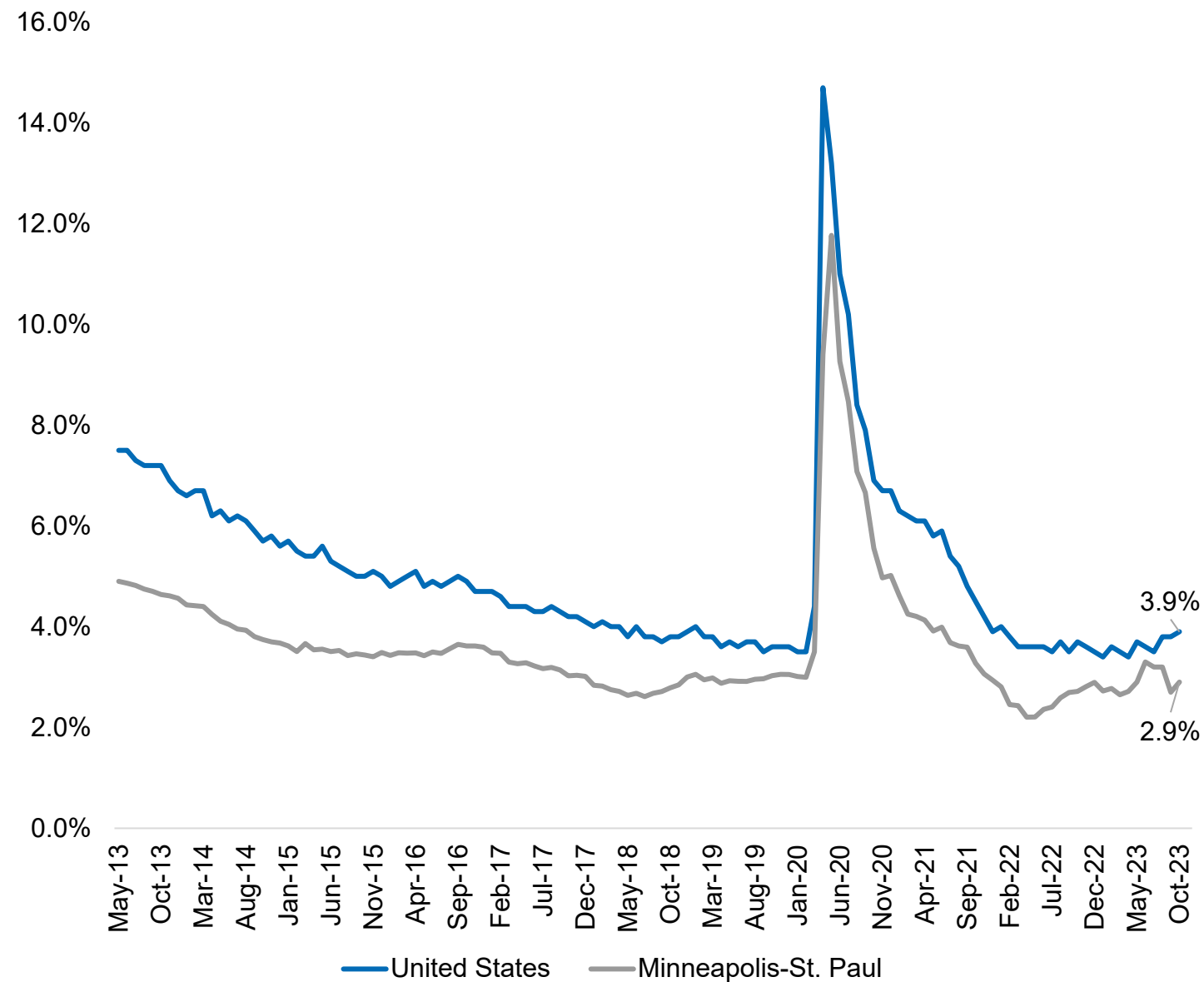
Economy



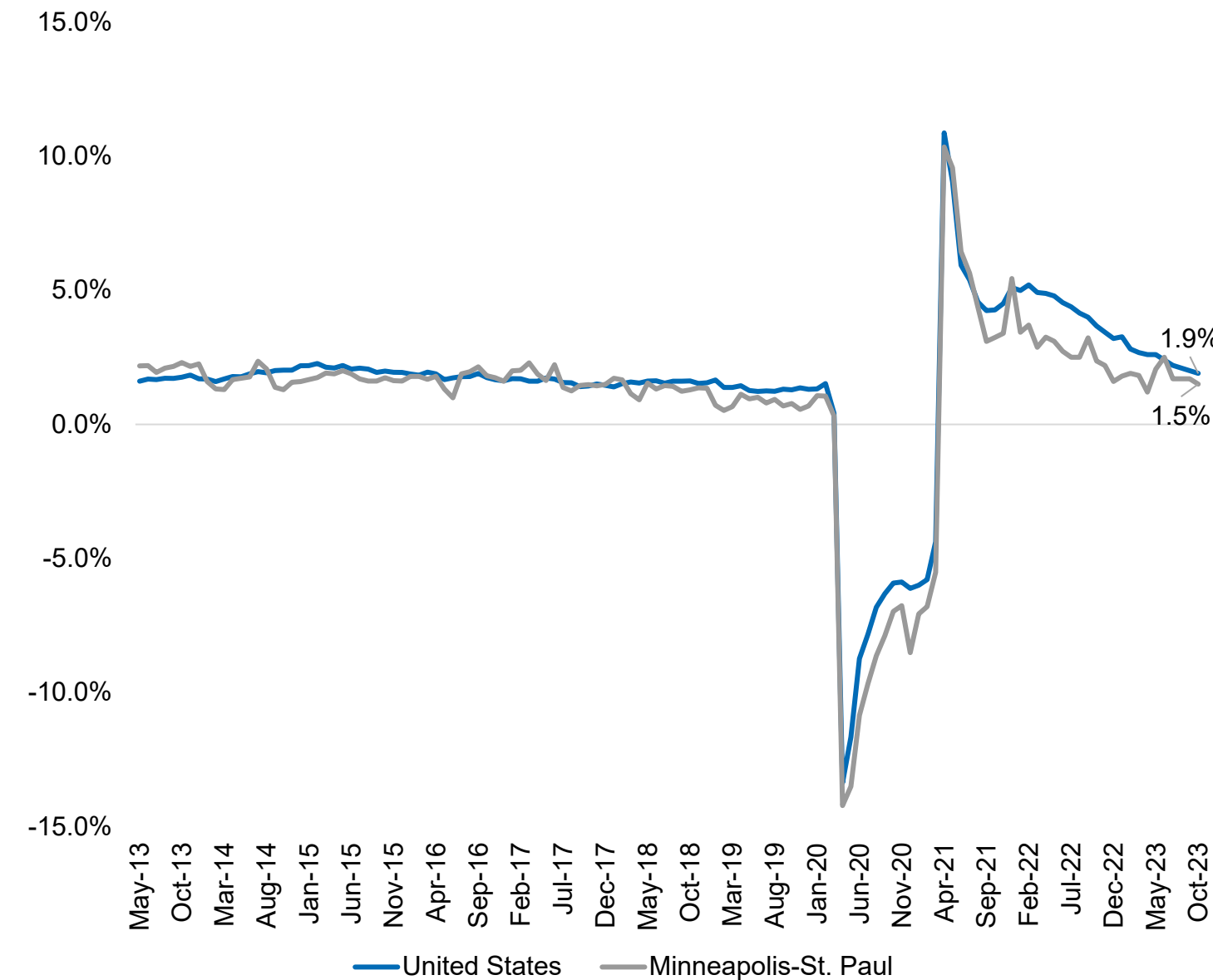
Minneapolis-St. Paul's Total Employment Continues to Increase

Minneapolis-St. Paul's unemployment rate edged up slightly to 2.9% in October, an increase from September's rate of 2.7%, but lower than August's rate of 3.2%. The U.S. unemployment rate increased to 3.9%, widening the disparity between local and national conditions. Minneapolis-St. Paul's economy continues to grow steadily, with employment growing by 1.5% for the month.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

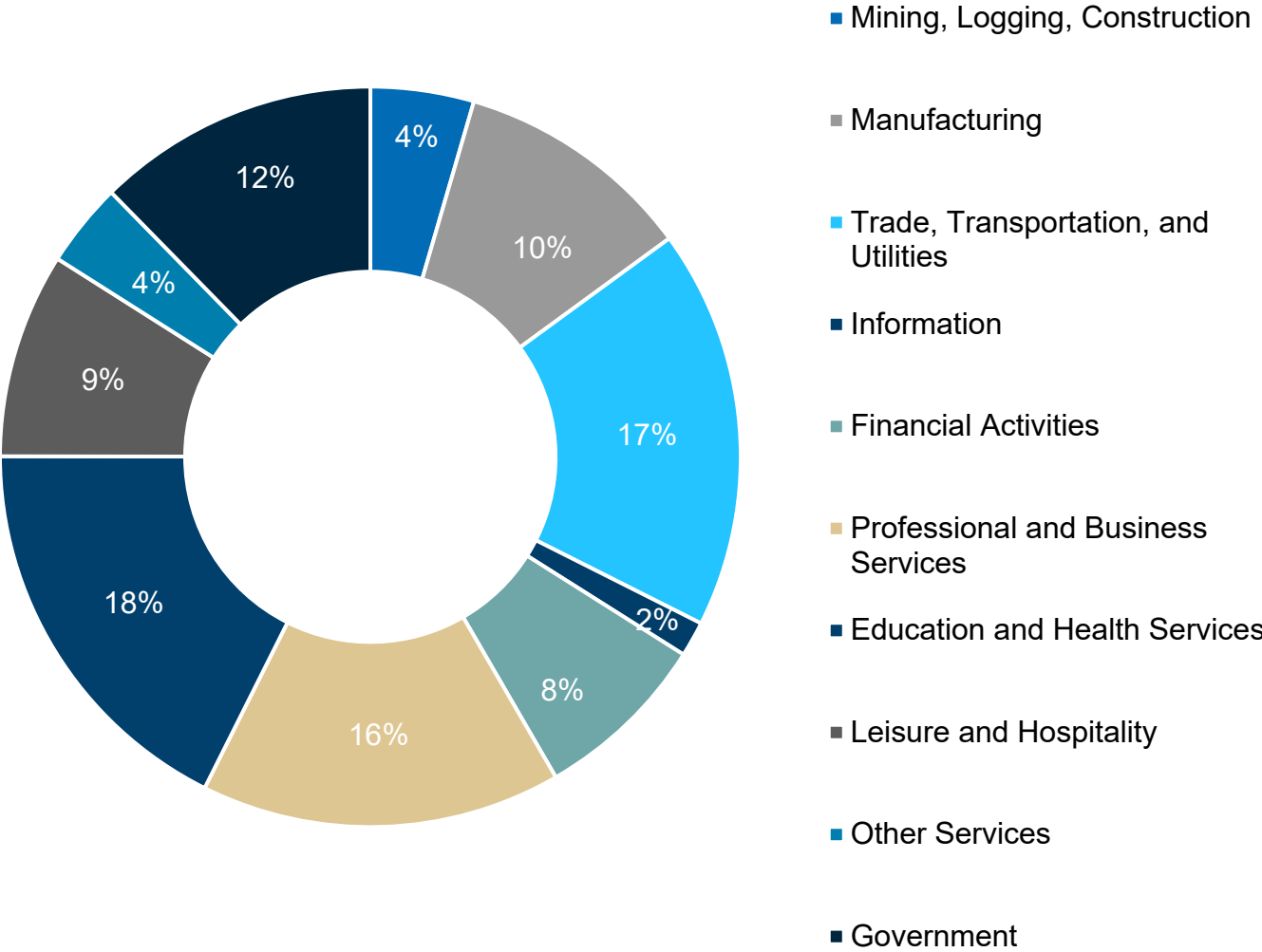


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

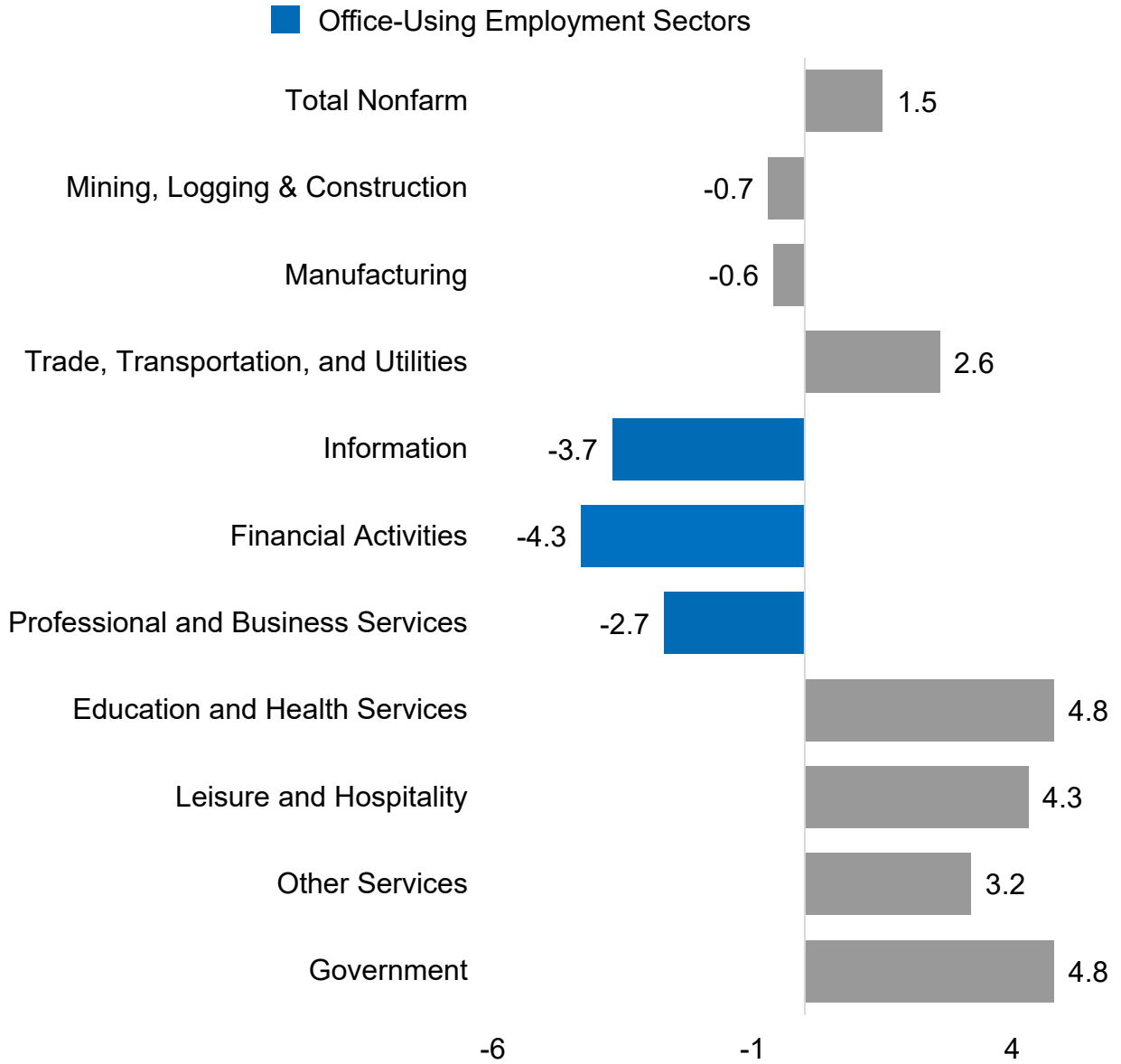
12-month Office-Using Employment Continues to Decline

Employment in the leisure and hospitality sectors also continues to experience strong growth, while office sector employment continues its decline.

Employment by Industry, November, 2023



Employment Growth by Industry, 12-Month % Change, November, 2023

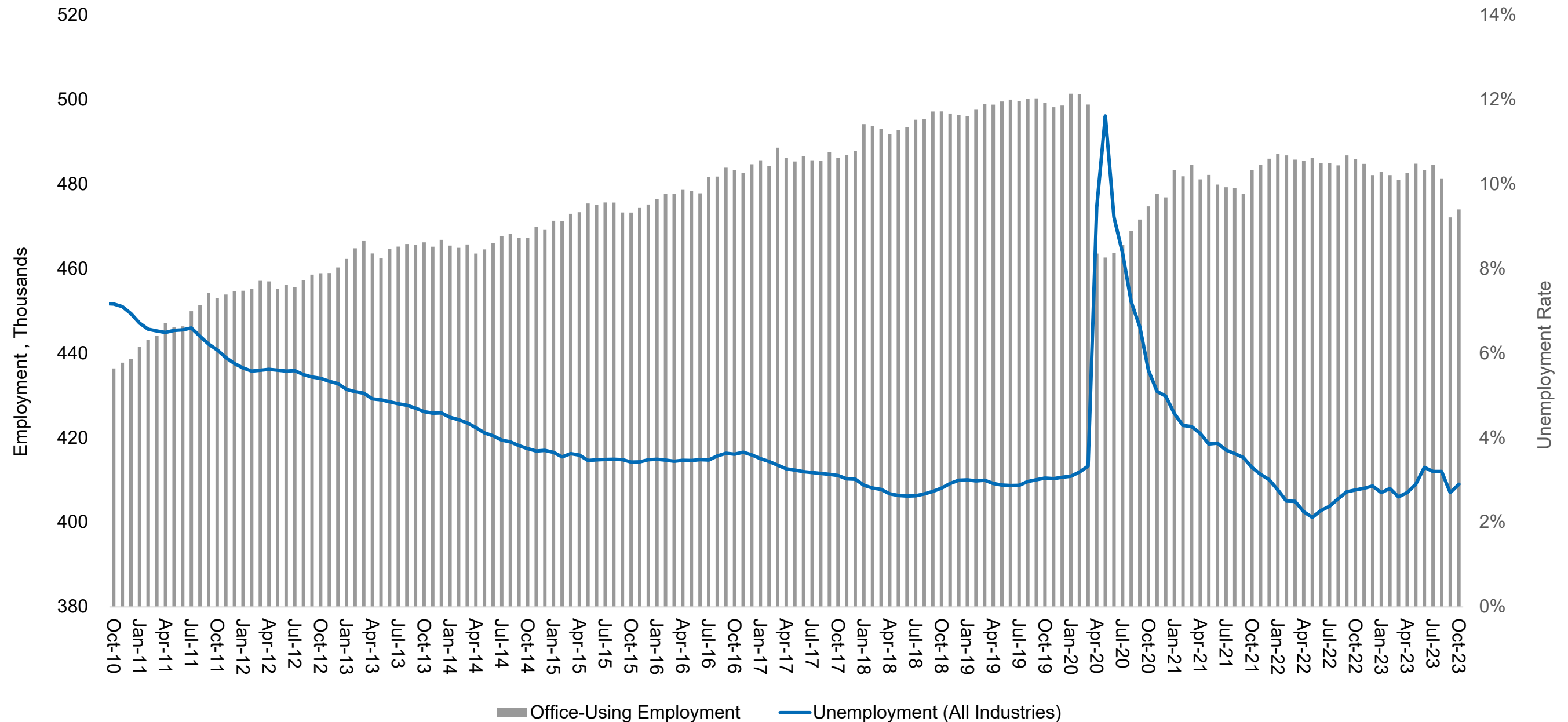


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

Struggling Office-Using Employment Sectors See Slight Increase in October

The employment sectors that utilize office spaces, including professional and business services, information and financial services, while struggling to reach pre-pandemic levels, increased in October of 2023.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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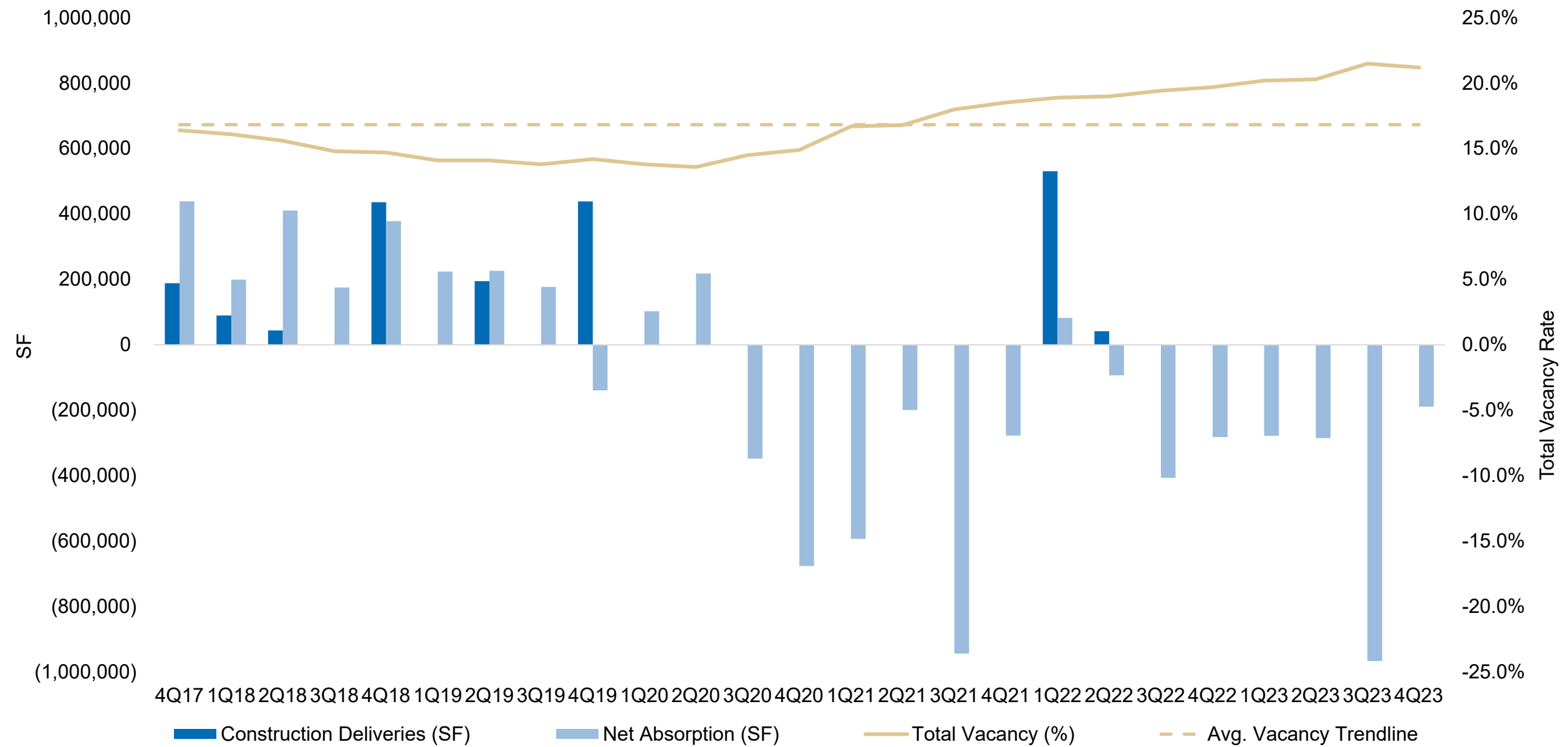
Leasing Market Fundamentals



Absorption Moderates in the 4th Quarter

Q3 absorption spike is followed by sub-200,000 square feet of negative absorption in the 4th quarter.

Historical Construction Deliveries, Net Absorption, and Vacancy

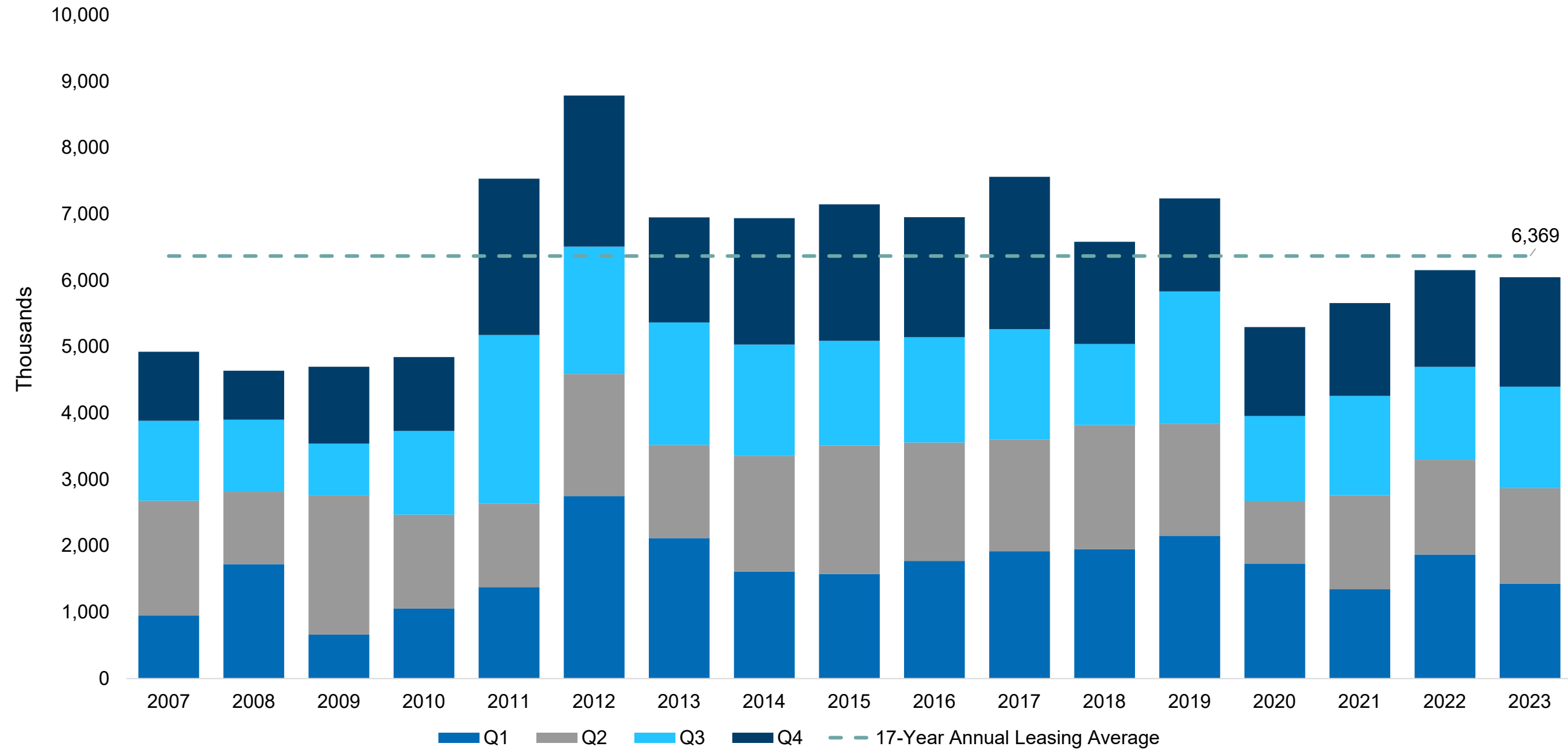


Source: Newmark Research, MNCAR, Costar

Leasing Activity Occurring But Not at Pre-Pandemic Levels

Companies are making longer-term decisions by either committing to new office spaces or renewing for longer terms. Most are reducing the amount of space they occupy.

Total Leasing Activity (thousands)

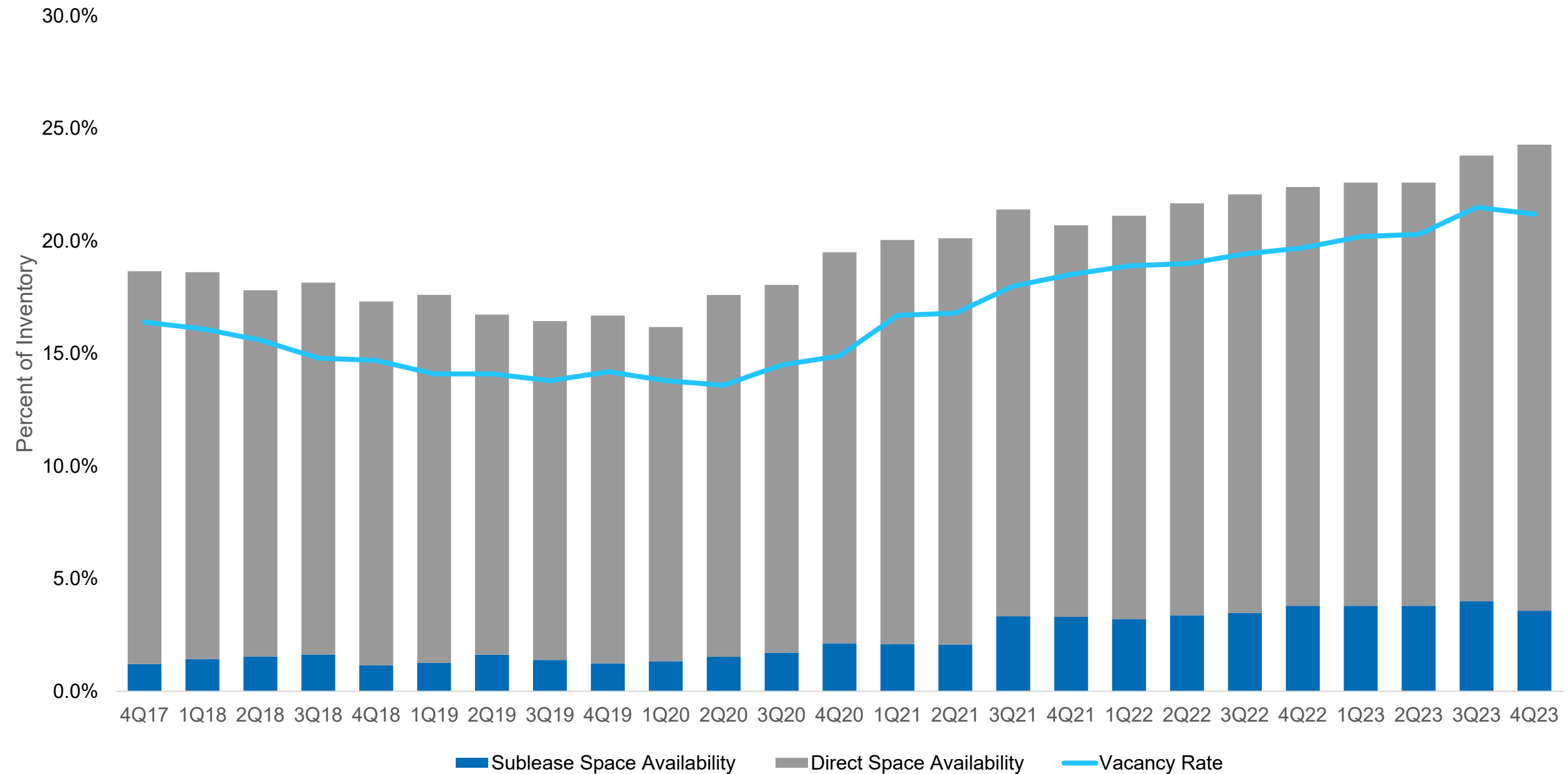


Source: Newmark Research, CoStar

Sublease Availability Decreases

Corporate consolidations and downsizing trends contributed to increasing sublease space in the past several years. Subleasing is still a significant factor but recent activity pushed availability down. Overall market vacancy percentage lowered slightly despite negative absorption as the inventory of multitenant office space decreased due to the removal of the more than 850,000 square foot US Bank Plaza North Tower, now a single-tenant property occupied exclusively by US Bank since law firm Fredrikson & Byron's move to 60 South Sixth.

Available Space as Percent of Overall Market

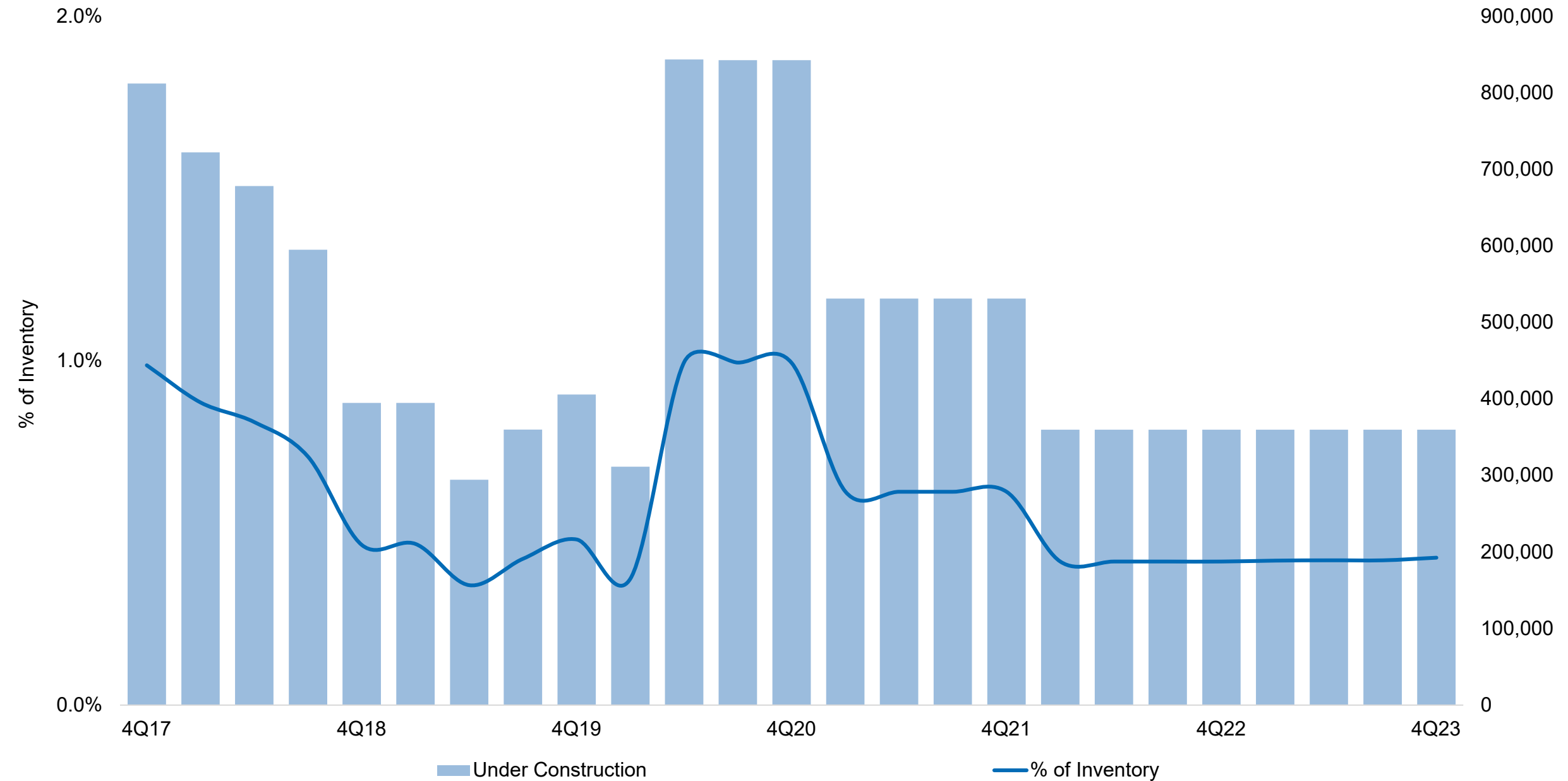


Source: Newmark Research, MNCAR

Drop in Office Demand & High Financing Costs Limit New Construction

Given the ongoing decrease in demand for office space, future construction is not expected to exacerbate vacancy rates.

Office Under Construction and % of Inventory

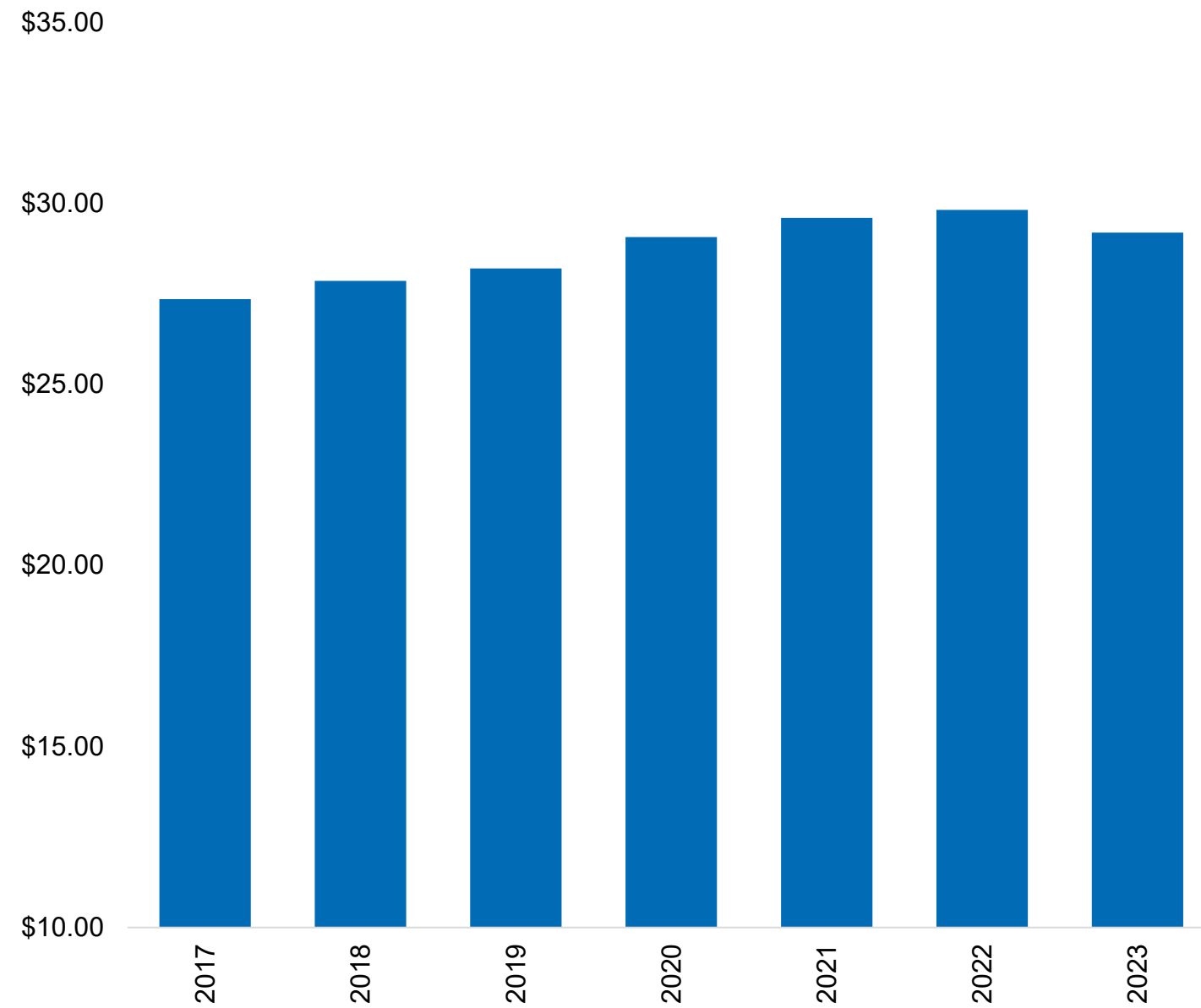


Source: Newmark Research, CoStar, MNCAR

Quoted Rates Stable

Despite slight decreases in quoted rent, rates remain elevated considering current market conditions, while concessions are substantial and increasing.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

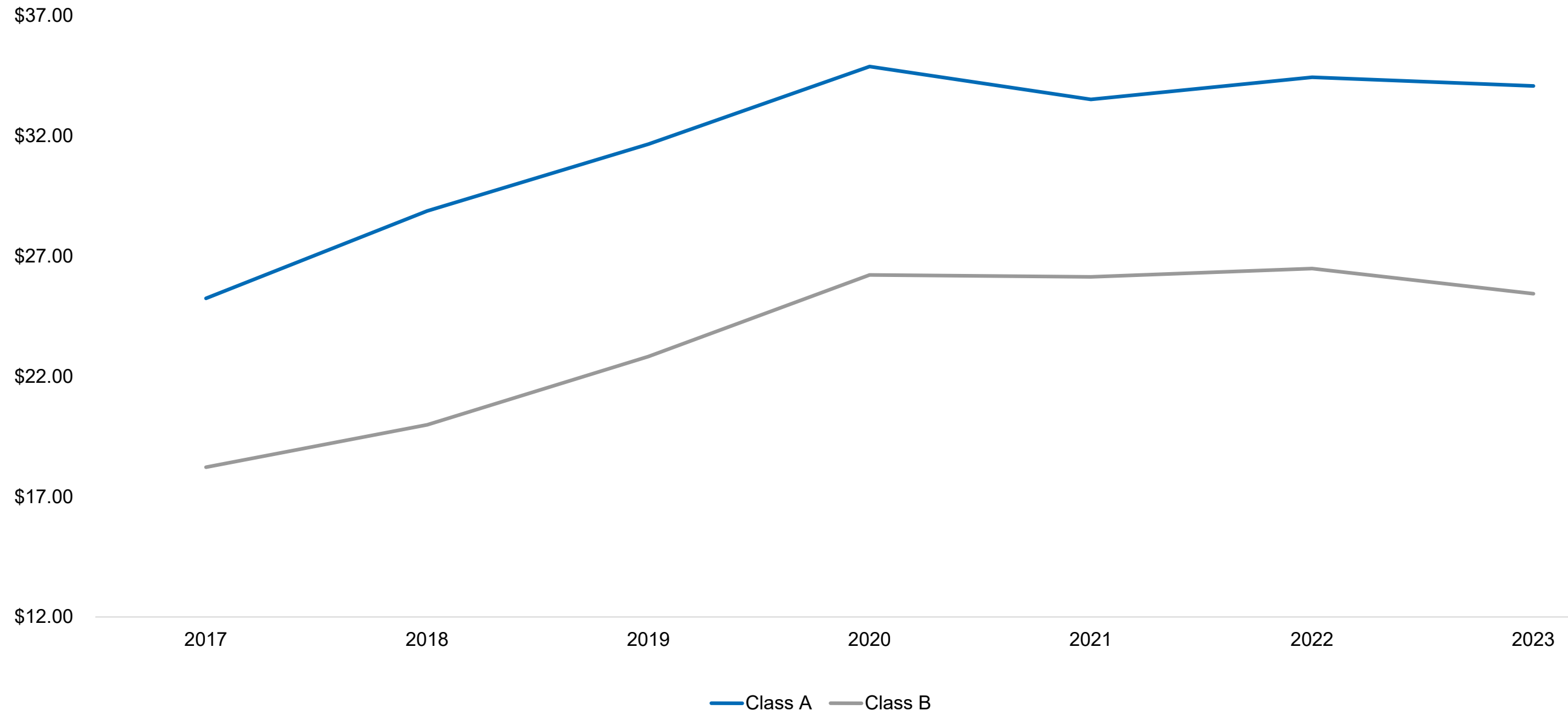


Source: Newmark Research, CoStar

Strong Demand For Highest Quality Class A Properties

Overall class A quoted rates lowered slightly over the year – class B saw a more significant decrease.

Class A and Class B Asking Rents



Source: Newmark Research, CoStar

US Bank Renewals in the Minneapolis CBD

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	SF
US Bancorp	US Bancorp Center	Minneapolis CBD – Core	Renewal	440,000
McKnight Foundation	921 S Washington	Minneapolis CBD – East	New	45,000
Revo Health	Northland Center	Southwest	New/sublease	34,000
Alerus Financial	Crescent Ridge II	West	New	32,000
Allina	Flagship Corporate Center	Southwest	Renewal	24,386
The Lacek Group	The Dayton’s Project	Minneapolis CBD – Core	New	24,000
Fafinski Mark & Johnson	One Southwest Crossing	Southwest	New	22,700
Spaces	MoZaic East	West	New	22,271
Alerus Financial	4100 Lexington Ave	Northeast	New	20,000
Regus	Choice Bank Building	Southwest	New	17,880
Craig Hallum	T3	Minneapolis CBD – Northloop	New	16,285
Coolibar	1201 Marquette Ave	Minneapolis CBD – Loring	Sublease	14,640
Meritex Enterprises, Inc.	Riverplace The Studio	Minneapolis CBD – Northeast	New	13,006
Harris Williams	Two22	Minneapolis CBD – Core	Renewal	12,222
Regus	6160 Summit	Northwest	New	9,900
Spaces	102 Water Street	St. Paul CBD	New	9,720
DTN	Offices at MOA	Southeast	Sublease	9,541
L’Oreal	The Dayton’s Project	Minneapolis CBD – Core	New	8,242
Landlord Services	Capella Tower	Minneapolis CBD - Core	Sublease	6,832
Regus	Canadian Pacific Plaza	Minneapolis CBD – Core	New	6,553
Nelson	901 Marquette	Minneapolis CBD - Core	New	6,540
Shelter Corporation	Crescent Ridge II	West	New	6,352
SmithRx	International Plaza	Southeast	New	6,250

Source: Newmark Research, MNCAR

Statistics (page 1 of 2)

Submarkets – Minneapolis CBD

	Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy % (w/sublease)	Q1 Absorption (SF)	Q2 Absorption (SF)	Q3 Absorption (SF)	Q4 Absorption (SF)	2023 Absorption (SF)	Weighted AVG Rate (FSG)	UC (SF)
Class A	17,029,408	3,370,199	1,004,402	25.7%	46,245	(9,046)	(84,523)	(200,799)	(248,123)	\$35.06	359,729
Class B	6,245,813	1,798,503	169,024	31.5%	(24,602)	(62,984)	(108,460)	(83,392)	(279,438)	\$27.96	0
Class C	75,738	30,594	0	40.4%	0	0	0	0	0	\$16.50	0
Core Total	23,350,959	5,199,296	1,173,426	27.3%	21,643	(72,030)	(192,983)	(284,191)	(527,561)	\$32.89	359,729
Class A	207,443	10,310	59,477	33.6%	0	0	0	0	0	\$36.44	0
Class B	527,912	118,487	0	22.4%	0	(12,921)	13,263	(2,163)	(1,821)	\$30.13	0
Class C	108,150	12,280	0	11.4%	0	0	(12,280)	0	(12,280)	\$21.50	0
East Total	843,505	141,077	59,477	23.8%	0	(12,921)	983	(2,163)	(14,101)	\$29.90	0
Class B	48,012	0	0	0.0%	0	(6,063)	6,063	14,640	14,640	\$21.51	0
Class C	96,724	24,875	1364	27.1%	0	0	0	(1,364)	(1,364)	\$21.00	0
Loring Total	144,736	24,875	1,364	18.1%	0	(6,063)	6,063	13,276	13,276	\$21.00	0
Class A	200,739	15,917	0	7.9%	(4,162)	0	0	0	(4,162)	\$28.14	0
Class B	1,366,699	206,648	3,585	15.4%	16,137	1,811	(4,792)	(2,612)	10,544	\$26.09	0
Class C	989,285	61,498	4,239	6.6%	(5,807)	580	(2,295)	(5,030)	(12,552)	\$21.98	0
Northeast Total	2,556,723	284,063	7,824	11.4%	6,168	2,391	(7,087)	(7,642)	(6,170)	\$25.12	0
Class A	971,244	109,923	117,596	23.4%	(52,166)	(4,527)	2,237	38,205	(16,251)	\$44.16	0
Class B	980,167	239,605	1,065	24.6%	(3,162)	17,287	(14,975)	(1,703)	(2,553)	\$35.57	0
Class C	273,320	32,321	4,443	13.5%	4,095	21,300	25,243	41,927	92,565	\$27.16	0
Northloop Total	2,224,731	381,849	123,104	22.7%	(51,233)	34,060	12,505	78,429	73,761	\$37.16	0
Class A	434,333	0	0	0.0%	0	0	0	0	0	\$35.81	0
Class B	1,515,170	382,735	83,009	30.7%	19,978	(25,341)	27,487	(15,538)	6,586	\$26.02	0
Class C	161,093	49,961	0	31.0%	0	0	(8,444)	0	(8,444)	\$23.00	0
Warehouse Total	2,110,596	432,696	83,009	24.4%	19,978	(25,341)	19,043	(15,538)	(1,858)	\$26.27	0
Class A	18,843,167	3,506,349	1,181,475	24.9%	(10,083)	(13,573)	(82,286)	(162,594)	(268,536)	\$35.32	359,729
Class B	10,683,773	2,745,978	256,683	28.1%	8,351	(88,211)	(81,414)	(90,768)	(252,042)	\$28.41	0
Class C	1,704,310	211,529	10,046	13.0%	(1,712)	21,880	2,224	35,533	57,925	\$22.06	0
Mpls CBD Total	31,231,250	6,463,856	1,448,204	25.3%	(3,444)	(79,904)	(161,476)	(217,829)	(462,653)	\$32.25	359,729

Source: Newmark Research, MNCAR, Costar
Data includes multitenant office properties 20,000 SF or larger.

Statistics (page 2 of 2)

Submarkets

	Inventory (SF)	Direct Vacant	Sublease Vacant	Vacancy % (w/sublease)	Q1 Absorption (SF)	Q2 Absorption (SF)	Q3 Absorption (SF)	Q4 Absorption (SF)	2023 Absorption (SF)	Weighted AVG Rate (FSG)	UC (SF)
Class A	2,008,491	343,797	41,805	19.2%	(36,026)	(24,983)	10,273	(8,021)	(58,757)	\$32.67	0
Class B	4,222,444	775,942	19,012	18.8%	(41,315)	(131,149)	30,208	(8,607)	(150,863)	\$20.16	0
Class C	411,084	73,634	24,040	23.8%	(8,156)	725	(27,415)	323	(34,523)	\$16.93	0
St. Paul CBD Total	6,642,019	1,193,373	84,857	19.2%	(85,497)	(155,407)	13,066	(16,305)	(244,143)	\$23.91	0
Class A	535,976	113,358	23,766	25.6%	(47,980)	(909)	17,107	12,767	(19,015)	\$24.15	0
Class B	7,173,027	888,161	316,541	16.8%	26,029	(43,615)	(11,646)	(14,022)	(43,254)	\$22.33	0
Class C	1,412,817	316,775	0	22.4%	(9,469)	(27,582)	25,924	(19,620)	(30,747)	\$15.98	0
Northeast Total	9,121,820	1,318,294	340,307	18.2%	(31,420)	(72,106)	31,385	(20,875)	(93,016)	\$21.95	0
Class A	451,567	31,905	29,194	13.5%	(9,385)	(547)	(3,151)	0	(13,083)	\$23.33	0
Class B	2,310,407	462,442	1,478	20.1%	(42,875)	(67,134)	(18,523)	(7,735)	(136,267)	\$20.97	0
Class C	380,568	1,794	0	0.5%	5,527	(2,742)	948	0	3,733	\$12.82	0
Northwest Total	3,142,542	496,141	30,672	16.8%	(46,733)	(70,423)	(20,726)	(7,735)	(145,617)	\$20.93	0
Class A	1,228,723	145,119	9,647	12.6%	(5,160)	(2,794)	(7,688)	(4,075)	(19,717)	\$28.31	0
Class B	4,413,949	1,010,543	14,611	23.2%	(21,554)	52,802	36,670	(6,442)	61,476	\$23.59	0
Class C	1,403,769	102,730	0	7.3%	430	(488)	2,492	(7,334)	(4,900)	\$18.52	0
Southeast Total	7,046,441	1,258,392	24,258	18.2%	(26,284)	49,520	31,474	(17,851)	36,859	\$23.65	0
Class A	7,198,992	1,621,356	315,035	26.9%	(90,276)	(142,456)	(636,817)	3,046	(866,503)	\$32.36	0
Class B	7,216,800	1,287,214	150,206	19.9%	(31,217)	138,322	(108,682)	(15,461)	(17,038)	\$25.61	0
Class C	2,237,837	157,126	7,604	7.4%	17,926	30,933	(3,405)	16,967	62,421	\$22.46	0
Southwest Total	16,653,629	3,065,696	472,845	21.2%	(103,567)	26,799	(748,904)	4,552	(821,120)	\$29.08	0
Class A	3,576,783	703,875	34,803	20.7%	83,468	(52,368)	(65,469)	79,220	44,851	\$37.31	0
Class B	5,453,467	664,026	91,742	13.9%	(65,029)	65,721	(29,088)	(10,588)	(38,984)	\$30.09	0
Class C	1,202,965	87,026	29,927	9.7%	167	2,932	(17,303)	18,192	3,988	\$28.09	0
West Total	10,233,215	1,454,927	156,472	15.7%	18,606	16,285	(111,860)	86,824	9,855	\$33.49	0
Class A	33,843,699	6,465,759	1,635,725	23.9%	(115,442)	(237,630)	(768,031)	(79,657)	(1,200,760)	\$34.08	359,729
Class B	41,473,867	7,834,306	850,273	20.9%	(167,610)	(73,264)	(182,475)	(153,623)	(576,972)	\$25.44	0
Class C	8,753,350	950,614	71,617	11.7%	4,713	25,658	(16,535)	44,061	57,897	\$21.02	0
Overall Total	84,070,916	15,250,679	2,557,615	21.2%	(278,339)	(285,236)	(967,041)	(189,219)	(1,719,835)	\$29.20	359,729

Source: Newmark Research, MNCAR, Costar
Data includes multitenant office properties 20,000 SF or larger.

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Submarkets



Minneapolis CBD

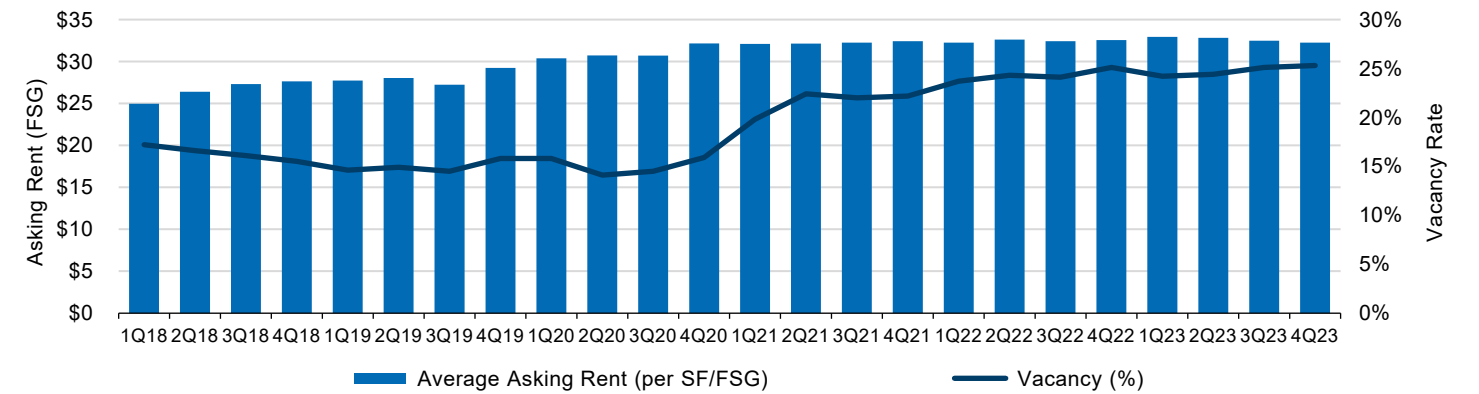
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	31.2M	32.2M	32.6M
Vacancy Rate	25.3%	25.1%	25.1%
Quarterly Net Absorption (SF)	(217,829)	(161,476)	(318,133)
Average Asking Rent/SF	\$32.25	\$32.47	\$32.54
Under Construction (SF)	359,729	359,729	359,729

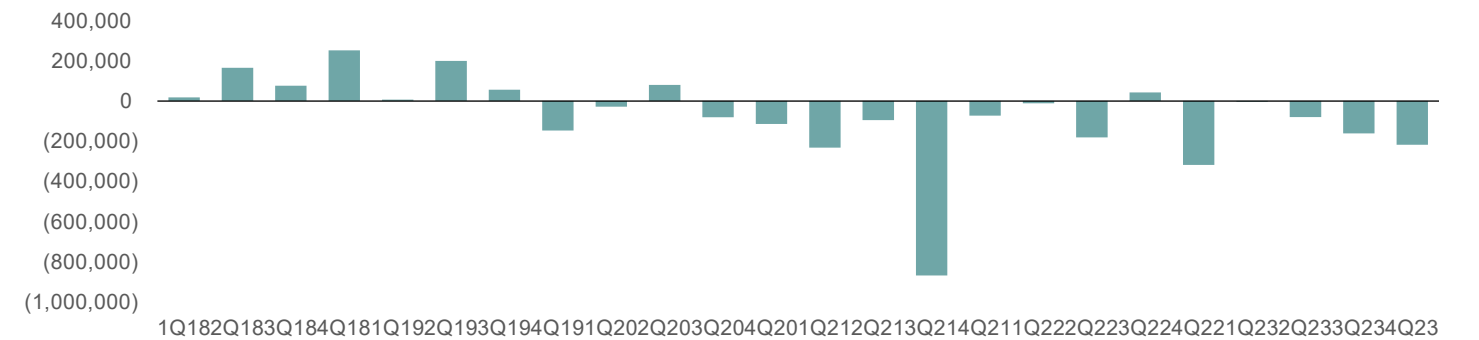
Current Market Trends

- U.S. Bancorp announced it is renewing its lease at U.S. Bancorp Center. The company will keep its 440,000 SF footprint at the property but will be leaving 340,000 square feet at Meridian Crossings in Richfield in the Southwest submarket.
- IDS Center landlord Accesso Partners finalized a 3-year loan extension after failing to meet the May 1st deadline for its mortgage balance. The owner closed on the extension for the commercial mortgage-backed security loan on the property, which had been transferred to special servicing earlier in 2023 due to the approaching deadline.
- North Loop Green, a mixed-use project with 350,000 square feet of office space, is scheduled to be completed in February of 2024. The office space is currently almost 70% leased with a tenant list that includes Piper Sandler, KPMG, ESG Architects and Varde Partners.
- Hempel Real Estate purchased the 89,000 square foot historic Pence Building for \$3.6 MSF, adding to its portfolio of properties near Lasalle Plaza, which it purchased earlier in the year. The company also bought an 850-stall parking ramp close by in June.
- Northstar Capital purchased a new headquarters building at 615 N. 3rd St in the North Loop. The 39,000 square foot building will serve as the company’s new headquarters following their relocation from PwC Plaza.
- ICM Realty Group LLC sold the Barrell House office building to Barrel House LLC for \$8.4M. The 80,000 square foot building has a rooftop with views of the Mississippi River.
- The Dayton’s Project landed 2 new tenants, The Lacek Group and L’Oreal, occupying 24,000 and 8,242 square feet, respectively. The Lacek Group is downsizing from a 60,000 square foot space at the Forum. Other companies leasing space at the Dayton’s Project include Prudential, EY, Unilever, Uncommon, Buyers Support Group, and Sezzle.
- The Flour Exchange building, totaling 93,352 square feet, is for sale. The historic property is owned by R2 Companies and is being marketed to executive and creative office users in addition to potential redevelopment possibilities.
- The McKnight Foundation signed a lease for an office building at 921 S. Washington in the East submarket of the Minneapolis CBD. The nonprofit will occupy the entire building, which totals 45,904 square feet, in early 2025. The property was previously occupied by advertising agency Periscope, which is planning a move but has not yet identified a new location.

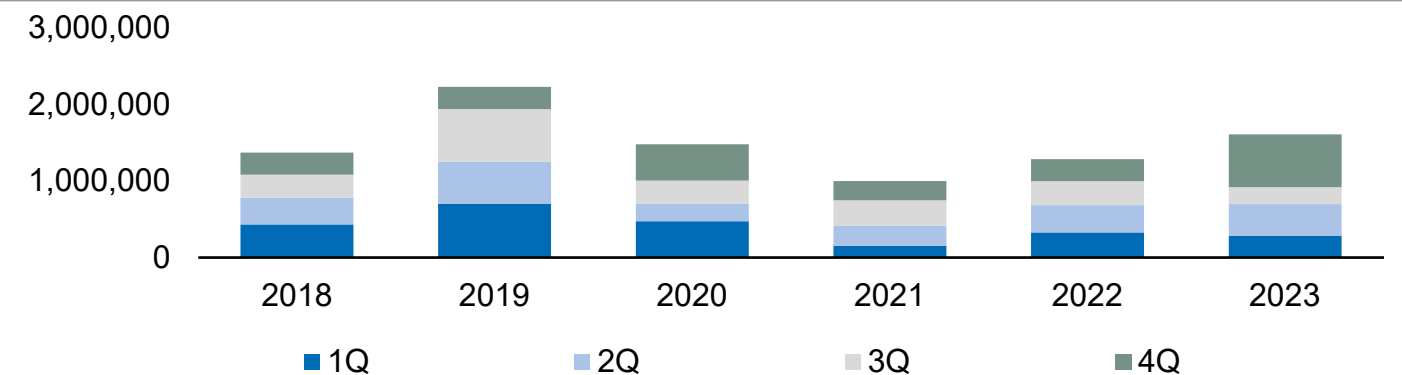
Asking Rent and Vacancy Rate



Net Absorption (SF)



Overall Leasing Activity



Source: Newmark Research, MNCAR, Costar

St. Paul CBD

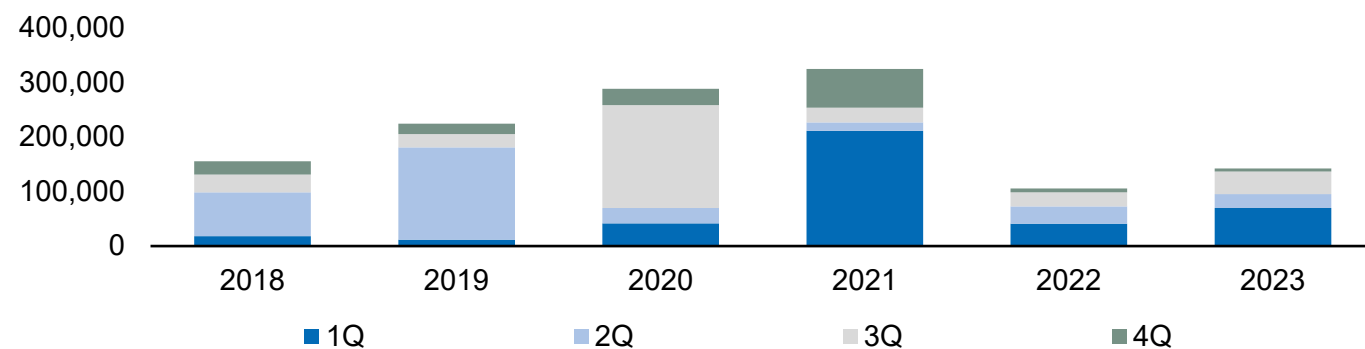
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	6.6M	7.1M	7.3M
Vacancy Rate	19.2%	21.7%	18.2%
Quarterly Net Absorption (SF)	(16,305)	13,066	(45,162)
Average Asking Rent/SF	\$23.91	\$24.67	\$25.67
Under Construction (SF)	0	0	0

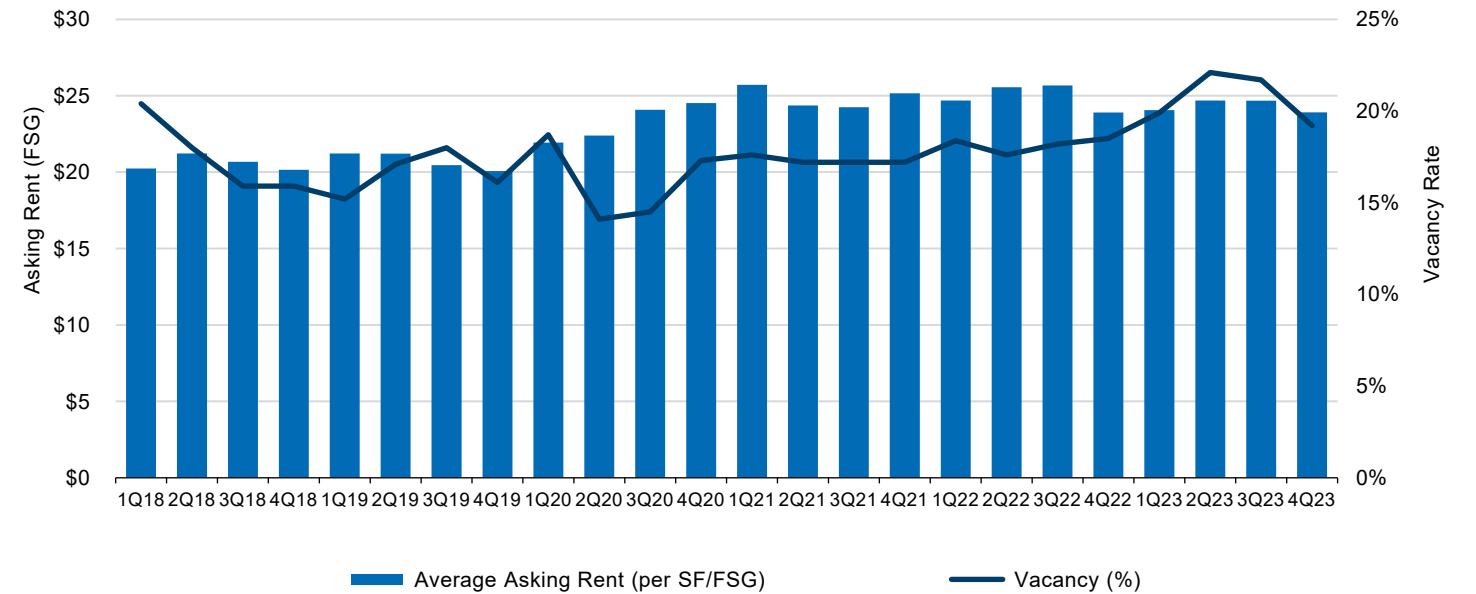
Current Market Trends

- Vacancy decreased from 21.7% during the third quarter of 2023 to 19.2%, and absorption was negative 16,305.
- The St. Paul CBD is an affordable submarket, with asking rents of \$23.91/SF, compared with the overall average rate of \$29.20/SF.
- The inventory of space has been decreasing in recent years as properties are converted to residential uses.
 - The former Ecolab University at 386 Wabasha will be converted to apartments. Inland purchased the property and has plans for approximately 175 units.
 - Sherman Associates received approval from the St. Paul City Council for \$21 million in tax-increment financing to convert Landmark Towers to 187 apartments.

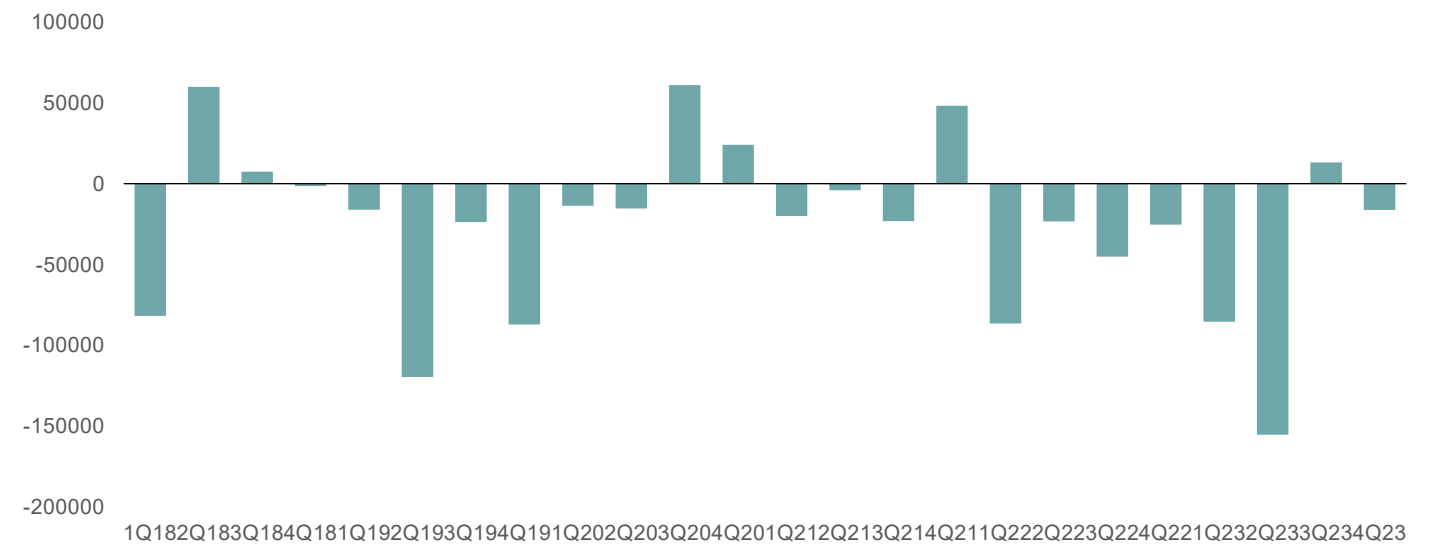
Overall Leasing Activity



Asking Rent and Vacancy Rate



Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Northeast

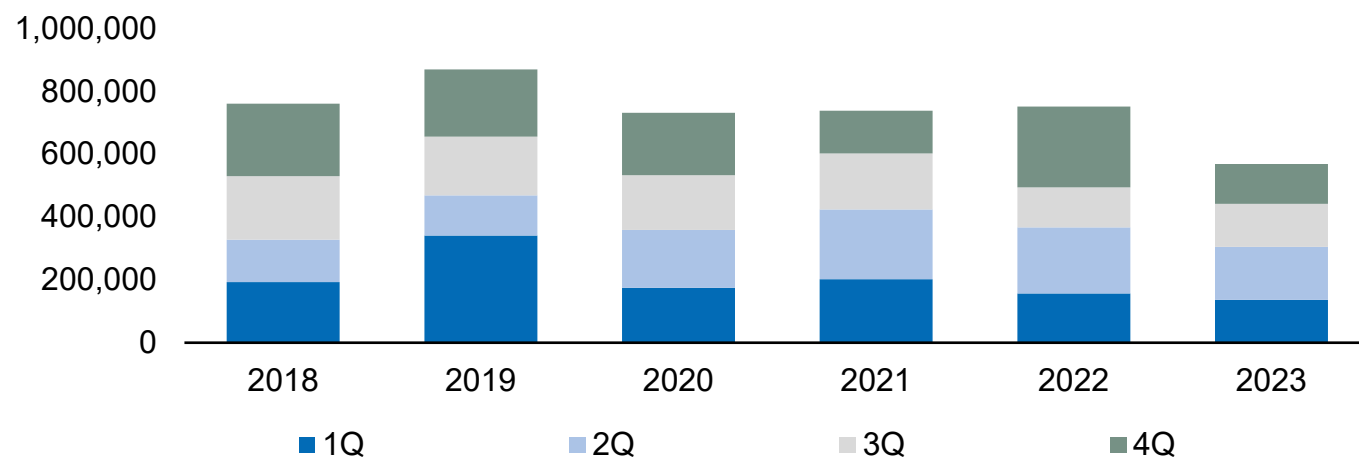
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	9.1M	9.1M	9.1M
Vacancy Rate	18.2%	17.9%	15.8%
Quarterly Net Absorption (SF)	(20,875)	31,385	51,313
Average Asking Rent/SF	\$21.95	\$22.36	\$22.26
Under Construction (SF)	0	0	0

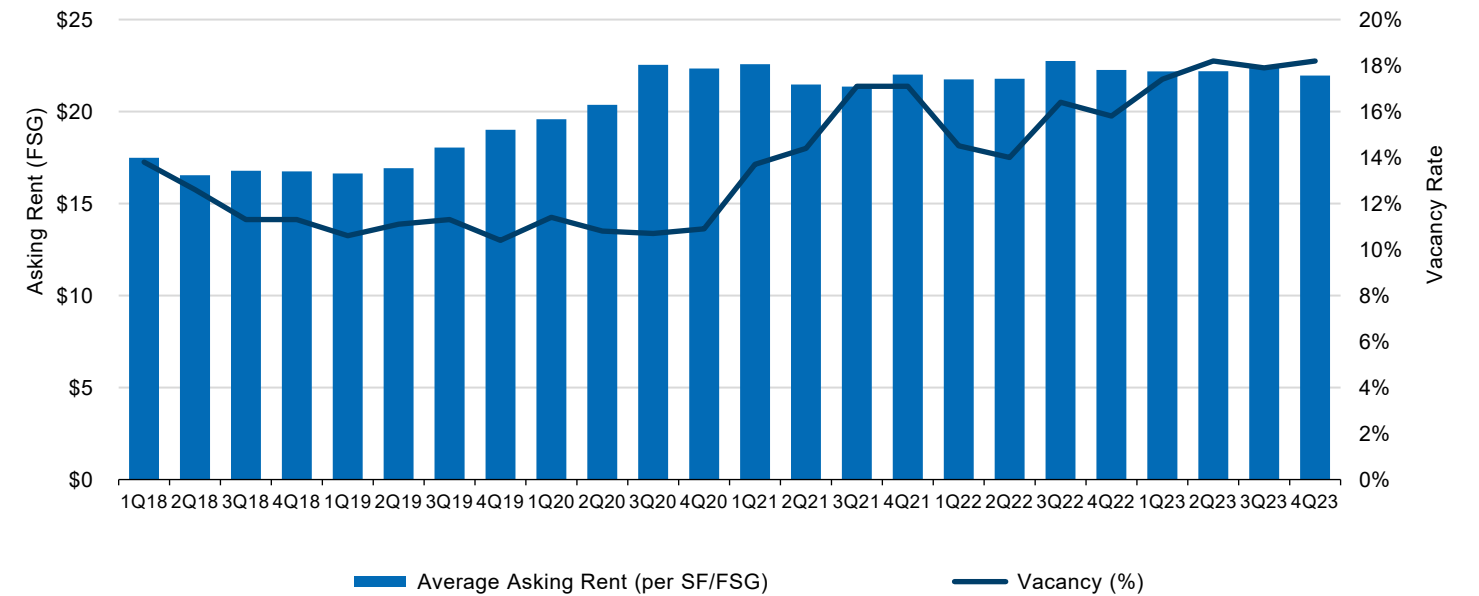
Current Market Trends

- The vacancy rate increased from 17.9% to 18.2% during the fourth quarter of 2023. There was 20,875 SF of negative absorption.
- Rental rates in this submarket are lower than the overall market average of \$29.42/SF. Class A rates are nearly \$10/SF less than overall Class A rates; at \$24.15/SF and \$34.08/SF for the Northeast and overall, respectively.
- Alerus Financial signed a new, 20,000 SF lease at 4100 Lexington Avenue in Shoreview. The company is also moving to a new location in Minnetonka, both spaces are designed to draw workers back to the office and include signage.

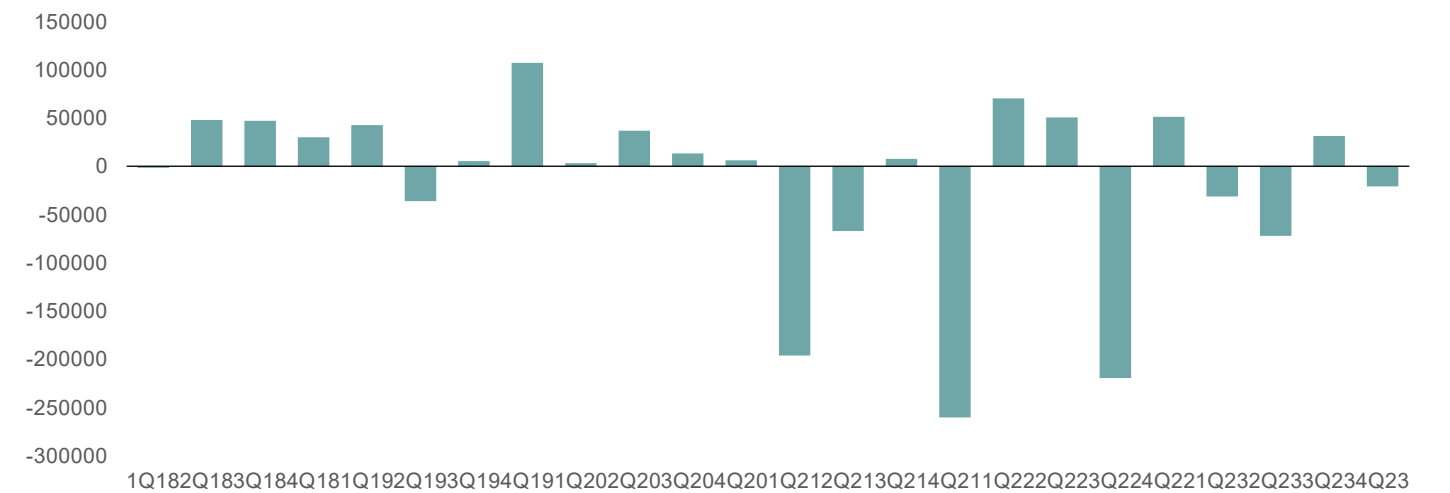
Overall Leasing Activity



Asking Rent and Vacancy Rate



Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Northwest

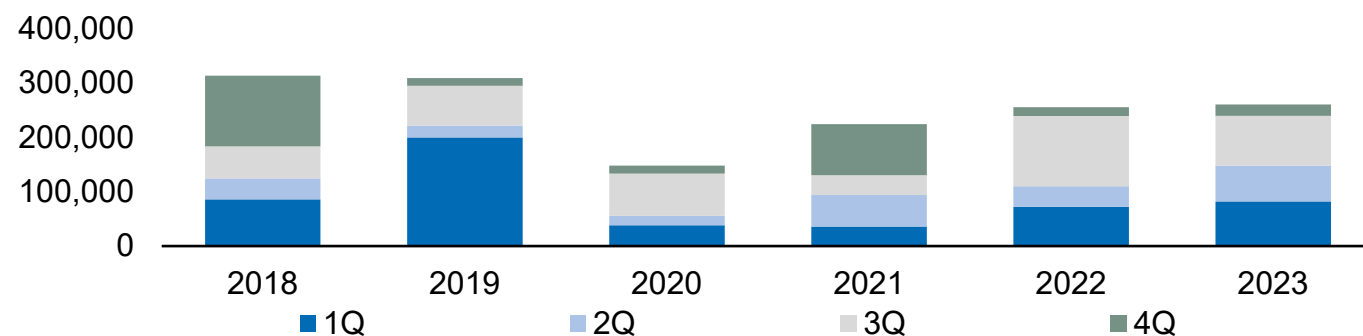
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	3.1M	3.0M	3.0M
Vacancy Rate	16.8%	15.7%	11.1%
Quarterly Net Absorption (SF)	(7,735)	(20,726)	22,416
Average Asking Rent/SF	\$20.93	\$21.75	\$21.70
Under Construction (SF)	0	0	0

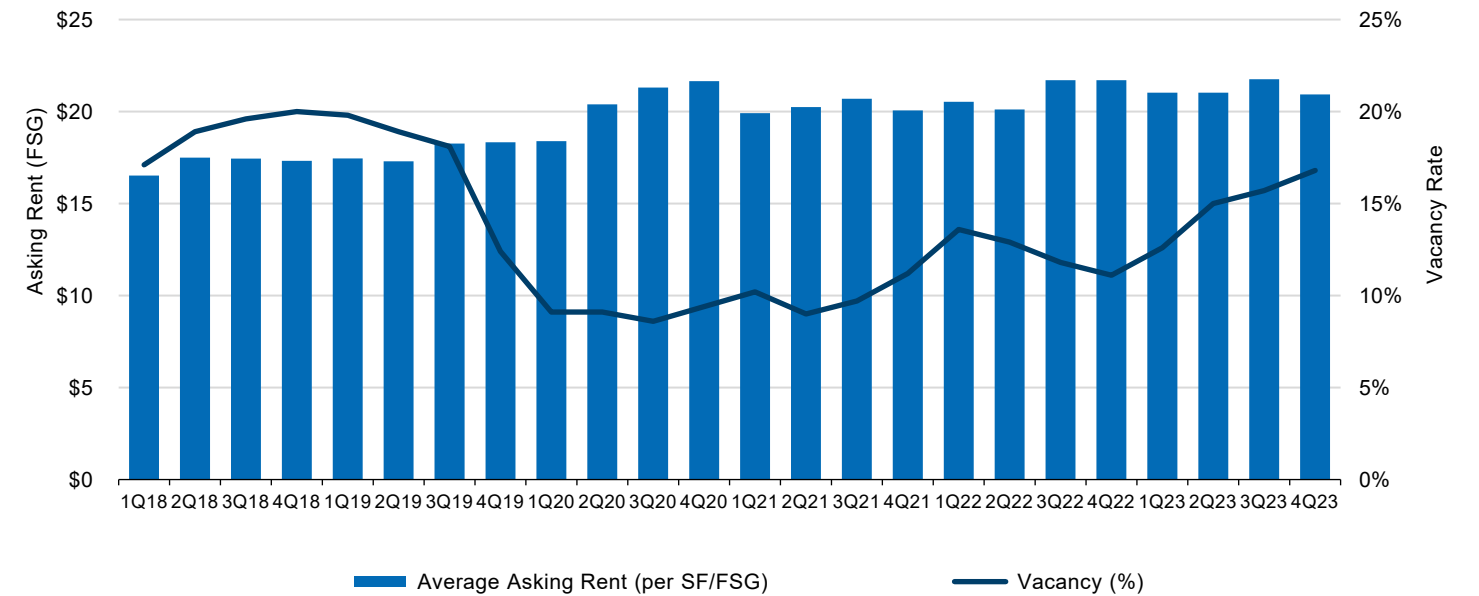
Current Market Trends

- Vacancy continued to increase from 15.7% in the previous quarter to 16.8% currently. Absorption in the third quarter of 2023 moderated to negative 7,735 SF from negative 20,726 in the third quarter.
- Rental rates are the lowest in the market, at \$20.93 SF overall and \$23.33/SF for Class A space. This compares with overall rates of \$29.20/SF and Class A overall rates of \$34.08/SF.
- Approximately \$6M in state assistance has been granted to a campus in Maple Grove, planned for Boston Scientific. Ryan Companies is developing the project on 100 acres that will include corporate offices in addition to laboratory space.
- The Metropolitan Council approved a plan amendment for the redevelopment of the former Prudential campus in Plymouth. Prudential relocated to the Minneapolis CBD, vacating the 76-acre campus which was purchased by Roers Cos. and Scannell Properties. A mixed used redevelopment is planned to include five retail buildings, a medical office building, multifamily housing units and a 450,000-square-foot office park.

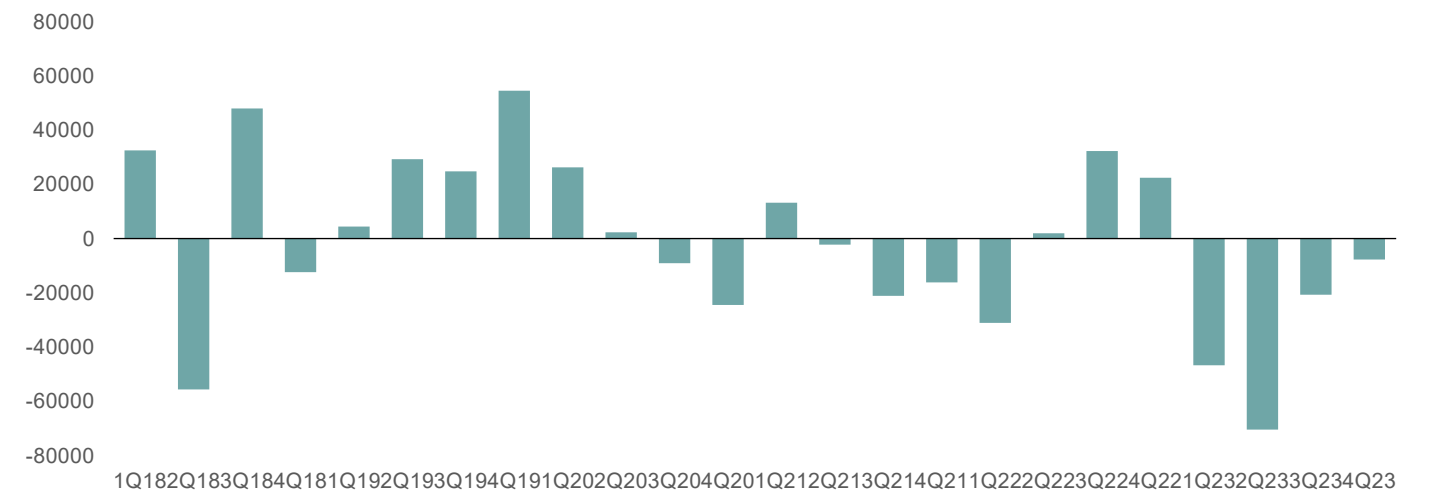
Overall Leasing Activity



Asking Rent and Vacancy Rate



Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Southeast

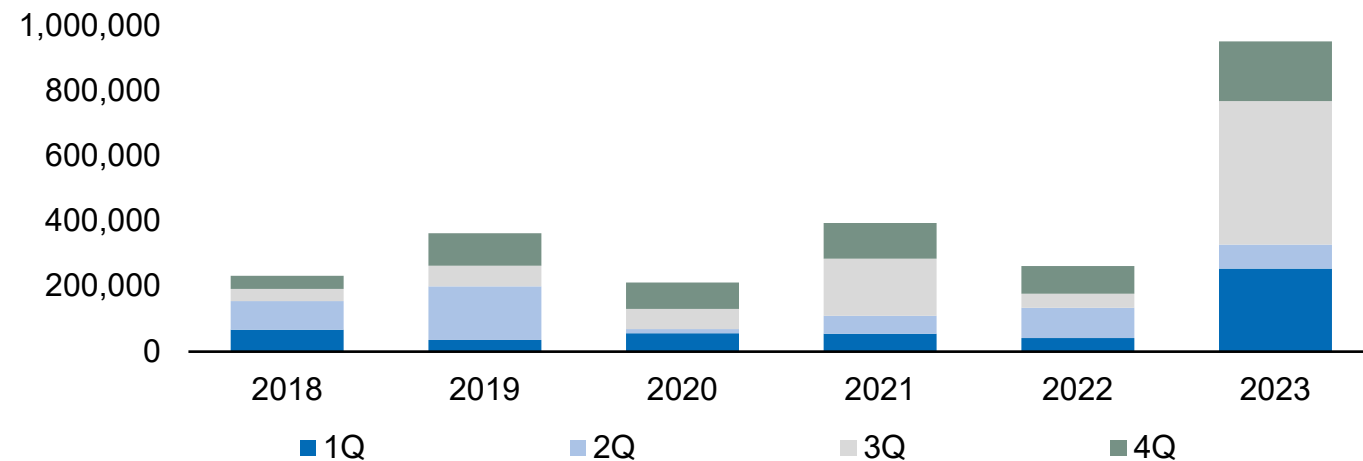
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	7.0M	7.0M	7.1M
Vacancy Rate	18.2%	17.9%	18.6%
Quarterly Net Absorption (SF)	(17,851)	31,474	5,811
Average Asking Rent/SF	\$23.65	\$23.24	\$23.04
Under Construction (SF)	0	0	0

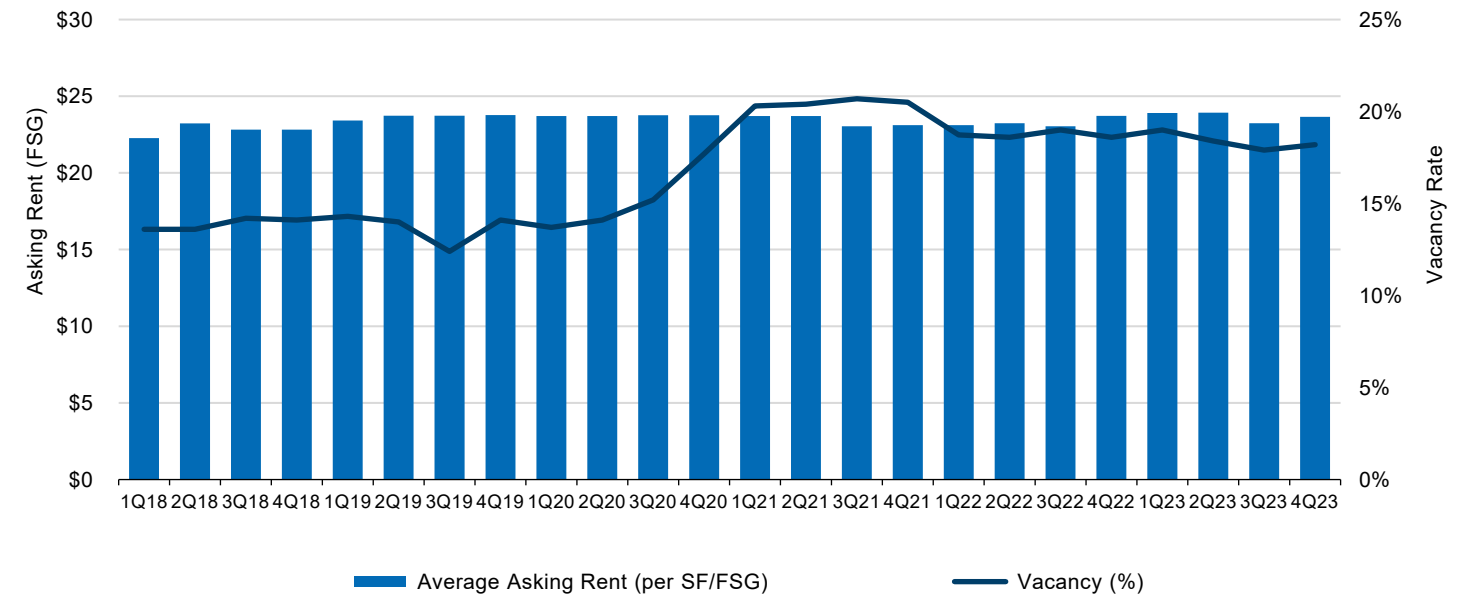
Current Market Trends

- Rental rates overall are \$23.65/SF and absorption was negative at 17,851 SF, increasing the vacancy rate from 17.9% in the third quarter of 2023 to 18.2% currently.
- Overall leasing activity surged in 2023, with Thomson Reuters' 3rd quarter announcement that it will sublease 300,000 SF at the Prime Therapeutics campus in Eagan.
- Blue Cross Blue Shield extended its lease at two of the properties at its 1 MSF campus in Eagan, 3400 Yankee Drive (213,800 SF) and 1800 Yankee Doodle Road (133,200 SF). The company did not renew its leases at the remaining four buildings on the campus. These properties will be redeveloped, including a proposed, 460,000-square-foot warehouse facility for wine and liquor distributor Johnson Brothers.

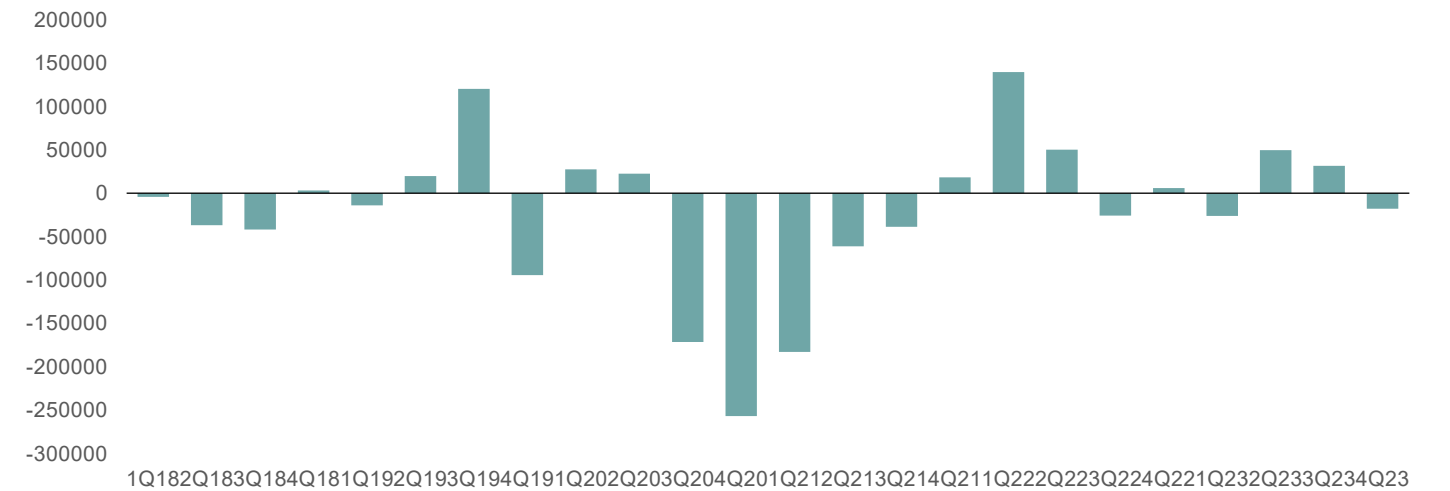
Overall Leasing Activity



Asking Rent and Vacancy Rate



Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Southwest

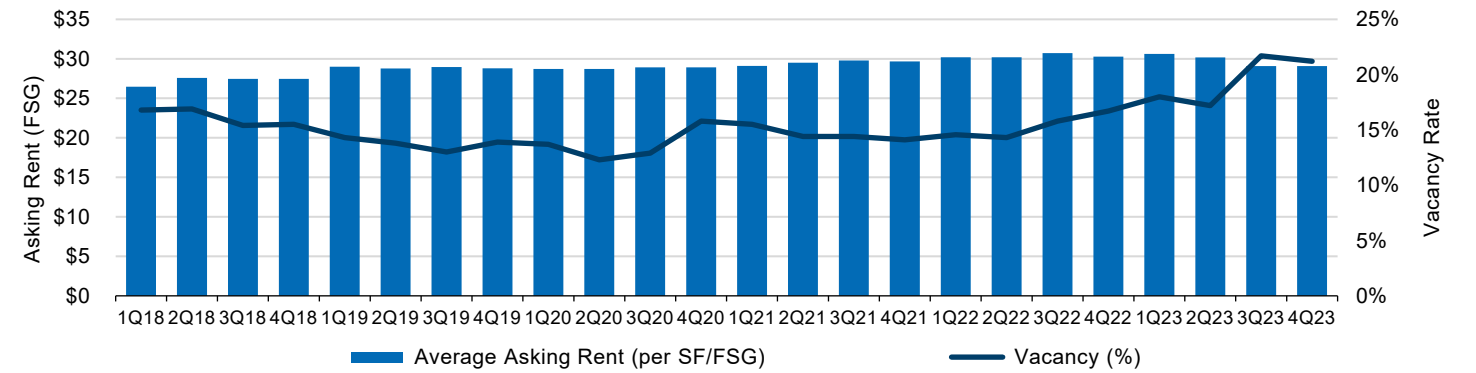
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	16.7M	16.8M	17.1M
Vacancy Rate	21.2%	21.7%	16.7%
Quarterly Net Absorption (SF)	4,552	(748,904)	(147,242)
Average Asking Rent/SF	\$29.08	\$29.08	\$30.27
Under Construction (SF)	0	0	15,400

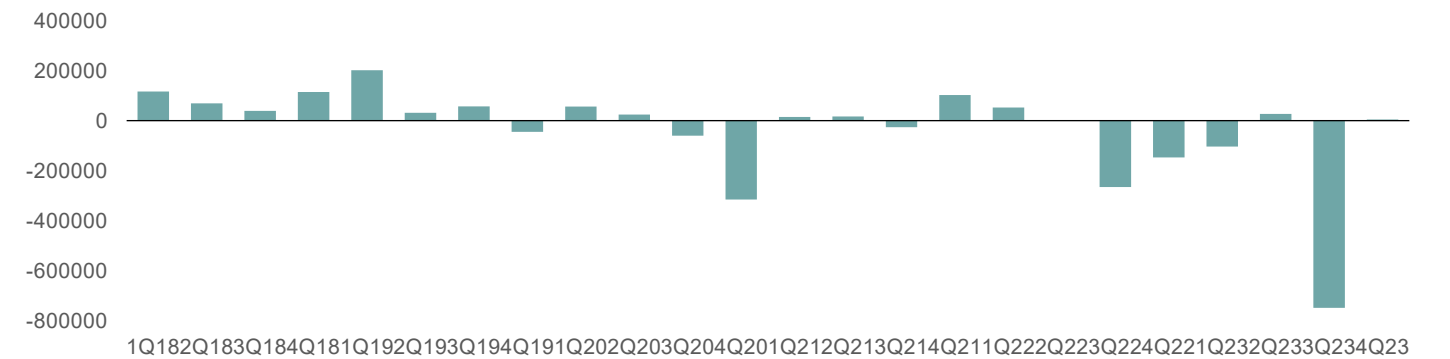
Current Market Trends

- The vacancy rate decreased to 21.2% from 21.7% in the third quarter of 2023 and there was 4,552 SF of positive absorption, after negative absorption in the third quarter due to Best Buy's listing of 600,000 SF for lease at its 1.1 MSF campus in Richfield. Average quoted rental rates were flat at \$29.08/SF.
- The France Avenue Corridor has been a hotspot of robust demand, with its strong infill location and proximity to retail, services and freeway linkages.
- Opting not to renew its lease, Optum, a subsidiary of UnitedHealth Group, is moving out of a campus in Eden Prairie located at 13625 and 13675 Technology Drive. The landlord has actively marketed the space for lease since the third quarter of 2022, anticipating the lease expiration at year-end 2023. The campus totals 473,000 square feet on 54 acres and was previously occupied by ADC Telecommunications.
- UnitedHealth Group is also seeking to sell or lease its 164,931 square foot building in the Opus Business Park in Minnetonka. The company is consolidating its operations to its Optum campus in Eden Prairie, which was developed in 2014 and totals more than 1 MSF.
- Law firm Fafinski Mark & Johnson will move offices from its 24,386-square-foot, recently-remodeled office at Flagship Corporate Center to One Southwest Crossing, both properties are in Eden Prairie.
- Revo Health signed a 34,000 square foot lease at Northland Center in Bloomington, consolidating its current offices in Bloomington and Golden Valley into the entire 3rd floor of the building.

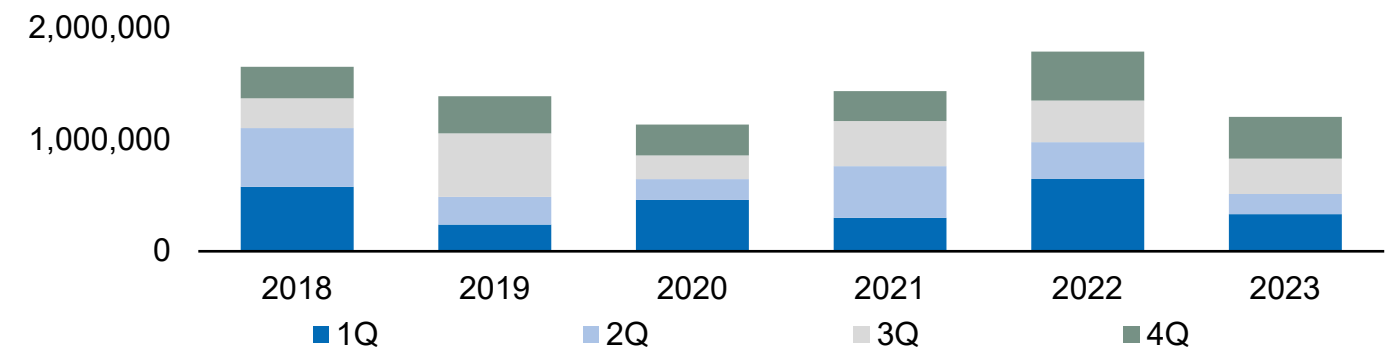
Asking Rent and Vacancy Rate



Net Absorption (SF)



Overall Leasing Activity



Source: Newmark Research, MNCAR, Costar

West

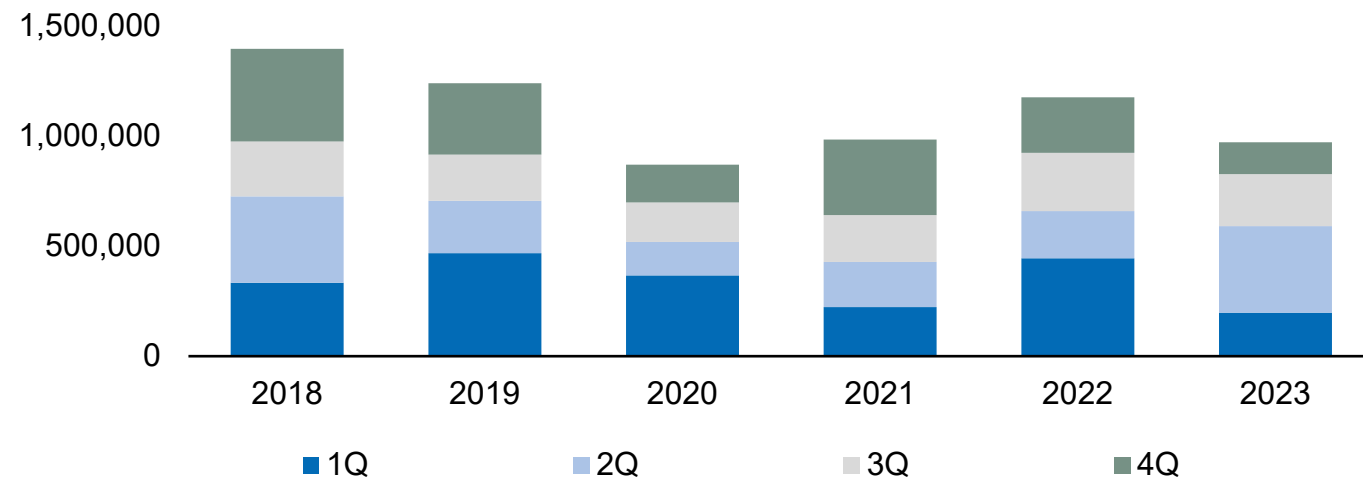
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	10.2M	10.3M	10.3M
Vacancy Rate	15.7%	16.8%	15.4%
Quarterly Net Absorption (SF)	86,824	(111,860)	130,042
Average Asking Rent/SF	\$33.49	\$34.28	\$35.00
Under Construction (SF)	0	0	0

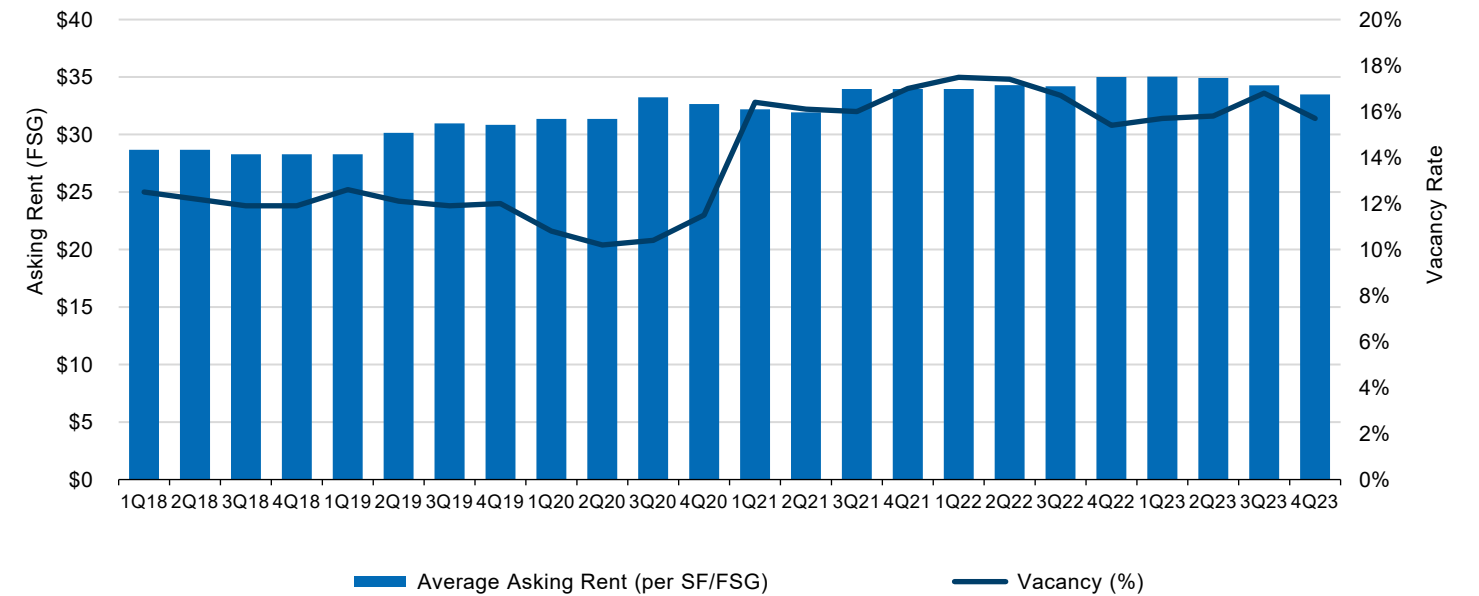
Current Market Trends

- The West submarket boasts the highest rental rates among submarkets at \$33.49/SF, surpassing the overall average of \$29.20/SF by 14.7%, and exceeding the overall rate of \$32.25/SF in the Minneapolis CBD, which has the second-highest rate in the metro area.
- The vacancy rate decreased from 16.8% to 15.7%, with 86,824 SF of positive absorption.
- Alerus Financial signed 2 new leases during the quarter, to encourage workers to return to newly-designed offices. The company will move into 32,000 square feet at Crescent Ridge II in Minnetonka and signed a new, 20,000 SF lease in Shoreview in the Northeast submarket. Both locations include building signage.

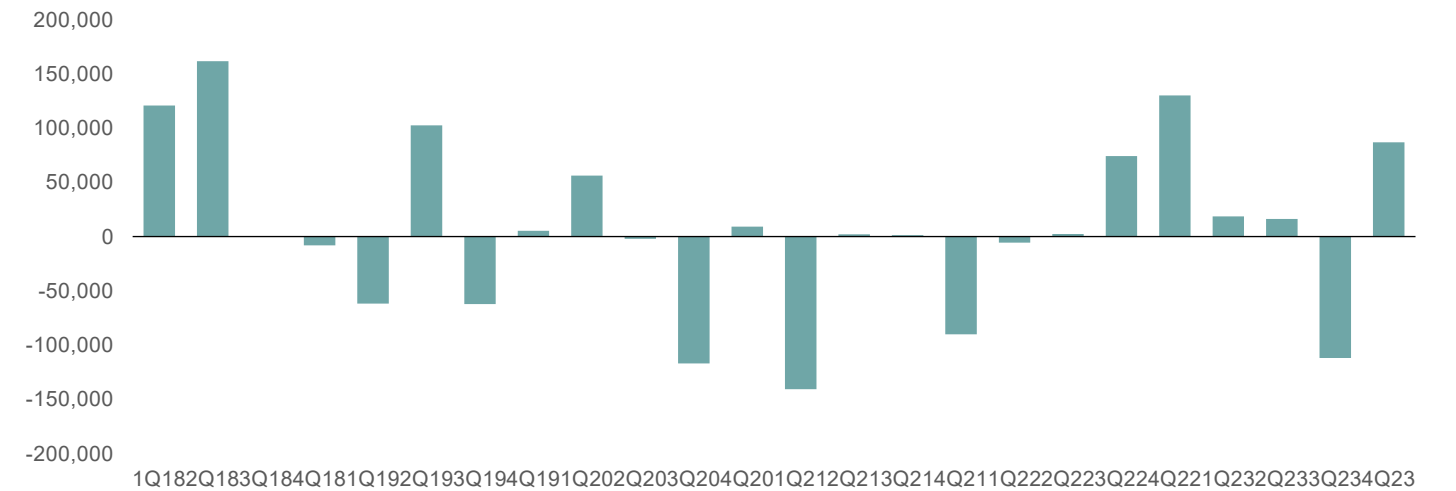
Overall Leasing Activity



Asking Rent and Vacancy Rate

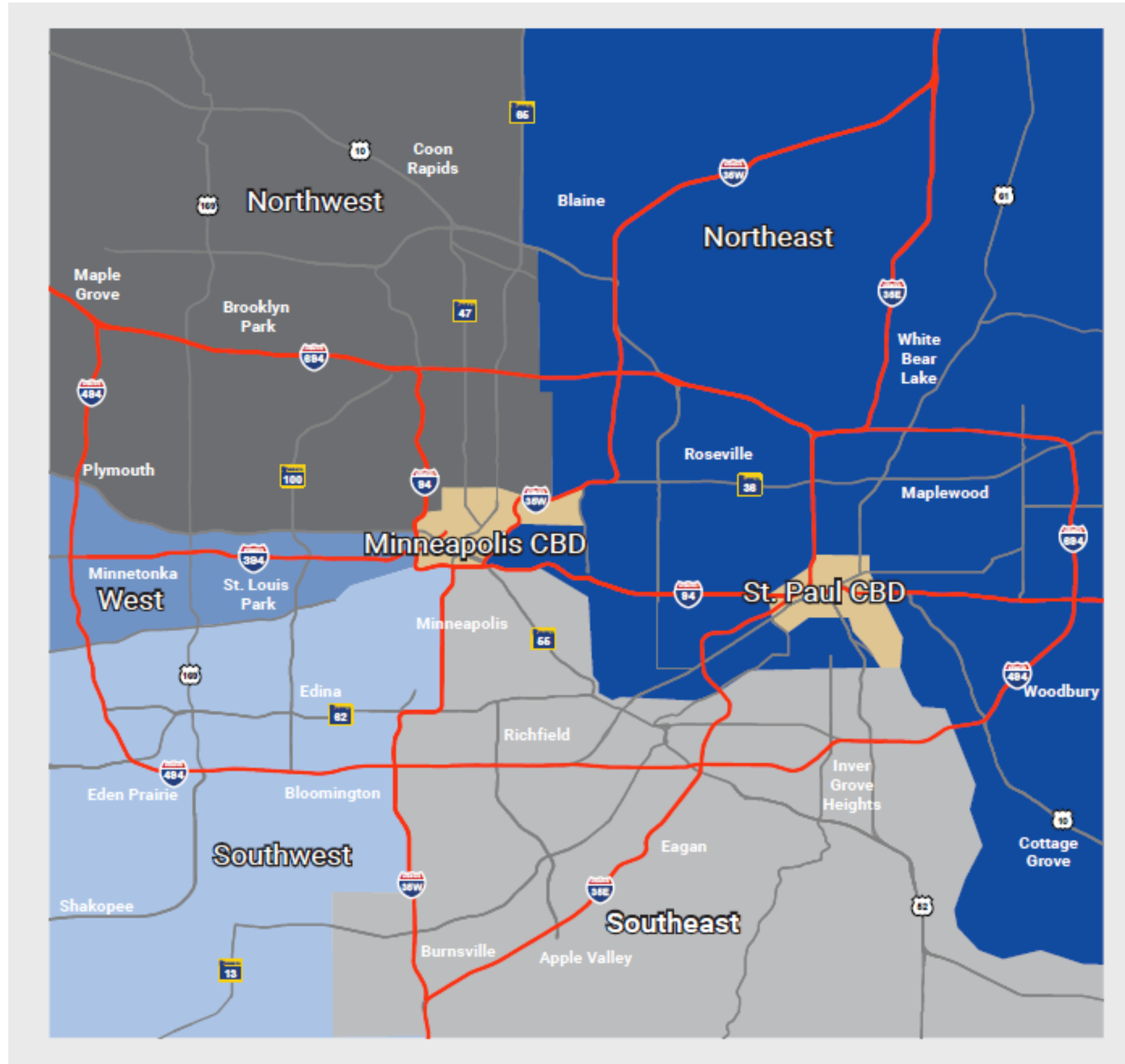


Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Minneapolis-St. Paul - Submarket Map



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