CUSHMAN & WAKEFIELD

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COMPASS

Navigating the Minneapolis-St. Paul Commercial Real Estate Market

OFFICE MARKET

Leasing Activity Remains Positive Even as Costs Rise

Leasing activity in the office sector remains steady and positive even if there is not a big net effect showing up in market-wide absorption and vacancy numbers. Absorption did slow in the second half but finished the year at a respectable 760,000 square feet (sf). Large deals were relatively quiet, with much of the activity concentrated among smaller space users less than 8,000 sf. Despite this trend, landlords are enjoying fairly good success in being able to retain and renew existing tenants.

Rental rates are holding steady or rising in select properties and locations, while at the same time concessions are going up and tenant improvement (TI) allowances continue to escalate. Rising costs along with the continued laser focus on efficient use of space are both weighing on leasing activity and absorption.

The war for talent amid the exceptionally tight labor market continues to play a big role in real estate decisions, and companies increasingly recognize the strong business case for investing in their workplaces. Some employers are experiencing turnover rates of 20-30% with the cost to replace employees averaging about 100% of an individual's annual salary. Job hopping in the labor market is exposing employees to a variety of different buildings, workspaces and amenities, which is raising the bar on expectations. Many employers now view their office space as part of the overall experience needed to retain and attract worker's in today's competitive market. Additionally, there is more data supporting the benefits the physical workplace can have on employee wellness, retention and productivity.

Activity in the investment sales market is contributing to changing dynamics within the office market. Several new investors that have entered the Twin Cities in recent years are shifting accepted views on market levels for rents and sale prices. Out-of-state owners have raised the floor on rents, and in many cases, also broken through the ceiling on previously accepted market high rents.

OFFICE VACANCY & ABSORPTION Source: Cushman & Wakefield

SUBMARKET	TOTAL # OF BLDGS	NRA	VACANT SPACE	% VACANT	% VACANT W/SUBLEASE	1ST HALF 19 ABSORPTION	2ND HALF 19 ABSORPTION	2019 ABSORPTION
Mpls CBD	115	27,641,343	5,271,257	19.10%	19.90%	206,793	246,958	453,751
Northeast	136	8,640,488	1,239,831	14.30%	14.70%	199,229	(10,460)	188,769
Northwest	37	2,298,471	266,891	11.60%	18.10%	3,508	29,855	33,363
South/Airport	90	6,176,803	1,258,201	20.40%	21.20%	60,474	5,731	66,205
Southwest	138	14,648,055	2,251,051	15.40%	17.50%	48,357	(54,983)	(6,626)
St. Paul CBD	38	6,631,571	1,391,001	21.00%	24.40%	2,354	(59,965)	(57,611)
West	98	9,767,717	1,224,360	12.50%	13.20%	36,886	45,248	82,134
Total Market	**652**	**75,804,448**	**12,902,592**	**17.00%**	**18.40%**	**557,601**	**202,384**	**759,985**

Building out finished speculative suites as a means to attract tenants and fill vacancies continues to expand. Tenants now have a growing number of move-in ready options to consider with sizes ranging from 2,500 sf up to 25,000 sf. The trend had been prevalent in the Minneapolis CBD, and is now moving out into suburban properties. Investment in those spec spaces is proving to be worthwhile as it creates leasing velocity and extra pricing power on rents. The finishes in spec suites also help to better position properties that owners may be planning to sell as they attract a deeper bidder pool.

OUTLOOK

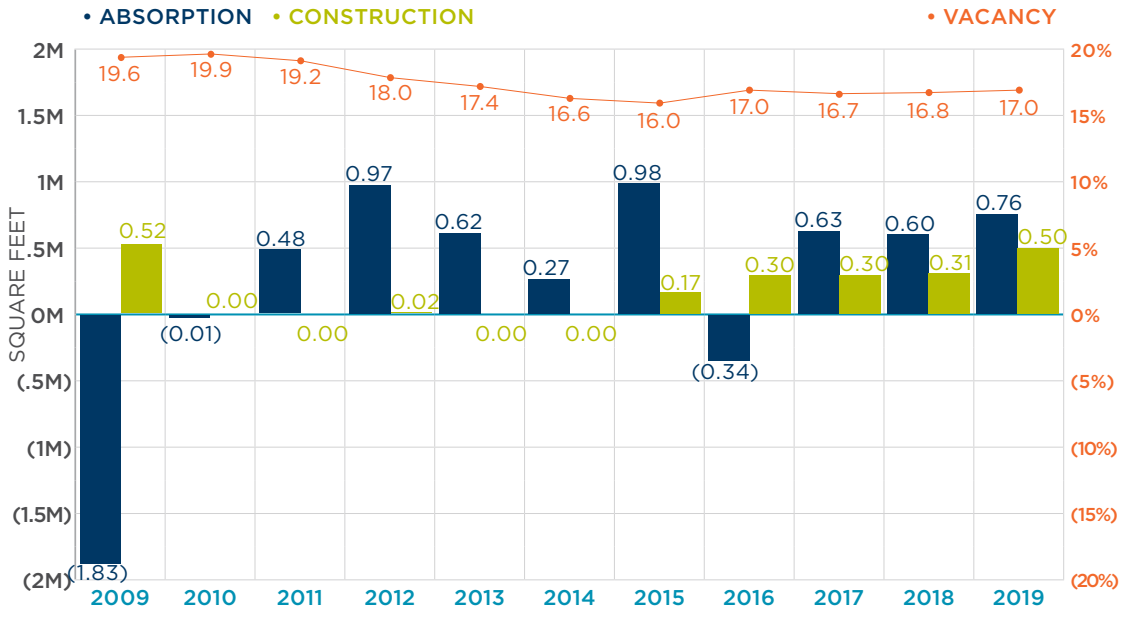
The forecast for first half 2020 is a steady pace of absorption at 510,000 sf, which would be on par with activity during the same period in 2019.

Uncertainties about the rapid growth of coworking could create some challenges in the coming year. However, the Twin Cities doesn't have significant exposure as coworking providers lease less than 2% of the overall office inventory.

It remains to be seen how much the upcoming election year will influence demand for office space. However, there are no signs of overheating in the local economy or the commercial real estate market. That suggests that the current pace of slow and steady leasing activity could very well be sustainable through at least the first half of 2020, if not longer.

OFFICE ABSORPTION, CONSTRUCTION & VACANCY

Source: Cushman & Wakefield



The **war for talent continues to play a big role** in real estate decisions

Spec suites are increasingly used to **attract tenants and fill vacancies**

ABOUT THE AUTHOR

THE COMPASS REPORT

 The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. It is our intent to provide the best possible information while leaving the reader the responsibility of further verification before using this report for business and/or financial decisions. The report was created by experts using Twin Cities commercial property data from 2019. The Compass report includes information for multi-tenant office, industrial and retail projects greater than 20,000 SF and multifamily for-rent properties. Not included are owner occupied, government or single-tenant buildings. Not all information and insights we've collected can be published in any given issue.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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