

COMPASS



OFFICE MARKET

JANUARY 2021

Vacancy Rate Rises with Slowdown in New Leasing

The Twin Cities office market recorded a year-over-year decrease of nearly 42% in new leasing volume in the second half of 2020. Lingering uncertainty about future space needs largely slowed real estate decisions by occupiers. Direct absorption of negative 461,000 square feet (sf) in the second half of the year pushed the market's direct vacancy rate to 18.5%, an increase of 150 basis points compared to year-end 2019. Sublease availability also gradually increased throughout 2020 as users adjusted their footprints for changing business and employment needs.

Despite a widespread slowdown in new leasing activity, asking rates held steady in aggregate during the second half of the year. Deals that crossed the finish line in the second half saw more tenant-friendly concession packages, which continued a pre-pandemic trend in the market, and some landlords have reduced starting rates to get deals done. Renewals represented a larger proportion of total leasing volume in 2020 compared to historic norms. Occupiers largely opted for shorter term lengths as economic and public health uncertainties persisted, and landlords were generally willing to work with tenants on short-term solutions.

Employers navigating the forced remote work environment have prioritized employee health and wellbeing during the pandemic. As the vaccine rolls out, employers have continued to evaluate hybrid work schedules, which blend in-person and remote work, as part of planning for a safe, purposeful, and effective return to the office.

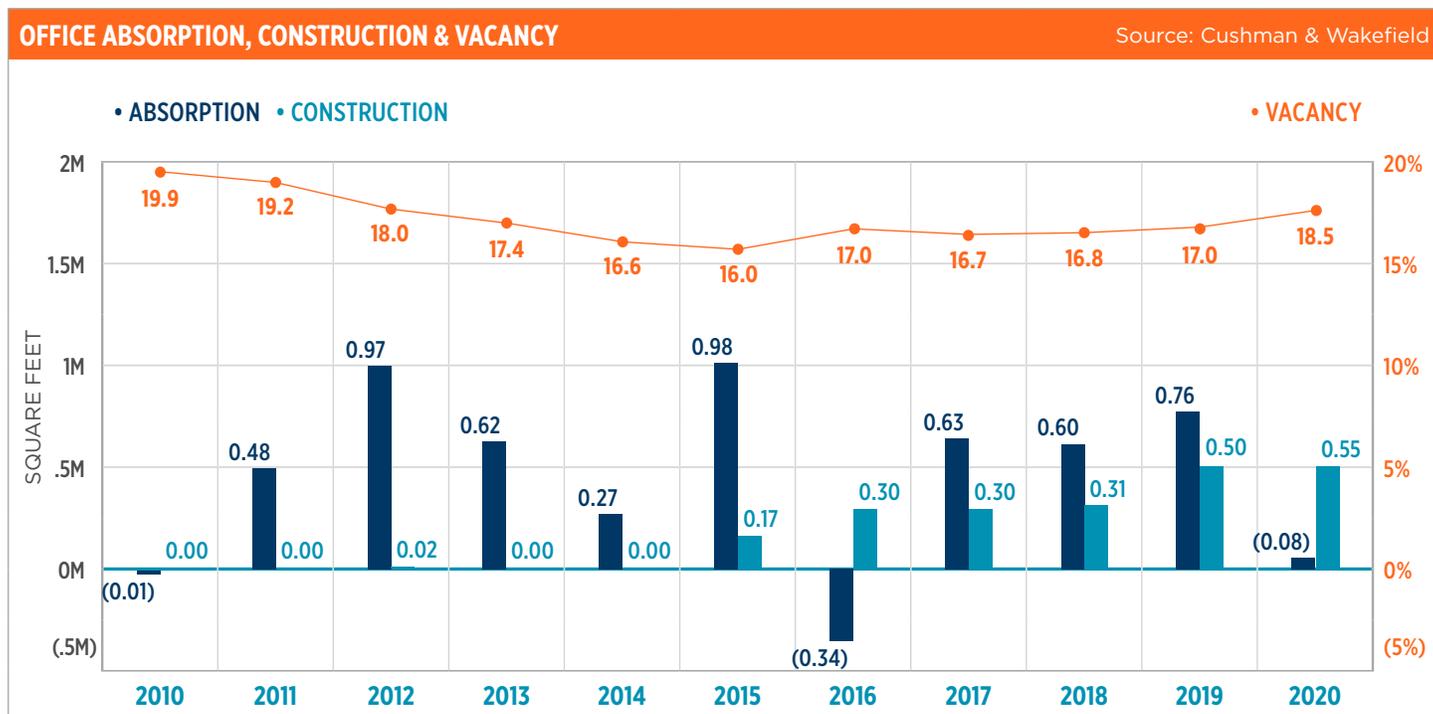
The increase in sublease listings was a national factor in the 2020 office market as organizations responded to the economic impact of the pandemic. The amount of vacant sublease space in the Twin Cities increased by 30% since first quarter 2020, reaching 1.4% of total market inventory. The national average for sublease vacancy, by comparison, was 2.1% of inventory. Twin Cities sublease vacancy at year-end remained below the peak that followed the Great Financial Crisis, when sublease vacancy accounted for 2.0% of market inventory.

OFFICE VACANCY & ABSORPTION

Source: Cushman & Wakefield

SUBMARKET	TOTAL # BLDGS	NRA	VACANT SPACE	% VACANT	% VACANT W/SUBLEASE	1ST HALF 20 ABSORPTION	2ND HALF 20 ABSORPTION	2020 ABSORPTION
Mpls CBD	119	28,415,851	5,895,843	20.70%	22.80%	102,459	-134,089	-31,630
Northeast	149	9,846,618	1,548,943	15.70%	16.60%	132,648	-73,436	59,212
Northwest	37	2,298,471	348,749	15.20%	17.20%	-87,534	7,601	-79,933
South/Airport	93	6,430,472	1,526,385	23.70%	25.90%	-74,537	-54,539	-129,076
Southwest	143	14,965,977	2,476,348	16.50%	21.10%	142,563	-175,033	-32,470
St. Paul CBD	38	6,675,596	1,480,859	22.20%	23.30%	-9,701	61,164	51,463
West	100	9,906,411	1,236,466	12.50%	14.60%	172,152	-93,174	78,978
Total Market	679	78,539,396	14,513,593	18.50%	20.80%	378,050	-461,506	-83,456

Although investment sales volume was down in the 2020 office market, quality assets offering the stability of lease term and credit remained in high demand for capital looking to deploy in the Twin Cities. More entrepreneurial buyers, on the other hand, have targeted value-add opportunities, with a pair of notable examples that closed in the second half of the year: One Southwest Crossings in Eden Prairie and the Riverplace office complex in the Minneapolis CBD. New ownership groups each announced plans to renovate common areas and amenities for opportunistic post-COVID-19 repositioning of the respective properties.



OUTLOOK

With the marked increase in the vacancy rate recorded in 2020 and the slowdown in new leasing activity, landlords with vacancy will likely feel pressure to be more creative with rates and concession packages in order to land tenants.

Given the ongoing challenges inherent to assessing post-COVID-19 space requirements, assets with quality common area and amenity space – or, similarly, coworking options – will be attractive to tenants looking to add flexibility to their leased premises. A growing share of employers anticipate an increase in hybrid work schedules, balancing the flexibility of remote work with the social benefits of the office setting that are linked to stronger employee engagement, productivity, professional development, and retention.

Public safety remains a topic of discussion among owners and users in the CBD, and with the passage of its 2021 city budget, political leadership in Minneapolis took steps toward more holistic public safety solutions. Municipal elections occurring in 2021 will guarantee ongoing focus on the issue from community stakeholders, particularly as the downtown daytime population of more than 200,000 workers return to the office.

THE COMPASS REPORT

Copyright © 2021 Cushman & Wakefield. All rights reserved. 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 2020. 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.

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 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 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.



3500 American Blvd W Suite 200
Minneapolis, MN 55431
+1 952 831 1000
cushmanwakefield.com