

Multi-Tenant Office Space Continues to be Affected by Corporate Change

Vacancy and Absorption Trends

The third quarter in the multi-tenant office market ended with a positive absorption figure of 2,800 square feet. This minor variance from quarter two held the metro-wide vacancy rate at 15.2%. Among the subsets, Class A office was the strongest performing asset class, with a positive 130,000 square feet of absorption. The Minneapolis CBD accounted for three quarters of that absorption.

Year-to-date, the Minneapolis St. Paul metro has a negative 580,000 square feet of absorption. Lack of tenant activity in Class B office is the main factor in negative absorption and year-to-date accounts for 500,000 square feet of the 580,000 square feet total. Additional vacancy can be attributed to tenants leaving the multi-tenant market for single-tenant Wells Fargo and Ecolab owned buildings.

Metro-wide vacancy rates spiked due to several large tenants vacating and the delivery of T3 and Mall of America offices which added to the total available space in the metro. There has been a significant amount of building construction especially in the Minneapolis CBD, where open-collaborative workspaces are trending in many office building renovations.

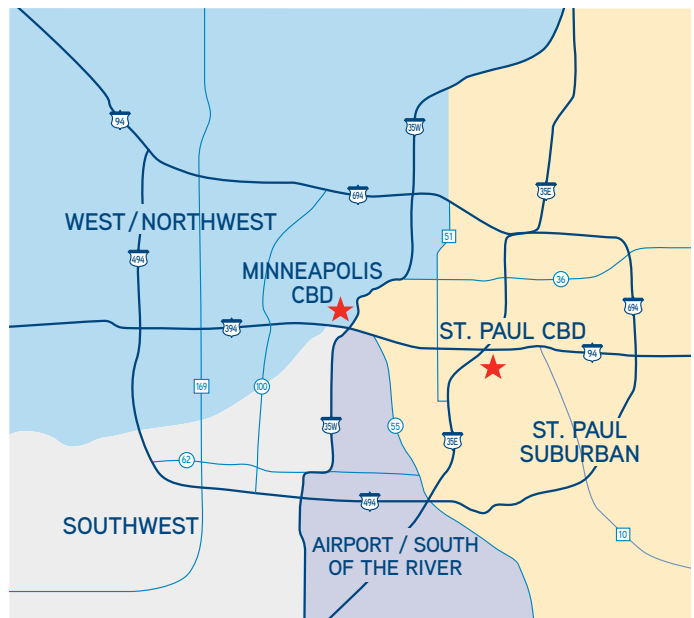
Rental rates have continued to steadily rise, with the Q3 average rental rate of \$14.04 per square foot setting a high watermark for rental rates in the Minneapolis-St. Paul metro. The Minneapolis CBD and West/Northwest, home to the 394 corridor, are again the two submarkets with the highest rental rates. This quarter, the Minneapolis CBD surpassed the West/Northwest with the highest Class A rental rate, a distinction that the West/Northwest held for the past 3 years.

Q3 Market Indicators



Relative to prior period

MSP Office Submarket Map



Vacancy and Absorption Trends (con't.)

Q3 construction in the office market shows no new completions. This calendar year, there has only been one multi-tenant building completed, Millwright, which is a 182,000-square-foot speculative office building in the Minneapolis CBD. However, multiple new projects have broken ground this quarter.

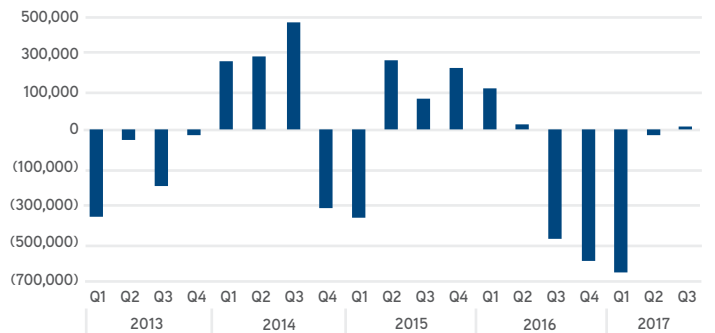
Notable projects under construction include the 409,000-square foot Prime Therapeutics headquarters and Minnesota Vikings 240,000-square-foot headquarters and training center. United Properties currently has a 200,000-square-foot multi-tenant office building under construction in the North Loop neighborhood of the Minneapolis CBD. The Minneapolis neighborhood of Uptown, recently broke ground on a speculative 185,000-square-foot building, MoZaic East, this project will mark the largest office in Uptown ever developed.

Altogether, there is over 1.75 million square feet of office space currently under construction, with delivery dates all expected by fall of 2018. This is one of the largest totals of office construction delivery over the past several years.

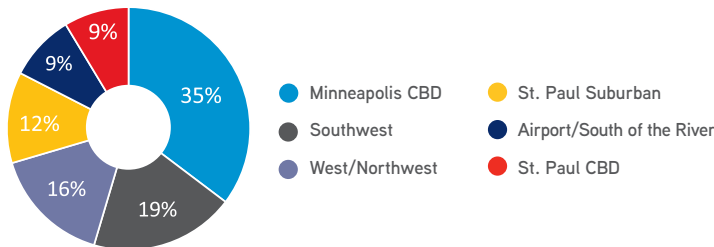
Vacancy



Absorption



Inventory by Submarket



Total Average Rental Rates



Lease Activity

TENANT	PROPERTY	ADDRESS	CITY	LEASED SF	SUBMARKET	TYPE
Faegre Baker Daniels	Baker Center	733 & 705 Marquette Ave	Minneapolis	78,322	Minneapolis CBD	New
Minnehaha Academy	Mendota Tech Center	1345 Northland Dr	Mendota Heights	55,263	Airport/South of the River	New
Westwood Engineering	Whitewater Office Center I & II	12501 Whitewater Dr	Minnetonka	50,000	West/Northwest	New
Health Partners	West End Center	5100 Gamble Dr	Saint Louis Park	50,000	West/Northwest	Renewal
MN Gastroenterology	Broadway Ridge NE	3001 Broadway St	Minneapolis	49,052	West/Northwest	Expansion
Windlogics	River Park Plaza	10 River Park Plz	Saint Paul	36,443	St Paul CBD	New
TripleFive Group of Companies	The Offices @ MOA	2131 Lindau Ln	Bloomington	29,746	Airport/South of the River	New
EPPA	One MarketPointe	4300 MarketPointe Dr	Bloomington	25,441	Southwest	New
Northland Securities	Fifth Street Towers	150 5th St	Minneapolis	25,362	Minneapolis CBD	New

Submarket Insights

The Hot Eden Prairie Micro-Market

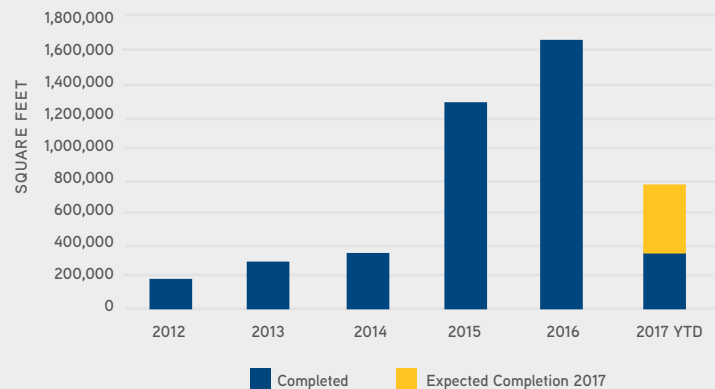
Over the past year, Eden Prairie has been a slow market for leasing but looks to be heating up. Vacancy in Eden Prairie has been consistently above the Southwest submarket average. Year-to-date absorption is 95,000 square feet and vacancy is now close to the submarket average. In Q3 over 70,000 square feet of office space has been leased, with full occupancy scheduled for the end of year. The two main drivers of this lease increase are the availability of larger blocks of space and lower price per square foot leases than in other suburban markets. For example, comparable office space in the 394 corridor leases for \$5/sf more than the Eden Prairie Market. The 494-France corridor also sees higher rents, averaging \$3/sf more than the Eden Prairie market. Tenants seeking space at competitive rates have also found that Eden Prairie offers more options for tenants looking for space larger than 20,000 square feet compared to neighboring areas.

St. Paul Office Building Makeovers

The St. Paul CBD office market may look very different in the coming years, as there are multiple proposed projects to convert national historic office buildings into boutique hotels. The Exchange and Empire buildings have been sold and hospitality renovation plans have been announced. The possibility of another building sale is also on the horizon and will likely receive a similar makeover. All told, these three buildings add to a total of 250,000 square feet of lost office space. The St. Paul CBD is currently the smallest multi-tenant office market in the metro by total inventory. This change could lower vacancy rates and likely reshape the face of the St. Paul CBD.

Future Outlook

Construction Completions



Looking Ahead



- › Expecting positive absorption figures for quarter four
- › Lack of larger block options in key suburban micro-markets
- › New construction will keep vacancy numbers flat

Sales Activity

PROPERTY	ADDRESS	CITY	BUYER	SELLER	PRICE	\$/PSF	SF
Colonnade	5500 Wayzata Blvd	Golden Valley	Starwood Capital	DRA Advisors	100,000,000.00	278	360,000
International Market Square	275 Market St	Minneapolis	Eagle Ridge Partners	Geneva Organization	28,800,000.00	96	301,008
Renaissance Square	500 Nicollet Mall	Minneapolis	The Davis Group	RPD Catalyst	20,300,000.00	121	168,000
Shoreview Corporate Center	4000 Lexington Ave	St Paul	Property Resources	Eagle Ridge Partners JV CarVal	12,800,000.00	123	104,463
Plymouth City Center Medical Building	15655 37th Ave N	Plymouth	USAA Real Estate, HSA Commercial RE	BTO Development Corp, North Memorial Health Care	11,900,000.00	260	45,853
4388 France Avenue South	4388 France Ave S	Minneapolis	44th at France LLC	Kenneth Durr; Timothy Lanson	4,383,000.00	292	15,000
One Deephaven	18258 Minnetonka Blvd	Wayzata	One Deephaven LLC	Stonehenge USA	3,550,000.00	269	13,200
1005 Gramsie Road	1005 Gramsie Rd	Shoreview	Shoreview Housing Phase 1 LLC	Shoreview Ridge LLC	3,500,000.00	20	176,104

Market Statistics

SUBMARKET	# OF BUILDINGS	BUILDING SF	DIRECT AVAILABLE SF	DIRECT VACANT SF	% DIRECT VACANT	W/SUBLEASE VACANT SF	% VACANT W/SUBLEASE	ASKING RENTAL RATES LOW	HIGH	AVG	AVERAGE OPERATING	ABSORPTION	YTD ABSORPTION
Airport/South of the River													
A	21	1,883,357	445,652	166,855	8.86%	168,949	8.97%	15.47	\$16.05	15.76	\$11.09	32,890	121,134
B	62	4,271,786	677,548	659,175	15.43%	731,178	17.12%	12.52	\$13.09	12.30	\$9.01	-4,064	-63,562
C	29	1,273,707	149,492	139,021	10.91%	143,821	11.29%	11.21	\$11.85	9.46	\$9.23	12,047	-4,083
Totals:	112	7,428,850	1,272,692	965,051	12.99%	1,043,948	14.05%	12.78	13.37	12.50	\$9.57	40,873	53,489
Minneapolis CBD													
A	25	14,564,435	2,369,039	1,972,806	13.55%	1,974,278	13.56%	17.54	\$20.03	18.78	\$13.82	98,974	49,335
B	90	12,988,172	3,007,016	2,686,446	20.68%	2,706,876	20.84%	14.01	\$16.00	14.79	\$9.49	-55,215	-108,240
C	29	2,216,229	425,582	567,534	25.61%	567,534	25.61%	13.36	\$14.84	13.51	\$8.67	-1,098	24,279
Totals:	144	29,768,836	5,801,637	5,226,786	17.56%	5,248,688	17.63%	14.76	16.80	15.64	\$10.65	42,661	-34,626
Southwest													
A	61	9,211,074	1,595,848	1,395,260	15.15%	1,426,257	15.48%	16.15	\$16.69	16.13	\$12.62	10,640	-97,723
B	90	6,176,050	1,270,526	951,548	15.41%	990,794	16.04%	13.34	\$14.04	12.51	\$10.34	-55,078	933
C	22	870,251	120,025	72,187	8.29%	72,187	8.29%	14.23	\$15.10	9.11	\$7.84	14,272	17,022
Totals:	173	16,257,375	2,986,399	2,418,995	14.88%	2,489,238	15.31%	14.62	15.26	14.20	\$11.27	-30,166	-79,768
St. Paul CBD													
A	6	2,128,667	502,399	236,731	11.12%	236,731	11.12%	13.35	\$15.16	12.31	\$12.26	-3,730	-7,508
B	26	4,515,000	818,085	747,132	16.55%	747,132	16.55%	11.84	\$13.08	10.89	\$10.04	-27,575	-165,826
C	12	639,936	91,207	67,870	10.61%	67,870	10.61%	12.44	\$12.44	9.00	\$6.00	2,835	-10,165
Totals:	44	7,283,603	1,411,691	1,051,733	14.44%	1,051,733	14.44%	12.29	13.57	11.24	\$10.39	-28,470	-183,499
St. Paul Suburban													
A	36	2,199,057	408,200	382,540	17.4%	441,593	20.08%	14.34	\$15.56	14.38	\$10.94	-17,768	25,042
B	98	6,113,641	940,688	873,764	14.29%	957,484	15.66%	13.38	\$14.81	11.91	\$8.81	14,616	-36,974
C	34	1,912,372	376,735	181,442	9.49%	186,442	9.75%	13.96	\$14.85	11.15	\$7.67	-886	-42,311
Totals:	168	10,225,070	1,725,623	1,437,746	14.06%	1,585,519	15.51%	13.76	15.03	12.81	\$9.28	-4,038	-54,243
West/Northwest													
A	42	5,099,479	617,279	543,703	10.66%	574,812	11.27%	18.02	\$19.01	18.51	\$13.07	28,766	2,640
B	95	6,196,550	1,212,460	1,014,550	16.37%	1,118,658	18.05%	14.12	\$14.97	13.55	\$10.25	-15,208	-172,827
C	41	2,057,208	175,934	170,575	8.29%	170,575	8.29%	12.47	\$12.81	9.53	\$7.26	-13,836	16,821
Totals:	178	13,353,237	2,005,673	1,728,828	12.95%	1,864,045	13.96%	14.84	15.63	14.74	\$10.73	-278	-153,366
Total All Markets													
A	191	35,086,069	5,938,417	4,697,895	13.39%	4,822,620	13.75%	16.24	17.33	16.57	\$12.51	149,772	92,920
B	461	40,261,199	7,926,323	6,932,615	17.22%	7,252,122	18.01%	13.46	14.60	13.11	\$9.68	-142,524	-546,496
C	167	8,969,703	1,338,975	1,198,629	13.36%	1,208,429	13.47%	12.82	13.58	10.65	\$8.16	13,334	1,563
Totals:	819	84,316,971	15,203,715	12,829,139	15.22%	13,283,171	15.75%	14.17	15.23	14.04	\$10.43	20,582	-452,013

The above table is summarized data on multi-tenant office buildings greater than 20,000 square feet. Not included are single-tenant, owner-occupied, medical or government buildings.

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