

MARKETBEAT OFFICE SNAPSHOT

MINNEAPOLIS-ST. PAUL, MN

A Cushman & Wakefield Research Publication

Q4 2012



ECONOMIC OVERVIEW

In the month of November, the state's unemployment rate dropped to 5.1%, still below the national rate of 7.4%. The 55,200 increase in jobs year-over-year is up 2.1% from one year ago. The Education and Health

Services sector led employment growth, up 23,300 jobs over the past year.

PUSH FOR LOWER VACANCY

The office market experienced 330,000 square feet (sf) of positive direct absorption in the fourth quarter for a total of 967,000 sf in 2012. Direct space vacancy dropped slightly to 18%. Direct vacancy among class A properties is still dropping, currently 13.5% market-wide compared with more than 22% in other classes. Available sublease space remained slight, adding just over 1% of additional vacancy to the market.

All seven submarkets recorded positive absorption in the fourth quarter. The Minneapolis CBD led the way with more than 118,000 sf of direct absorption; direct vacancy dropped to 16.1% with a mere 9.7% vacant in class A. The Northeast submarket absorbed 72,000 sf of direct space, nearly all in class B, and direct vacancy dropped to 18.8%. The South/Airport submarket experienced 64,000 sf of positive direct absorption, ending the year strong with 215,000 sf overall; direct vacancy dropped slightly to 17.2%. The Southwest absorbed 64,000 sf in class A direct space but only saw 37,000 sf absorbed overall due to negative absorption in class B; direct vacancy increased slightly to 17.1%. The St. Paul CBD submarket saw little activity with 700 sf of positive direct absorption while the direct vacancy rate remained at 23.6%. The West saw positive direct absorption of 31,000 sf after experiencing more than 54,000 sf of negative absorption in the third quarter of 2012; direct vacancy is still low at 15.1%. The Northwest submarket absorbed 6,600 sf of direct space in the fourth quarter but saw negative absorption overall of 105,000 sf in 2012, and vacancy remained high at 36.6%.

ASKING RATES

Landlords are encouraged by signs of better pricing power for rental rates. In the Minneapolis CBD, low vacancy in Class A buildings has yet to translate into true pricing power for landlords, but the conditions for rental rate hikes are being established. The average rental rate across all property types and submarkets was \$12.81 net psf at year-end – a slight downward tug from third quarter.

OUTLOOK

The Twin Cities office market seems poised for accelerated growth in 2013. The market appears set to achieve 1.3 msf of positive absorption in 2013. No new office construction completions are scheduled for 2013, and no new speculative office product is currently underway.

STATS ON THE GO

	2011	2012	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	19.2%	18.0%	-1.2pp	▼
Direct Asking Rents (psf/yr)	\$12.43	\$12.81	3.1%	▲
Direct Absorption (sf)	484,000	967,000	99.8%	▲

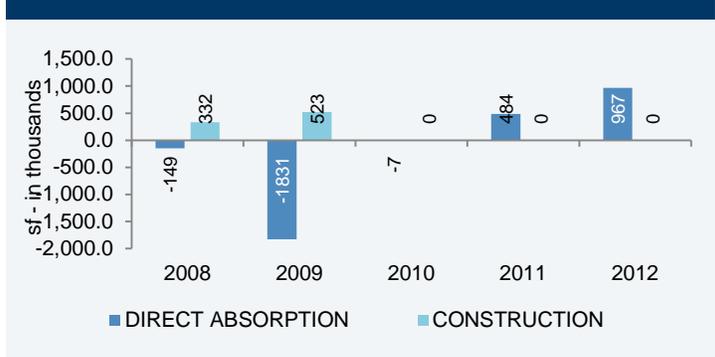
Source: Cushman & Wakefield/NorthMarq

DIRECT ASKING RATES VS. VACANCY RATES



Source: Cushman & Wakefield/NorthMarq

ABSORPTION VS. CONSTRUCTION ACTIVITY



Source: Cushman & Wakefield/NorthMarq