MINNEAPOLIS/ST. PAUL OFFICE MARKET
2023 MID-YEAR UPDATE

OVERVIEW

The move to hybrid work and corporate downsizings has put significant pressure on building owners with Minneapolis having the highest rate of distressed properties in the country. With loans maturing, the recent rise in interest rates and building values decreasing, we are seeing short term loan restructurings, buildings going to special servicers or properties simply being turned back to their lender. These circumstances will likely lead to a devaluation of properties in market. While some owners remain strong and hold firm on rental rates, such a devaluation should have a softening affect on rental rates in the coming years.

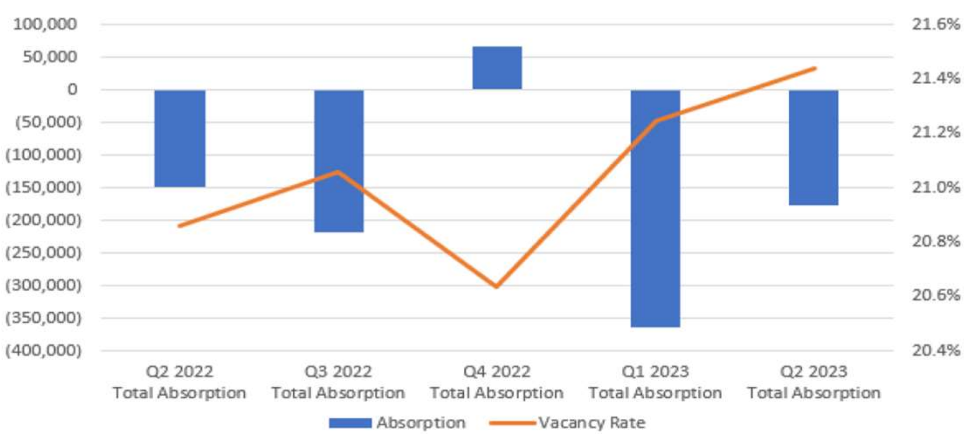
SNAPSHOT

Multi-Tenant Vacancy	**21.4%**	▲
Sublease Space	**3.0%**	▲
YTD Net Absorption	**(540,045)**	▼
Rental Rates	**Flat**	▬
Concessions	**Increasing**	▲

Market Size	Total Vacancy
88,500,305 SF	**18,972,505**

- Vacancy, including sublease space, increased from 20.4% to 21.4% during the first half of the year.
- Sublease space increased from 2.8% to 3.0% in that same period and is expected to continue to grow.
- The Minneapolis CBD submarket continues to carry the highest vacancy rate at 27.7%, with 22.7% direct and 5.0% sublease.
- Corporations vacating, subleasing or downsizing corporate offices, continue to leave large blocks of available space in the market.
- Lease rates, generally, are beginning to show signs of softening as landlords compete for deals.
- Tenant concessions remain high with tenant improvement allowances, free rent offerings and other non-economic concessions as landlords continue to “prop up” rental rates.
- Protecting tenant lease rights in the event a building goes back to the lender is critical.

ABSORPTION & VACANCY



Source: MNCAR/REDICOMPS.COM

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