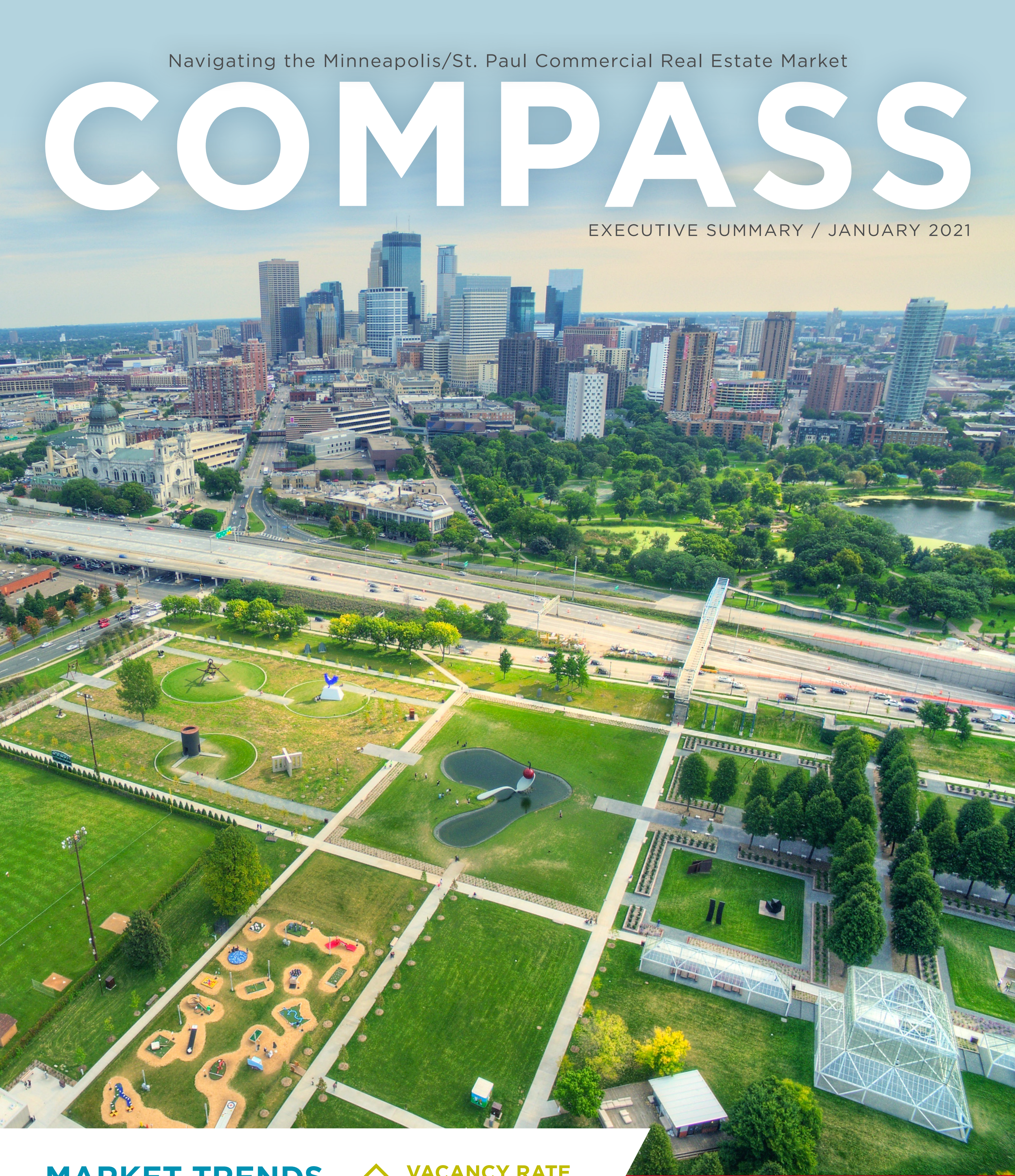
Navigating the Minneapolis/St. Paul Commercial Real Estate Market

COMPASS

EXECUTIVE SUMMARY / JANUARY 2021



MARKET TRENDS

VACANCY RATE
11.6%

NEW CONSTRUCTION
3.1 MSF

ABSORPTION
1.5 MSF

CUSHMAN & WAKEFIELD

> *Economic headwinds brought on by the pandemic had varying levels of impact on leasing and sales volume across asset classes in the Twin Cities. Both debt and equity capital continue to return and are expected to accelerate throughout the year. We expect to see increasing commercial real estate activity for all property sectors gaining strength as 2021 progresses.*

- Mike Ohmes, Managing Principal, Minneapolis-St. Paul Office, Cushman & Wakefield

CUSHMAN & WAKEFIELD

INVESTMENT & CAPITAL MARKETS

Industrial Sales Drive Second-Half Deal Volume Amid Uneven Recovery Across Sectors

$4.41B

2020 Commercial & Multifamily Sales

While debt and financing was more accessible through the second half of 2020, overall transaction volume was down nearly 29% from 2019. Pricing and capital availability was not uniform across property types as investors sought stability and predictability from assets earmarked for allocation.

INVESTMENT SECTOR HIGHLIGHTS

- Investor sentiment for the industrial asset class strengthened in the second half of the year. Portfolios continued to command premium pricing with cap rate compression.
- Assets serving industries impacted by COVID-19 remained a challenge as pricing gaps persisted. Buyers and sellers grappled with disparate pricing caused by slowdowns in transaction and leasing activity.
- Positive signs continue to emerge across asset classes. Corporate credit markets have generally recovered with effective yields at or below 2019 levels, and CMBS delinquency rates have stabilized through payments and loan modifications.

HOTEL

Industry Navigating Unprecedented, Evolving Challenges

33.3%

Year-to-Date Occupancy in the Twin Cities

There has been a prolonged slowdown in hotel investment sales activity due to a variety of factors, including limited debt capital options for the asset class, extended debt forbearance for borrowers, and a lack of consensus about how quickly demand will recover in the hospitality industry.

HOTEL SECTOR HIGHLIGHTS

- The Bloomington Doubletree traded in the second half of 2020 for $46,000 per room. The buyer, Vinayaka Hospitality, announced plans for major renovations to the 568-room property.
- Notable projects moved forward in the Minneapolis CBD: Rand Tower's renovation and conversion to a Marriott Tribute completed in the second half, and the Four Seasons at RBC Gateway is scheduled to deliver in 2022.
- The second COVID-19 relief package passed in December included measures targeted at supporting the hospitality industry through its continued recovery.

MEDICAL OFFICE

Evolving Business Models Prompts Users to Right-Size

11.9%

2H Market Vacancy with Absorption Virtually Flat

Since the arrival of COVID-19, lost revenue from elective procedures has accelerated changes to business models for systems and other users, and real estate right-sizing decisions began to impact the market in the second half of the year.

MEDICAL OFFICE SECTOR HIGHLIGHTS

- Clinics that temporarily closed due to pandemic-related restrictions often did not always reopen as systems quickly pivoted their businesses.
- A uptick in sublease space was another symptom of right-sizing decisions. More than 50,000 sf of sublease space was available in the off-campus universe at year-end.
- The measured pace of off-campus development continued in the second half as the 78,000-sf Xchange Medical project in St. Louis Park broke ground with anchor tenants in place.

RETAIL

Vacancy Rate Increases to Nearly 11%

380,000 SF

Negative 2H Absorption

Notable inconsistencies in the 2020 retail experience had uneven impacts on the sector, and rapidly changing consumer preferences and behavior will continue to inform real estate strategies, which began to play out in the second half of the year.

RETAIL SECTOR HIGHLIGHTS

- Landlords have been willing to be flexible with grocery tenants and retailers of essential goods and services to get new deals done.
- The importance of drive-throughs was evident in 2020, and quick-service restaurants were active in the market. Restaurants with larger space footprints, however, continued to struggle through the pandemic.
- With the prolonged absence of the daytime, office-using population in the downtown cores, investors and retail users are more bullish on retail nodes in neighborhoods with established residential populations.

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LAND

Positive Momentum Heading into 2021 with Industrial and Residential Driving Demand

RESIDENTIAL DEVELOPERS

More Active than Ever

Buyer uncertainties dissipated in the second half of the year with a better understanding of the pandemic's impacts to industry demands. Developer and consumer appetite for residential and industrial land continued to increase and drive significant activity especially in suburban markets.

LAND SECTOR HIGHLIGHTS

- Build-to-suit and national user requirements increased demand for shovel ready industrial sites across the Twin Cities market.
- Demand in the retail sector consisted of user-driven projects, such as banks, gas stations, grocery, and drive-thru quick serve restaurant concepts.
- COVID-19 impacts are reshaping consumer home preferences and pushing municipalities in third and fourth ring suburbs to be more receptive to greenfield developments.

MULTIFAMILY

Investment Sales Rebound in the Second Half with Increased Focus on Suburban Markets

$1.3B

2020 Total Sales Volume

Anchored by a deep roster of Fortune 500 employers, the Twin Cities labor market has weathered the year's economic downturn with relatively stable employment levels. These market fundaments have continued to attract new capital to the multifamily asset class.

MULTIFAMILY SECTOR HIGHLIGHTS

- For the seventh straight year, investment sales volume in the Twin Cities exceeded $1 billion despite the significant slowdown in deal velocity during the second quarter.
- Suburban vacancy rates remained stable at 3.2%, average rents were up 2.5% year-over-year, and demand from investors and developers alike has increased in these markets.
- A slowdown in activity in the downtown markets of Minneapolis and St. Paul has pushed respective vacancy rates to 7.1% and 8.1%.

INDUSTRIAL

Leasing and Absorption Totals Show Market's Momentum

2.0 MSF

Total Absorption in 2020

FOR RENT

After a short-term slowdown before mid-year, new leasing gained traction in the second half of 2020. Year-end new leasing volume totaled 7.5 msf, which was a 24% increase from 2019. Mirroring national trends, e-commerce and distribution companies fueled demand for bulk warehouse product.

INDUSTRIAL SECTOR HIGHLIGHTS

- The Q4 direct vacancy rate of 7.4% was a modest increase from 2019's year-end rate of 6.8%. The uptick was primarily driven by speculative construction deliveries and leases signed for existing vacancies that do not commence until 2021.
- More than 2.0 msf of new construction delivered in the second half, including corporate owned single-tenant facilities.
- Buyers are looking to capitalize on ongoing rent growth in the market as ownership composition continues to shift away from predominantly local investors.

OFFICE

Vacancy Rate Rises with Decrease in New Leasing Volume

42%

YOY Decrease in New Leasing in 2H20

Direct absorption of negative 461,000 square feet (sf) in the second half of 2020 pushed the market's direct vacancy rate to 18.5%, an increase of 150 basis points compared to year-end 2019.

OFFICE SECTOR HIGHLIGHTS

- New leasing volume fell by 42% year-over-year in the second half of 2020 as lingering uncertainty about future space needs largely slowed real estate decisions by occupiers.
- The amount of vacant sublease space in the Twin Cities increased by 30% since first quarter 2020, reaching 1.4% of total market inventory in Q4. The national average for sublease vacancy, by comparison, was 2.1% of inventory.
- Quality office product with the stability of lease term and credit remained in high demand for capital looking to deploy in the Twin Cities, while more entrepreneurial buyers have targeted value-add opportunities.

PROJECTIONS FOR 1ST HALF 2021

VARIES BY PRODUCT TYPE

ACTIVE SALES MARKET

DECREASING ABSORPTION

VARIES BY PRODUCT TYPE

1.3 MSF

NEW CONSTRUCTION

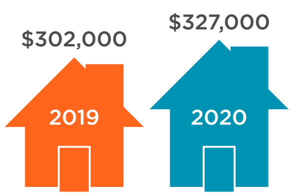
MARKET QUICK FACTS

Sources: MAAR, MNDEED 2020

TWIN CITIES METRO DEFINITION

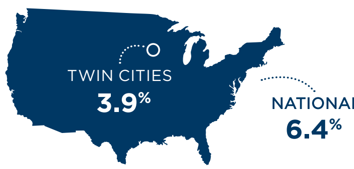
The "Twin Cities" of Minneapolis and St. Paul form the core of a metropolitan region encompassing 6,046 square miles and consisting of 13 counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington, Isanti, Chisago, Sherburne and Wright in Minnesota, as well as Pierce and St. Croix counties in Wisconsin.

MEDIAN HOUSING PRICES



(single-family home)

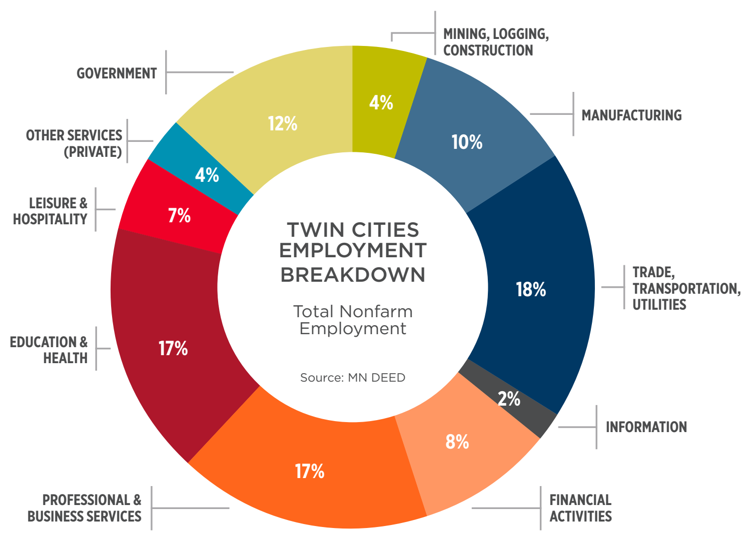
UNEMPLOYMENT RATE



TWIN CITIES BUSINESS STRENGTHS

- Highly educated and diverse labor force
- Excellent transportation services
- A diverse economic base
- 16 Fortune 500 companies
- Available capital
- Birthplace of game changers like the pacemaker and supercomputer
- More per capita Fortune 500 companies than any other U.S. metro - Fortune 2019
- Ranks #3 in Best States in America - U.S. News 2019

LABOR FORCE MIX



For more market information, read our 2020 **Minneapolis-St. Paul Market Overview**

THE COMPASS REPORT

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.

MINNEAPOLIS-ST. PAUL OFFICE

#1 Commercial Real Estate Brokerage Firm for Sales & Commercial Property Management Firm - *Minneapolis/St Paul Business Journal*

More than $4 billion in annual transaction value

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300+ Properties & **30MSF** managed

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