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Eagan-based MSP Commercial is planning a 41,000-square-foot second phase at 7125 Tamarack Road in Woodbury, which started with a Minnesota Eye Consultants clinic. The developer finished the clinic earlier this year. (Submitted illustration: MSP Commercial)

## Colliers: Medical office vacancy rate ticks up

By: [Matt M. Johnson](#) September 18, 2018 7:02 am 0

Developers of Twin Cities area medical office buildings are on track to complete about 83,000 square feet of projects in the final six months of 2018 after finishing five times that amount in the first half of the year.

Ten new medical projects totaling 416,848 square feet of space opened by the end of June, according to a new report from the Twin Cities office of Colliers International. While construction has dropped off considerably from that level, more projects are on the way for what Colliers experts think will be a busy 2019.

Tenants just need to fill what is on the market first, said Brian Bruggeman, a vice president with Colliers' Healthcare Services Group.

"The market needs to catch up with the new square footage that is coming onto the market," he said in an interview.



*Twin Cities Orthopedics' new clinic at 4100 Minnesota Drive in Edina is one of three new Twin Cities buildings completed for the health care provider during the first half of 2018. (Submitted photo: CoStar)*

With all the new space coming online, the overall Twin Cities medical office space vacancy rate ticked up to 8.15 percent during the first half of the year, up from 7.9 percent a year earlier, according to the report. The Twin Cities medical office space market consists of 8.5 million square feet of space. Vacancy rates in the report are calculated including both multi-tenant and single-tenant buildings.

One medical office project is under construction in the Twin Cities, a 12,500-square-foot building for Midwest Ear, Nose & Throat Specialists, at 3590 Arcade St. in Vadnais Heights, according to Colliers. The Minneapolis-based Davis Group is the developer. Five more projects totaling 185,600 square feet are planned but are not under construction, according to the report.

Twin Cities Orthopedics took up much of the new space in the first half. Minneapolis-based Kraus-Anderson and Edina-based Frauenshuh completed two clinic buildings for the health care provider. The buildings, in Blaine and Egan, have a combined total of 131,067 square feet of space.

The Egan clinic is part of the Minnesota Vikings' new headquarters and practice facility campus. Twin Cities Orthopedics is the sole tenant at the two buildings and owns them, Bruggeman said. New office space for independent medical groups accounted for all the first-half construction Colliers reported for the first half of the year. Projects from hospitals and large health systems are in the pipeline, Bruggeman said, but many have not yet been made public.

One such project is a [proposal](#) from Minneapolis-based United Properties to build 175,000 square feet of medical office space for Allina Health at the northeast quadrant of I-494 and Highway 100 in Bloomington. The project was announced in August 2017 but has not moved forward. Both United Properties and Allina declined to comment on the estimated \$50 million proposal.

Medical office space developer [MSP Commercial](#) is planning for a heavy workload. The Egan-based company already had a busy first half of the year, completing a 41,000-square-foot clinic for Minnesota Eye Consultants at 7125 Tamarack Road in Woodbury, and a 23,000-square-foot multi-tenant medical building at 9645 Grove Circle NW in Maple Grove.

MSP Commercial will start a second, 41,000-square-foot [construction phase](#) at 7125 Tamarack Road this fall, said Steve Miller, MSP's vice president of acquisitions and asset management. Demand for the space will remain high next year, he said.

"I'd say MSP has been very active the last 24 months," Miller said in an interview. "It looks like the medical community is optimistic on what health care looks like."

Also on MSP's work list is a 17,600-square-foot medical office building in Maple Grove, and a planned conversion and expansion of the former Chalet Liquor Store at 5109 36th Ave. N. in Crystal. North Clinic will move into the 14,000-square-foot building, Miller said.

Other medical office developers who were busy with multiple projects during the first half of the year were the Minneapolis-based Davis Group and Frauenshuh. Davis completed the 52,000-square-foot City Place Medical building, at 237 Radio Drive NE in Woodbury, and the 19,000-square-foot Vadnais Heights Clinic, at 444 Highway 96 E. in Vadnais Heights.

In addition to the Twin Cities Orthopedics facility Frauenshuh completed in Blaine, the company was working on a 70,197-square-foot multi-tenant medical office building at 4100 Minnesota Drive in Edina. The building, which was completed early in the second half of this year, is anchored by Twin

Cities Orthopedics, said Colliers' Bruggeman. Twin Cities Orthopedics is leasing 55,000 square feet from Frauenshuh, according to CoStar.

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