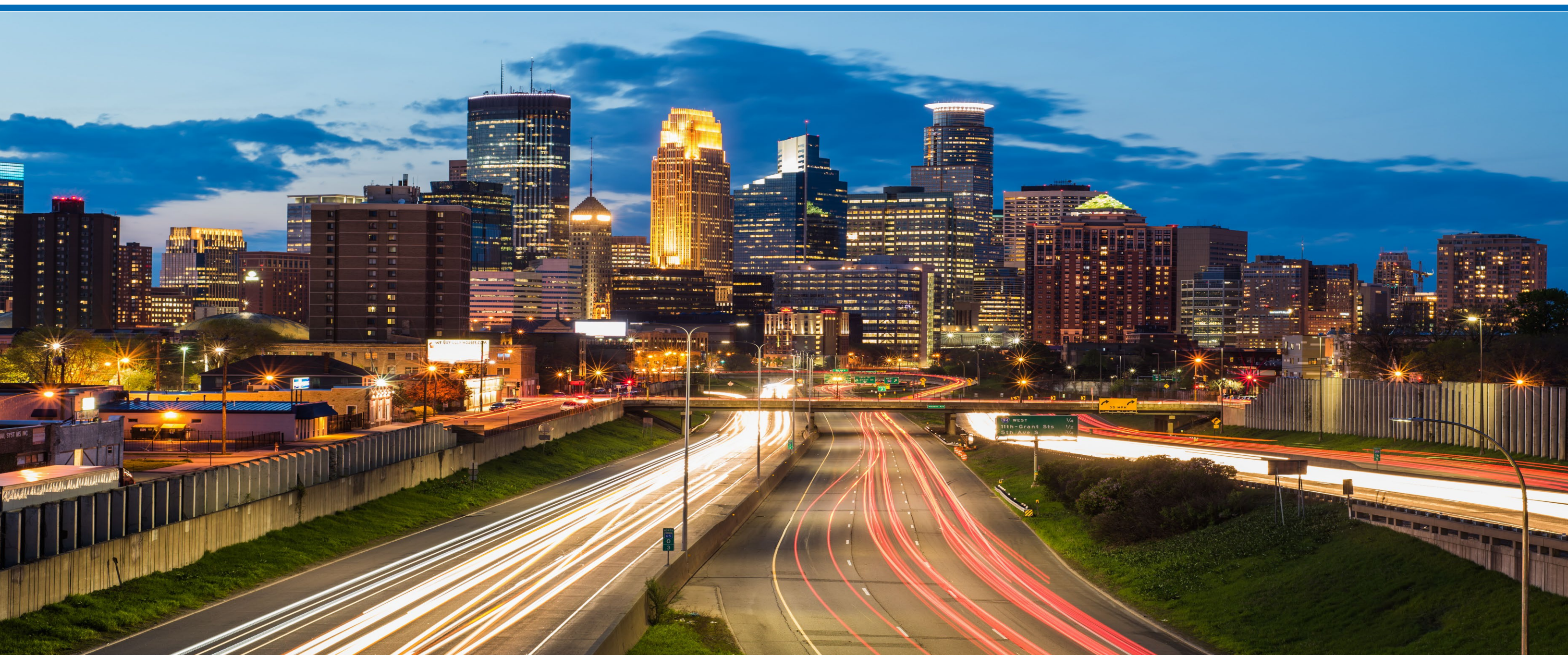


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Minneapolis-St. Paul Office Market Overview



Market Observations



- Minnesota has a strong headquarters economy, home to 15 Fortune 500 companies—the most per capita of any major U.S. metro. More than 320 Fortune 1000 firms also maintain a local presence.
- The region benefits from a highly engaged labor pool, with the highest labor force participation rate among major metros at 72%.
- Minneapolis–St. Paul is a global leader in biotechnology and biomedical research, with strong ties to agriculture, food exports and water technology. The region also holds one of the most significant concentrations of banking institutions and financial expertise among major metros.
- The area maintains a historically low unemployment rate, consistently below the national average. As of January 2025, the unemployment rate stood at 2.4%, compared to 4.1% nationally.



Leasing Market Fundamentals

- For the first time since the first quarter of 2022, absorption turned positive, totaling 199,987 SF—only the second instance of positive absorption since the third quarter of 2020. Vacancy stands at 19.7%, well above the eight-year average of 14.3%.
- Suburban office markets are demonstrating relative strength, recording 371,018 SF of positive absorption. These areas continue to outperform core urban markets, with suburban vacancy at 15.7%—notably lower than the 25.6% vacancy rate in the Minneapolis CBD and 29.5% in the St. Paul CBD.
- Despite rising vacancy, high-quality office space with proactive ownership remains scarce. A substantial number of landlords lack the capital to compete effectively for tenants through tenant improvement allowances or building upgrades. Others are hesitant to invest without a clear path to positive cash flow.



Major Transactions

- The 31-story Ameriprise Financial Center in the Minneapolis CBD sold for \$6.25 million—a staggering 97% discount from its \$200 million sale in 2016. The previous owners were impacted by Ameriprise consolidating its workforce into its nearby Service Center, coupled with the significant capital investment needed to modernize and build out space to meet current tenant expectations. New owner Onward Investors is evaluating potential conversion options, including residential redevelopment.
- In the Minneapolis CBD, Two22 has been taken over by lender Oaktree Capital Management via deed-in-lieu of foreclosure. The 727,000 SF tower is now under their ownership.
- At Normandale Lake Office Park, distress continues to surface. The owner of the 8400 Tower is now facing foreclosure following a loan default. This follows recent distress at the 8500 Tower, which sold at foreclosure in September 2024, and the 8200 Tower, which was placed in receivership earlier that spring.



Summary/Outlook

- Nationally, Newmark estimates that 49% of pre-pandemic office leases remain unrenewed, with 1.4 BSF set to expire between 2025 and 2027. Average lease sizes have declined by 11% and lease terms have shortened by 5.5%. However, 80% of tenants report no plans to reduce their space, pointing to a slow but steady path toward recovery. This trend reflects a shift in renewal dynamics and increased activity among smaller tenants.
- While recent sales in the Minneapolis CBD have come at steep discounts, they are beginning to establish new valuation benchmarks and reset market expectations. Office property values are continuing to decline sharply, creating concerns over broader fiscal impacts. In Minneapolis, assessed commercial property values have dropped 9.5%, with office assets specifically down 22%. As a result, the tax burden is shifting toward residential properties.

1. Economy
2. Leasing Market Fundamentals

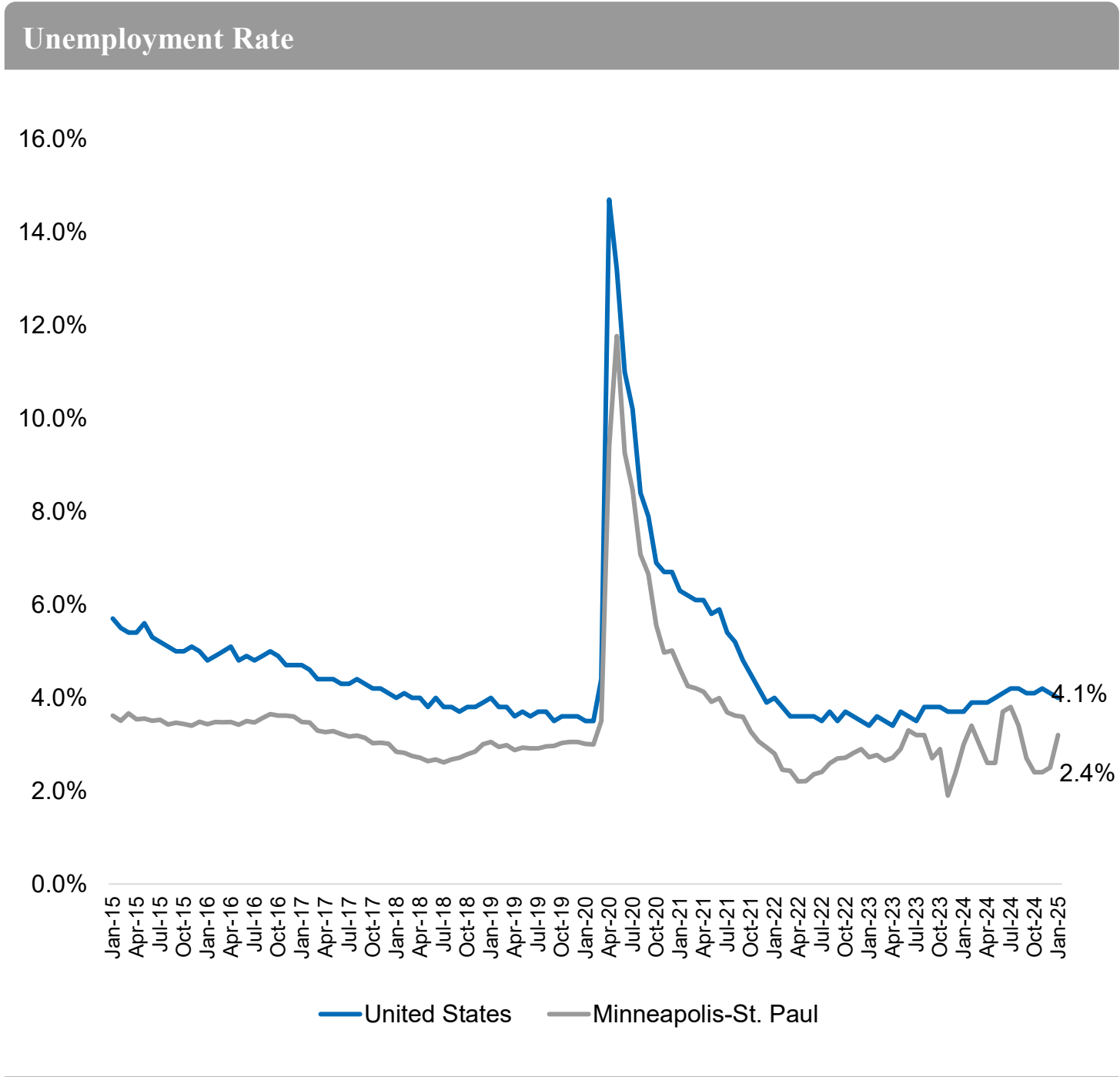
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Economy

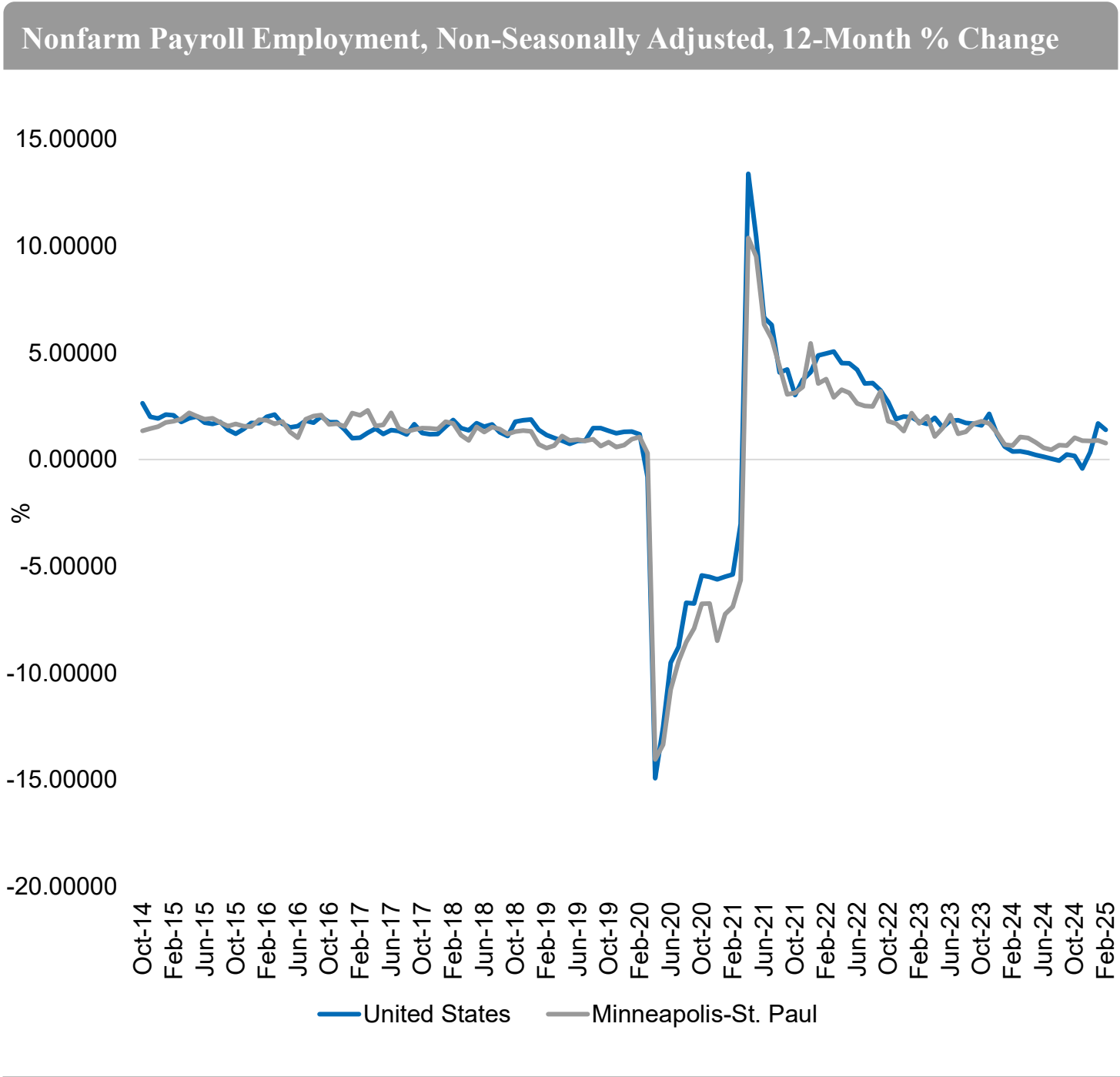


Minneapolis–St. Paul Unemployment Low at 2.4%, Though Job Growth Lags

Minneapolis–St. Paul’s unemployment rate stood at 2.4% in January 2025, well below the national average of 4.1%, underscoring the region’s relatively strong labor market. However, despite this low unemployment, job growth has remained sluggish. Over the past 12 months, growth has been flat or remained under 1%, reflecting a cautious pace of hiring across the metro.



Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

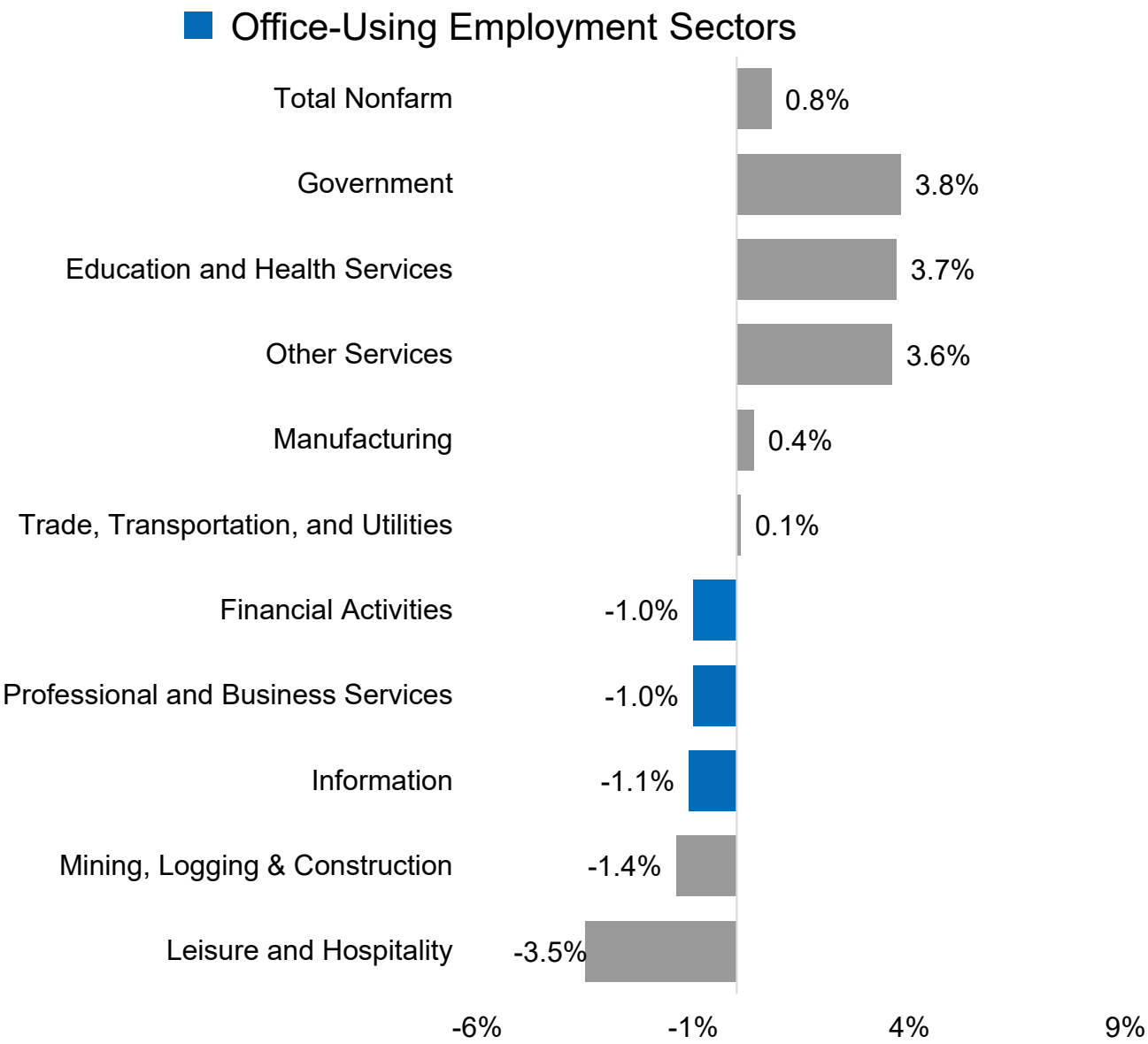
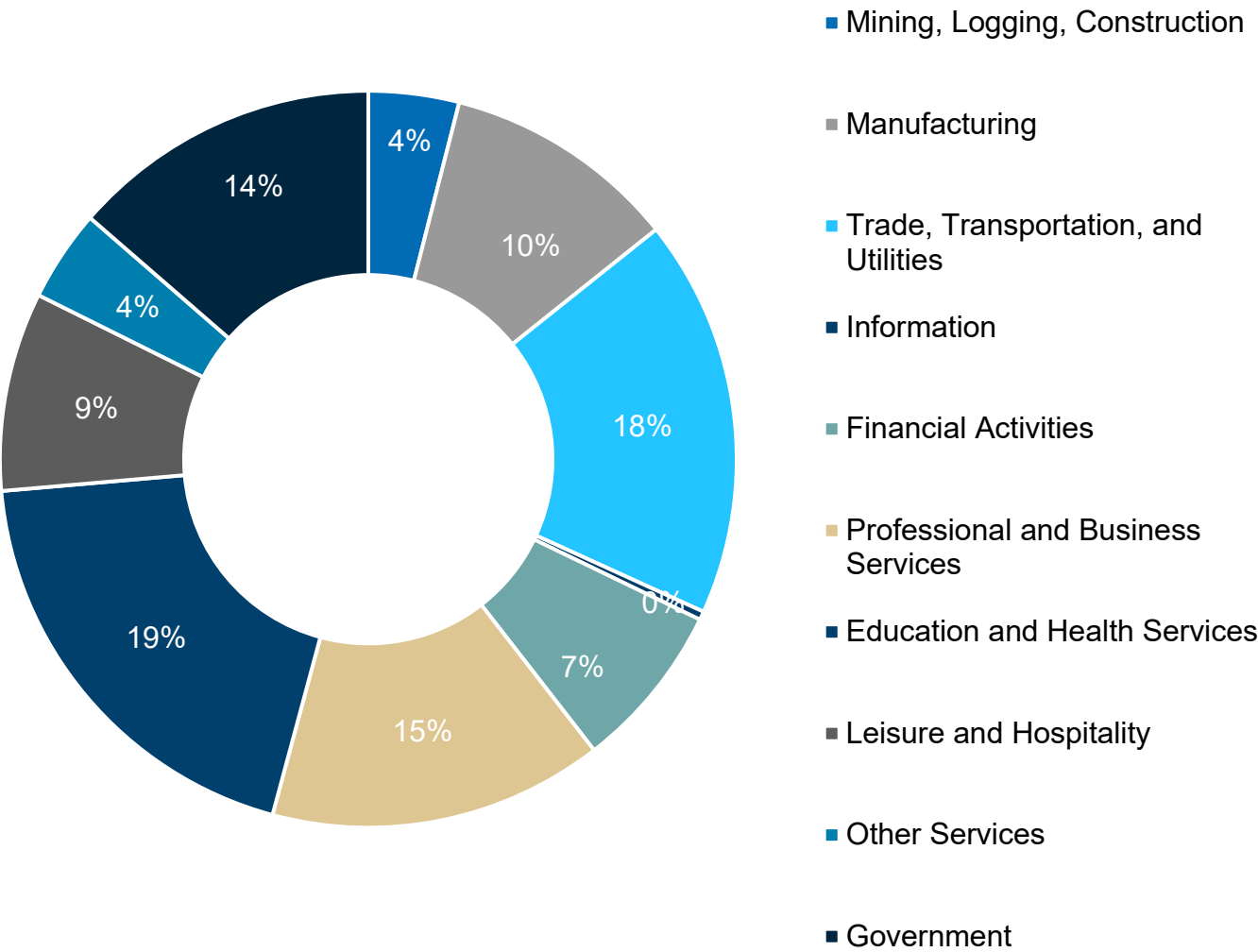


Public and Health Sectors Drive Job Growth

Job growth was strongest in Government, Education and Health Services, and Other Services, while the Leisure and Hospitality sector declined by 3.5%. Office-using employment—including Financial Activities, Professional and Business Services, and Information—continued to contract. However, the pace of decline has moderated in recent months, indicating a potential stabilization within these sectors.

Employment by Industry, February, 2025

Employment Growth by Industry, 12-Month % Change, February, 2025

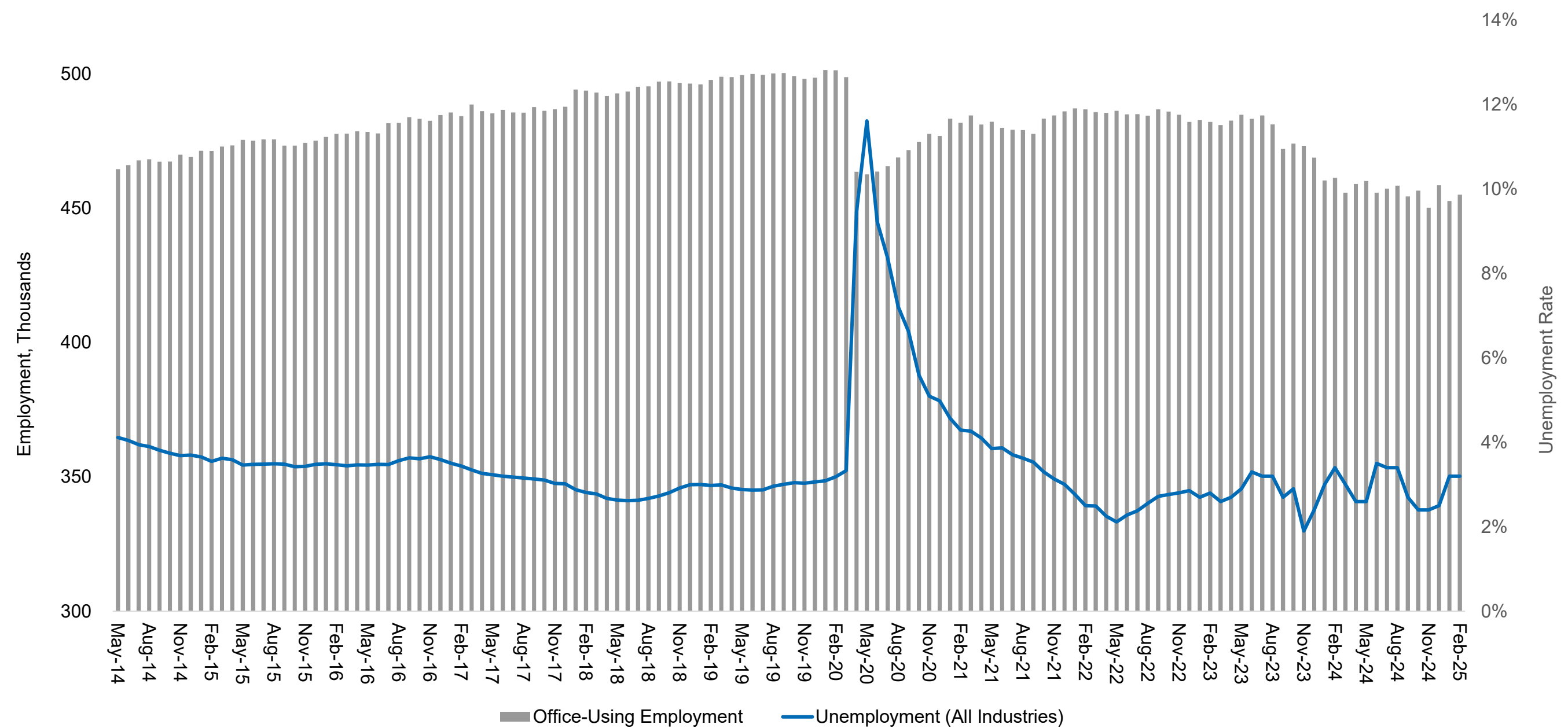


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

Office Employment Slide Eases as Return-to-Office Mandates Gain Momentum

Although office employment in Minneapolis–St. Paul continues to decline, the rate of decrease has slowed in recent months. Growth in this sector remains critical to the market’s recovery. A positive indicator is the rise in return-to-office mandates from major corporate employers, which could help support demand for office space moving forward.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

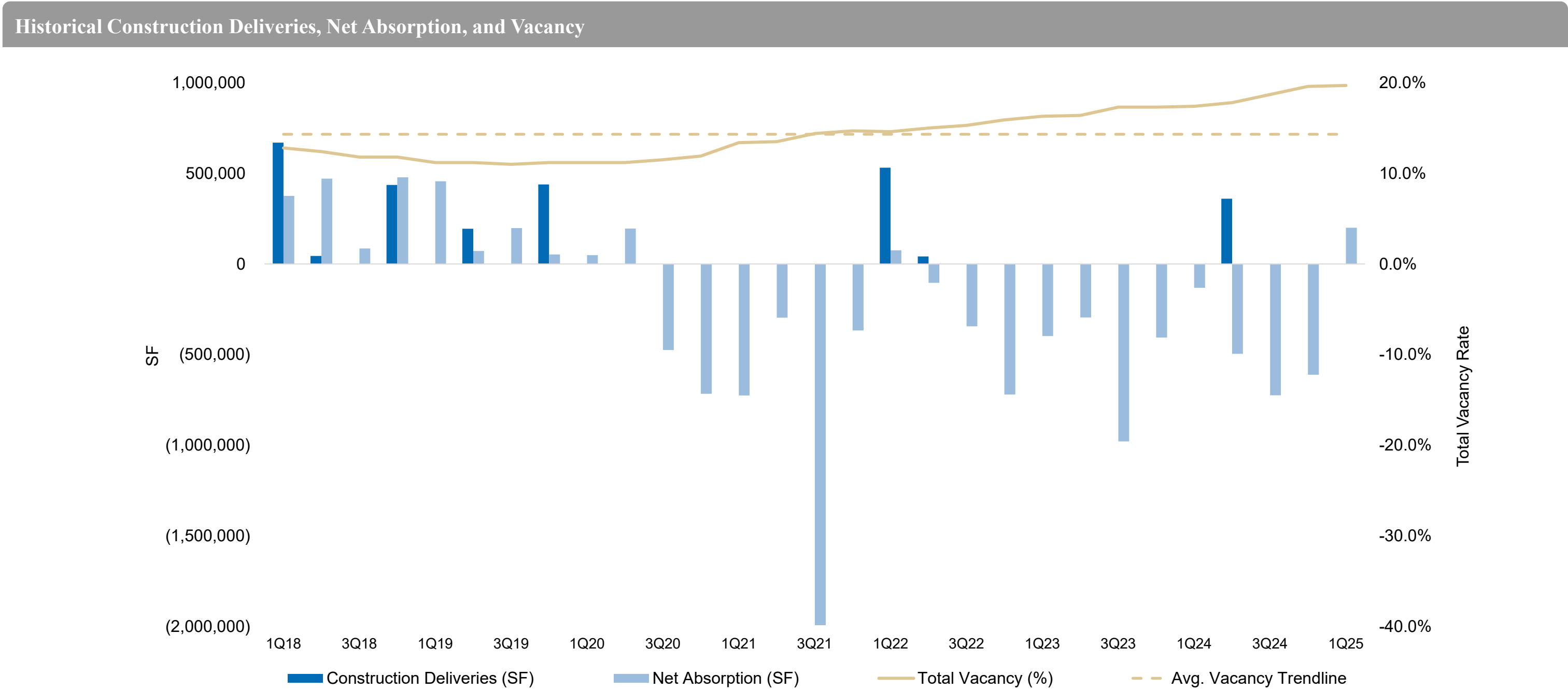
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Leasing Market Fundamentals



Absorption Positive For First Time Since 1Q22; Vacancy Remains High

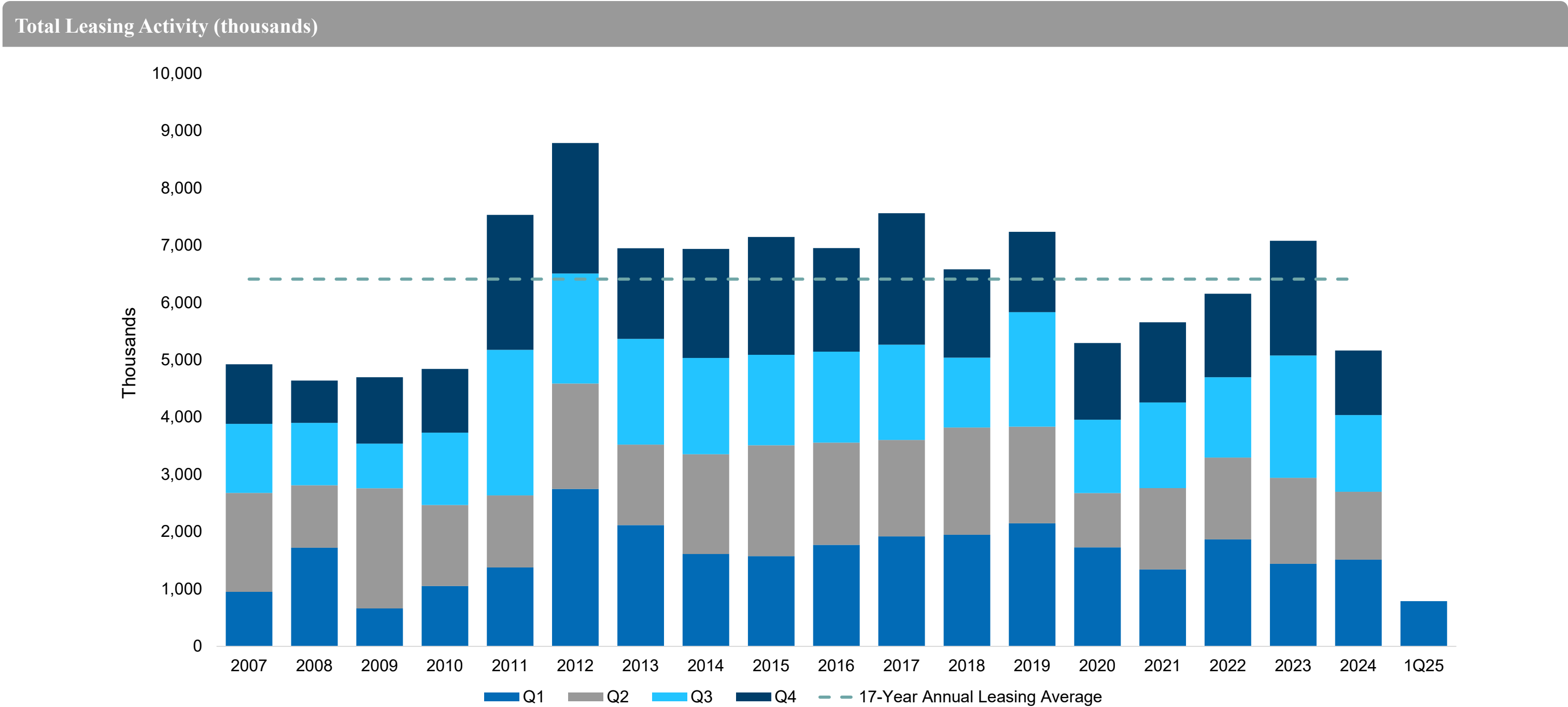
For the first time since the first quarter of 2022, absorption was positive, reaching 48,739 SF—only the second occurrence of positive absorption since the third quarter of 2020. However, vacancy remains elevated at 24.3%, well above the eight-year average of 17.9%.



Source: Newmark Research, MNCAR, Costar

Suburban Submarkets Lead with 220,855 SF of Absorption and Lower Vacancy Rates

Suburban office markets are experiencing the highest level of activity, recording 220,855 SF of positive absorption. Vacancy in the suburbs stands at 19.6%, significantly lower than the 29.3% vacancy rate in the Minneapolis CBD and 33.4% in the St. Paul CBD.

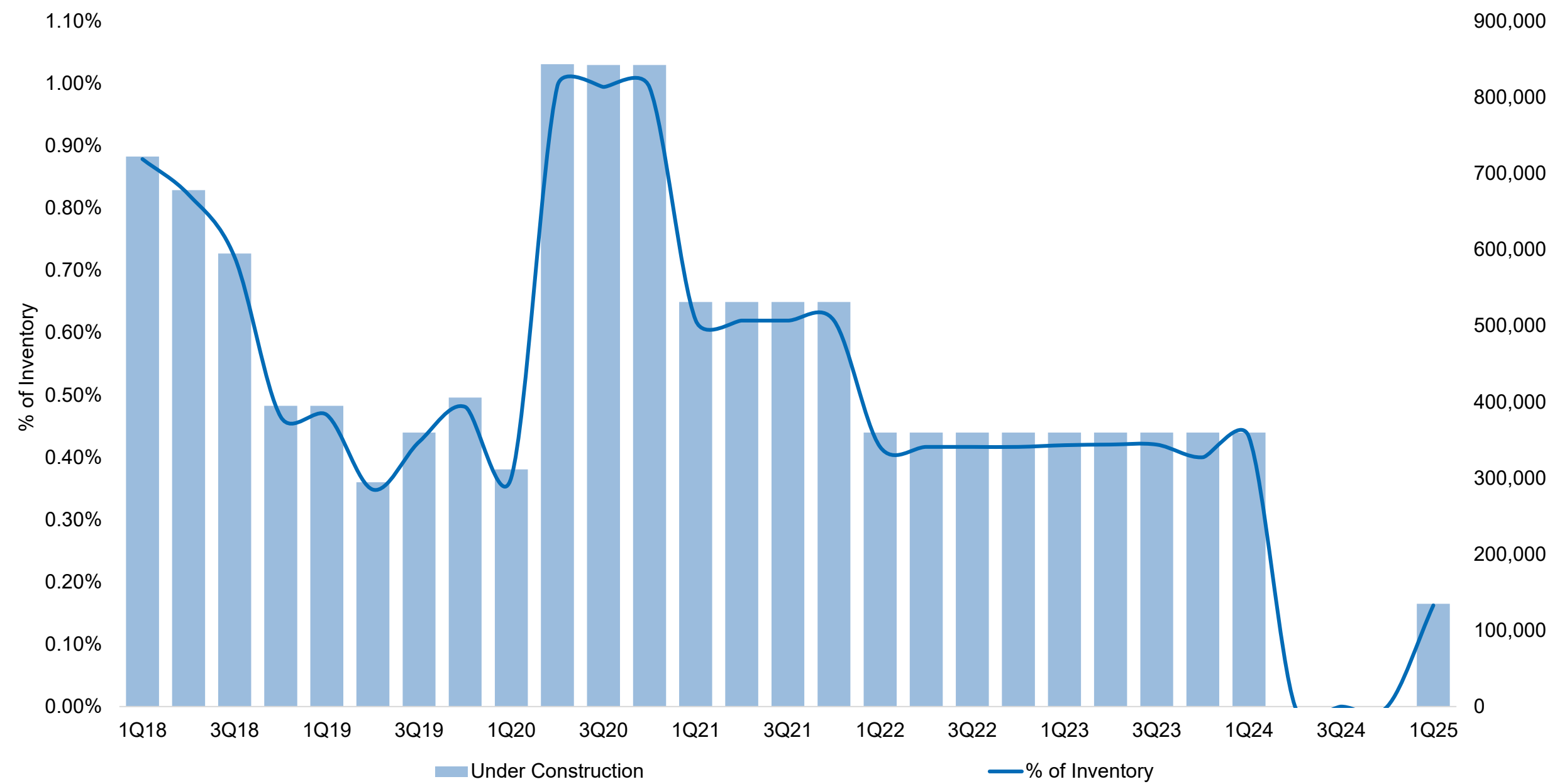


Source: Newmark Research, CoStar

136,000 SF Project Breaks Ground in Southwest Submarket

Orion Investments has begun construction on The Craftsman on France, with delivery anticipated by summer 2026. Charles Schwab Corp. has signed a lease for 12,000 SF, while Adolfson & Peterson will occupy 41,195 SF. The project also includes a 150-unit multifamily component.

Office Under Construction and % of Inventory

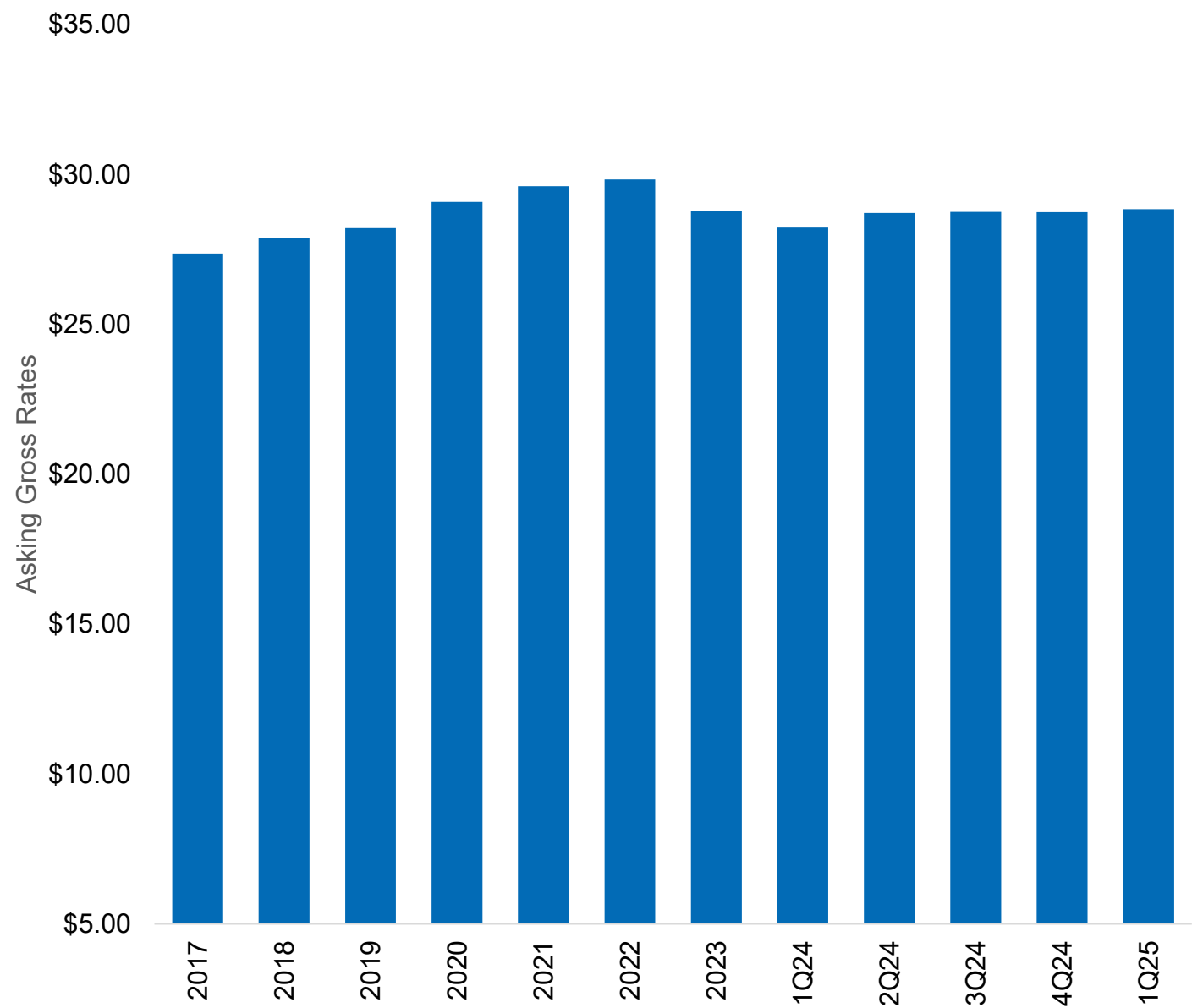


Source: Newmark Research, CoStar, MNCAR

Landlords Maintain Asking Rates, Rely on Concessions

Despite rising vacancy, rental rates remain elevated as landlords continue to offer concessions rather than lowering quoted rates. Incentives such as free rent and tenant improvement allowances enable landlords to preserve asking rates while remaining competitive in attracting tenants.

Office Average Asking Rent, \$/SF, Gross



Year-over-Year Asking Gross Rent Growth Rate



Source: Newmark Research, CoStar

Minneapolis CBD Absorption and Vacancy Forecast



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Forecast

Trophy A vs. Commodity A vs. B



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Forecast

Office Transactions

Notable Lease Transactions

Tenant	Building	City	Submarket	Type	SF
Huntington Bank	Crescent Ridge Corporate Center I	Minnetonka	West	Renewal	100,000
Adolfson & Peterson	The Craftsman	Edina	Southwest	New	41,195
Messerli Kramer	50 South Sixth	Minneapolis	Minneapolis CBD	New	33,974
Ehlers	Broadway Ridge	Minneapolis	Minneapolis CBD	New	18,591
Bush Foundation	The 428	St. Paul	St. Paul CBD	New	12,860
API National Service Group, Inc.	Rice Creek Business Center	Shoreview	Northeast	New	12,671
Meyer Borgman Johnson	RSM Plaza	Minneapolis	Minneapolis CBD	New	12,277
Charles Schwab Corp.	The Craftsman	Edina	Southwest	New	12,000
Mosaic Company	ATRIA Corporate Center	Plymouth	West	Extension	10,551

Source: Newmark Research, MNCAR



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Forecast



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