

# Minneapolis-St. Paul Office Market Overview



# Market Observations

## Economy

- Minneapolis has a strong headquarters economy, home to 15 Fortune 500 firms—the most per capita of any major U.S. metro area. In addition, over 320 Fortune 1000 companies maintain a local presence.
- The area has a historically low unemployment rate, consistently lower than the national rate. The unemployment rate is 2.9% as of November 2024, compared to the national rate of 4.1%.
- Office-using employment sectors have yet to fully recover to pre-pandemic levels. Information, financial activities, and professional/business services sectors have experienced annual declines of 2.2%, 2.8%, and 6.0%, respectively.
- Minneapolis's 12-month job growth turned negative in recent months for the first time since the pandemic. In November, employment growth declined by 0.7%, while nonfarm employment at the national level increased by 1.5%.

## Leasing Market Fundamentals

- Absorption has been negative for 17 of the past 18 quarters. Absorption reached negative 789,797 SF in 3Q24 and was negative 610,861 for the final quarter of the year, increasing vacancy (including sublease space) to 19.6% from 18.7% in the 3rd quarter.
- Tenants are attracted to premium properties that offer state-of-the-art HVAC systems, excellent walkability, and unique, high-end amenities such as pickleball courts, golf simulators, and building-provided complimentary transportation.
- While still a significant factor in the market, the supply of sublease space has reached its peak as expiring leases convert to direct availabilities, tenants reclaim space for growth, and fewer businesses list new sublease options.

## Major Transactions

- The 3rd tallest tower in the Minneapolis CBD, the iconic Wells Fargo Center, sold for \$85 million. Starwood Capital Group, which purchased the property in April of 2019 for \$313.6 million, sold the property to a joint venture between Cross Ocean Partners, Neuberger Berman and Minnetonka-based Onward Investors.
- 3M spinoff Solventum will locate its headquarters in Eagan to the Blue Cross Blue Shield campus. Developer Trammell Crow will lead renovations of the 226,000-square-foot property at 1750 Yankee Doodle Road
- Park Place East and West in St. Louis Park were placed into receivership after owner Middleton Partners defaulted on a \$54.25 million loan. A Hennepin County District Court judge appointed Trigild, Inc. as the receiver
- The Opus Group has plans to redevelop 5100 Eden Ave in Edina as its new corporate headquarters, a shift from earlier plans to replace the 38,000-square-foot aging office building with apartments. New plans include demolishing the existing structure and building a Class A, 112,000-square-foot multitenant office building. The move will relocate Opus Group from Minnetonka.

## Summary/Outlook

- While many tenants are downsizing when renewing or relocating there has been stabilization among legal, financial services, accounting, and medical tenants. Most are either maintaining their current square footage or growing.
- Minneapolis-St. Paul office market is expected to face ongoing challenges due to minimal or stagnant growth in office-using employment sectors. Increases in these sectors is crucial for recovery, with return-to-office mandates providing only modest increases in office space utilization.

1. Economy
2. Leasing Market Fundamentals

4Q24

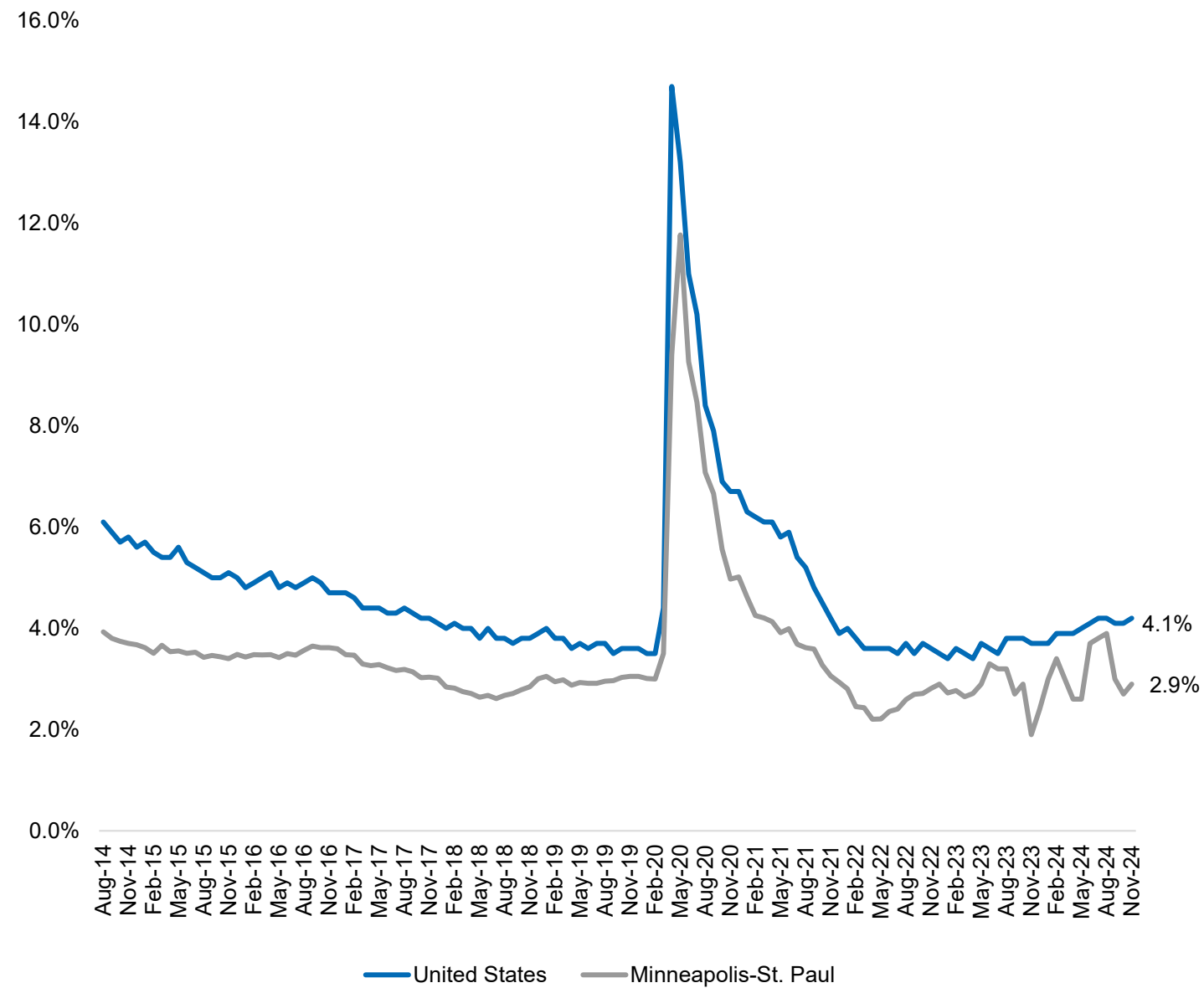
# Economy



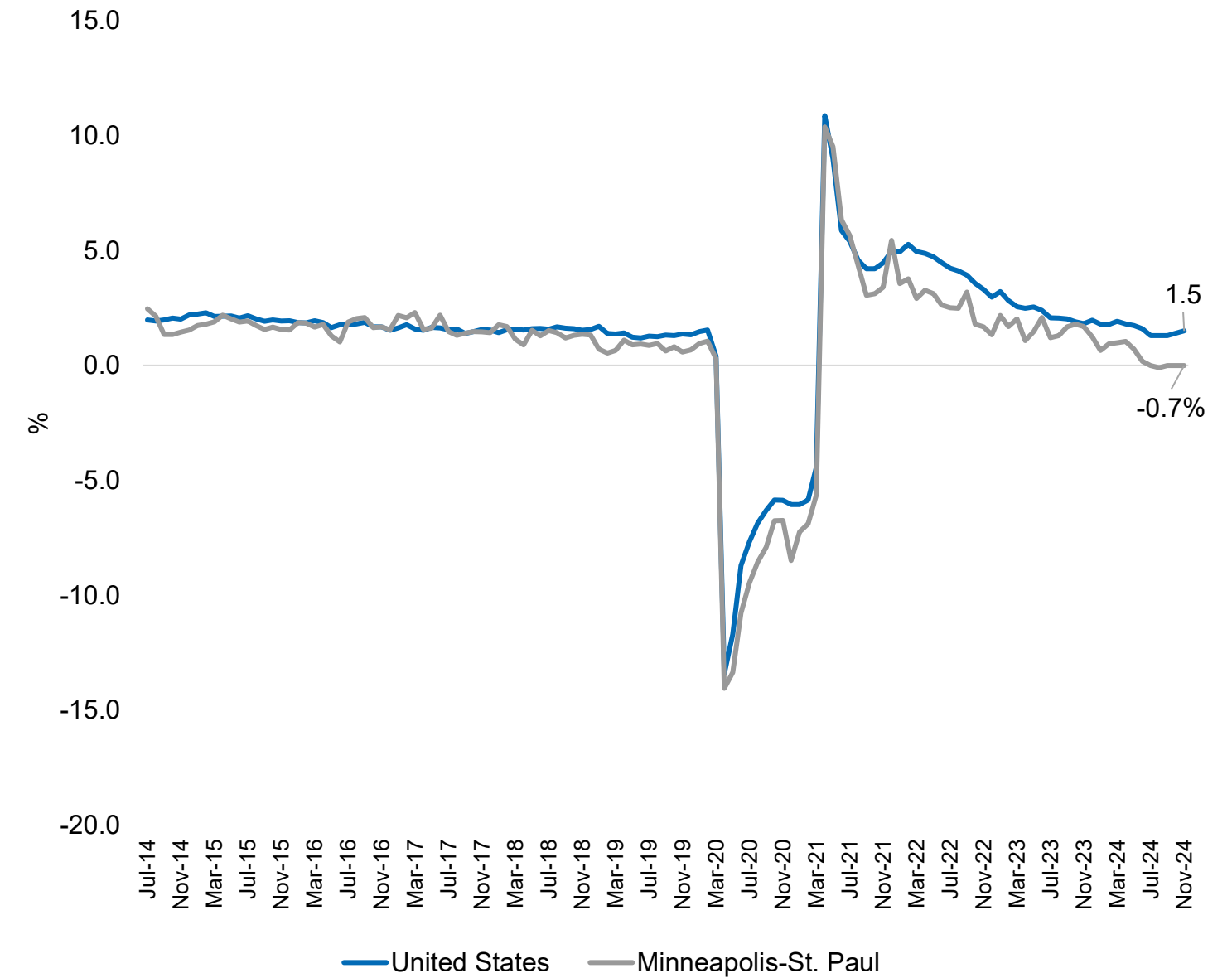
# Local Unemployment Down in October & November

Minneapolis-St. Paul's unemployment rate was 2.7% and 2.9% in October and November, respectively. In 2024, unemployment peaked over the summer in August at 3.9%. Minneapolis's 12-month job growth turned negative in recent months for the first time since the pandemic. In November, employment growth declined by 0.7%, while nonfarm employment at the national level increased by 1.5%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



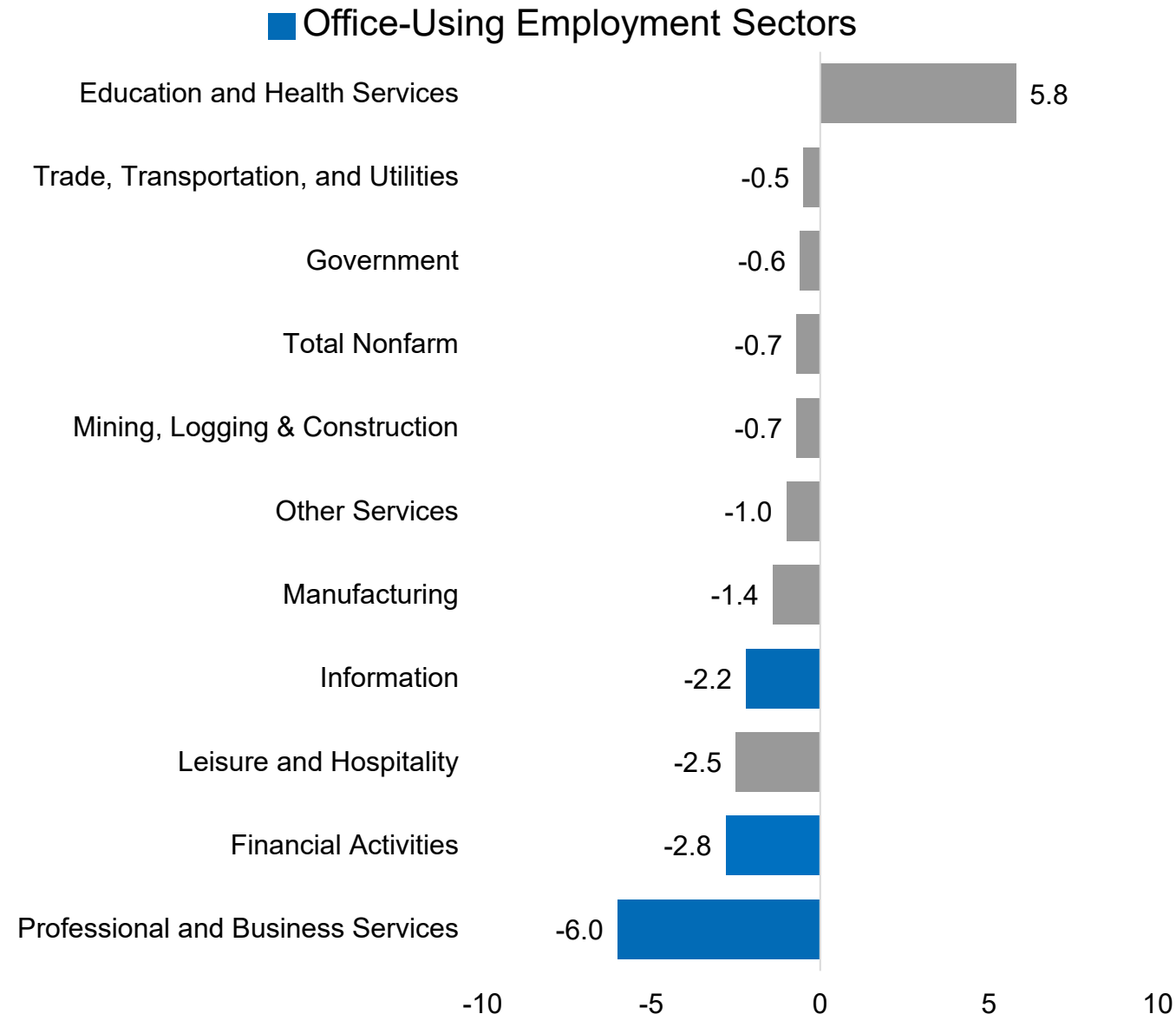
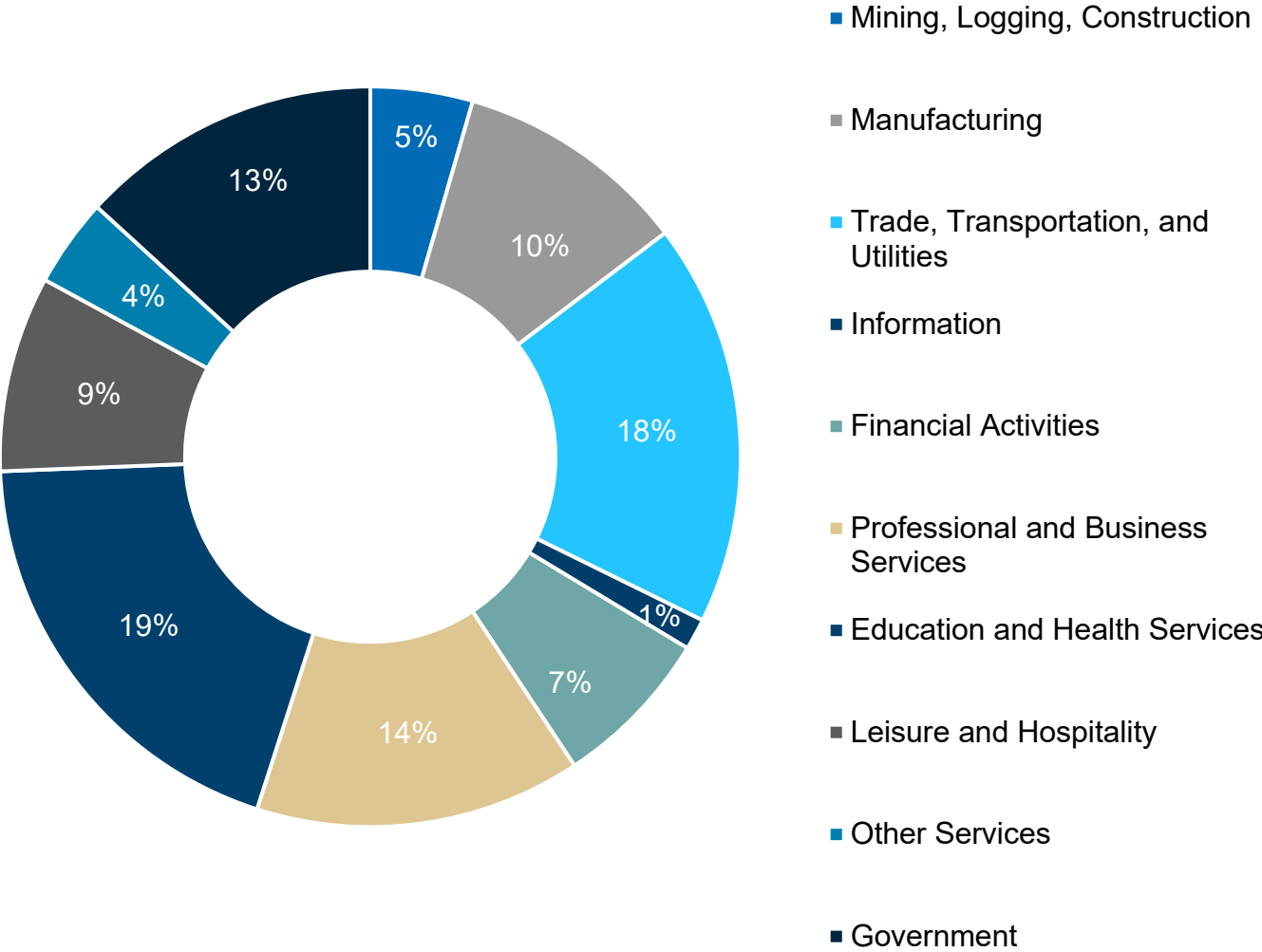
Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

# 12-Month Office-Using Employment Continues Decline

Growth in Education and Health Services employment was robust at 5.8% and was the only sector to experience positive growth. Professional and Business Services posted the sharpest decline in employment at negative 6.0% year-over-year growth.

Employment by Industry, November, 2024

Employment Growth by Industry, 12-Month % Change, November, 2024

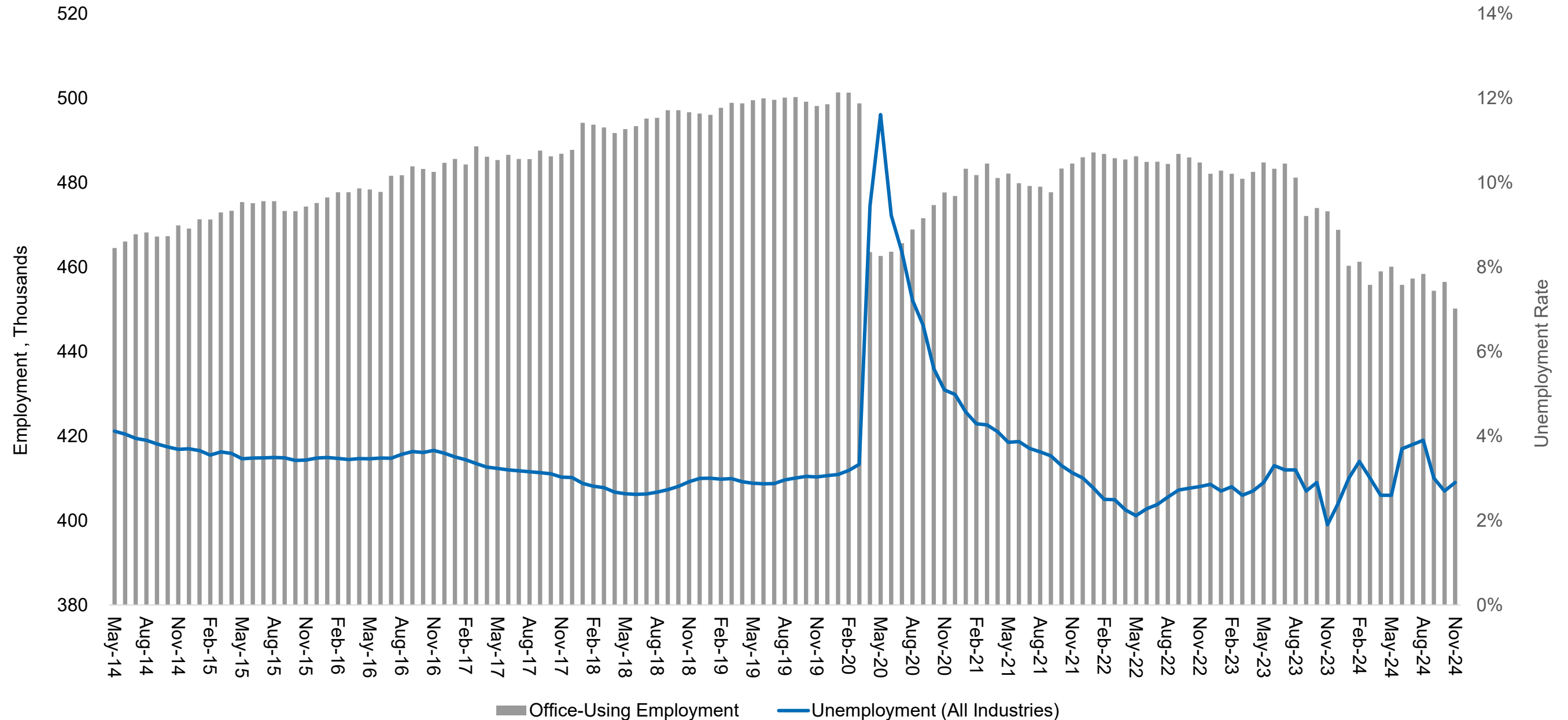


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

# Office Market Job Growth Key to Recovery

While Minneapolis-St. Paul office employment sectors continue to experience declines, growth in office jobs is crucial to the recovery of the market, as companies continue to downsize and return-to-office mandates provide only modest gains in office space utilization.

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

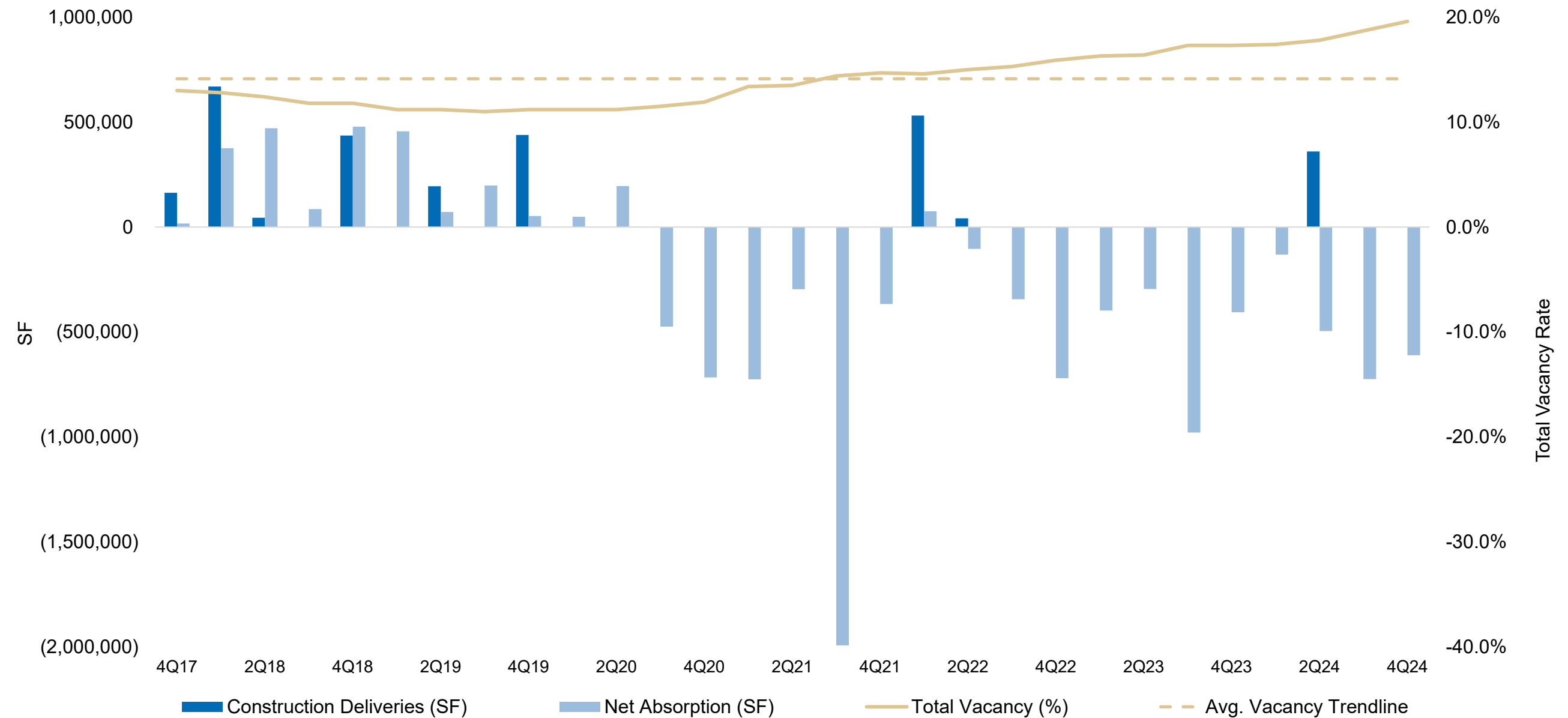




# Absorption Negative 16 Of Last 17 Quarters

Leasing activity remains strong, but tenants continue to downsize during renewals or relocations. In the St. Paul CBD, the State of Minnesota vacated 120,000 SF at the Golden Rule Building due to remote work policies, while US Bank left 118,000 SF, consolidating operations at US Bancorp in the Minneapolis CBD and Excelsior Crossings in the Southwest submarket.

## Historical Construction Deliveries, Net Absorption, and Vacancy

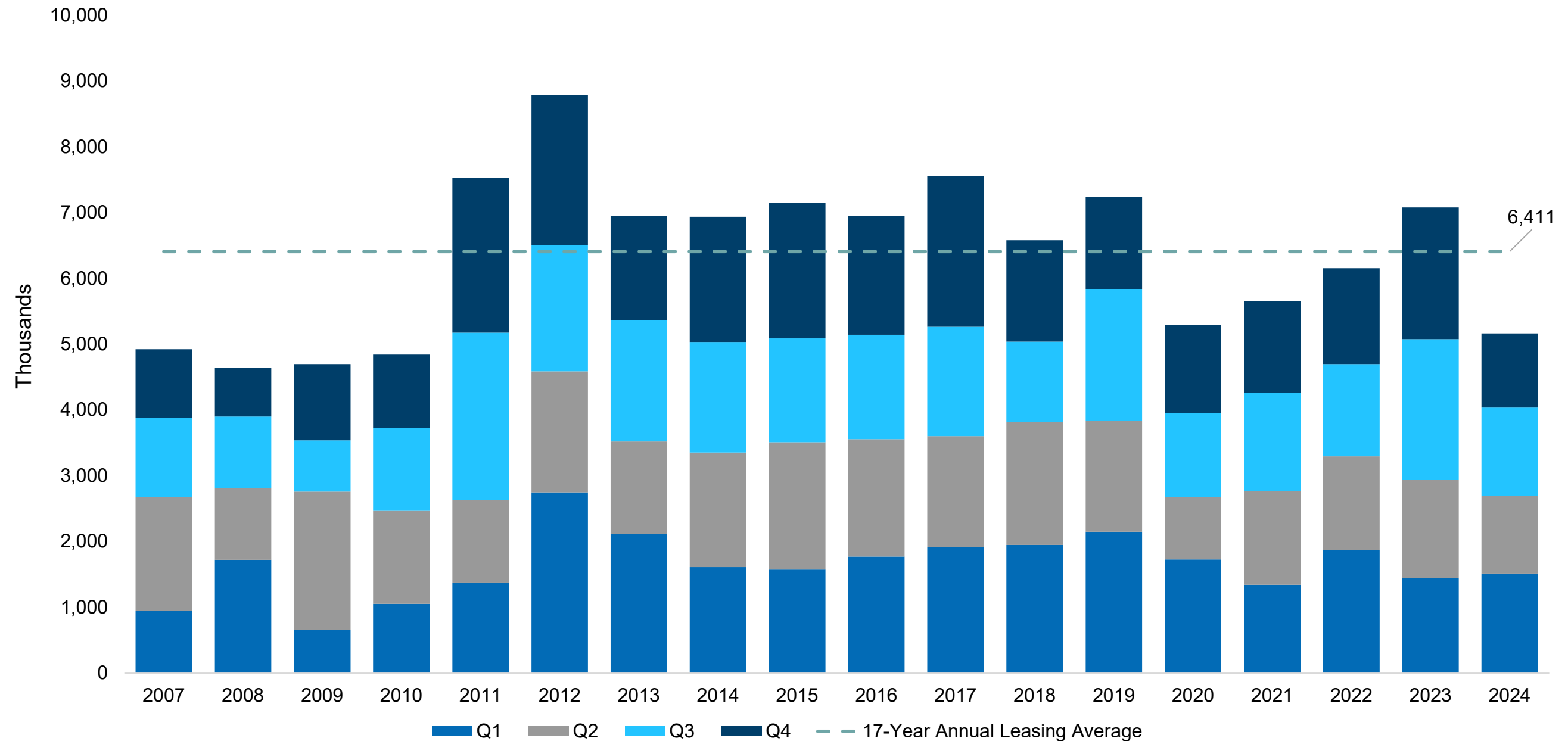


Source: Newmark Research, MNCAR, Costar

# Tenants Favor Unique Amenities

Tenants continue to be attracted to premium properties with top-tier amenities. At the recently-completed Northstar Center in the Minneapolis CBD, recent improvements include a revamped 975-stall parking structure and updated office spaces with lounges, conference facilities, a bar, a golf simulator, a putting course, and 20 "skyboxes"—private office suites with flexible memberships. North Loop Green, completed in Q2, saw strong leasing activity before its completion and is now nearly two-thirds leased.

Total Leasing Activity (thousands)

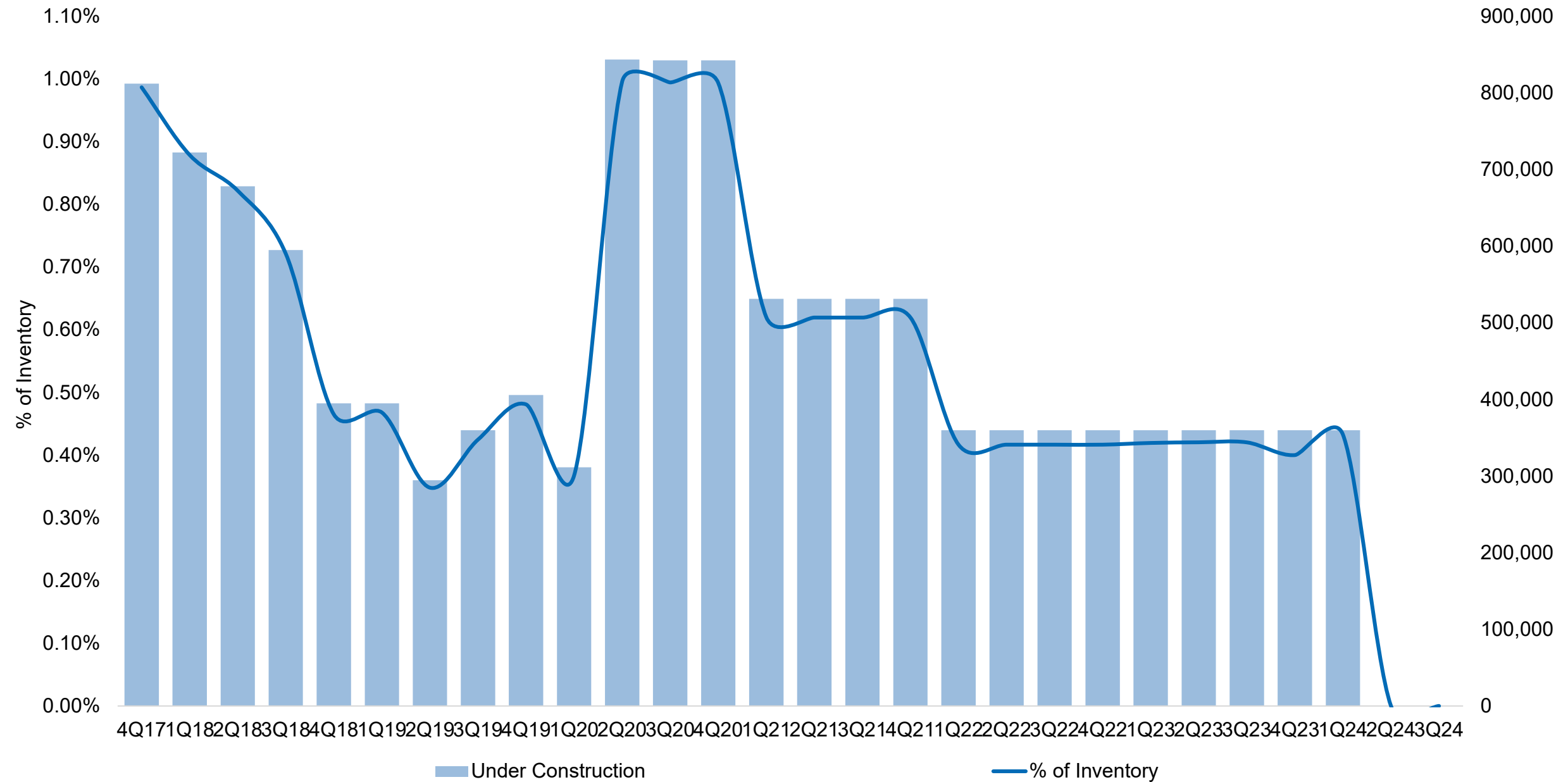


Source: Newmark Research, CoStar

# Limited New Office Construction

Given the continued decline in office space demand, the lack of new construction will help stabilize the market and minimize vacancy increases and increase competitiveness.

## Office Under Construction and % of Inventory

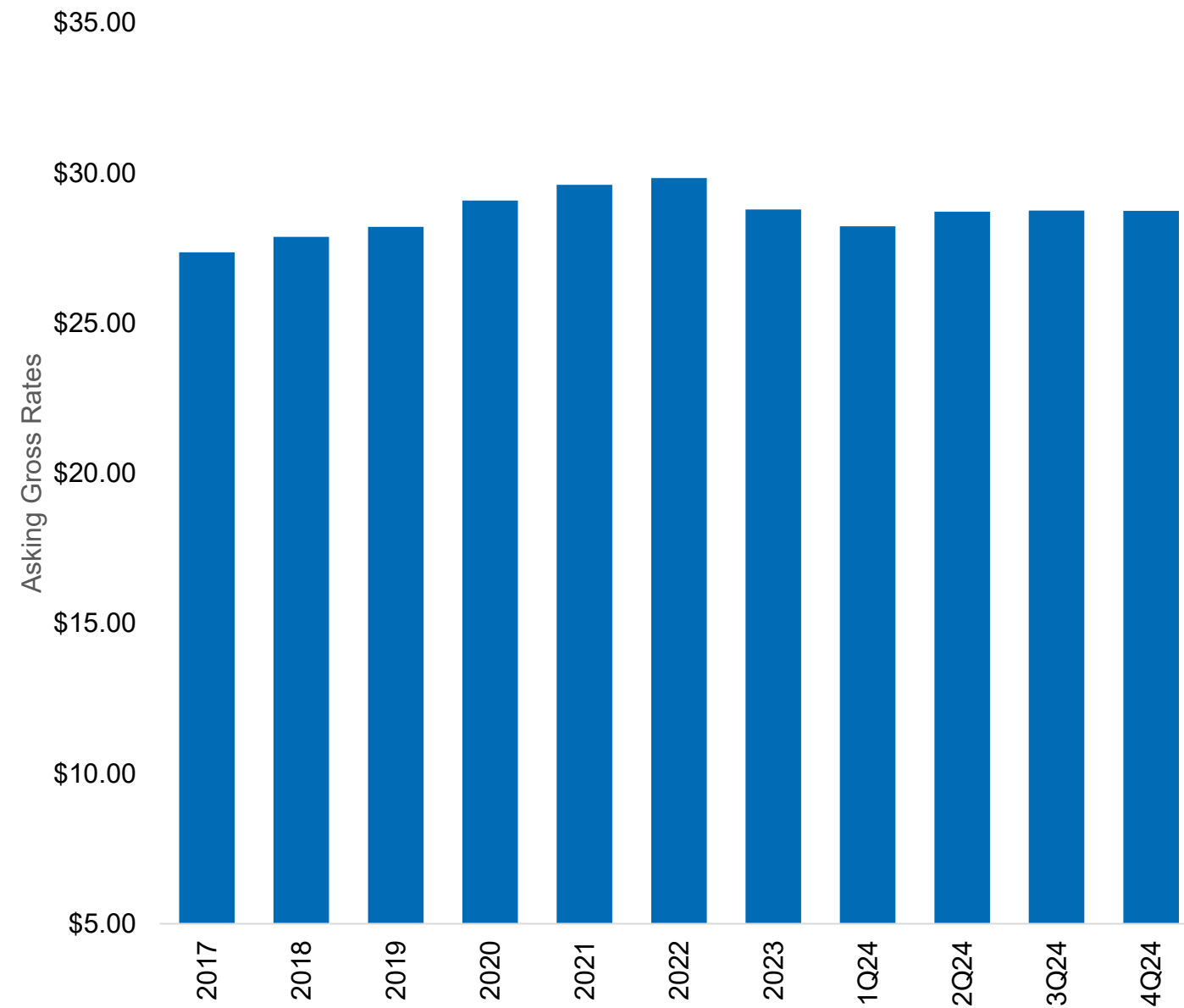


Source: Newmark Research, CoStar, MNCAR, multitenant properties

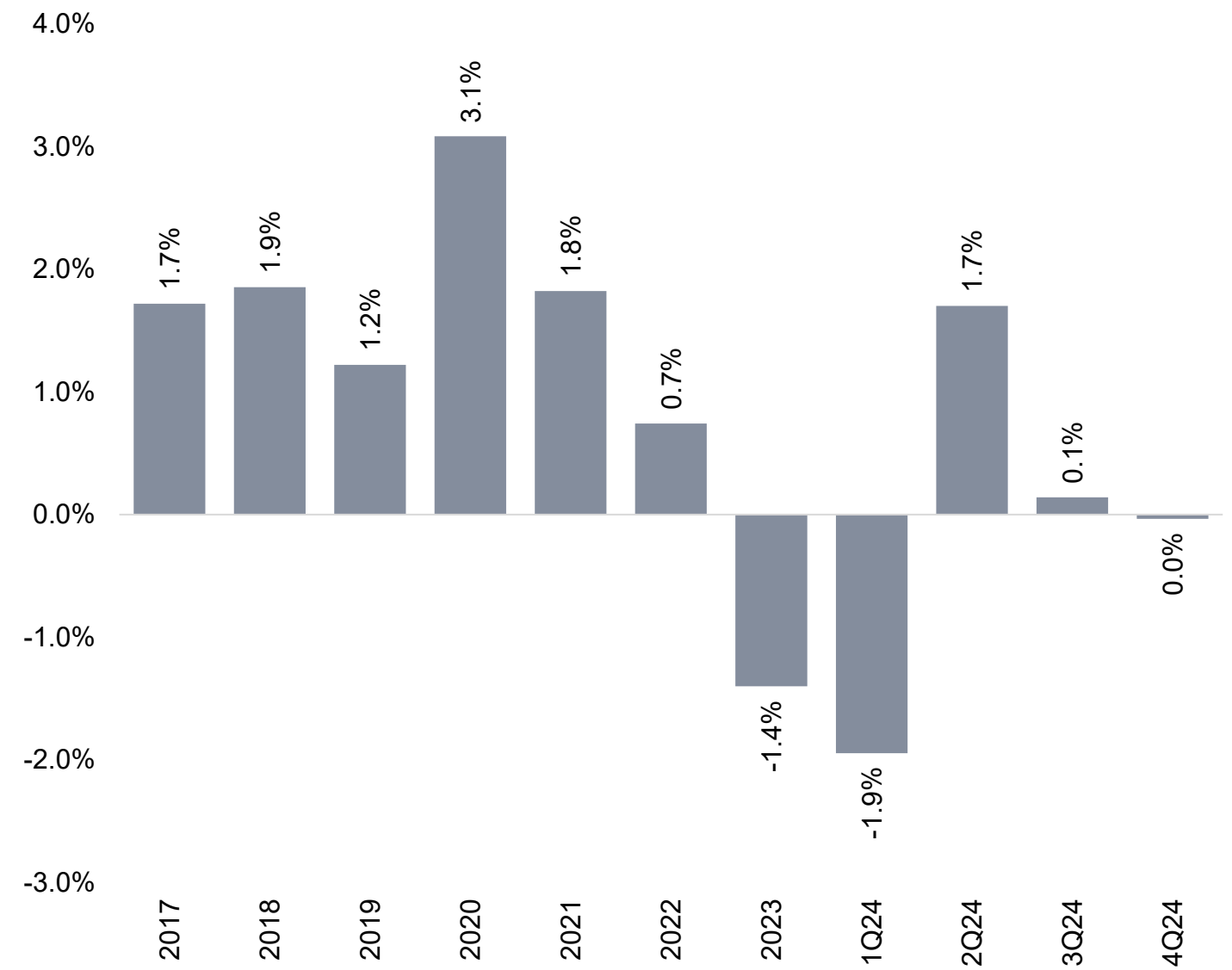
# Quoted Rates Elevated Despite Increasing Vacancy

Rates remain high despite current market conditions, with landlords offering substantial concessions to attract tenants instead of lowering quoted rates.

Office Average Asking Rent, \$/SF, Gross



Year-over-Year Asking Gross Rent Growth Rate



Source: Newmark Research, CoStar

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# Minneapolis CBD Absorption and Vacancy Forecast



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## Trophy A vs. Commodity A vs. B



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# Office Transactions

## Notable Lease Transactions

Tenant	Building	City	Submarket	Type	SF
Wold Architects	50 S 6th	Minneapolis	Minneapolis CBD	New	64,902
Kipsu	Butler Square	Minneapolis	Minneapolis CBD	New	38,000
The Lacek Group	The Dayton's Project	Minneapolis	Minneapolis CBD	New	24,000
Littler Mendelson	IDS Center	Minneapolis	Minneapolis CBD	Renewal	23,728
Hcc Life Insurance	Crescent Ridge	Minnetonka	West	Renewal	21,825
Gamer Packaging	Fifth Street Towers	Minneapolis	Minneapolis CBD	New	20,000
Trellis	Broadway Ridge	Minneapolis	Minneapolis CBD	New	10,189

Source: Newmark Research, MNCAR



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*For more information:*

**Maura Carland**  
*Research Director*  
[maura.carland@nmrk.com](mailto:maura.carland@nmrk.com)

**Jim Damiani, CCIM, SIOR**  
*Executive Managing Director*  
[jim.damiani@nmrk.com](mailto:jim.damiani@nmrk.com)

**Brent Erickson**  
*Senior Managing Director*  
[brent.erickson@nmrk.com](mailto:brent.erickson@nmrk.com)

**Minneapolis**  
100 S 5<sup>th</sup> St, Suite 2100  
Minneapolis, MN 55402  
t 612-430-9950

**New York Headquarters**  
125 Park Ave.  
New York, NY 10017  
t 212-372-2000

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