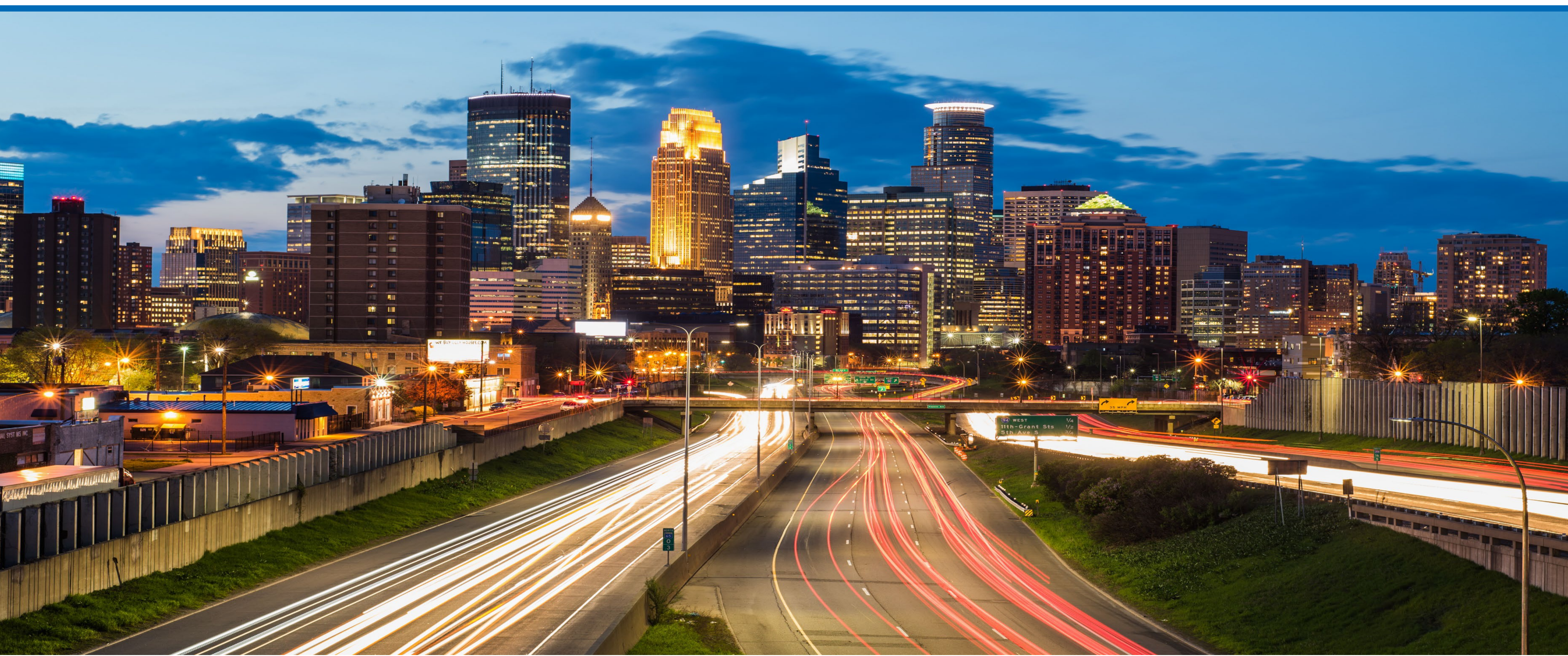


1Q25

Minneapolis-St. Paul Office Market Trends



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.
- Office-using employment sectors have yet to fully rebound to pre-pandemic levels. The information, financial activities and professional/business services sectors saw annual declines of 1.1%, 1.0% and 1.0%, respectively.
- Minneapolis recorded 0.8% job growth over the past 12 months, with gains in government, education and health services, and other services.
- The Southwest submarket led all others in absorption, driven by TKDA's relocation from the St. Paul CBD to 87,000 SF at the SoLo 3311 Building in Bloomington. This move contributed to 206,206 SF of positive absorption in the submarket.
- 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.
- Landlord distress is becoming more pronounced, with some owners already in default and others nearing critical refinancing deadlines. As a result, businesses in the market for space are placing increased importance on a landlord's financial stability and ability to fulfill improvement and concession commitments.
- Tenants continue to prioritize flexibility, favoring shorter lease terms with extension options. However, when leases include rights for expansion, contraction or early termination, many are willing to consider longer commitments.
- Termination clauses, once seldom used, are now being activated by tenants looking to downsize—often cutting their footprint by 50% or more. In many cases, paying a termination fee and securing a smaller lease proves more cost-effective than renegotiating. Landlords have responded by raising termination fees in new agreements.
- Return-to-office trends are gaining traction, with updated policies from major employers. General Mills is requiring in-office attendance Tuesday through Thursday for its North American retail unit. 3M has implemented similar expectations for senior leaders, while encouraging broader participation. The State of Minnesota, under Governor Walz's directive, will require most state employees to be on-site for at least 50% of their scheduled workdays starting in June.



- For the first time since the first quarter of 2022, absorption turned positive, totaling 48,739 SF—only the second instance of positive absorption since the third quarter of 2020. Vacancy stands at 24.3%, well above the eight-year average of 17.9%.
- Suburban office markets are demonstrating relative strength, recording 220,855 SF of positive absorption. These areas continue to outperform core urban markets, with suburban vacancy at 19.6%—notably lower than the 29.3% vacancy rate in the Minneapolis CBD and 33.4% in the St. Paul CBD.

Market Observations

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.
- 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.
- In new leasing activity, Charles Schwab Corp. has signed a 12,000 SF lease and Adolfson & Peterson has committed to 41,195 SF at The Craftsman on France. The 136,000 SF project—slated for completion by summer 2026—is being developed by Orion Investments and will also include a 150-unit multifamily component.
- Hempel Real Estate, which acquired The Shops at West End in St. Louis Park in 2022, is now planning an 80,000 to 120,000 SF office development nearby. The firm also intends to build two mixed-use residential buildings on the site.
- JonnyPops has acquired 9800 at Bass Creek in Plymouth for \$9.9 million, more than \$20 million below its 2018 purchase price. The site will be used for office and R&D operations. The seller, Cantel Medical, is a medical-device company.
- 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.
- City Center’s owner—an LLC affiliated with Samsung—has defaulted on a \$130 million loan, which has moved into special servicing. Although payments are ongoing, the borrower failed to meet the requirement to repay or refinance the loan before its January maturity date.

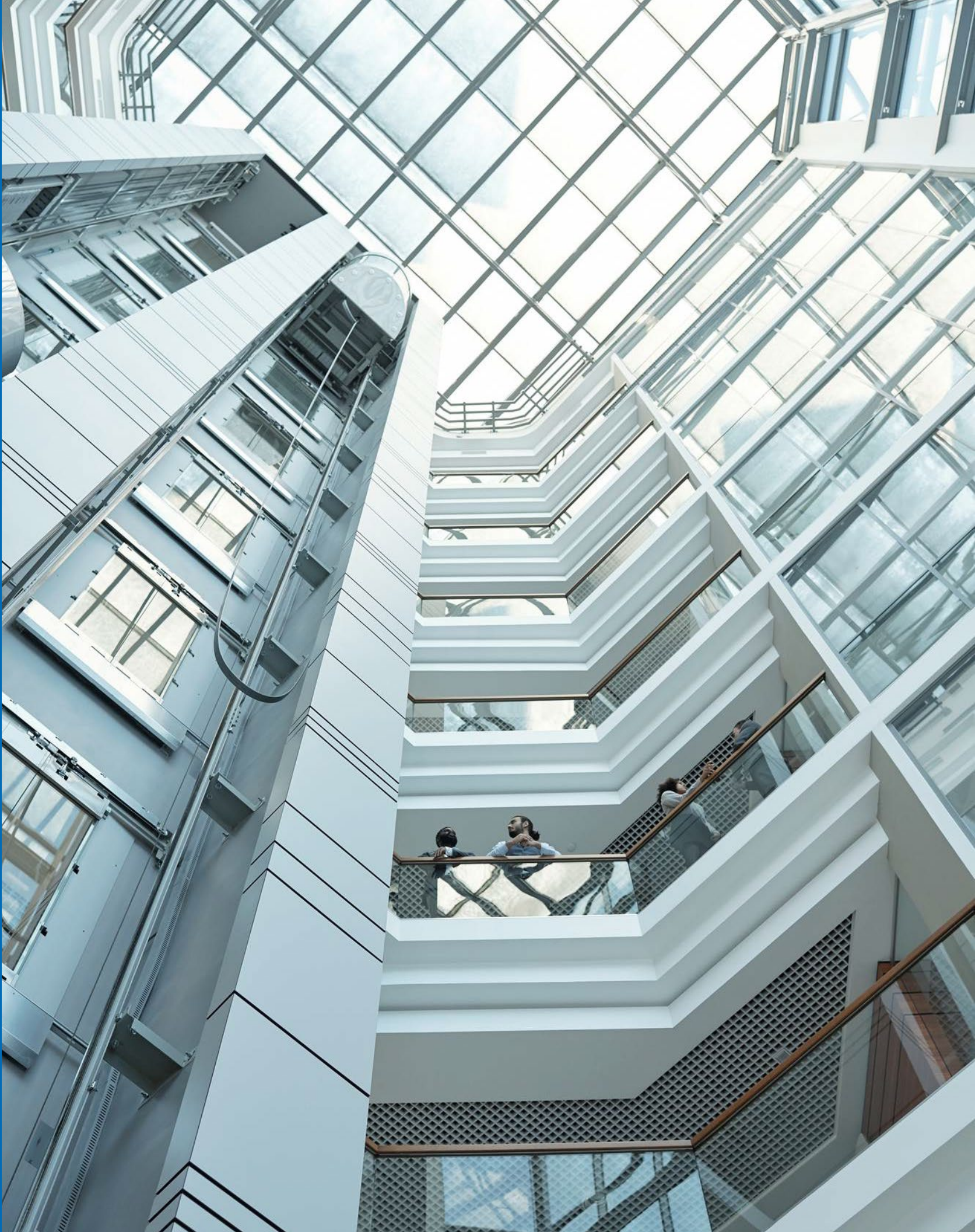
Summary/Outlook

- 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 not only a shift in renewal dynamics but also increased leasing activity among smaller tenants.
- In Minnesota, the Senate Taxes Committee reviewed a proposed tax credit designed to incentivize office building repurposing across the state. Policy suggestions include streamlining city-level review processes, adjusting parking requirements to accommodate conversions, and allowing co-living models within repurposed structures.
- Another proposed bill would authorize the use of tax increment financing (TIF) for converting vacant or underutilized commercial or industrial buildings into housing. This would give Minneapolis and St. Paul greater flexibility for office-to-residential conversions, expanding the tool beyond current limitations to officially designated blighted areas.
- DOGE announced the termination of 14 leases in Minnesota, totaling more than 75,000 SF, citing a projected savings of \$2.5 million. The company initially listed three buildings for potential disposition—the Whipple Building in Fort Snelling, the Wellstone Building in downtown Minneapolis, and the Devitt Building in Fergus Falls—but has since revised its list to exclude these properties.
- While recent sales in the Minneapolis CBD have come at steep discounts, they are beginning to establish new valuation benchmarks and reset market expectations. These lower acquisition costs provide new owners with greater flexibility—whether to invest in property improvements, reposition assets, or offer more competitive lease terms.
- 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, which have seen their share of the city’s revenue rise by two percentage points.

1. Economy
2. Leasing Market Fundamentals

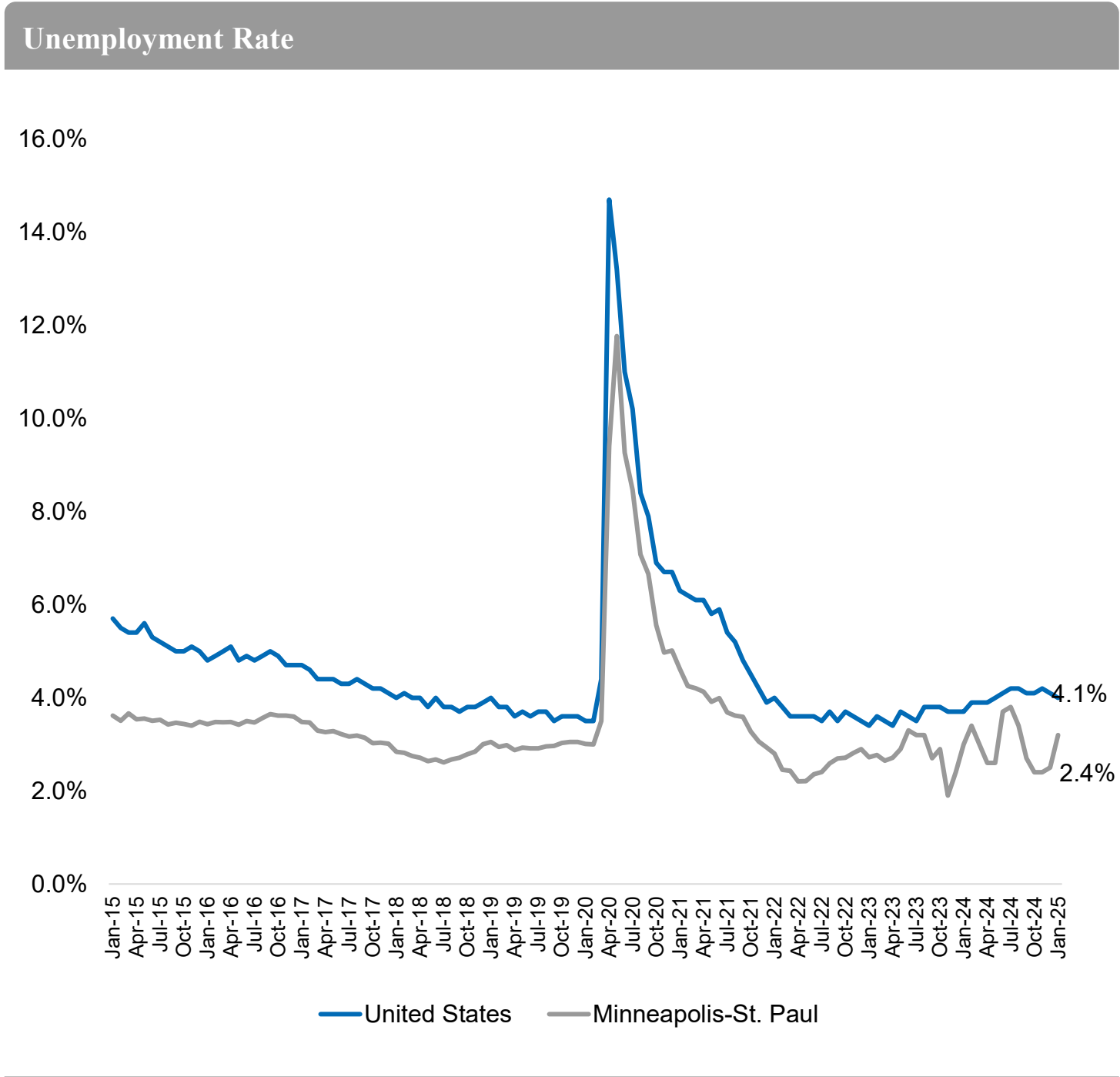
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Economy

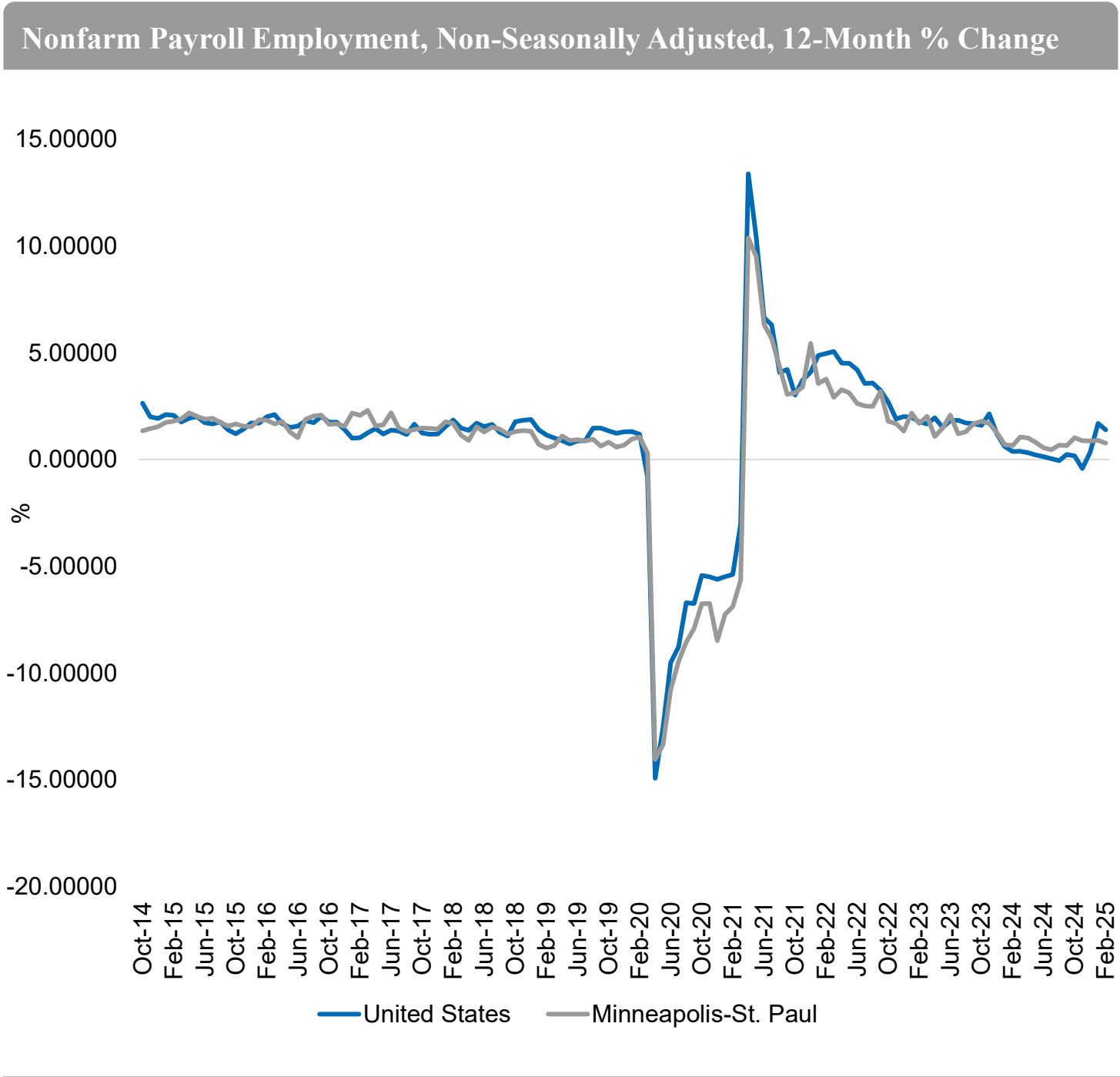


Minneapolis–St. Paul Unemployment Low at 2.4%, Though Job Growth Lags

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

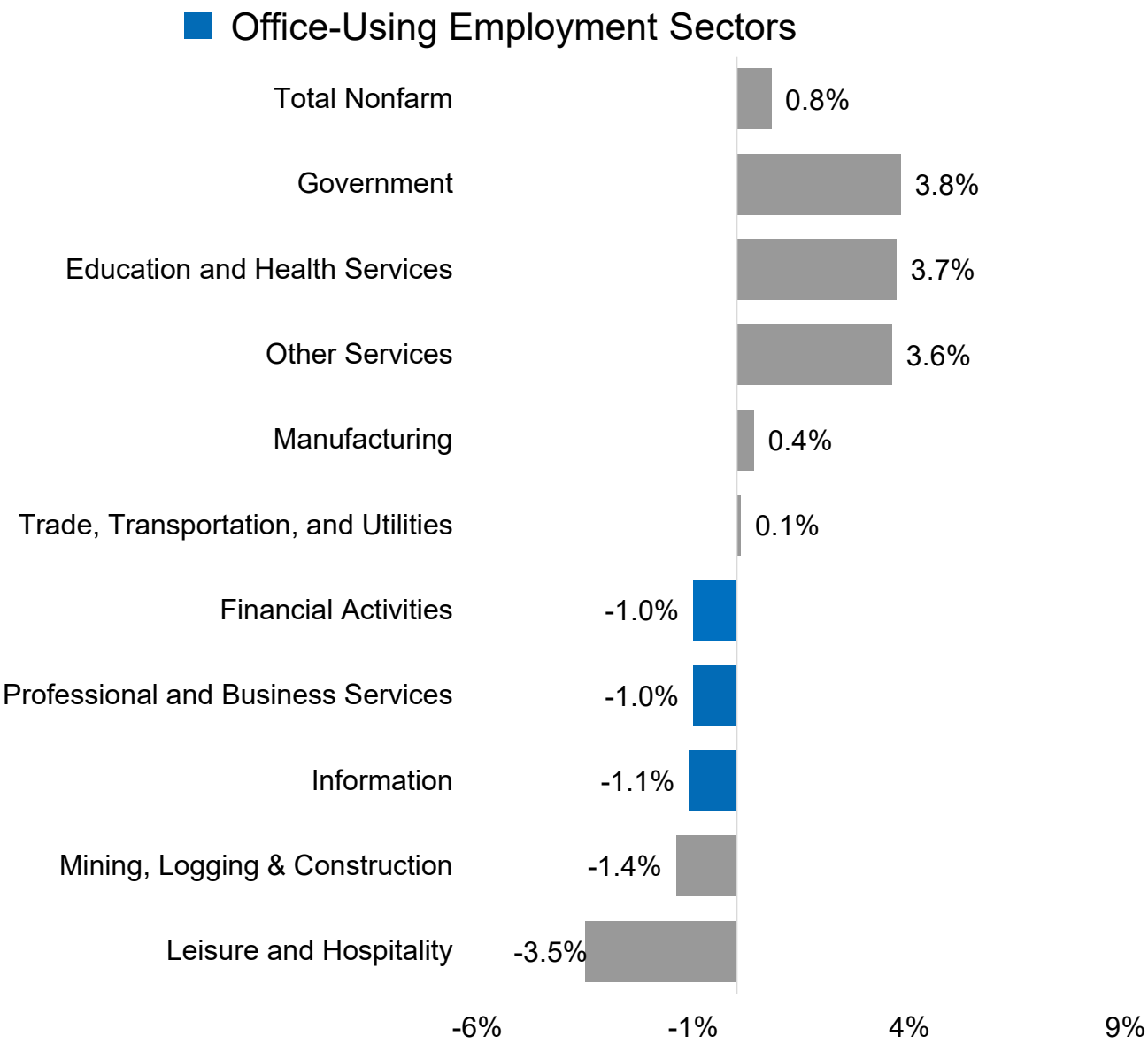
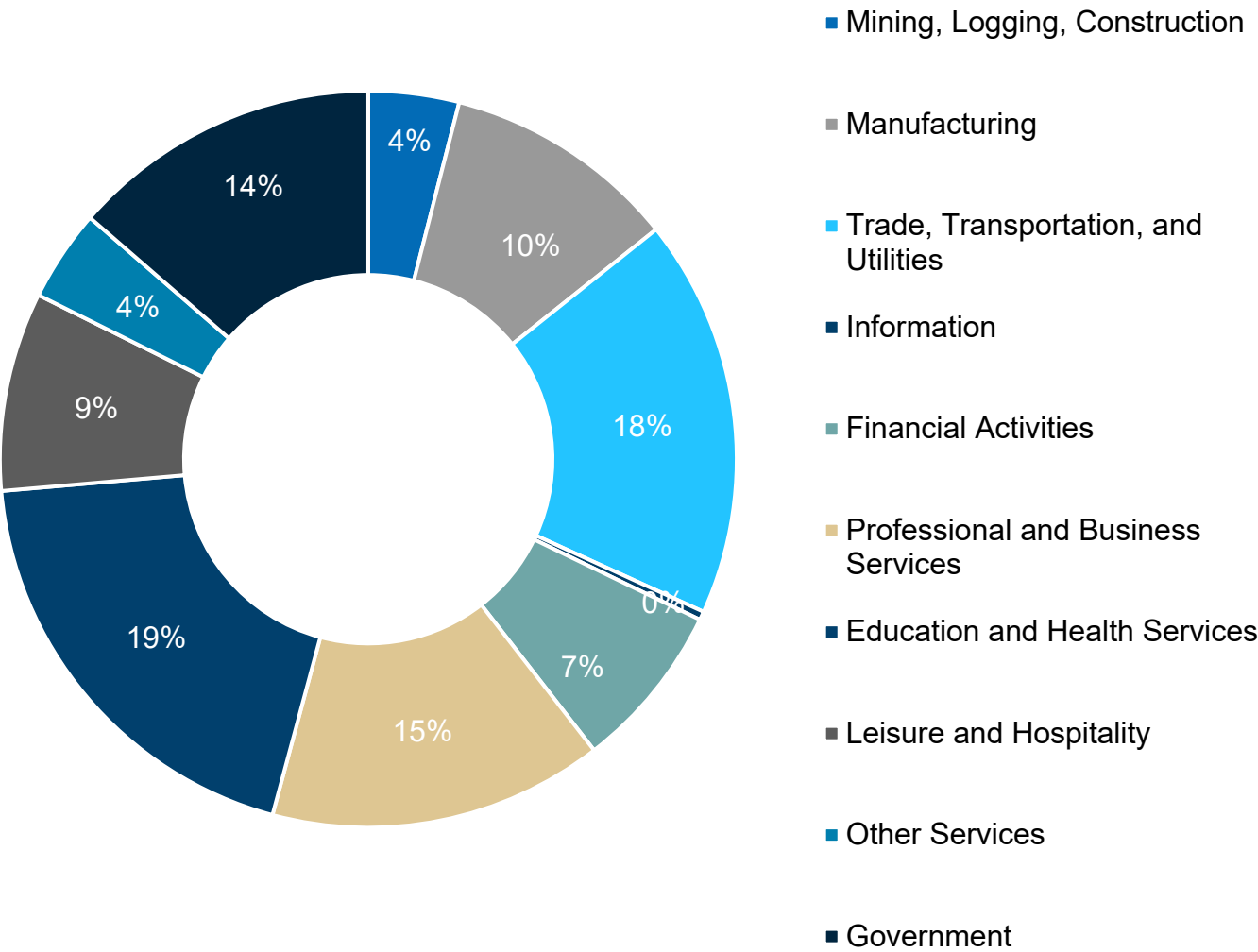


Public and Health Sectors Drive Job Growth

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

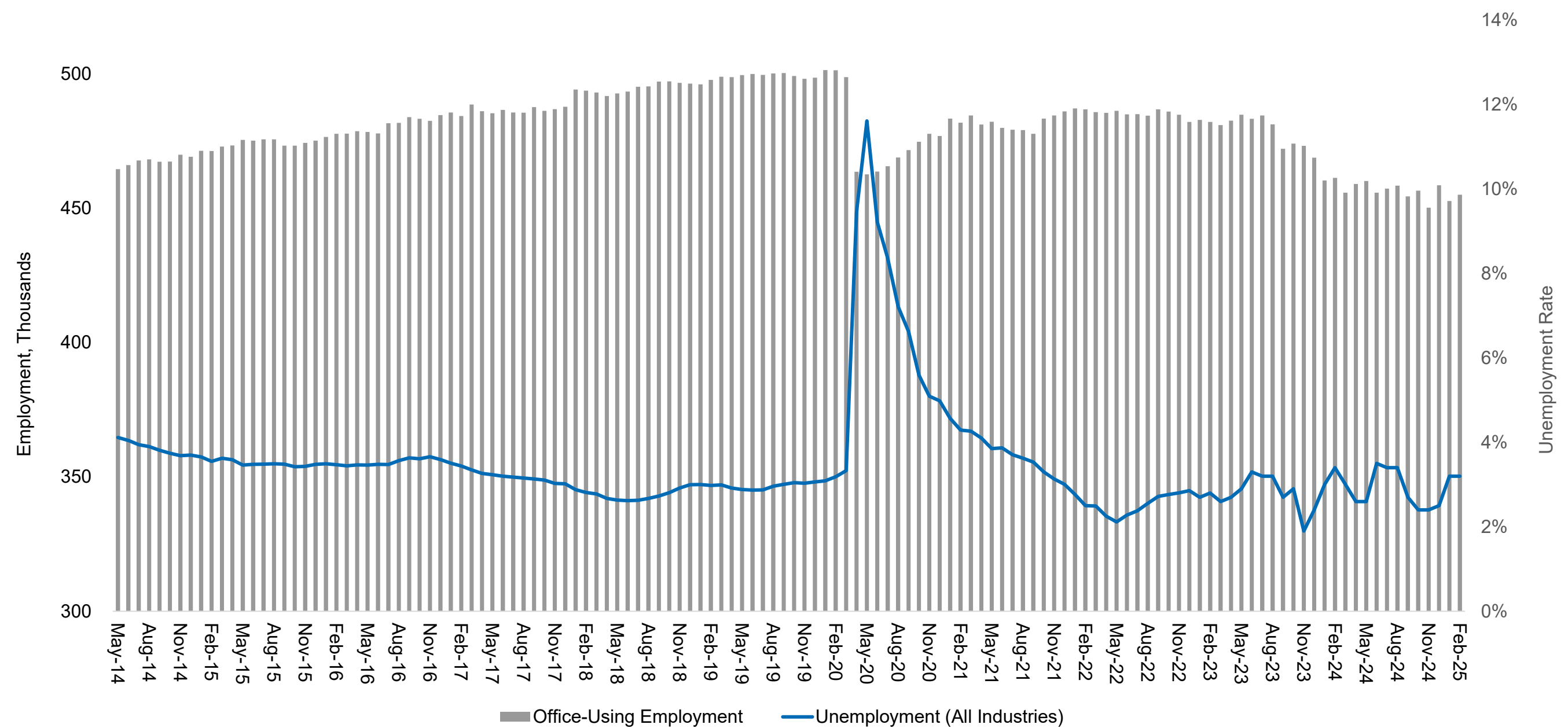


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

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.

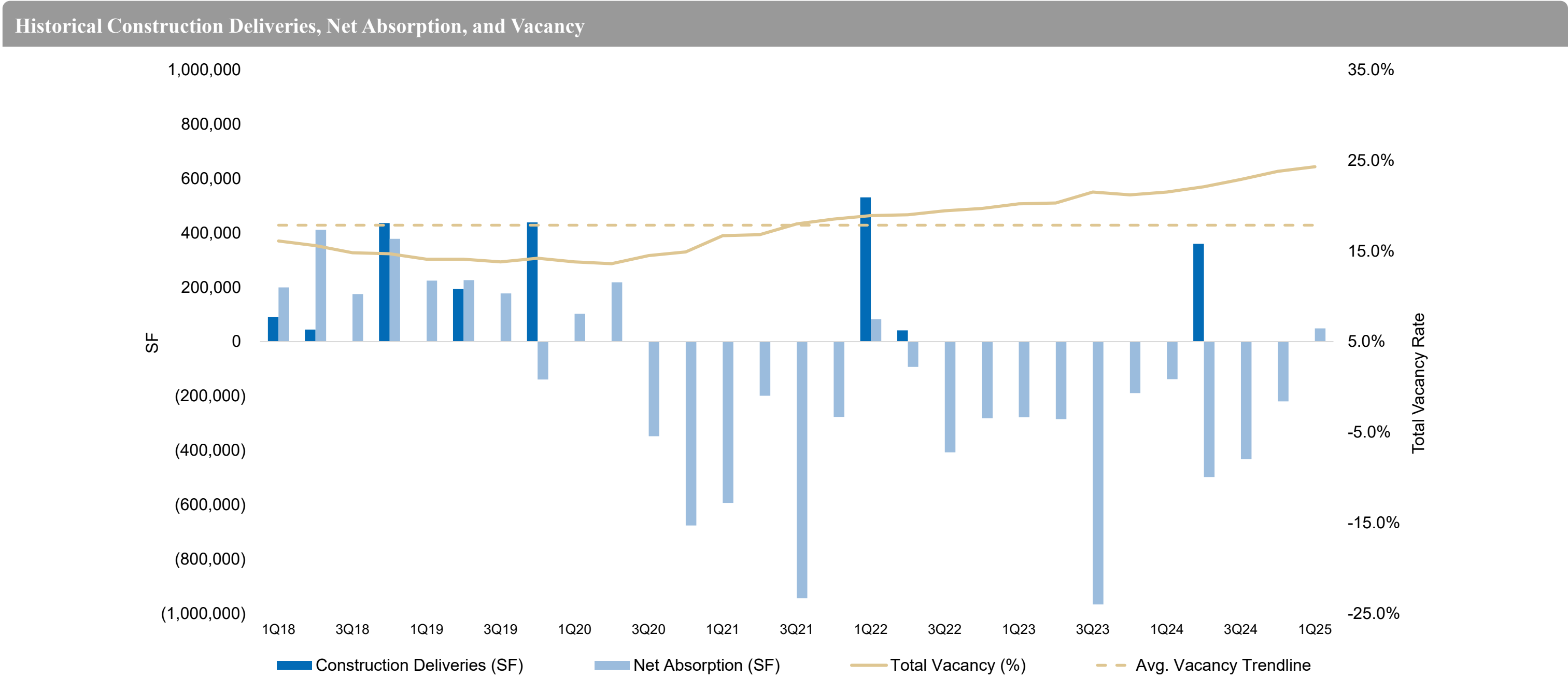
1Q25

Leasing Market Fundamentals



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

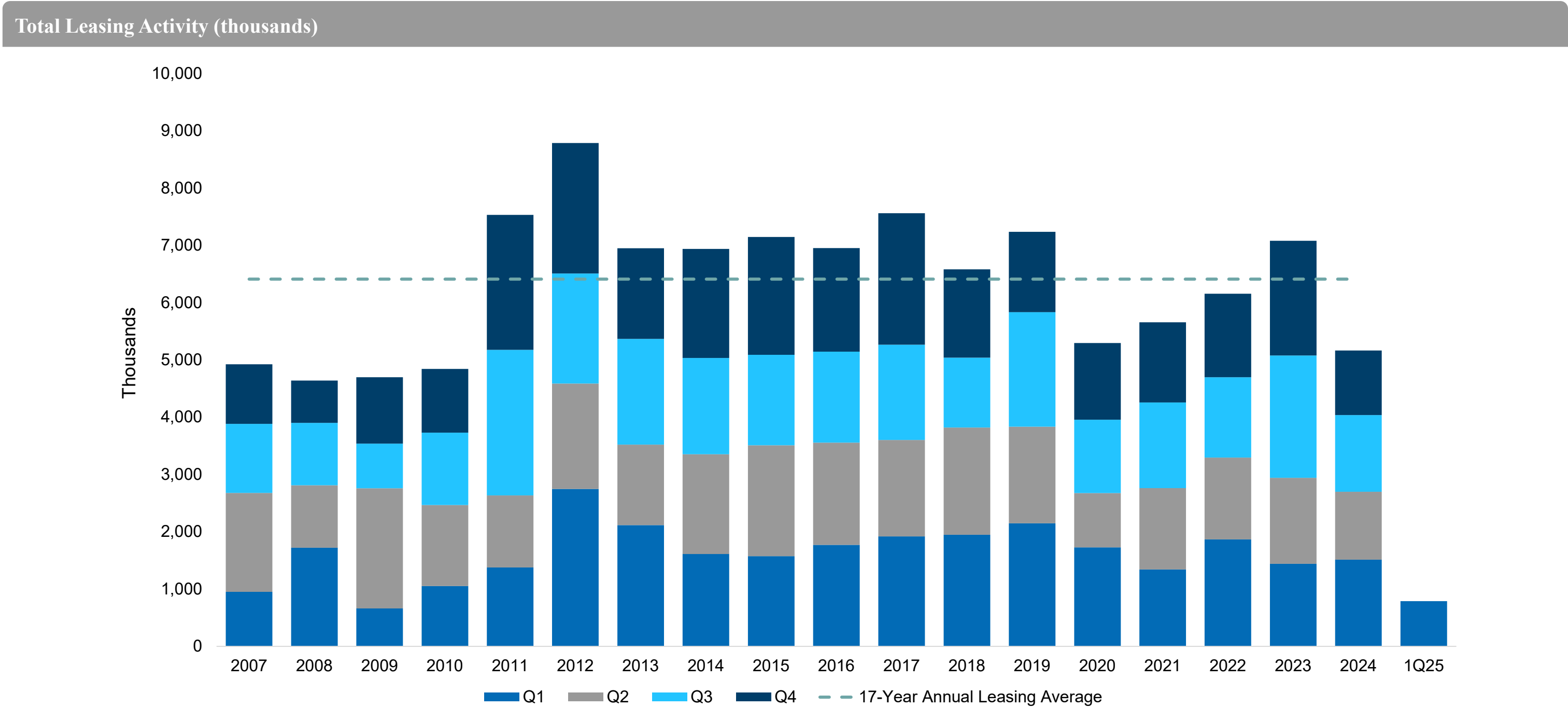
For the first time since the first quarter of 2022, absorption was positive, reaching 48,739 SF—only the second occurrence of positive absorption since the third quarter of 2020. However, vacancy remains elevated at 24.3%, well above the eight-year average of 17.9%.



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.

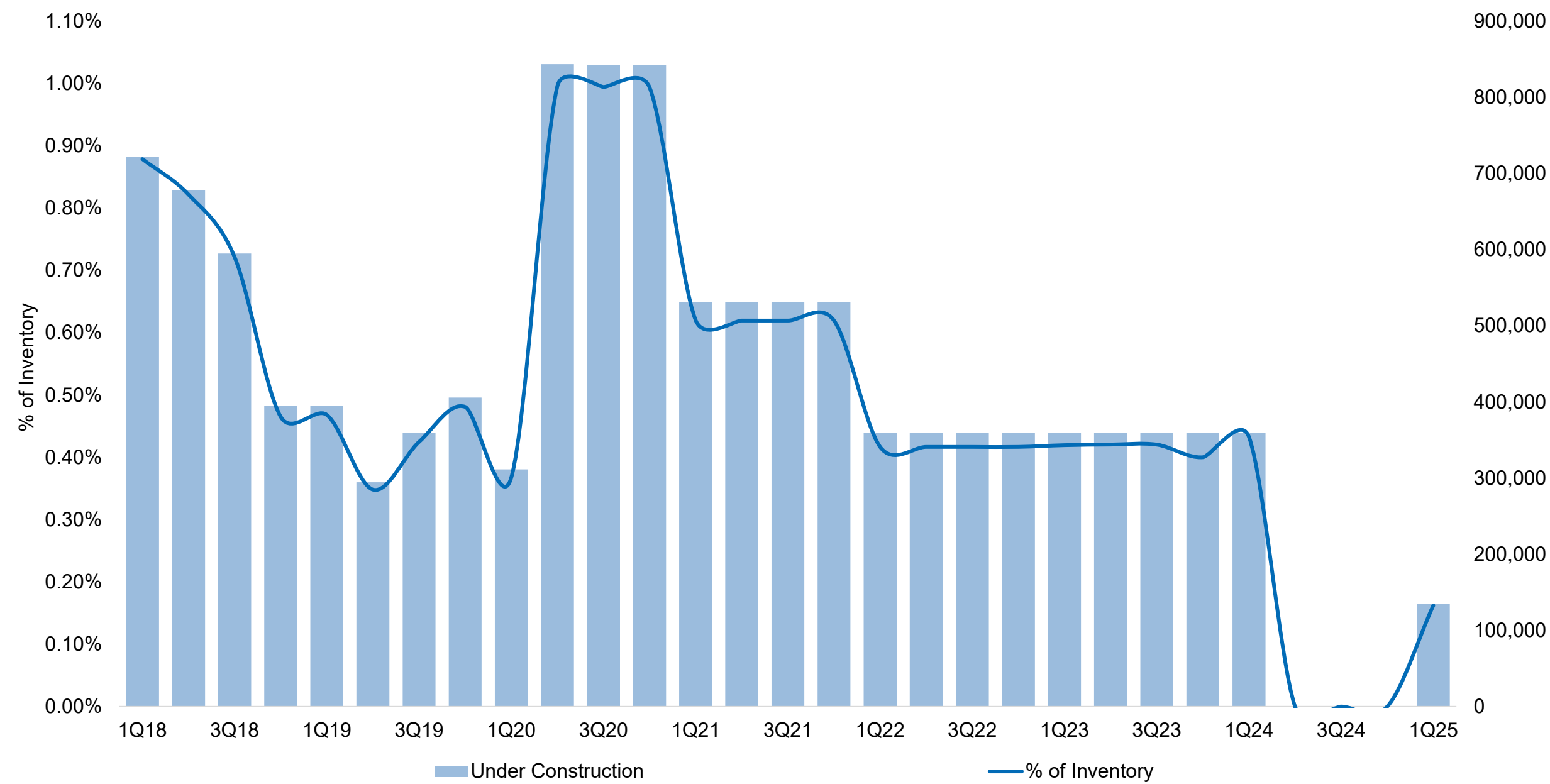


Source: Newmark Research, CoStar

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

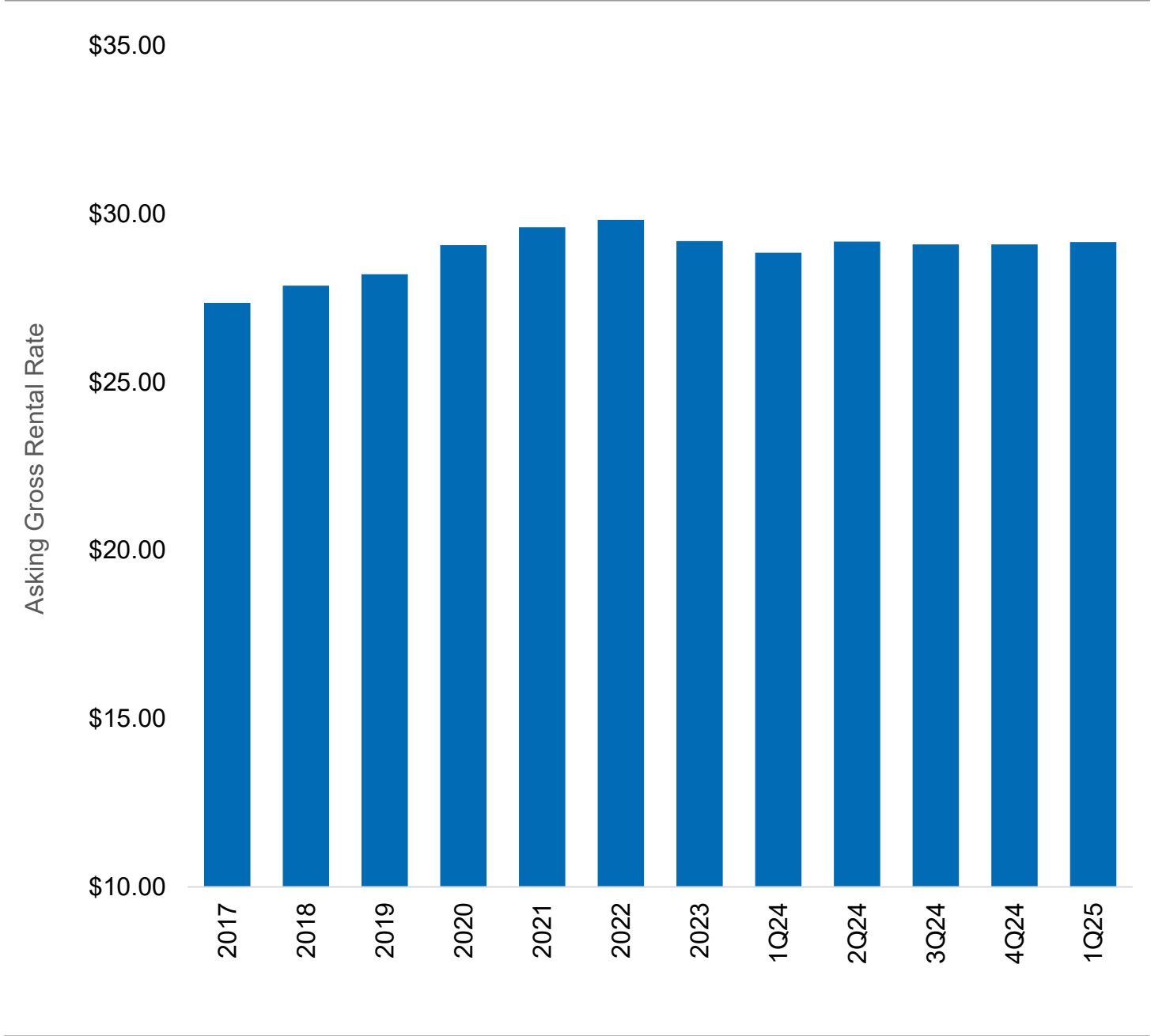


Source: Newmark Research, CoStar, MNCAR

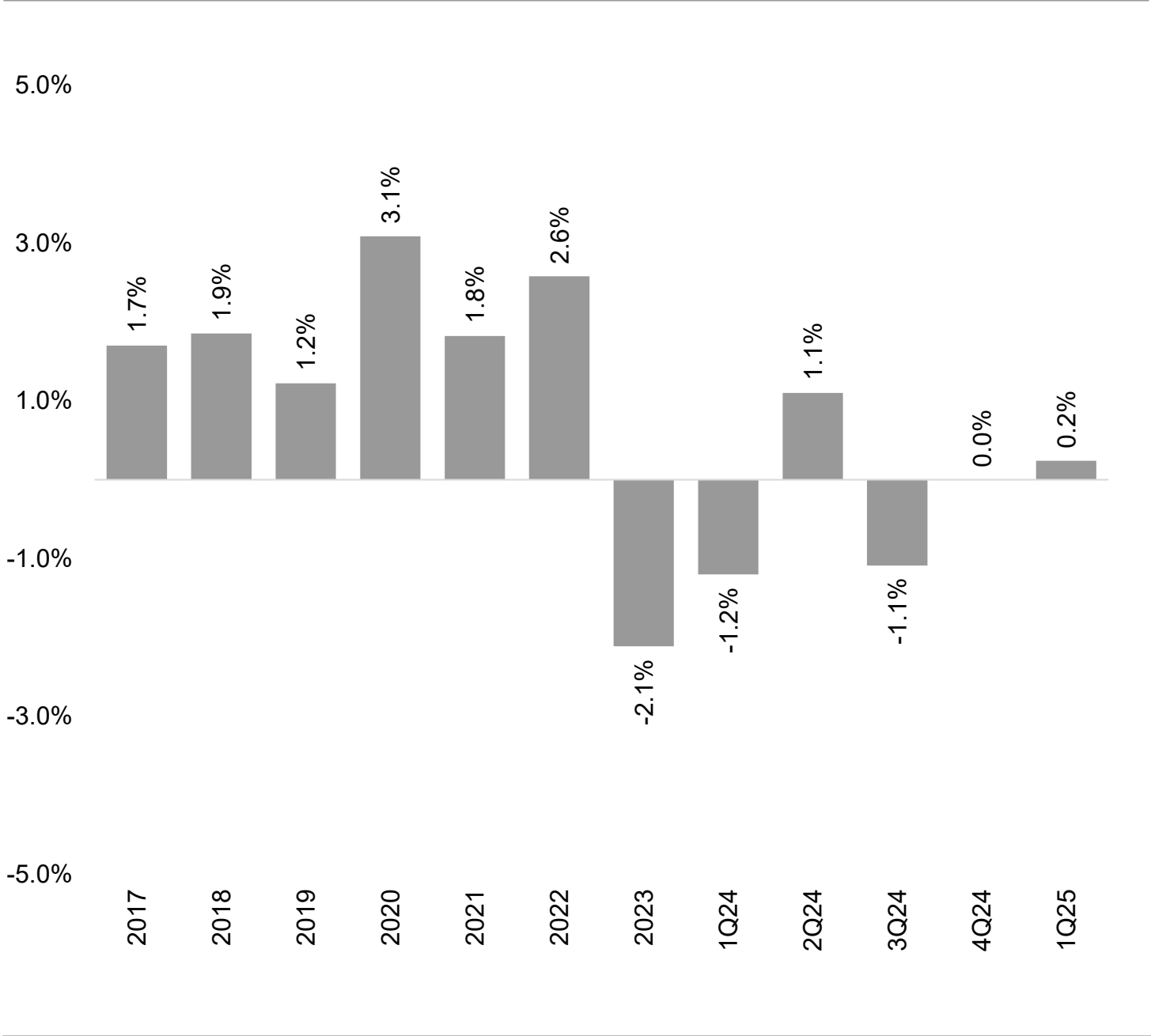
Landlords Maintain Asking Rates, Rely on Concessions

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



Please reach out to your
Newmark business contact for this information

Forecast

Trophy A vs. Commodity A vs. B



Please reach out to your
Newmark business contact for this information

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



Please reach out to your
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Forecast



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Forecast

1Q25

Submarkets



Minneapolis CBD

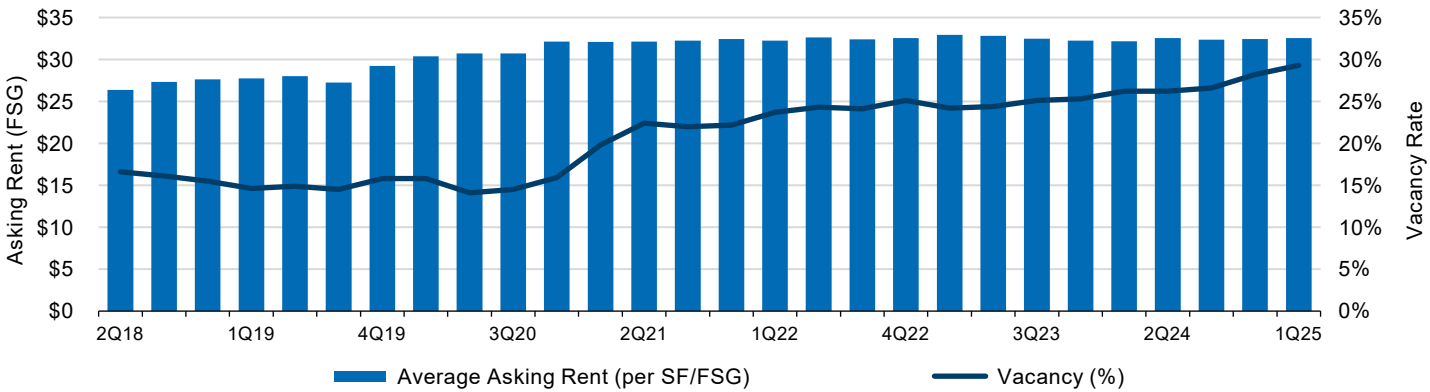
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	30.6M	30.5M	30.4M
Vacancy Rate	29.3%	28.2%	26.2%
Quarterly Net Absorption (SF)	(179,424)	(76,359)	(51,237)
Average Asking Rent/SF	\$32.53	\$32.44	\$32.16
Under Construction (SF)	0	0	359,729

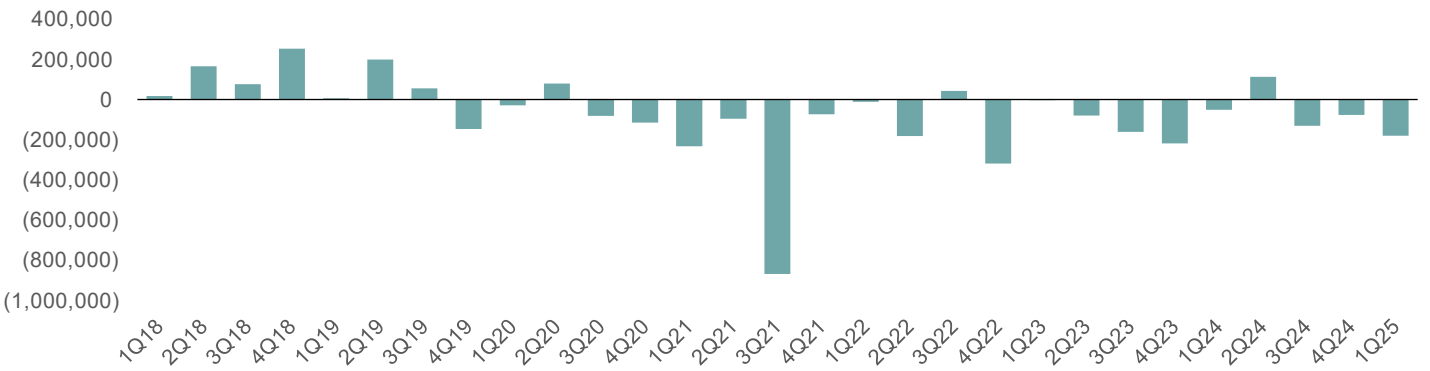
Current Market Trends

- The 31-story Ameriprise Financial Center in the Minneapolis CBD sold for \$6.25 million—a 97% discount from its \$200 million sale in 2016. The property faced headwinds after Ameriprise consolidated its workforce into its nearby Service Center. Significant investment is needed to modernize the building and meet current tenant expectations. New owner Onward is exploring potential conversion options, including residential use.
- The Washington Square office complex is currently on the market, comprising 100 Washington Square (533,000 SF), 111 Washington (380,000 SF), and 20 Washington (182,000 SF), along with an 870-stall parking ramp.
- Messerli Kramer will relocate and expand its office footprint from 30,000 SF at Fifth Street Towers to 33,974 SF on the 23rd floor of 50 South Sixth. While the increase is modest, the move supports the firm’s recent growth.
- Hempel Real Estate is relocating its headquarters from Eden Prairie to 15,000 SF at Lasalle Plaza in the Minneapolis CBD. Following its 2023 acquisition of the property, Hempel introduced new amenity spaces, including training and conference rooms, a golf lounge, gathering areas, and an outdoor patio. A podcast studio is also planned. Additionally, a 30,000-SF food hall is in development, featuring restaurants, bars, event spaces, a kids' play area, a pickleball court and shuffleboards.
- Two22, a 727,000 SF office tower in the Minneapolis CBD, has been taken over by lender Oaktree Capital Management via deed-in-lieu of foreclosure.
- Engineering firm Meyer Borgman Johnson is relocating its corporate headquarters within the Minneapolis CBD, moving from 510 Marquette to RSM Plaza. The firm will occupy 12,277 SF on the 20th floor.
- In the North Loop, the 400,000 SF Tractorworks building is listed for sale. Goldman Sachs acquired the property in 2014.
- City Center’s owner, an LLC affiliated with Samsung, has defaulted on a \$130 million loan, which has entered special servicing. Although monthly payments continue, the borrower failed to meet the refinance or repayment requirement ahead of the loan’s January maturity.

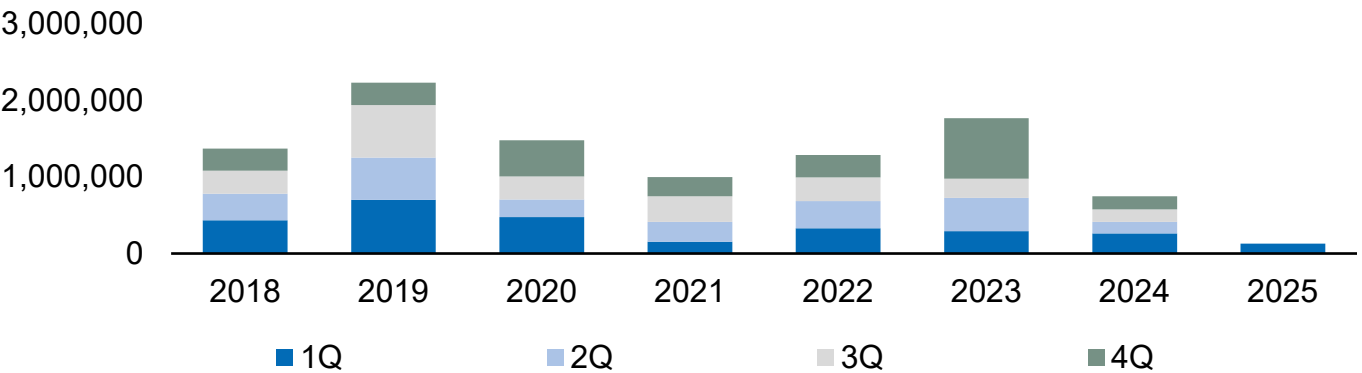
Asking Rent and Vacancy Rate



Net Absorption (SF)



Overall Leasing Activity



Source: Newmark Research, MNCAR, Costar

St. Paul CBD

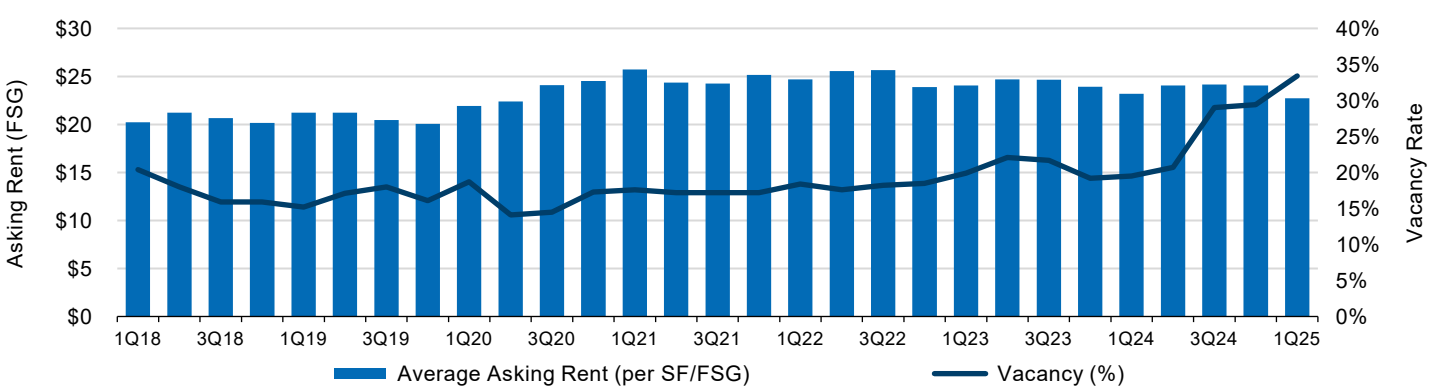
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	6.4M	6.5M	7.3M
Vacancy Rate	33.4%	29.4%	19.9%
Quarterly Net Absorption (SF)	(7,308)	(21,017)	(85,497)
Average Asking Rent/SF	\$22.73	\$24.07	\$24.06
Under Construction (SF)	0	0	0

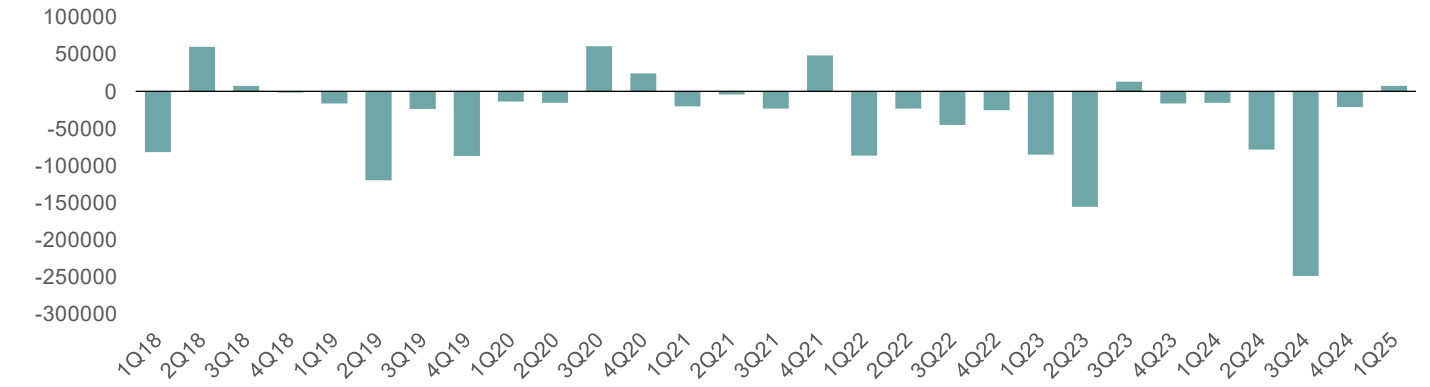
Current Market Trends

- The Bush Foundation is relocating its headquarters within the St. Paul CBD, moving from US Bank Center to 12,860 SF at The 428. The decision is driven by uncertainty surrounding the US Bank Center, part of the Madison Equities portfolio, which is currently for sale. Several other Madison-owned properties have faced bankruptcy or foreclosure auctions. The 428 totals 63,000 SF and features amenities such as a rooftop patio, bike storage, and environmentally conscious elements like live plants and ample natural daylight.
- The Great Northern Building in the St. Paul CBD is also on the market, having been acquired at a foreclosure auction in fourth quarter 2024 by an entity tied to its lender, First International Bank & Trust.
- One of St. Paul’s key office-to-residential conversion projects has secured \$15.8 million in financing through a C-PACE loan. The 198,000 SF building will be converted into 178 apartment units by developers Kaeding Development Group and Inland Real Estate Group. The loan was provided through PACE, a private financing program for sustainability-focused projects.
- To support broader revitalization efforts, the St. Paul Downtown Alliance is launching a new nonprofit dedicated to driving redevelopment in the CBD. The organization’s goals include attracting 20,000 new residents, 20,000 new workers, and boosting annual visitors by 20%.
- Meanwhile, tenants at Alliance Bank Center were instructed to vacate immediately. The Madison Equities-owned property is being abandoned, and the lender has declined to assume ownership. With no responsible party to manage operations, services will be shut off, and the city is closing all but two skyway connections.
- The St. Paul Building, also located in the CBD, is currently for sale. Built in 1888, the 40,520 SF property features 4,500 SF floor plates—smaller than standard office buildings—making it a strong candidate for residential conversion.

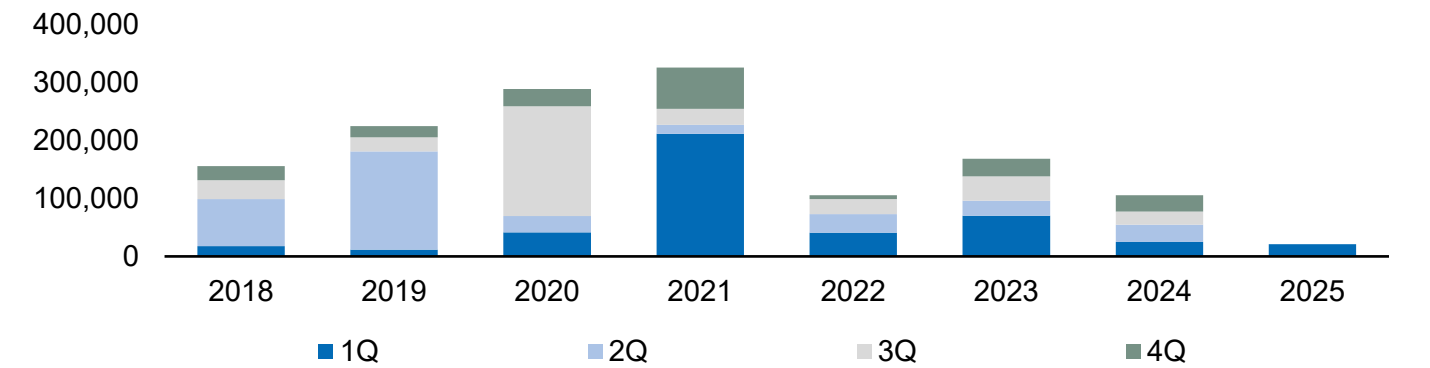
Asking Rent and Vacancy Rate



Net Absorption (SF)



Overall Leasing Activity



Source: Newmark Research, MNCAR, Costar

Northeast

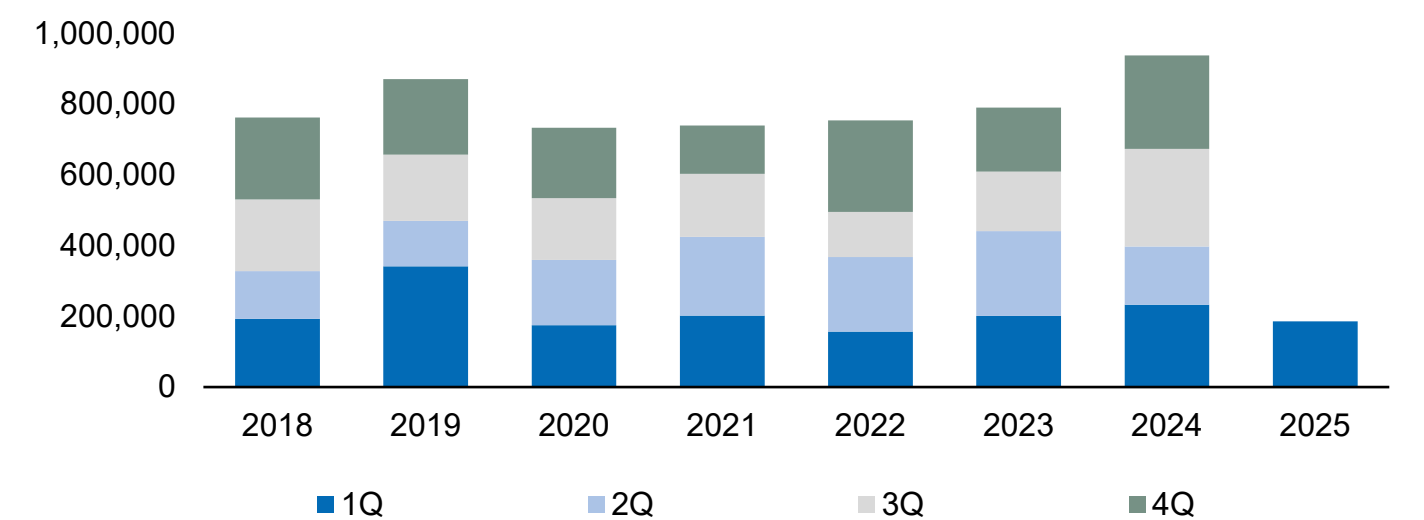
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	878M	8.8M	9.1M
Vacancy Rate	17.1%	17.1%	17.4%
Quarterly Net Absorption (SF)	(7,009)	50,786	(31,420)
Average Asking Rent/SF	\$20.63	\$20.12	\$22.18
Under Construction (SF)	0	0	0

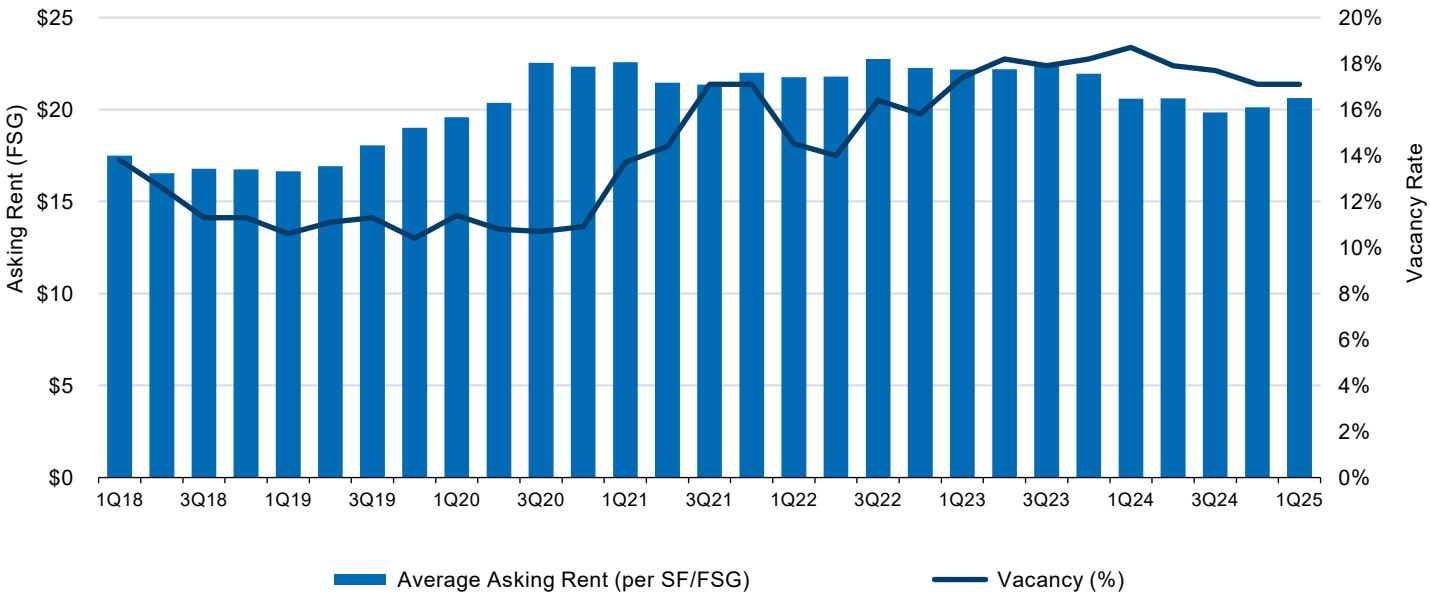
Current Market Trends

- The vacancy rate in the submarket held steady at 17.1%, with minimal positive absorption of 7,009 SF. The area benefits from a stable base of office-using businesses, anchored by major employers such as 3M, HealthPartners and Regions Hospital, which contribute to the submarket’s resiliency.
- As return-to-office efforts continue, Maplewood-based 3M has announced that director-level managers are now required to be onsite three days per week.

Overall Leasing Activity



Asking Rent and Vacancy Rate



Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Northwest

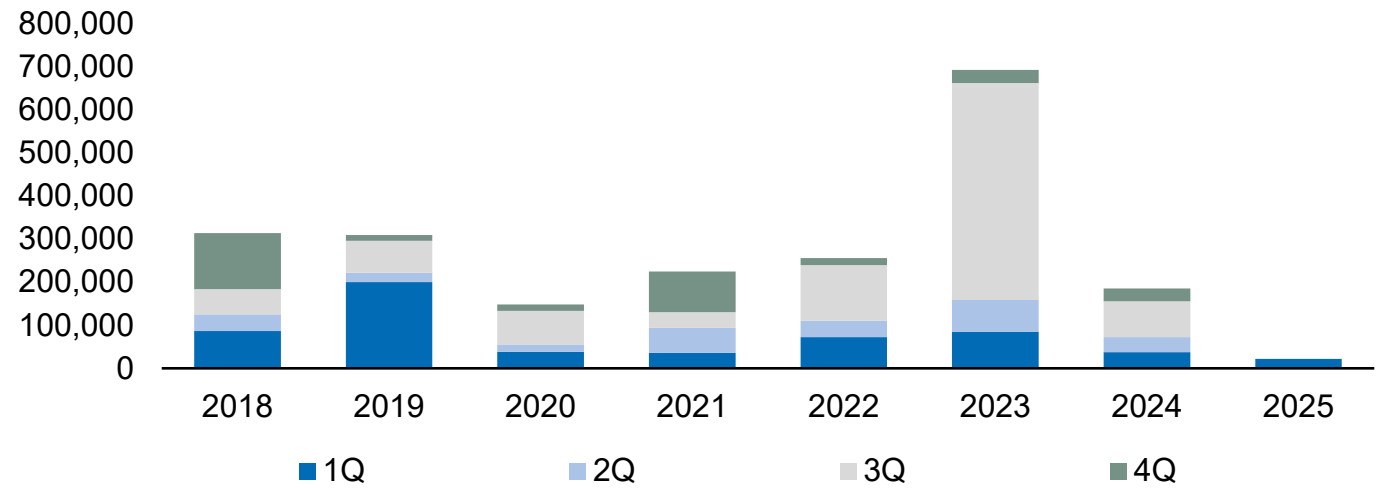
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	3.1M	3.1M	3.0M
Vacancy Rate	16.4%	14.7%	12.6%
Quarterly Net Absorption (SF)	(52,952)	(1,652)	(46,733)
Average Asking Rent/SF	\$20.69	\$20.69	\$21.02
Under Construction (SF)	0	0	0

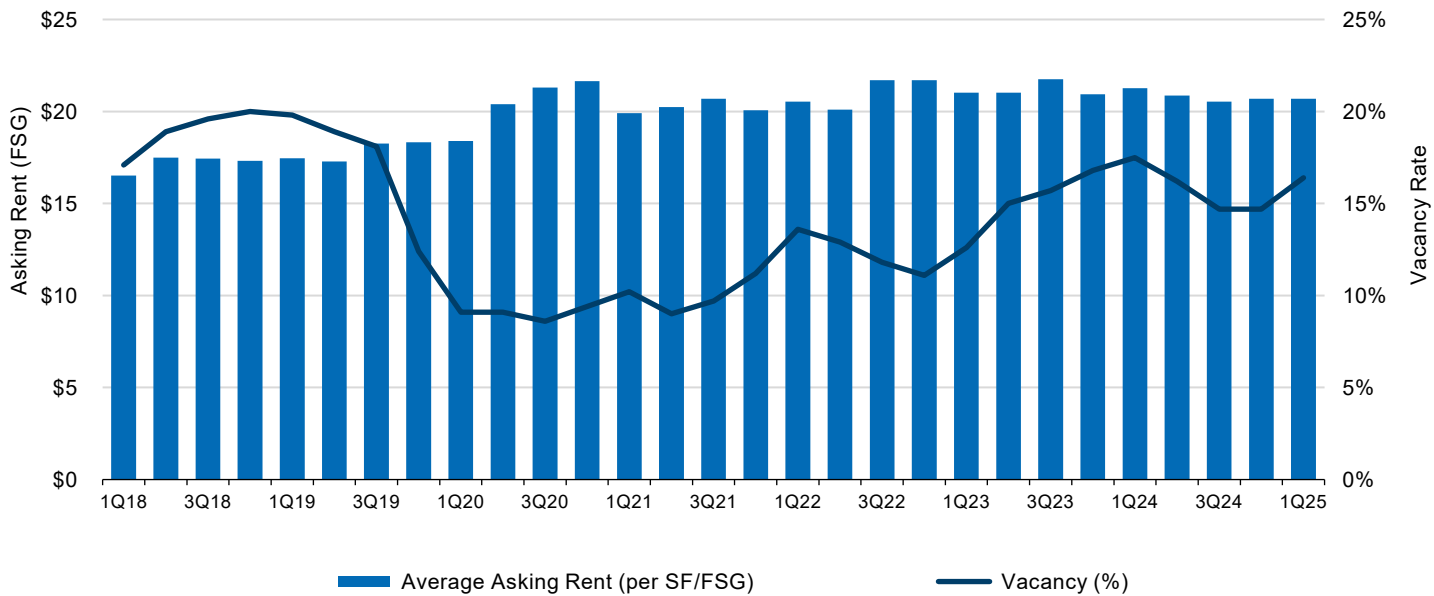
Current Market Trends

- Vacancy in the submarket rose to 16.4%, accompanied by negative absorption of 52,952 SF, while rental rates remained flat at \$20.69/SF.
- Arrow Cos. acquired the 104,000 SF Quadrant building in Plymouth for \$7.9 million earlier this year, after assuming leasing responsibilities in June 2024. The property is now approaching 86% occupancy.
- JonnyPops purchased 9800 at Bass Creek in Plymouth for \$9.9 million—more than \$20 million below its 2018 sale price. The space will be utilized for office and research and development purposes. The seller was Cantel Medical, a medical-device company.

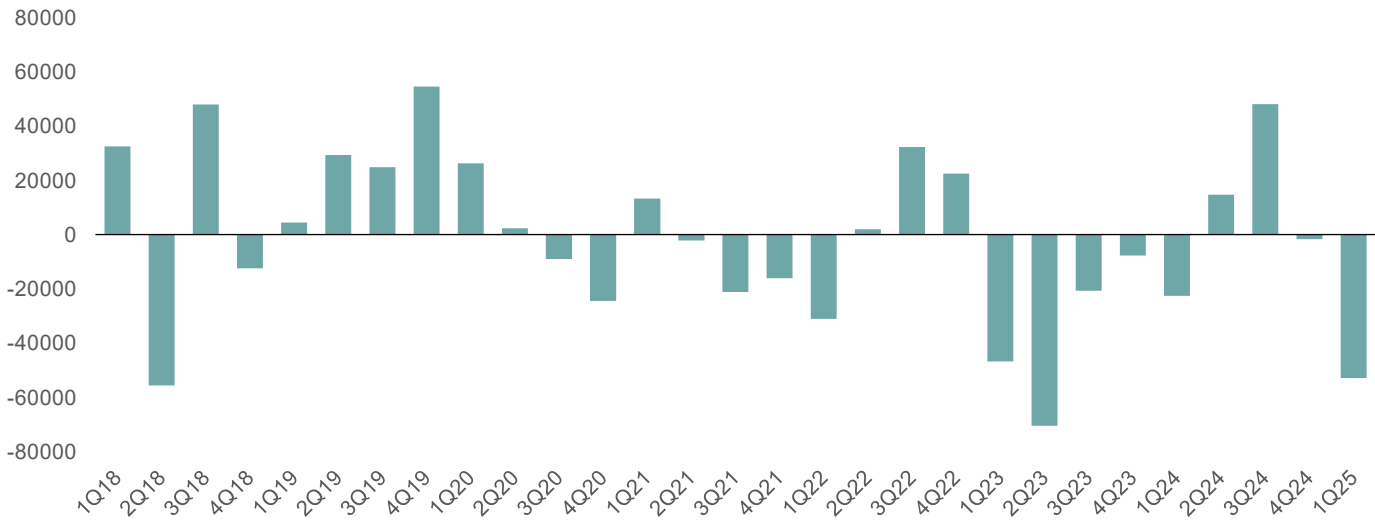
Overall Leasing Activity



Asking Rent and Vacancy Rate



Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Southeast

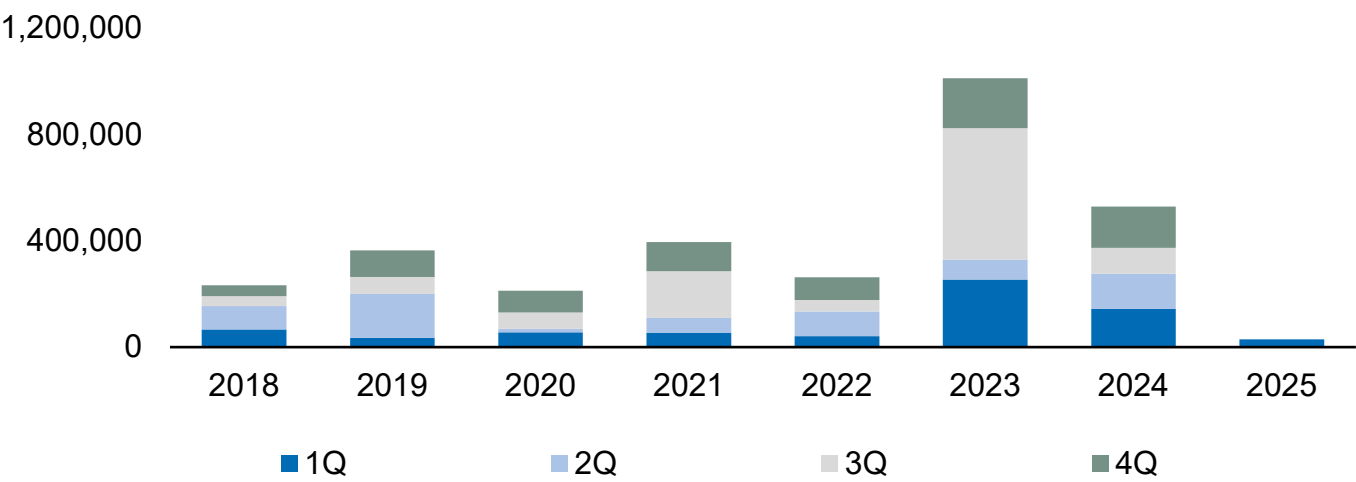
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	7.3M	7.0M	7.0M
Vacancy Rate	23.9%	24.2%	19.0%
Quarterly Net Absorption (SF)	76,208	(56,629)	(26,284)
Average Asking Rent/SF	\$22.85	\$23.13	\$23.23
Under Construction (SF)	0	0	0

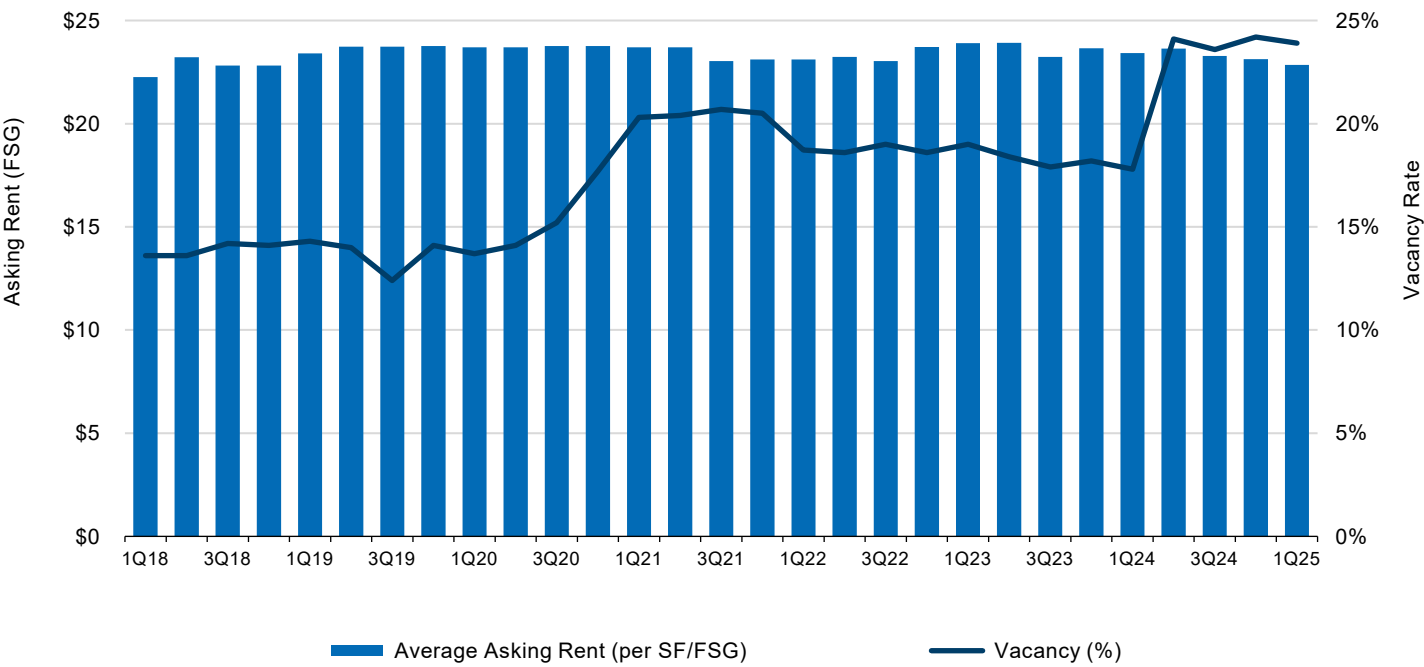
Current Market Trends

- Rental rates in the submarket averaged \$22.85/SF, with positive absorption of 76,208 SF contributing to a slight decrease in vacancy from 24.2% to 23.9%.
- Image Trend leased 28,208 SF at Eagandale Corporate Center in Eagan.
- In an owner-user transaction, Great Oaks Academy of Farmington acquired 3560 Blue Cross Road from Delta Dental of Minnesota for \$5.66 million. The property will be repurposed for a middle and high school charter program.

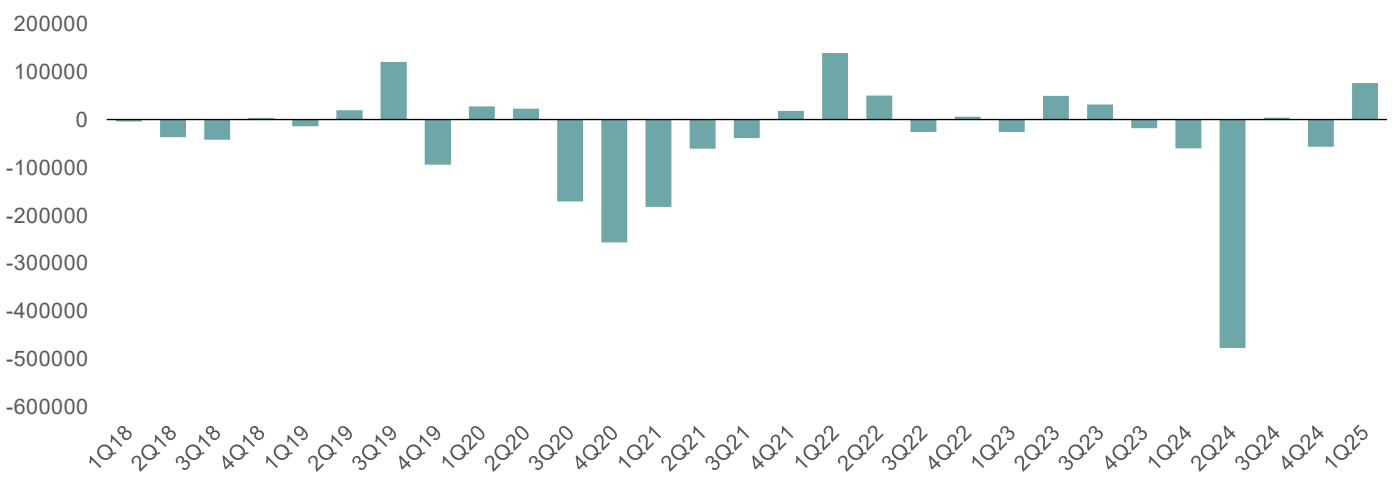
Overall Leasing Activity



Asking Rent and Vacancy Rate



Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Southwest

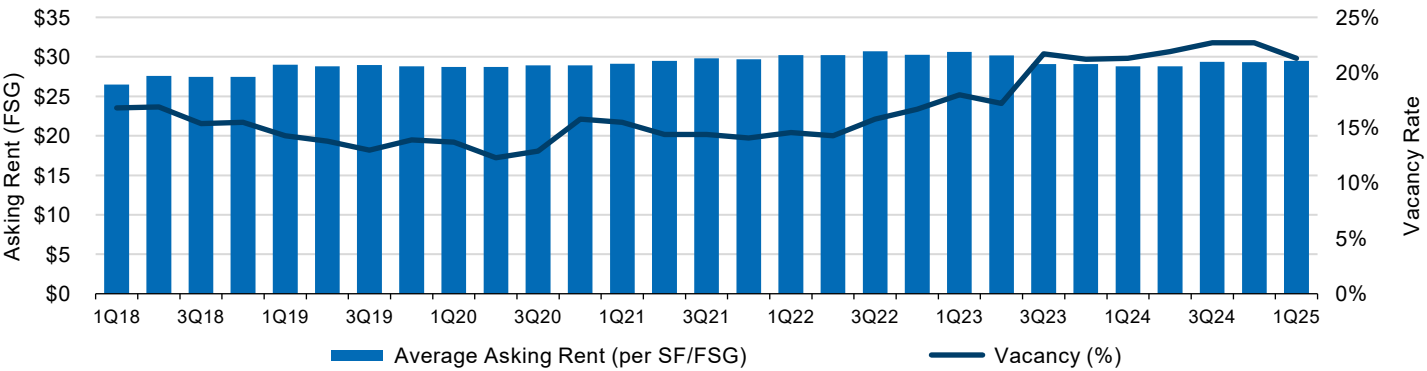
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	16.6M	16.6M	16.8M
Vacancy Rate	21.3%	22.7%	18.0%
Quarterly Net Absorption (SF)	206,206	(259)	(103,567)
Average Asking Rent/SF	\$29.48	\$29.34	\$30.62
Under Construction (SF)	0	0	0

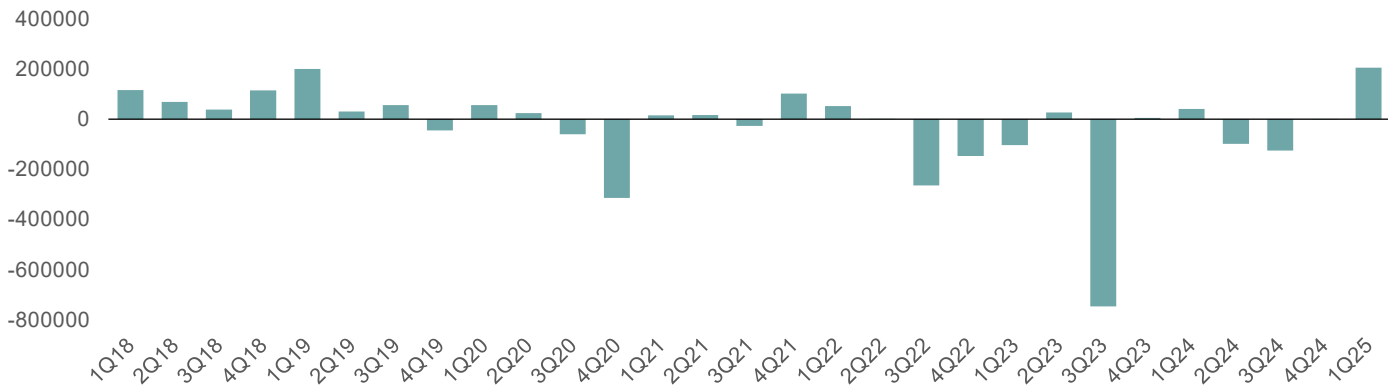
Current Market Trends

- The Southwest submarket led the region in fourth-quarter absorption, driven by TKDA's relocation from the St. Paul CBD to 87,000 SF at the SoLo 3311 Building in Bloomington. This move contributed to 206,206 SF of positive absorption. Vacancy declined from 22.7% in 4Q24 to 21.3%.
- At Normandale Lake Office Park, the owner of 8400 Tower is facing a foreclosure lawsuit following a loan default. The property joins others in distress within the park—8500 Tower was sold at foreclosure in September 2024, and 8200 Tower was placed in receivership earlier in the year.
- The Craftsman on France announced two significant leases: Charles Schwab Corp. will occupy 12,000 SF, and Adolfson & Peterson will lease 41,195 SF. The 136,000 SF mixed-use development, currently under construction and expected to deliver by summer 2026, will also include a 150-unit multifamily building. Orion Investments is leading the project.
- In Edina, a delayed redevelopment by M.A. Mortenson and Orion Investments may receive city assistance to finance a 540-stall parking ramp. The broader plan includes a 267-unit apartment tower and a 200,000 SF office building. To date, only a 6,500 SF U.S. Bank branch has been completed, as the project continues to face financing challenges.

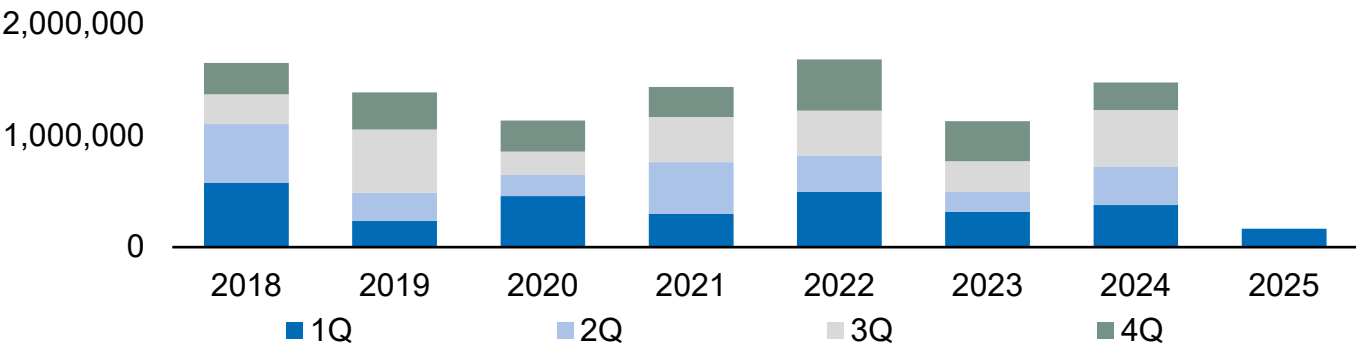
Asking Rent and Vacancy Rate



Net Absorption (SF)



Overall Leasing Activity



Source: Newmark Research, MNCAR, Costar

West

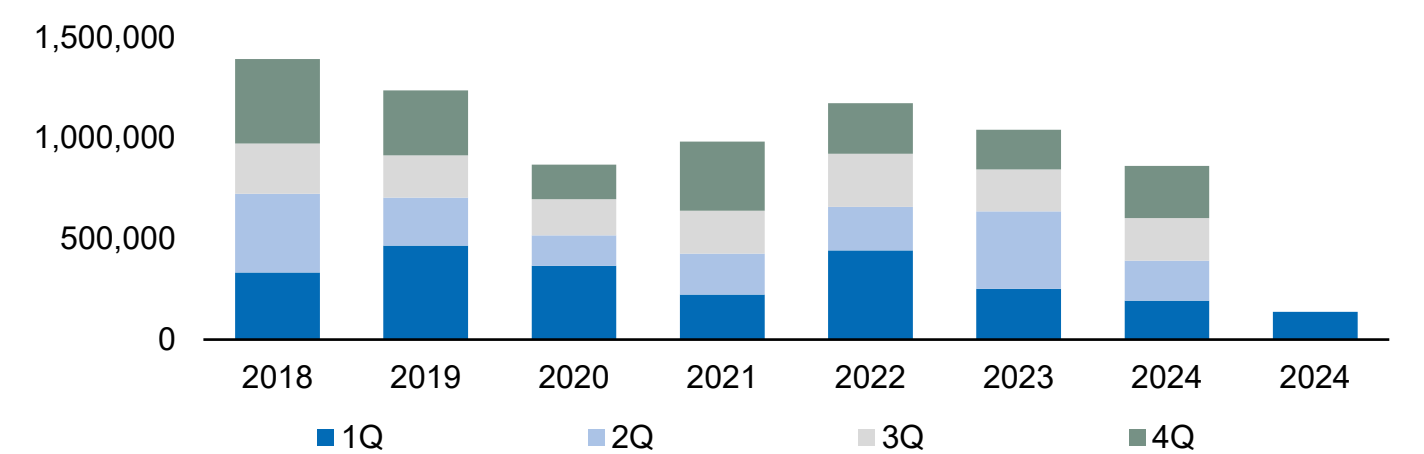
Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	10.4M	10.4M	10.3M
Vacancy Rate	17.0%	17.0%	15.7%
Quarterly Net Absorption (SF)	(1,598)	(114,895)	18,606
Average Asking Rent/SF	\$31.49	\$31.00	\$35.03
Under Construction (SF)	0	0	0

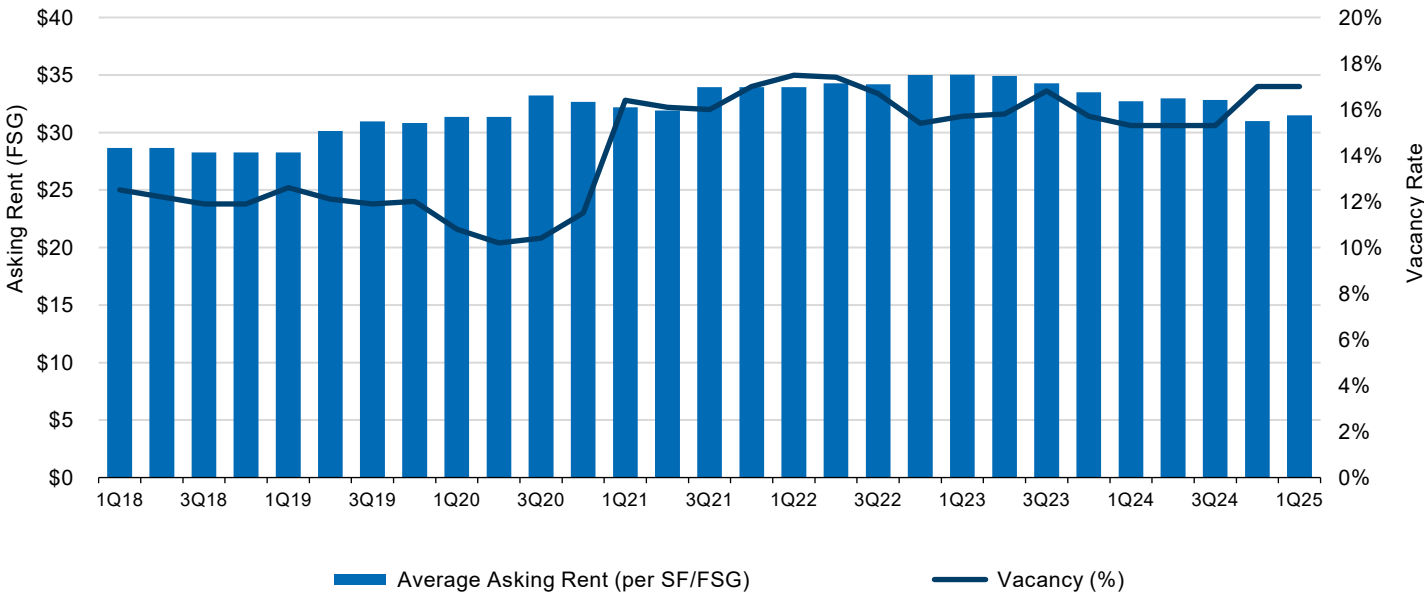
Current Market Trends

- The vacancy rate in the submarket held steady at 17.0%, with minimal negative absorption totaling 1,598 SF.
- First International Bank & Trust is relocating its corporate offices to Minnetonka after acquiring a 41,500 SF building at 10801 Wayzata Boulevard, the former headquarters of Ameripride. The building was purchased for \$3.7 million, with renovations expected to be completed by summer 2026.
- Hempel Real Estate, which acquired The Shops at West End in St. Louis Park in 2022, is proposing an 80,000 to 120,000 SF office development nearby. The company also plans to construct two mixed-use residential buildings on the site.

Overall Leasing Activity



Asking Rent and Vacancy Rate

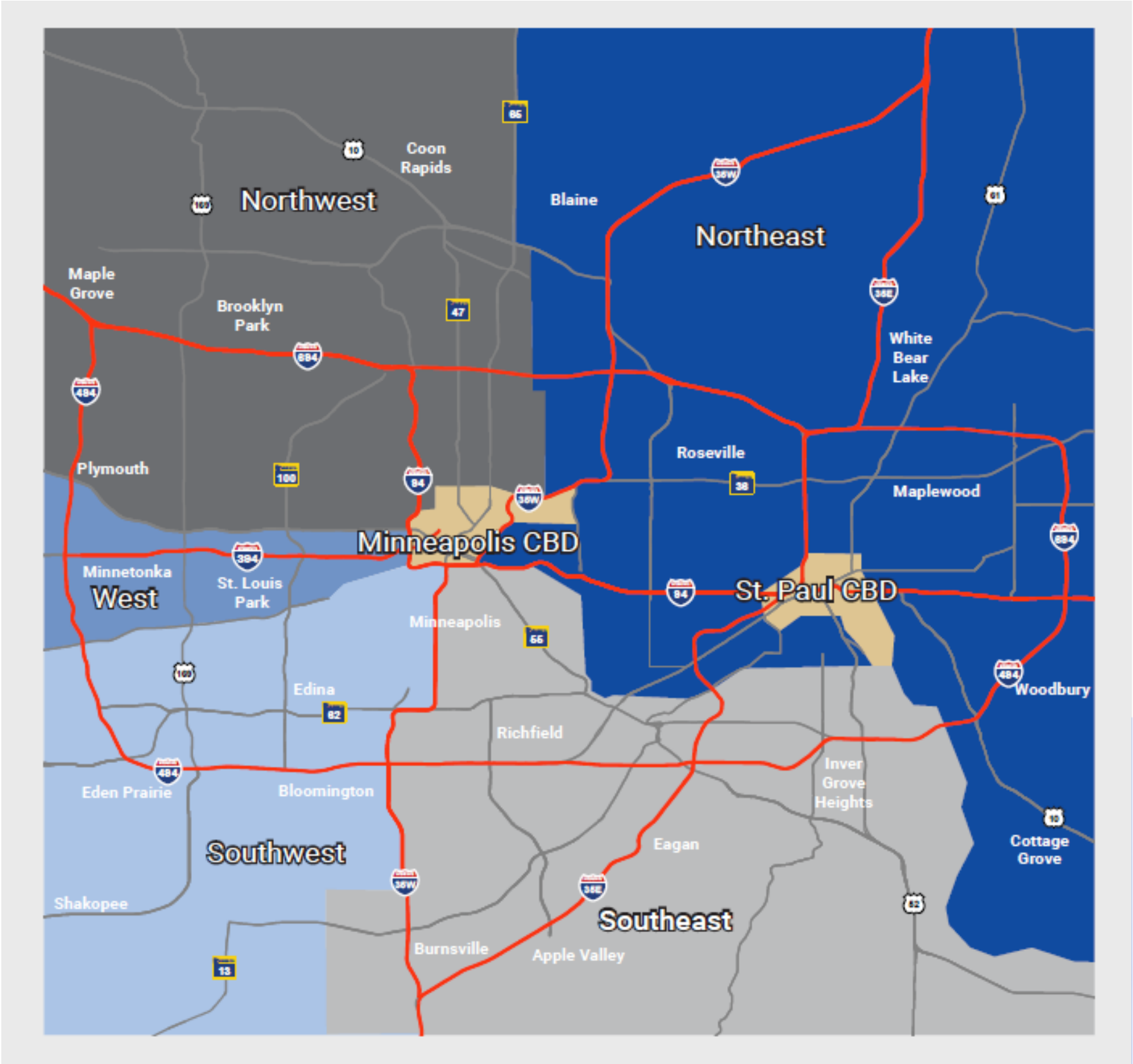


Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

Minneapolis-St. Paul - Submarket Map



For more information:

Maura Carland
Research Director
maura.carland@nmrk.com

Jim Damiani, CCIM, SIOR
Executive Managing Director
jim.damiani@nmrk.com

Brent Erickson
Senior Managing Director
brent.erickson@nmrk.com

Minneapolis
100 S 5th St, Suite 2100
Minneapolis, MN 55402
t 612-430-9950

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

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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