

# Minneapolis-St. Paul Office Market Trends



# 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 region has a committed workforce, with the highest labor force participation rate among major metropolitan areas at 72%.
- Minneapolis-St. Paul is a worldwide frontrunner in biotechnology and biomedical research, boasting strong ties to agriculture, food exports, and water technology. Moreover, it hosts one of the most substantial concentrations of banks and financial expertise among major metropolitan areas.
- 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%.
- The only sector with positive job growth was Education and Health Services, with a growth rate of 5.8%.



## Leasing Market Fundamentals

- Absorption has been negative for 17 of the past 18 quarters. Absorption reached negative 432,847 SF in 3Q24 and was negative 220,025 for the final quarter of the year, increasing vacancy (including sublease space) to 23.8% from 22.9% in the 3<sup>rd</sup> quarter.
- The lack of new construction will contribute to market stabilization by minimizing vacancy increases and increasing competitiveness.
- Business owners continue to seek flexible leases, with some preferring shorter terms with extension options, as uncertainty remains about future office space requirements in the post-pandemic landscape.
- If tenants can negotiate flexible terms that include expansion, contraction, and termination rights, they will commit to longer lease terms.
- Previously rarely used, termination options are being exercised by some tenants looking to downsize. For many, reducing space by 50% or more makes paying the fee and negotiating a smaller, more affordable lease a more cost-effective solution rather than restructuring their existing lease.
- Landlords are responding by requiring higher termination fees in new lease agreements.
- 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.

# Market Observations

## 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.
- The Northstar Center in Minneapolis has been transformed, with a renovated hotel, 216 new apartments, and significant upgrades to Northstar Center West. These 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.
- 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
- Olympic Place, a 110,000-square-foot building in Bloomington, was sold at a discounted price to AlphaDiv Real Estate Fund and three other private investors for \$4.8 million. RGA Reinsurance Co. was the seller and had taken ownership of the building this summer through a deed-in-lieu-of-foreclosure from Altus Properties, which originally bought it for \$7.75 million in 2015.
- 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

- Both the St. Paul and Minneapolis CBDs are struggling to redefine and reenergize in a post-pandemic world by attracting residents and addressing the issue of vacant office buildings.
  - In the Minneapolis CBD, Mayor Frey unveiled a Downtown Action Plan aimed at revitalizing the area. Key initiatives include transforming the Warehouse District into the "sports and entertainment hub of the Midwest," redesigning Nicollet Mall as a pedestrian-only main street, and introducing an ordinance to simplify and streamline the approval process for office-to-residential conversions.
  - In the St. Paul CBD, a recent study by Gensler, commissioned by St. Paul's Downtown Alliance, identified office building candidates for conversion to residential uses. The study evaluated the properties based on attributes such as interior configurations, window placement and size and access to parking and transit.
- Office-to-residential conversions can be challenging but are often facilitated by government tax credits, historic preservation incentives, or subsidies like TIF (Tax Increment Financing). Older buildings are generally more suitable due to favorable floorplates.
- In contrast, newer buildings are more expensive and harder to convert because of fixed windows, larger floorplates, and plumbing infrastructure challenges.
- As the push among corporate leadership to bring employees back to the office intensifies, Maplewood-based 3M recently announced it is requiring director-level managers to work onsite three days a week.
- Tenants are scrutinizing landlords' financials, prioritizing stability and avoiding the uncertainty that occurs when a landlord is unable to meet mortgage or tax obligations, and the potential for a change in ownership if the property is surrendered to a lender.
- 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

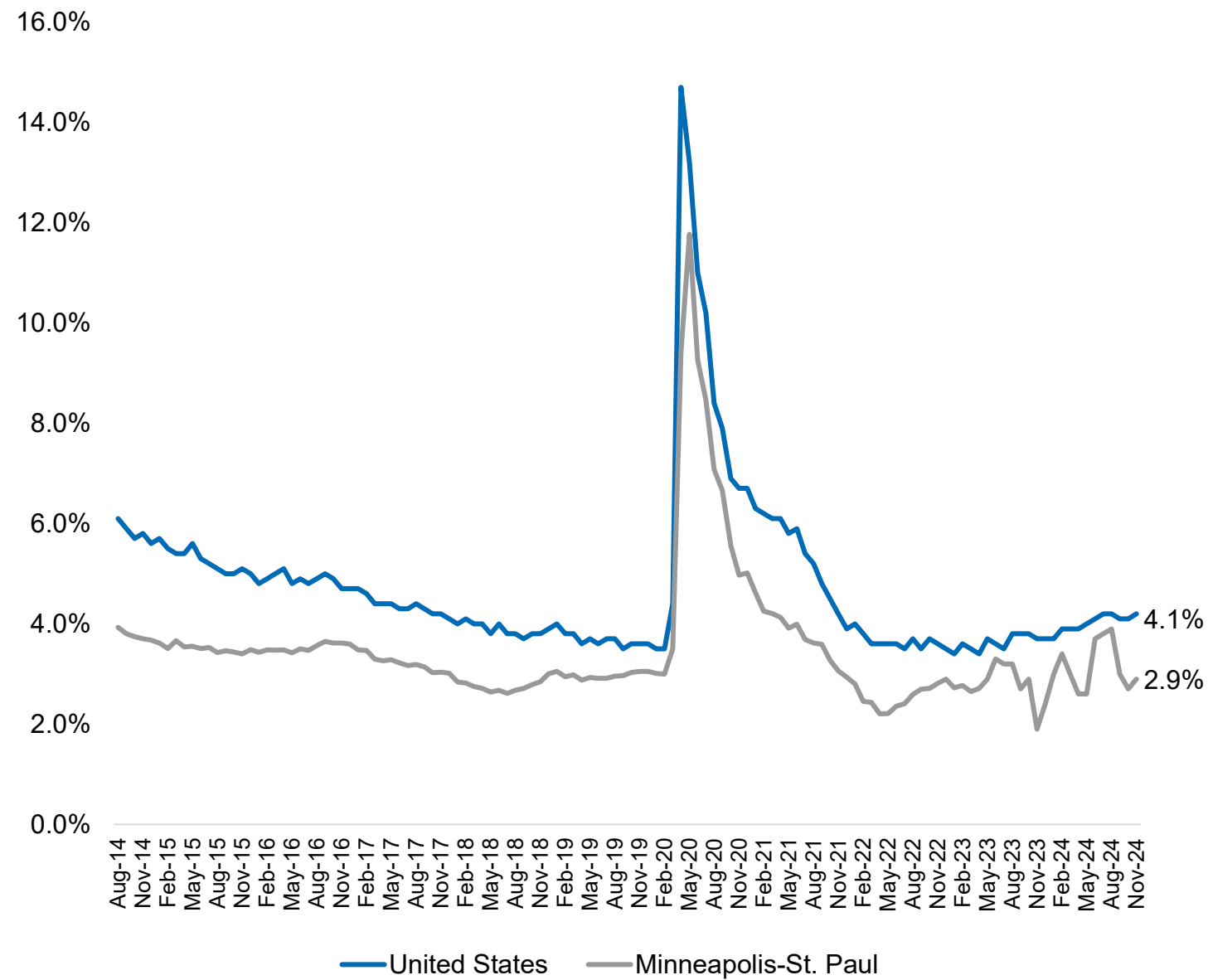
# Economy



# 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

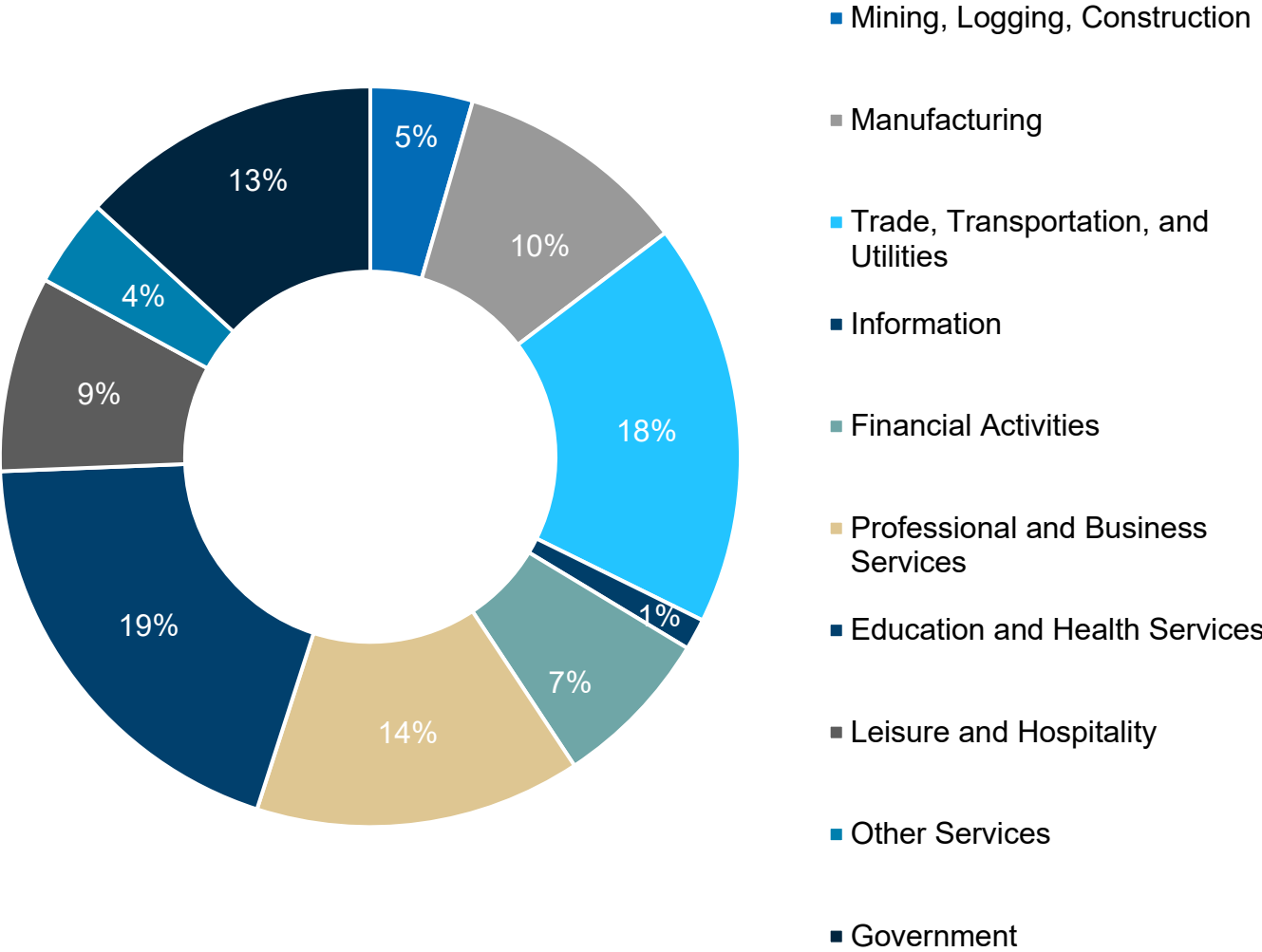


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

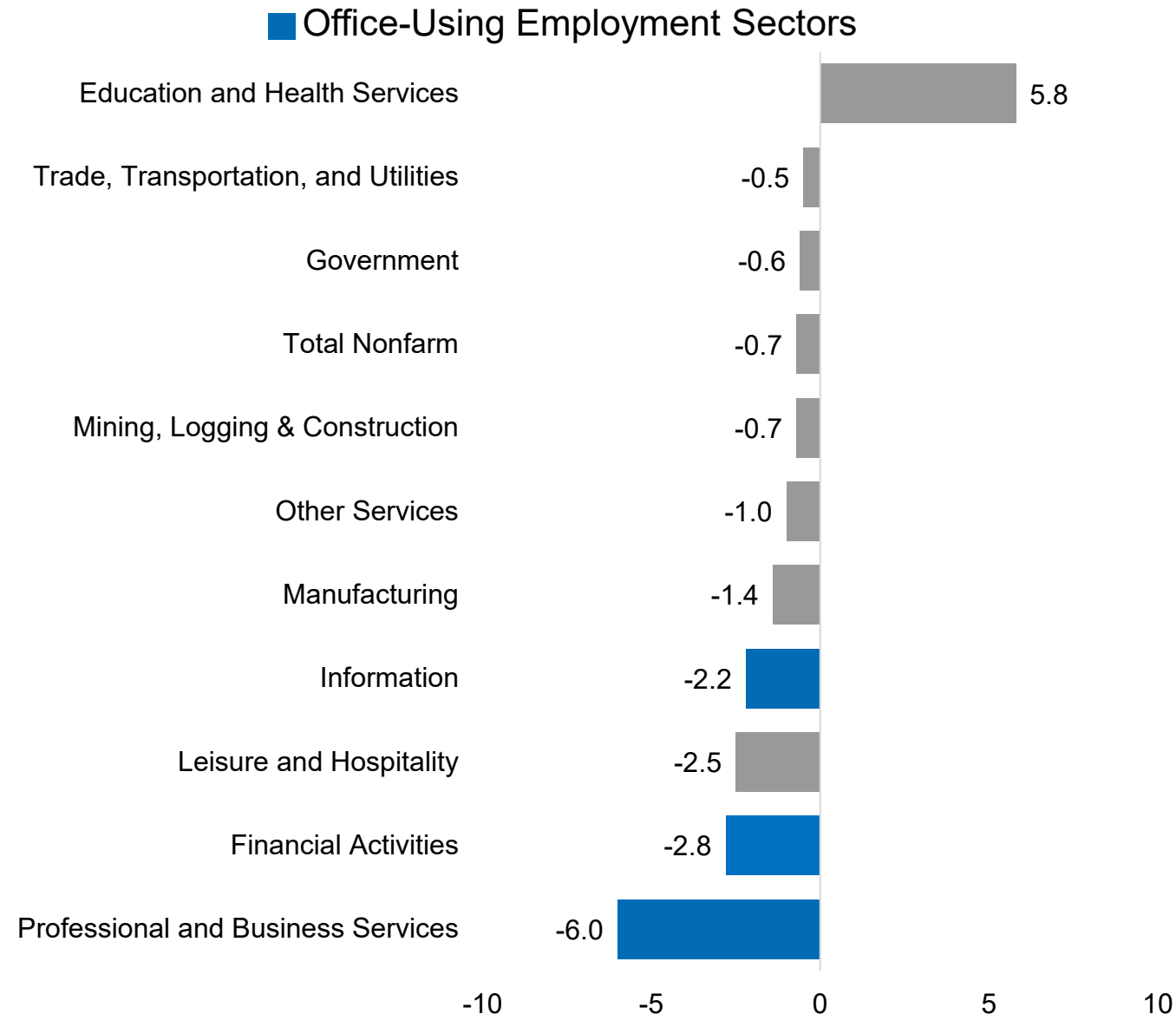
# 12-Month Office-Using Employment Continues Decline

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

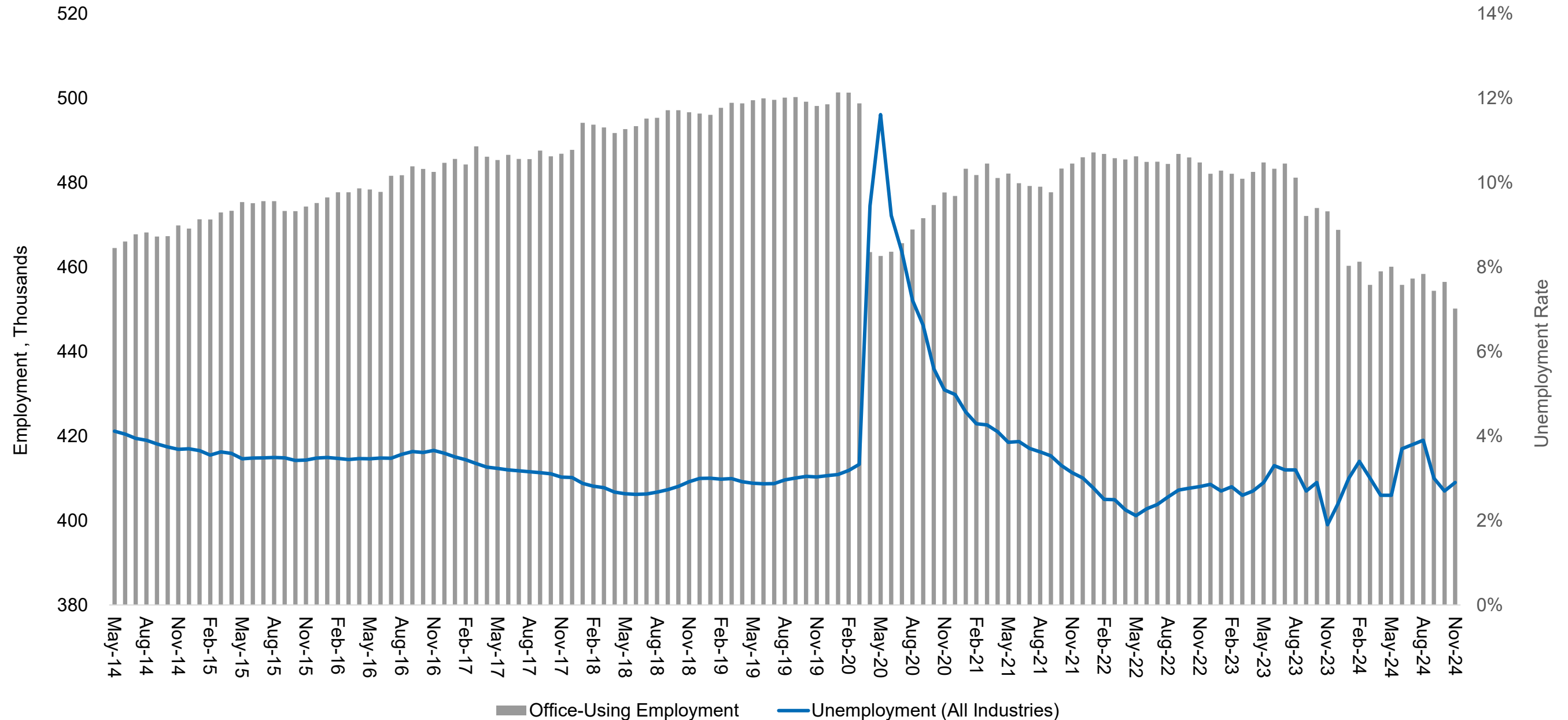


Source: U.S. Bureau of Labor Statistics, Minneapolis-St. Paul

# 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.



4Q24

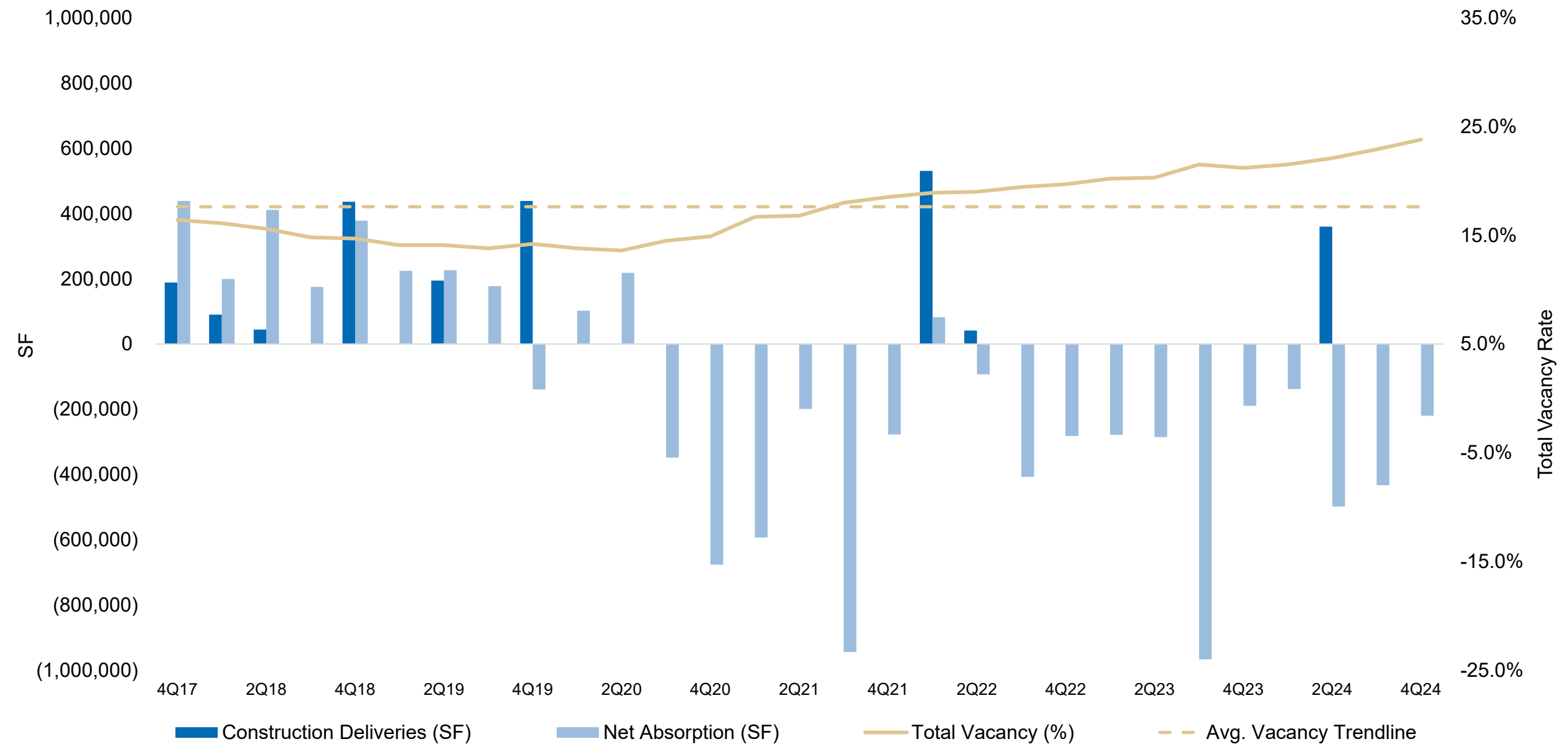
# Leasing Market Fundamentals



# Vacancy Rises to 23.8% as Negative Absorption Persists and Tenants Downsize

Absorption reached negative 432,847 SF in 3Q24 and was negative 220,025 for the final quarter of the year, increasing vacancy to 23.8% from 22.9% in the 3rd quarter. Annual negative absorption was nearly 1.3 MSF.

## Historical Construction Deliveries, Net Absorption, and Vacancy

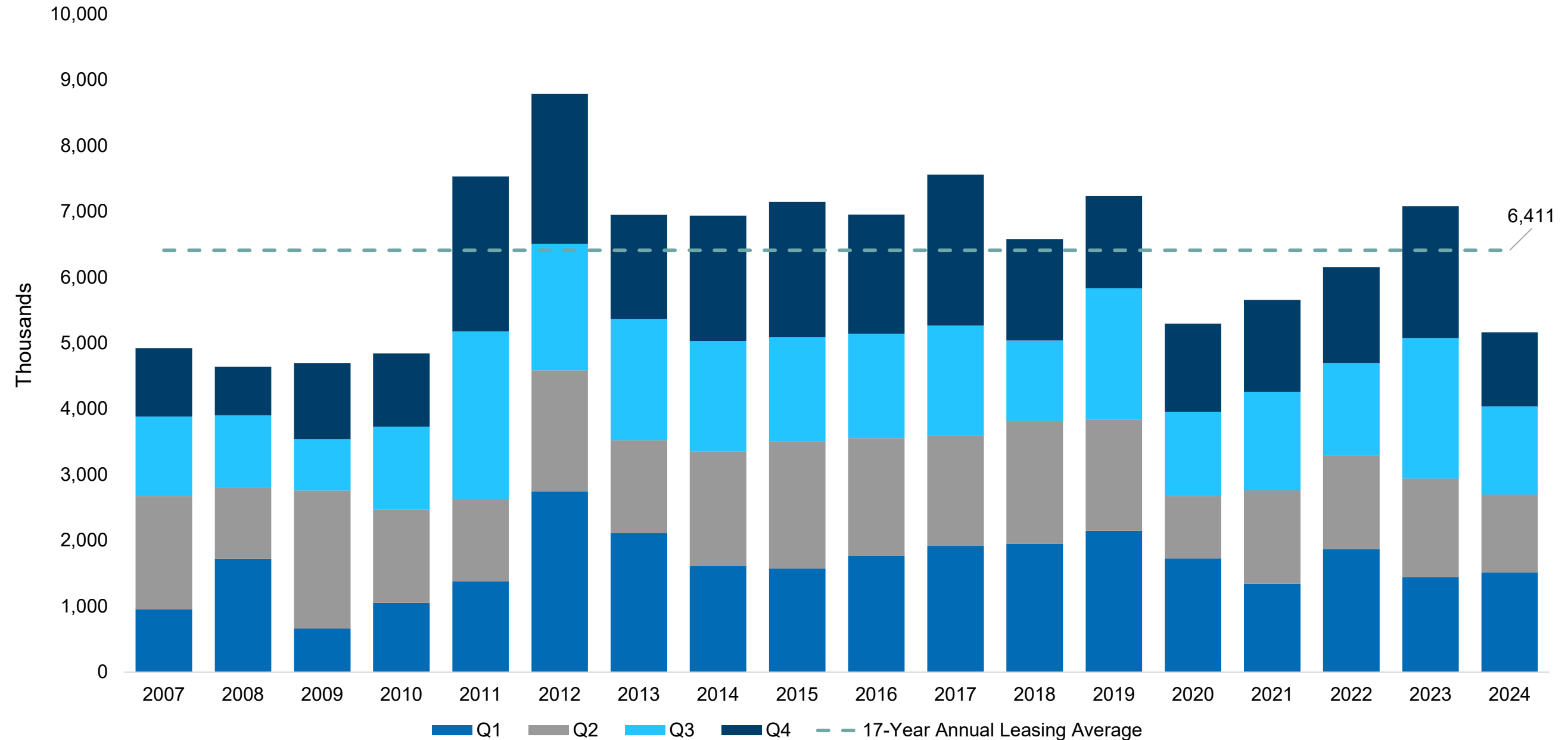


Source: Newmark Research, MNCAR, Costar

# 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)

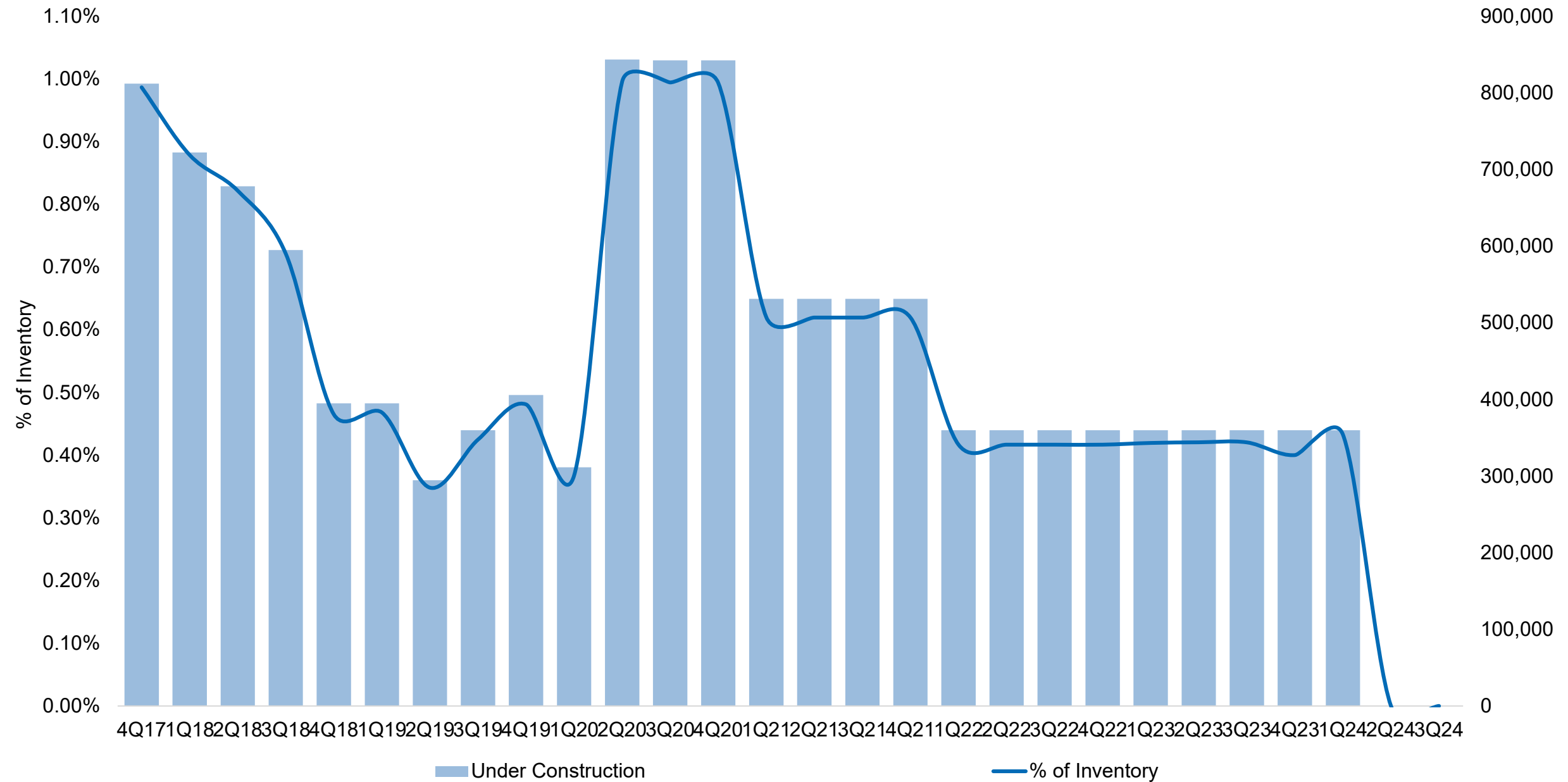


Source: Newmark Research, CoStar

# 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

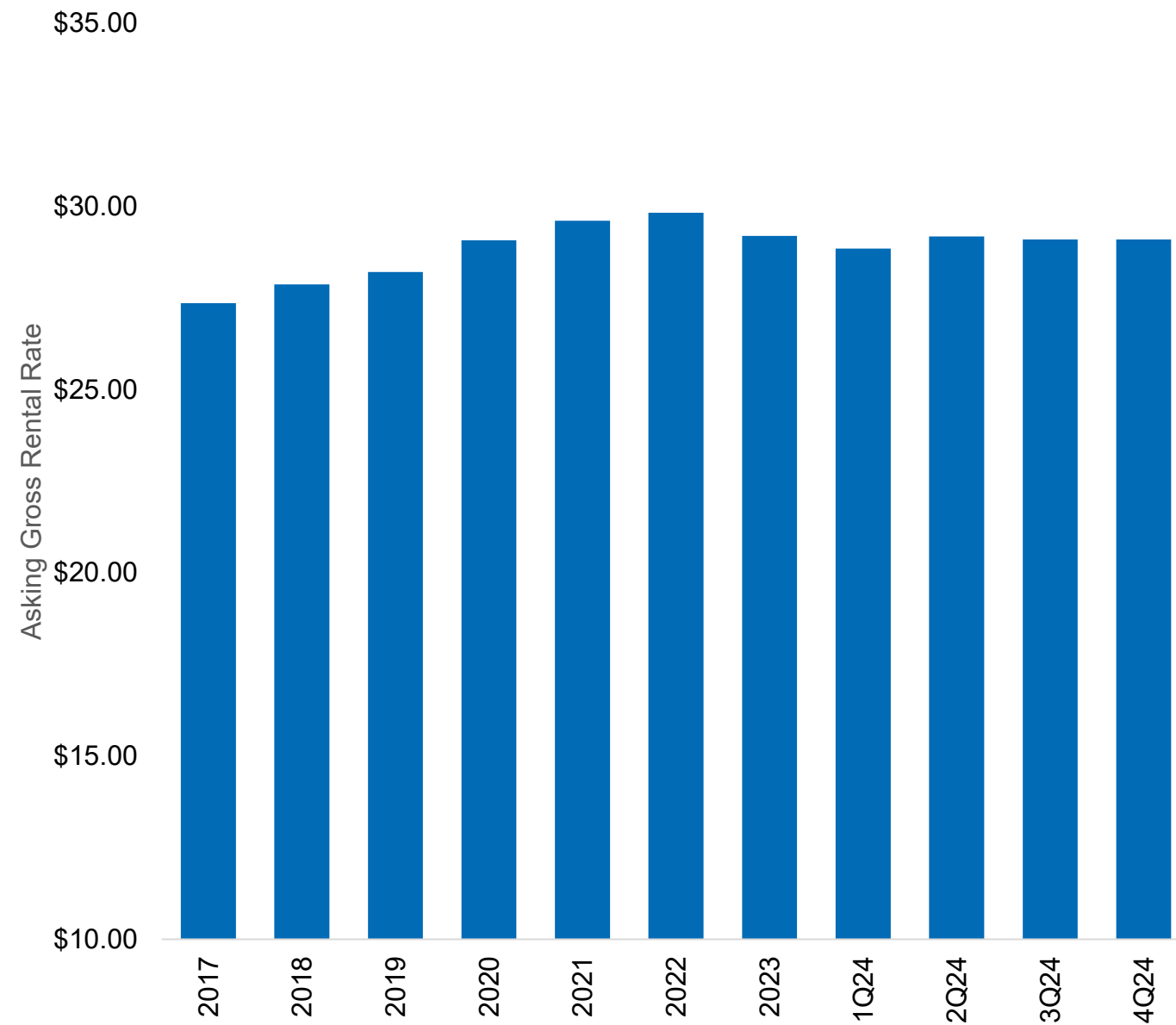


Source: Newmark Research, CoStar, MNCAR

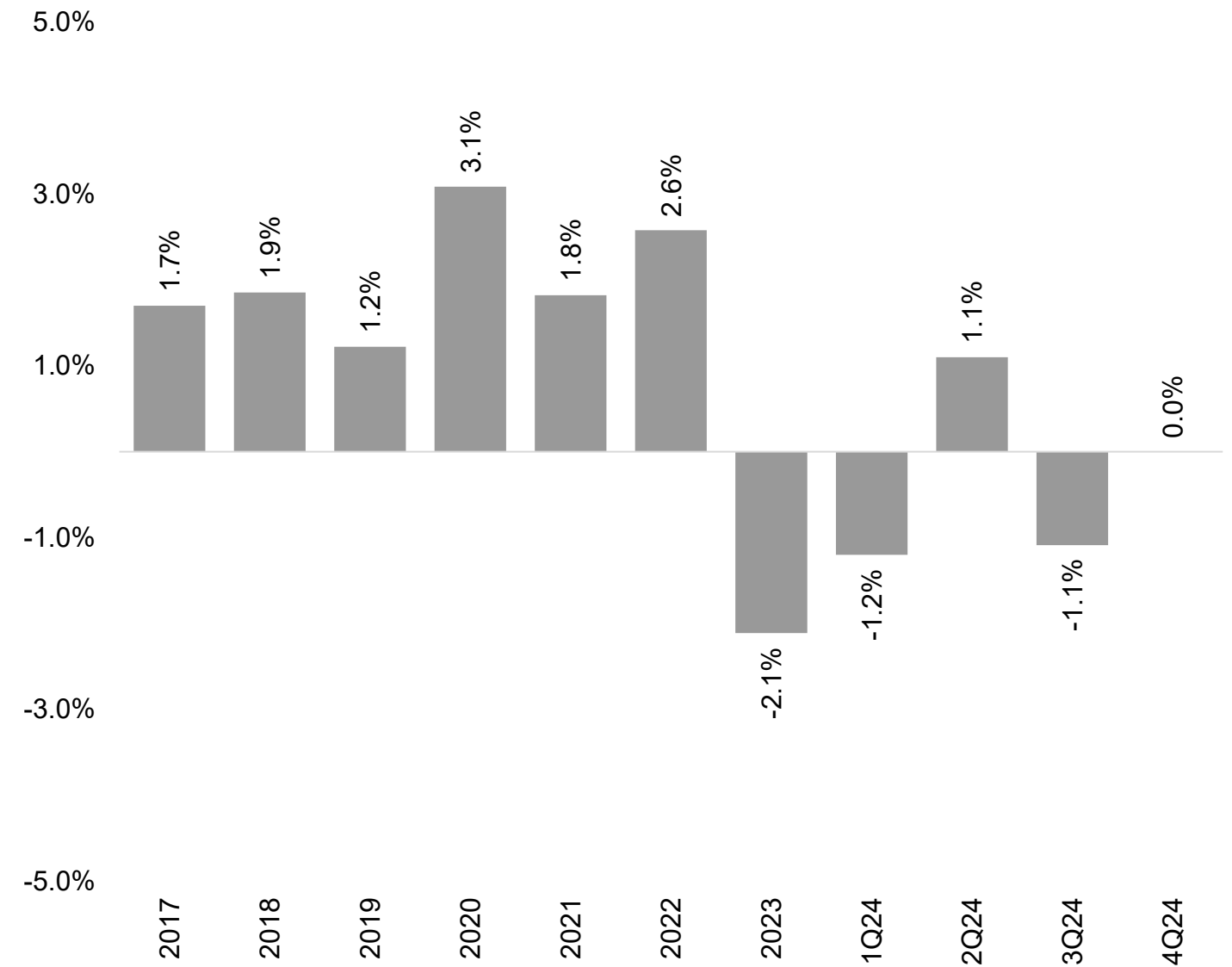
# Quoted Rates Elevated Despite Increasing Vacancy

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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# Submarkets



# Minneapolis CBD

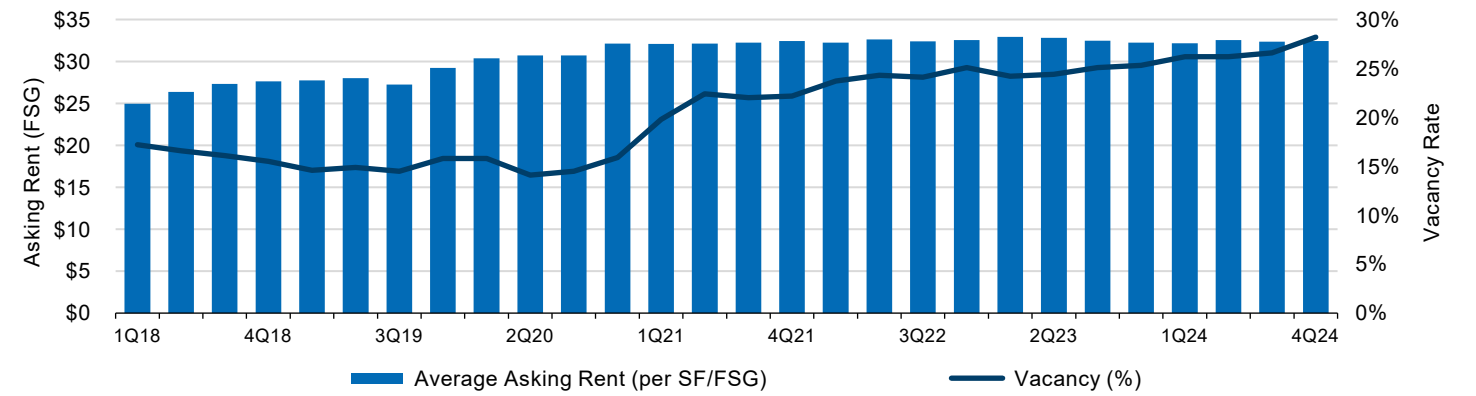
## Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	30.5M	30.2M	30.2M
Vacancy Rate	28.2%	26.6%	25.3%
Quarterly Net Absorption (SF)	(76,359)	(131,204)	(217,829)
Average Asking Rent/SF	\$32.44	\$32.37	\$32.25
Under Construction (SF)	0	0	359,729

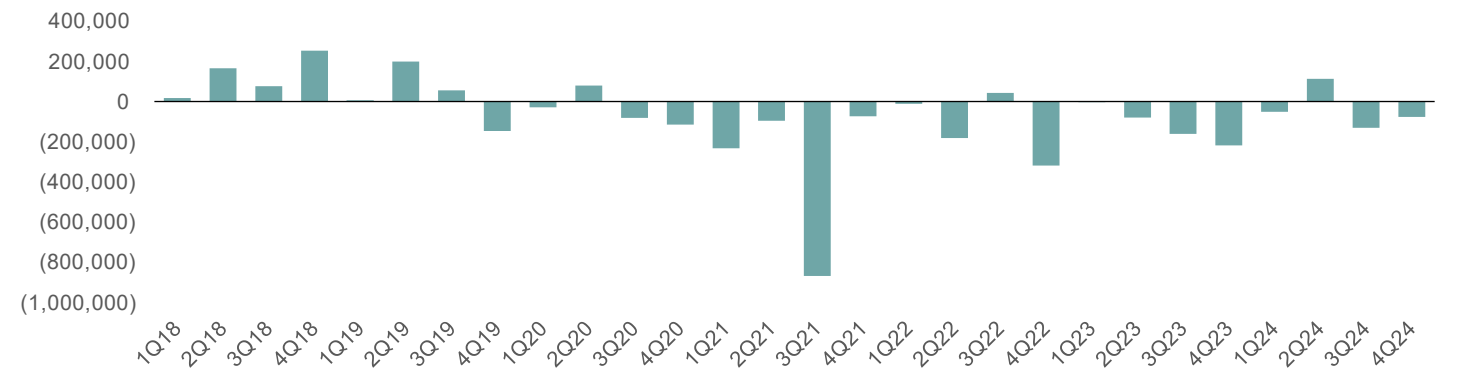
## Current Market Trends

- Vacancy jumped to 28.2% from 26.6% in the previous quarter due to negative absorption of 76,359 SF and the addition of more than 300,00 SF of vacancy at the recently-renovated Northstar Center West.
- At the Northstar Complex, the former Crowne Plaza hotel was transformed into a Hotel Indigo and Northstar Center East was redeveloped into 216 residential apartments. At Northstar Center West, floors 7-9 now include office lounges, conference facilities, a bar area, a golf simulator and putting course and 20 skyboxes. The skyboxes are on the 7th floor and serve as private suites, offering an alternative to traditional long-term leases, with memberships available for those seeking access.
- The 3rd tallest tower in the Minneapolis CBD, 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.
- Mayor Frey issued a Downtown Action Plan to revive downtown that included the following recommendations:
  - Establish areas in the Warehouse District to permit open containers, transforming the area into the "sports and entertainment hub of the Midwest."
  - Transform Nicollet Mall into a vibrant pedestrian-only main street.
  - Implement an ordinance to simplify, expedite, and streamline the approval process for office-to-residential conversions.
- Gamer Packaging signed an 11-year lease for the 19th floor of the 100 Tower at Fifth Street Towers, where it will occupy 20,000 SF for its headquarters. The company, which specializes in customized packaging services, will move during the second half of 2026.
- Kipsu signed a lease for 38,000 SF at Butler Square and will move to the new space in January from its current location next door at Butler North.
- The Flour Exchange Building, located in the Minneapolis CBD and spanning over 93,000 SF, was sold to affordable housing developer Trellis for \$3.48 million. Previously taken over by its lender, CIBC Bank USA, the property had been on the market since 2023. Its smaller floorplates make it a viable candidate for residential conversion.

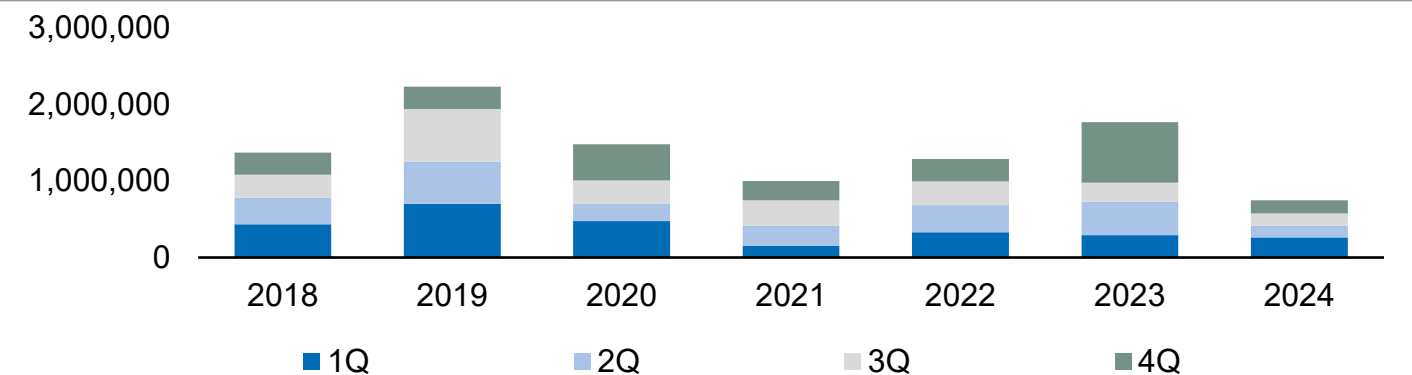
## Asking Rent and Vacancy Rate



## Net Absorption (SF)



## Overall Leasing Activity



Source: Newmark Research, MNCAR, Costar

# St. Paul CBD

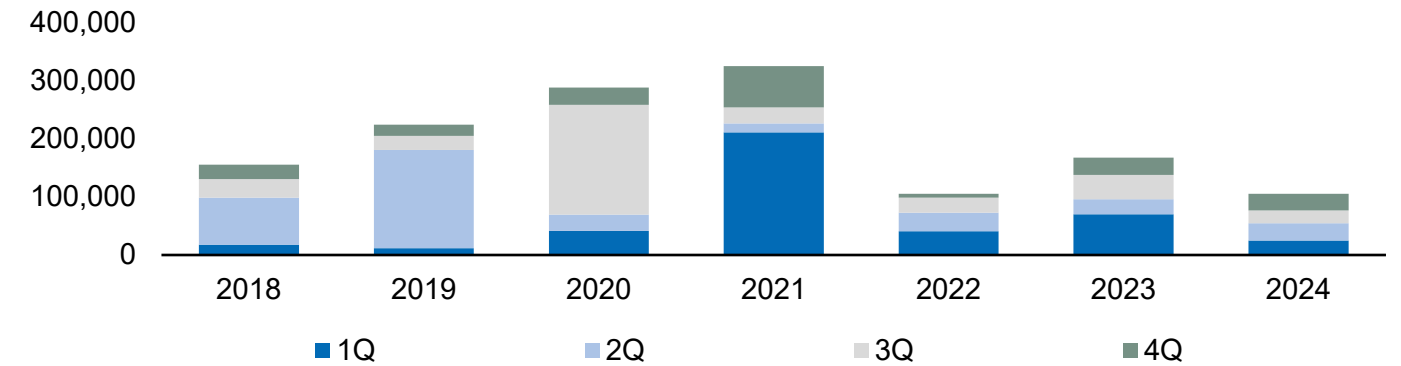
## Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	6.5M	6.5M	6.6M
Vacancy Rate	29.4%	29.0%	19.2%
Quarterly Net Absorption (SF)	(21,017)	(248,829)	(16,305)
Average Asking Rent/SF	\$24.07	\$24.17	\$23.91
Under Construction (SF)	0	0	0

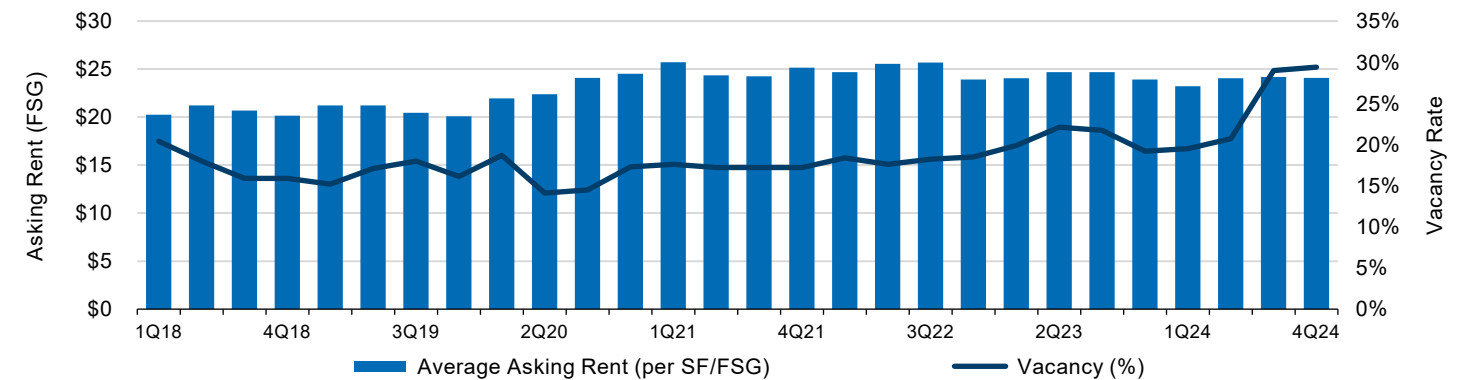
## Current Market Trends

- Negative absorption was minimal at 21,017 SF and vacancy increased slightly to 29.4% from 29.0% in quarter 3.
- A recent study by Gensler, commissioned by St. Paul's Downtown Alliance, evaluated 20 buildings in the St. Paul CBD and identified 10 as strong candidates for conversion to residential use and include Park Square Court, US Bank Center and the First National Bank Building.
- The study evaluated the properties based on attributes such as interior configurations, window placement and size and access to parking and transit. The Alliance also proposed additional enhancements to infrastructure and pedestrian corridors to attract residents to downtown and address the issue of vacant office buildings.
- Park Square Court, owned by Madison Equities, is facing legal action due to multiple missed mortgage payments. Cushman & Wakefield is the court-appointed receiver of the property following the bankruptcy filing of an LLC associated with Madison Equities. The 136,000-square-foot vacant property is part of a portfolio of assets listed for sale after the death of Madison Equities' founder, Jim Cockarell, in early 2024.
- The vacant Empire and Endicott Arcade buildings, also part of the Madison Equities portfolio, were acquired for \$1.37 million by lender Merchants Bank. The sale was initiated by the bank following an alleged mortgage default.
- Osborn Plaza, a publicly owned outdoor park just outside of the Osborn370 office building, will be redesigned with proposed uses including event space, new seating and amenities.

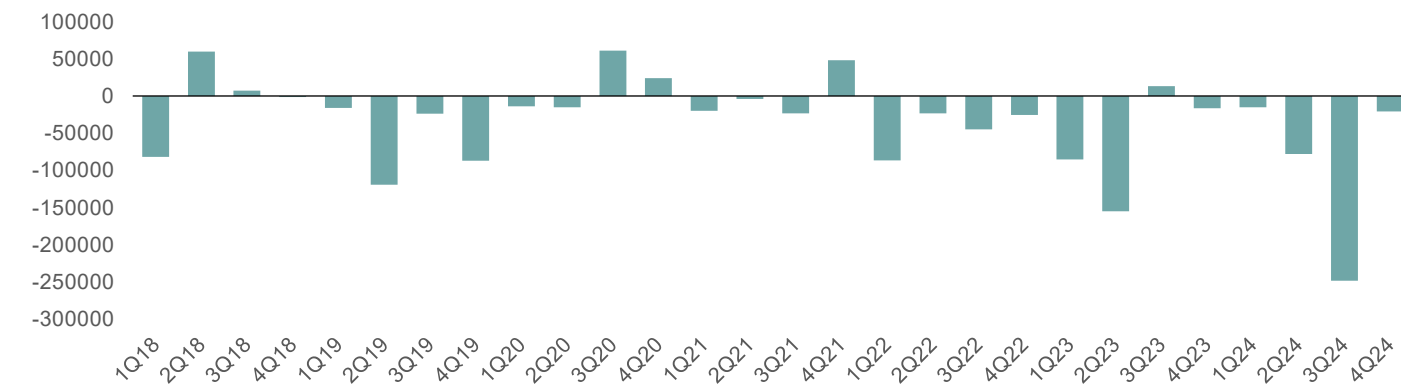
## Overall Leasing Activity



## Asking Rent and Vacancy Rate



## Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

# Northeast

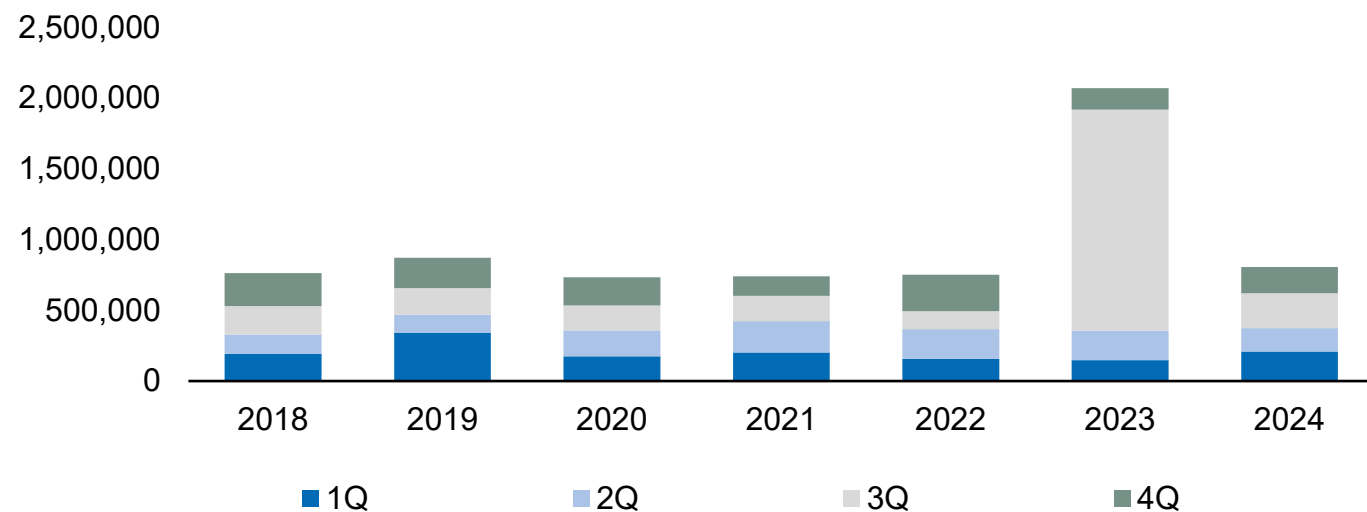
## Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	8.8M	8.8M	9.1M
Vacancy Rate	17.1%	17.7%	18.2%
Quarterly Net Absorption (SF)	50,786	29,112	(20,875)
Average Asking Rent/SF	\$20.12	\$19.84	\$21.95
Under Construction (SF)	0	0	0

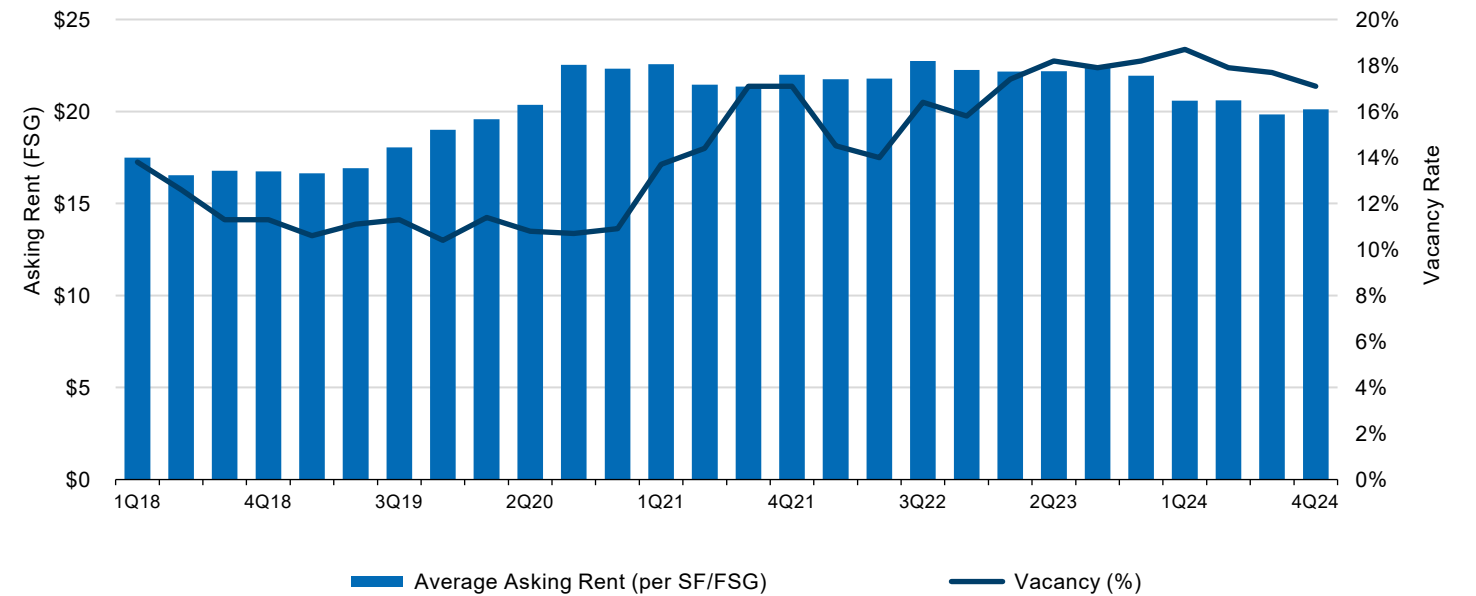
## Current Market Trends

- The vacancy rate decreased slightly from 17.7% in Q3 to 17.1%. There was 50,786 SF of positive absorption.
- The vacancy rate in the Northeast is 17.1%, lower than the overall average of 23.1%.
- The submarket is home to 3M and healthcare companies HealthPartners and Regions Hospital, which contribute to the base of office-using businesses, supporting the resiliency of the submarket.
- As the push to bring employees back to the office intensifies, Maplewood-based 3M recently announced it is requiring director-level managers to work onsite three days a week.

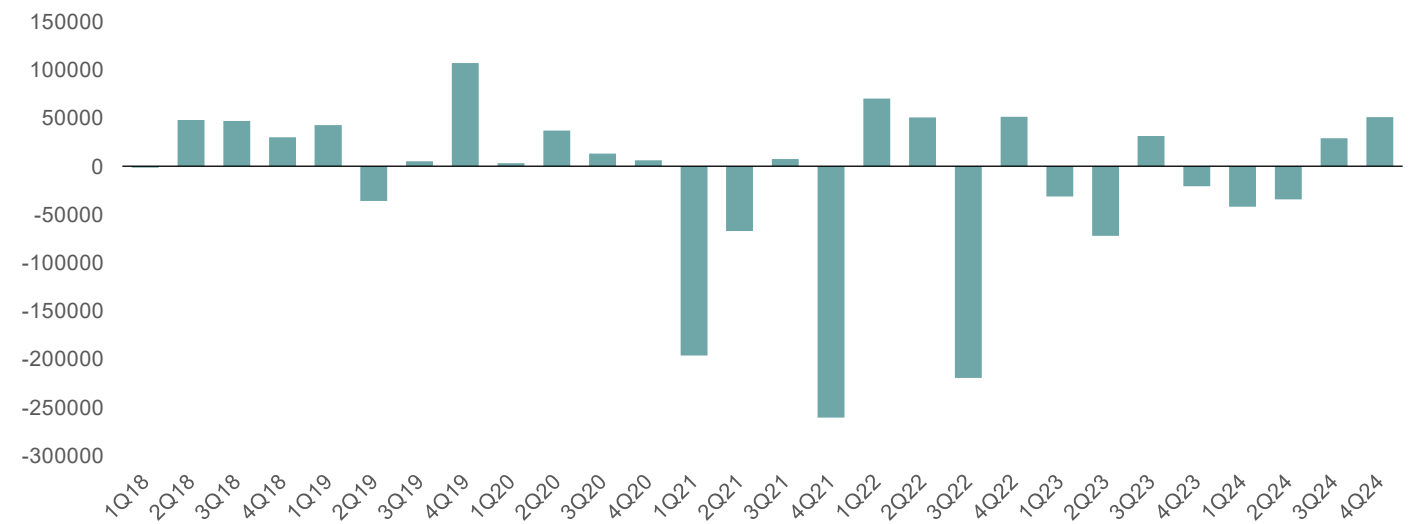
## Overall Leasing Activity



## Asking Rent and Vacancy Rate



## Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

# Northwest

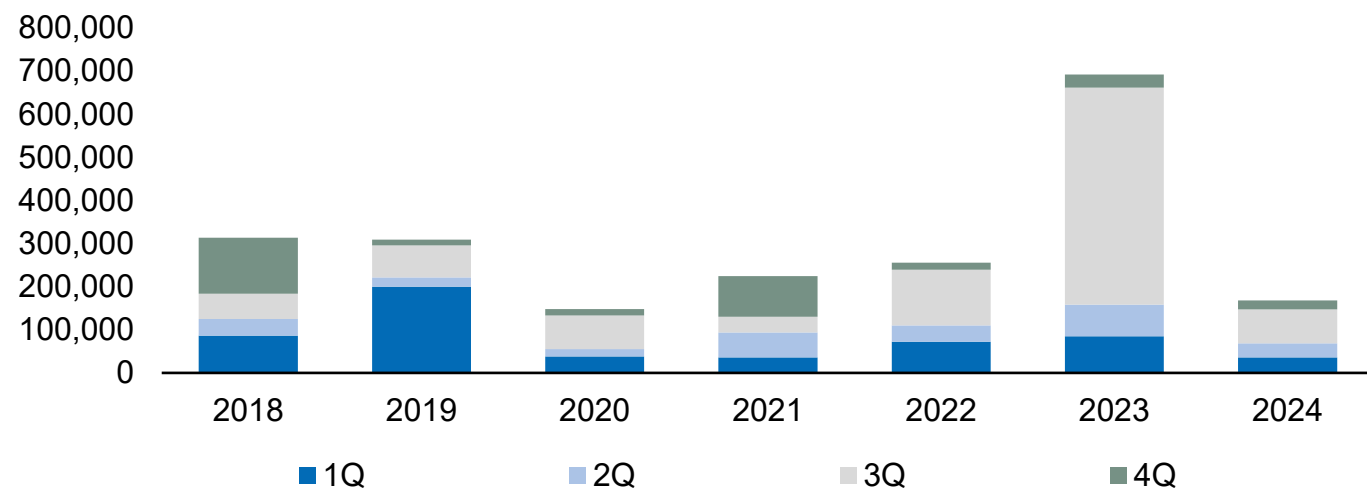
## Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	3.1M	3.1M	3.1M
Vacancy Rate	14.7%	14.7%	16.8%
Quarterly Net Absorption (SF)	(1,652)	48,010	(7,735)
Average Asking Rent/SF	\$20.69	\$20.54	\$20.93
Under Construction (SF)	0	0	0

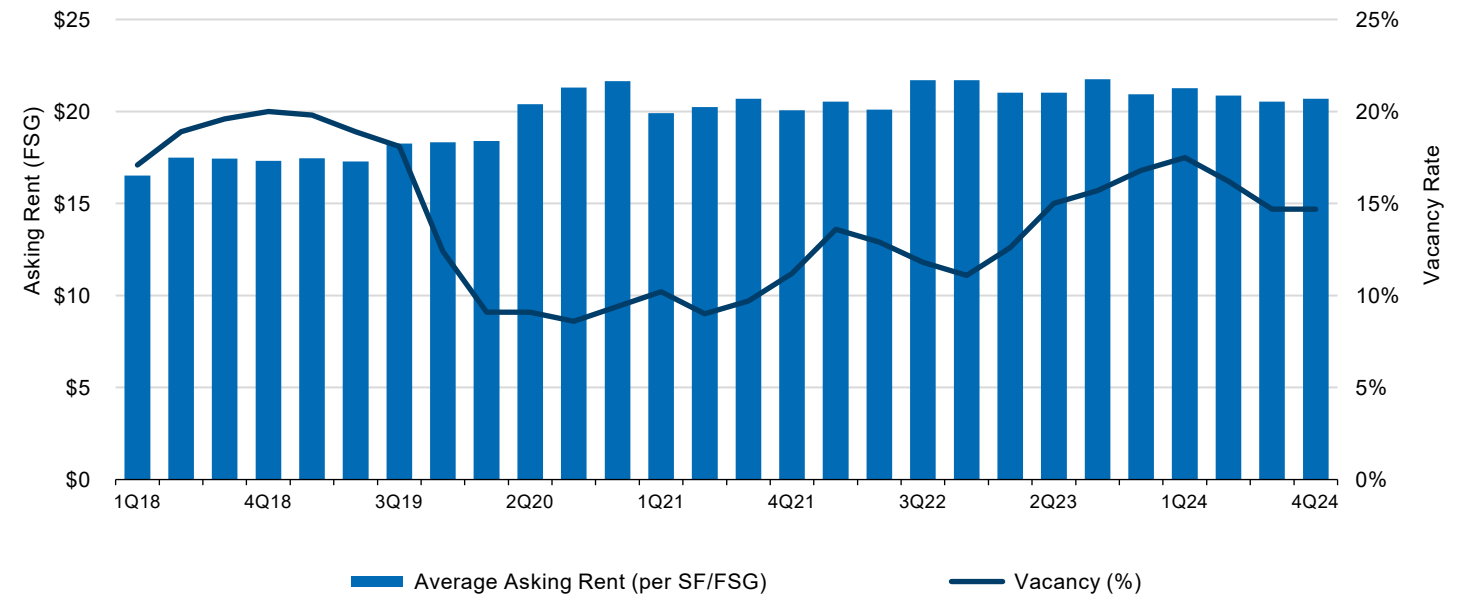
## Current Market Trends

- Negligible absorption occurred and vacancy was stagnant at 14.7%.
- Rental rates increased from \$20.54 to \$20.69 currently.
- Boston Scientific is advancing its plans to expand its Maple Grove campus. The Maple Grove Planning Commission recommended approval for an 84,000-square-foot addition to an existing 86,000-square-foot building.

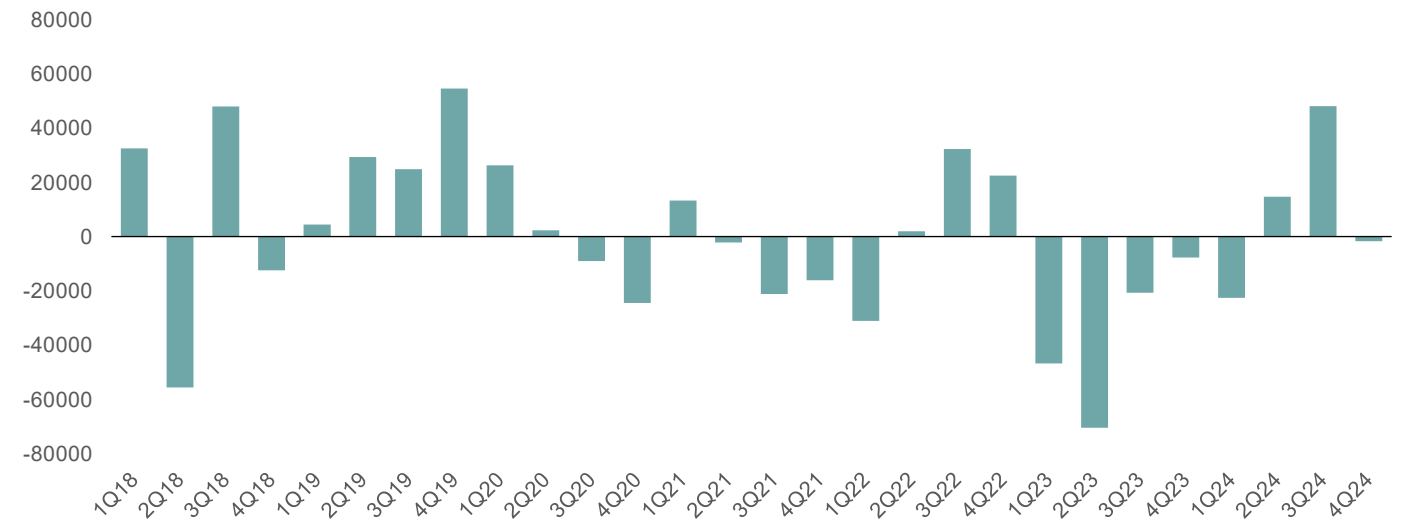
## Overall Leasing Activity



## Asking Rent and Vacancy Rate



## Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

# Southeast

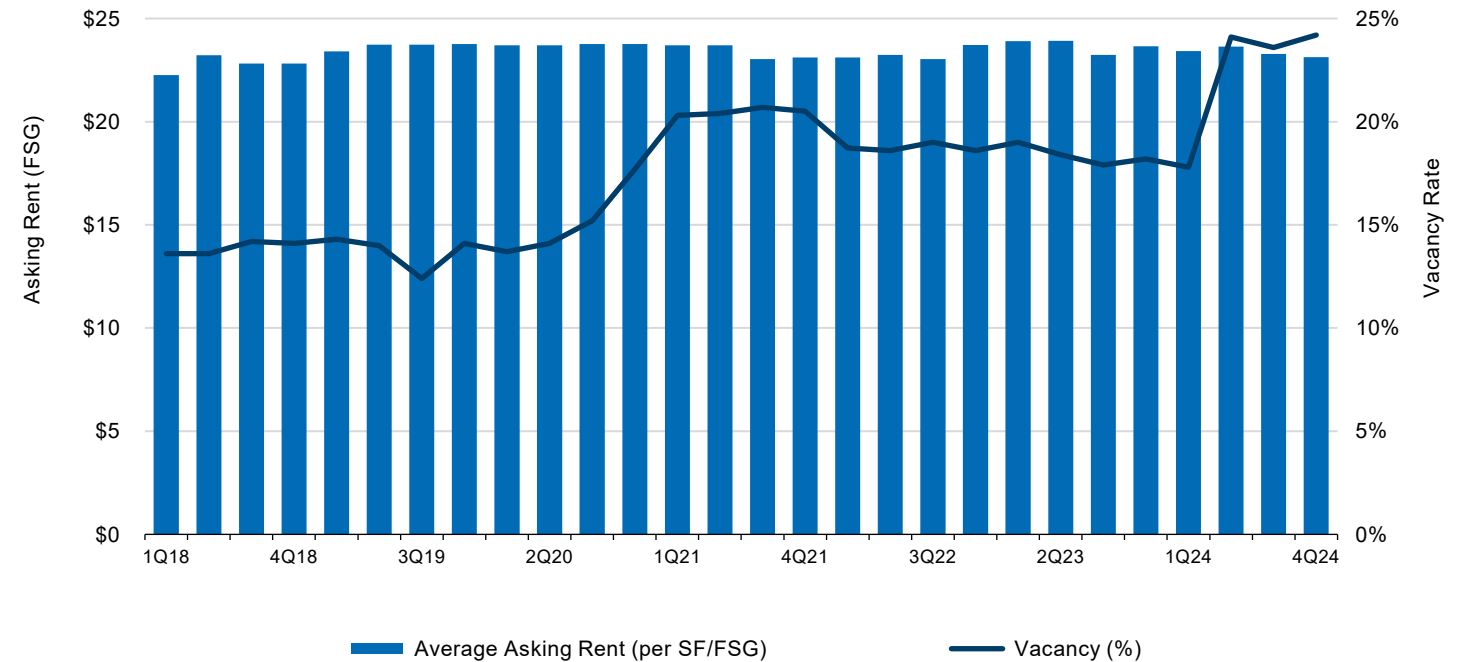
## Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	7.0M	7.0M	7.0M
Vacancy Rate	24.2%	23.6%	18.2%
Quarterly Net Absorption (SF)	(56,629)	4,037	(17,851)
Average Asking Rent/SF	\$23.13	\$23.28	\$23.65
Under Construction (SF)	0	0	0

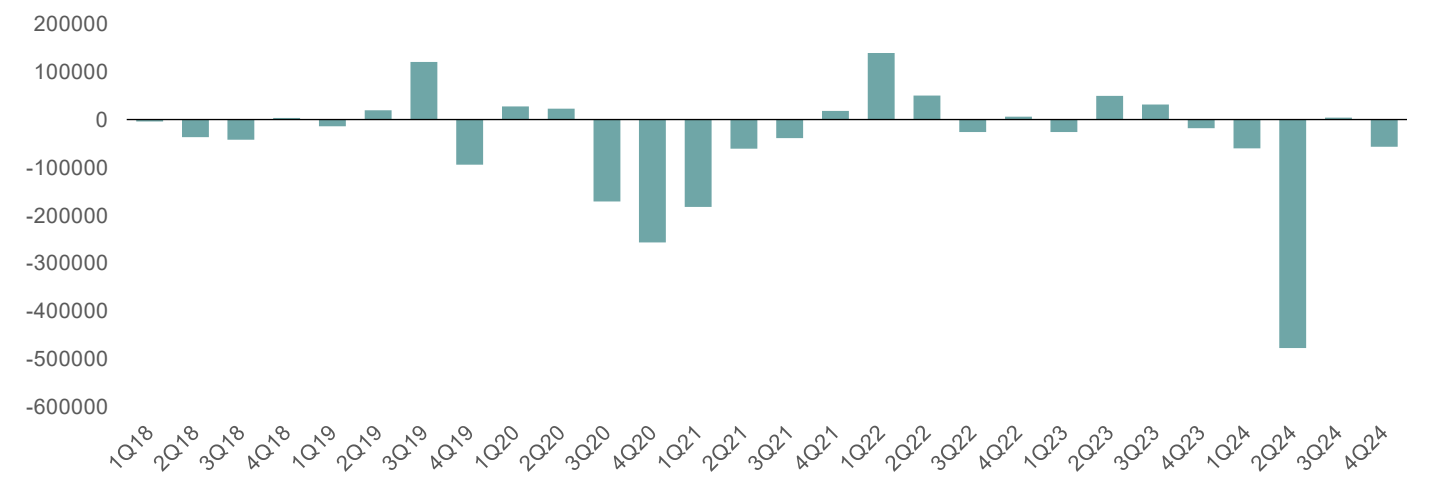
## Current Market Trends

- Rental rates are \$23.13/SF and absorption was negative 56,629 SF as vacancy increased to 24.2%.
- U.S. Realty Advisors purchased 1750 Yankee Doodle Road in Eagan on the Blue Cross Blue Shield (BCBS) campus for \$11.65 million from W.P. Carey.
- 3M spinoff Solventum will bring its headquarters to the site and developer Trammell Crow will lead renovations of the 226,000-square-foot building. Solventum, which was spun off from 3M in April 2024, was previously part of the company's healthcare division. The property became available when BCBS consolidated its operations in the River Park buildings on the campus.
- Ryan Companies purchased the 179-acre Thomson Reuters Campus for \$41 million with plans to redevelop the site. The Eagan City Council approved Ryan's proposal and the Metropolitan Council approved an amendment to rezone 1,790 acres of the site for industrial use. The plans include up to 4.2 MSF of industrial space, along with residential uses.

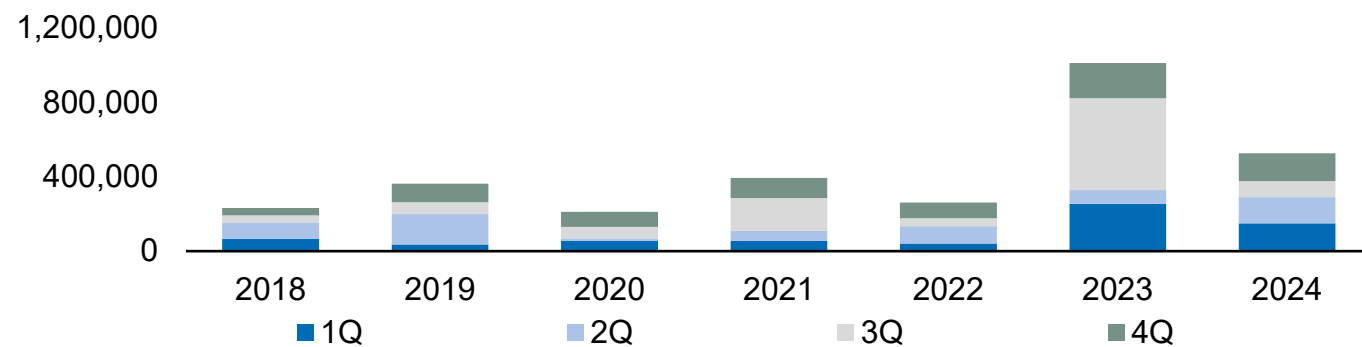
## Asking Rent and Vacancy Rate



## Net Absorption (SF)



## Overall Leasing Activity



Source: Newmark Research, MNCAR, Costar



# Southwest

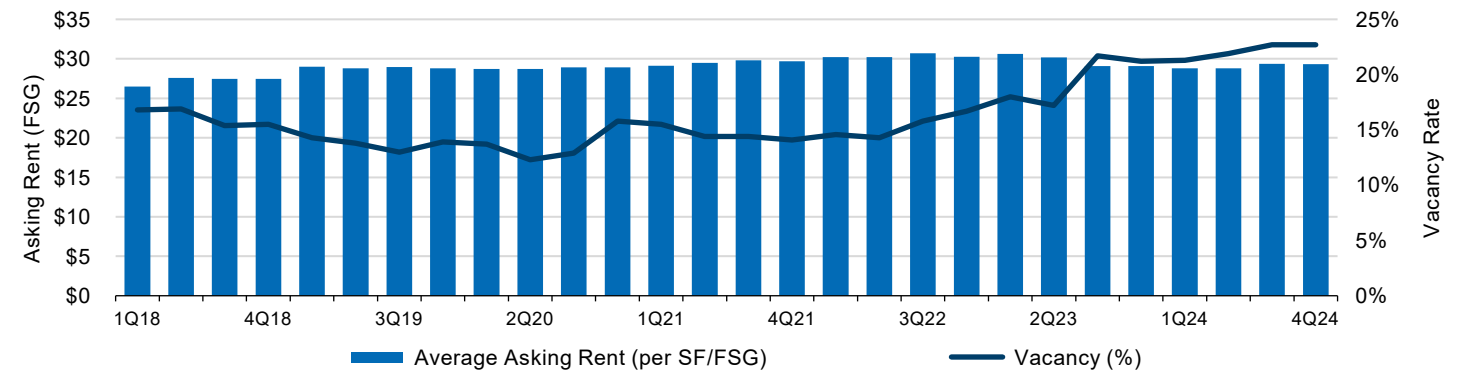
## Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	16.6M	16.6M	16.7M
Vacancy Rate	22.7%	22.7%	21.2%
Quarterly Net Absorption (SF)	(259)	(125,771)	4,552
Average Asking Rent/SF	\$29.34	\$29.35	\$29.08
Under Construction (SF)	0	0	0

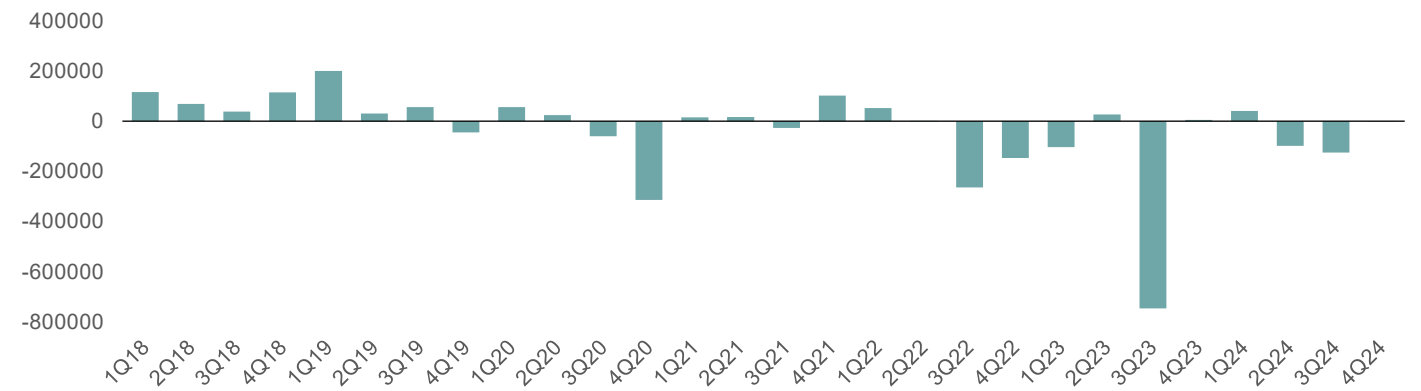
## Current Market Trends

- The vacancy rate was steady at 22.7% with negligible negative absorption of 259 SF
- Olympic Place, a 110,000-square-foot building in Bloomington, was sold at a discounted price to AlphaDiv Real Estate Fund along with three other private investors for \$4.8 million from RGA Reinsurance Co. RGA had taken ownership of the building this summer through a deed-in-lieu-of-foreclosure from Altus Properties, which originally bought it for \$7.75 million in 2015. MidCountry Bank is the building's largest tenant.
- Continental Minnetonka, located in Opus Business Park, is for sale. The 100,000-square-foot property is listed for \$6 million and is approximately 50% leased. Owned by Continental Property Group, the property underwent renovations in 2020.
- Tech firm Nerderly is subleasing its headquarters in Edina. The company listed 64,000 SF of space at 7700 France, which it occupied in 2020.
- A Minnetonka office building previously occupied by UnitedHealth has entered receivership. LCN Capital Partners acquired the property in 2014 through a sale-leaseback transaction. The landlord holds a \$47 million loan on the property and has not secured a new tenant since UnitedHealth's lease expired on December 31 of last year.
- The Opus Group is planning to redevelop 5100 Eden Ave in Edina as its new corporate headquarters, a shift from earlier plans to replace the aging office building with multifamily residential units. The updated proposal involves demolishing the 38,000-square-foot structure and building a Class A, 112,000-square-foot office property to serve as the company's headquarters along with additional space available for lease. The move will relocate Opus Group from Minnetonka.

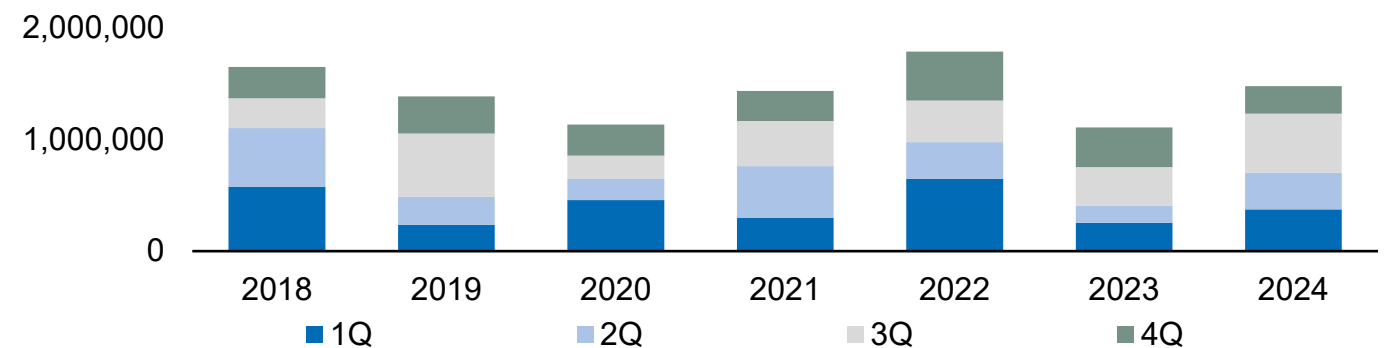
## Asking Rent and Vacancy Rate



## Net Absorption (SF)



## Overall Leasing Activity



Source: Newmark Research, MNCAR, Costar

# West

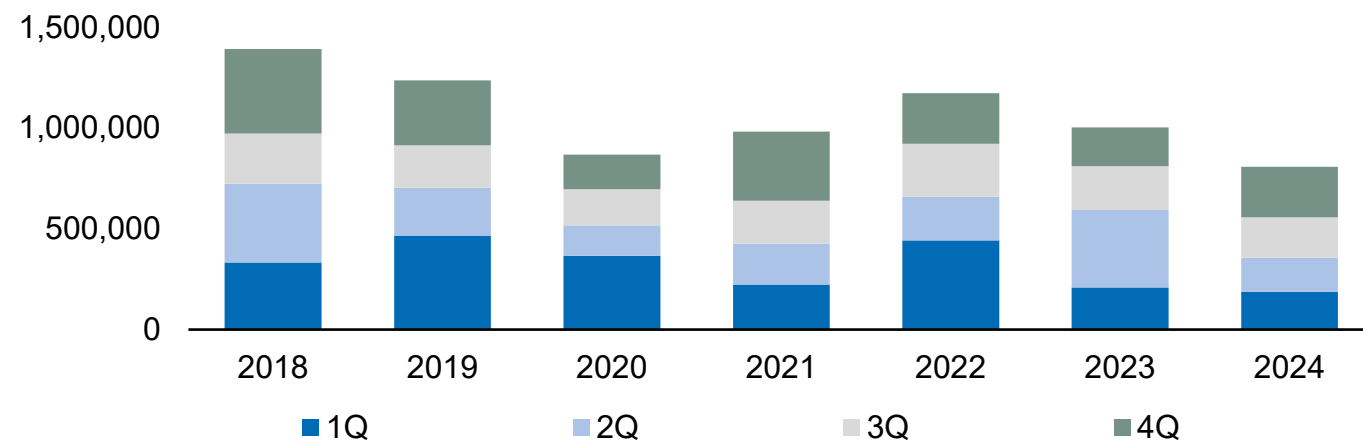
## Statistical Summary

	Current Quarter	Prior Quarter	Year Ago Period
Total Inventory (SF)	10.4M	10.5M	10.2M
Vacancy Rate	17.0%	15.3%	15.7%
Quarterly Net Absorption (SF)	(114,895)	(8,202)	86,824
Average Asking Rent/SF	\$31.00	\$32.84	\$33.49
Under Construction (SF)	0	0	0

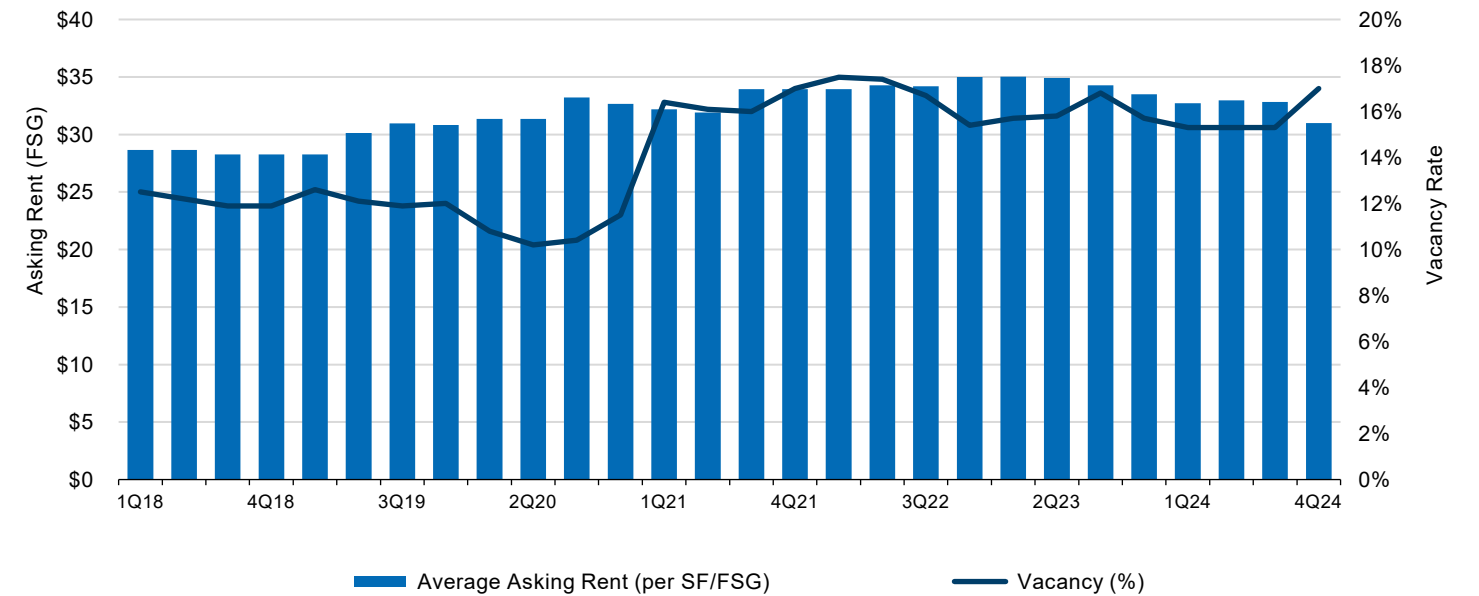
## Current Market Trends

- The vacancy rate was up to 17.0%, with 114,895 SF of negative absorption.
- 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. Located in the West End area of the West submarket, the properties total 400,000 SF and have a 35% vacancy rate.
- Wells Fargo has opened a new wealth and investment management office in a recently completed building at Wayzata Gateway. The company's previous office on the site was demolished to accommodate the redevelopment of the park, which also includes a branch location.

## Overall Leasing Activity



## Asking Rent and Vacancy Rate

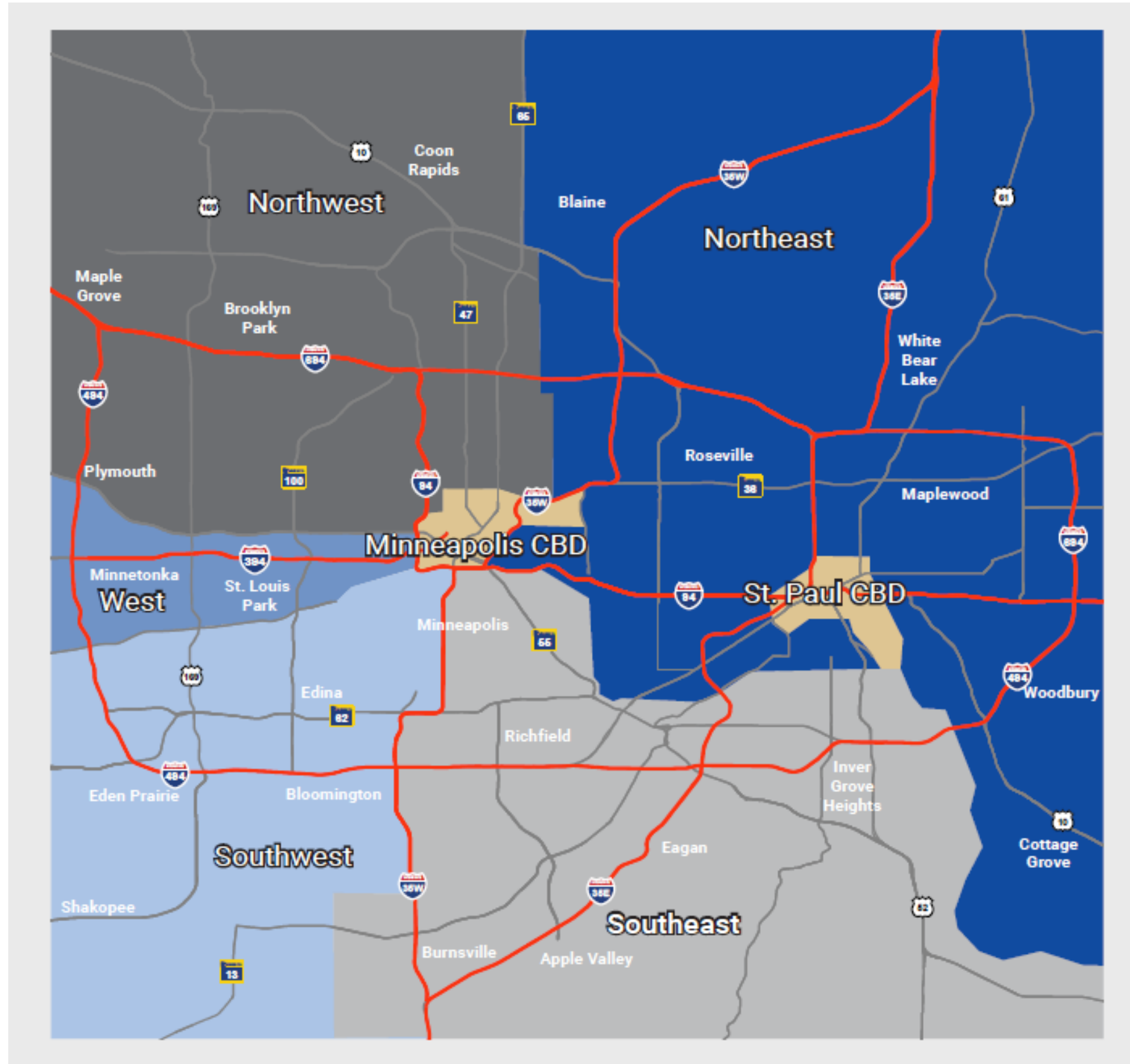


## Net Absorption (SF)



Source: Newmark Research, MNCAR, Costar

# Minneapolis-St. Paul - Submarket Map



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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](http://nmrk.com/insights).

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