

INVESTMENT FORECAST

Office
Minneapolis-St. Paul Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Suburban Strength and Limited Construction Keeps Minneapolis Among the Tightest U.S. Retail Markets

A renewed population surge lifts the Twin Cities. By late 2025, Minneapolis-St. Paul's job base will be just 1 percent shy of its pre-pandemic peak, sustaining an unemployment rate below the historical average. This stability, combined with the metro's largest two-year influx of new residents since the 1980s — driven by retirees — continues to bolster retail spending. Supply additions remain constrained by costlier financing, as only 300,000 square feet is set to break ground this year — the second-lowest total on record. Fundamentals are staying strong, particularly in suburban corridors like Maple Grove, Apple Valley and Eden Prairie, where vacancy rates remain below 2 percent. Overall vacancy will rise slightly, but stay near record lows, keeping the metro among the five least vacant major U.S. retail markets. While overall rents are recovering modestly, suburban power centers outperform with higher-than-average rents, driven by strong demand and limited supply. This trend is expected to continue near key exurban nodes, benefiting from the region's strong job and population growth.

Cautious optimism shapes Minneapolis in 2025. Sales activity in 2024 declined 15 percent from the prior year, marking the lowest transaction count since 2014, as investors recalibrated strategies amid persistently elevated borrowing costs. Viewed as more resilient, unanchored strip centers gained ground in response to anchor-dependent vulnerabilities. As 2025 unfolds, pending debt maturities may spur more listings, prompting some owners to sell rather than refinance. Still, first-ring suburbs like Edina, Maple Grove, Eagan and Woodbury capture outside activity in the sub-\$3 million range, aided by one of the lowest average retail prices per square foot nationally. With a tempered construction pipeline, the investment climate should improve in 2025.

2025 MARKET FORECAST

+0.8%



EMPLOYMENT: Job growth will rebound this year, as employers add 15,000 positions. Growth will land 20 basis points off of the long-term average of 1 percent.

300,000
sq. ft.



CONSTRUCTION: The multi- and single-tenant sectors will host an addition of 40,000 and 260,000 square feet, respectively, expanding overall inventory by 0.2 percent this year.

+20 bps



VACANCY: Despite limited completions, deliveries will outweigh net absorption by more than 30,000 square feet in 2025. As such, the vacancy rate lifts for the first time since 2020 to 2.9 percent.

+0.5%

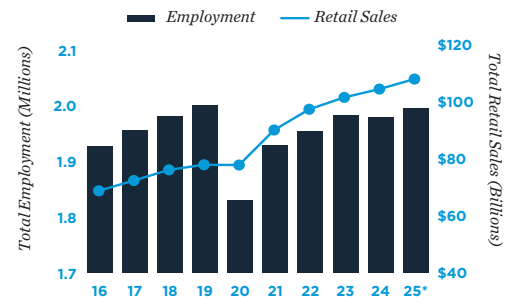


RENT: Although asking rents will grow in 2025, this pace falls below the prior 10-year average of 2.5 percent. Minneapolis-St. Paul's mean asking rent will rise to \$18.05 per square foot.

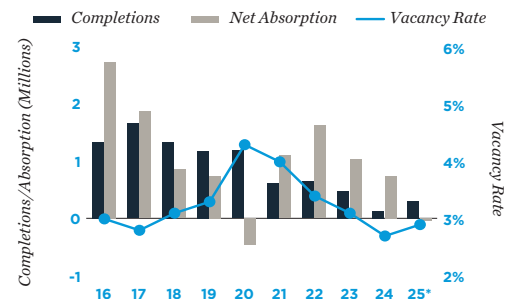
INVESTMENT:

Investors targeting growing residential areas may look to East St. Paul, which has seen an increase of new multifamily renters attracted to Ramsey County's comparatively low living costs.

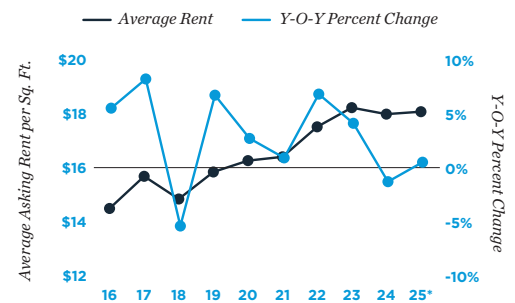
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.