INVESTMENT FORECAST

Office

Minneapolis-St. Paul Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2025

Corporate Downsizing Meets Tech Expansion; Redevelopment Aids Office Recovery

Diverse demand drivers and constrained supply stabilize office market. Minneapolis-St. Paul entered 2025 with office demand focused on premium submarkets like the North Loop, West End and Interstate 494 Corridor, where modern inventory continues to attract tenants despite softer leasing activity. Corporate expansions by Solventum Corp., Polar Semiconductor and Heliene signal growth in office-using employment, especially in tech and energy sectors. Yet hybrid work habits and corporate downsizing kept vacancy above 15 percent last year, exceeding the five-year pre-pandemic average of 10.8 percent. Construction remains scarce, with only 475,000 square feet set to deliver in 2025 — the lowest since 2013 — and nearly all projects are pre-leased or build-to-suit. Limited speculative development and rising adaptive reuse projects, like office-to-residential conversions, should encourage modest vacancy compression. With a robust economic base, Minneapolis-St. Paul offers cautious optimism for investors this year.

Distressed sales and price corrections drive the Twin Cities' office market. In 2024, buyers focused on medical office properties due to strong tenant demand and cap rates above 7 percent. Meanwhile, some urban office towers traded at a fraction of their previous valuations. Transaction volume fell more than 20 percent, reflecting waning institutional interest. Metrowide vacancy still 370 basis points above its long-term average drove foreclosures beyond downtown and lengthened listing times. Some owners converted obsolete buildings, trimming inventory. Distressed listings — though rising — remained only a small share of total deals. Volatile interest rates and looming loan maturities could spark more distressed sales, offering investor opportunities. Adjusted prices may reward investors who see long-term value in the Twin Cities' economic base.

2025 MARKET FORECAST

+0.8% — **EMPLOYMENT:** While the metro will see another net loss in traditionally office-using employment in 2025, overall job gains for the year will hit 15,000 positions.

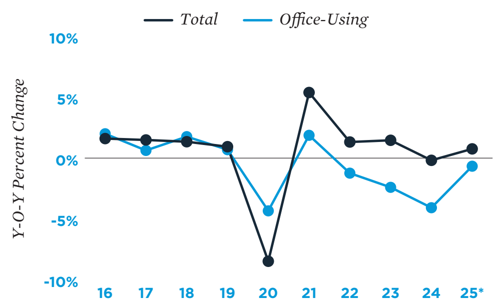
475,000 *sq. ft.* — **CONSTRUCTION:** Builders will add roughly 500,000 square feet of office space for the third consecutive year — the lowest three-year completion total in over a decade, specifically since 2009-2011.

-60 bps — **VACANCY:** Vacancy will fall for the first time since 2017, bringing the metro's rate to 14.6 percent. Minneapolis-St. Paul will retain the fourth-highest figure among major Midwestern markets.

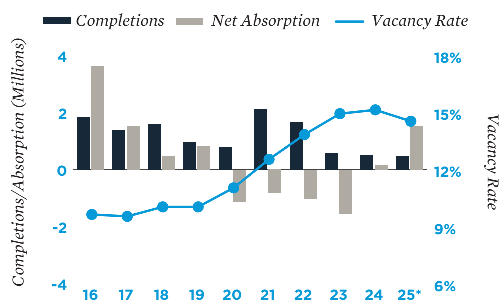
+1.0% — **RENT:** The highest net absorption total since 2019, combined with a limited delivery pipeline, will encourage modest rent growth, bringing the metro's average asking rate to $17.55 per square foot.

INVESTMENT: *A steady rate of population growth over the last three years will heighten demand for health services. As such, private investors may target suburban medical office assets suitable for one to four tenants.*

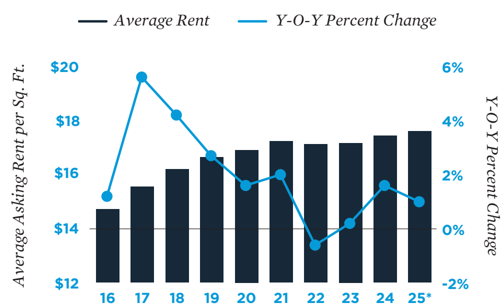
Employment Trends



Supply and Demand



Rent Trends



* *Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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