

INVESTMENT FORECAST

Industrial
Minneapolis-St. Paul

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2026

Bifurcated Tenant Demand Shapes Fundamentals as Capital Deployment Rises

Uncertainty pressuring manufacturing, but vacancy still nationally low. In 2025, metro exports fell roughly 16 percent, compared with a 6 percent national gain, and net international migration into the metro fell 65 percent, constraining labor force growth. These trends align with weaker sentiment among local manufacturers, many of whom by late 2025 expected slower order growth and tight labor conditions to pressure margins in 2026. Manufacturers responded last year by leasing 21 percent less space than in 2024, which, combined with preliminary 2026 data, indicates demand may remain subdued this year. Warehouses and distribution centers, however, have proved more resilient. Cottage Grove-Forest Lake, for example, posted a 500-basis-point vacancy decline in 2025, driven by a nearly 45 percent increase in leasing, most of it in warehouses and distribution space. More broadly, with nearly 85 percent of the 2026 delivery slate accounted for, limited speculative supply pressure should keep the metrowide vacancy rate the tightest nationally.

Well-located nodes see strong transaction activity. After peaking in 2021, deal flow declined annually until rebounding roughly 18 percent year-over-year in 2025. Private investors were most active, though institutional activity also ticked up. Buyers in the latter segment may continue targeting big-box assets in Plymouth-Osseo, where vacancy remained below 4 percent over the last 12 months ended in March. Private investors, meanwhile, may stay focused on first-ring suburbs, particularly warehouse assets near Minneapolis-St. Paul International Airport, Burnsville, and Eagan. Below-average entry costs in those suburbs coincide with major warehouse development and long-term cargo-planning efforts, reinforcing the airport-oriented logistics corridor.

2026 MARKET FORECAST

+0.1%



Employment: Minneapolis-St. Paul is expected to add roughly 2,000 net jobs in 2026, with the healthcare sector showing strength through early 2026 and likely to remain a key source of growth.

5 million
sq. ft.



Construction: After a subdued level of supply came online in 2025, inventory growth is expected to edge up to 1.4 percent, the same pace as the trailing half-decade mean.

+30 bps



Vacancy: The metro should see moderate vacancy growth, as manufacturing weakness offsets the relative strength in warehouse and distribution demand, pushing the rate to 4.5 percent.

+0.3%

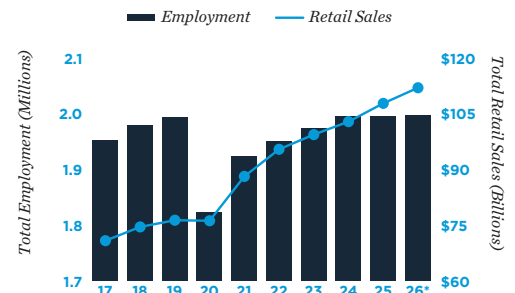


Rent: The year-end average will rise to \$8.90 per square foot. This year's growth trails the metro's long-term annual mean of 2.5 percent, reflecting the slight increase in availability.

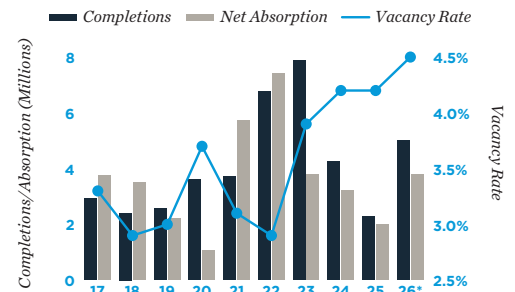
INVESTMENT:

After deal flow increased in Anoka County last year, investors are likely to continue seeking 1990s-vintage assets at a lower cost basis, often below \$5 million, bolstered by regional highway connectivity.

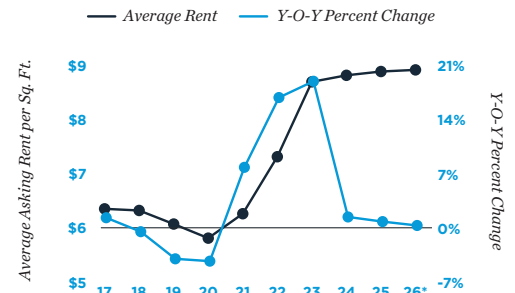
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial

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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 January 2026. 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 office 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.