INVESTMENT FORECAST

Office

Minneapolis-St. Paul Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

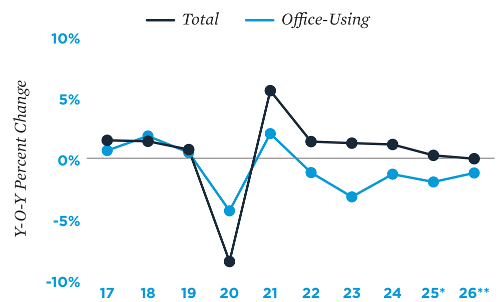
2026

Suburban Strength Offsets Downtown Weakness as Investment Activity Increases

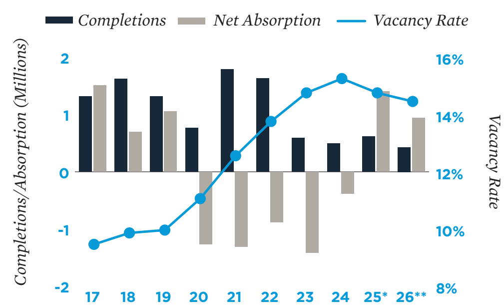
Core-periphery divide increasingly favors the latter. Suburban submarkets enter 2026 on more even footing, with vacancy outside core areas falling below 12 percent for the first time since early 2023 — one of the lowest rates in the nation. Demand has been particularly notable among properties built after 2010, which saw greater leasing activity last year. Firmer suburban demand, reflected in nodes like the Interstate-494 Corridor and suburban St. Paul, should underpin the metro's modest vacancy improvement in 2026. In contrast, the central business districts of both Minneapolis and St. Paul head into the year from weaker positions, with vacancy continuing to rise in 2025. This trend, alongside soft overall hiring in office-based roles and limited new corporate growth downtown, points to another year of subdued demand in the urban cores. Even so, muted construction across both CBDs, coupled with an expanding slate of office-to-alternative conversions, may help limit further vacancy increases in downtown settings.

Sales momentum builds amid increased confidence. Investors last year responded to the break in a five-year run of negative net absorption, closing more transactions than in either 2023 or 2024. While below peak levels, the pickup signals improving sentiment heading into 2026, particularly as vacancy and net absorption maintain a positive trajectory. The I-394 Corridor captured an outsize share of investor activity last year — even excluding a large portfolio sale — supported by its strong connectivity to major employers and downtown Minneapolis. With asking rents among the highest in the metro and tenant demand favoring amenity-rich suburban nodes, the corridor appears positioned to remain a key target for capital in 2026. Investors seeking smaller footprints may look to suburban St. Paul, the most active submarket for trading last year.

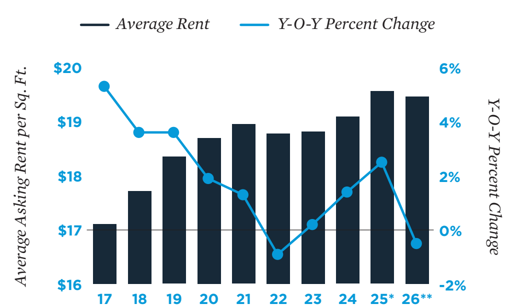
Employment Trends



Supply and Demand



Rent Trends



** Estimate ** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics

2026 MARKET FORECAST

-0.05% — **Employment:** Total employment will fall by about 1,000 positions on net, while office-using industries will lose roughly 5,500 jobs this year — its fifth consecutive annual decline.

430,000 *sq. ft.* — **Construction:** Inventory expansion will slow to its lowest level in more than a decade, with the I-494 Corridor in Hennepin County accounting for roughly half of all deliveries.

-30 bps — **Vacancy:** Buoyed by net absorption not far below historical norms, the metro's vacancy rate will register a second year of modest tightening to 14.5 percent, yet still sit above its five-year average.

+1.5% — **Rent:** The average asking rent will increase to $19.85 per square foot, placing Minneapolis-St. Paul's rent change among the highest in the Midwest, extending a four-year streak of gains.

INVESTMENT: *Medical office trades edged higher near Edina and Bloomington last year, where a median age above the metro average supports stronger healthcare demand and may draw further investor interest in 2026.*

IPA Office

Alan L. Pontius

Senior Managing Director, National Division Leader

Tel: (415) 963-3000 | apontius@ipausa.com