Intelligent Investment

# 2026 U.S. Real Estate Market Outlook

REPORT

MINNEAPOLIS/ ST. PAUL

CBRE RESEARCH
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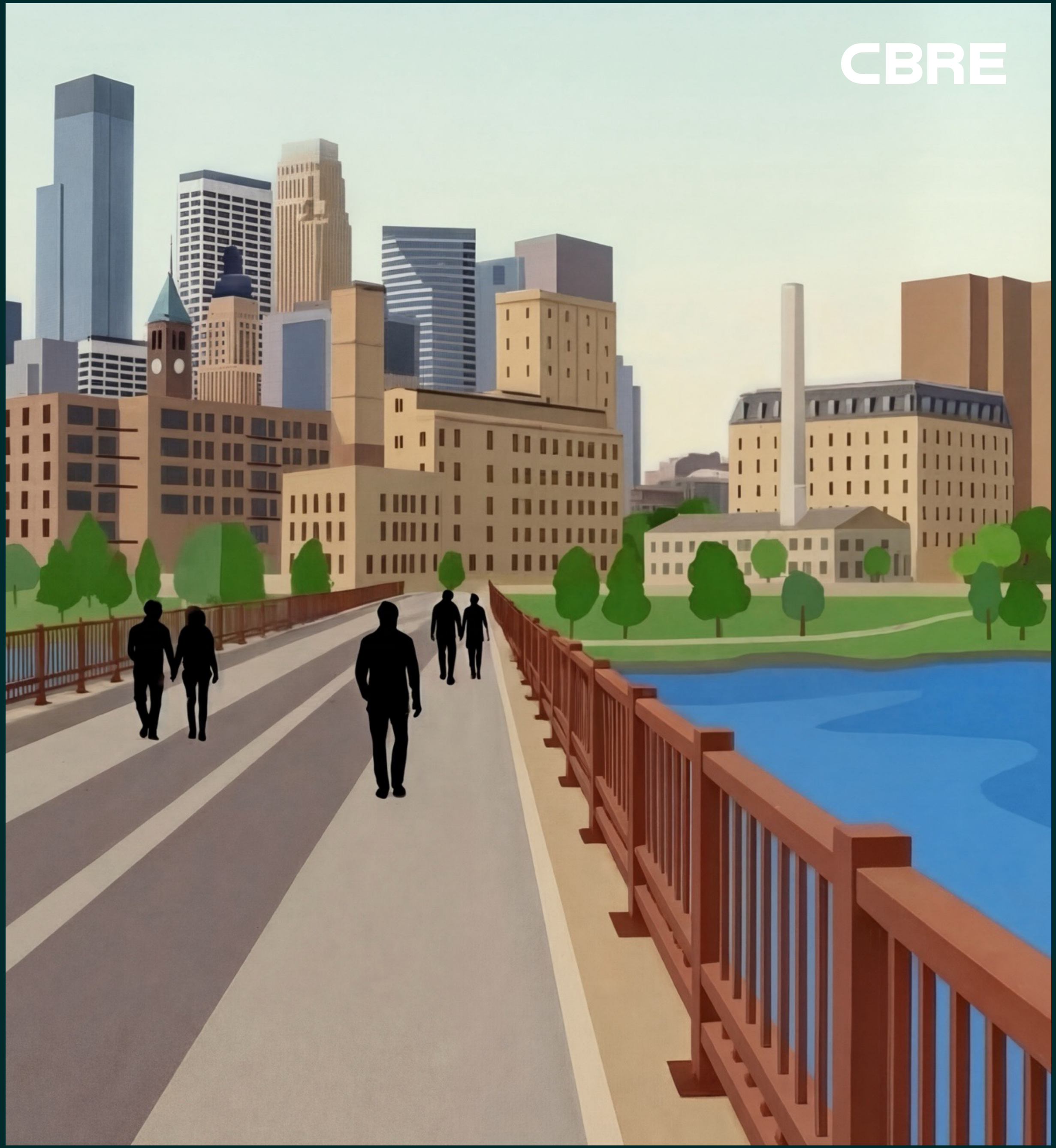

# Office Market Outlook

## 01

### INCREASED CALLS FOR RETURN-TO-OFFICE REFLECT SHIFTING WORKPLACE DYNAMICS

Minneapolis is poised for a shift driven by the increasing number of return-to-office (RTO) mandates from major corporations throughout 2025. Annual net absorption was positive for the first time in five years with vacancy stabilizing at 23.8% in 2025, down 20 basis points from its peak. Leasing volume also rebounded in 2025, with the average lease size increasing for the first time since 2020 as more occupiers are expecting to stay stable or expand their footprint. Demand continues to be driven predominantly by smaller deal sizes but with large occupier renewals in both suburban and downtown markets. In 2026, we'll continue to see companies moving towards portfolios that mix headquarters, hub offices, and on-demand flex space. This adaptability is crucial given unpredictable hiring cycles and the impact of AI on job growth.

## 02

### REDUCED OFFICE SUPPLY WILL LEAD TO TIGHTER MARKET CONDITIONS

Office market recovery will be uneven, strongly favoring modern, amenity-rich and well-located properties while posing ongoing challenges for older assets  Construction will stagnate following the completion of two suburban trophy developments that have committed flagship tenants and asking rents 50% above the market average. Overall, asking rates for Prime and Class A buildings are stable while Class B/C rents remain under pressure, having declined by 30 basis points year-over-year. Underperforming assets will require amenity enhancements to compete for demand or owners will explore conversion alternatives. In market, 10% of total inventory and 18% of downtown buildings have a vacancy rate of 50% or greater, increasing their viability for creative reuse or redevelopment. Compared nationally, Minneapolis anticipates a high volume of conversion activity, with three million sq. ft. in redevelopment projects underway and an additional 2.1 million sq. ft. from planned projects.

## 03

### DOWNTOWN OFFICE SALES PRESENT INVESTMENT OPPORTUNITIES & PORTFOLIO DIVERSIFICATION

The Minneapolis office market presents a distinct investment profile compared to major gateway markets, offering both unique challenges and opportunities for portfolio diversification in 2026. While gateway cities are showing early signs of recovery, often driven by a "flight to quality" and burgeoning tech/AI demand, Minneapolis is characterized by a more pronounced bifurcation and a revaluation of its office stock. The trend of distressed sales, particularly for older Class B and C properties, will continue to create opportunities for new owners to acquire assets at historically low prices, fostering redevelopment and repositioning initiatives. The top office sales continue to signal investors' interest in these market opportunities, with notable downtown transactions this year at the Northwestern National Life Building, Washington Square, and the Ameriprise Financial Center.

# Key Takeaways

### FOR OWNERS

- While return to office policies are becoming more common, strict enforcement is necessary to bolster office utilization. We'll continue to see large market employers mixing headquarters, hub offices, and on-demand flex space.
- Well-capitalized landlords across the Minneapolis/St. Paul market should expect increased demand, while prime buildings in suburban markets are in the unique position to push rents, seeing growth from the market's trough.
- Creating "spec" spaces and amenity enhancements will increase appeal as tenants have a strong preference for built spaces and low capital outlays amid high construction costs.

### FOR TENANTS

- There are opportunities for tenants to execute long term-leases at low net effective rates in strategic markets. Landlords have largely avoided reducing face rental rates; however, concession packages remain high.
- Softness in demand is being offset by rising transaction cost, resulting in net effective rents holding steady, if not going up for competitive space.
- More competition will exist in the market as requirements for space remain robust amid diminished supply and dwindling sublease market.
- Distressed building trades should allow for a reset in Landlord basis, uncovering opportunities for tenants.

# Industrial & Logistics Market Outlook

## 01

### SMALL TO MID-SIZED LEASING DEMAND REMAINS STEADY AND DIVERSIFIED

Minnesota's diverse economy, strong corporate presence, and skilled workforce are expected to maintain steady demand, particularly for modern facilities and specific industry hub submarkets like the Northwest. Major tenant commitments and expansions by manufacturing, 3PL, med-tech, and food/agriculture sectors are expected to continue driving demand for customized spaces. Demand for spaces in the 50-100k sq. ft. size segment will bolster market activity, with leases under 100k sq. ft. averaging 57% of market volume since 2018. Renewals will continue to represent nearly a third of all leasing activity and new leasing trends will reflect tenants upgrading into the available first-generation facilities or outsource distribution to third-party distribution providers.

## 02

### BASE RENT GROWTH TO STABILIZE FROM PEAK HIGHS

The market is anticipated to continue experiencing strong demand, though rent dynamics will be more nuanced than in recent years. Historically, the market has seen an average year-over-year rent growth of 4% since 2015, accelerating to 8.8% annually between 2022 and 2024. This rapid acceleration, however, slowed in 2025 signaling the market's oversupply dynamics. According to CBRE's Econometrics Advisors (EA), market rent growth will stabilize at 2.2% in 2026. Escalations will remain historically high in the market, with 41% of leases signed last year achieving a 4% or greater escalation rate. While the market is traditionally more insulated from geopolitical volatility, future rental rate growth will likely be less uniform and depend increasingly on specific property characteristic and tailored industrial solutions.

## 03

### MINIMAL SPECULATIVE DEVELOPMENT SUPPLEMENTED BY BUILD-TO-SUIT (BTS) PIPELINE

Construction volume decreased nearly 70% from its peak in 2023, with deliveries in 2026 to represent a significant shift from speculative to BTS development. The volume of speculative development will be cut in half relative to last year but the increase in BTS preleasing will keep the overall volume consistent with the last two years. This trend aligns with a broader market sentiment where developers are becoming more cautious due to challenging financing environments and the rebalancing of supply and demand after a period of high speculative growth. Vacancy, which reached 3.9% in 2025, will stabilize in 2026 as modern bulk product continues to fill vacant first-generation space. The rate of positive net absorption will slow comparative to the market's peak growth years but will be supplemented by the 1M sq. ft. of BTS deliveries anticipated in H1 2026.

# Key Takeaways

### FOR OWNERS

- Due to limited speculative supply and consistent demand for first-generation space, assets with modern and customized facilities can push higher rents and older assets will continue to face downward pressure.
- New construction volume will be reduced by 70% for the third consecutive year. The notable pivot next year away from speculative development highlights the market's strategic response to economic conditions and sustained user demand for tailored industrial solutions.
- Despite macroeconomic headwinds, continued capital confidence in the industrial sector, particularly for assets with strong tenant credit and long-term leases, is anticipated.

### FOR TENANTS

- Tenants looking to upgrade from older, first-generation spaces will find opportunities now, but easing supply pressure will continue driving competition for modern bulk product in the mid-sized segments.
- The rapid acceleration in rent growth has moderated, presenting more favorable lease conditions. Competitively high rental rates are dependent on specific property characteristics like location, size, and building vintage, emphasizing the importance of site selection.

# Market Outlook

## 01

### RETAIL: MARKET STABILITY FUELED BY MIXED-USE AND SUBURBAN CORRIDORS

Minneapolis' retail market hit a record low availability rate in 2024 and saw that stabilize in 2025, especially among power centers where big-box closures have added back space. Construction volume has slowed against financing constraints and elevated buildout costs will push tenants to pursue fewer, high performing sites. Annual visits to downtown have climbed past pre-pandemic averages against a low day-time employment population. Mixed-use areas supporting density for live/work/play environments in the North Loop corridor continue to see category leaders like Flight Club and Puttshack drawing shoppers and additional retail presence. High traffic suburban corridors that will see accelerated growth are those with strong grocery-anchored centers, high performing malls, and neighborhood & strip centers bolstered by activity from value and service-oriented tenants. Overall, market asking rents are projected to nominally increase next year, with an expected rise of 1.4% in 2026.

## 02

### MULTIFAMILY: SUSTAINED DEMAND WITH SLOWING SUPPLY PRESSURE

The Minneapolis multifamily market is poised for a period of low new supply coinciding with enduring demand drivers. Driving the sustained demand for multifamily housing is a resilient labor market, with job growth forecast to slow but still increase in the number of workers through year-end 2026, and exceptional affordability, consistently ranking as a top city nationally based on the market's competitively low rent-to-income ratio. The market still saw strong rent growth in 2025 at 3.1%. EA forecasts that rate to moderate in 2026 with an expected 2.2% growth. While central business districts may face continued headwinds, the broader market, particularly the suburbs, is expected to see vacancies compress and continued rent growth acceleration. Minneapolis will continue to be positioned as a low-risk, high-potential investment landscape within the multifamily sector.

## 03

### DATA CENTERS: DEVELOPMENT ACTIVITY DRIVEN BY HYPERSCALE USERS

Minneapolis is emerging as a significant data center hub in the Midwest, evolving from a market with smaller colocation facilities to one attracting major players for large-scale developments. This growth is driven by several factors, including favorable weather conditions, a dependable power supply, and access to renewable energy sources. However, permitting hurdles and environmental regulations may increase costs or slow timelines. The market is historically colocation driven, with 12MW available for enterprise tenants. New hyperscale focused projects position Minneapolis to increase their capacity by a large magnitude with at least 11 large-scale data centers currently proposed across the state. Market vacancy will remain tight into 2026, having reached a historic low of 11% in H1 2025.

# Key Takeaways

### RETAIL

- Availability rates to stabilize against low construction volume and big-box closures.
- Downtown visitors fueling demand for service-oriented tenants in highly mixed-use corridors like the North Loop.
- High traffic suburban corridors will see continued growth are those with grocery-anchored centers, high performing malls, and strip centers with value and service-oriented tenants.

### MULTIFAMILY

- Demand drivers are sustained by Minnesota's resilient labor market and affordability, consistently ranking as a top city for its rent-to-income ratios.
- Supply pressures will ease, helping suburban corridors to whittle vacancy and boost rents

### DATA CENTERS

- Market vacancy will remain tight into 2026, having reached a historic low of 11% in H1 2025 with 12MW available for enterprise tenants.
- There are 11 large-scale data centers currently proposed across the state, with development activity driven predominantly by hyperscale users.

# Contacts

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