Intelligent Investment

2026 U.S. Real Estate Market Outlook Midyear Review

REPORT

MINNEAPOLIS

CBRE RESEARCH
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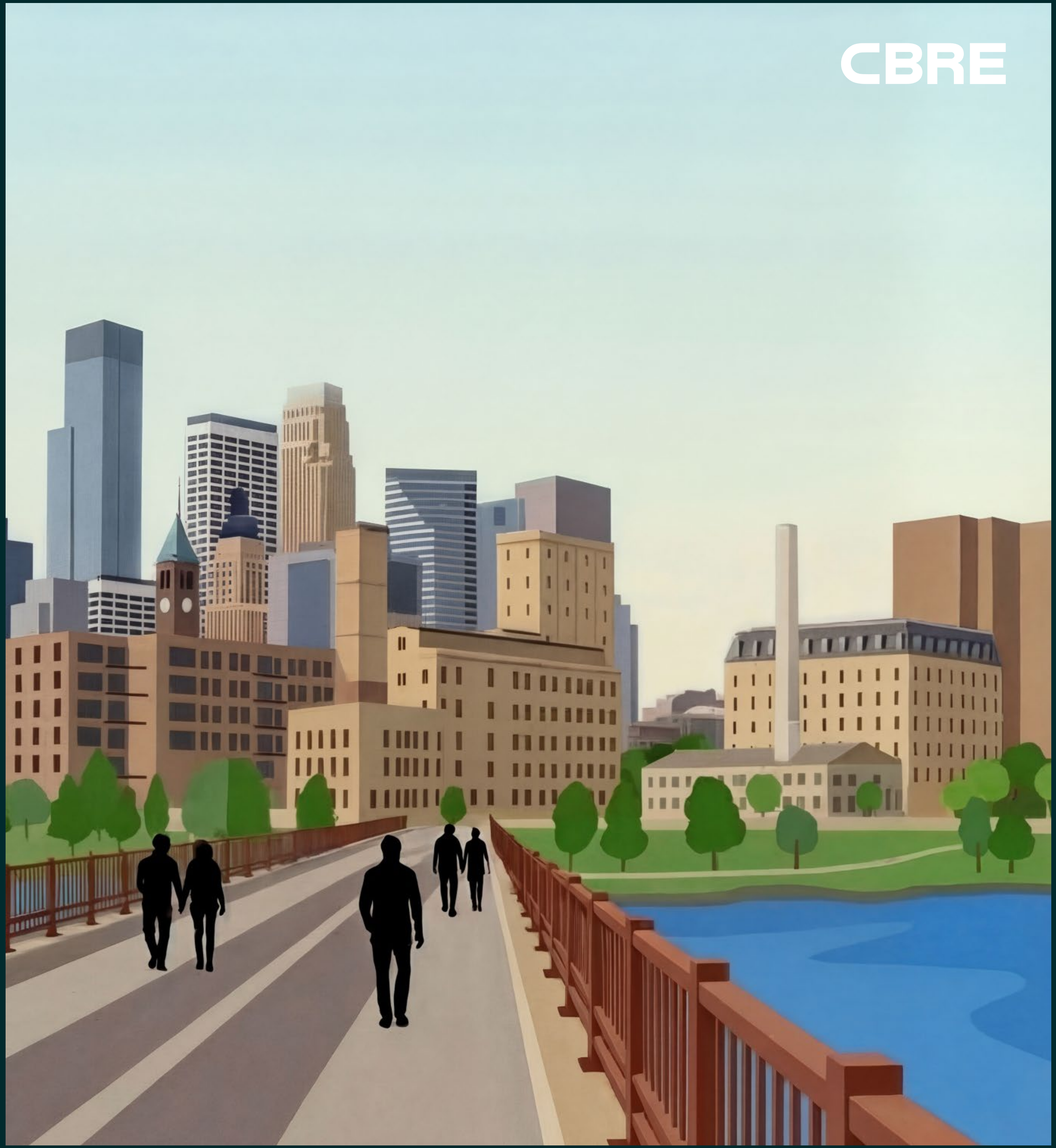

Office Market Outlook

01

Leasing momentum is building in core submarkets, with active requirements from technology, law, and state agencies expected to drive H2 activity.

Leasing momentum across core submarkets is poised to accelerate into H2 2026, underpinned by a concentration of demand in the Minneapolis CBD and 494 corridors, which together accounted for 53% of total market leasing volume. Average lease sizes on new deals have grown 22% year-over-year, with the CBD and North Loop commanding the largest average transaction size. Downtown Class A leasing increased 11.4% and made up a significantly higher proportion of leasing volume in H1 2026 compared with the previous year, as flight to quality momentum reduces downtown Prime and Class A available supply. Active requirements from government agencies, technology, law, and accounting firms are expected to sustain this trajectory through year-end, with large renewals providing an additional layer of near-term pipeline visibility.

02

Limited new construction and an accelerating conversion pipeline are moderating effective supply, concentrating risk in a narrow subset of underperforming assets.

While the market still has substantial vacancy to work through, growing leasing momentum sets the stage for an improved vacancy picture in H2 2026. Availability has already fallen through H1 2026, even as headline vacancy rose. Office construction remains limited, with just 338,000 sq. ft. underway across three suburban projects at a 61.5% prelease rate. With a handful of CBD assets over 50% vacant, the high vacancy rate reflects building-specific distress rather than broad submarket weakness. Minneapolis is on track to remain a top conversion market nationally, with 15 properties and 2.7 million sq. ft. currently tracked as anticipated conversions to multifamily, industrial, and mixed-use. As distressed buildings exit the inventory and prime downtown space tightens, overall market vacancy is expected to moderate through 2026 and into 2027.

03

Class A rents are growing as prime space commands a significant premium, with investment activity showing early signs of recovery.

Rents have grown just 1.0% in H1 2026, about 60 bps behind the national growth rate. CBRE EA forecast rents stagnating in H2, with just 0.3% growth. However, focusing only on the higher end of the market shows Class A rents averaging 3% year-over-year growth, with prime office and new construction commanding a 32% premium over non-prime Class A rates, an outsized prime rent gap compared to the national average, which CBRE's U.S. outlook shows is at its widest since 2018 nationally. Rent growth is expected to continue favoring Class A and prime assets as available inventory tightens

Key Takeaways

For Owners

— Owners of prime and well-located Class A assets can expect continued rent growth and strong tenant interest through H2, as demand from technology, law, and accounting firms remains active. For owners of commodity or underperforming assets, conversion to alternative uses represents an increasingly viable exit path. Minneapolis is a leading conversion market nationally. Investors should note that repricing is creating opportunities for acquisitions at discounted valuations, particularly for assets with conversion or repositioning potential.

For Tenants

— The high overall headline vacancy masks a tightening of prime and Class A inventory in the CBD, North Loop, and 494 corridor. Tenants seeking top-tier space should plan early and expect to pay a premium, as availability in desirable areas continues to compress. Those considering Class B may find more negotiating leverage.

Industrial Market Outlook

01

Large-footprint deal activity is accelerating, and active requirements have reached a record high, supporting a strong leasing outlook through year-end.

Minneapolis' industrial fundamentals softened in the first half of the year, driven by sustained flight-to-quality trends, as new construction was delivered fully leased in H1 2026. Requirements of over 100,000 sq. ft. are driving strong demand this year, with an increase of 33% in requirements of this size from H2 2025. As a result of the slower leasing volume in 2025, H1 2026 absorption volume was 81% below the previous year with vacancy, still below the national average, rising to 4.4%. Market conditions are expected to improve in H2, as active user requirements reached a record high of 15 million sq. ft in Q2 2026. Manufacturing, wholesale, and automotive users represent the most active industries transacting into the year-end.

02

Speculative development is recovering but remains disciplined, with all H1 spec deliveries arriving fully leased and new groundbreakings picking up into H2.

Total deliveries in 2026 are projected at 3.4 million sq. ft., a 4% increase from the prior year. While new deliveries may be on an upswing, the rate of growth is projected to be below trend for the U.S. overall, putting Minneapolis among the slowest growth markets, with just 0.9% inventory growth for the year. While speculative development, which is approximately 50% of annual volume, is up nearly 17% year-over-year, it remains well below the market's 2023 peak. All speculative product delivered in H1 was fully leased on delivery, underscoring sustained tenant preference for modern product and tight conditions for new supply. This dynamic is expected to support continued speculative development through H2 to supplement the size segments falling behind demand while keeping overall market conditions tight.

03

Minneapolis is projected to lead tier-1 markets in industrial rent growth, as strong demand, disciplined supply, and elevated escalation rates reinforce pricing power.

CBRE EA's baseline forecasts industrial economic rent growth of 5-6% per year through 2027, the strongest among Tier-1 markets and roughly double the national pace. Modern product commands an 11% rent premium over older product and annual escalation rates remain elevated: 42% of leases signed in H1 2026 included escalations of 4% or greater, up by 3% year-over-year. Minneapolis ranked as a top market nationally for owner-user sale activity in H1 2026, a trend expected to continue as occupiers seek to lock in costs ahead of further rent increases.

Key Takeaways

For Owners

— Minneapolis is positioned to lead Tier-1 industrial markets in rent growth through 2027, creating a strong environment for pushing rates and reducing concessions, particularly for modern product. Owners of older buildings should be aware of the growing premium gap with new construction; repositioning may be worth evaluating. For investors, the combination of record leasing demand, disciplined supply, and market-leading rent growth makes Minneapolis industrial a compelling target, particularly for well-located modern assets.

For Tenants

— Record active requirements and accelerating large-block deal activity mean the window to lease quality space is narrowing. Tenants with large requirements or preferences for modern product should engage early, as speculative deliveries are being absorbed on arrival. Those approaching renewals should expect higher costs, nearly half of H1 leases carried annual escalations of 4% or greater, and rents are forecast to grow at a market-leading pace through 2027. Owner-user acquisitions may offer a viable cost hedge for qualified occupiers.

Retail Market Outlook

01

Grocery, value, and service-oriented tenants continue to drive leasing in high-traffic suburban corridors, supporting stable occupancy fundamentals.

Leasing activity in H1 2026 was concentrated in high-traffic suburban corridors, led by grocery, value, and service-oriented users. Annual net absorption is forecasted at 382,000 sq. ft. for 2026, indicating that demand continues to outpace supply. This demand profile is expected to remain intact through H2, with necessity-driven and service-oriented tenants continuing to anchor activity in Minneapolis' strongest suburban trade areas.

02

Availability remains near historic lows, with new supply constrained and demand expected to outpace deliveries through year-end.

Availability edged up just 20 bps year-over-year but at 3.7%, the level remains well below levels seen in most Tier-1 markets. Supply additions were negligible in H1, and though a modest uptick is expected in H2, the overall availability rate is expected to decline 20 bps. With demand expected to outpace new supply through year-end, the overall occupancy environment is expected to remain favorable for landlords. Growth is concentrated in high-traffic suburban corridors, where limited new construction and strong tenant demand are supporting stable-to-improving occupancy across grocery-anchored and service-oriented formats.

03

Rent growth forecasts revised upward, and investment sales volume reached a multi-year high in H1, reflecting growing investor confidence in Minneapolis retail.

CBRE EA has revised retail economic rent growth forecasts upward to 2.9% over the next four quarters, reflecting improving fundamentals and compares favorably to the national retail rent growth trajectory. H1 2026 investment sales volume reached a three-year high, led by major suburban shopping center transactions including the Veriton portfolio, Silver Lake Village, and The Village at Arbor Lakes. These transactions signal strong investor confidence and growing capital interest in Minneapolis retail, with suburban shopping centers expected to remain the highlight of investment activity through year-end. The combination of near-historic-low availability and upward revision in forecasts distinguishes Minneapolis from peer markets where retail fundamentals remain more mixed.

Key Takeaways

For Owners

— With demand outpacing supply and rent growth revised upward, owners of well-located suburban retail assets are in a strong position through year-end. H1 2026 investment sales volume reached a three-year high, led by major suburban shopping center transactions, and this momentum is expected to carry into H2. For investors, grocery-anchored and service-oriented retail in Minneapolis' top suburban corridors offers a compelling combination of stable occupancy, upward rent revision, and strong transaction liquidity.

For Tenants

— Availability near historic lows leaves limited room for negotiation in high-demand suburban corridors. Tenants planning expansions in grocery-anchored or service-oriented formats should act early, as quality options are being absorbed. Expect continued increases in base rents as CBRE EA's revised rent growth forecast takes effect, with the strongest rent pressure in high-traffic suburban corridors where demand is most concentrated.

Multifamily Market Outlook

01

Positive net domestic migration and a rapidly growing downtown population are sustaining strong renter demand across the metro.

The Minneapolis CBD was recently named one of the fastest-growing neighborhoods in the US by RentCafe's June 2026 analysis of US Census Bureau data, with population growth of 3.7% year-over-year. Net domestic migration turned positive for the first time since 2019, with approximately 68,000 people relocating to the Twin Cities from out of state. These demand tailwinds are expected to support steady leasing activity and compressing vacancy through the remainder of 2026, with the strongest demand concentrated in urban and well-connected suburban submarkets.

02

The development pipeline has cooled from its recent peak, with projected stock growth well below levels that would create meaningful supply pressure.

Deliveries totaled 792 units in Q1 2026, with approximately 8,000 units under construction as of June 2026. However, the development pipeline has cooled substantially from its 2023 peak, and projected stock growth of approximately 1.2% over the next year is well below levels that would create meaningful supply pressure. This moderation in new deliveries is expected to accelerate vacancy compression and support rent appreciation through H2 2026 and into 2027.

03

Apartment rents are projected to grow at a top pace nationally, supported by population-driven demand and a cooling supply pipeline.

CBRE EA has revised apartment economic rent growth upward, with rents now projected to increase 4.7% by mid-2027, significantly outpacing the national U.S. baseline of approximately 1.4% year-over-year growth for Q4 2026. Vacancy, while modestly above the long-term average, is forecast to compress to 4.6% by mid-2027 as new supply slows and demand remains elevated. This combination of population-driven demand, disciplined supply, and upward rent revisions positions Minneapolis multifamily for a strong second half and continued outperformance heading into 2027.

Key Takeaways

For Owners

— Strong population-driven demand, a cooling pipeline, and upward rent revisions create a favorable environment for occupancy gains and rent growth through H2 2026. This may present an opportunity to reduce concessions and tighten pricing, particularly in the CBD and strong suburban submarkets. For investors, the Minneapolis multifamily market's combination of above-peer rent growth forecasts, and a slowing supply pipeline makes it one of the more compelling stories among Tier-1 markets heading into 2027.

Data Centers Market Outlook

01

Hyperscale users continue to drive land acquisition activity, with Minneapolis emerging as a significant data center market.

Hyperscale users continue to drive activity with land purchases across the greater metro area. Approximately 2,500 acres of proposed or approved data center projects have been identified across the state. Land purchase prices have reached over $100 per acre in some transactions, reflecting strong demand for sites with adequate power supply and infrastructure access. This activity is expected to continue through H2 2026, supported by growing cloud computing demand and the region's competitive cost and infrastructure profile.

02

Municipal moratoriums in multiple cities are constraining development in established areas and redirecting projects to outer suburbs.

In early 2026, city councils in Apple Valley, Minneapolis, Eagan, Inver Grove Heights, Rosemount, and the state government began considering legislation that would place a moratorium on data center construction for 6 to 12 months. Such a moratorium would constrain the near-term supply pipeline in established markets and redirect hyperscale development to outer suburban and exurban sites with fewer regulatory barriers. As a result, land availability and infrastructure investment in the greater-metro fringe are expected to increase through the remainder of 2026.

03

Growing development pressure and regulatory headwinds are reshaping site selection across the metro, with long-term demand fundamentals remaining intact.

Despite near-term regulatory friction, the long-term demand case for Minneapolis data center development remains strong. The market's competitive power costs, available land, and proximity to Tier-1 markets continue to attract hyperscale interest. Mirroring the broader national pattern, moratoriums in established municipalities are expected to accelerate site selection toward outer-metro locations, compressing the available land supply in those areas and potentially supporting further land value appreciation. Developers and investors tracking this market should monitor moratorium timelines closely, as resolution, or extension, will significantly influence near-term supply and site selection decisions.

Key Takeaways

For Owners

— The current environment is creating a bifurcated opportunity set. Established sites secured before development restrictions took effect have increased in value, while outer-metro and exurban land is attracting growing interest as new development has been redirected. For investors and developers, the combination of intact long-term demand fundamentals, constrained near-term supply, and rising land values in targeted corridors presents a compelling case for strategic land acquisition ahead of the next development cycle.

For Tenants

— Hyperscale and enterprise users actively evaluating Minneapolis for data center development should accelerate their site selection timelines in light of expanding municipal moratoriums. Available sites in established metro locations are becoming constrained, and the window for securing well-located land with near-term development potential is narrowing. Engaging municipalities early and understanding moratorium timelines will be critical to avoiding project delays.

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