Twin Cities Office Market Stabilizes Amid Elevated Vacancy

▼25.0%
Vacancy Rate

▲190,349
SF Net Absorption

▶0
SF Construction Delivered

▶337,848
SF Under Construction

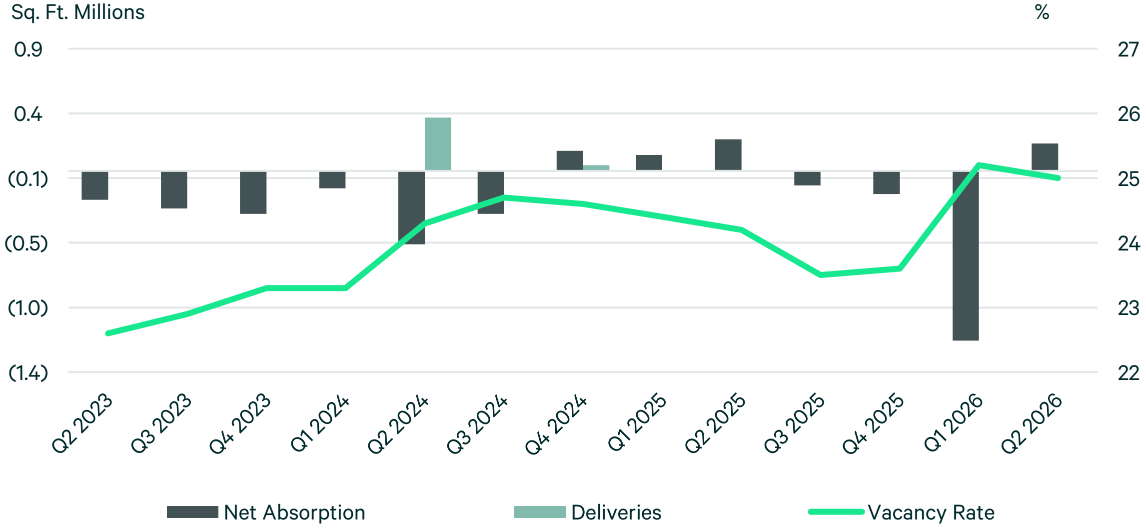
▶$29.91
FSG/YR Direct Lease Rate

Note: Arrows indicate change from previous quarter.

Market Overview

- In Q2 2026, the Minneapolis/St. Paul market remained characterized by elevated vacancy. Net absorption turned positive at 190,000 sq. ft., improving from negative 1.2 million sq. ft. in Q1 2026, while 12.3% lower year-over-year against Q2 2025's 217,000 sq. ft.
- Vacancy decreased quarter-over-quarter by 20 basis points to 25.0% Availability fell, for the second consecutive quarter, to 29.0%, down 40 bps quarter-over-quarter and 140 bps year-over-year.
- Average asking rents were stable quarter-over-quarter at $29.91, but increased 2.7% year-over-year from $29.12, showing pricing resilience despite high vacancy for both occupiers assessing occupancy costs and investors tracking income performance.
- Office construction remained stable quarter-over-quarter consisting of three projects currently underway, with an elevated prelease rate of 61.5%, a change of 17% quarter-over-quarter.
- In Q2 2026, lease transactions reached 887,000 sq. ft. , with new leasing characterized by two sizable transactions totaling 280,000 sq. ft., all concentrated in core Twin Cities submarkets.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q2 2026

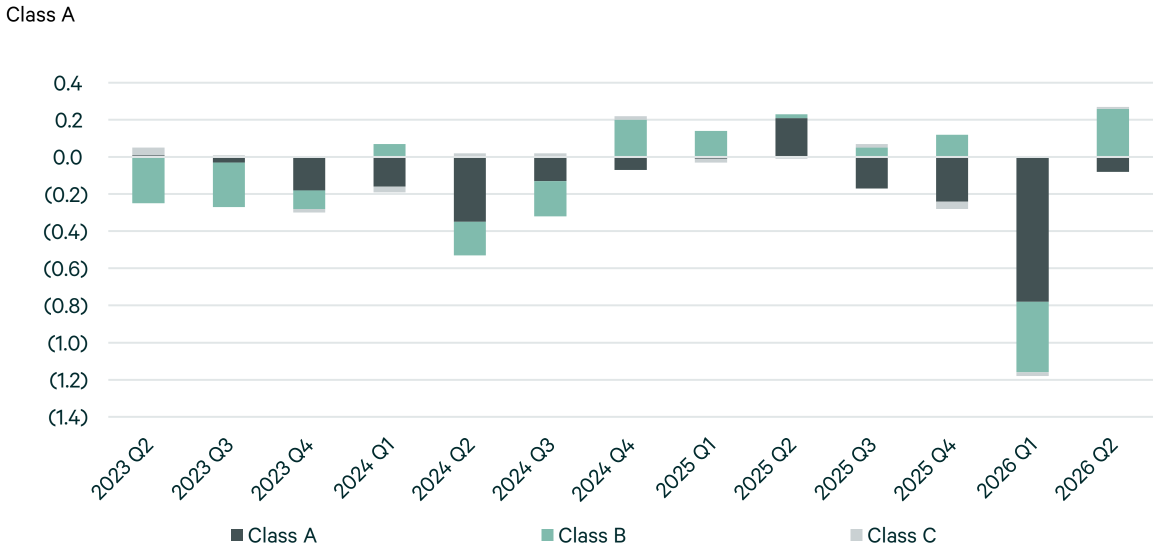
Net Absorption

In Q2 2026, Minneapolis/St. Paul recorded a total net absorption of 190,000 sq. ft., exceeding Q1 2026's negative 1.2 million sq. ft., representing an improvement of 1.4 million sq. ft. quarter-over-quarter. A 26,000 sq. ft. difference from Q2 2025's 216,000 sq. ft.

Notable moves contributing to positive absorption include the MN Department of Commerce occupying 106,000 sq. ft. in the St. Paul CBD and American Family Insurance occupying 61,000 sq. ft. in the 494 submarket.

At the submarket level, 494 posted the highest positive net absorption in Q2 2026 at 108,000 sq. ft., with the St. Paul CBD submarket close behind at 93,000 sq. ft. Conversely BEA recorded the largest negative net absorption at (37,000) sq. ft., followed by Minneapolis CBD at (36,000) sq. ft.

Figure 2: Net Absorption Trend



Source: CBRE Research, Q2 2026

Construction Activity

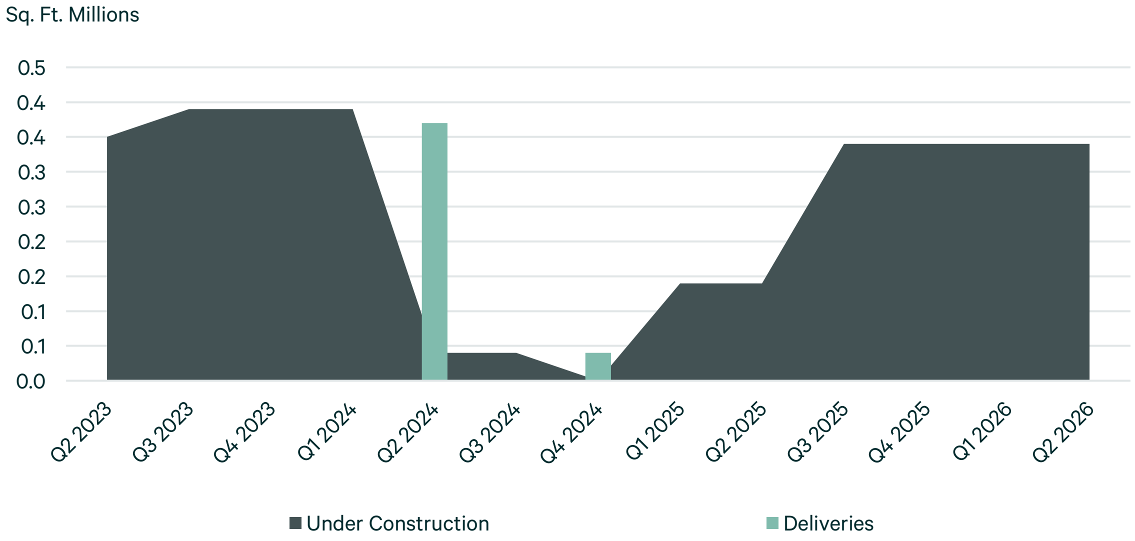
Under construction office space stood at 338,000 sq. ft. in Q2 2026, with no construction deliveries recorded in this quarter. The pipeline was unchanged quarter-over-quarter, but increased 144.9% year-over-year from 138,000 sq. ft.

Previous construction completions were concentrated in 2024, when 372,000 sq. ft. delivered in Q2 2024 and 36,000 sq. ft. in Q4 2024, totaling 408,000 sq. ft., with no deliveries since.

Q2 2026 construction is focused in two submarkets; 494, with 253,000 sq. ft. under construction across The Craftsman and Arcadia. Midway contributing 85,000 sq. ft. underway at United Village – Treehouse.

Pre-leasing stands at 61.5%, with 494's Arcadia and The Craftsman contributing 173,000 sq. ft. leased and Midway with 36,000 sq. ft. leased. The Craftsman and Treehouse at United Village are expected to be delivered in Q3 2026. Arcadia, located in Edina, is planned for a Q1 2027 delivery.

Figure 3: Construction Activity



Source: CBRE Research, Q2 2026

Availability & Vacancy

In Q2 2026, overall vacancy stood at 25.0% for the Minneapolis/St. Paul market, a decrease of 20 bps quarter-over-quarter. Class A recorded 25.8% and 24.4% for Class B. Quarter-over-quarter, vacancy for Class A increased by 20 basis points, while Class B decreased by 70 basis points. Year-over-year, Class A vacancy was up 290 bps, and Class B was down 150 bps.

Suburban submarkets led with lower vacancies; Northeast posted the lowest overall vacancy at 10.2%, corresponding to 278,000 sq. ft. of total vacancy, followed by Midway at 11.0% and 310,000 sq. ft. Minneapolis CBD recorded the highest overall vacancy at 33.6%, with 7.6 million sq. ft. of total space available, while St. Paul CBD recorded 31.8% and 1.8 million sq. ft.

Sublease availability is largely stable quarter-over-quarter, at 1.8 million sq. ft., reflecting a rate of 2.4%. Class A office properties make up 1.2 million, about 66.7% of total sublease availability. The 394 submarket post the highest sublease availability at over 500,000 sq. ft. in Q2 2026.

Total availabilities in the Minneapolis/St. Paul market decreased for the second consecutive quarter, stabilizing at 29.0%.

Figure 4: Vacancy Rates by Class

Source: CBRE Research, Q2 2026

Asking Rent

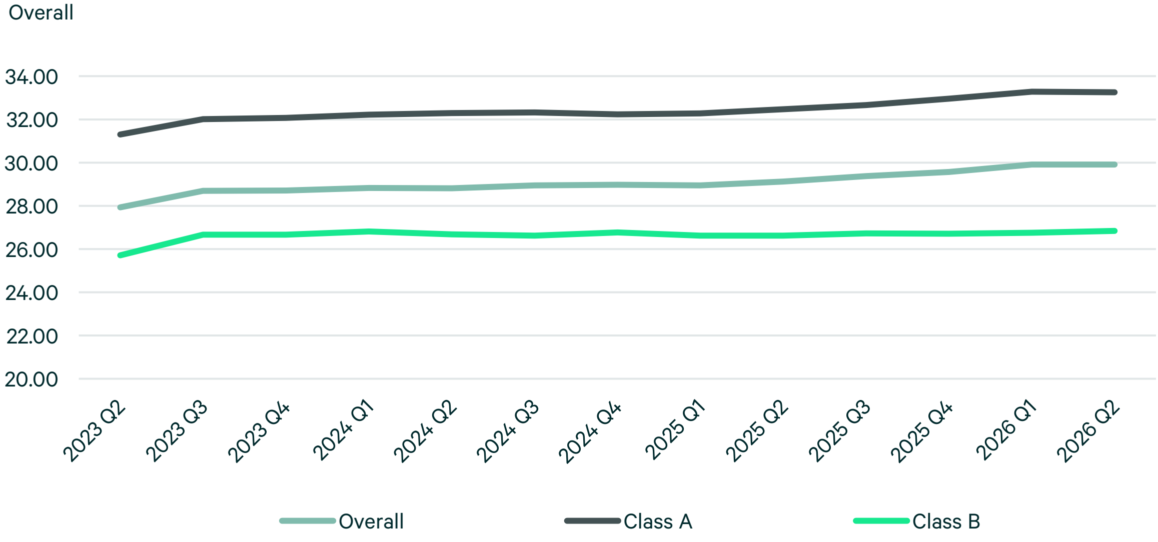
As of Q2 2026, the overall average asking rent is $29.91 per sq. ft., with Class A space priced at $33.25 per sq. ft. Overall rents were unchanged quarter-over-quarter from Q1 2026 and increased 2.7% year-over-year from $29.12 per sq. ft. in Q2 2025; Class A rents dipped 0.1% quarter-over-quarter from $33.28 per sq. ft. but rose 2.4% year-over-year from $32.47 per sq. ft.

Over the past three years, overall asking rents increased 7.1%, from $27.93 to $29.91 per sq. ft., Class A rates climbed 6.2%, from $31.30 to $33.25 per sq. ft., consistently maintaining a premium of roughly $3.30 per sq. ft., above the market average.

Across submarkets in Q2 2026, 494 and Minneapolis CBD command the highest average asking rents, at $30.80 and $32.61 per sq. ft., respectively. Midway and Northwest post the lowest averages at $23.12 and $22.76 per sq. ft.

Suburban asking rates have increased 3.0% year-over-year. Downtown asking rates have seen three consecutive quarters of growth, and a 2.3% increase from Q1 2025.

Figure 5: Average Direct Asking Rate by Class



Source: CBRE Research, Q2 2026

Leasing Activity

In Q2 2026, total leasing activity reached 887,000 sq. ft., including leases greater than 10,000 sq. ft., bringing the year-to-date total to nearly 1.5 million sq. ft.

Class A accounted for 623,000 sq. ft. and Class B for 196,000 sq. ft. Total activity represents a 48.3% increase quarter-over-quarter from 598,000 sq. ft. in Q1 2026, driven by 52.0% rise in Class A leasing. Year-over-year, Q2 2026 leasing expanded by 42.6% from 622,000 sq. ft. in Q2 2025, as Class A transactions grew 41.3% and Class B increased by 26.6%.

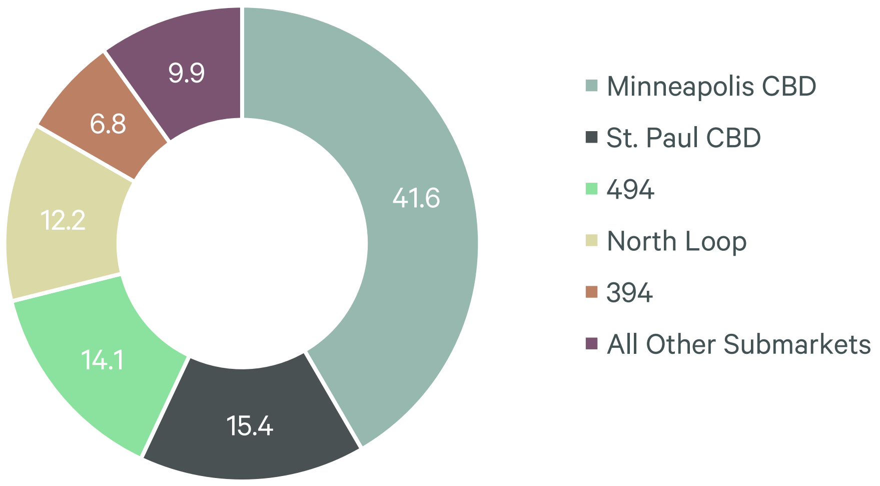
Of Q2 lease volume, inclusive of all lease sizes, 44% were in the mid-size range (between 10,000 and 50,000 sq. ft.). Leases under 10,000 sq. ft. accounted for 80% of the number of deals completed. The Minneapolis CBD submarket recorded the highest leasing activity in Q2 2026 at 422,000 sq. ft., followed by 494 with 248,000 sq. ft.

Q2 2026 recorded an average lease size (inclusive of all lease sizes) at 7,800 sq. ft., the highest since Q1 2024. New leases accounted for 67% of all transactions.

Figure 6: Leasing Activity Trend

Source: CBRE Research, Q2 2026, including lease transactions over 10,000 sq. ft.

Figure 7: Leasing by Submarket (% of Total Activity)



Source: CBRE Research, Q2 2026, including lease transactions over 10,000 sq. ft.

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Faegre Drinker Biddle & Reath	175,000	Renewal	90 S 7th St	Minneapolis CBD
Minnesota Department of Commerce	106,000	New Lease	85 E 7th Pl	St. Paul CBD
Stagwell	52,000	New Lease	250 N 3rd Ave	North Loop
Cozen O'Conner	46,000	New Lease	90 S 7th St	Minneapolis CBD
Fish & Richardson P.C	33,000	Renewal	60 S 6th St	Minneapolis CBD
JE Dunn Construction Company	31,000	New Lease	241 5th Ave N	North Loop
Regus	31,000	New Lease	333 S 7th St	Minneapolis CBD
UBS Financial	29,000	New Lease	5115 Arcadia Ave	494

Source: CBRE Research, Q2 2026

Market Statistics by Class

Figure 9: Metro Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	37.93M	25.8	30.6	27.4	3.2	33.25	(82,000)	(858,000)	-	338,000
Class B	30.58M	24.4	28.8	27.3	1.4	26.84	264,000	(115,000)	-	-
Class C	6.82M	23.2	21.8	19.3	2.5	21.72	9,000	(12,000)	-	-
Total	**75.33M**	**25.0**	**29.0**	**26.6**	**2.4**	**29.91**	**190,000**	**(985,000)**	**-**	**338,000**

Source: CBRE Research, Q2 2026

Market Statistics

Figure 10: Suburban Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	19.80M	20.6	25.2	21.7	3.5	32.46	(21,000)	(16,000)	-	338,000
Class B	19.03M	17.8	21.9	20.4	1.5	26.70	133,000	(250,000)	-	-
Class C	3.84M	23.1	19.3	17.6	1.7	19.64	10,000	(27,000)	-	-
Total	**42.68M**	**19.6**	**23.2**	**20.7**	**2.5**	**29.02**	**121,000**	**(294,000)**	**-**	**338,000**

Source: CBRE Research, Q2 2026

Figure 11: Urban Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	18.13M	31.5	36.5	33.6	2.9	33.78	(61,000)	(842,000)	-	-
Class B	11.54M	35.3	40.1	38.8	1.3	26.95	131,000	135,000	-	-
Class C	2.98M	23.5	25.0	21.5	3.5	24.00	(1,000)	15,000	-	-
Total	**32.65M**	**32.1**	**36.7**	**34.3**	**2.4**	**30.57**	**69,000**	**(692,000)**	**-**	**-**

Source: CBRE Research, Q2 2026

Market Statistics by Submarket

Figure 12

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate	Class A Asking Rent ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
394	11.95M	20.2	24.7	20.5	4.2	29.80	33.77	27,000	(231,000)	-	-
494	16.31M	23.6	28.4	26.0	2.4	30.80	33.96	108,000	(89,000)	-	253,000
BEA	3.28M	14.3	16.5	15.3	1.2	26.52	27.59	(37,000)	(31,000)	-	-
Midway	2.82M	11.0	14.7	14.5	0.2	23.12	21.21	6,000	11,000	-	85,000
Minneapolis CBD	22.64M	33.6	37.5	35.7	1.8	32.31	34.72	(36,000)	(839,000)	-	-
North Loop	4.45M	24.9	29.4	23.8	5.7	30.60	39.32	12,000	20,000	-	-
Northeast	2.73M	10.2	13.8	11.8	2.0	26.27	31.52	(6,000)	24,000	-	-
Northwest	1.37M	25.4	27.0	26.5	0.4	22.76	25.50	(26,000)	(22,000)	-	-
St. Paul CBD	5.56M	31.8	39.5	37.2	2.2	23.82	26.47	93,000	128,000	-	-
Suburban St. Paul	4.21M	16.3	14.1	12.9	1.2	23.17	25.15	50,000	45,000	-	-
Total	**75.33M**	**25.0**	**29.0**	**26.6**	**2.4**	**29.91**	**33.25**	**190,000**	**(985,000)**	**-**	**338,000**

Source: CBRE Research, Q2 2026

Economic Overview

The U.S. economy enters mid-2026 navigating crosscurrents but growing at a healthy pace, with CBRE projecting GDP growth averaging 2.2%, broadly in line with 2025. The AI investment boom is certainly a key driver of this expansion. Concerns surrounding the sustainability of this growth are valid, but we expect AI-related business investment to continue.

The more pressing concern in recent months has been the U.S./Iran conflict and its impact on world energy prices, which recently pushed U.S. inflation to 4.2%. Should the prospective peace deal announced in June come to fruition, inflation would fall to the upper 3% range by year-end as energy prices slowly decrease. Stickier inflation has pushed Treasury yields well above 4%, complicating real estate markets. On the upside, the prospect for peace and normal trade flows in the Persian Gulf could refresh the optimism the CRE market felt at the beginning of the year.

Minneapolis/St. Paul Employment Update

▼ 3.8%
Unemployment Rate

▶ 2.1M
Labor Force

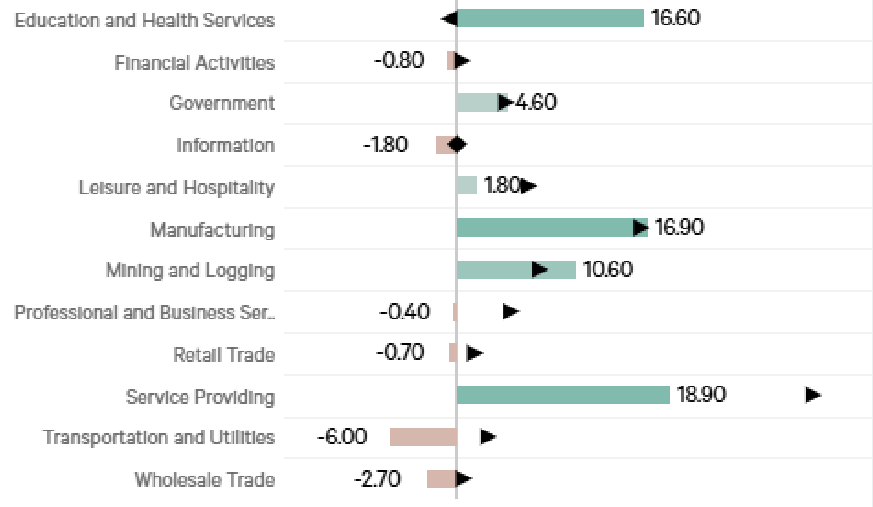
▼ 446.7k
Office Using Jobs

▼ 528.1k
Industrial Using Jobs

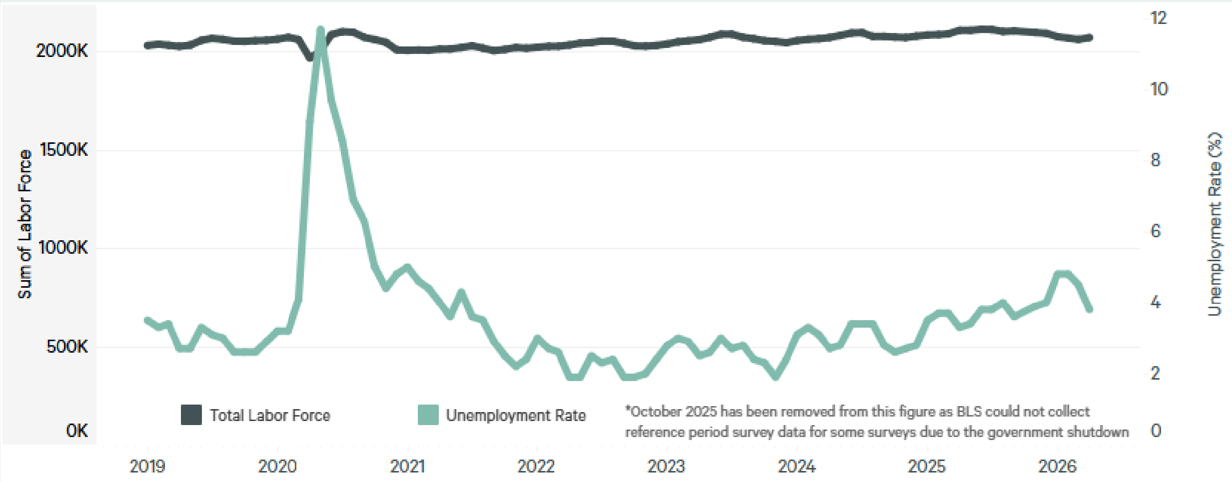
▼ 251.5k
Retail Using Jobs

Employment Change by Sector – Yearly + Monthly

Bars indicate yearly trend, arrows indicate monthly trend

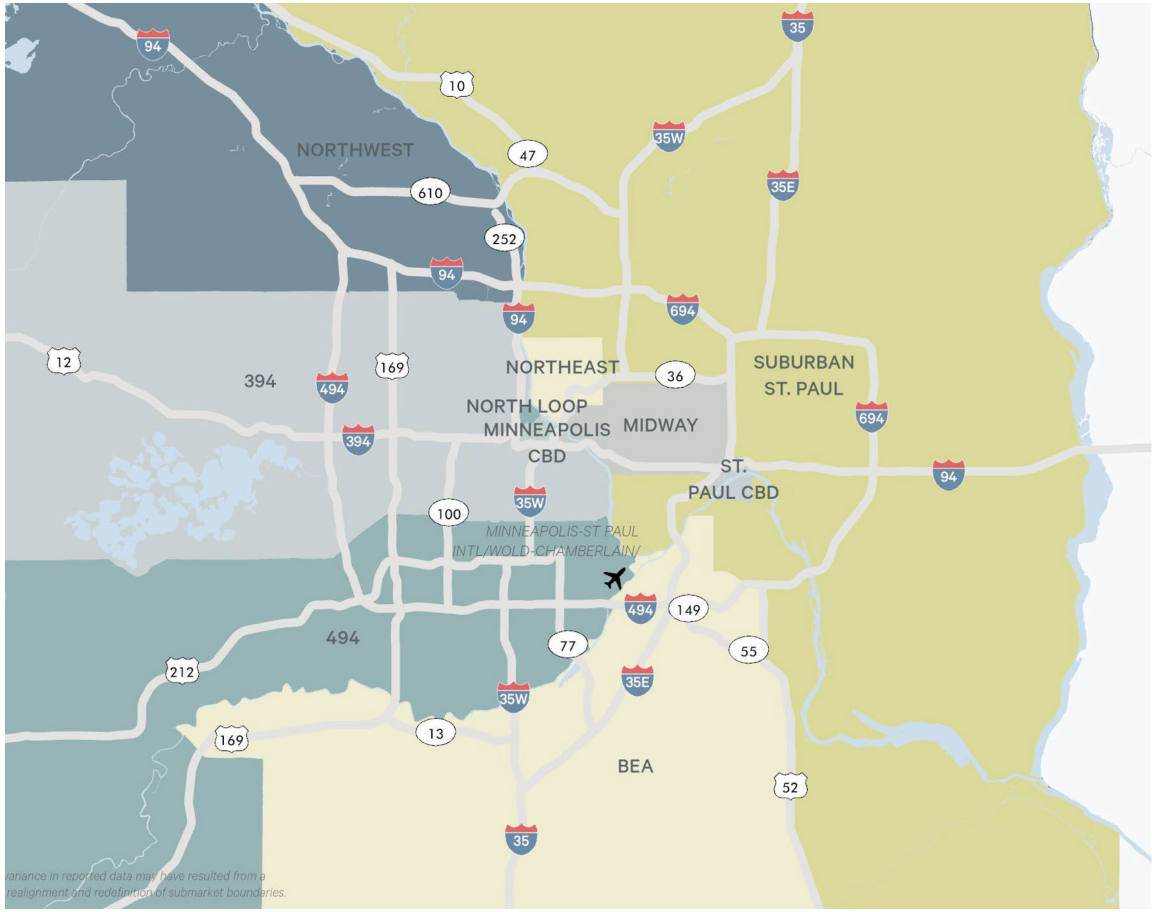


Minneapolis/St. Paul Unemployment Rate and Labor Force Trends



Source: US BLS, April 2026

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant.
Availability Rate: Total Available Sq. Ft. divided by the total building Area.
Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage.
Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building.
Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions.
Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance.
Net Absorption: The change in Occupied Sq. Ft. from one period to the next.
Net Lease Rate: Rent excludes one or more of the ”net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate.
Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area.
Vacant Sq. Ft.: Space that can be occupied within 30 days.
Class A industrial are buildings built after 2000, with 32’ or greater clear height and ESFR sprinklers.

Contacts

Maggie Parra
Research Manager
maggie.parra@cbre.com

Abby Knop
Research Analyst
abigail.knop@cbre.com

Marissa Oberlander
Research Director
marissa.oberlander@cbre.com

CBRE