Market Research

OFFICE | SECOND QUARTER | 2009

MARKET INDICATORS

	Q2 09 Actual	Q3 09 Estimated
VACANCY RATE	↗	→
NET ABSORPTION	↘	→
CONSTRUCTION	→	→
RENTAL RATE	→	↘

SIGNIFICANT TRANSACTION

Plymouth Corporate Center
Plymouth, MN
Tenant: Comm-Works
Landlord: Carlson Real Estate Company
Size: 66,000 SF

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Commercial Real Estate Services

Economics 101

Office using jobs continue to decline. The May Twin Cities employment figures show office using employment down to 420,300 jobs. This is a 7% decline from the 453,100 job peak in April of 2008. The last time the level of office jobs dipped below 420,000 was in September 1998. Current figures show almost 11 years worth of job growth wiped out. These jobs will need to be added back into the marketplace in order for office space to resume positive absorption.

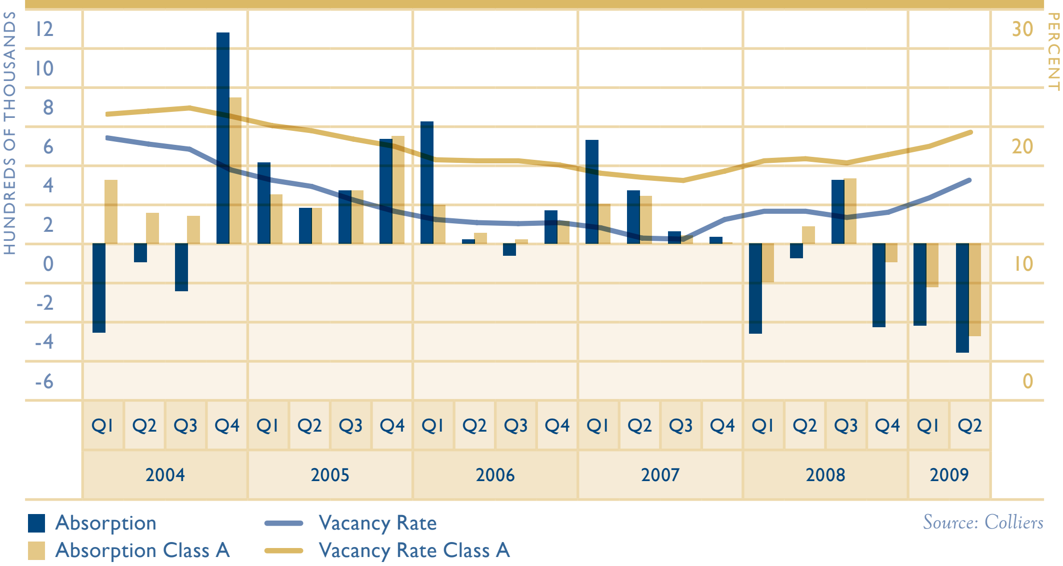
Now, what happens if unemployment rises to 10% nationally or 9.5% locally? This could result in the loss of another 12,400 jobs, which at 200 SF per person, equals an additional 2.48 million SF of vacant and/or shadow space. The new job base is 1.6 million people and with an average growth of 1% (10 year historical), it could take another ten plus years to get back to the peak and get vacancy rates back down to the 16% level.

With all other factors remaining the same, the implications are:

- No need to develop any new speculative office space for up to 10 years
- Rents will be soft for a number of years
- Incentives will need to be created to either draw new businesses to the Minneapolis-Saint Paul market or encourage existing businesses to expand

While there is not a glut of good news flooding the market, there are some deals happening. NorthPointe Capital Partners LLC signed a 123,464 SF renewal at 807 Hampden Ave. in Saint Paul. The technology disposal services provider extended its term for another six years. In downtown Saint Paul, Gander Mountain absorbed 35,000 SF at 180 E 5th Street.

OFFICE ABSORPTION & MULTI TENANT VACANCY 2004-2009



Source: Colliers

Second quarter saw negative absorption of 392,479 SF market wide. Add this to the first quarter figures and the first half of 2009 saw 802,673 SF of negative absorption. Vacancy for the market rose from 17.9% at the beginning of the year to 19.2%.

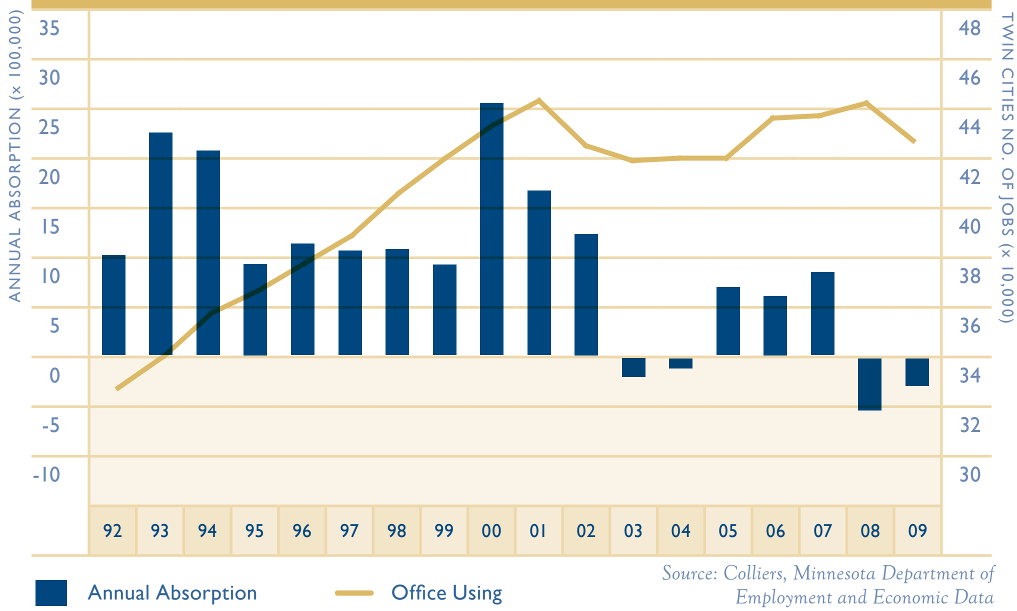
The hardest hit submarket for the Second Quarter was the Minneapolis CBD market with negative absorption of 241,651 SF and vacancy climbing to 17.8%. The Macy's building was added to the CBD inventory, with an additional 350,000 SF of vacancy included in the submarket. The Southwest market was a distant second with negative absorption of 103,354 SF. A bright spot is the Saint Paul CBD with positive absorption of 45,860 SF, most of which came as a result of the Gander Mountain expansion.

Look for more negative absorption in the second half of 2009 as companies continue to shed jobs, and the space associated with them. One deal to watch in the next few months is where the 1,200 workers (approximately 35,000 SF need) from the Whipple Federal Building will relocate to while renovation takes place on the 40 year old Federal building.

Companies are generally taking one of two approaches to dealing with their excess space. The first approach is people-based. How many employees do we need now and in the future? The other is expense reduction-based. What do we need to get our rent down to in order to survive? Either way, business leaders are doing what they must to right size.

One area of data that is not easily tracked, but could have a significant impact on vacancy, is shadow space. Shadow space is most easily defined as space that companies are leasing, but not using. As companies scaled back their workforces, many have not put unused space on the market, but instead have elected to keep it due to hopes of re-expanding or not having enough term left on their lease to make it worth subletting. Either way, shadow space will negatively impact absorption when the economy does finally turn around, delaying the real estate recovery for another 12-24 months.

MINNEAPOLIS-SAINT PAUL SEASONALLY ADJUSTED NON-AG EMPLOYMENT



Source: Colliers, Minnesota Department of Employment and Economic Data

SELECTED SECOND QUARTER OFFICE SALE TRANSACTIONS

PROPERTY NAME	CITY, STATE	$/SF	YEAR BUILT
XATA Corporation Building	Hopkins, MN	$130	1986
5435 Feltl Rd	Hopkins, MN	$117	1992
Phillips Eco-Enterprise Center	Minneapolis, MN	$89	2000
Northland Corporate Center	Minneapolis, MN	$6	1985

Source: Colliers

SELECTED SECOND QUARTER OFFICE LEASE TRANSACTIONS

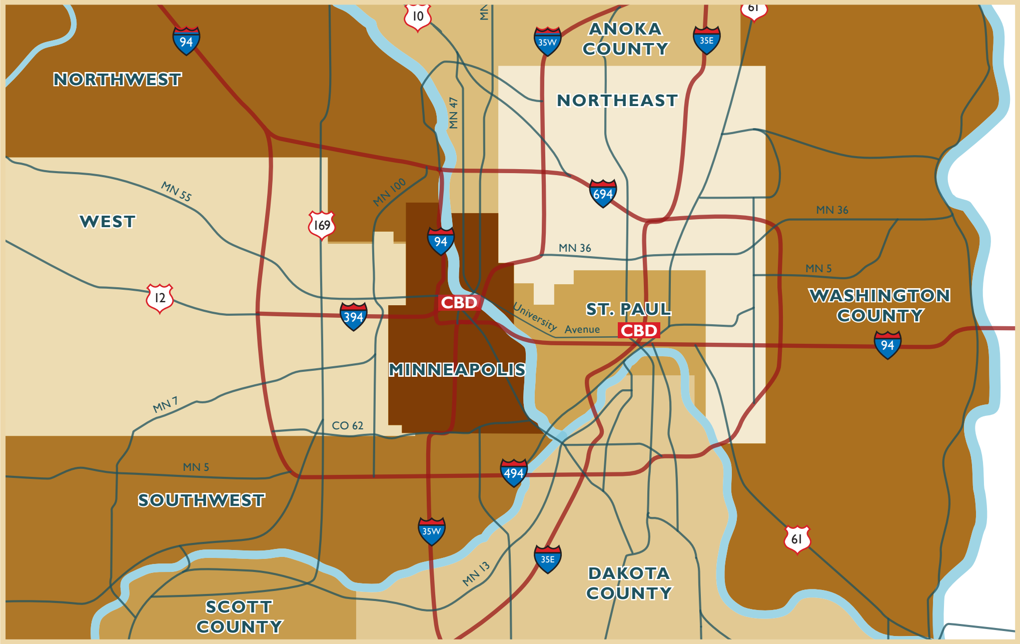
PROPERTY NAME	TENANT	CITY, STATE	SF
Atria Corporate Center	EV3	Plymouth, MN	75,000
Plymouth Corporate Center	Comm-Works	Plymouth, MN	66,000
2123 Clinton Ave S	Lincoln International Charter School	Minneapolis, MN	34,248
Plymouth Woods I	Sirva	Plymouth, MN	27,627
Enterprise Corporate Center I	PPI	Mendota Heights, MN	20,132
Wedgewood Office Park	JNR Adjustment Company	Maple Grove, MN	10,500
33 South Sixth	Proctor & Gamble	Minneapolis, MN	10,380
Waters Business Center I	Miller Manufacturing	Eagan, MN	7,226
Colonial Warehouse	mPay Gateway	Minneapolis, MN	4,843
Baker Road Corporate Center	EYC	Minnetonka, MN	4,200
1715 Building	Panalpina	Eagan, MN	3,872
Colonial Warehouse	Center for Energy	Minneapolis, MN	2,322
Crossroads of Oakdale II	Small Tree Communications	Oakdale, MN	2,320
Thresher Square	Angel Foundation	Minneapolis, MN	1,877
One Corporate Center III	Risk Placement Services	Edina, MN	1,683
8301 Golden Valley Rd	Lingate Financial Group	Golden Valley, MN	1,157

Source: Colliers

SECOND QUARTER OFFICE MARKET STATISTICS BY SECTOR

SECTOR	INVENTORY (SF)	NET ABSORPTION (SF)	VACANCY RATE Q1/09	VACANCY RATE Q2/09	VACANCY CHANGE
Anoka County	599,755	32,248	22.0%	16.6%	-5.4%
Dakota County	3,372,267	(10,678)	19.9%	20.2%	0.3%
Minneapolis CBD	24,571,449	(241,651)	16.2%	17.1%	0.9%
Minneapolis Non-CBD	2,185,497	(12,258)	10.3%	10.9%	0.6%
Northeast Sector	3,141,060	(13,408)	23.7%	24.1%	0.4%
Northwest Sector	1,478,616	(3,899)	34.3%	34.5%	0.2%
Saint Paul CBD	7,430,329	45,860	28.2%	27.6%	-0.6%
Saint Paul Non-CBD	2,159,401	(33,993)	13.8%	15.4%	1.6%
Southwest Sector	14,604,464	(103,354)	20.3%	21.0%	0.7%
Washington County	864,103	(17,777)	23.2%	25.3%	2.1%
West Sector	8,310,384	(33,569)	10.5%	10.9%	0.4%
Total	**68,717,325**	**(392,479)**	**18.5%**	**19.2%**	**0.7%**

Source: Colliers



294 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

Americas 133
Asia Pacific 64
EMEA 97

$48.1 billion in annual transaction volume

1.1 billion square feet under management

12,749 Professionals

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