Twin Cities Office Market

Absorption of office space continued on a positive trend for the third quarter with a small gain of 63,000 square feet in the metro area. Vacancy dropped from 17.4% to 17.0%.

Highlights and Observations:

- Several sales transactions involving office buildings were completed in the third quarter. IDS Center topped the list with a sale price of $277 million or $199 per square foot. Other significant sales were 225 South Sixth at $175 per square foot and International Plaza, in Bloomington, which sold for $150 per square foot.

- Notable transactions were CH Robinson moving to 150,000 square feet in Eden Prairie, Blue Cross expanding into 54,000 square feet in Eagan, and Colle & McVoy making a bold move from Bloomington, to an urban setting – taking the top two floors of the Wyman Building in downtown Minneapolis.

Expect to see...

...more office building sales in both downtowns, as well as in the suburbs. Buildings for sale currently include LaSalle Plaza, Foshay Tower, Midland Bank Building, and Midwest Plaza in downtown Minneapolis; Wells Fargo Plaza, Piper Jaffrey, and First Bank Building in downtown St. Paul; OCC I, II, and III are for sale in the Southwest.

...steady absorption for the balance of the year. Improving economic conditions and consistent job growth will fuel expansions and attract new tenants to the metro area. Watch for Target vendors to expand in the Minneapolis CBD while multiple large tenants such as Cigna, Alliant Tech, and Eide Bailey look for new headquarters to satisfy their growing space requirements in the suburbs.

2006 Third Quarter Office Market Statistics by Sector

Sector	Inventory	Net Absorption	Vacancy Rate Q2/06	Vacancy Rate Q3/06
Anoka County	599,755	-9,214	15.2%	6.1%
Dakota County	1,895,993	14,478	10.3%	9.6%
Minneapolis CBD	24,721,528	-22,800	19.1%	19.2%
Minneapolis Non-CBD	2,015,497	39,595	18.5%	16.6%
Northeast Sector	3,105,060	-11,949	20.4%	20.8%
Northwest Sector	1,206,216	-37,361	29.5%	20.9%
St. Paul CBD	7,728,615	-78,835	23.5%	24.6%
St. Paul Non-CBD	1,999,329	-5,233	5.5%	5.8%
Southwest Sector	14,654,889	50,538	13.6%	13.2%
Washington County	644,430	5,634	18.1%	17.3%
West Sector	7,785,789	118,208	14.4%	13.3%
Twin Cities Metro	66,357,101	63,061	17.4%	17.0%

Source: Colliers Turley Martin Tucker

Selected Office Sale Transactions Third Quarter 2006

Name	City	Size	Price PSF	Year Built
IDS Center	Minneapolis	1,400,000	$199	1972/99
225 South Sixth	Minneapollis	1,400,000	$175	1990
Flagship	Eden Prairie	138,825	$150	2001
Metropoint	St. Louis Park	936,000	$92	1970
International Plaza	Bloomington	279,843	$155	1985

Source: Colliers Turley Martin Tucker

Jeffrey L. LaFavre,
Managing Principal

Dear Clients and Friends:

Activity is strong in the Twin Cities' office market with moderate leasing activity and many buildings changing hands or currently on the selling block. Demand for space in the industrial market has slowed since last year, but some sectors are still seeing activity. Retail activity has centered around areas with residential expansion and light rail transit projects, as well as centers anchored by big box retailers. Apartments remain favored by investors and apartment owners are beginning to smile as rents rise and concessions continue to dwindle.

We hope our report is of value to you and that you utilize the services of our many professionals to leverage their knowledge and expertise to your advantage. Thank you for the opportunity to work together and we look forward to expanding our relationships with you.

Sincerely,

Jeffrey L. LaFavre,
CCIM, MCR, SIOR
Managing Principal

COLLIERS INTERNATIONAL
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Commercial Real Estate Services

Twin Cities Industrial Market

There was steady demand in some sectors for industrial space in the 3rd quarter of 2006, but it was slower and less fierce than last year. The absorption for third quarter was negative 250,000 square feet, raising the vacancy rate from 12.1% last quarter to 12.5%.

Highlights and Observations

- There was strong market performance for 2005 which burned off most of the prime space available. This has led to low demand for industrial space in 2006. Another contributing factor to lower demand is that companies are looking to become more efficient and gain better production by utilizing higher ceiling heights to allow for more stacking and lowering their per foot costs.

- Currently there are only nine large block spaces for sale or lease on the market. When you look at the available options, many have trouble competing with newer buildings that allow businesses to achieve greater efficiencies.

Expect to see...

...**at some point, growing companies being forced to build-to-suit or lease space in new construction and pay new construction rents.** Projects under construction and planned are quoting net rents of $5.00, substantially higher than current market rents.

...**most of the activity in the industrial market is occurring in smaller spaces, this trend may be negatively impacted by the slowing residential housing market.** Since residential construction firms tend to utilize smaller spaces for material storage, this slowdown may result in increasing vacancies in this size range.

2006 Third Quarter Industrial Market Statistics by Sector

Sector	Inventory	Net Absorption	Vacancy Rate	
			Q2/06	Q3/06
Anoka County	4,672,187	-53,478	14.2%	15.3%
Dakota County	11,581,536	-52,962	14.9%	15.4%
Minneapolis	8,373,164	69,063	6.9%	7.5%
Northeast Sector	8,822,891	41,642	12.6%	12.1%
Northwest Sector	14,992,648	-227,536	9.5%	10.9%
Scott County	2,548,398	-30	22.1%	22.1%
St. Paul	6,482,220	-58,119	8.7%	9.6%
Southwest Sector	15,906,908	50,285	15.7%	15.1%
Washington County	1,876,105	9,832	3.5%	3.0%
West Sector	15,423,197	-29,932	11.6%	11.8%
Twin Cities Metro	90,679,254	-251,235	12.1%	12.5%

Source: Colliers Turley Martin Tucker

Selected Industrial Sale Transactions Third Quarter 2006

Name	City	Size	Price PSF	Year Built
845 Berkshire Lane	Plymouth	136,331	$76	1978
435 Park Court	Lino Lakes	265,516	$57	2003
Evergreen Portfolio	Multiple Buildings	743,000	$50	Multiple Buildings
9300 Excelsior Boulevard	Hopkins	250,000	$43	1946
2929 Long Lake Road	Roseville	183,326	$36	1978

Source: Colliers Turley Martin Tucker

Twin Cities Retail Market

Selected Retail Sale Transactions
Third Quarter 2006

Name	City	Size	Price PSF	Year Built
Woodbury Lakes	Woodbury	412,980	$235	2005
Home Depot	Plymouth	112,000	$165	1997
Wellbridge Health Club	Minnetonka	107,000	$93	1971
Wellbridge Health Club	Bloomington	107,000	$93	1973
Wellbridge Health Club	Brooklyn Center	107,000	$93	1985

Source: Colliers Turley Martin Tucker

Retail Projects Under Construction

Name	Developer	Size
Fountains at Arbor Lakes – Maple Grove	Opus Corporation	728,000
Twinsville – Minneapolis CBD	Hines Corporation	45,000
Bloomington Central Station – Bloomington	McGough Development	50,000
Cottageview Plaza – Cottage Grove	Paripassu Development	550,000
Park Place Promenade – Brooklyn Park	H.J. Development	90,000
Target Corporate Campus – Brooklyn Park	TBD	2,000,000
Oak Park Commons – Oak Park Heights	CSM Corporation	200,000

Source: Colliers Turley Martin Tucker

Highlights and Observations

- Much of the retail growth in the Twin Cities has revolved around suburban residential expansion and the development of Wal-Mart and Target anchored centers. Regional mall anchors have created open-air concepts as the trend has shifted toward the lessening popularity of enclosed malls. These retailers include: JC Penney, Herberger's, and Dillard's.

- Light Rail Transit oriented development is taking off. Plans are moving forward with the Bloomington Central Station project, which takes advantage of the Hiawatha Light Rail, connecting the Mall of America to Downtown Minneapolis. Colliers is performing a market analysis of the potential volume and type of real estate development that could occur along the Central Corridor Light Rail Transit Line, which will connect St. Paul to Minneapolis via University Avenue. Our preliminary projections are that approximately 1,000,000 square feet of additional retail space could be developed or redeveloped along the Central Corridor between 2010 and 2030.

Expect to see…

…slightly less retail development by year end. Developers are struggling with fewer viable retail sites on which to develop. This is due to a slowing housing market and retailers' desire to locate at in-fill sites surrounded by dense populations. Developers will be forced to entertain more complex deals involving "Brownfield" sites and challenging assemblages.

…the continued expansion of the Brooklyn Park retail trade area. The Highway 610 Extension Project coupled with the new Target Corporate Campus will create a robust retail market north of Hwy 610. Target plans to add up to 15,000 new office workers, up to 2,000,000 square feet of office space, and up to 3,000 living units within the next decade. The Campus will create a white-collar retail trade area that will drive significant retail demand north of Highway 610, particularly at the Zane Avenue interchange.

Twin Cities Multi-family Housing Market

Multi-family continues to be a preferred product type among investors due to the combination of improving rental and vacancy fundamentals, favorable demographic trends, and job growth.

Concessions continue to slow and even disappear in select markets, with rents finally beginning to rise.

The improvement in the job market is supporting household formation, creating active renters in young adults.

Highlights and Observations

- Since April, interest rates have exceeded average capitalization rates nationally, making purchases in the top markets difficult to justify for leveraged buyers.

- Large portfolio transactions are accounting for a greater portion of the sales market. Top institutional buyers in the Twin Cities market are Invesco, RREEF, Henderson Global, and LaSalle Investment Management. Top institutional sellers in the Twin Cities market include Laramar and Equity Residential.

Expect to see…

…**adjustable home mortgage interest rates continue to ratchet up, as will the rates of default and foreclosure.** The Class A luxury properties have gained the most occupancy from this trend, as former homeowners seek acceptable housing alternatives.

…**many rental properties acquired for condo conversion, as well as some newly constructed condos returning to market as rental product.**

…**limited new apartment development as rents generally do not support the cost of new construction.**

Vacancy by Rent Range
All sizes for Second Quarter 2006

Rent Range	Units Surveyed	Units Vacant	2006 Vacancy	2005 Vacancy
$700 and under	29,049	1,368	4.7%	6.3%
$700–$1,100	66,900	2,806	4.2%	5.6%
$1,100–$2,000	19,834	1,221	6.2%	6.4%
$2,000 and up	1,322	108	8.2%	9.4%
Total	117,105	5,503	4.8%	6.0%

Source: GVA Marquette Advisors

Selected Apartment Sale Transactions
Third Quarter 2006

Name	City	# of Units	Price per Unit	Year Built
Gatewood Estates	Bloomington	120	$133,333	1986
Park at City West	Eden Priarie	288	$103,619	1986
LaSalle Aparments	Minneapolis	121	$95,455	1919

Source: Colliers Turley Martin Tucker

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