

# Market Research

OFFICE | THIRD QUARTER | 2009



★ Minneapolis  
St. Paul

## MARKET INDICATORS

Q3 09 Actual    Q4 09 Estimated

VACANCY RATE	↗	↗
NET ABSORPTION	↘	↘
CONSTRUCTION	→	→
RENTAL RATE	→	↘

## SIGNIFICANT TRANSACTION



### Crest Ridge Corporate Center I

Minnetonka, MN  
 Buyer: CB Richard Ellis Investors  
 Seller: Opus  
 Size: 116,338 SF  
 Price: \$244 PSF



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## Do More With Less

In these challenging times, organizations and landlords are doing what they can to get ahead, make improvements, and cut costs where possible. For instance, at many corporations, facility and corporate real estate budgets are being slashed. Facility managers and corporate real estate directors are being challenged to do more with less money and fewer staff. Finding money is the mantra. A few options are:

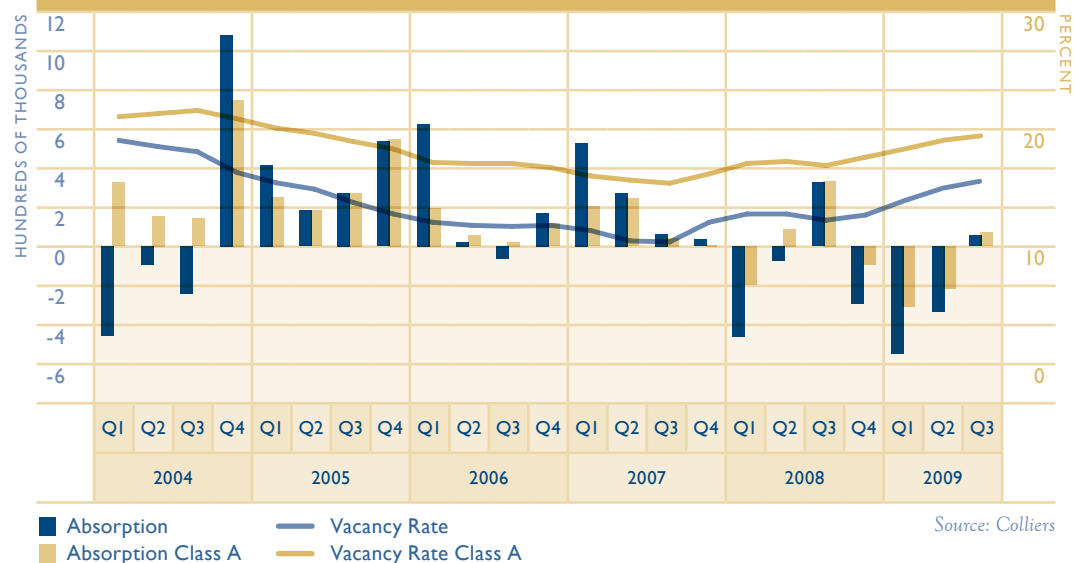
- Real estate tax protests
- Lease and/or CAM audits
- Lease terminations
- Early renewal “blend and extend”
- Disposition of retired assets
- Broker opinions of value

On the landlord side, both local and institutional owners are challenged with little to no new activity, looming renewals at severely decreased rates, and potentially high tenant improvement and commission packages. Investment type

owners have been hesitant to lock in long term renewals at today’s low rates, while some long term hold owners have been signing long term deals to ride out the severe market downturn. This tale of two owners has created added competition amongst landlords.

Throughout 2009 tenants have been reviewing all of their lease rights and are sometimes blindly exercising termination options for short term gains that may backfire once the economy picks up. A new challenge for the tenant is the approval process that has been enacted by many companies. In today’s economy, companies are evaluating every expenditure by looking to maximize flexibility of lease terms and cost savings. Many times these companies are adding additional layers of review and approval, delaying the process and resulting in holdover situations, as well as limiting the company’s power to negotiate the lease terms.

OFFICE ABSORPTION & MULTI TENANT VACANCY 2004-2009



Source: Colliers

Communities are also affected by these challenges and are making changes. With stimulus money coming to the city, they put it to work on road improvements. For instance, one of the more noticeable improvements includes upgrades to the streets along Marquette Avenue and Second Avenue, from 1st Street S to 12th Street S in downtown Minneapolis. As a result, several changes are coming. First off, Hennepin and Nicollet Avenues will now become two lane roads open to the public, while bus traffic will be shifted to Second Avenue and Marquette Avenue. Many roads and intersections have been affected by construction, which is set to be completed by December 2009.

A less noticeable, but just as meaningful project recently implemented is the Downtown Business Improvement District Special Service District, or DID for short. The commercial property owners have agreed to pay a special assessment as a way to invest in improving the downtown experience for residents, workers, and visitors alike. Some of the new services added are:

- Sidewalk cleaning
- Landscape installation and maintenance
- Repair and maintenance of streetscape fixtures
- Ambassadors to aid visitors and watch out for problems

These services help create a cleaner downtown, while also helping to deter less desirable activity in the area by having a more noticeable presence.

More sublease space will be coming available in downtown Minneapolis. Campbell Mithun wants to shed a full floor, or 23,500 SF in the tower named after them. Carmichael Lynch would also like to sublease 15,000 SF of space at 110 Fifth Street North.

The Saint Paul CBD saw some positive activity in the third quarter. Cray Inc. announced in July that they signed a lease for 51,000 SF at Galtier Plaza, which will be renamed Cray Plaza. Microsoft leased 12,000 SF at Wells Fargo Place for the Expression Studios software line, and GovDelivery leased 14,447 SF at the Hamm Building.

In the suburbs the challenges are numerous. As a result, some owners have begun renovations

to buildings in hopes of enhancing their image and drawing in new tenants. One example is the dramatic renovation being undertaken at Northland Corporate Center. The building was recently purchased and the new owner is adding a new brick façade, ribbon glass line, and is bringing the interior to shell condition.

In the Southwest market, Hellmuth & Johnson, a local law firm, is getting ready to break ground on its new 35,000 SF corporate headquarters at the Northeast corner of Highway 169 and Interstate 494. The key for the law firm, aside from increasing revenues at a time when many others have experienced declining revenues, is its ability to not have to rely on more traditional financing alternatives. The firm did not disclose what those options were, just that they should not be a problem to obtain.

Office using jobs continue to decline, down 6.44% from a year ago, descending back to 1998 figures. Without job growth there simply is no absorption. This quarter's absorption of 41,665 SF and year-to-date negative absorption of 869,120 SF. Vacancy has risen from 17.7% at the beginning of the year to 19.6% at the end of third quarter.

Both Class A and Class B space had positive absorption for the quarter with Class A space registering 62,647 SF, but vacancy rising from 14.8% to 15.4% due to adding the 8200 Normandale Tower. Class B had 18,449 SF of absorption and vacancy climbed from 21.8% to 22.0% due to the Ameriprise Building being added to the dataset. Class C vacancy recorded negative absorption of 39,431 SF and vacancy rose from 26.5% to 27.1%.

#### SELECTED THIRD QUARTER OFFICE SALE TRANSACTIONS

PROPERTY NAME	CITY, STATE	\$/SF	YEAR BUILT
Crest Ridge Corporate Center I	Minnetonka, MN	\$244	2009
Eagle Point Office Center II	Lake Elmo, MN	\$152	2006
Eden Bluff Corporate Center I	Eden Prairie, MN	\$147	2006
2801 Wayzata Boulevard	Minneapolis, MN	\$74	1959
1701 University Avenue	Minneapolis, MN	\$69	1952
fmr Putnam Community School	Minneapolis, MN	\$66	1966

Source: Colliers

#### SELECTED THIRD QUARTER OFFICE LEASE TRANSACTIONS

PROPERTY NAME	TENANT	CITY, STATE	SF
Plymouth Corporate Center	Comm-Works	Plymouth, MN	65,000
Cray Plaza	Cray Research	Saint Paul, MN	51,052
6550 Wedgewood Road	Cartika Medical Inc.	Maple Grove, MN	26,073
Wells Fargo Place	Microsoft	Saint Paul, MN	12,730
Normandale Place	Bethel University	Bloomington, MN	12,000
1000 Superior Boulevard	Edina Realty	Wayzata, MN	10,000
10400 Viking Drive	Sara Lee	Eden Prairie, MN	8,127
UBS Plaza	Tecmark	Saint Paul, MN	5,800
5775 Wayzata Boulevard	Ascendancy Research	Saint Louis Park, MN	5,512
8301 Golden Valley Road	Lingate Financial Group	Golden Valley, MN	1,157
Two Appletree Square	Language and Friendship	Bloomington, MN	1,080

Source: Colliers



# Market Research

INDUSTRIAL | THIRD QUARTER | 2009



## MARKET INDICATORS

	Q3 09 Actual	Q4 09 Estimated
VACANCY RATE	↗	↗
NET ABSORPTION	↘	↘
CONSTRUCTION	→	→
RENTAL RATE	↘	↘

## SIGNIFICANT TRANSACTION



**River Road Industrial Center**  
 Fridley, MN  
 Tenant: BP Wind Energy  
 Landlord: ELT Minneapolis, LLC  
 Size: 244,666 SF



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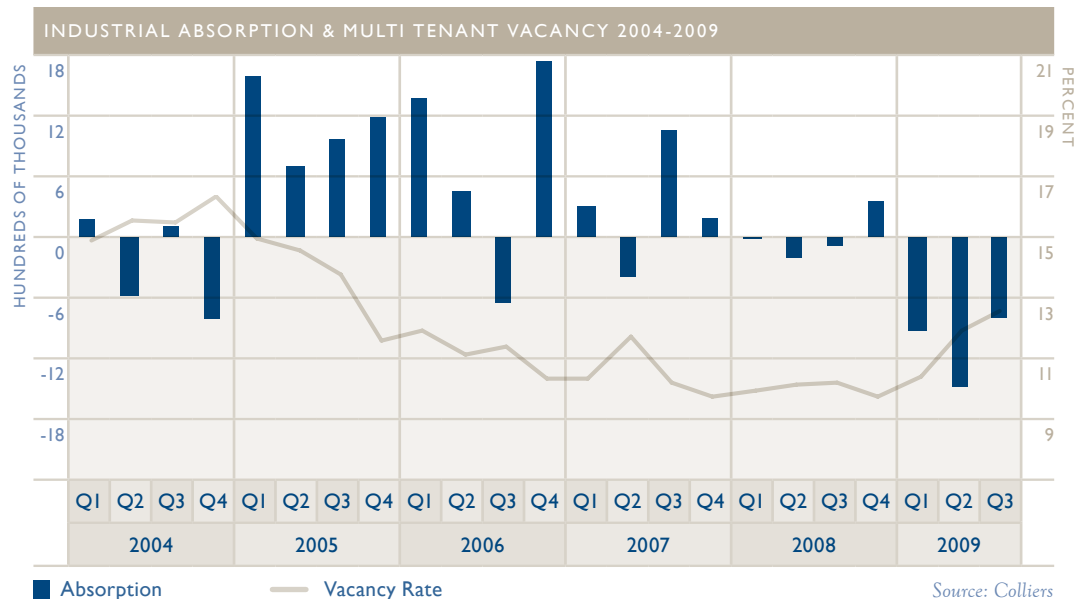
## More Of The Same

The theme for the Minneapolis/Saint Paul industrial market seems to be more of the same. When local industrial brokers were recently polled about the current market conditions, many felt like there was an increase in showings and that activity was starting to pick up. Unfortunately, the activity has not transferred into more completed transactions. Many of the companies in the market are beginning to examine options much earlier than they have historically. Despite more companies looking for opportunities, most are eventually renewing at their current locations. The cost to relocate, more often than not, outweighs any savings a tenant can seem to gain, and owners are realizing that it is better to sign a deal with an existing tenant than risk the cost and time it takes to replace them. The end result is more renewals and an overall stagnant completed transactions list.

The number of user buildings on the market has remained constant in 2009. The build-

ings that are listed for sale have not come down in asking price, which is prolonging the amount of time the buildings are on the market. There is a feeling that the number of user buildings on the market could climb in the near future, as existing buildings remain on the market and new buildings come to market as companies struggle economically. Some businesses would like to move into larger or more centrally located space, but cannot afford to take the likely financial hit of selling their current buildings.

The investment owners are also experiencing economic pain. Some owners are having trouble leasing their properties and meeting their pro forma, especially on buildings acquired right before the economy started to take a nose dive. As a result, some of these owners have opted to sell their buildings at a loss, up to \$20 per square foot, or give them back to the bank, as opposed to continuing to



hold the assets and take further losses from lack of leasing activity.

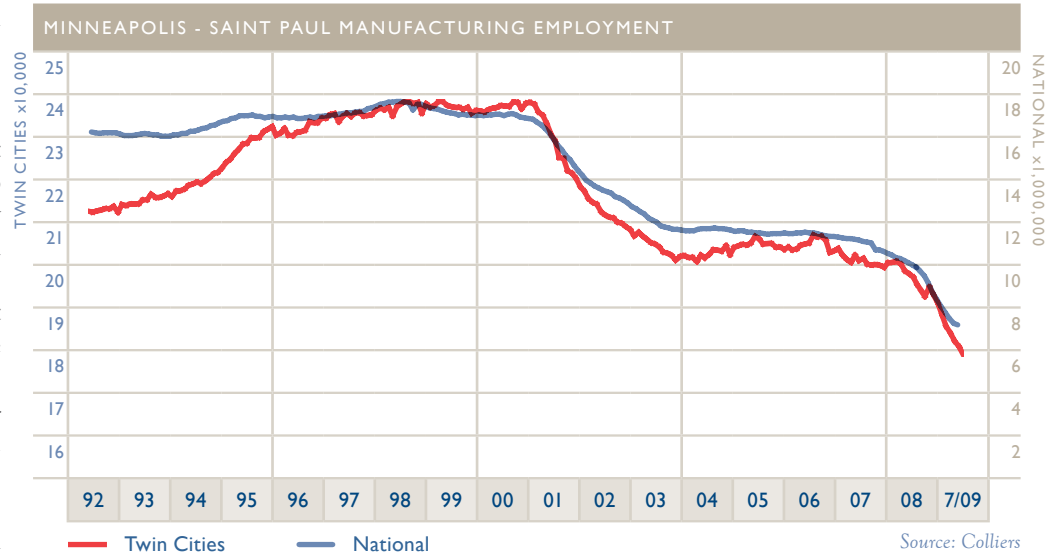
One thing that potential buyers need is cash, and lots of it. With the continued tight credit markets, banks require more money down to make a deal happen. Unfortunately, very few companies have the luxury of holding extra cash, and with lease rates low and owners willing to negotiate, more companies that look at both the lease and sale options are leaning towards the lease. Occupancy costs for leasing are less than owning, and will continue to be until sale prices come down and lenders loosen the purse strings.

A bright note is that costs are coming down for construction and tenant improvements. The cost of materials has declined as the cost of the resources needed for the materials have dropped, but not as much as anticipated. This means tenants can get a little more for their tenant improvement dollars, if and when they sign a lease.

Many of the transactions being completed in the marketplace have been for the smaller to mid-sized tenant. One exception to this is BP Wind Energy, who signed for 245,000 SF at River Road Industrial Center.

Third quarter saw a continuation of negative absorption. Absorption for the quarter was a negative 834,424 SF, bringing the year to date total to a negative 3,172,957 SF. Vacancy has risen market wide to 12.6%, up from 9.9% at the beginning of the year. All markets except Washington County experienced negative absorption for the quarter, with the Southwest market experiencing the most negative absorption with 254,605 SF.

Looking at the data by product type, office showroom space fared the worst with negative absorption of 447,225 SF and vacancy rising from 13.2% to 15.6%. Bulk warehouse had negative absorption of 260,970 SF and vacancy rose 15.9% to 17.0%. Office warehouse space had negative absorption of 126,199 SF. Vacancy increased slightly from 10.3% to 10.5%.



#### SELECTED THIRD QUARTER INDUSTRIAL SALE TRANSACTIONS

PROPERTY NAME	CITY, STATE	PRICE/SF	YEAR BUILT
2890 Centre Pointe Drive	Minneapolis, MN	\$83	1997
2909 Anthony Lane	Saint Anthony, MN	\$69	1964
8751 Zachary Lane	Maple Grove, MN	\$53	1998
1120 Red Fox Road	Arden Hills, MN	\$49	1973
D S Brown Building	Chaska, MN	\$45	1990
1001 Johnson Parkway	Saint Paul, MN	\$32	1952

Source: Colliers

#### SELECTED THIRD QUARTER INDUSTRIAL LEASE TRANSACTIONS

PROPERTY NAME	TENANT	CITY, STATE	SF
River Road Industrial Center	BP Wind Energy North America	Fridley, MN	244,666
Medicine Lake Distribution Center	Probus One Touch	Plymouth, MN	51,000
Bass Creek Business Center	Applied Industrial Tools	Plymouth, MN	32,000
New Brighton Commons	Comtrol	New Brighton, MN	26,763
Kasota Industrial Park	Badger Printing	Minneapolis, MN	18,169
New Hope Distribution Center	Paddock Labs	New Hope, MN	16,000
Northwest Business Campus I	Total Administrative Services Corp	Plymouth, MN	7,738
Northwest Business Campus I	AlwaysBeThere Inc	Plymouth, MN	4,785
Eagle Lake Business Center II	Conventis	Maple Grove, MN	4,500
Eagle Lake Business Center II	Turn Style Consignment	Maple Grove, MN	3,000

Source: Colliers

## THIRD QUARTER INDUSTRIAL MARKET STATISTICS BY SECTOR

SECTOR	INVENTORY (SF)	NET ABSORPTION (SF)	VACANCY RATE		VACANCY CHANGE
			Q2/09	Q3/09	
Dakota County	14,474,666	(142,107)	14.1%	15.1%	1.0%
Minneapolis	12,831,284	(39,947)	9.8%	10.1%	0.3%
Northwest Sector	28,846,738	(153,514)	11.7%	12.2%	0.5%
Scott County	3,499,106	(90,120)	17.7%	20.3%	2.6%
Southwest Sector	24,733,095	(254,605)	14.2%	15.3%	1.1%
Saint Paul/Anoka/NE	29,327,851	(158,252)	9.5%	10.0%	0.5%
Washington County	2,985,404	4,121	10.5%	10.4%	-0.1%
<b>Twin Cities Metro</b>	<b>116,698,144</b>	<b>(834,424)</b>	<b>11.9%</b>	<b>12.0%</b>	<b>0.1%</b>

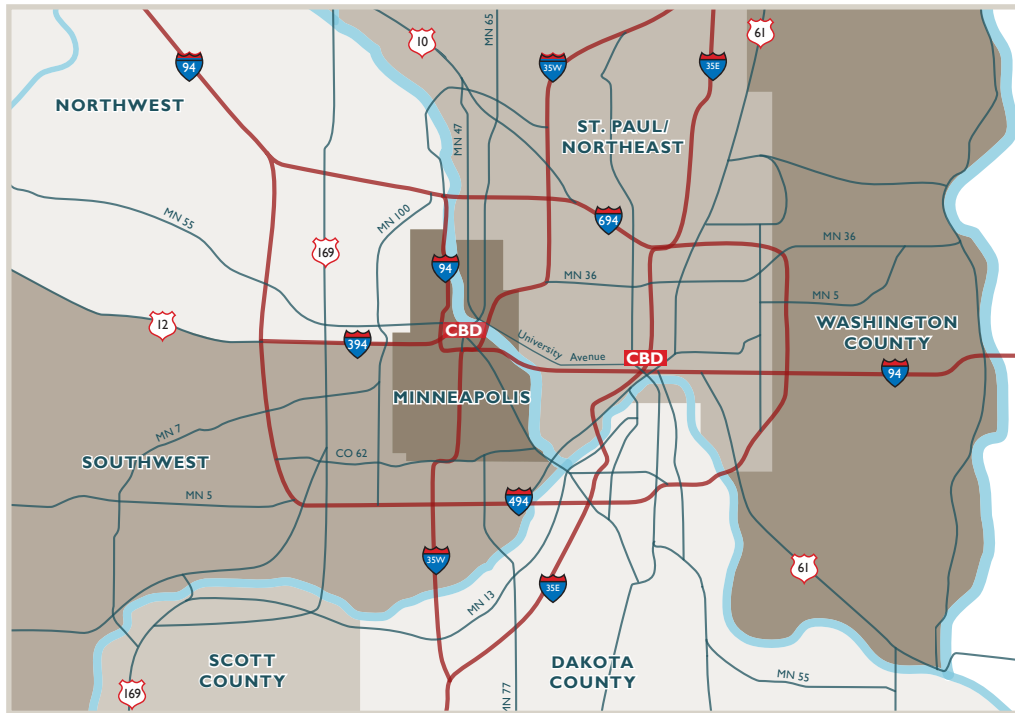
Source: Colliers

294 OFFICES IN 61 COUNTRIES  
ON 6 CONTINENTSAmericas 133  
Asia Pacific 64  
EMEA 97\$48.1 billion in annual  
transaction volume1.1 billion square feet  
under management

12,749 Professionals

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# Market Research

RETAIL | THIRD QUARTER | 2009



## MARKET INDICATORS

	Q3 09 Actual	Q4 09 Estimated
VACANCY RATE	↗	↗
NET ABSORPTION	↘	↘
CONSTRUCTION	→	↗
RENTAL RATE	↘	↘

## SIGNIFICANT TRANSACTION



**Ginger Hopps**  
 Minneapolis, MN  
 Landlord: Garland Properties, LLC  
 Tenant: Ginger Hopps  
 Size: 10,850 SF  
 Value: \$1.33 million



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## Restaurants 2.0

The Service Availability Charge (SAC) is a fee that the Metropolitan Council has been charging new businesses since 1973. Essentially it is a fee charged to help cover the cost of sewer usage. Each residential and commercial dwelling is charged based on the potential maximum waste they could generate. The topic in and of itself seems pretty mundane, but recently it has become more of a hot topic because it is being applied to new outdoor restaurant seating. The biggest issue is that the Metropolitan Council has been charging full price for outdoor seating. That is, the price they would charge for year round indoor seats, and these outdoor seats can only be used in good weather, about 25% of the year. In a time when all restaurants seem to be struggling to make a profit, these new fees create a heavy burden on small business owners. Outdoor seating and sidewalk cafes are good for both safety and neighborhood livability. Effective 10/1/09, there is a 75% discount for outdoor spaces exposed to wet weather conditions.

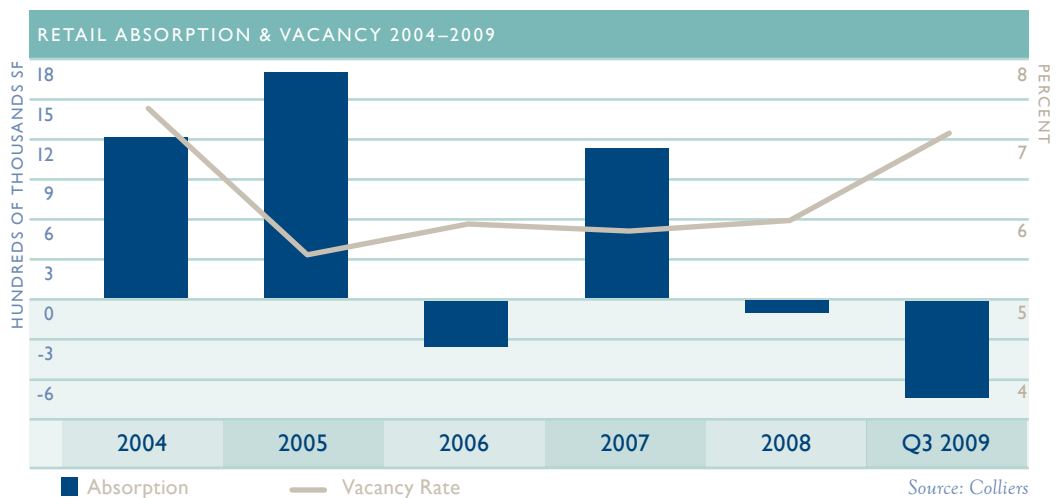
In the continued struggling economy, all retailers and restaurateurs are challenged with find-

ing new ways to keep patrons coming in. As a result, many restaurants have had to think outside the box and offer more value. In some cases, restaurants that have never offered discounts or deals have begun offering combo discounts like many that began to offer deals as the economy slowed. Manny's, Applebee's, Chili's, TGI Friday's are just a few examples.

Despite these challenges, there are several new restaurants opening up around the Twin Cities this summer and fall:

- Bradstreet Craffhouse Restaurant opened in the Graves 601 Hotel in Minneapolis
- Burger Jones opened in Uptown
- Cheeky Monkey Deli opened in downtown St. Paul
- Crave and Cooper at the West End.
- Ginger Hopps opened in Northeast Minneapolis
- Loring Kitchen in Loring Park

Add to this list the large number of clients looking to buy or lease second generation restaurant space and you can see that while res-



restaurants are being challenged, small business owners are optimistic and willing to take a risk on the “American Dream”, at a discounted price. Second generation space is being targeted because other restaurants have already gone through the expensive build-outs for a commercial kitchen and refrigerator/freezer space, two of the more expensive items for a new restaurant.

In other positive news, Nordstrom Rack opened at The Shoppes at Arbor Lakes in Maple Grove. The Shops at West End, the retail portion of Duke’s mixed-used project in St. Louis Park, opened this quarter with Rainbow Foods as the first tenant. The center is currently 60% pre-leased with new stores Love Culture, Republic of Couture, Anthropologie, uber Baby, Creative Kidstuff and Raze. New restaurants Crave and Cooper are also set to open, as well as Toby Keith’s I Love This Bar. The new 14 screen Kerasotes ShowPlace Theatres is set to open in the fourth quarter of this year.

Aside from those listed above, there are not many additional new retailers looking to jump into the market at this time. Those that are looking are local and regional retailers, with very few nationals looking to make aggressive moves before the economy shows greater signs of a turnaround.

The third quarter marked the fifth straight quarter of negative absorption for retail properties with negative absorption of 245,138 SF. Vacancy rose from 6.7% to 7.1%. The losses were spread evenly among most market sectors.

All center types experienced negative absorption for the quarter led by Regional centers with a negative absorption of 86,156 SF, increasing vacancy from 7.2% to 7.6%. Neighborhood centers absorption was a negative 84,000 SF causing vacancy to lift from 7.4% to 7.7%. Community centers had negative absorption of 10,743 SF and vacancy rose slightly to 4.6%.

## THIRD QUARTER RETAIL MARKET STATISTICS BY SECTOR

SECTOR	INVENTORY (SF)	NET ABSORPTION (SF)	VACANCY RATE		VACANCY CHANGE
			Q2/09	Q3/09	
Anoka	8,414,054	(42,488)	5.9%	6.4%	0.5%
Dakota	8,567,847	(40,333)	7.1%	7.6%	0.5%
Minneapolis	3,860,741	(67,151)	6.4%	8.1%	1.7%
Northeast	7,373,080	(26,633)	6.2%	6.6%	0.4%
Northwest	9,815,024	(98,341)	10.8%	11.8%	1.0%
Scott County	2,088,975	(593)	8.3%	8.4%	0.1%
Saint Paul	2,760,901	(976)	5.7%	5.7%	0.0%
Southwest	12,232,785	(410)	4.7%	4.7%	0.0%
Washington County	4,785,609	6,820	10.5%	10.3%	-0.2%
West	7,421,813	24,967	2.9%	2.6%	-0.3%
<b>Twin Cities Metro</b>	<b>67,320,829</b>	<b>(245,138)</b>	<b>6.7%</b>	<b>7.1%</b>	<b>0.4%</b>

Source: Colliers

## SELECTED THIRD QUARTER RETAIL SALE TRANSACTIONS

PROPERTY NAME	CITY, STATE	\$/SF	YEAR BUILT
Colonial Square	Wayzata, MN	\$154	1957
Rockford Road Plaza	Minneapolis, MN	\$154	1991
Office Depot	Hopkins, MN	\$84	1997

Source: Colliers

## SELECTED THIRD QUARTER RETAIL LEASE TRANSACTIONS

PROPERTY NAME	TENANT	CITY, STATE	SF
201 Hennepin Avenue	Ginger Hopps	Minneapolis, MN	10,850
Grizzley’s	Apple Valley Grill	Apple Valley, MN	7,854
Waterford Plaza	Wabi Sabi	Plymouth, MN	4,850
Blue/Lyndale & Alderich	The Hair District	Minneapolis, MN	4,738
Anderson Lakes Shopping Center	Modern Day Salon	Eden Prairie, MN	2,400
The West End	Jimmy John’s	St. Louis Park, MN	2,248
Broadway Square	Mr. Chiseler	Brooklyn Park, MN	1,610

Source: Colliers



# Market Research

MULTI-FAMILY | THIRD QUARTER | 2009



## MARKET INDICATORS

Q3 09 Actual    Q4 09 Estimated

VACANCY RATE	↗	↗
NET ABSORPTION	↘	→
CONSTRUCTION	→	→
RENTAL RATE	↘	↘

## SIGNIFICANT TRANSACTION



**Parkers Lake**  
 Minneapolis, MN  
 Buyer: Timberland Partners  
 Seller: Principal Global Investors  
 Price: \$76,714/Unit  
 Size: 248 Units  
 Age: 1989

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## Despite Current Fundamentals, Optimism for Owners in the Near Future

The Minneapolis-St. Paul metro area continues to out-perform other Midwest markets and receive national attention as one of the most stable markets in the country. In spite of this, fundamentals have been softening. According to the statistics gathered by GVA Marquette Advisors, the Minneapolis-Saint Paul vacancy was 6.4% at the end of the third quarter. This is up from 4.1% one year earlier. Vacancy in all market sectors rose year-over-year, with Scott County climbing the highest to 9.0%, up from 5.2% one year ago.

Rental rates for the metro area average \$908, which is down 1.5% from third quarter 2008. Only one submarket saw an increase of more than 1% in rent prices, Washington County, which saw a rent increase to \$1,030, up 2.59% from one year ago. Washington County also had the smallest increase in vacancy, climbing just 0.3% to 5.7%.

One of the benefits of the combination of falling fundamentals and lack of liquidity in capital markets is new construction has practically come to a halt. The average absorption in the metro area is approximately 1,000 units a year. In 2008 there

were less than 750 units built, 2009 will finish with fewer than 250 new units, and there will likely be fewer than 750 units under construction in 2010. These factors point to fundamentals trending up by year end 2010. However, job growth is the catalyst for absorption.

With little transaction volume and few assets being actively marketed, there is pent up investor demand across asset types, with an emphasis on distressed assets. Recent notable transactions include the sale of Parkers Lake by Principal to Timberland Partners for \$19,025,000 (\$76,714 per unit) and North Meadows Apartments by John Klingelutz to Bader Development for \$13,000,000 (\$104,455 per unit).

The continued lack of liquidity in the capital markets has served to make multifamily the preferred asset class for buyers and lenders. Both institutional and national private equity players show a strong preference to purchase well-located Class A and B properties.

## MULTI-FAMILY MARKET STATISTICS BY SECTOR

SECTOR	UNITS SURVEYED	UNITS VACANT	AVERAGE RENT		% CHANGE	VACANCY RATE		
			09/09	09/08		09/09	09/08	CHANGE
Anoka	5,906	343	\$828	\$836	-0.96%	5.8%	4.5%	1.3%
Dakota	16,480	1,268	\$902	\$911	-0.99%	7.7%	4.7%	3.0%
Minneapolis	15,013	974	\$908	\$929	-2.26%	6.5%	3.6%	2.9%
Northeast	11,398	643	\$831	\$824	0.85%	5.6%	4.4%	1.2%
Northwest	10,480	672	\$780	\$802	-2.74%	6.4%	4.7%	1.7%
Scott	1,134	102	\$922	\$957	-3.66%	9.0%	5.2%	3.8%
Southwest	15,201	983	\$963	\$954	0.94%	6.5%	3.9%	2.5%
Saint Paul	12,370	704	\$882	\$876	0.68%	5.7%	3.0%	2.7%
Washington	4,868	276	\$1,030	\$1,004	2.59%	5.7%	5.4%	0.3%
West	18,288	1,204	\$1,001	\$1,003	-0.20%	6.6%	4.1%	2.5%
<b>Total</b>	<b>111,314</b>	<b>7,178</b>	<b>\$908</b>	<b>\$922</b>	<b>-1.52%</b>	<b>6.4%</b>	<b>4.1%</b>	<b>2.3%</b>

Source: GVA Marquette Advisors

