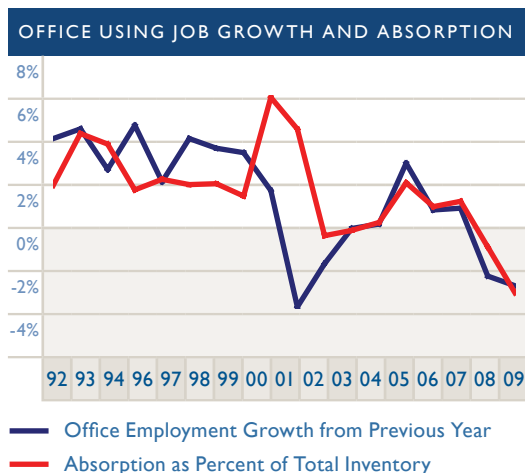




Is there a market indicator in place that can be used to predict where the Twin Cities office market is headed in 2009 and beyond? Yes, sort of. As the following chart portrays, a close correlation (0.42 or 0.70 if the anomaly year of 2001 is removed) between the office using job growth rate and absorption as a percent of the overall market.



What this chart shows is the relationship between jobs added/lost and an increase/decrease in absorption. Numbers above 0% are positive growth, numbers below are losses. Upward sloping lines indicate more growth than the previous year, downward sloping lines indicate slower growth than the prior year.

Beginning in 1992 the two lines track relatively close to each other, with job growth slightly out performing absorption. There was a big push in 2000 and 2001 for the space to catch up with the number of jobs. Unfortunately, there were catastrophic incidents that occurred in both of those years. First, in 2000 there was the beginning of the Dot Com bubble burst. The number of jobs in 2001 shrank as a result and caused the first recession of the new millennium. This was followed closely by the attacks on 9/11 that also hit the economy hard.

As a result the jobs dropped off faster than tenants could vacate space. Companies can cut the number of employees quickly in response to economic conditions. Conversely, they cannot dispose of their space as quickly due to lease obligations.

Beginning in 2003 the two indices began to track a great deal closer. The growth was more constrained, only topping 2% once. In 2008 a divergence in the numbers can be noticed. This is a result of many jobs being shed by companies hit by the economic turmoil that accelerated in the past six months, in addition to the

acknowledgment that the United States has entered its second recession of the millennium.

According to Tom Stinson, the State Economist for Minnesota, there will be a decline of 50,000 jobs in 2009. In 2008 there were 42,300 jobs lost, of which 9,600 were office using. Applying a similar ratio to the 2009 estimates, the office using jobs could be down over 2.5%. If companies were able to unload space for the 2008 jobs lost at 200 square feet per employee during the 2009 calendar year, absorption will be down just under 3% or 2,000,000 square feet. A look at the market by market chart shows what would happen to each individual market if the job loss and absorption were spread evenly around the metro area.

If 2009 follows 2008, as is indicated by the job losses from last year and predictors from this year, then the office market can anticipate another year of negative absorption of 550,000 square feet. Only time will tell what truly will happen, but these indicators do not paint a rosy picture for the Minneapolis-Saint Paul Office market for 2009.

POTENTIAL MARKET ABSORPTION		
Market Sector	Market Size	Absorption potential
Minneapolis CBD	24,422,181	(708,241)
Southwest	14,604,464	(423,528)
West	8,310,384	(241,000)
St. Paul CBD	7,430,329	(215,479)
Dakota County	3,375,831	(97,899)
Northeast	3,141,060	(91,090)
Minneapolis Non-CBD	2,185,497	(63,379)
St. Paul Non-CBD	2,123,401	(61,578)
Northwest	1,478,616	(42,880)
Washington County	684,430	(19,848)
Anoka County	599,755	(17,393)

The industrial job market does not follow a similar pattern due to a wide variety of businesses operating within the industrial space. There could be as few as two people working in a 100,000 square foot warehouse, or there could be 10 people working in a 2,000 square foot manufacturing facility. Likewise, the retail market is driven not by jobs, but more by consumer spending. With the nation, and the world, currently in the midst of a recession, the outlook is not bright for the immediate future of the retail market.

