

Market Research

OFFICE | THIRD QUARTER | 2008



★ Minneapolis
St. Paul

MARKET INDICATORS

Q3 08 Q4 08
Actual Estimated

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

SIGNIFICANT TRANSACTION



Normandale 8400 Tower
Bloomington, MN
Lessee: Prime Therapeutics
Size: 150,000 SF



TURLEY
MARTIN
TUCKER

Commercial Real Estate Services

Market Remains Flat, in a Good Way

The Twin Cities Office market continues to remain relatively flat. The market experienced positive absorption for the first time this year, with 360,089 SF, but leaves year-to-date absorption figures at a negative 107,986 SF, or vacancy of 17.1%. When the single tenant space is added into the mix, vacancy is at 14.9%.

The Minneapolis CBD led the way with absorption of 297,154 SF. Class A saw 148,237 SF and Class B contributed another 219,742 SF. Much of this absorption can be attributed to Virchow Kraus moving into 225 South Sixth, URS moving into Fifth Street Towers, and Hennepin County taking space at 701 South 4th Ave, among others. On the negative side, Fair Isaac is offering up two floors, or 36,000 SF, of space for sublease in the AT&T Tower.

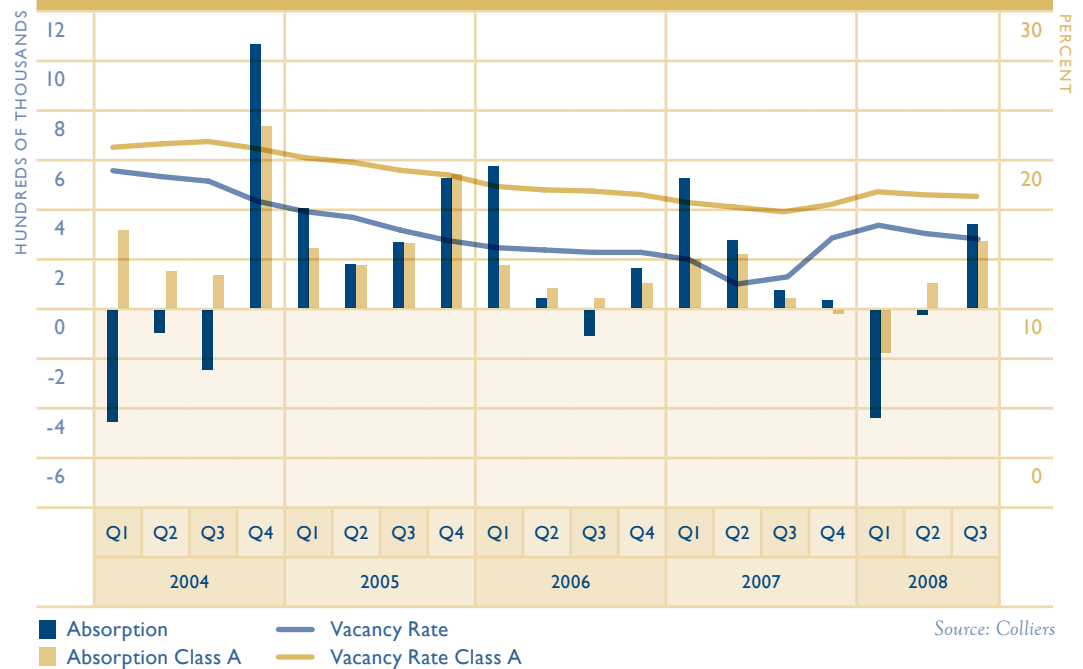
OVERALL (MULTI AND SINGLE TENANT) OFFICE VACANCY RATE BY MARKET SECTOR

Southwest Sector	22.6%
Washington County	21.1%
Northwest Sector	21.0%
St. Paul CBD	21.0%
Twin Cities Metro	15.0%
Northeast Sector	14.4%
Minneapolis CBD	14.2%
Dakota County	9.4%
Minneapolis Non-CBD	8.7%
Anoka County	8.3%
West Sector	8.0%
St. Paul Non-CBD	4.2%

Source: Colliers

Class A space has continued a steady decrease of vacancy for the past two years, falling from 14.9% down to 12.4%. Class B has followed the same trend, dropping from 23.4% down to 18.6%, while Class C has been the reverse, rising from 15.7% to 19.4%. The Warehouse District has re-

OFFICE ABSORPTION & MULTI TENANT VACANCY 2004-2008



Source: Colliers

mained healthy during this same period, falling from 13.6% down to 12.9%, and, for the first time in many quarters, has a higher vacancy than Class A space.

During these more challenging economic times, when companies let go of workers, the Warehouse District has historically seen an increase in activity, especially among the 2,000 to 3,000 SF creative industry user spaces, such as architectural, marketing, and internet firms. The displaced workers often try to start up their own company, desire to be near downtown, but cannot typically afford the rents in many of the high-rise buildings. The Warehouse District offers a great alternative to these firms.

From an investment point of view, the downtown market has not seen as much activity as the past few years. In fact, 225 South Sixth, Dain Raucher Plaza, and 510 Marquette have all been pulled off the market. Marquette Plaza is one of the few new properties to be brought to market in the past quarter.

The Southwest also contributed positive absorption of 131,316 SF. Despite the positive absorption, vacancy still rose to 18.6% due to Two MarketPointe coming online with almost 70% of the building still vacant. In fact, when you look at the new construction that was added to the submarket in the past 12 months, the vacancy rate in those buildings is 80%.

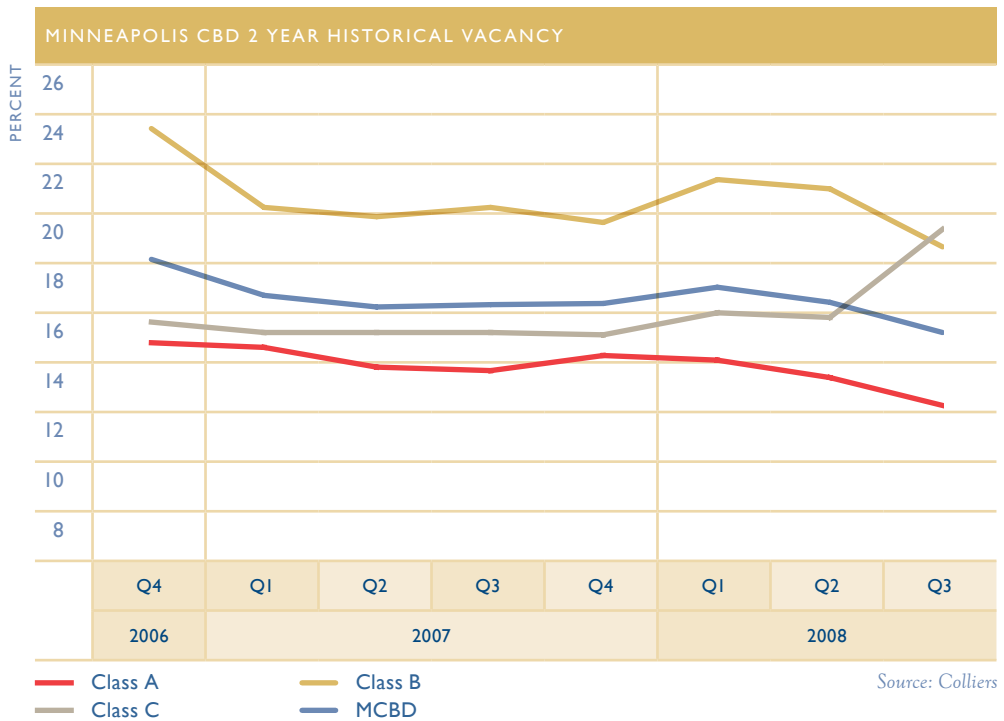
On the plus side, much of the 8400 Normandale sublease space has been leased out, including 150,000 SF of space to Prime Therapeutics. With that large sublease space off the market, sublease figures have returned to a more normalized number with under 100,000 SF of sublease space currently available on the market.

Average asking rates continued to rise in the third quarter. The overall asking rate for office space was \$12.86 per foot for the quarter, up almost 4% from last quarter. Class A average asking rate is \$15.54, up just under 3%; Class B is \$11.83, up almost 5%; and Class C comes in at \$9.10, up just 1% from last quarter.

Class B space led the way for absorption in the third quarter with 119,857 SF. Class A recorded 266,083 SF. Class C space had negative absorption of 25,851 SF. Class A vacancy rose to 12.8%, Class B fell to 19.4%, and Class C slipped to 24.2%.



Marquette Plaza



SELECTED THIRD QUARTER OFFICE SALE TRANSACTIONS

PROPERTY NAME	CITY, STATE	\$/SF	YEAR BUILT
6600 96th Ln.	Brooklyn Park, MN	\$232	2007
Carrousel Plaza Office Park	Rosemount, MN	\$95	2006
6010 Earl Brown Dr.	Brooklyn Center, MN	\$85	1990
9521 W. 78th St.	Eden Prairie, MN	\$79	1996
2124 University Ave. W.	St. Paul, MN	\$62	1969
815 Cedar Ave.	Minneapolis, MN	\$54	1963
Rand Tower	Minneapolis, MN	\$52	1929
527 Marquette	Minneapolis, MN	\$48	1929
Minnetonka E Business Center I	Minnetonka, MN	\$45	1984
900 N. 3rd St.	Minneapolis, MN	\$41	1919

Source: Colliers

THIRD QUARTER OFFICE MARKET STATISTICS BY SECTOR

SECTOR	INVENTORY (SF)	NET ABSORPTION (SF)	VACANCY RATE		VACANCY CHANGE
			Q2/08	Q3/08	
Anoka County	599,755	(7,577)	13.0%	14.2%	1.2%
Dakota County	3,375,031	(38,752)	17.3%	18.4%	1.1%
Minneapolis CBD	24,422,181	297,154	16.5%	15.3%	-1.2%
Minneapolis Non-CBD	2,185,497	51,478	12.7%	10.3%	-2.4%
Northeast Sector	3,141,060	(79,366)	22.6%	25.1%	2.5%
Northwest Sector	1,478,616	(2,086)	31.4%	31.6%	0.2%
St. Paul CBD	7,472,467	34,691	26.2%	24.5%	-1.7%
St. Paul Non-CBD	2,123,401	(39,665)	7.3%	9.2%	1.9%
Southwest Sector	14,601,693	131,316	18.2%	18.6%	0.4%
Washington County	684,430	6,059	20.6%	19.8%	-0.8%
West Sector	8,310,384	6,837	9.8%	9.7%	-0.1%
Total	68,394,515	360,089	17.3%	17.0%	-0.3%

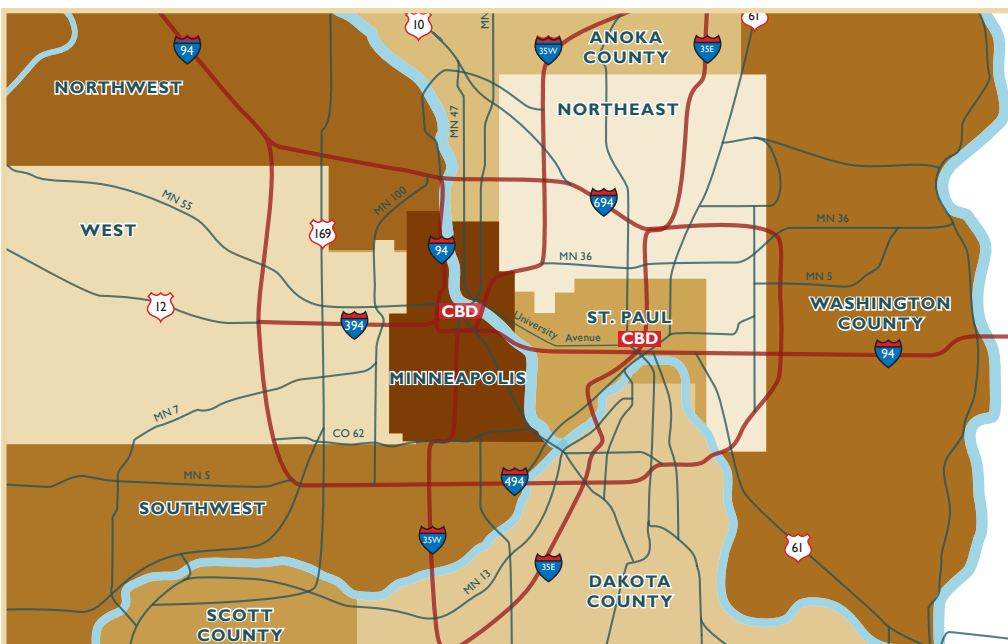
Source: Colliers

SELECTED THIRD QUARTER OFFICE LEASE TRANSACTIONS

PROPERTY NAME	TENANT	CITY, STATE	SF
* Normandale 8400 Tower	Prime Therapeutics	Bloomington, MN	150,000
Two MarketPointe	CB Richard Ellis	Eden Prairie, MN	70,000
Primetech	TAG	Eden Prairie, MN	50,000
Fifth Street Towers	URS Engineering	Minneapolis, MN	40,000
1600 Tower	Hamline University	St. Louis Park, MN	32,000
* Normandale 8400 Tower	Carol	Bloomington, MN	25,000
Renaissance Square	DLR Group	Minneapolis, MN	25,000
Wings Financial	Heath Partners	Bloomington, MN	15,487
Parkdale Center	GoAmerica	Saint Louis Park, MN	14,655
Standard Business Center	REM Ramsey Inc.	North Saint Paul, MN	13,040

* Denotes Sublease

Source: Colliers

293 OFFICES IN 61 COUNTRIES
ON 6 CONTINENTSAmericas 136
Asia Pacific 62
EMEA 95\$73 billion in annual
transaction volume868 million square feet
under management

11,048 Professionals

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