Research &
Forecast Report

MINNEAPOLIS-ST. PAUL MEDICAL OFFICE

Quarter 2 2016

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Vacancy drops significantly as medical office market tightens

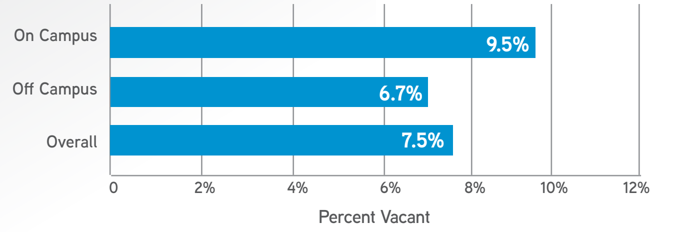
Highlights

- Allina Health Systems announced their plan to merge Unity Hospital and Mercy Hospital under a single brand.
- Children's Hospital purchased Midtown Doctors Building on the Abbott Northwestern Campus, removing it from the submarket and tightening vacancy on-campus.
- Transactions in the Northwest and Southeast submarkets combined for over 36,000 square feet of positive absorption in the first half of 2016, attributing close to half of the overall positive absorption of 66,108 square feet.
- During the first half of 2016, overall vacancy has dropped to 7.5 percent, which is a drop of 101 basis points since year-end 2015.
- Construction numbers slowed at the end the first half of 2016, after several projects were completed earlier in the year.
- Development still continues to be strong.

Market Indicators

Relative to prior period	Q2 2016
VACANCY	↓
NET ABSORPTION	↑
RENTAL RATE	↑

Vacancy



610 Zane

PrairieCare will anchor 610 Zane Medical Office Building in Brooklyn Park. They will lease 20,000 square feet, occupying the entire second floor of the 40,000-square-foot building.

New Developments

PROPERTY NAME	DEVELOPER	ADDRESS	CITY	SIZE (SF)	STATUS	NOTES
University of Minnesota Ambulatory Care Center	University of Minnesota	909 Fulton St SE	Minneapolis	330,000	Complete	$160.5 million Ambulatory Care Center
Park Nicollet Maple Grove Expansion	Ryan Companies	15800 95th Ave N	Maple Grove	93,000	Complete	$48 Million Outpatient Care Center
PrairieCare Hospital	IRET	9400 Zane Ave	Brooklyn Park	72,000	Complete	New 50-bed pediatric mental-health Hospital
Southdale Medical Center Phase III	IRET	6565 France Ave S	Edina	57,479	Complete	Southdale Medical Center expansion
Mother Baby Center	Allina Health	4050 Coon Rapids Blvd NW	Coon Rapids	50,700	Complete	Mercy/Children's Mother Baby Center
Grove Health West	Ryan Companies	9630 Grove Circle N	Maple Grove	44,000	Complete	Anchored by Twin Cities Orthopedics
Fairview Southdale - ED Expansion	Fairview	6401 France Ave S	Edina	38,700	Complete	$39 Million ED Expansion
Commerce Hill Medical	MSP Commercial	Tamarack Rd & Woodbury Dr	Woodbury	30,000	Complete	Anchored by Central Pediatrics
Plymouth Medical Building	The Davis Group	3007 Harbor Lane N	Plymouth	30,000	Complete	Anchored by Fresenius
Eagle Point Medical Building	The Davis Group	8515 Eagle Point Blvd	Lake Elmo	29,700	Complete	Anchored by Noran Neurological
Allina Champlin	MSP Commercial	11269 Jefferson Highway	Champlin	26,000	Complete	$8 million Replacement Clinic
HCMC Downtown	Mortenson	8th St S & Park Ave	Minneapolis	322,000	U/C	$191 million Downtown Expansion
HealthPartners Neuroscience Center	HealthPartners	295 Phalen Blvd	St. Paul	128,000	U/C	Four-story Neuroscience Center
TRIA Woodbury	Elion Partners	CityPlace	Woodbury	75,000	U/C	$48 Million Outpatient Care Center
Summit Orthopedics Eagan	MSP Commercial	2620 Eagan Woods Drive	Eagan	65,000	U/C	Expected to open in early 2017
Fairview Central Park Commons Clinic	CSM Corporation	Pilot Knob & Yankee Doodle	Eagan	42,000	U/C	Part of Lockheed Martin Redevelopment
Minnesota Eye Consultants Woodbury	MSP Commercial	SWQ of 494 & Tamarack Rd	Woodbury	40,000	U/C	July 2017. Additional 40,000 SF of Expansion.
Park Nicollet at The Grove	Ryan Companies	15315 Grove Circle N	Maple Grove	22,500	U/C	Park Nicollet PT & Physician's Neck & Back Clinic
Hazelwood Medical Commons	The Davis Group	Beam Ave & Hazelwood St	Maplewood	80,000	Planned	HealthEast Primary Care and Ambulatory Surgery
Twin Cities Orthopedcs Edina	Frauenshuh	7700 France Ave S	Edina	75,000	Planned	Consolidation of clnics into new MOB.
Allina Hastings Clinic	Mortenson	Hwy 55 & N Frontage Rd	Hastings	50,000	Planned	50,000 SF Clinic
Twin Cities Orthopedics Woodbury	Frauenshuh	SWQ of Radio Dr & Bailey Rd	Woodbury	50,000	Planned	Two Story TCO Clinic
610 Zane Medical Office Building	Ryan Companies	Hwy 610 & Zane Ave	Brooklyn Park	40,000	Planned	Anchored by PrairieCare
Crosstown Medical	Interstate Partners	6150 Baker Rd	Minnetonka	30,000	Proposed	Proposed 30,000 SF

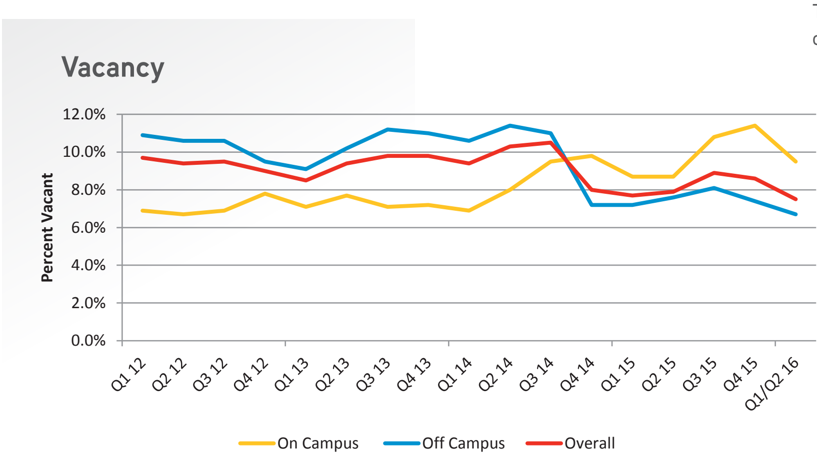
Market Statistics

Submarket	Building SF	Direct Vacant SF	% Vacant Direct	Sublease Vacant SF	% Vacant W/ Sublease	Asking Rate	Average Operating	First Half 2016 Absorption
Minneapolis	351,336	34,836	9.9%	2,739	10.7%	$10.00	$10.55	3,982
NE	1,263,868	94,802	7.5%	8,044	8.1%	$18.27	$12.20	-4,150
NW	1,650,341	111,645	6.8%	1,500	6.9%	$18.28	$12.20	15,552
Saint Cloud	294,587	62,890	21.3%	0	21.3%	$14.00	$18.92	-5,218
SE	1,655,378	111,954	6.8%	35,681	8.9%	$18.36	$12.80	20,605
St. Paul	348,069	39,465	11.3%	0	11.3%	$10.50	$10.50	0
SW	1,904,999	45,580	2.4%	4,150	2.6%	$20.13	$14.73	8,256
Total Off Campus	**7,468,578**	**501,172**	**6.7%**	**52,114**	**7.4%**	**$18.30**	**$12.80**	**39,027**
Abbott Northwestern	480,532	16,681	3.5%	0	3.5%	$17.58	$15.74	25,737
HCMC	161,057	14,550	9.0%	0	9.0%		$15.72	6,130
Maple Grove Hospital	90,000	0	0.0%	0	0.0%			1,725
Mercy	207,256	78,702	38.0%	0	38.0%	$17.00	$11.50	0
North Memorial	99,533	13,183	13.2%	0	13.2%	$15.00	$12.41	0
Ridges	222,700	21,939	9.9%	0	9.9%	$21.00	$15.77	0
Riverside	237,212	22,894	9.7%	0	9.7%	$21.00	$18.49	-18,310
Southdale	451,316	43,965	9.7%	0	9.7%	$21.85	$16.17	564
St. Francis	144,360	0	0.0%	0	0.0%			0
St. Johns	102,437	3,971	3.9%	0	3.9%	$18.50	$15.65	27
St. Josephs	125,498	51,465	41.0%	0	41.0%	$11.00	$12.50	0
United	435,443	19,506	4.5%	0	4.5%	$19.50	$18.88	12,958
Unity	128,500	5,847	4.6%	0	4.6%	$20.00	$13.00	0
WestHealth	181,600	5,692	3.1%	0	3.1%	$21.00	$19.92	(1,750)
Woodwinds	74,938	0	0.0%	0	0.0%	$23.50	$17.33	0
Total On Campus	**3,142,382**	**298,395**	**9.5%**	**0**	**9.5%**	**$18.79**	**$16.02**	**27,081**

Total All Markets

Off Campus	7,468,578	501,172	6.7%	52,114	7.4%	$18.08	$12.80	39,027
On Campus	3,142,382	298,395	9.5%	0	9.5%	$18.79	$16.02	27,081
Totals:	**10,610,960**	**799,567**	**7.5%**	**52,114**	**8.0%**	**$18.43**	**$13.63**	**66,108**

The above table is summarized data on medical office properties greater than 20,000 square feet.



554 offices in
66 countries on
6 continents

United States: **153**
Canada: **34**
Latin America: **24**
Asia Pacific: **231**
EMEA: **112**

$2.5

billion in
annual revenue

2

billion square feet
under management

16,000

professionals
and staff

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