

MINNEAPOLIS-ST. PAUL OFFICE MARKET REPORT



Office-using employment is above pre-recessionary levels; impact of more efficient space usage keeps absorption minimal

MARKET INDICATORS

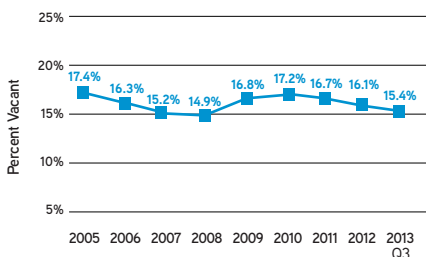
Q3 2013

| | |
|----------------|---|
| VACANCY | ↓ |
| NET ABSORPTION | ↑ |
| RENTAL RATE | ↔ |

VACANCY AND ABSORPTION TRENDS

After absorbing 484,900 square feet in the first half of 2013, absorption slowed during the third quarter to 119,567 square feet. Class B properties absorbed the most space at 50,111 square feet, followed by Class A at 45,020 square feet, and class C at 24,436 square feet. Vacancy was flat at 15.4 percent. Contributing to absorption were TEKsystems and CVS Caremark for over 30,000 square feet at Normandale Lake Office Park. In addition, The Bush Foundation and the St. Paul Foundation combined to absorb 37,175 square feet at the U.S. Bank Center in the St. Paul CBD.

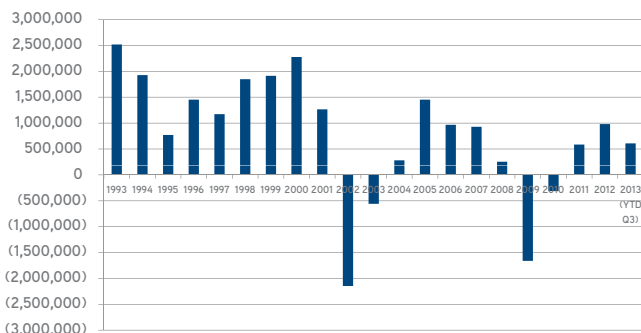
VACANCY



OFFICE DENSIFICATION LIMITS ABSORPTION

Improving corporate confidence and positive employment news isn't always resulting in strong office absorption. As shown by the chart below, office-using employment in Minneapolis-St. Paul is above pre-recessionary levels. In addition, 2012 economic growth in our area was strong at 3.9 percent GDP growth compared to 2.8 percent nationally. And, in contrast to national trends, financial services employment has returned to pre-recession levels, while nationally it is still only about one-third of the way back. In spite of this strong growth, office absorption has not reached levels experienced during other post-recession recovery periods. This includes 2005, when almost 1.5 million square feet was absorbed, and 1993, when over 2.5 million square feet was absorbed, as well as the time between 1998 and 2000, when absorption averaged over 2 million square feet per year.

OFFICE MARKET ABSORPTION - 20 YEAR



OFFICE-USING EMPLOYMENT



Source: St. Louis Federal Reserve

OFFICE DENSIFICATION LIMITS ABSORPTION (CONT'D)

Absorption is stymied by several factors including “densification,” or the contraction of square feet of office space feet per worker. In an effort to encourage collaboration, cut costs, and take advantage of technological advances that allow for more mobile computing, companies are reconfiguring their space plans to include more shared spaces and fewer private offices. The activity indicates companies are confident enough in their businesses to sign and renew leases, but during this process are often reducing the amount of space they use without necessarily reducing the number of employees. Also contributing to the slow activity in the multi-tenant office market is the trend of corporate users such as Xcel Energy, United HealthGroup, and Target to choose to build their own facilities and move out of multi-tenant space. In addition, many companies are still backfilling “shadow” space left vacant due to layoffs or hiring freezes during the recession.

Densification:
The contraction of square feet of office space feet per worker.

DEVELOPMENT

Other than corporations building their own facilities, there is limited development occurring. Instead, we are seeing significant redevelopment, particularly in the Minneapolis CBD. In response to rising construction costs and lengthy construction timeframes, creative developers are renovating older or obsolete properties to add space to the market including the following:

- › Swervo Development is extensively renovating 510 Marquette.
- › The William E. McGee building at 317 Second Ave South is being renovated by NHH Properties and will have a new name, The Downtown at W. McGee.

- › Renovations at The Northwestern Building will be completed in November when new tenant Yamamoto moves in.
- › Centerpoint Energy is under contract, pending city approvals, to convert 100,000 square feet of the vacated Nieman Marcus space into office space for its Minnesota headquarters.
- › Block E could be repurposed to office space or possibly a new Timberwolves practice facility.

ADDITIONAL OFFICE MARKET HIGHLIGHTS

The following are additional highlights of third quarter activity:

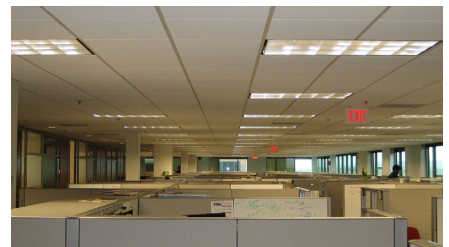
- › While the I-394 Corridor has low Class A vacancy and is the most likely submarket for new office development, several developers have purchased land along the corridor for apartments, narrowing the list of land options for new office development:
 - › Slosburg Co. is proposing The Xenia, a 372-unit apartment complex in Golden Valley at the northwest corner of I-394 and Highway 100.
 - › Trammell Crow is constructing 173 apartment on land next to the Colonnade office building, also in the northwest quadrant of I-394 and Highway 100.
 - › Global One Commercial is planning 300 apartment units and 120 assisted living senior units directly in the northwest corner of I-394 and Highway 100.
 - › Dunbar Development is developing 142 apartments along Highway 55, east of Highway 169.
 - › Dolce Living Homes closed on a site at the West End development, and is planning 158 units at the southwest corner of I-394 and Highway 100.

- › The market is still bifurcated and there is strong competition for the few tenants looking for space at Class C properties or Class B properties lacking upgrades. At the other end of the spectrum, upper floors at premiere properties along Nicollet Mall and Class A properties along the 394 Corridor are pushing rents upward and holding firm on their asking prices.

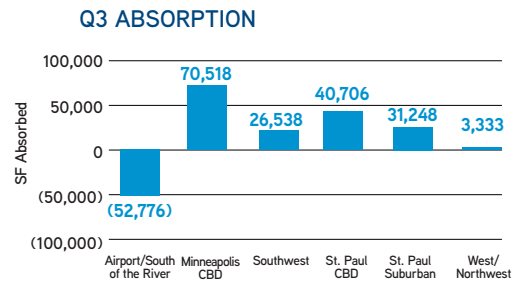
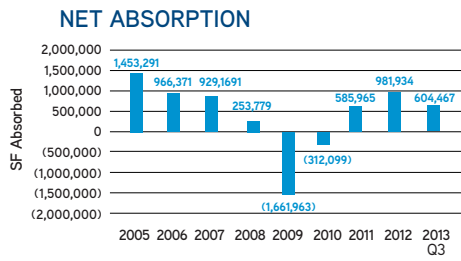
- › Growing companies are looking for locations with strong amenity packages on site or nearby.
- › U.S. Bancorp renewed its lease for six years at US Bank Center in the St. Paul CBD, solidifying their presence in the St. Paul CBD through 2024.

FUTURE TRENDS

We expect continued modest activity for the remainder of 2013, with overall absorption for the second half of the year slower than the first half. In coming years, there is the possibility of negative absorption as tenants, particularly in the Minneapolis CBD, are due to make moves that reduce their occupancy overall. Some of these moves aren't due to take place until late 2014, 2015, and 2016. But due to the strong economic fundamentals of the Minneapolis-St. Paul market and continued financial activities hiring, we expect any dip to be brief, and anticipate longer-term office space demand to be steady, but not as strong as in other recovery periods.



An August 2013 global survey conducted by CoreNet Global found that the average amount of space per office worker globally has dropped to 150 square feet or less, from 225 SF in 2010. In addition, over half of respondents project an average of 100 SF or less per worker as the norm in five years.



SIGNIFICANT LEASE AND SALES ACTIVITY

LEASE ACTIVITY

| TENANT | BUILDING NAME | ADDRESS | CITY | SUBMARKET | SIZE (SF) |
|----------------------|---------------------------|-----------------------|---------------|--------------|-----------|
| West Academic | UBS Plaza | 444 Cedar St | St. Paul | St. Paul CBD | 23,000 |
| U.S. Bank (renewal) | U.S. Bank Center | 101 5th St E | St. Paul | St. Paul CBD | 127,000 |
| Infor Inc. (renewal) | Lawson Commons | 380 St. Peter St | St. Paul | St. Paul CBD | |
| CVS Caremark | 8300 Normandale | 8300 Norman Center Dr | Bloomington | Southwest | 24,000 |
| Vertiva | Golden Hills | 701 Xenia Ave S | Golden Valley | West | 19,016 |
| SuccessFactors | Shady Oak Office Center I | 10901 Red Circle Dr | Minnetonka | Southwest | 22,915 |



U.S. Bancorp renewed its lease for six years at U.S. Bank Center, solidifying their presence in the St. Paul CBD through 2024.

SIGNIFICANT LEASE AND SALES ACTIVITY

SALES ACTIVITY

| BUILDING | ADDRESS | CITY | BUYER | SELLER | SUBMARKET | PRICE | PRICE PSF | SIZE (SF) |
|--|-------------------------------|----------------|-------------------------------------|---|----------------------------|--------------|-----------|-----------|
| Oracle Centre and International Centre | 900 2nd Ave S & 120 10th St S | Minneapolis | Investcorp and Wildamere Properties | JV CrossHarbor Capital Partners & WelshInvest | Minneapolis CBD | \$72,500,000 | \$117 | 622,000 |
| Riverview Office Tower | 8009 34th Ave S | Bloomington | PWA Real Estate | Golub Real Estate | Airport/South of the River | \$29,000,000 | \$123 | 235,000 |
| Nicollet Business Campus VII | 12101-12139 Nicollet Ave | Burnsville | Altus Properties | IRET | Airport/South of the River | \$7,290,000 | \$62 | 118,125 |
| Bloomington Business Plaza | 9201 E Bloomington Ferry | Bloomington | Altus Properties | IRET | Airport/South of the River | \$4,500,000 | \$37 | 121,669 |
| Pillsbury Business Center | 8300-8324 Pillsbury Ave S | Bloomington | Altus Properties | IRET | Airport/South of the River | \$1,160,000 | \$27 | 42,929 |
| One Corporate Center IV | 7301 Ohms Lane | Edina | Hudson Advisors | ORIX USA | Southwest | \$9,000,000 | \$80 | 112,085 |
| 14450 Burnhaven Dr | 14450 Burnhaven Dr | Burnsville | Hillcrest Manor Properties LLC | Minnesota Investments LLC | Airport/South of the River | \$7,500,000 | \$151 | 49,545 |
| Five Star Commerce Center II | 11701-41 95th Ave N | Maple Grove | Hudson Advisors | ORIX USA | Northwest | \$5,875,000 | \$88 | 67,000 |
| Former U.S. Postal Service Center | 180 Kellogg Blvd E | St. Paul | Exeter Realty | U.S. Postal Service | St. Paul CBD | \$5,250,000 | \$7 | 750,000 |
| Bell Tower West | 101 Broadway St W | Osseo | Hudson Advisors | ORIX USA | Northwest | \$2,400,000 | \$50 | 47,604 |
| Westside Office Park | 6009 Wayzata Blvd | St. Louis Park | Westside Office Park I LLC | Westside Office Park LLC | West/ Northwest | \$2,000,000 | \$59 | 33,726 |
| Five Star Commerce Center I | 9464-9496 Hemlock Ln N | Maple Grove | Hudson Advisors | ORIX USA | Northwest | \$1,725,000 | \$37 | 47,116 |
| 13603 80th Circle North | 13603 80th Circle North | Maple Grove | Elm Creek LLC | Terry and Dave Rovick | Northwest | \$1,720,000 | \$89 | 19,303 |
| 1275 Red Fox Road | 1275 Red Fox Road | Arden Hills | Todd Interests | Quality Properties Asset Management Co. | St. Paul Suburban | \$1,525,000 | \$20 | 74,584 |
| 905 Park Ave | 905 Park Ave | Minneapolis | KSM Real Estate LLC | ALMO Investments LLC | Minneapolis CBD | \$1,060,000 | \$73 | 14,530 |



In the largest office building sale during the quarter, Investcorp and Wildamere Properties purchased the 622,000 square foot Oracle Centre and International Centre.

Market Statistics

| SUBMARKET | TOTAL SF | DIRECT VACANT SF | % VACANT DIRECT | SUBLEASE VACANT SF | % VACANT W/SUBLEASE | 3RD QUARTER ABSORPTION | YTD ABSORPTION | QUOTED NET RENTAL RATES |
|-----------------------------------|-------------------|-------------------|-----------------|--------------------|---------------------|------------------------|-----------------|-------------------------|
| AIRPORT/SOUTH OF THE RIVER | | | | | | | | |
| A | 1,787,717 | 333,006 | 18.6% | 3,951 | 18.8% | (32,840) | (51,164) | \$12.51 |
| B | 3,517,702 | 664,004 | 18.9% | 8,197 | 19.1% | (21,218) | (18,248) | \$11.62 |
| C | 1,363,655 | 238,537 | 17.5% | 11,865 | 18.4% | 1,282 | 5,950 | \$9.63 |
| Totals: | 6,669,074 | 1,235,547 | 18.5% | 24,013 | 18.9% | (52,776) | (63,462) | \$11.44 |
| MINNEAPOLIS CBD | | | | | | | | |
| A | 12,854,246 | 1,381,107 | 10.7% | 196,956 | 12.3% | 26,708 | 8,584 | \$16.82 |
| B | 10,903,696 | 1,787,765 | 16.4% | 152,624 | 17.8% | 56,617 | 55,492 | \$11.41 |
| C | 4,281,345 | 728,838 | 17.0% | 236,606 | 22.6% | (12,807) | 32,161 | \$10.18 |
| Totals: | 28,039,287 | 3,897,710 | 13.9% | 586,186 | 16.0% | 70,518 | 96,237 | \$12.18 |
| SOUTHWEST | | | | | | | | |
| A | 9,473,521 | 1,293,442 | 13.7% | 95,437 | 14.7% | 20,847 | 103,462 | \$14.51 |
| B | 5,751,919 | 916,900 | 15.9% | 124,281 | 18.1% | (10,789) | (72,001) | \$11.50 |
| C | 926,675 | 212,428 | 22.9% | 0 | 22.9% | 16,480 | 50,036 | \$10.30 |
| Totals: | 16,152,115 | 2,422,770 | 15.0% | 219,718 | 16.4% | 26,538 | 81,497 | \$12.97 |
| ST PAUL CBD | | | | | | | | |
| A | 2,128,667 | 265,232 | 12.5% | 20,204 | 13.4% | 9,024 | 9,767 | \$12.36 |
| B | 5,016,179 | 1,207,764 | 24.1% | 9,529 | 24.3% | 13,056 | 79,337 | \$10.45 |
| C | 831,936 | 96,325 | 11.6% | 4,003 | 12.1% | 18,626 | 27,109 | NA |
| Totals: | 7,976,782 | 1,569,321 | 19.7% | 33,736 | 20.1% | 40,706 | 116,213 | \$11.01 |
| ST. PAUL SUBURBAN | | | | | | | | |
| A | 2,517,775 | 344,825 | 13.7% | 20,840 | 14.5% | 1,264 | 15,652 | \$14.11 |
| B | 6,519,261 | 964,178 | 14.8% | 17,736 | 15.1% | 31,616 | (1,664) | \$10.68 |
| C | 2,165,179 | 341,203 | 15.8% | 0 | 15.8% | (1,632) | 6,186 | \$9.74 |
| Totals: | 11,202,215 | 1,650,206 | 14.7% | 38,576 | 15.1% | 31,248 | 20,174 | \$11.60 |
| WEST/NORTHWEST | | | | | | | | |
| A | 5,437,479 | 759,832 | 14.0% | 72,313 | 15.3% | 20,017 | 69,714 | \$15.02 |
| B | 5,752,829 | 1,069,928 | 18.6% | 25,276 | 19.0% | (19,171) | 252,746 | \$11.75 |
| C | 2,119,520 | 270,019 | 12.7% | 3,519 | 12.9% | 2,487 | 31,348 | \$7.85 |
| Totals: | 13,309,828 | 2,099,779 | 15.8% | 101,108 | 16.5% | 3,333 | 353,808 | \$12.32 |
| WEST | | | | | | | | |
| A | 4,038,190 | 352,970 | 8.7% | 54,243 | 10.1% | 11,378 | NA | \$16.61 |
| B | 4,013,898 | 552,340 | 13.8% | 18,182 | 14.2% | 26,639 | NA | \$12.18 |
| C | 803,893 | 117,266 | 14.6% | 3,519 | 15.0% | 7,677 | NA | \$8.63 |
| Totals: | 8,855,981 | 1,022,576 | 11.5% | 75,944 | 12.4% | 45,694 | NA | \$13.00 |
| NORTHWEST | | | | | | | | |
| A | 1,399,289 | 406,862 | 29.1% | 18,070 | 30.4% | 8,639 | NA | \$13.43 |
| B | 1,738,931 | 517,588 | 29.8% | 7,094 | 30.2% | (45,810) | NA | \$10.72 |
| C | 1,315,627 | 152,753 | 11.6% | 0 | 11.6% | (5,190) | NA | \$6.94 |
| Totals: | 4,453,847 | 1,077,203 | 24.2% | 25,164 | 24.8% | (42,361) | NA | \$11.26 |
| TOTAL ALL MARKETS | | | | | | | | |
| A | 34,199,405 | 4,377,444 | 12.8% | 409,701 | 14.0% | 45,020 | 156,015 | \$14.46 |
| B | 37,461,586 | 6,610,539 | 17.6% | 337,643 | 18.5% | 50,111 | 295,662 | \$11.35 |
| C | 11,688,310 | 1,887,350 | 16.1% | 255,993 | 18.3% | 24,436 | 152,790 | \$9.40 |
| Totals: | 83,349,301 | 12,875,333 | 15.4% | 1,003,337 | 16.7% | 119,567 | 604,467 | \$12.13 |

The above table is summarized data on multi-tenant office buildings greater than 20,000 square feet. Not included are single-tenant, owner-occupied, medical or government buildings.

Market Statistics (EXPANDED MARKET)

| SUBMARKET | TOTAL SF | DIRECT VACANT SF | % VACANT DIRECT | SUBLEASE VACANT SF | % VACANT W/SUBLEASE | 3RD QUARTER ABSORPTION | YTD ABSORPTION | QUOTED NET RENTAL RATES |
|-----------------------------------|--------------------|-------------------|-----------------|--------------------|---------------------|------------------------|-----------------|-------------------------|
| AIRPORT/SOUTH OF THE RIVER | | | | | | | | |
| A | 4,077,752 | 653,221 | 16.0% | 4,651 | 16.1% | (48,558) | 311 | \$12.59 |
| B | 6,499,075 | 1,080,374 | 16.6% | 8,197 | 16.7% | (56,124) | (37,743) | \$11.58 |
| C | 3,080,009 | 596,769 | 19.4% | 16,034 | 19.9% | 1,689 | 6,244 | \$9.63 |
| Totals: | 13,656,836 | 2,330,364 | 17.1% | 28,882 | 17.3% | (102,993) | (31,188) | \$11.57 |
| MINNEAPOLIS CBD | | | | | | | | |
| A | 13,618,828 | 1,382,229 | 10.1% | 196,956 | 11.6% | 27,038 | 8,584 | \$16.82 |
| B | 12,266,755 | 1,823,825 | 14.9% | 152,624 | 16.1% | 56,617 | 48,102 | \$11.32 |
| C | 6,218,685 | 728,838 | 11.7% | 236,606 | 15.5% | (12,807) | 32,161 | \$10.18 |
| Totals: | 32,104,268 | 3,934,892 | 12.3% | 586,186 | 14.1% | 70,848 | 88,847 | \$12.12 |
| SOUTHWEST | | | | | | | | |
| A | 10,781,288 | 1,342,956 | 12.5% | 202,437 | 14.3% | 20,511 | 96,361 | \$14.41 |
| B | 7,647,921 | 1,054,151 | 13.8% | 137,211 | 15.6% | 6,359 | (79,137) | \$11.38 |
| C | 3,232,574 | 549,804 | 17.0% | 0 | 17.0% | 23,745 | 68,344 | \$10.98 |
| Totals: | 21,661,783 | 2,946,911 | 13.6% | 339,648 | 15.2% | 50,615 | 85,568 | \$12.80 |
| ST PAUL CBD | | | | | | | | |
| A | 2,773,960 | 271,275 | 9.8% | 20,204 | 10.5% | 5,631 | 6,374 | \$14.22 |
| B | 5,953,723 | 1,207,764 | 20.3% | 9,529 | 20.4% | 13,056 | 79,337 | \$10.41 |
| C | 3,032,535 | 124,506 | 4.1% | 6,803 | 4.3% | 18,626 | 27,109 | NA |
| Totals: | 11,760,218 | 1,603,545 | 13.6% | 36,536 | 13.9% | 37,313 | 112,820 | \$11.61 |
| ST. PAUL SUBURBAN | | | | | | | | |
| A | 4,355,002 | 1,085,756 | 24.9% | 20,840 | 25.4% | 721 | 33,116 | \$13.95 |
| B | 10,720,098 | 1,167,755 | 10.9% | 34,586 | 11.2% | 30,923 | (52,213) | \$10.76 |
| C | 7,655,750 | 531,610 | 6.9% | 0 | 6.9% | 1,660 | 6,507 | \$9.71 |
| Totals: | 22,730,850 | 2,785,121 | 12.3% | 55,426 | 12.5% | 33,304 | (12,590) | \$11.56 |
| WEST/NORTHWEST | | | | | | | | |
| A | 7,179,059 | 853,100 | 11.9% | 72,313 | 12.9% | 36,099 | 94,564 | \$14.44 |
| B | 9,200,819 | 1,190,670 | 12.9% | 39,242 | 13.4% | (1,270) | 323,668 | \$11.48 |
| C | 5,246,353 | 293,501 | 5.6% | 3,519 | 5.7% | 120,485 | 168,559 | \$8.77 |
| Totals: | 21,626,231 | 2,337,271 | 10.8% | 115,074 | 11.3% | 155,314 | 586,791 | \$12.13 |
| TOTAL ALL MARKETS | | | | | | | | |
| A | 42,785,889 | 5,588,537 | 13.1% | 517,401 | 14.3% | 41,442 | 239,310 | \$14.25 |
| B | 52,288,391 | 7,524,539 | 14.4% | 381,389 | 15.1% | 49,561 | 282,014 | \$11.25 |
| C | 28,465,906 | 2,825,028 | 9.9% | 262,962 | 10.8% | 153,398 | 308,924 | \$9.64 |
| Totals: | 123,540,186 | 15,938,104 | 12.9% | 1,161,752 | 13.8% | 244,401 | 830,248 | \$12.05 |

The above table is summarized data on multi and single-tenant office buildings greater than 10,000 square feet. Owner-occupied properties are also included. Not included are government or medical buildings.



482 offices in
62 countries

- **\$2** billion USD in annual revenue
- **13,500** professionals and staff
- **1.2** billion* square feet under management
- **\$71** billion USD in total transaction value

* Together, Colliers International and FirstService manage 2.51 billion square feet of property - second largest in the world.

Minneapolis-St. Paul
4350 Baker Road, Suite 400
Minnetonka, MN 55343
DIRECT 952 897 7700
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