

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

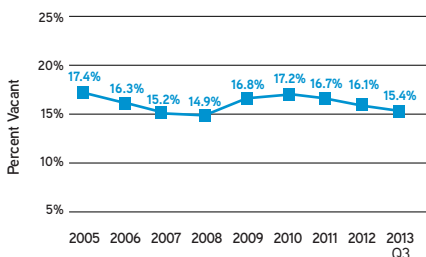
Q3 2013

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.

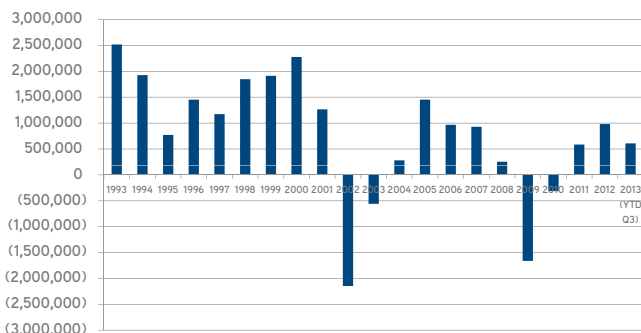
VACANCY



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:

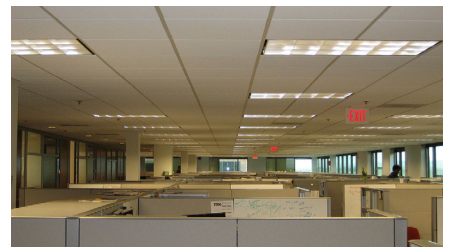
- › While the I-394 Corridor has low Class A vacancy and is the most likely submarket for new office development, several developers have purchased land along the corridor for apartments, narrowing the list of land options for new office development:
 - › Slosburg Co. is proposing The Xenia, a 372-unit 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.

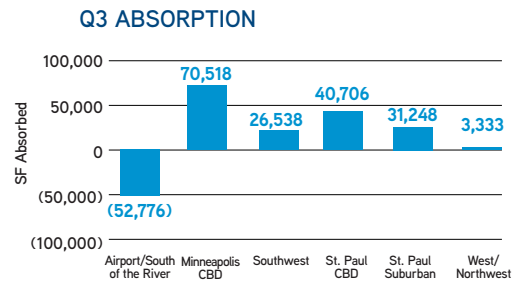
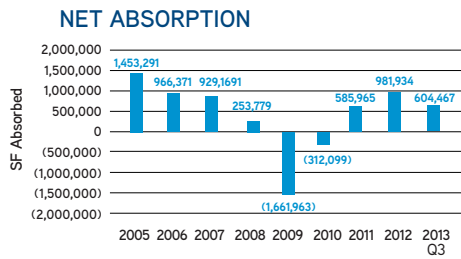
- › Growing companies are looking for locations with strong amenity packages on site or nearby.
- › U.S. Bancorp renewed its lease for six years at US Bank Center in the St. Paul CBD, solidifying their presence in the St. Paul CBD through 2024.

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.

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