

Minneapolis, Minnesota

Tenant's Guide ■ North American Markets ■ Second Quarter 2010

Overview

The primary inputs to the real estate cycle evidence gradual, if uneven, advances yet rents and vacancies seem to be stagnating. Employment figures inch up and consumer confidence is on the rise. Manufacturers are reporting modest gains in orders and output. The major regional indexes all point to continued growth for the next three to six months, and interest rates remain steady. Long range confidence is weakened by the potential "double dip" recession, and we don't see the balance of power in the market shifting back toward the landlords any time soon.

Market Trends

- Vacant space remains in abundant supply. Geographic variations are most evident in the inventory of large office availabilities, but good supply is generally available across the region.
- Landlords are becoming less willing to negotiate with small users, saving their incentives and allowances for the bigger deals that solve bigger problems.
- We continue to see encouraging industrial production reports, suggesting that manufacturing employment may be inching back and that industrial users will begin carrying a little more inventory and needing a little more space. A good sign, albeit modest, for the flagging industrial sector here.
- There is a growing disconnect between the quantity and quality of industrial vacancies. Good space (high ceilings, A/C, heavy power) is getting scarcer, while low-clear older buildings abound.
- The credit markets don't seem to be opening up many new opportunities. Even the most traditional new projects (office or housing) are finding funding through the most non-traditional sources. Creativity has a new premium value.

Tenant's Perspective

Larger tenants are finding very eager landlords as the market works to find a new equilibrium. The velocity of deals getting done is starting to pick up, and landlords are reporting more general activity, but the impacts are difficult to witness in the numbers. We are also seeing the significant amount of shadow space take its toll on the market, as many relocating companies are downsizing or shedding their excess capacity. Subleases are seeing little activity as most tenants want to secure the current market conditions for as long as possible. It remains a good time to be a user.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Block E	250,000	Retail	Sale
Capella Univ.	90,000	Office	Lease
ev3	85,000	Office	Lease
Plato Learning	27,500	Office	Lease
Charles Schwab	5,000	Office	Lease

Vacancy Rate



Average Rental Rates

CBD	Q4 2009	Q1 2010	Q2 2010
Class A Office	\$24.00	\$24.00	\$24.50
Class B Office	\$22.00	\$22.00	\$22.00
Suburban	Q4 2009	Q1 2010	Q2 2010
Class A Office	\$23.00	\$23.00	\$24.00
Class B Office	\$21.00	\$21.00	\$21.00
R&D	\$5.75	\$6.00	\$6.00

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