



## Twin Cities Office Market Update July 31, 2009

### Overview

The Twin Cities office market performed slightly worse in the 2<sup>nd</sup> Quarter 2009 than the 1<sup>st</sup> Quarter this year. The overall vacancy rate increased from 12.99% to 13.92%. The market posted negative net absorption of 517,809 square feet in 2<sup>nd</sup> Quarter. The negative trend continues because companies continue to downsize due to the sluggish economy.

The Twin Cities unemployment rate is currently 8.2%, which is below the national unemployment rate of 9.4%. Over the past year Minnesota has lost 3.4% of its jobs. Many office tenants are remaining at their current locations refusing to expand or sign long term leases. Most companies are renegotiating early lease renewals to take advantage of lower rental rates and will look at signing long term deals when the economy recovers.

New developments are scarce and real estate sales are slow thanks to the lack of liquidity in the market. The only buyers in the market are the owner/occupants as investors are struggling to find tenants to fill the many vacancies available in most office buildings.

### Southeast Submarket

The southeast office submarket had negative net absorption of 26,068 square feet during 2<sup>nd</sup> Quarter 2009 and the year to date net absorption is a negative 97,736 square feet.. The vacancy rate is currently at 14.35%. There is a lot of vacant space in this submarket and even more coming available as Delta vacates and sells the 264,000 square foot former Northwest Airlines' headquarters and 60-acres of land in Eagan.

#### Recent Lease Transactions:

<u>Tenant</u>	<u>Building</u>	<u>Size</u>	<u>City</u>
• Read Naturally	Waters Bus. Pk. III	13,513	Eagan

#### Recent Sale Transactions:

<u>Address</u>	<u>Size</u>	<u>Price</u>	<u>Price PSF</u>	<u>City</u>
• 7685 Juniper Path	36,981	2,750,000	\$74.36	Lakeville
• 7570 147 <sup>th</sup> St. W.	2,400	\$159,000	\$66.25	Apple Valley

### Southwest Submarket

The southwest office submarket had negative net absorption of 40,583 square feet during 2<sup>nd</sup> Quarter 2009 and the year to date net absorption is a negative 63,072 square feet. The vacancy rate is currently at 15.3%, which means this submarket has the highest vacancy

percentage in the Twin Cities. Rental rates in this submarket are continuing to decrease as Landlords make an effort to retain tenants, providing excellent opportunities for tenants to renew existing leases or relocate to better space.

Recent Lease Transactions:

<u>Tenant</u>	<u>Building</u>	<u>Size</u>	<u>City</u>
• PeopleNet	4400 Baker Rd	50,731	Minnetonka
• Fidelity Residential Solutions	Crosstown Woods	10,541	Eden Prairie

Recent Sale Transactions:

<u>Address</u>	<u>Size</u>	<u>Price</u>	<u>Price PSF</u>	<u>City</u>
• 14800 Charlson Rd	153,028	22,569,666	\$147.49	Eden Prairie
• 6889 Rowland Rd	28,600	\$4,825,000	\$168.71	Eden Prairie

**West/Northwest Submarket**

The West/Northwest office submarket had the best performance of all the submarkets with a negative net absorption of 10,424 square feet during 2<sup>nd</sup> Quarter 2009 and the year to date net absorption is a negative 12,765 square feet. The vacancy rate is currently at 12.05%. Vacancy in this submarket is slightly up, although there is limited Class A space available.

Recent Lease Transactions:

<u>Tenant</u>	<u>Building</u>	<u>Size</u>	<u>City</u>
• Metro North	4111 Central Ave NE	5,141	Columbia Heights

Recent Sale Transactions:

<u>Address</u>	<u>Size</u>	<u>Price</u>	<u>Price PSF</u>	<u>City</u>
• 7001 78 <sup>th</sup> Ave. N. #100	2,400	\$270,000	\$112.50	Brooklyn Park
• 3660 Technology Drive	167,400	\$6,100,000	\$36.44	Minneapolis

**Minneapolis CBD Submarket**

The Minneapolis CDB office submarket negative net absorption of 221,904 square feet during 2<sup>nd</sup> Quarter 2009 and the year to date net absorption is a negative 440,873 square feet. The vacancy rate is currently at 14.04%. There is a lot of sublease space available in this submarket as well since many of the large office users downtown are downsizing and not renewing their leases. However, this allows new users a great opportunity to lease nice office space for great rates and terms.

Recent Lease Transactions:

<u>Tenant</u>	<u>Building</u>	<u>Size</u>	<u>City</u>
• Jackson Lewis	225 South Sixth	7,993	Minneapolis

Recent Sale Transactions:

<u>Address</u>	<u>Size</u>	<u>Price</u>	<u>Price PSF</u>	<u>City</u>
• 929 Portland Ave	10,000	\$2,100,000	\$210.00	Minneapolis
• 1010 Park St.	11,469	\$285,000	\$24.85	Minneapolis



## **St. Paul Suburban Submarket**

The St. Paul Suburban office submarket had an increase in vacancy from 1<sup>st</sup> Quarter to 2<sup>nd</sup> Quarter 2009 with a negative net absorption of 165,218 square feet and the year to date net absorption is a negative 178,417 square feet. The vacancy rate is currently at 12.56%. This market is saturated with medical office space which in the past has kept this submarket afloat. However, many of the medical users are currently putting expansions and relocations on hold for the remainder of 2009.

### Recent Lease Transactions:

<b><u>Tenant</u></b>	<b><u>Building</u></b>	<b><u>Size</u></b>	<b><u>City</u></b>
• Hmong College Prep Academy	Hamline Office Park	15,057	St. Paul

### Recent Sale Transactions:

<b><u>Address</u></b>	<b><u>Size</u></b>	<b><u>Price</u></b>	<b><u>Price PSF</u></b>	<b><u>City</u></b>
• 312 E. Count Rd. D.	3,268	\$500,000	\$153.00	Little Canada
• 5898 Omaha Ave. N.	8,000	\$410,000	\$51.25	Oak Park Heights

## **Prediction**

The Twin Cities office market will continue to stay relatively flat for the remainder of 2009 and early into 2010 but we should start to see improvements all around toward the middle and end of 2010. The vacancy rate for the overall market will continue to increase in 2009 due to more companies downsizing and not renewing. More sublease space will saturate the market for another year but will eventually be absorbed near the end of 2010.

Expect rental rates to continue to decrease slightly as Landlords try to renew tenants and lease vacant space. Landlords will also be providing added incentives like additional free rent, high tenant improvement packages and will be more willing to accept shorter term leases.

On the sale side of the industry Sellers can expect property values to remain at or below their current levels. If the financial markets don't become more accessible Buyers won't be as motivated to purchase properties and instead will continue to lease space.

Investment sales will remain at a minimum because there are fewer investment properties on the market, cap rates are increasing to 9% and higher and financing is making it impossible for buyers to rationalize putting new money into the market.



## Twin Cities Retail Market Update July 31, 2009

### Overview

The Twin Cities Retail market had a weak 2<sup>nd</sup> Quarter 2009 with the vacancy rate increasing to 5.1% and net absorption posting a negative 8,334 square feet. The year to date absorption level is still a positive 43,289 square feet but only because of positive performance in the Minneapolis CBD. In the 2<sup>nd</sup> Quarter the Community Centers performed the best and the Neighborhood and Regional Centers performed the worst.

The Twin Cities Retail market has been struggling for several quarters now due to the poor economy. The unemployment rate is close to its highest level since WWII and the financial markets are making it near impossible for retailers to survive as consumers have no money available to spend.

New construction is still proceeding but very slowly and mostly upon significant preleasing. Spec development is gone for now and only premium sites are under construction. Financing is still making it very tough for developers to build so unless a project is 50-75% preleased most developers aren't able to build.

The Gas Station/C-Store industry within the retail sector is really struggling. Buyers are finding it impossible to acquire financing and a poor economy is causing many of these businesses to go dark. Sellers are finding it difficult to find qualified buyers and the prices have dropped significantly over the past 12 months.

However, there is a light at the end of the tunnel for retail. The Consumer Confidence Index did improve in May to its highest level since September 2008 and industry

### Southeast Submarket

The southeast Retail submarket had negative net absorption of 20,904 square feet during 2<sup>nd</sup> Quarter 2009 and the year to date net absorption is a negative 3,795 square feet.. The vacancy rate is currently at 4.6%. The best performers in this submarket are the Community Centers which have a grocery store, Target or Wal-Mart as the anchor tenant.

There are a few new retail developments in this submarket which are not performing well, most of which remain vacant. Diffley Crossing in Eagan is a 19,160 square foot multi-tenant retail development that is vacant as is Waterford Commons in Rosemount which has 13,000 square feet available.

<u>Tenant</u>	<u>Building</u>	<u>Size</u>	<u>City</u>
• Saver's	Apple Valley Square	22,168	Apple Valley

Recent Sale Transactions:

<u>Address</u>	<u>Size</u>	<u>Price</u>	<u>Price PSF</u>	<u>City</u>
• 14075 Hwy 13	89,653	\$997,267	\$11.12	Savage
• 3098 65 <sup>th</sup> St. E.	12,718	\$997,000	\$78.39	Inver Grove Hts

**Southwest Submarket**

The southwest Retail submarket had negative net absorption of 68,639 square feet during 2<sup>nd</sup> Quarter 2009 and the year to date net absorption is a negative 55,613 square feet. The vacancy rate is currently at 4.24%. This submarket had the most activity in the Twin Cities even though it had the largest negative absorption.

A few retailers new to the Twin Cities have opened their first stores in this submarket including Jason's Deli, a Texas based health food restaurant chain that opened their doors in Eden Prairie and Toby Keith's I Love This Bar & Grill who opened their doors at the Shoppes West End in St. Louis Park.

Recent Lease Transactions:

<u>Tenant</u>	<u>Building</u>	<u>Size</u>	<u>City</u>
• Men's Warehouse	Burnsville Marketplace	5,205	Burnsville

Recent Sale Transactions:

<u>Address</u>	<u>Size</u>	<u>Price</u>	<u>Price PSF</u>	<u>City</u>
• 14800 Charlson Rd	153,028	22,569,666	\$147.49	Eden Prairie
• 11609 Leona Rd	41,050	\$3,459,603.13	\$84.28	Eden Prairie

**Northeast Submarket**

The Northeast Retail submarket had positive net absorption of 24,935 square feet in the 2<sup>nd</sup> Quarter 2009. The vacancy rate has pretty much stayed the same at 5.6%. This submarket saw the least amount of activity in the 2<sup>nd</sup> Quarter although there are a few deals on the horizon that will be completed before the end of the year. CVS Pharmacy is opening a store in Little Canada and Sonic just broke ground at Northtown.

Recent Lease Transactions:

<u>Tenant</u>	<u>Building</u>	<u>Size</u>	<u>City</u>
• Osaka	Rosedale Square	7,213	Roseville

Recent Sale Transactions:

<u>Address</u>	<u>Size</u>	<u>Price</u>	<u>Price PSF</u>	<u>City</u>
• 19 Century Ave. N.	2,400	\$340,000	\$141.67	Maplewood
• 2741 County Road E	1,989	\$475,000	\$238.81	White Bear Lake

**Prediction**

The Twin Cities Retail market will continue to stay relatively flat for the remainder of 2009 and 2010 but we should start to see improvements all around toward the end of 2010 and into 2011. The vacancy rate for the overall market will continue to increase minimally in 2009 as some retailers continue to struggle. Consumers will continue to be

cautious about their spending leading. However, Consumer Confidence is beginning to grow and that will lead to increased spending in the near future.

Landlords can expect to see lower rental rates and increased concessions. Many will have to offer temporary rent adjustments to help existing tenants survive and the owners of new developments will have to offer big rent breaks and larger tenant improvement allowances to land new tenants. As more vacancies open up there will be more competition from existing retail buildings to compete with making it more difficult to lease new construction.

Investment sales will remain at a minimum unless the seller is forced to sell due to readjusting or balloon mortgages. Cap rates are continuing to increase for retail investment properties creating opportunities for investors with cash. Although we haven't hit the bottom for the retail industry yet so retail investment is still a more risky purchase.