

Minneapolis Trends

A Quarterly Overview of Socioeconomic & Housing Trends in Minneapolis



third quarter 2006

Highlights for the third quarter of 2006

- Although increasing slightly from last quarter, at 4 percent unemployment is lower than one year ago, while total labor force and employment remained higher in the city than one year ago. *see page 4*
- The number of permits issued for new residential units in Minneapolis was very high because of the volume of new multifamily units; 65 percent of all the new multifamily units permitted in the entire metropolitan area during this quarter were in Minneapolis. *see page 12*
- Rental vacancy rate declined to 2.7 percent, its lowest level since 2001, while rents continued to increase slightly *see page 24*
- The number of residential sales dropped sharply from the previous quarter, but median sale prices remained higher than last year *see page 27*
- Foreclosure sales continued to increase steadily since the beginning of the year *see page 28*
- Office vacancy rates decreased in the Minneapolis central business district, while the average asking lease price was slightly higher than last year *see page 30*

In the first quarter of 2006 (most recent data available)

- There were 2.4 percent more jobs in the city than in the same period last year *see page 5*
- Overall wage and salary levels increased in inflation-adjusted dollars *see page 7*



City of Minneapolis
Department of Community Planning
& Economic Development - CPED

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Minneapolis Trends

third quarter 2006



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ECONOMIC INDICATORS

- The number of people in the labor force (people with jobs and people looking for work) increased, as did the number of people employed. There were more people employed this quarter than the third quarter last year (Table 1).
- Unemployment increased slightly to 4 percent this quarter but remained lower than the same quarter last year.
- Despite a slight decrease from the fourth quarter, job growth continued to be strong: In the first quarter of 2006, there were 6,889 more jobs in the city than in the same period of 2005 – a growth of 2.4 percent (Table 2).
- Overall wage and salary levels increased in inflation-adjusted dollars since the same period last year in Minneapolis, in the region and in the state.

LABOR FORCE

The labor force (people with jobs and people looking for work) increased by 0.3 percent from a year earlier. There were more people in the labor market this quarter than at any time in the last year.

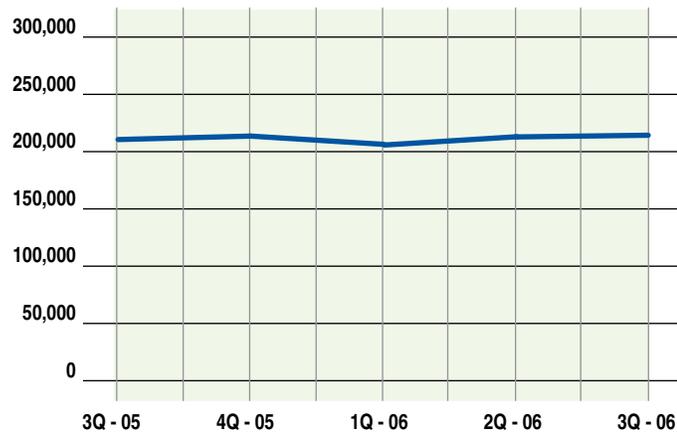
Employment levels of City residents were up by 0.5 percent from the same time a year ago. Unemployment was 4 percent this quarter, down from 4.2 percent last year, but up from 3.8 percent last quarter.

Table 1: **LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT** – Minneapolis

	2005 3Q-04	4Q-05	2006 1Q-06	2Q-06	3Q-06
Labor Force	223,195	223,389	219,613	222,241	223,815
Employment	213,884	214,949	210,328	214,060	214,931
Unemployment Rate	4.2%	3.8%	4.2%	3.8%	4.0%

Source: Minnesota Department of Employment and Economic Development (DEED)
- Labor Market Information.

Figure 1: **AVERAGE EMPLOYMENT** – Minneapolis



Source: CPED with data from Minnesota Department of Employment and Economic Development (DEED)
- Labor Market Information

JOBS

The most recent figures available are from the first quarter of 2006. The number of jobs located in Minneapolis increased from the previous year by 2.4 percent but decreased from the previous quarter by 1.1 percent. Categories showing the most year-to-year growth in overall number of jobs were finance and insurance (adding 3,230 jobs), professional and technical services (nearly 1,400 jobs) and the management of companies and enterprises (more than 1,300 jobs.) These sectors grew at 11.9 percent, 5 percent and 9 percent respectively.

Table 2: **AVERAGE NUMBER OF JOBS BY INDUSTRY – Minneapolis**

	1Q-2005	2Q-2005	3Q- 2005	4Q- 2005	1Q-2006
Total, all industries	282,345	286,991	288,897	292,392	289,234
Manufacturing	16,649	16,611	16,765	16,776	16,859
Utilities*	3,267	3,158	3,114	3,145	3,038
Wholesale trade	9,452	9,569	9,819	9,694	9,642
Retail trade	16,062	16,754	16,660	17,328	15,048
Transportation and warehousing*	4,489	4,445	4,312	4,577	4,368
Information	11,191	11,521	11,633	11,500	10,919
Finance and insurance*	27,150	27,630	27,984	28,067	30,383
Real estate and rental and leasing	6,103	6,271	6,415	6,353	6,244
Professional and technical services*	27,894	28,231	29,147	29,186	29,289
Management of companies and enterprises	14,768	14,857	14,583	15,216	16,082
Administrative and waste services*	13,098	13,951	14,684	15,239	14,269
Educational services	27,949	27,401	25,441	27,880	28,559
Health care and social assistance	42,119	42,164	42,680	42,645	42,826
Arts, entertainment and recreation*	4,591	5,011	4,898	4,979	4,489
Accommodation and food services	21,073	22,064	22,579	22,288	21,195
Other services*	10,302	10,568	10,680	10,710	10,229
Public administration	12,772	12,943	13,293	12,865	12,376

Source: Minnesota Department of Employment and Economic Development (DEED)
- Minnesota Quarterly Census, Employment and Wages

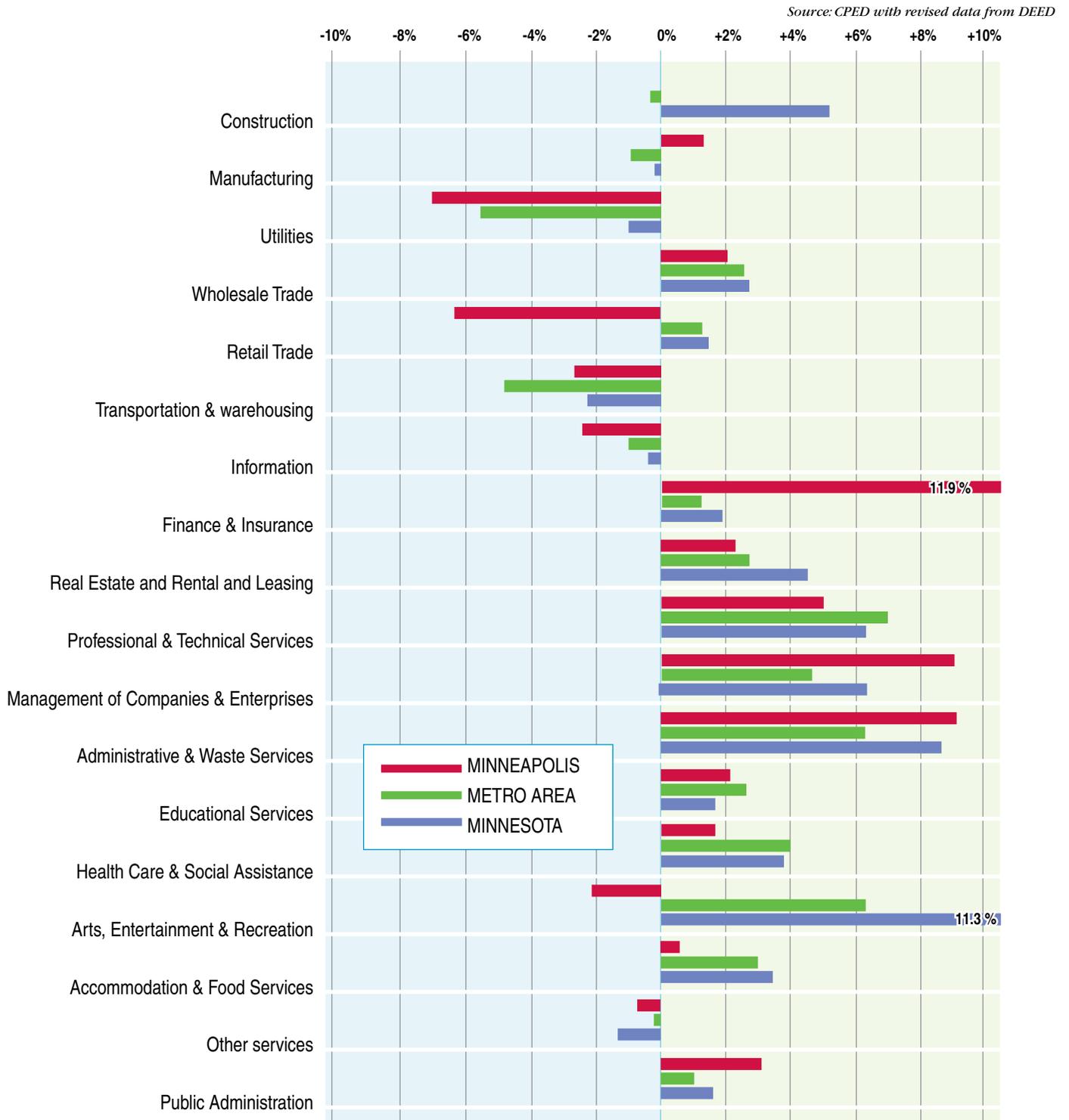
* Private jobs only

- (1) Natural resources-based industries and agriculture, fishing and forestry employment are not shown in the table. Some industry numbers may not be disclosed because of privacy issues, so totals do not add up. Table reflects latest revision by DEED.

JOBS

From the first quarter of 2005 to the first quarter of 2006, the number of jobs increased in many economic sectors and decreased in others. Seven sectors grew in Minneapolis, in the region and in the state: finance, real estate, professional and technical services, management of companies, administrative and waste services, educational services and health care. Arts, entertainment and recreation did particularly well in the state and the metro area where they expanded by 11.3 percent and 6.2 percent respectively. Finance and insurance grew fast in Minneapolis, adding 11.9 percent more jobs in the city, but it grew slowly in the region and the state. Professional and technical services jobs increased faster in the metro region than in either the city or the state. In contrast, the utilities sector lost jobs everywhere. The city was hit hardest, losing 7 percent of its utilities jobs. The transportation and warehousing sector declined in the metro area by 4.8 percent, more than in the state or the city. Retail declined more in the city than in the region or the state, with 6.3 percent of its jobs lost. Public administration declined by 3.1 percent in the city but grew in the metro area and the state.

Figure 2: **JOBS** – 1Q-2005 TO 1Q-2006 – percent change



WAGES

The average weekly wage in Minneapolis in the first quarter of 2006 was \$1,107, a nominal increase of \$56 (\$41 in inflation-adjusted dollars*) from the same period the previous year. Wages increased in most economic sectors during this period. The sector with the highest year-to-year wage increases was utilities (a sector with diminishing jobs), which increased by \$424 (\$402 in inflation-adjusted dollars*). The other two sectors that increased the most were finances and insurance (which increased \$130 or \$98 in inflation-adjusted dollars*) and professional and technical services (an increase of \$95 or \$76 in inflation-adjusted dollars*). Four sectors saw their average weekly wages diminish: wholesale trade, retail trade, real estate and management of companies. This last sector dropped dramatically by \$327 (\$352 in inflation-adjusted dollars*).

* For conversion index, see page 11

Table 3: **AVERAGE WAGE PER WEEK** – Minneapolis
in current dollars

INDUSTRY	1Q-05	2Q-05	3Q-05	4Q-05	1Q-06
Total, all industries (1)	\$1,051	\$969	\$1,002	\$1,043	\$1,107
Manufacturing	\$962	\$911	\$938	\$1,045	\$1,021
Utilities*	\$1,594	\$1,595	\$1,634	\$1,622	\$2,018
Wholesale trade	\$1,124	\$1,020	\$1,074	\$1,158	\$1,104
Retail trade	\$539	\$582	\$623	\$587	\$494
Transportation & warehousing*	\$599	\$638	\$699	\$686	\$625
Information	\$1,120	\$1,043	\$1,071	\$1,116	\$1,184
Finance & insurance*	\$2,289	\$1,430	\$1,500	\$1,684	\$2,419
Real estate & rental and leasing	\$1,194	\$916	\$988	\$1,071	\$1,147
Professional & technical services*	\$1,327	\$1,455	\$1,410	\$1,718	\$1,422
Management of companies & enterprises	\$1,804	\$1,578	\$1,617	\$1,508	\$1,477
Administrative & waste services*	\$562	\$555	\$589	\$571	\$594
Educational services	\$920	\$904	\$1,035	\$909	\$995
Health care & social assistance	\$793	\$830	\$873	\$894	\$887
Arts, entertainment & recreation*	\$947	\$1,154	\$1,299	\$932	\$1,004
Accommodation & food services	\$312	\$324	\$341	\$338	\$338
Other services*	\$511	\$529	\$553	\$542	\$533
Public administration	\$964	\$996	\$987	\$1,066	\$974

Source: CPED with data from DEED - Minnesota Quarterly Census, Employment and Wages

* Only private wages

(1) Natural resources and agriculture, fishing and forestry employment are not counted. Some industry numbers may not be disclosed because of privacy issues. Table reflects the latest revisions by DEED.

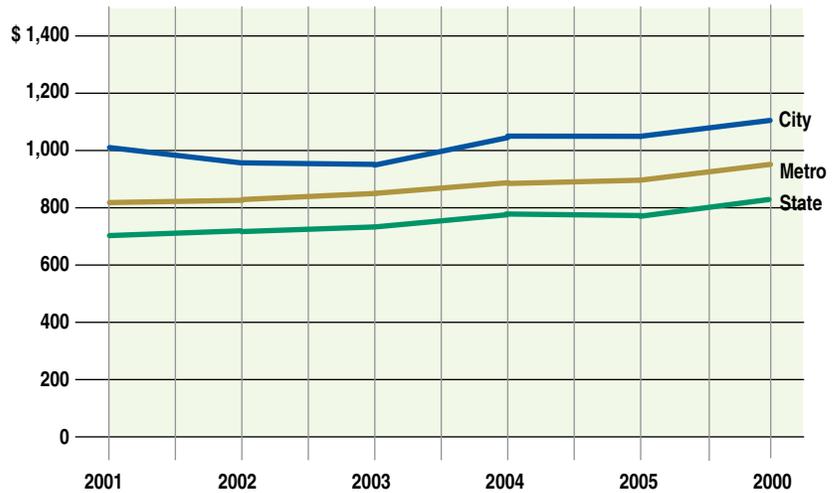
WAGES

In general, jobs in Minneapolis continued to command higher average weekly wages than jobs in the metropolitan area or the state. First-quarter wages in Minneapolis increased 5.3 percent from 2005 to 2006. In this period, the city growth was somewhat slower than the metro area or the state, where wages grew 5.8 percent and 5.9 percent respectively. In inflation-adjusted dollars*, though, growth was 4.3 percent in the metro area and only 2.6 percent in the state, which is lower than the city's rate at 3.9 percent.

With a few exceptions, the overwhelming majority of industries increased wages in inflation-adjusted dollars since the first quarter of 2005 in the city, the region and the state. The exceptions were the management of companies, and to a lesser degree, real estate, wholesale and retail trades in Minneapolis, and transportation and warehousing in the metro area and state.

* For conversion index, see page 10

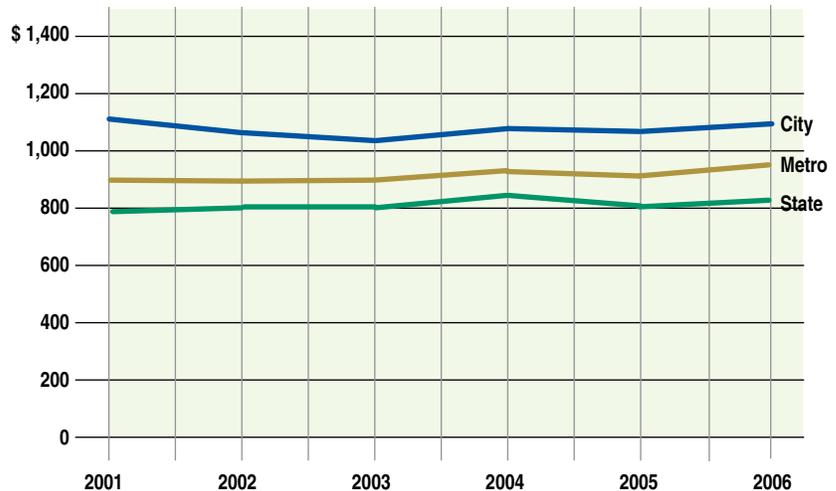
Figure 3: **AVERAGE WEEKLY WAGES – 1Q-06**
in current dollars



Source: CPED with data from DEED.

	2001	2002	2003	2004	2005	2006
Minneapolis	\$ 1,006	\$ 966	\$ 960	\$ 1,034	\$ 1,051	\$ 1,107
Metro area	\$ 824	\$ 831	\$ 848	\$ 900	\$ 901	\$ 953
Minnesota	\$ 715	\$ 724	\$ 740	\$ 784	\$ 782	\$ 828

Figure 4: **AVERAGE WEEKLY WAGES – 1Q-06**
in first half of year 2006 dollars



Source: CPED with data from DEED.

Total values adjusted to dollars for the first half of 2006 based on Bureau of Labor Statistics' Consumer Price Index for all urban consumer goods.

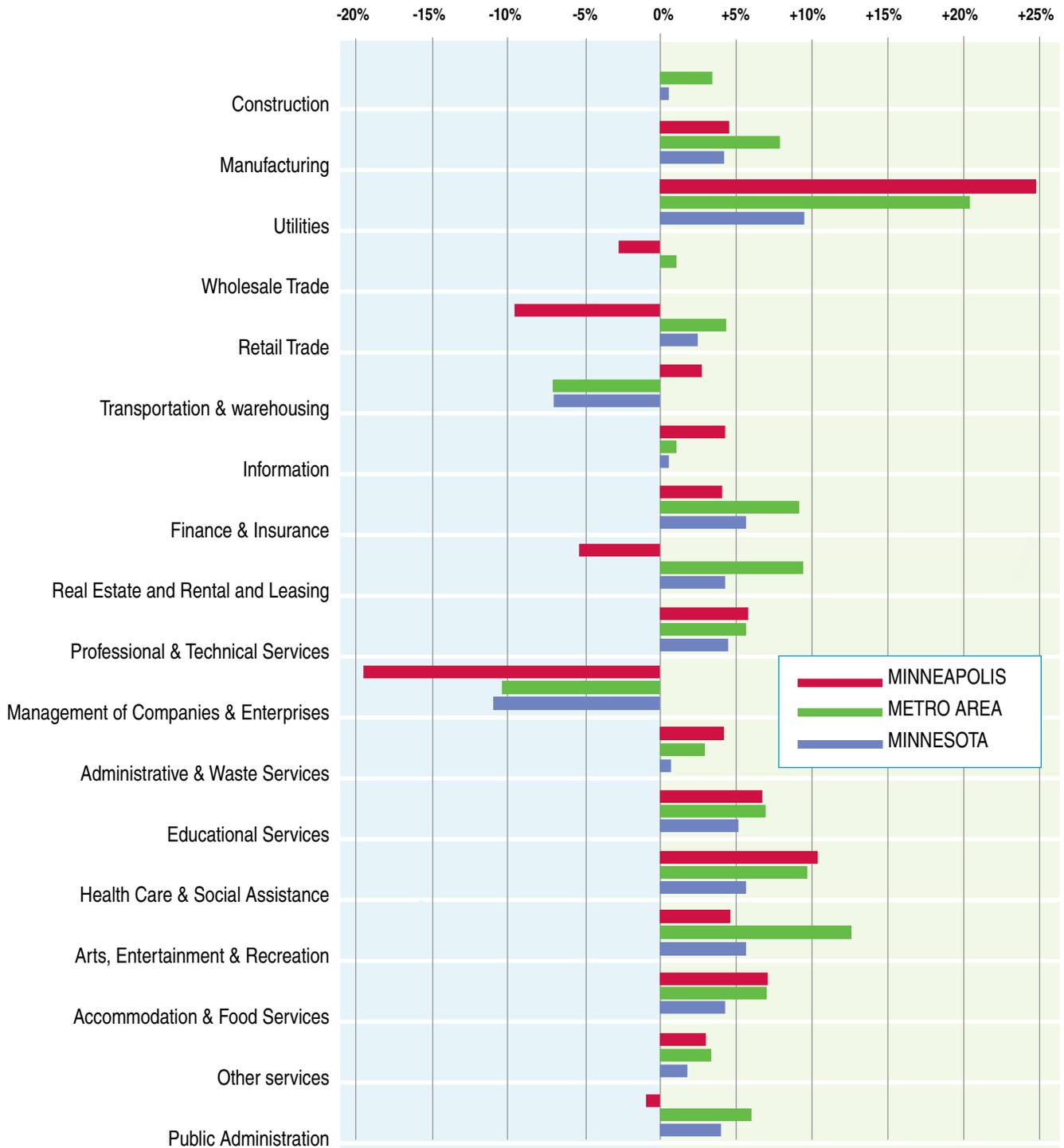
	2001	2002	2003	2004	2005	2006
Minneapolis	\$ 1,120	\$ 1,051	\$ 1,031	\$ 1,081	\$ 1,066	\$ 1,107
Metro area	\$ 917	\$ 904	\$ 911	\$ 941	\$ 914	\$ 953
Minnesota	\$ 796	\$ 801	\$ 801	\$ 832	\$ 807	\$ 828

WAGES

The following graph shows percentage changes by industry in the city, the metro area and the state.

Figure 5: **AVERAGE WEEKLY SALARIES** – 1Q-05 to 4Q-06
in inflation-adjusted dollars

Source: CPED with data from DEED



DEFINITIONS & SOURCES

Labor Force, Employment and Unemployment: Labor force, employment and unemployment by place of residence are based on monthly figures from the Minnesota Department of Employment and Economic Development. Labor force is the average number of non-farm workers employed or looking for a job at a given time. Table 1 presents quarterly information for the city.

Jobs and Wages: Average number of jobs by industry is based on data of all establishments covered under the Unemployment Insurance System, which includes about 97 percent of Minnesota employment. Some categories of employment are excluded, including sole proprietors, self-employed people, railroad workers, elected government officials and others working on a commission basis. Tables 2 and 3 show data to two digits by industry in the North American Industry Classification System (NAIC) for Minneapolis, the seven-county metropolitan area and Minnesota.

Inflation-adjusted figures: Values reported in most tables in this section of the report are expressed in current dollars (not adjusted for inflation). For analysis purposes, however, text is based on these table values converted to constant (inflation-adjusted) dollars based on the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) for all urban consumer goods in the Minneapolis-St. Paul, MN-WI statistical metropolitan area and the Midwest urban areas. For the first quarter of 2006, dollars have been converted with an index reflecting the CPI for the first half of the respective years from 2000 to 2006 with 2006 as a base year. To look at the indexes go to: www.bls.gov/cpi/home.htm and click on "All urban consumers (current series)".

DEVELOPMENT INDICATORS

- The number of permits issued to build new residential units increased fast in Minneapolis, thanks to a high volume of new multifamily housing, but decreased in the metro area as single-family construction slowed down.
- In the first three quarters of 2006, a total of 1,576 new housing units were permitted in Minneapolis, more than the entire output for 2005 (1,506 units).
- This quarter, Minneapolis had 65 percent of all the permits for new multifamily units in the entire metropolitan area. Because of the high volume of units, the projected total construction cost for this type of construction increased, but the average cost per unit decreased.
- The number of remodeling and conversion permits for both residential and non-residential buildings in the city slightly decreased from the last quarter, but it increased from one year ago. Conversion projects this quarter will add 102 new residential units.

NEW RESIDENTIAL CONSTRUCTION

In Minneapolis, the rate of new residential construction continued increasing, surpassing last year's fourth-quarter high because of strong activity in multifamily construction. In the metropolitan area, new residential construction decreased by 2.6 percent since last quarter and by 22.3 percent since last year at this time. In the first three quarters of 2006, Minneapolis doubled the number of units permitted in the same period last year. The metro area slowed down, a reflection of declining single-family construction.

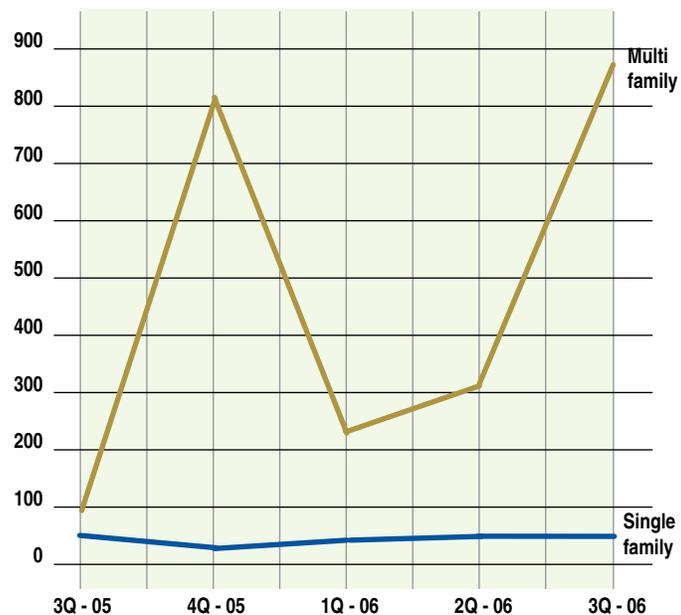
In Minneapolis, new construction for multifamily units surged since last quarter. There were 564 more units permitted this quarter than last quarter, and 784 more than one year ago, when activity was particularly slow. Of all the new multifamily units permitted in the entire metropolitan area during this quarter, 65 percent were in Minneapolis.

Table 4: **NEW RESIDENTIAL CONSTRUCTION PERMITS ISSUED**
by unit

	2005 3Q-05	4Q-05	2006 1Q-06	2Q-06	3Q-06
Single-family					
Minneapolis	60	42	51	58	58
Metropolitan area	3,368	2,896	2,040	2,677	2,130
Multifamily					
Minneapolis	88	814	229	308	872
Metropolitan area	1,082	1,599	485	855	1,330
Total number of units					
Minneapolis	148	856	280	366	930
Metropolitan area	4,450	4,496	2,525	3,552	3,460

Source: CPED with data from the U.S. Census Bureau, based on permit information

Figure 6: **NEW RESIDENTIAL PERMITS ISSUED – Minneapolis**



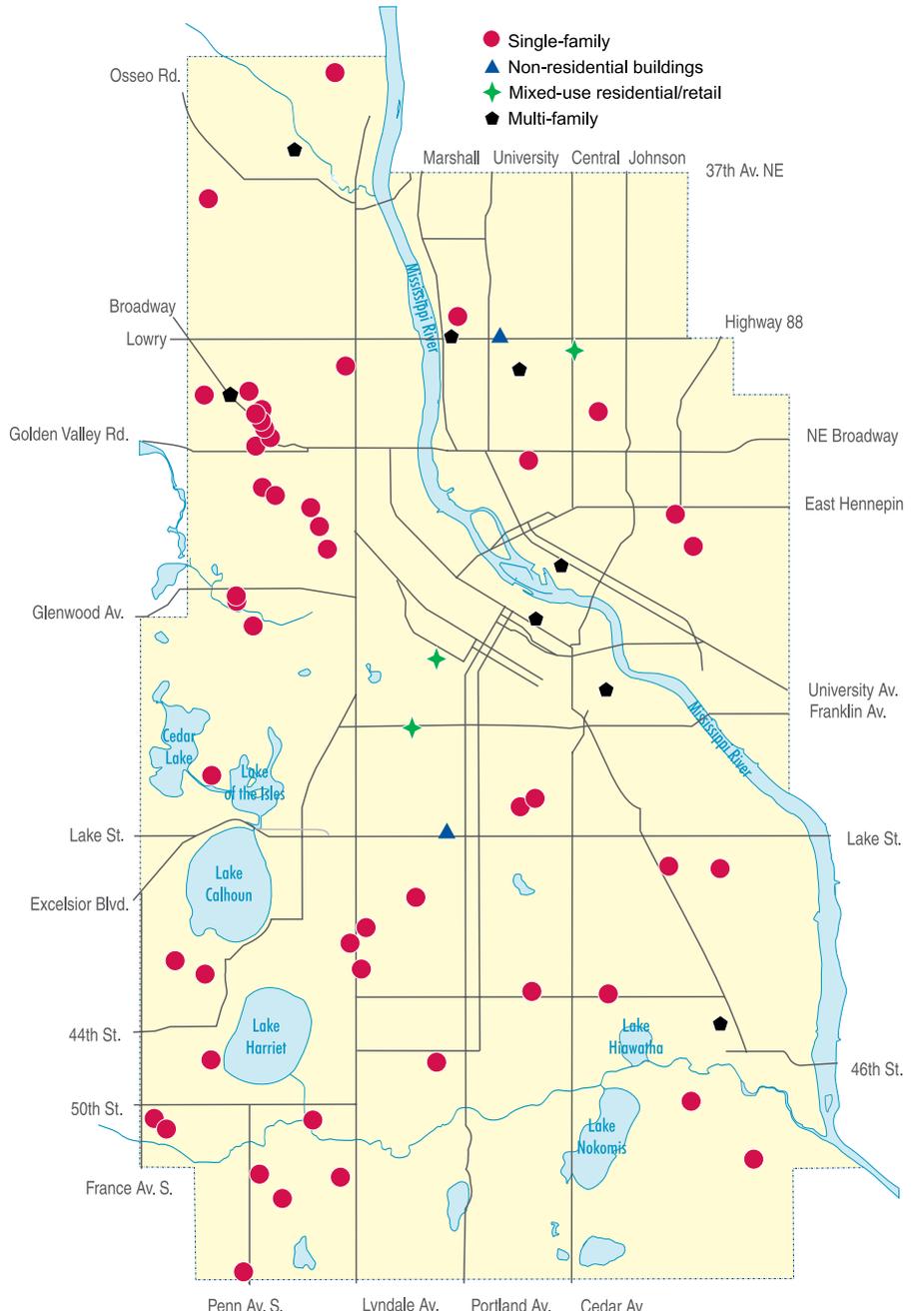
Source: CPED with data from the U.S. Census Bureau

NEW RESIDENTIAL CONSTRUCTION

New single-family housing permits were concentrated this quarter on the north side of the city. However, this concentration is not as evident as in past years. There were also some concentrations this quarter in the Chain of Lakes area. Other single-family units appeared scattered in the rest of the city. The City issued permits for nine new multifamily buildings (more than 10 units each) this quarter. The largest was The Bridgewater in the Downtown East area, which is building 282 condominium units. There were also three mixed-use buildings permitted this quarter: The Ivy Tower in downtown Minneapolis with 92 condominium units and 132 hotel rooms, Eat Street Flats at 15 Franklin Avenue with 54 condo units, and Central Avenue Lofts on 24th Avenue NE with 66 rental units.

Map 1: **NEW CONSTRUCTION**
3Q-06

Source: CPED with data from Regulatory Services



NEW RESIDENTIAL CONSTRUCTION

In Minneapolis, the total estimated cost of new residential construction increased by more than 450 percent since the third quarter of 2005. The increase was driven by a substantial increase in multifamily construction

In the seven-county metropolitan area, the total estimated amount spent on new construction decreased by 18 percent from a year ago, driven by single-family

construction slowing down by 31 percent, even when the multifamily construction cost increased by 57 percent.

For the first three quarters of 2006, the total value of permitted residential construction in Minneapolis was 80 percent more than it was for the same period of 2005. In the seven-county metropolitan area in the same period, dollars spent on residential construction fell by 15 percent.

Table 5: **RESIDENTIAL CONSTRUCTION COSTS**

	3Q-2005	4Q-2005	1Q-2006	2Q-2006	3Q-2006
Single family					
Minneapolis	\$ 10,472,695	\$ 8,313,893	\$ 9,315,354	\$ 13,185,282	\$ 13,508,232
Metropolitan area	718,624,444	672,278,335	505,437,798	634,980,815	493,157,132
Multifamily					
Minneapolis	17,289,225	152,525,123	34,987,500	43,313,637	139,590,469
Metropolitan area	127,558,968	260,941,872	65,922,178	117,477,464	200,318,688
Total number of units					
Minneapolis	27,761,920	160,839,016	44,302,854	56,498,919	153,098,701
Metropolitan area	846,183,412	933,220,207	571,359,976	752,458,279	693,475,820

Source: CPED with data from the U.S. Census Bureau

Table values are not adjusted for inflation

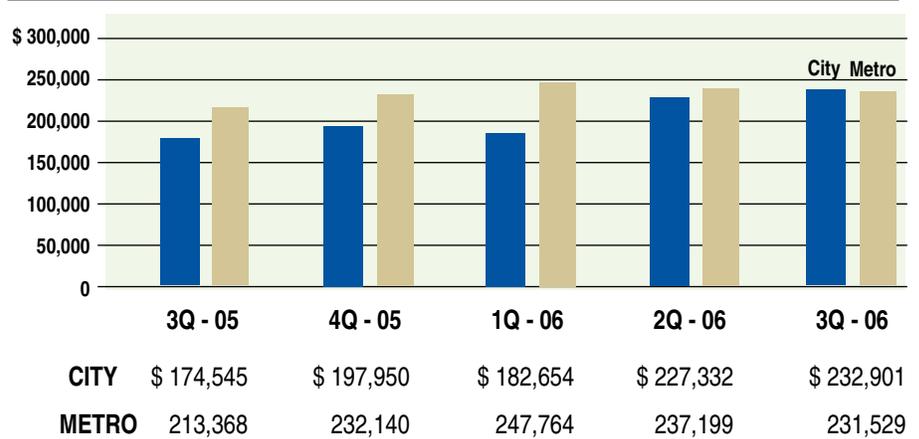
RESIDENTIAL CONSTRUCTION COST

The average construction cost (per unit) for single-family houses in Minneapolis increased by 33.4 percent, from \$174,545 in the third quarter of 2005 to \$232,901 in the third quarter of 2006.

In the metropolitan area the average per-unit construction cost for single-family houses increased by 8.5 percent, from \$213,368 in the third quarter of 2005 to \$231,529 in the third quarter of 2006.

The average construction cost (per unit) for multifamily units in Minneapolis decreased since the third quarter of 2005. The cost per unit declined from \$196,468 to \$160,081—18.5 percent lower. For the metropolitan area, cost increased by 28 percent, from \$117,674 to \$150,616. Lower construction costs in Minneapolis may reflect units being built for a greater range of prices.

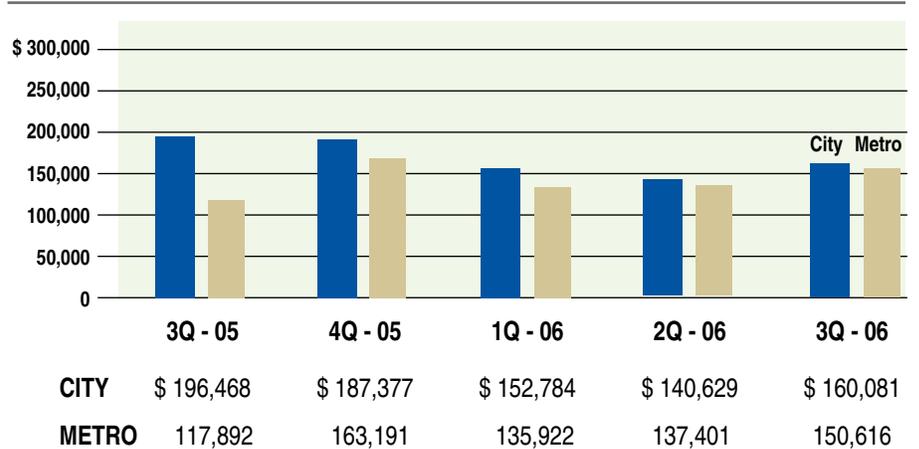
Figure 7: **SINGLE FAMILY CONSTRUCTION COST**
per unit



Source: CPED with data from U.S. Census Bureau

Table values are not adjusted for inflation

Figure 8: **MULTIFAMILY CONSTRUCTION COST**
per unit



Source: CPED with data from U.S. Census Bureau

Values in graph are not adjusted for inflation

CONVERSIONS, REMODELS & ADDITIONS

In the third quarter, 158 residential buildings were remodeled, repaired, expanded or renovated. Four of these buildings were converted to residential uses from commercial or industrial uses, which added 102 new residential units, and one was a conversion to a single-family dwelling from a six-unit apartment. The largest conversion project will add 47 residential units at 748 Third Street N.

The total estimated amount to be spent this quarter on residential remodeling and conversion projects costing \$50,000 or more was about \$35.8 million, 25.2 percent lower than last quarter and 25 percent lower than last year. Conversion projects accounted for 33 percent of the total value. The number of buildings remodeled (excluding conversions and additions) was similar to the number from this quarter, last year.

The projected construction cost of non-residential conversions, remodels and additions increased by 33.6 percent from one year ago.

Table 6: **CONVERSIONS, REMODELS AND ADDITIONS**
projects of \$50,000 and more

	3Q-2005	4Q-2005	1Q-2006	2Q-2006	3Q-2006
A- Residential¹					
# of buildings	159	40	103	166	158
Value	\$47,800,240	\$ 5,941,525	\$16,860,567	\$47,924,082	\$35,827,961
Remodels					
# of buildings	152	38	100	162	154
Value	23,928,691	5,656,525	16,293,567	27,478,955	24,024,768
Conversions & additions²					
# of buildings	7	2	3	4	4
# of units	217	-2	-5	150	102
Value	23,871,549	285,000	567,000	20,445,127	11,803,193
B- Non-residential					
# of buildings ³	107	59	114	133	130
Value	43,379,389	37,868,665	68,588,879	60,443,483	57,961,398

Source: CPED with data from Regulatory Services

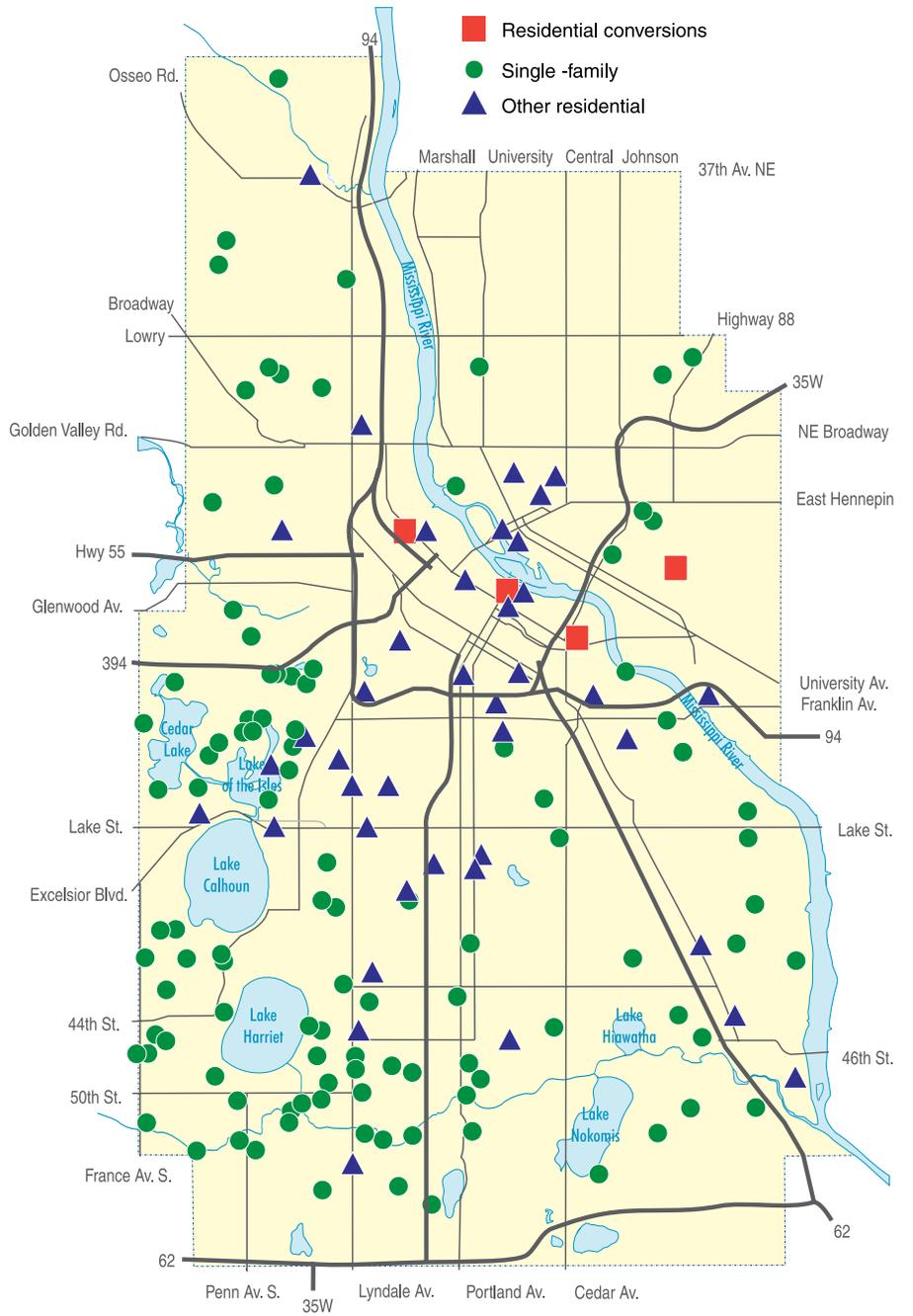
- 1 Residential and non-residential building listings may include structural work, buildouts and other improvements.
- 2 Residential conversions consist of a change in uses (e.g. from an office building to residential apartments) or subdividing or consolidating residential units.
- 3 Types of non-residential buildings vary, including parking ramps; communication equipment; and public works, commercial or industrial buildings.

CONVERSIONS, REMODELS & ADDITIONS

Permits for residential remodeling were mainly issued in the southern half of the city, with a larger concentration in the Chain of Lakes area. Around and in Downtown, residential remodels included several multifamily buildings.

Map 2: **RESIDENTIAL REMODELING, RENOVATION & CONVERSION**
 projects \$50,000 +
 3Q-06

Source: CPED with data from Regulatory Services



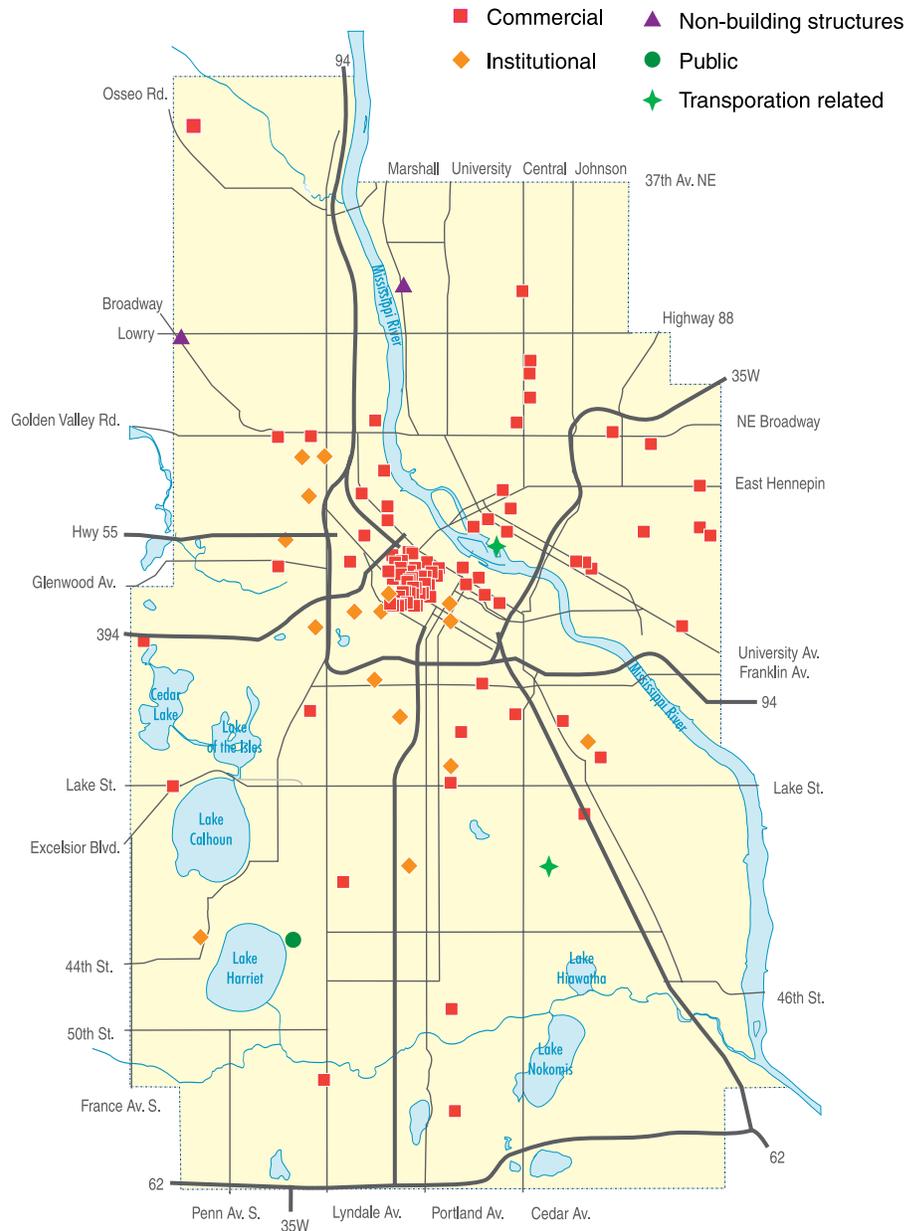
CONVERSIONS, REMODELS & ADDITIONS

Permits issued in the third quarter for non-residential remodeling and renovation were mainly concentrated in Downtown and scattered in the rest of the city. Some commercial buildings were remodeled along Central Avenue NE and a few institutional buildings were also remodeled in north Minneapolis. During the third quarter several permits were issued in Downtown for various commercial remodels, including the remodel of five floors of Carmichael Lynch offices at 110 Fifth Street N.

On the next page is a list of major projects (projected construction cost estimated at \$1 million or more) permitted in Minneapolis in the third quarter of 2006. The highest cost project is the building of The Bridgewater on 10th Avenue South, a 282-unit condominium.

Map 3: NON-RESIDENTIAL REMODELING AND RENOVATION
 projects \$50,000 +
 3Q-06

Source: CPED with data from Regulatory Services



Note: non-building structures include communication towers, power plants, etc

MAJOR CONSTRUCTION PROJECTS

Table 7: **MAJOR CONSTRUCTION** – Minneapolis
projects (\$1,000,000+) * More than one building permit included

ADDRESS	ZIP CODE	VALUE	DESCRIPTION
215 10th Ave S	55415	\$ 59,040,870	The Bridgewater: 282 condo units
201 11th St S	55403	\$ 52,000,000	Ivy Tower: 92 condo units and 132 hotel rooms
630 22nd Ave S	55454	\$ 16,428,776	Augsburg Gateway: multiple use building with student housing
501 2nd St S	55401	\$14,325,000	MacPhail Center for Music
2924 4th Ave S	55408	\$ 11,530,000	Cristo Rey High School
3626 44th St E	55406	\$ 11,503,600	Hiawatha Flats Apartments: 163 units
521 2nd St SE	55414	\$ 10,600,000	Flour Sack Flats: 59 condo units
15 Franklin Ave E	55404	\$ 8,850,000	Eat Street Flats: mixed use with 54 condo units
920 24th Ave NE	55418	\$ 8,600,000	Central Avenue Lofts: mixed use with 66 apartments
2323 26th Ave N	55411	\$ 7,462,750	St. Anne's Senior Housing: 59 units
110 5th St N*	55401	\$ 6,468,166	Carmichael Lynch: office remodeling
2101 Washington St NE	55418	\$ 5,282,525	Washington Court Apartments: 38 apartment units
150 Portland Ave	55401	\$ 5,133,749	The Whitney: conversion of hotel to 29 condo units
1900 Nicollet Ave*	55403	\$ 4,412,380	Plymouth Congregational Church: remodel and addition to school
1200 Washington Ave N*	55401	\$ 3,818,400	1200 Washington building: remodel for communication center
800 16th Ave SE	55414	\$ 3,783,444	Warehouse conversion to 23 dwelling units
4550 Humboldt Ave N	55412	\$ 2,913,314	Kingsley Commons: 25 apartment units
1805 Lake St W*	55408	\$ 2,791,591	The Edgewater: buildout
748 3rd St N*	55401	\$ 2,594,000	Herschel Lofts: conversion of warehouse into 47 condo units
701 Park Ave*	55415	\$ 2,396,290	Hennepin County Medical Center: addition for Express Care
525 Portland Ave	55415	\$ 1,724,397	Hennepin County Health Services: clinic and office remodel
2112 Broadway St NE*	55413	\$ 1,709,297	American Imports: building remodel
222 9th St S*	55402	\$ 1,694,250	Piper Jaffrey Tower remodel
255 2nd Ave S	55401	\$ 1,600,000	Three Cosmos: office remodel
414 Nicollet Mall *	55401	\$ 1,517,061	Xcel Energy: building remodel
700 Nicollet Mall	55402	\$ 1,355,000	Macy's Department Store: interior remodel
2601 49th Ave N*	55430	\$ 1,332,823	Minneapolis Business Center: buildout
817 Main St NE	55413	\$ 1,304,306	Catholics Eldercare: remodel
400 Groveland Ave	55403	\$ 1,200,000	Summit Homes: parking deck renovation
4638 West Lake Harriet	55410	\$ 1,100,000	Single-family home
4201 Sheridan Ave S	55410	\$ 1,089,570	St John Baptist Episcopal Church: addition
900 Nicollet Mall*	55402	\$ 1,076,078	Target Store: remodel
4516 Fremont Ave S	55409	\$ 1,000,000	Single-family home: addition

Source: CPED with data from City Regulatory Services

DEMOLITIONS

Demolition permits

A total of 44 residential and non-residential buildings were demolished in the third quarter, one more than the third quarter last year. Seven of them were non-residential buildings.

Demolitions were scattered throughout the city, but a high number of permits for demolition showed addresses on the city's north side.

Residential demolitions increased slightly from last quarter, to about the same level as one year ago. This quarter, the demolitions included 25 single-family homes, eight units of duplexes and 11 units from small multifamily buildings.

Map 4: PERMITS FOR DEMOLITIONS – 3Q-06

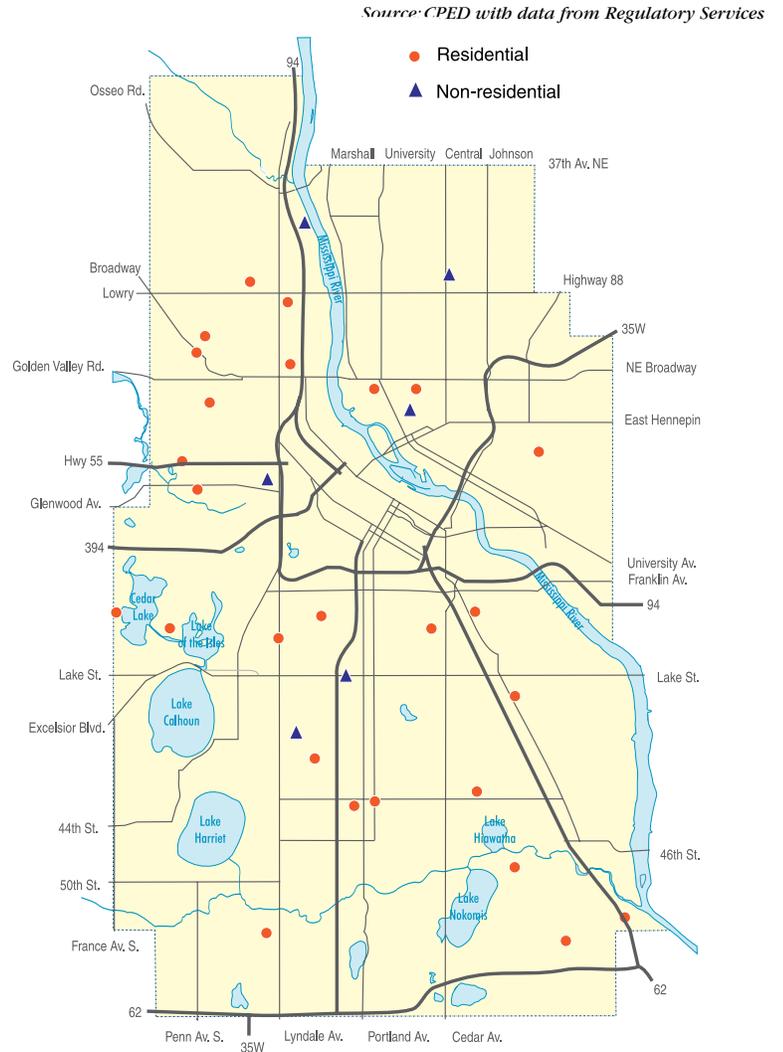
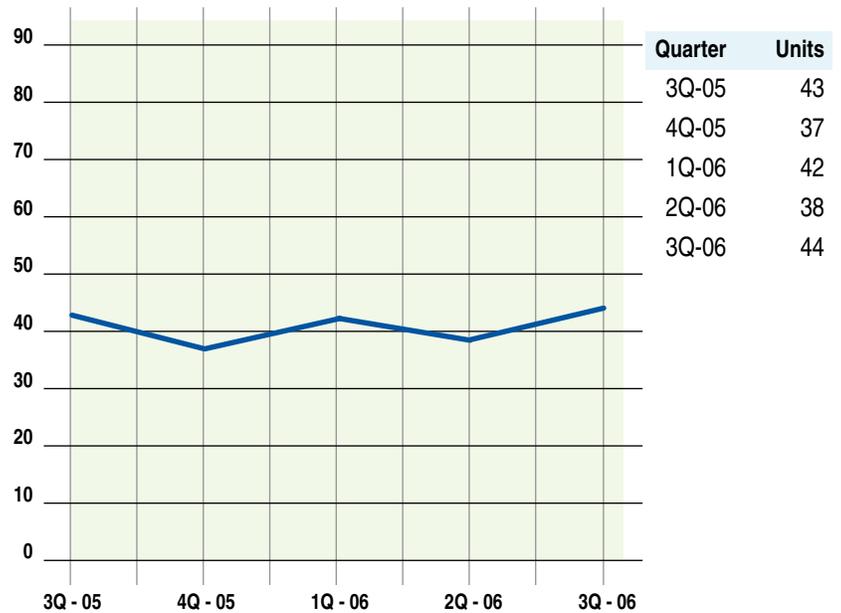


Figure 9: RESIDENTIAL UNITS DEMOLISHED
number of permits



Source: CPED with data from Regulatory Services

Building permits for new construction: Permits represent construction projects (residential and non-residential) approved by the City. Typically there is a time lag between permitting a project and actual construction.

Tables four and five and figures six to eight are based on monthly figures for the City of Minneapolis and metropolitan area provided by the U.S. Census Bureau. For mapping purposes, data on new building construction, remodels, conversions and demolitions for the city are based on permit information by address provided by the City's Regulatory Services Department. Numbers from the U.S. Census Bureau and City Regulatory Services may differ slightly for the same period. Census Bureau numbers do not include additions, remodels or demolitions.

Single-family buildings have only one unit in the building.

Multifamily buildings have two or more units in the building, except when noted that triplexes and duplexes are accounted separately.

Cost of residential construction is based on the amount of dollars that developers report as the cost of their projects.

Construction cost per unit refers to the total construction cost reported divided by the number of units permitted during the period considered.

Non-residential buildings include any kind of use except residential. Cost is based on the amount the developer reports to the City Department of Regulatory Services.

Building permits for residential remodeling, additions and conversions: Table three and maps two and three are based on data from the City of Minneapolis Regulatory Services Department. Information includes all City-approved projects for remodeling, additions and conversions with a value of \$50,000 or more.

Building permits for demolitions or wrecking: These data were obtained from the City of Minneapolis Regulatory Services Department and include all partially or totally demolished buildings. The multifamily building category includes condominiums.

Maps - **Building uses:** Categories listing the uses of buildings are based on descriptions from their permits. The following categories are used:

Map 1 - **New buildings**

Single-family means detached and attached dwellings such as townhouses.

Multifamily means buildings with two (duplex and double bungalow), three (triplex) or more residential units.

Mixed-use means buildings with a main component of residential units attached to commercial and/or retail space.

Non-residential use means all buildings that do not have a residential component. Also includes structures such as communications towers and skyways.

Map 2 - **Residential remodels with a construction cost of \$50,000 or more:**

Single-family includes all detached single-family dwellings with permits for renovations, additions or improvements.

Other residential includes all residential buildings that are not detached single-family dwellings, including units in buildings with two or more units. It may include remodeling or buildouts of one or more individual units or remodeling of the entire building.

Conversions consist of the construction of new residential units in non-residential buildings such as factories, warehouses, hotels and others and remodeling of a building for residential uses. It does not include conversions of apartment units to condominiums.

Map 3 - **Non-residential remodels, additions and improvements with a cost of \$50,000 or more**

Commercial includes offices, warehouses, factories, restaurants and retail buildings in general. It may be a buildout of an office space or several floors, or it may be the remodeling of an entire building. Several tenant remodels at one address are considered part of one project, i.e. renovation of Multifoods Towers in downtown.

Public includes public uses and amenities, i.e. improvements in park shelters.

Institutional: This category includes hospitals, clinics, churches, schools, elder care facilities, correctional centers and any other institutional use.

Transportation related includes skyways and bus and rail terminals.

Non-building structures includes telecommunication towers, fences that are not part of a building and power plants.

Map 4 - **Demolitions**

Residential: all residential buildings (single- and multifamily units)

Non-residential: all non-residential buildings and structures

HOUSING STOCK & THE REAL ESTATE MARKET

- Average vacancy rates for multifamily housing in Minneapolis continued to decline this quarter to 2.7 percent. Average rent this quarter was \$7 higher (adjusted for inflation) than one year ago. Vacancy rates continued lower in the city than the metro area.
- The number of housing units sold in Minneapolis dropped to slightly more than 40 percent of sales from a year ago, while the median sale price was 2.7 percent higher than last year.
- Foreclosures of residential properties increased 10 percent since the second quarter and 34 percent since the first quarter.
- The office vacancy rate in the Minneapolis central business district (CBD) continued a downward trend and left Minneapolis close to the metropolitan average. The average lease price asked per square foot in the city CBD decreased slightly, and occupied office space increased sharply after a net loss the previous quarter.
- The retail vacancy rate in the Minneapolis CBD was stable in the last three quarters at 10 percent, but it was 0.8 percent lower in the third quarter of 2006 than one year ago. Average asking lease price was 47 percent lower than one year ago.
- The vacancy rate in Minneapolis, Midway and metropolitan industrial areas continued to decline, with Minneapolis at only 1.8 percent. With the exception of Midway, the average asking lease price per square foot also decreased.

RESIDENTIAL VACANCY RATES

In the metropolitan area, the average rental housing vacancy rate was 4 percent, down from 5.6 percent a year ago. Average rent increased by \$19, but this was actually a \$3 increase in inflation-adjusted dollars*.

* For conversion index see page 38

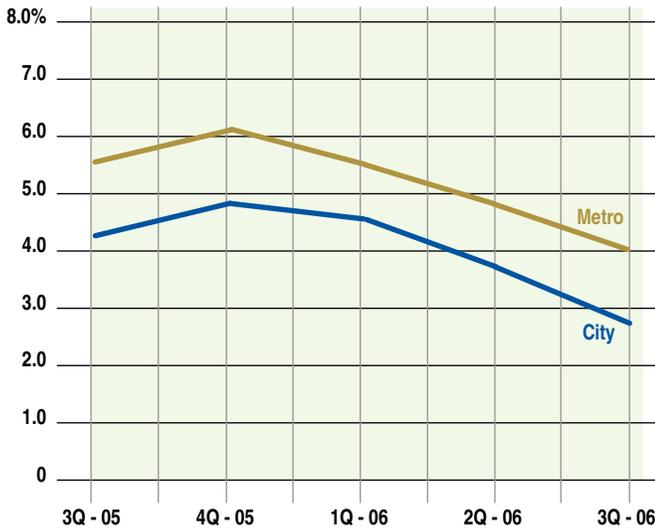
Table 8: VACANCY RATE & AVERAGE RENT
in current dollars

MINNEAPOLIS	2005		2006		
	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Units surveyed	15,364	15,021	15,209	15,281	15,315
Vacant units	659	722	702	559	421
Average rent	\$820	\$826	\$832	\$836	\$842
Vacancy rate	4.3%	4.8%	4.6%	3.7%	2.7%

METRO AREA	2005		2006		
	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Units surveyed	116,699	114,455	116,256	116,616	117,035
Vacant units	6,564	6,979	6,402	5,615	4,623
Average rent	\$848	\$851	\$855	\$860	\$867
Vacancy rate	5.6%	6.1%	5.5%	4.8%	4.0%

Source: GVA Marquette Advisors Reports,
based on a sample survey of market rate of rental properties
Recorded data for the last month of the quarter

Figure 10: RENTAL VACANCY RATE
Minneapolis & Metro area



Source: CPED with data from GVA Marquette Advisors
Recorded data for the last month of the quarter

Figure 11: AVERAGE APARTMENT RENT
in current dollars



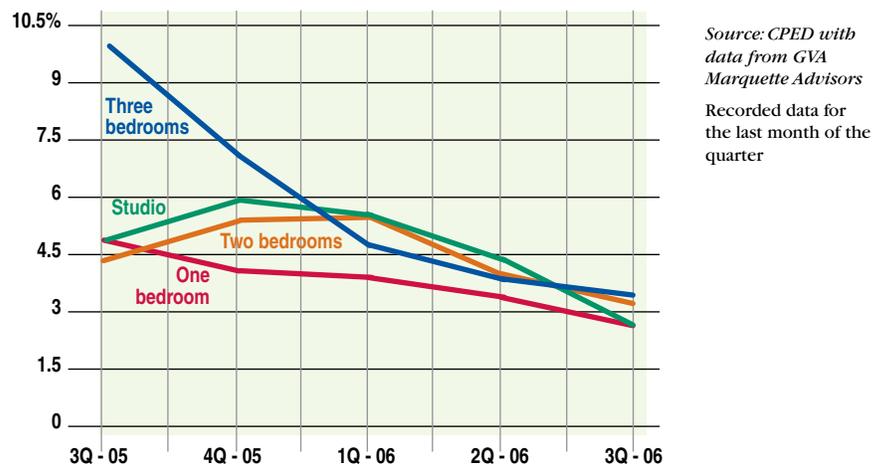
Source: CPED with data from GVA Marquette Advisors
Recorded data for the last month of the quarter
Numbers in table are not adjusted for inflation

RESIDENTIAL VACANCY RATES

Vacancy rates in Minneapolis decreased for all apartment types. Vacancy rates for three-bedroom apartments decreased the most, from 9.7 percent the previous year to 3.3 percent.

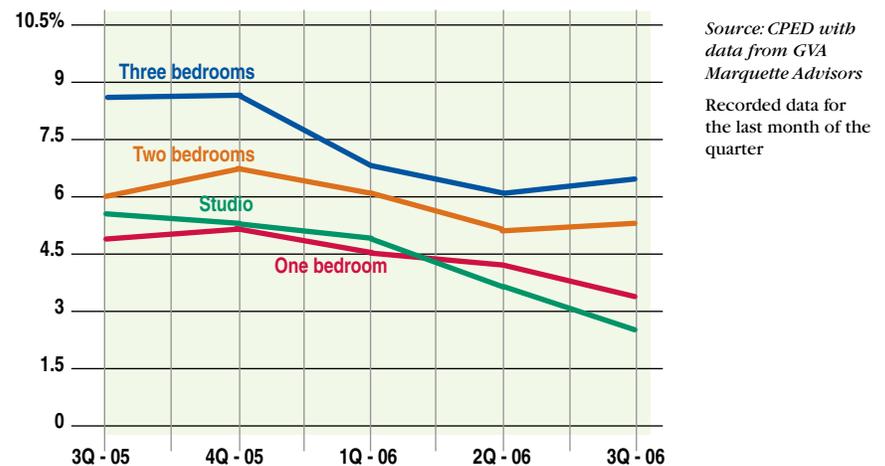
In the metropolitan area, vacancy rates continued to decrease for all sizes of apartments, except for those with three bedrooms. Vacancy rates for studio apartments decreased the most, from 5.5 percent in the third quarter last year to 2.1 percent this year.

Figure 12: **RENTAL VACANCY RATE – Minneapolis**
by apartment type



	Studio	One bedroom	Two bedrooms	Three bedrooms
3Q-05	5.0%	3.9%	4.4%	9.7%
4Q-05	5.9%	4.2%	5.4%	7.1%
1Q-06	5.5%	4.0%	5.5%	4.6%
2Q-06	4.3%	3.4%	3.9%	3.8%
3Q-06	2.6%	2.6%	3.2%	3.3%

Figure 13: **RENTAL VACANCY RATE – Metro area**
by apartment type



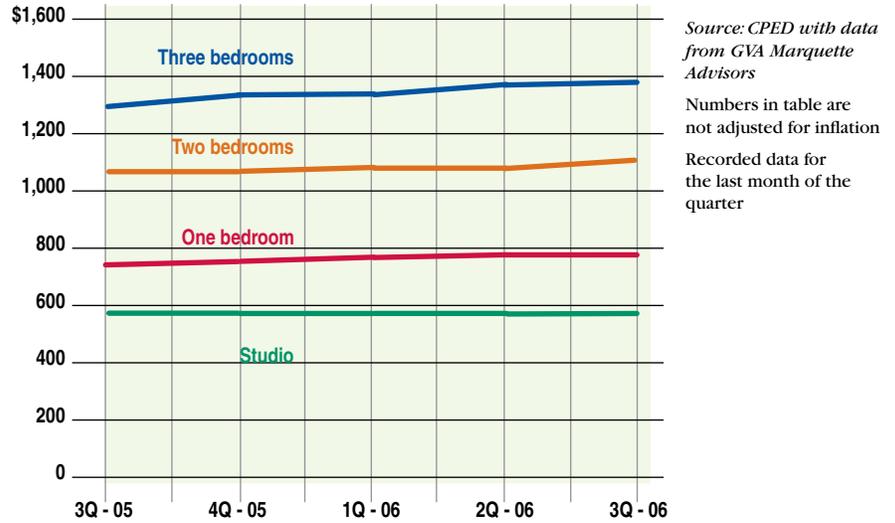
	Studio	One bedroom	Two bedrooms	Three bedrooms
3Q-05	5.5%	4.9%	6.0%	8.5%
4Q-05	5.3%	5.2%	6.8%	8.6%
1Q-06	5.0%	4.6%	6.1%	6.7%
2Q-06	3.7%	4.2%	5.2%	6.1%
3Q-06	2.1%	3.4%	4.3%	6.4%

RESIDENTIAL VACANCY RATES

In the metropolitan area, the average rent also rose, but not as much as in the city. In inflation-adjusted dollars, rent increased for studio apartments by \$4, for one-bedrooms by \$5, two-bedrooms by \$4, and decreased for three-bedrooms by \$6*.

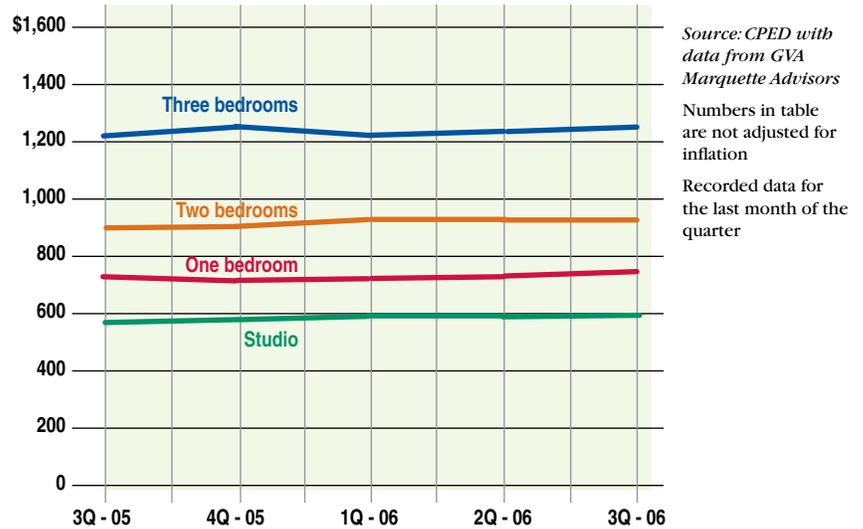
* For conversion index see page 38

Figure 14: **AVERAGE RENT**– Minneapolis



	Studio	One bedroom	Two bedrooms	Three bedrooms
3Q-05	\$ 571	\$ 757	\$ 1,072	\$ 1,309
4Q-05	577	768	1,071	1,332
1Q-06	579	770	1,083	1,340
2Q-06	583	774	1,084	1,386
3Q-06	582	778	1,100	1,390

Figure 15: **AVERAGE RENT** – Metro area



	Studio	One bedroom	Two bedrooms	Three bedrooms
3Q-05	\$ 590	\$ 731	\$ 925	\$ 1,232
4Q-05	595	735	928	1,224
1Q-06	596	738	931	1,231
2Q-06	599	742	936	1,241
3Q-06	605	750	946	1,249

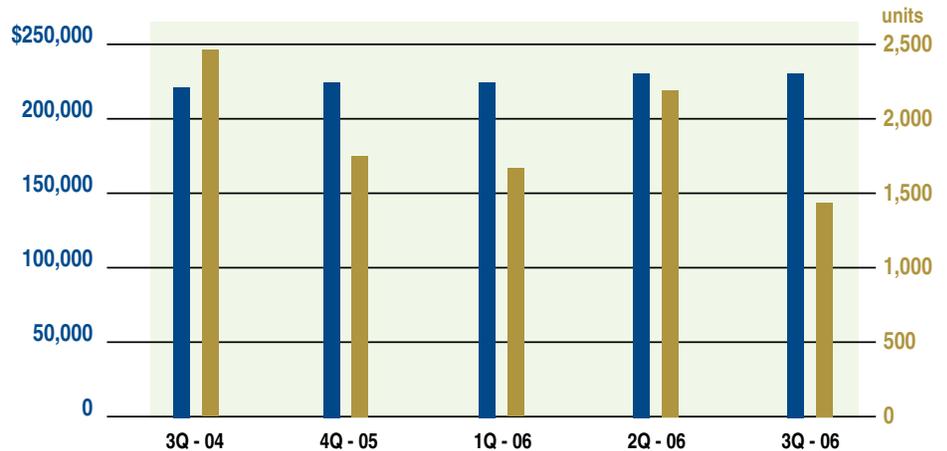
RESIDENTIAL SALES

The total number of housing units sold dropped by 34.4 percent from last quarter and by 41.4 percent from one year ago. Median sale prices increased \$6,100 since the third quarter last year, showing that sellers are still keeping their prices, but many buyers are retreating from the market.

Since the third quarter of 2005, the median sale price of single-family houses rose by \$8,500, while the median condominium sale price increased by \$8,000.

Median home sale prices were 2.7 percent higher than a year ago but unchanged since last quarter. At the same time, the number of units sold continued dropping after an upsurge in the second quarter.

Figure 16: **MEDIAN RESIDENTIAL SALE PRICE – Minneapolis**



Source: CPED with data from the City Assessor.

Residential housing includes single-family housing, duplexes, triplexes, condominiums and townhouses. It does not include apartments or condominiums for sale but not yet sold.

Table 9: **RESIDENTIAL UNITS SOLD AND MEDIAN SALE VALUES¹ – Minneapolis**

	3Q-2005		4Q-2005		1Q-2006		2Q-2006		3Q-2006	
	# UNITS	MED. SALE								
Single-Family	1,711	\$ 216,500	1,208	\$ 215,000	1,005	\$ 209,000	1,447	\$ 225,000	1,030	\$ 225,000
Duplex/Triplex	298	271,800	251	260,000	180	269,000	195	264,900	112	273,100
Condominium/ Townhouse	462	220,000	290	250,000	438	245,000	558	235,900	302	228,000
TOTAL	2,471	223,900	1,749	225,000	1,623	224,900	2,200	230,000	1,444	230,000

Source: CPED with data from City of Minneapolis Assessor's Office. Data revised and updated from the previous quarter.

Table values are not adjusted for inflation.

¹ Numbers do not include apartments or condominiums for sale but not yet sold, vacant land sold or unclassified residential units.

FORECLOSURE SALES

During the third quarter, 427 housing units went to public auction because of failure to pay mortgages or other contractual property fees – that’s an increase of 10 percent from the second quarter. Most of the dwellings were sold at public auction by the Hennepin County Sheriff because of failure to pay mortgages. Nearly half of the foreclosures – 47 percent – were located in north Minneapolis in zip codes 55411 and 55412, 7 percent were located in zip codes 55417, and 22.9 percent were spread among zip codes 55418, 55407, 55406 and 55408

Table 10: FORECLOSURE SALES BY ZIP CODES – Minneapolis

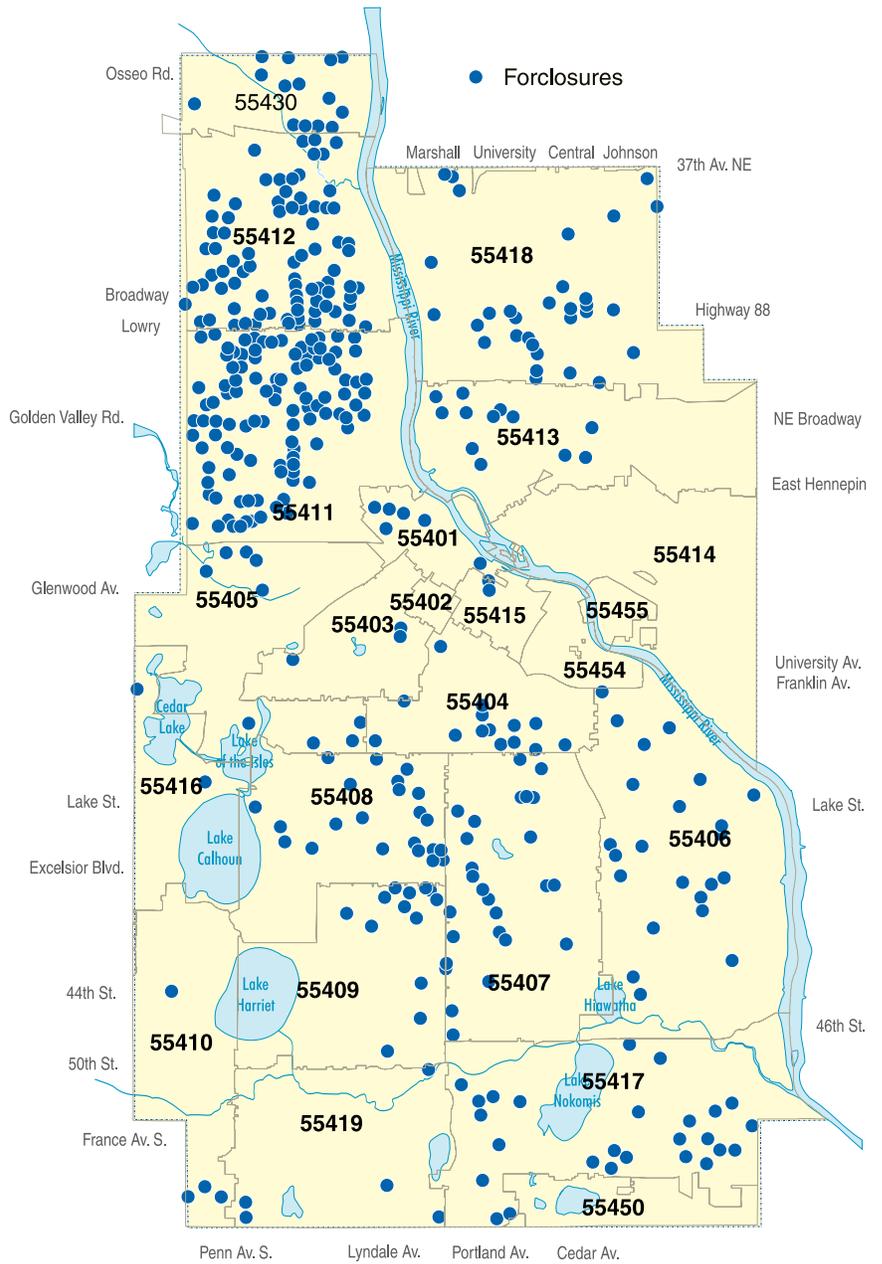
ZIP CODE	1Q-06		2Q-06		3Q-06	
	# SALES	PERCENT	# SALES	PERCENT	# SALES	PERCENT
55401	5	1.6%	9	2.3%	6	1.4%
55403	1	0.3%	2	0.5%	3	0.7%
55404	9	2.8%	20	5.2%	14	3.3%
55405	7	2.2%	7	1.8%	10	2.3%
55406	13	4.1%	15	3.9%	21	4.9%
55407	33	10.3%	35	9.0%	27	6.3%
55408	11	3.4%	20	5.2%	21	4.9%
55409	8	2.5%	15	3.9%	13	3.0%
55410	4	1.3%	4	1.0%	4	0.9%
55411	115	36.1%	129	33.2%	122	28.6%
55412	60	18.8%	69	17.8%	85	19.9%
55413	3	0.9%	11	2.8%	14	3.3%
55414	1	0.3%	3	0.8%	0	0.0%
55415	1	0.3%	0	0.0%	5	1.2%
55416	1	0.3%	2	0.5%	2	0.5%
55417	12	3.8%	14	3.6%	30	7.0%
55418	19	6.0%	21	5.4%	29	6.8%
55419	7	2.2%	2	0.5%	6	1.4%
55430	9	2.8%	10	2.6%	15	3.5%
55401	5	1.6%	9	2.3%	6	1.4%
Total	319	100%	388	100%	427	100%

Source: CPED with data from City of Minneapolis Assessor's Office.
Data revised and updated from the previous quarter.

FORECLOSURE SALES

Map 5: FORECLOSURE SALES
3Q-06

Source: CPED with data from Hennepin County Sheriff's Office

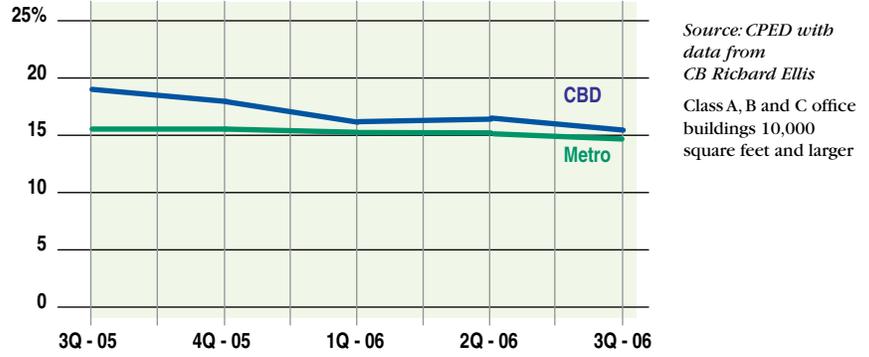


OFFICE SPACE

The vacancy rate for office space in the Minneapolis central business district (CBD) declined in the third quarter. Except for a short break during the second quarter, this continued a downward trend that's been going on for at least a year. This quarter the vacancy rate was 2.8 percent lower than one year ago. The metropolitan area average vacancy rate was also down, even lower than the city's.

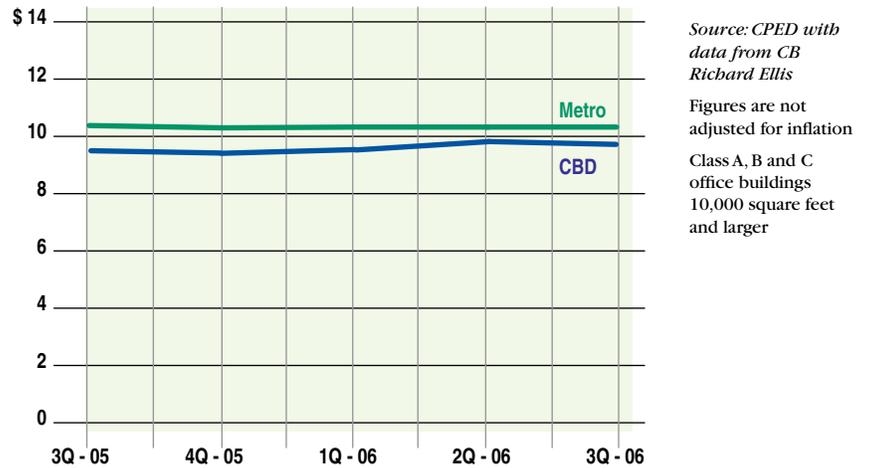
Average asking lease rates in the Minneapolis CBD decreased slightly from last quarter, from \$9.83 to \$9.66, but remained slightly ahead of the rate a year ago. In the metro area, prices increased from \$10.40 a year ago to \$10.45 this quarter

Figure 17: **OFFICE VACANCY RATE**



	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis CBD	18.1%	17.2%	16.2%	16.5%	15.3%
Metro Area	15.8%	15.7%	15.2%	15.2%	14.8%

Figure 18: **OFFICE AVERAGE ASKING LEASE RATE**
in dollars per square foot per year

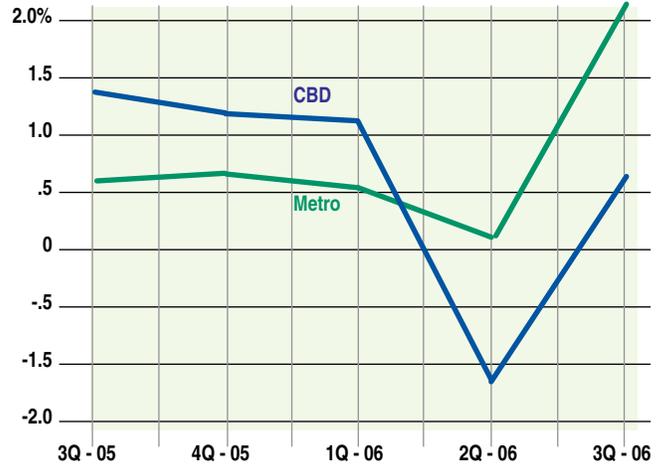


	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis CBD	\$ 9.59	\$ 9.56	\$9.63	\$ 9.83	\$ 9.66
Metro Area	10.40	10.34	10.38	10.41	10.45

OFFICE SPACE

Occupied office space (available rentable area minus the vacancy rate) in the Minneapolis CBD increased dramatically this quarter. More square feet were occupied in downtown Minneapolis with Class A buildings increasing the most. In the metropolitan area, growth went up slightly.

Figure 19: **OCCUPIED OFFICE SPACE** – rate of growth



Source: CPED with data from CB Richard Ellis
Class A, B and C office buildings 10,000 square feet and larger

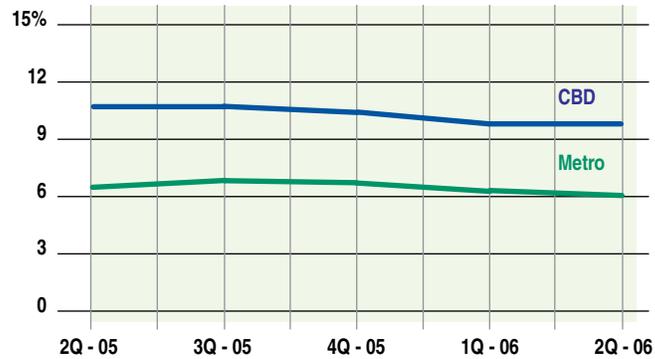
	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis CBD	1.30%	1.21%	1.17%	-1.67%	2.15%
Metro Area	0.60%	0.64%	0.55%	0.14%	0.62%

RETAIL SPACE

The retail vacancy rate in the Minneapolis central business district was stable at 10 percent for the last three quarters and 0.8 percent lower than one year ago. The vacancy rate in the metropolitan area was also stable at 6 percent, 0.9 percent lower than one year ago.

In the city's central business district, the average asking lease price per square foot continued to go down; it is 47 percent lower than it was one year ago. In the metropolitan area, the average was slightly up from the second quarter, but it decreased by 5.3 percent from a year ago.

Figure 20: **RETAIL VACANCY RATE**

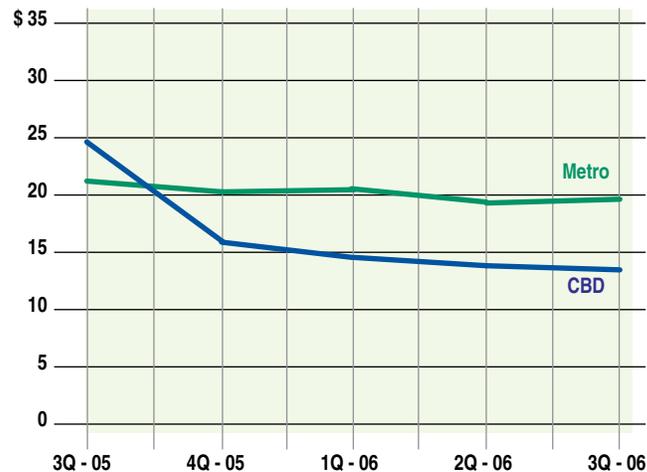


Source: CPED with data from CB Richard Ellis

Includes all multi-tenant retail buildings 30,000 square feet and larger including buildings under construction

	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis CBD	10.8%	10.6%	10.0%	10.0%	10.0%
Metro Area	6.9%	6.8%	6.3%	6.0%	6.0%

Figure 21: **RETAIL - AVERAGE ASKING LEASE RATE**
in dollars per square foot per year



Source: CPED with data from CB Richard Ellis

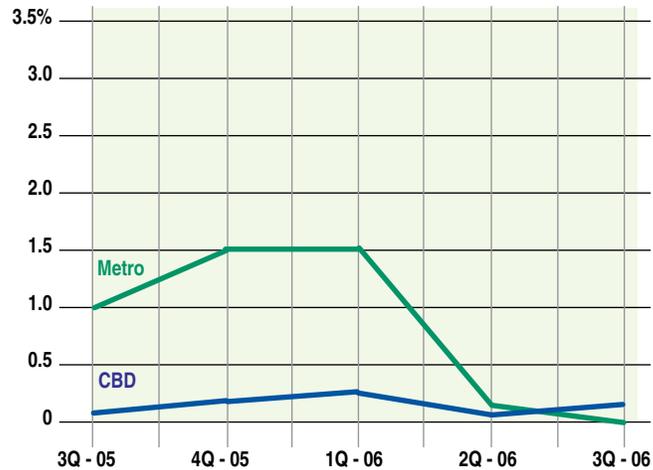
Includes all multi-tenant retail buildings 30,000 square feet and larger, including buildings under construction

	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis CBD	\$ 24.90	\$ 16.00	\$ 14.40	\$ 13.40	\$ 13.20
Metro Area	20.90	20.10	20.20	19.70	19.80

RETAIL SPACE

The city's central business district's rate of growth in occupied retail space (available rentable area minus the vacancy rate) continued to decrease since the first quarter to a negative 0.1 percent (meaning that it was not growing, it was declining). In the metropolitan area it increased to 0.4 percent. Before that, the growth had reached highs of 1.5 percent in the metro area and 0.6 percent in the city during the first quarter.

Figure 22: **OCCUPIED RETAIL SPACE – rate of growth**



Source: CPED with data from CB Richard Ellis
Includes all multi-tenant retail buildings 30,000 square feet and larger, including buildings under construction

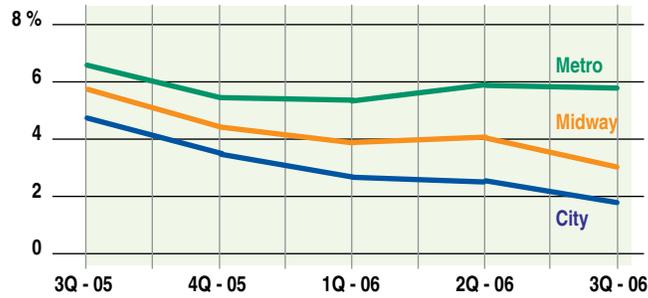
	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis CBD	0.1%	0.3%	0.6%	0.1%	0.3%
Metro Area	1.0%	1.5%	1.5%	0.3%	0.0%

INDUSTRIAL SPACE

The industrial space vacancy rate in Minneapolis continued shrinking, and at 1.8 percent was lower than the metro and Midway rates. In Midway the vacancy rate slowed to 3.5 percent. In the metro area the vacancy rate dropped to 5.8 percent. That was .01 percent lower than last quarter, and 0.08 percent lower than the third quarter last year. Throughout the region industrial space with modern facilities is in short supply, and available space is occupied as soon as it reaches the market. This results in a low vacancy rate.

In the third quarter of 2006, the average asking lease rate for industrial space per square foot in Minneapolis was about 6.5 percent lower than it was a year ago. In Midway it was 3.7 percent higher in the same period. In the metropolitan area, prices were lower than last year by 1.2 percent

Figure 23: **INDUSTRIAL VACANCY RATE**



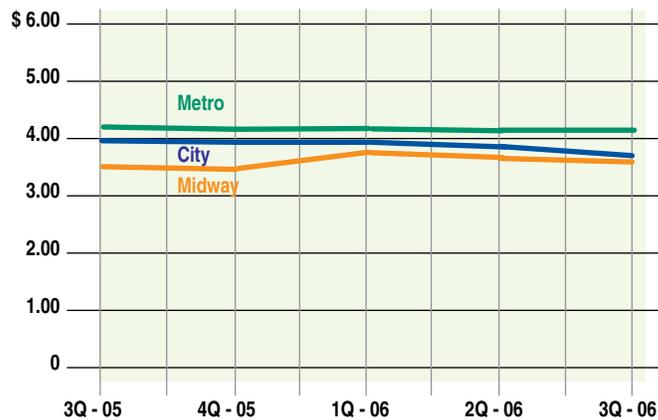
	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis	4.8%	3.6%	2.7%	2.6%	1.8%
Midway	5.7%	4.4%	3.9%	4.1%	3.5%
Metro Area	6.6%	5.6%	5.5%	5.9%	5.8%

Source: CPED with data from CB Richard Ellis

Includes industrial buildings 100,000 square feet and larger, including buildings under construction. Market consists of bulk warehouses, office warehouses, office showrooms, and manufacturing and specialty buildings.

Midway includes industrial areas of northeast Minneapolis and Saint Paul.

Figure 24: **INDUSTRIAL - AVERAGE ASKING LEASE RATE**
in dollars per square foot per year



	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis	\$ 3.97	\$ 3.96	\$ 3.95	\$ 3.83	\$ 3.71
Midway	3.52	3.49	3.73	3.68	3.65
Metro Area	4.19	4.16	4.19	4.11	4.14

Source: CPED with data from CB Richard Ellis

Includes industrial buildings 100,000 square feet and larger, including buildings under construction. Market consists of bulk warehouses, office warehouses, office showrooms, and manufacturing and specialty buildings.

Midway includes industrial areas of northeast Minneapolis and Saint Paul.

INDUSTRIAL SPACE

More industrial space in Minneapolis was occupied this quarter than in the same quarter a year ago, but the rate of growth declined from 1.4 percent to 0.3 percent. Midway, which added occupied square footage after a loss last quarter, saw its rate of growth climb to 0.8 percent – the same percentage from one year ago. In the metropolitan area occupied industrial space also recovered from a loss last quarter, and growth of occupied industrial space was higher than last year.

Figure 25: **INDUSTRIAL OCCUPIED SPACE** – rate of growth



	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06
Minneapolis	1.4%	1.3%	1.2%	0.2%	0.3%
Midway	0.8%	0.4%	0.4%	0.0%	0.8%
Metro Area	0.4%	1.8%	0.1%	-0.9%	0.7%

Source: CPED with data from CB Richard Ellis

Includes industrial buildings 100,000 square feet and larger, including buildings under construction. Market consists of bulk warehouses, office warehouses, office showrooms, and manufacturing and specialty buildings.

Midway includes industrial areas of northeast Minneapolis and Saint Paul.

HOSPITALITY

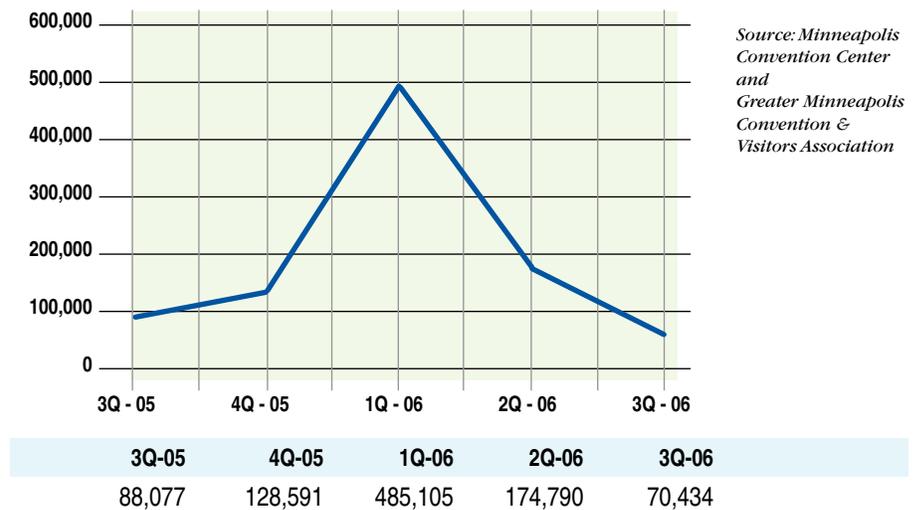
The hotel occupancy rate in Minneapolis was at 78.9 percent in September 2006, down from 81.5 percent last year. September's rate was down from the June '06 rate, which because of seasonal variations, tends to be higher than the September rate. Hotel occupancy in Minneapolis usually declines in the winter and increases during the spring and summer.

Figure 26: **HOTEL OCCUPANCY RATES – Minneapolis**
last quarter of the month



The number of attendees at the Minneapolis Convention Center decreased by 20 percent since this time last year; fewer people attended than expected. Only relatively small meetings took place at the Convention Center this quarter, with the largest showing attracting about 6,000 people. (Shows in the winter attract about 15,000 people.) The five-quarter pattern of attendance reflects seasonal variations.

Figure 27: **MINNEAPOLIS CONVENTION CENTER**
event attendees



Housing Vacancy Rate: Vacancy rate is the percentage of unoccupied housing units in the total number of housing units.

Vacancy rates for the multifamily rental market are calculated quarterly by GVA Marquette Advisors based on a quarterly survey of properties in the Twin Cities metropolitan area. The survey also tracks the average rent paid for apartment units.

Median sale values: These values are based on home prices reported to the Hennepin County Assessor. The figures are unverified and may not reflect the actual sale value.

Foreclosure sales: These sales occur when property owners are deprived of the right to redeem their properties because of failure to make payments on a mortgage when due or other contractual property fees. Data on foreclosure sales are obtained from Hennepin County Sheriff records, and include only foreclosed properties in the City of Minneapolis that were sold on public option in the specified time period. Addresses in Hennepin County are unverified.

Real estate statistics as reported by CB Richard Ellis (see Web site at www.cbre.com) include office, retail and industrial space vacancy rates, yearly lease price per square foot and absorption of square feet for the Twin Cities metropolitan area and Minneapolis (industrial space) or Minneapolis central business district (office and retail space). The metropolitan area includes several submarkets and may not coincide with definitions based on jurisdictional boundaries.

Data cover approximately 5,000 industrial buildings, 370 retail buildings and 65 million square feet of office space in the Twin Cities metropolitan area.

Average asking lease rate: This is determined by multiplying the asking net lease rate for each building by its available space, adding the products, then dividing by the sum of all available space.

Average vacancy rate: This figure is vacant square feet divided by the net rentable area.

Rate of growth and absorption: The rate is the change in occupied square feet from one period to the next, determined by subtracting vacant from rentable space available.

Hotel occupancy: The occupancy rate is calculated by dividing the number of occupied hotel rooms by the total number of hotel rooms in Minneapolis. Data is supplied by Meet Minneapolis, formerly the Greater Minneapolis Convention & Visitors Association.

Attendance at the Minneapolis Convention Center: Attendance includes the number of total attendees at consumer shows and conventions in Minneapolis. Data is collected by the Minneapolis Convention Center and supplied by the Convention Center and Greater Minneapolis Convention & Visitors Association.

Inflation-adjusted figures: Values reported in tables in this section of the report are expressed in current dollars (not adjusted for inflation). For the purpose of analyzing residential rents, however, text is based on the values converted to constant (inflation-adjusted) dollars based on the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) for housing in the Midwest urban areas category sized "class A" (more than 1,500,000 people). For the third quarter of 2005, dollars have been converted with an index of 1.018528322, the result of the relation between the CPI for September 2006 (192.4) and the CPI for September 2005 (188.9).



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