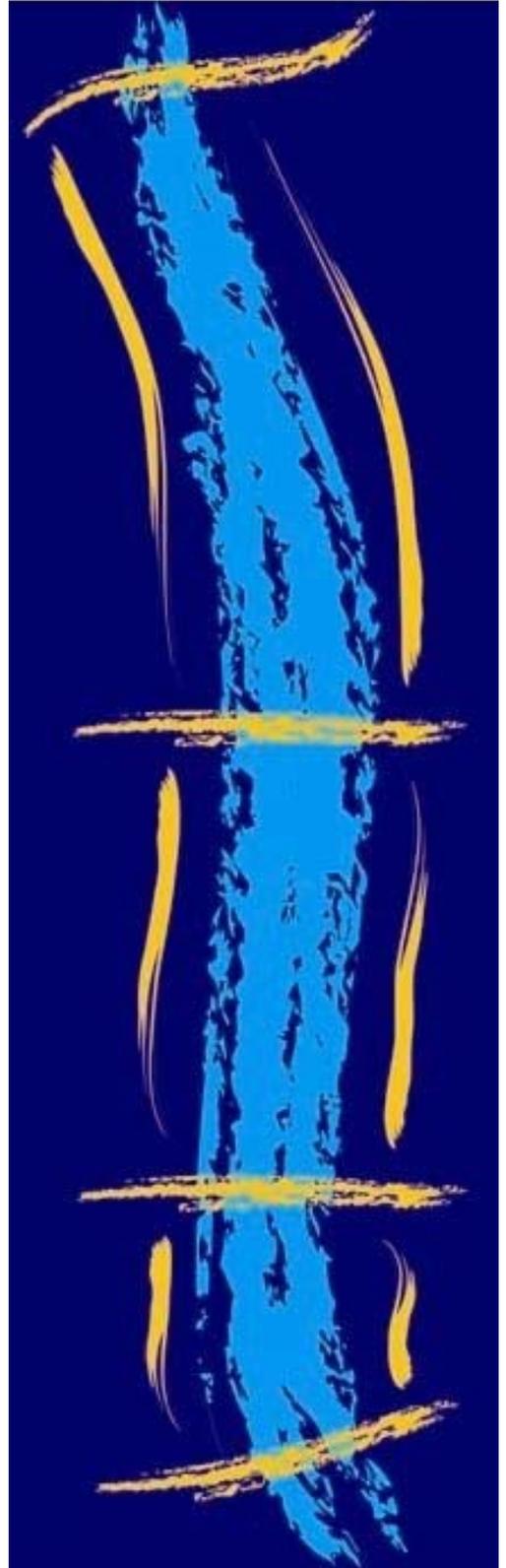


Above the Falls

Policy Review and
Implementation Study
(ATF-PRIS)

REPORT 2

Land Use
and
Market Trends



Existing Conditions Overview

1. Existing Conditions Overview

Changes 2000-2010: Demographics

- The City of Minneapolis is an estimated 13.5% of the population in the 7-County Metro Area.
- ATF and the neighborhoods surrounding it lost households over the past decade. In comparison, Minneapolis showed modest growth but the bulk of region’s growth has been located at the fringe of the 11-county metro area.
- Median household income in neighborhoods surrounding ATF is more than \$6,000 less than Minneapolis or the region, and also increased at slightly lower annual rate.

	Above the Falls Study Area [a]			Minneapolis		
	2000	2010	Average Annual Change	2000	2010	Average Annual Change
Population	32,264	30,815	-0.5%	382,618	384,997	0.1%
Households	12,036	11,443	-0.5%	162,352	164,318	0.1%
Average Household Size	2.64	2.65	0.0%	2.25	2.23	-0.1%
Median Household Income	\$34,640	\$40,808	1.7%	\$38,615	\$46,947	2.0%

	7-County Metro Area [b]			Minneapolis CBSA [c]		
	2000	2010	Average Annual Change	2000	2010	Average Annual Change
Population	2,642,056	2,847,972	0.8%	2,968,806	3,279,181	1.0%
Households	1,021,454	1,108,438	0.8%	1,136,615	1,265,079	1.1%
Average Household Size	2.53	2.51	-0.1%	2.56	2.54	-0.1%
Median Household Income	\$55,235	\$66,660	1.9%	\$55,123	\$66,604	1.9%

Notes:

a. Above the Falls Study Area includes Census Tracts 102, 100400, 100900, 101600, 102300, 102900, 601, 100500, 1700, 2400, 103000

b. 7-County Metro Area includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties

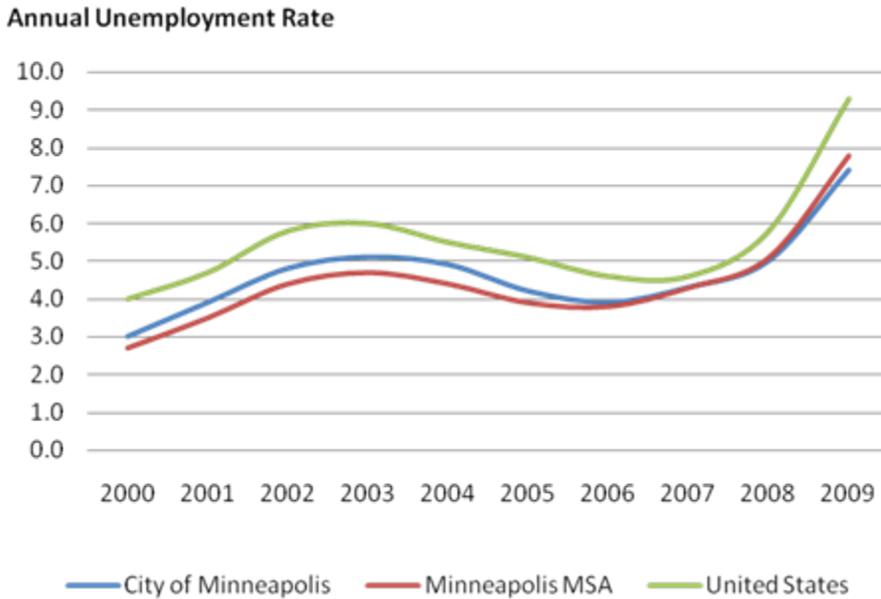
c. Minneapolis-St. Paul-Bloomington CBSA includes the Minneapolis Urbanized Area plus Chisago, Isanti, Sherburne, and Wright Counties

Source: Claritas, Inc., 2010; BAE, 2010.

1. Existing Conditions Overview

Changes 2000-2010: City and Regional Employment

- While recent trends indicate increase unemployment, Minneapolis is slightly below the country as a whole.
- The City of Minneapolis is an estimated 18% of the 7-County Metro Area employment.



Source: Bureau of Labor Statistics, Local Area Unemployment Statistics, 2009

Total Jobs in Minneapolis and 7-County Metro Area, 2010

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010[a]	
City of Minneapolis												
Annual	308,758	305,880	294,162	286,631	285,883	287,552	294,370	292,833	291,019	280,694	275,488	
% Annual Change		-0.9%	-3.8%	-2.6%	-0.3%	0.6%	2.4%	-0.5%	-0.6%	-3.5%	-1.9%	
7-County Metro Area [b]												
Annual	1,600,760	1,598,260	1,565,562	1,561,078	1,573,609	1,593,973	1,615,282	1,622,699	1,612,809	1,540,364	1,496,415	
% Annual Change		1.5%	-2.6%	-0.6%	-0.1%	1.1%	2.0%	0.5%	0.1%	-3.4%	-3.0%	-2.9%

Notes

[a] 2010 data is from Q1

[b] 7-County Metro Area includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties

Source: Minnesota Employment and Economic Development Department, 2010; BLS QCEW, 2010; BAE, 2010

1. Existing Conditions Overview

Changes 2000-2010: Building Activity

- 82% of permits in the City of Minneapolis are for units in multi-family construction.
- Since 2001, the City of Minneapolis has permitted an annual average of 166 units for new single-family construction and 879 units for multi-family construction.
- Building permits in the 7-County Metro Area follow the same recent trend of decline starting in 2007, but with increase activity in single-family homes.
- The most recent multi-family construction in the ATF area occurred in 2003 for 138 units (2 buildings) and in 2006 for 87 units (2 buildings).
- ATF area saw construction of 4 commercial buildings ranging in value from \$14,000 to \$3.9 million and 8 industrial buildings over the past decade ranging in value from \$203,000 to \$32 million.
- Largest recent developments include Graco in 2003 and Coloplast Corp. in 2008.

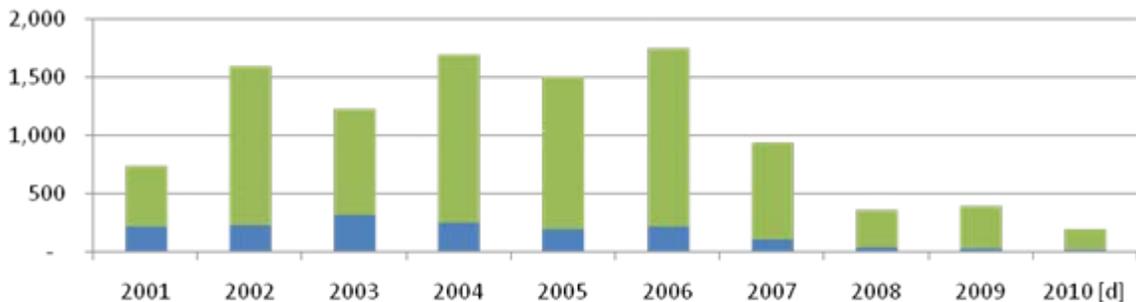
Year	Above the Falls Study Area [a]		Minneapolis	
	Single-Family	Multifamily	Single-Family	Multifamily
2001	0	0	226	519
2002	2	4	237	1,367
2003	1	138	321	914
2004	1	0	250	1,450
2005	2	0	198	1,308
2006	2	87	218	1,539
2007	0	2	115	829
2008	0	0	45	317
2009	0	0	28	370
2010 [d]	n/a	n/a	25	180
Total	8	231	1,663	8,793

Year	7-County Metro Area [b]		Minneapolis MSA [c]	
	Single-Family	Multifamily	Single-Family	Multifamily
2001	11,702	4,763	17,042	5,558
2002	11,952	7,439	17,426	8,001
2003	14,508	6,757	20,327	7,334
2004	13,873	6,772	20,116	7,257
2005	11,703	4,726	17,181	5,015
2006	8,532	3,435	11,966	3,648
2007	5,632	2,221	7,613	2,264
2008	3,313	1,360	4,171	1,503
2009	3,038	1,001	3,631	1,039
2010 [d]	2,254	932	2,353	670
Total	86,507	39,406	121,826	42,289

Notes:

- a. Above the Falls Study Area permits provided by the City of Minneapolis.
- b. 7-County Metro Area includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties
- c. Minneapolis-St. Paul-Bloomington CBSA includes the Minneapolis Urbanized Area plus Chisago, Isanti, Sherburne, and
- d. Represents permitting January 2010 through August 2010.

Building Permits, City of Minneapolis



Source: City of Minneapolis, HUDUSER, & BAE, 2010.

Note:

[a] Data up to August 2010

Source: HUD-USER, Building Permit Database, BAE 2010

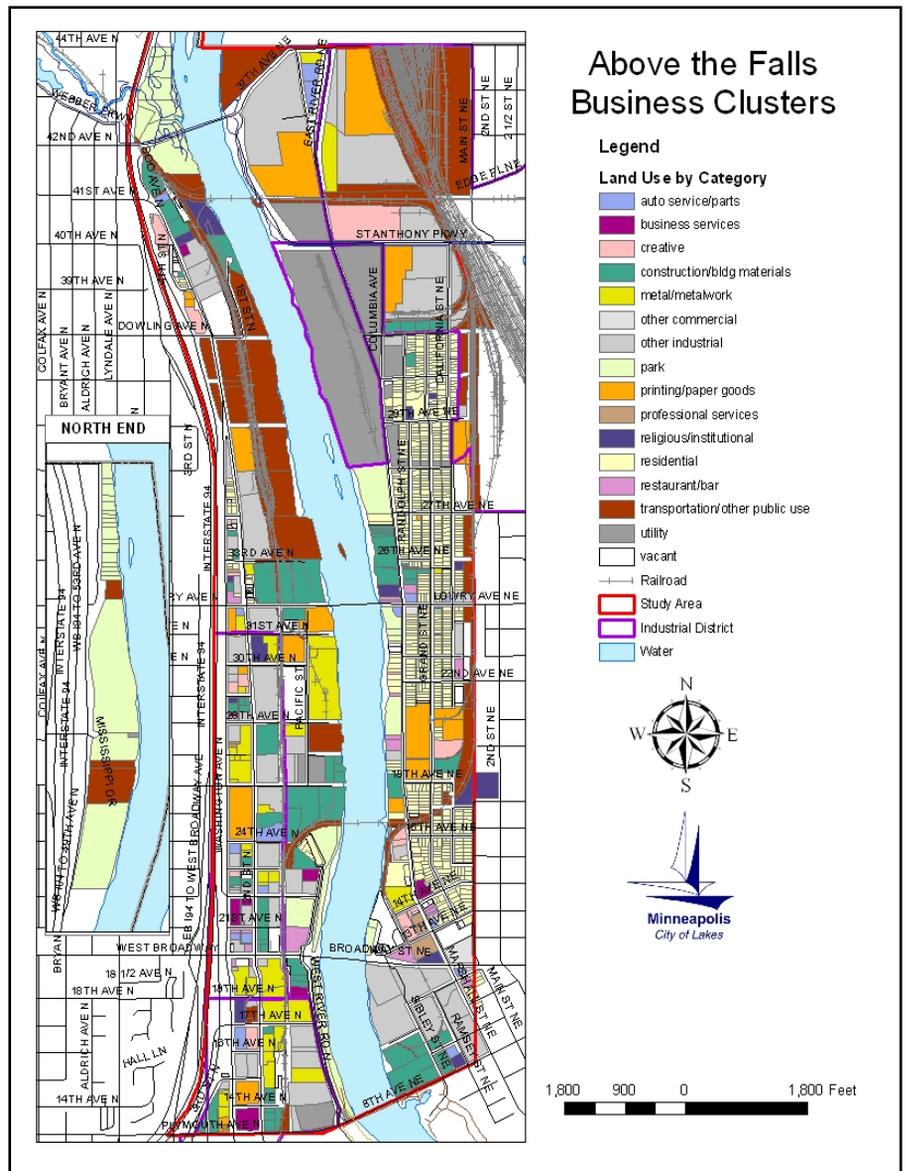
■ Single-Family ■ Multifamily

1. Existing Conditions Overview

Existing Businesses

Existing Business Clusters: Phase 1A Findings

- Land intensive uses: building materials, transportation-related (including Upper Harbor Terminal) and utilities dominate in terms of land area, occupying large parcels of land especially along the waterfront.
- Metal and metalwork, printing/paper goods, and other industrial uses are interspersed with a variety of professional services and other commercial and industrial uses on smaller parcels, as well as corporate operations such as Graco, Coloplast and the former Honeywell site.
- The area includes a number of recycling operations (metal, concrete, composting, etc) that can be considered “green businesses but utilize their land area in outdoor storage and are heavy users of the transportation network.
- The area is home to small businesses and start up operations in a diverse mix of industries including industrial, creative, logistics and technology, often located in multi-tenant spaces. This emerging set of businesses were not further explored in Phase 1A.
- Transportation (including water transport), available space and accessibility to downtown are key advantages of businesses located in the area.



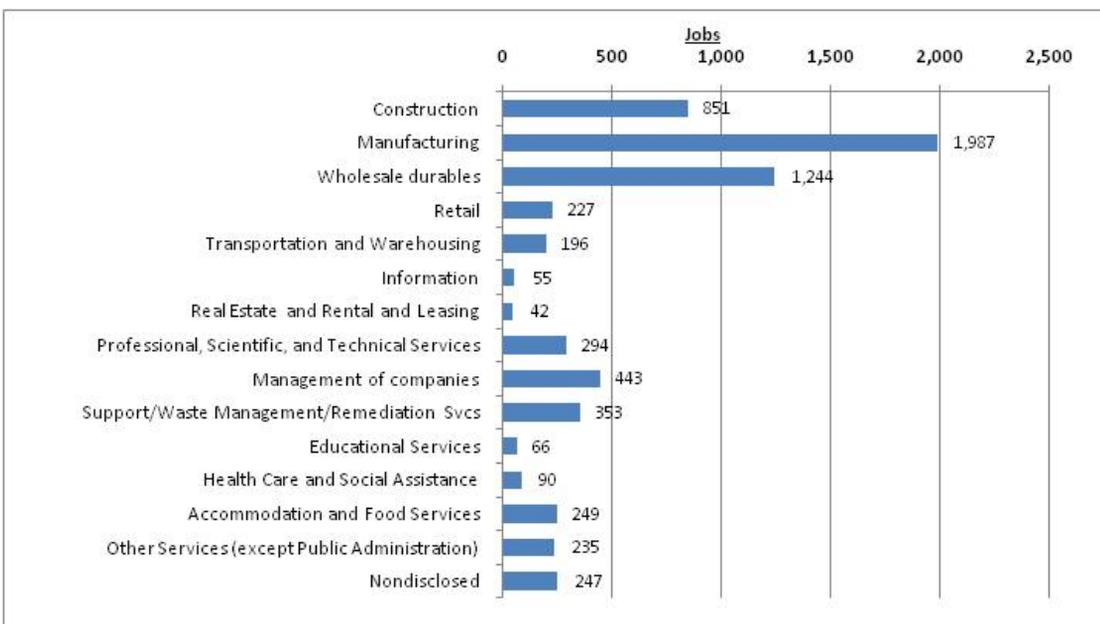
1. Existing Conditions Overview

Existing Businesses

Employment

- Information about jobs associated with the study area's businesses is available from state employment records, as well as a private data source (InfoUSA). Data limitations exist with both data sources but together they provide a picture of an intricate mix of industries, dominated by small businesses. State data reports 6,579 covered jobs in 290 establishments in 2009; InfoUSA reports 5,830 jobs in 248 establishments in ____.
- Manufacturing, wholesale, and construction jobs still dominate in the study area, together comprising over 60 percent of the study area's employment. Manufacturing employment is spread out over categories as diverse as seafood processing, metal and machinery manufacturing, custom woodwork and cabinets, and medical devices. State employment data identifies over 60 manufacturing firms employing nearly 2,000. InfoUSA reports nearly all manufacturing and warehousing businesses have fewer than 100 employees; notable exceptions are three commercial lithographic printers, a plastics manufacturer, an office furniture manufacturer, and a wholesale furniture merchant, as well as medical device manufacturing.
- In addition to the three categories above, InfoUSA identifies employment in the Services sector dominated by auto body and repair businesses as well as machinery/equipment repair.
- The diversity of business clusters identified in Phase 1A is further supported by the diversity of employment. The professional services sector includes a variety of creative (eg, photography, advertising and marketing) firms as well as technical (eg, computer programming, logistics) firms. InfoUSA reports that professional services firms are small, all subsectors averaging under 50 employees except for the area's architectural firms, which has a slightly higher average.
- State data identifies five firms in the management of companies sector.

Above the Falls Employment by Major Industry Sector, 2009



Source: Minnesota Department of Employment and Economic Development, BLS QCEW, City of Minneapolis CPED, BAE, 2010.

1. Existing Conditions Overview

Property Condition

Summary of Phase 1A findings

- The study area contains low value and vacant property, using a ratio of assessed building value to assessed land value.
- Most buildings in the study area tend to be in average to poor condition, according to periodic City-wide conditions survey.
- Property values per square foot tend to be highest for residential properties, and some commercial /industrial properties on the southern end of the east bank. The highest value properties per square foot also tend to be some of the smallest properties.
- Given available data, the area can generally be characterized as having older structures with a relatively low level of investment, overall. Nevertheless, at least some types of buildings remain viable and occupied.

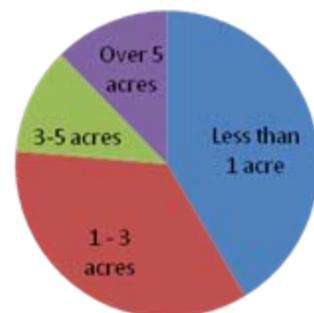
Property size characteristics

- The ATF study area consists of 41 million SF or 949 acres.
- 76% of industrial properties are below 3 acres, suggesting existing users require smaller space.
- 20% of the land area is used for railroads and utilities (7.8 million SF).
- 4.6 million SF of the ATF area is residential, 2.8 million SF are used for construction or building material industries, 2.2 million SF are in the metal/metalwork industrial sector, 1.3 million SF are food processing and related services, and 3.4 million are in the printing paper goods industry.

Number of Properties in ATF Study Area

	Industrial Land Use	% Industrial	Non Industrial Land Use	% Non Industrial
Less than 1 acre	77	41%	971	93%
1 - 3 acres	65	35%	53	5%
3-5 acres	21	11%	16	2%
Over 5 acres	23	12%	8	1%
Total	186	100%	1,048	100%
Vacant	8	4%	32	3%
Occupied	178	96%	1,016	97%

Industrial Properties by Size



Source: City of Minneapolis

Property ownership

- 16% percent of land is owned by public sector entities, including 69 acres of land in 23 parcels owned by the City, and 76 acres of land owned by the Minneapolis Park and Recreation Board.

Market Conditions: Employment

2. Market Conditions

Regional Employment Projections

- Metropolitan Council forecasts 174,000 new jobs will be added to the 7-County Metro Area by 2020.
- Areas of growth are Management of Companies and Enterprises, Professional and Technical Services, Administrative and Waste Services, Information, Health Care & Social Assistance, and Transportation and Warehousing.
- Estimated growth in Professional and Technical Services is primarily in management & technical consulting services (6,339 new jobs) and computer systems design and related services (8,396 new jobs).
- Health Care and Social Assistance will increase (50,389 new jobs) – 60% of this growth is concentrated in social assistance and specifically in industries providing individual and family services (16,240 jobs).
- While manufacturing overall is projected to decline - losing 13,800 jobs by 2020 - the subsector medical equipment manufacturing is expected to experience growth of 1,779 jobs.

Employment Projection by Sector for 7-County Metro Area, 2010

NAICS Code	Title	Projected Share of Employment (%)		Projected Employment		Employment Change, 2010 - 2020	% Change 2010 - 2020
		2010 [a]	2020 [b]	2010 [c]	2020 [d]		
	Total	100.00	100.00	1,816,000	1,990,000	174,000	9.6
11	Agriculture, Forestry, Fishing & Hunting	0.24	0.18	4,321	3,618	-703	-16.3
21	Mining	0.02	0.02	371	361	-10	-2.8
22	Utilities	0.29	0.22	5,323	4,394	-928	-17.4
23	Construction	4.20	4.08	76,288	81,158	4,870	6.4
31	Manufacturing	10.49	8.88	190,519	176,715	-13,804	-7.2
42	Wholesale Trade	5.34	5.07	96,899	100,977	4,079	4.2
44	Retail Trade	9.63	8.86	174,933	176,251	1,318	0.8
48	Transportation and Warehousing	3.14	3.00	57,091	59,729	2,638	4.6
51	Information	2.34	2.25	42,504	44,784	2,281	5.4
52	Finance and Insurance	6.16	6.24	111,876	124,186	12,310	11.0
53	Real Estate and Rental and Leasing	1.71	1.84	31,083	36,651	5,568	17.9
54	Professional and Technical Services	5.93	6.63	107,607	131,883	24,276	22.6
55	Management of Companies and Enterprises	3.30	3.56	59,932	70,929	10,998	18.4
56	Administrative and Waste Services	5.63	5.89	102,307	117,161	14,855	14.5
61	Educational Services	7.01	7.17	127,352	142,653	15,301	12.0
62	Health Care and Social Assistance	10.89	12.47	197,740	248,129	50,389	25.5
71	Arts, Entertainment, and Recreation	1.51	1.71	27,511	33,947	6,436	23.4
72	Accommodation and Food Services	6.88	6.99	124,865	139,081	14,216	11.4
81	Other Services, Ex. Public Admin	4.33	4.36	78,656	86,710	8,054	10.2
	Undisclosed - all industries [e]	10.95	10.59	198,824	210,682	11,858	6.0

Notes:

[a] Share of employment is derived from Minnesota Department of Employment and Economic Development in 2006 employment estimates by industry sector.

[b] Share of employment is derived from Minnesota Department of Employment and Economic Development projections made in 2006 for 2016. Note that 2006 was before the recent economic downturn and may not reflect its effects on certain sectors.

[c] Total employment forecast for 2010 is provided by the Minneapolis Metropolitan Council. Share of employment by NAIC sector provided by Minnesota Department of Employment and Economic Development is used to estimate total employment by NAIC sector for 2010.

[d] Total employment forecast for 2020 is provided by the Minneapolis Metropolitan Council. Share of employment in 2016 by NAIC sector projected by Minnesota Department of Employment and Economic Development is used to estimate total employment by NAIC sector for 2020.

[e] This category includes sectors or employment that due to disclosure laws could not be included in the estimates - an example would be a company that is the only one in its sector and would therefore reveal information about their employment and wages.

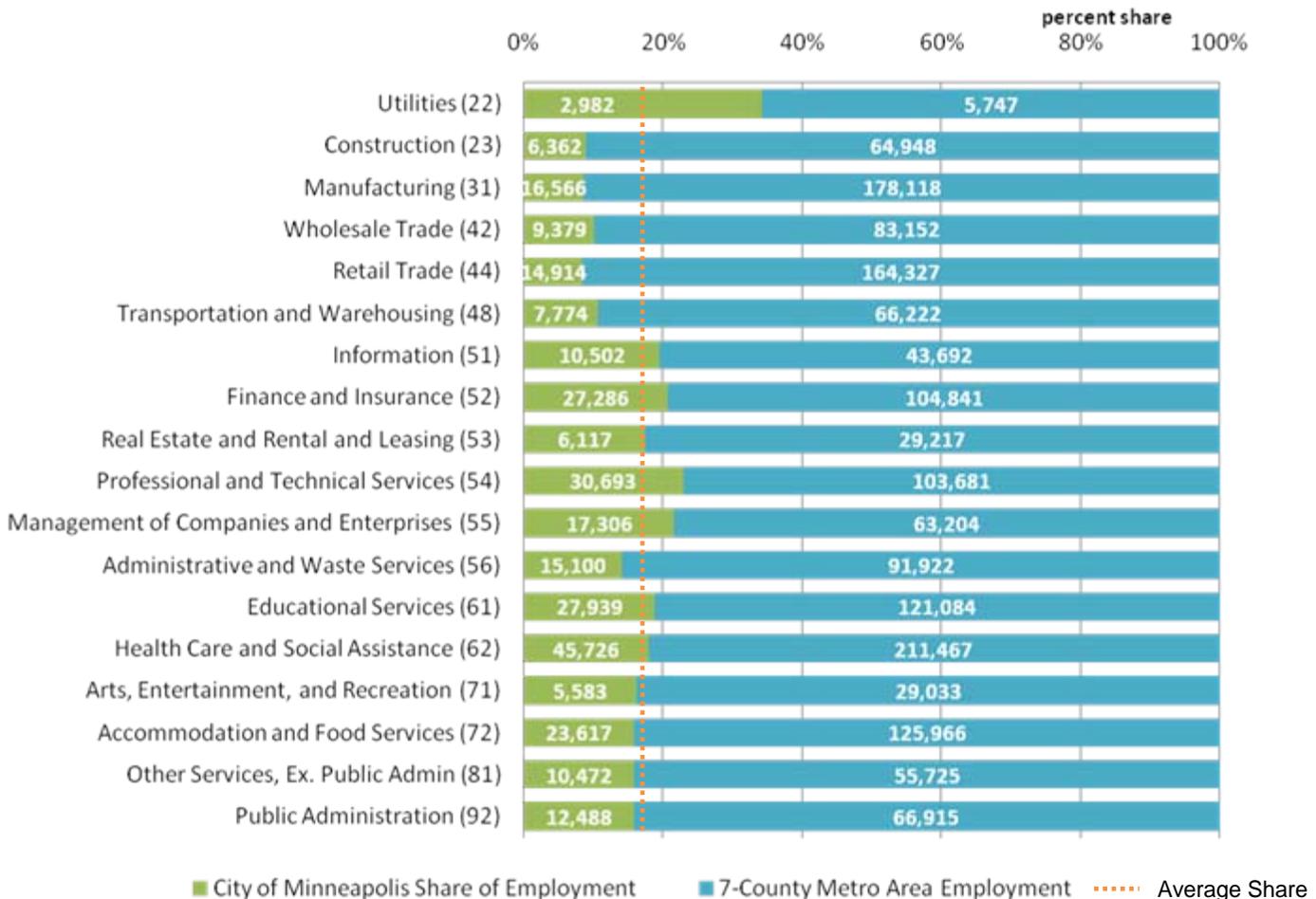
Source: Minnesota Economic Development Department, 2006; Metropolitan Council, 2010; BAE, 2010.

2. Market Conditions

Employment Trends – Minneapolis’ Share

- Minneapolis’ share of the 7-County Metro Area’s employment has remained steady at about 18% since 2000, after experiencing a sharp decline through the previous five decades, according to BLS and the US Census.
- The Metropolitan Council estimates indicate that 9% of regional job growth or 15,500 jobs will occur in the City of Minneapolis over the next decade.
- Past trends indicate higher shares of professional services, financial industries, and utilities employment will locate in the City of Minneapolis.

Share of Employment by Sector in the 7-County Metro Area, 2008 [a]



Notes:

[a] Data used to generate this graph are QCEW estimates from 2008 prior to the economic downturn. The intention is to run analysis on the market when running at full capacity.

Source: Minnesota Department of Employment and Economic Development, 2008; BLS QCEW, 2010, and BAE, 2010

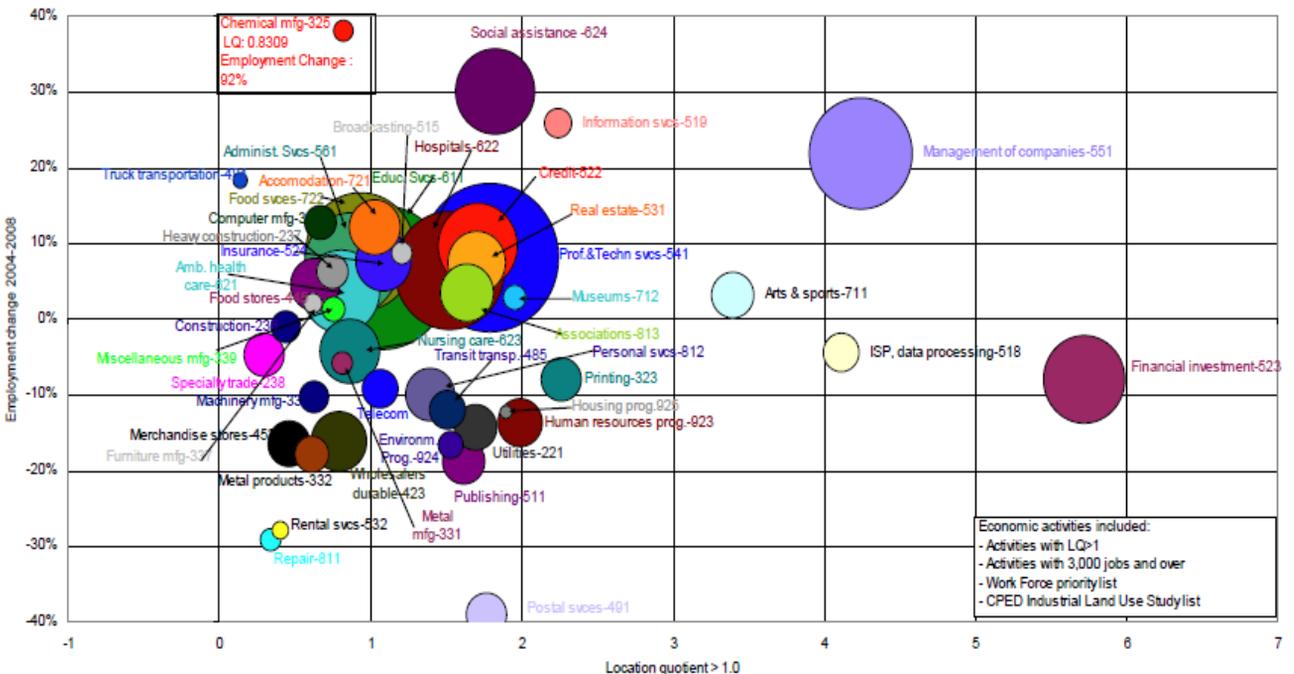
2. Market Conditions

Employment Trends – Minneapolis’ Share

Recent trends in Minneapolis employment that may continue to influence characteristics of future growth:

- Management of companies has high employment, is highly concentrated (compared to the US as a whole) and is experiencing high growth in the City of Minneapolis.
- Professional and technical services is a large share of employment in Minneapolis and is increasing.
- Although a small share of employment, chemical manufacturing and information are emerging industries experiencing high growth.
- Publishing, metal and machinery manufacturing, merchandise stores, and wholesalers experienced declines.

Minneapolis: Employment Size as a Function of employment Concentration and Employment Change, 2004 - 2008



Note:

[a] LQ is calculated using comparison to the United States

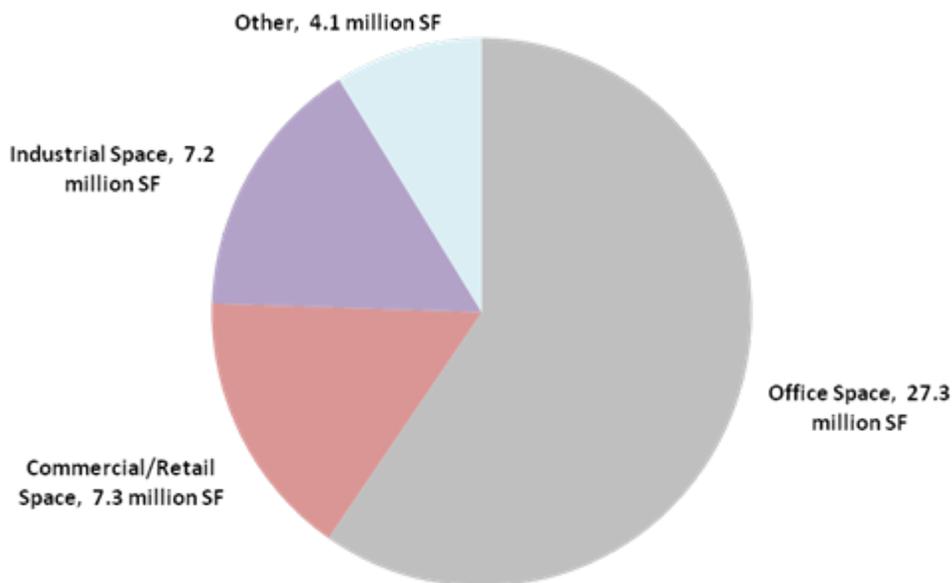
Source: City of Minneapolis, 2010, DEED-QCEW; CPED, 2009

2. Market Conditions

Demand for Employment-Generating Uses

- Following assumptions made in the recent Land Capacity Analysis about how job sectors utilize space, we estimate that 60% of the employment growth will be users of office space and 16% will be users of industrial space by 2020.
- These assumptions for the 7-County Metro Area yield an estimated demand of 27.3 million SF of office space, 7 million SF of industrial space , 7 million SF of retail space, and 4.1 million of “other” which mostly includes institutional space by 2020.

Projected Employment Demand in 2020 for 7-County Metro Area [a, b, c]



Notes:

[a] Employment projections were made using Minneapolis Metropolitan Council 2010 and 2020 forecasts. Shares of employment were applied to 20 NAIC sectors using Minnesota Department of Employment and Economic Development estimates for 2006 and 2016. Estimates were compared to 2008 and 2010 QCEW estimates, and Moody’s Economy.com projections for Hennepin County.

[b] The City of Minneapolis’ Land Capacity Analysis makes assumptions on how each NAIC sector uses its space by applying percentages of industrial, office, retail, or other uses to each NAIC sector. This analysis relied upon the same assumptions.

[c] The City of Minneapolis CPED made employment density assumptions in the Developable Land Decisions Framework Methodology. This analysis applies the same density assumptions (SF per job) to the estimated number of jobs per office, industrial, retail, and other categories.

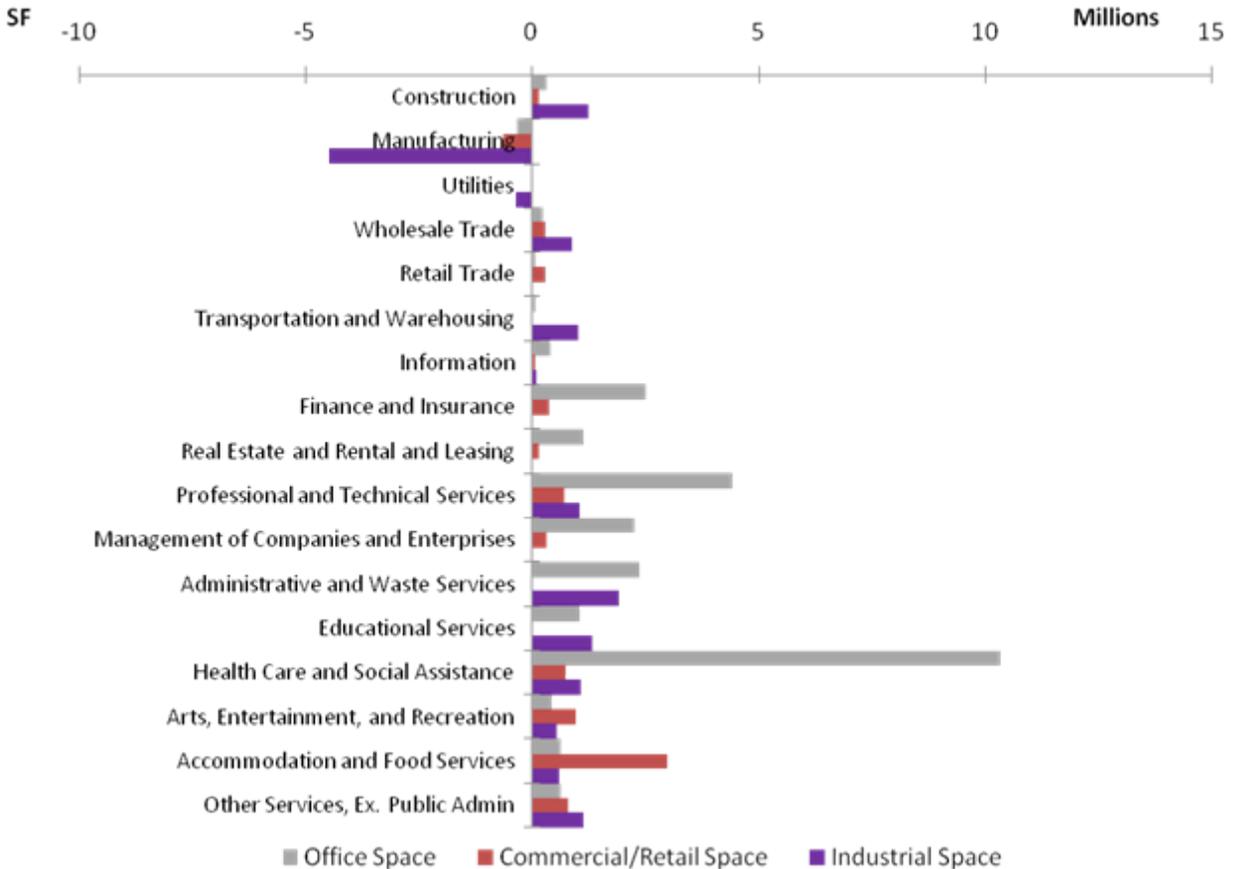
Source: Minneapolis Economic Development Department, 2002; Metropolitan Council, 2007; City of Minneapolis, 2010, CAI Community Attributes International, Land Capacity Analysis, 2010; BAE, 2010

2. Market Conditions

Demand for Employment-Generating Uses

- According to analysis, demand for office space will occur in health care and social assistance sector (individual & family services), professional and technical services sector (management & technical consulting firms), finance and insurance sector, and administrative services sector (employment services).
- Demand for industrial space will be linked to the administrative and waste services sector (includes security services, building maintenance), professional and technical services sector, (computer systems designers, scientific research, engineer services), wholesale trade (electronics market, farm produce, machinery & supply), and transportation and warehousing sector (storage, truck and school bus storage).
- Manufacturing space declines by almost 5 million SF indicating a shift in the type of needed industrial space – less heavy industrial and more flex space providing both offices and warehouse storage.

Square Feet Required for projected Employment Demand in 2020 for 7-County Metro Area



Notes:
 [a] The City of Minneapolis' Land Capacity Analysis makes assumptions on how each NAIC sector uses its space by applying percentages of industrial, office, retail, or other uses to each NAIC sector.
 [b] The City of Minneapolis CPED made employment density assumptions in the Developable Land Decisions Framework Methodology. BAE applied the density assumptions (SF per job) to the estimated number of jobs per office, industrial, retail, and other categories.

Source: Minneapolis Economic Development Department, 2002; Metropolitan Council, 2007; City of Minneapolis, 2010, CAI Community Attributes International, Land Capacity Analysis, 2010; BAE, 2010

Market Conditions: Real Estate

2. Market Conditions

Office Market: Supply Trends

- Currently 13 million SF of office space is vacant in the 7-County Metro Area, with 4.4 million SF vacant in the Minneapolis CBD.
- Average asking rents is \$13.58/SF for Class A space, about 50% of the overall market.
- A 2007 study found that the few more prime properties the Minneapolis CBD were achieving rents over \$20/SF, but other Class A in the CBD were closer to the average under \$13/SF. Prime properties are those in the core of the CBD, connected by skyways to other buildings, and with access to retail amenities.
- The largest concentration of office space (35%) is in the Minneapolis CBD.
- Some suburban office markets, such as the 394 Corridor and 494 Corridor, are commanding higher rents and slightly lower vacancies.
- More recently, tenants have been attracted to class A sublease space providing quality at a discounted rate.

Snapshot of Current Office Inventory, Minneapolis CBD and 7 County Area, Q2 2010

	Class A	Class B	Class C	Total
7-County Metropolitan Area				
Rentable Area (SF)	32,939,544	23,861,876	9,266,236	66,067,656
Vacant Space (SF) [a]	6,027,937	4,963,270	1,927,377	12,949,261
Vacancy Rate (%) [b]	18.30%	20.80%	20.80%	19.60%
Average Asking Lease Rate [c]	\$13.58	\$10.91	\$9.22	\$12.10
Minneapolis CBD				
Rentable Area (SF)	15,369,533	5,042,526	2,909,071	23,321,130
Vacant Space (SF) [a]	2,551,342	1,154,738	674,904	4,384,372
Vacancy Rate (%) [b]	16.60%	22.90%	23.20%	18.80%
Average Asking Lease Rate [c]	\$12.93	\$9.57	\$9.92	\$12.10
Suburban				
Rentable Area (SF)	15,004,219	14,420,443	5,727,672	35,152,334
Vacant Space (SF) [a]	3,030,852	2,725,464	1,202,811	6,960,162
Vacancy Rate (%) [b]	20.20%	18.90%	21.00%	19.80%
Average Asking Lease Rate [c]	\$14.89	\$11.56	\$8.70	\$12.71

Notes:

[a] CB Richard Ellis, Inc calculates the rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

[b] Total vacancy rate is percentage of physically vacant space including sublease space vacancies and shadow space.

[c] CB Richard Ellis, Inc surveys all competitive office buildings 10,000 SF and greater, note that it excludes smaller single-tenant properties.

[d] Minneapolis CBD and Suburban Market totals do not equal the Minneapolis Metro Area because St. Paul CBD is excluded. CBRE includes all competitive office buildings 10,000 SF or greater in size. Data from CBRE was compared to Cassidy-Turley, NorthMarq, and Cushman & Wakefield to ensure adequate coverage. Vacancy and rents did not vary greatly. Northmarq surveys 6 million SF more of office space primarily concentrated in Class B with slightly higher vacancy rates.

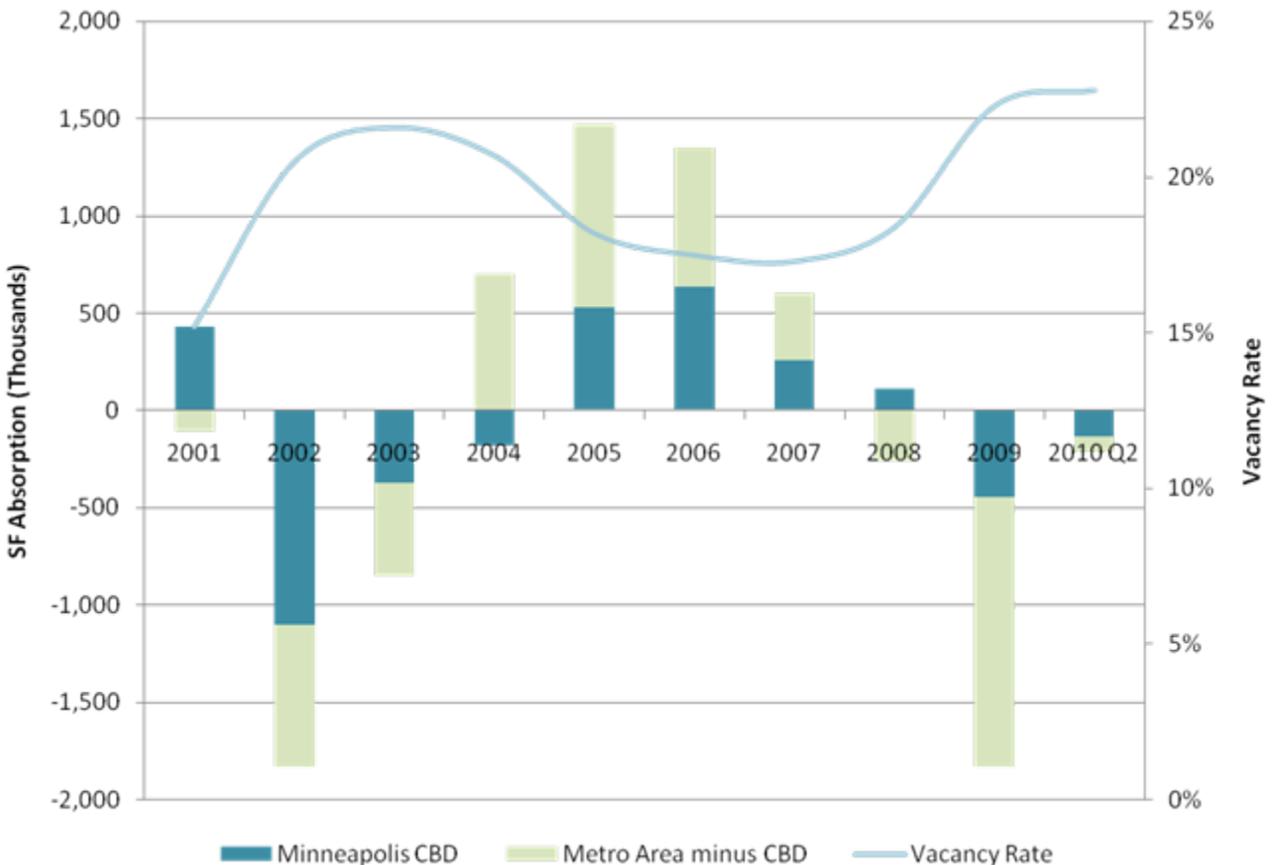
Source: CB Richard Ellis, Inc. 2010; BAE 2010

2. Market Conditions

Office Market: Supply Trends

- Average annual absorption measured by Northmarq over past decade has been -42,200 SF in the Metro Area including -13,778 SF in the Minneapolis CBD, reflecting the current economic cycle of downturn.
- Between 2005 and 2007, the Metro Area absorbed 3.4 Million SF of office space, 1.4 Million of which was located in the Minneapolis CBD.
- Over half of recent lease transactions for office space (95,000 SF) recorded by Northmarq were located in Minneapolis CBD.
- CBRE notes that there are currently numerous vacant single tenant buildings previously occupied by corporate users throughout the metro that are not reflected in absorption data.
- In addition, shadow and sublease space will need to be absorbed before new space comes on-line.

Office Absorptions, 2010 Q2



Note:

[a] Includes only multi-tenant office buildings 20,000 SF and above.

Source: NorthMarq, 2010 2Q

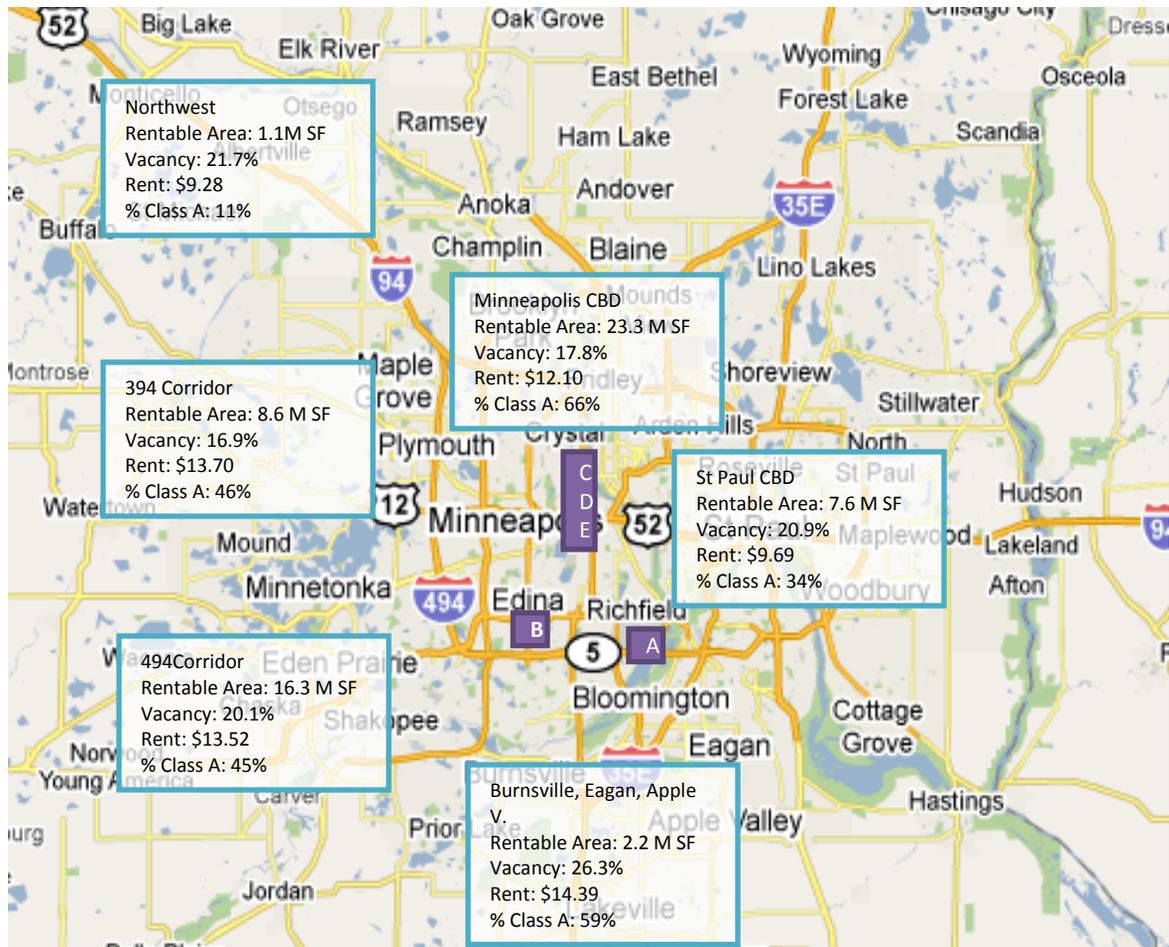
2. Market Conditions

Office Market: Supply Trends

Recent Office Space Transactions, 2nd Quarter 2010

Key	SF	Type	Tenant	Location
A	93,000	Lease Renewal	Rels Title	Riverview Office Tower, Bloomington
B	85,000	Lease	Capella University	Capella Tower, Minneapolis
C	84,000	Lease Renewal	Wells Fargo	Northstar Center, Minneapolis
D	82,000	Lease Renewal	The Schwan Food Co.	8500 Tower, Bloomington
E	26,000	Lease	Barnes & Thornburg LLP	Capella Tower, Minneapolis

Source: CB Richard Ellis, Inc. 2010



Notes:

- [a] Vacancy rate is percentage of physically vacant space including sublease space vacancies and shadow space.
- [b] CB Richard Ellis, Inc calculates the rent rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.
- [c] CB Richard Ellis, Inc surveys all competitive office buildings 10,000 SF and greater, note that it excludes smaller single-tenant properties.

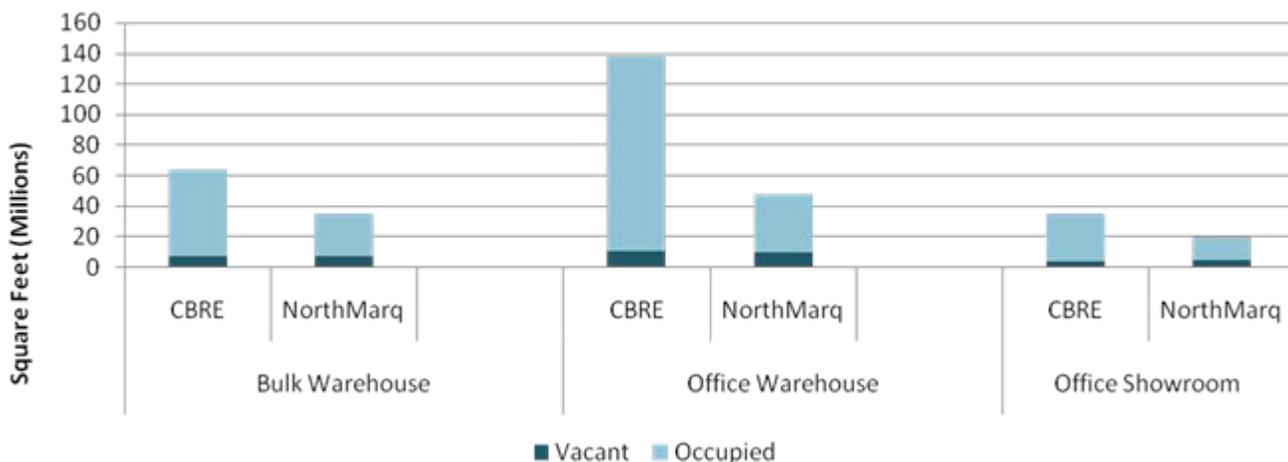
Source: CB Richard Ellis, Inc. 2010, BAE, 2010

2. Market Conditions

Industrial Market: Types of Users

- CBRE & NorthMarq survey industrial buildings throughout the Minneapolis region for vacancies, absorption and construction activity, and rental rates. CBRE surveys both single-tenant and multi-tenant users for industrial space larger than 10,000 SF. NorthMarq surveys only multi-tenant buildings larger than 20,000 SF, only bulk warehouse, office warehouse, and office showroom (excluding manufacturing).
- As a result, CBRE estimates that rentable space in the market totals to 326 million while NorthMarq estimates rentable space is 102 million SF. CBRE estimates the market for “other,” which includes manufacturing and specialty buildings is 86 million SF.
- NorthMarq and CBRE capture similar total vacancies – indicating that the vacancies are in multi-tenant buildings above 20,000 SF across all types of space.
- Single user and smaller spaces represent a significant share of the industrial market.

Surveyed Industrial Space for Twin Cities Metro Region, 2010 Q2



	Total [a]		Bulk Warehouse		Office Warehouse		Office Showroom	
	CBRE [b]	NorthMarq [c]	CBRE	NorthMarq	CBRE	NorthMarq	CBRE	NorthMarq
Total	326,211,312	102,366,910	63,810,524	34,812,246	137,619,899	47,702,470	35,030,841	19,852,194
Vacant [d]	25,118,271	19,780,569	6,891,537	6,591,704	9,771,013	8,934,170	3,713,269	4,254,695
Occupied	301,093,041	82,586,341	56,918,987	28,220,542	127,848,886	38,768,300	31,317,572	15,597,499
Vacancy Rate	7.70%	19.30%	10.80%	18.90%	7.10%	18.70%	10.60%	21.40%
Avg. Asking Whse Rate \$/YR [e]	\$4.02	\$4.34	\$4.05	\$4.21	\$4.13	\$4.29	\$7.09 [f]	\$6.09

Notes:

- [a] CBRE includes 89 million SF of "other" space in their total, which includes manufacturing and specialty buildings. Northmarq does not
 - [b] CBRE market area includes single-tenant and multi-tenant buildings above 10,000 SF
 - [c] Northmarq market area includes only multi-tenant buildings above 20,000 SF
 - [d] Vacant area and vacancy rate include sublease space
 - [e] Includes sublease and shadow space
 - [f] Average blended rate determined by averaging the office (high) and warehouse (low) rates in office showroom buildings only.
 - [g] NorthMarq and CBRE definitions for Bulk Warehouse, Office Warehouse, Office Showroom do not vary greatly. CBRE definitions include more variables (% office space, SF) but ceiling clearance heights are the same as NorthMarq for each category
 - [h] Market area map for CBRE and NorthMarq are almost identical
- Source: CB Richard Ellis (CBRE), Industrial MarketView Minneapolis/St. Paul, 2010 2Q; NorthMarq, The Compass, July 2010; BAE 2010.

2. Market Conditions

Industrial Market: Supply Trends

- Existing industrial space and positive absorptions are concentrated in the suburban North West (Plymouth, Maple Grove) and South West (Eden Prairie, Edina) of Minneapolis.
- New construction is built-to-suit and will remain limited until vacancies are filled-up.
- New tenants are seeking flex space including convertible low-finish offices and clear heights.
- Vacancies for buildings with a ceiling height larger than 24 feet are achieving 12% vacancy rates while buildings with ceiling heights between 14 to 17 feet are achieving 16% vacancy rates, indicating greater demand for higher ceilings.
- Industrial space built after the year 2000 are achieving higher absorptions and lower vacancy rates. However, the lowest vacancy rates are for the oldest buildings.
- Trends towards newer space and higher ceiling heights indicate that existing supply of industrial space may not meet the needs of future growth.

Industrial Buildings by Age, 2010 Q3

Year	Absorption	Vacancy
>2000	398,806	10.7%
1990 - 1999	(158,774)	12.6%
1980 - 1989	544,422	17.1%
1970 - 1979	76,310	16.6%
<1960	17,017	8.1%

Industrial Buildings by Clear Height, 2010 Q3

Year	Absorption	Vacancy
<13	14,665	9.9%
14-17	(336,125)	16.6%
18-23	(551,285)	15.3%
>24	74,205	12.0%

Source: Cassidy Turley Industrial Market Report, Q3 2010

Multi-tenant Industrial Absorptions, Twin Cities Metro Region, 2001 - 2010



Note:
[a] Includes only multi-tenant industrial buildings 20,000 SF and above.

Source: NorthMarq, 2010 2Q

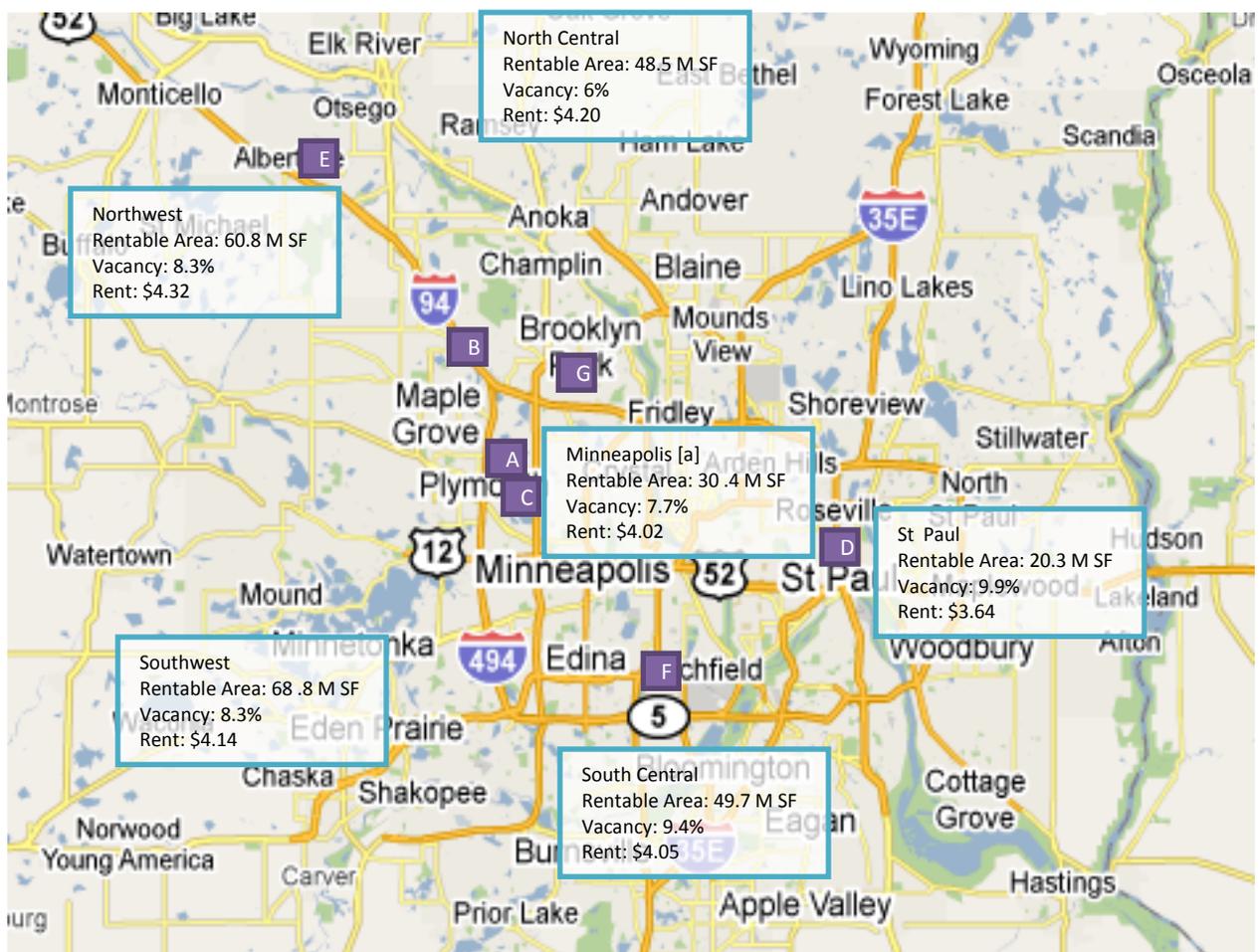
2. Market Conditions

Industrial Market: Supply Trends

Recent Industrial Space Transactions, 2nd Quarter 2010

Key	SF	Lease/Sale	Tenant/Buyer	Location
A	110,000	Lease	Auer Steel	865 Xenium, Plymouth, MN
B	108,000	Lease	Caterpillar	93rd Ave Industrial Center, Maple Grove, MN
C	80,000	Lease	EV-3	Plymouth Corporate Center, Plymouth, MN
D	53,000	Lease	Rise	MSP Midway Industrial Park 9, St. Paul, MN
E	47,000	Sale	US Water	12270 43rd St, St. Michael, MN
F	45,000	Sale	Yale Mechanical	220 W 81st St, Bloomington, MN
G	45,000	Sale	Mpls Pipe Fitters	6200 Lakeland, Brooklyn Park, MN

Source: CB Richard Ellis, Inc. 2010



Note:
[a] Market area coincides with boundaries of the City of Minneapolis

Source: CB Richard Ellis, Inc. 2010, BAE, 2010

2. Market Conditions

Residential Characteristics of Area Surrounding ATF

- The ATF population is younger than the region with over 50% of the population under 35 years old.
- 34% of ATF study area are single householders – 10% more than suburban counterparts but 7% less than the entire city.
- The majority of the households in ATF Area are homeowners (65%).
- The majority of the housing stock is single-family detached
- The ATF Study Area has lower incomes compared to suburban markets – 60% of the population earn a household income under \$50,000.

Households by Income, 2010

Income Distribution	Above the Falls Study Area [a]		Minneapolis	
	Number	Percent	Number	Percent
Less than \$25,000	3,306	28.9%	41,271	25.1%
\$25,000-\$49,999	3,648	31.9%	46,331	28.2%
\$50,000-\$74,999	2,349	20.5%	30,779	18.7%
\$75,000-\$99,999	1,146	10.0%	18,143	11.0%
\$100,000 and Above	994	8.7%	27,794	16.9%
Total	11,443	100%	164,318	100%

Income Distribution	7-County Metro Area [b]		Minneapolis CBSA [c]	
	Number	Percent	Number	Percent
Less than \$25,000	156,844	12.4%	177,112	14.0%
\$25,000-\$49,999	245,075	19.4%	278,494	22.0%
\$50,000-\$74,999	228,543	18.1%	266,398	21.1%
\$75,000-\$99,999	174,505	13.8%	203,234	16.1%
\$100,000 and Above	303,471	24.0%	339,841	26.9%
Total	1,108,438	88%	1,265,079	100%

Notes:

a. Above the Falls Study Area includes Census Tracts 102, 100400, 100900, 101600, 102300, 102900, 601, 100500, 1700, 2400,

b. 7-County Metro Area includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties

c. Minneapolis-St. Paul-Bloomington CBSA includes the Minneapolis Urbanized Area plus Chisago, Isanti, Sherburne, and Wright Counties

Source: Claritas, Inc., 2010; BAE, 2010.

2. Market Conditions

Forecasted Residential Growth

- Metropolitan Council population forecast is more optimistic than other data sources and was discounted using comparison to Claritas and the 2009 American Community Survey. The resulting analysis estimates that Minneapolis will add 8,800 households by 2020 and 15,800 households by 2030.
- The same analysis indicates that the 7-County Metro Area will add 139,000 households by 2020 and 250,000 by 2030.
- The City of Minneapolis' share of population is approximately 15% and is forecasted to decrease by 1% each decade.
- Forecasted growth will likely be concentrated in higher earning income brackets. According to Claritas, 75% of net growth will be in households earning over \$100,000 (in 2010 dollars).
- 60% of the growth in Minneapolis will be in single person households – while Minneapolis continues to have a greater share of population under 25 years, the growth in single person households can be attributed to increase in the population age 55 and older.
- 7-County Metro Area will experience similar trends, but with 15% fewer single person households.

	2000	2010	2020	2030
Minneapolis				
Population	382,747	383,926	403,345	417,838
% change		0.3%	5.1%	3.6%
Households	162,352	163,593	172,402	179,412
% change		0.8%	5.4%	4.1%
7-County Metro Area				
Population	2,642,062	2,545,411	2,824,093	3,056,188
% change		-3.7%	10.9%	8.2%
Households	1,021,456	1,014,776	1,153,694	1,263,811
% change		-0.7%	13.7%	9.5%

Note:

Metropolitan Council population forecast was adjusted based on its difference with the 2010 Claritas estimate and the 2009 American Community Survey. Based on a percentage difference, population for the City of Minneapolis was discounted by 5% and the Minneapolis Urbanized Area was discounted 15%.

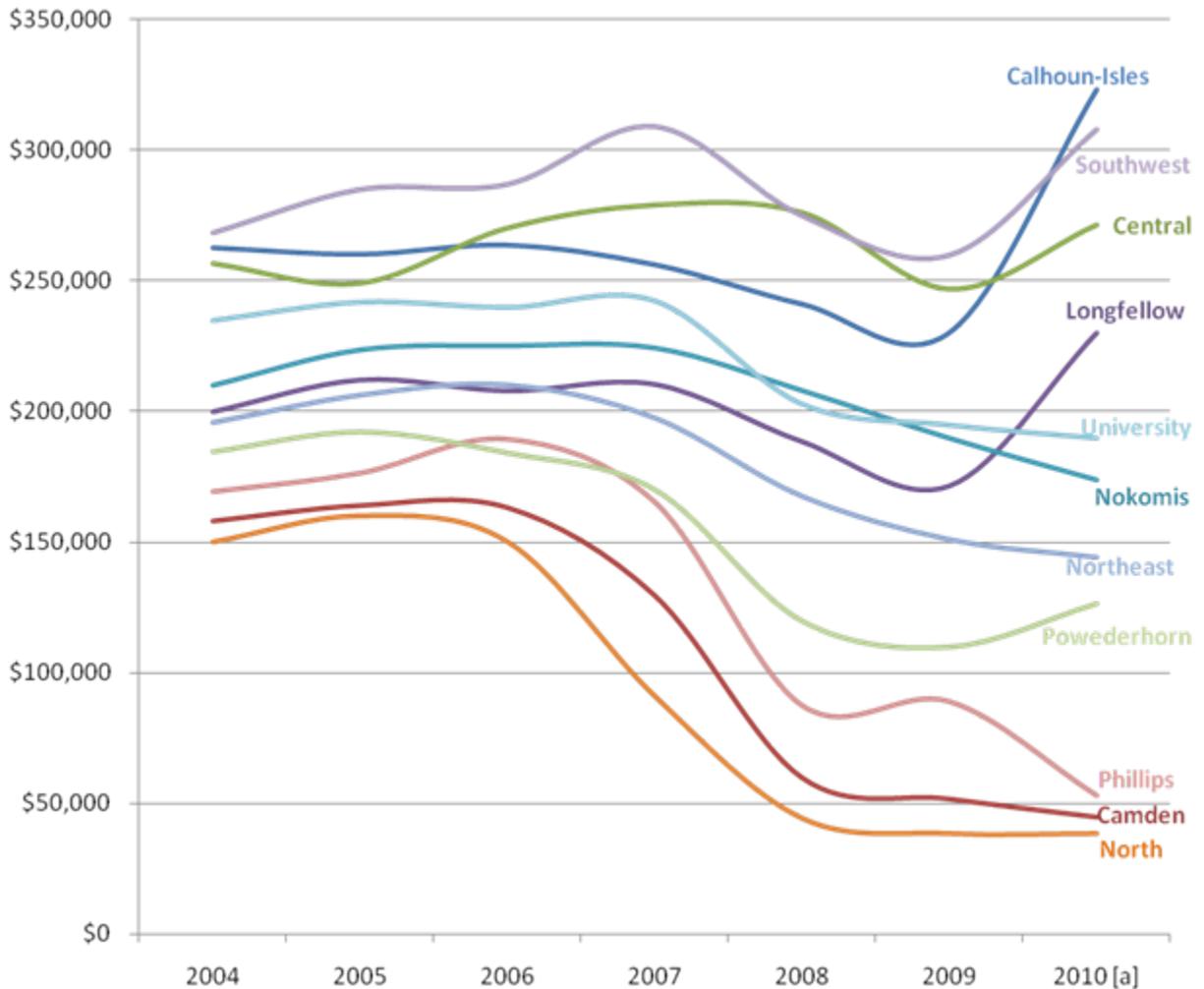
Source: Metropolitan Council, 2009, Claritas, 2010, American Community Survey, 2009, BAE 2010.

2. Market Conditions

Trends in Housing Values

- Median sale value in August 2010 was \$172,165 for the 7-County Metro Area.
- Housing sales declined 45% between August 2009 and August 2010.
- Median sale prices in Calhoun-Isles, Southwest, Longfellow, and Central neighborhoods are rebounding past their peak earlier in the decade.
- North and Camden – adjacent to ATF – are the lowest priced neighborhoods in Minneapolis and experienced the largest decline in values.

Median Value of Home Sales in Minneapolis



Note:
[a] Data for August 2010

Source: Minneapolis Area Association of Realtors, Residential Real Estate Activity Report 2009 and Housing Supply Outlook, 2010; BAE, 2010

2. Market Conditions

Housing Supply

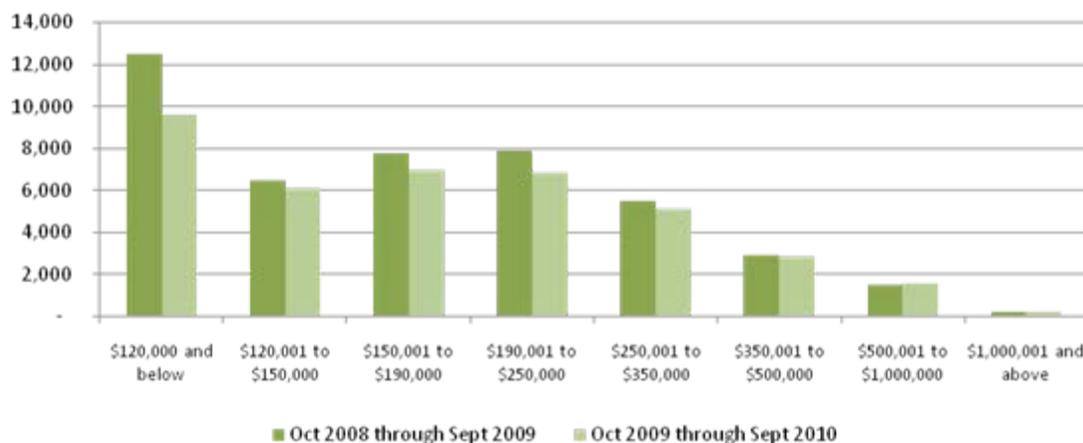
- Two higher value neighborhoods – Calhoun-Isles and Central Minneapolis (downtown) – accounted for 71% of multi-family sales since 2008.
- Most new construction is occurring downtown, Calhoun-Isles, and around the University.
- Camden had the highest number of sale in the past two years, which may have been influenced by foreclosures.
- New construction in the City of Minneapolis is primarily multi-family and accounted for 82% of residential building permits over the past year.
- The greatest concentration of sales are under \$120,000 in the region, however most neighborhoods in Minneapolis indicate median sales higher than \$120,000.

Characteristics of Home Sales in Minneapolis, 2009

Neighborhood	Total Sales	New Construction	%	Single-Family	%	Townhome/Condo	%
Calhoun-Isles	443	32	7%	195	44%	248	56%
Camden	912	8	1%	897	98%	15	2%
Central	587	202	34%	6	1%	581	99%
Longfellow	386	2	1%	375	97%	11	3%
Nokomis	843	6	1%	800	95%	43	5%
North	663	18	3%	653	98%	10	2%
Northeast	538	13	2%	502	93%	36	7%
Phillips	131	15	11%	88	67%	43	33%
Powderhorn	545	2	0%	490	90%	55	10%
Southwest	721	5	1%	665	92%	56	8%
University	135	37	27%	71	53%	64	47%
Minneapolis - Total	5,904	340	6%	4,742	80%	1,162	20%

Source: Minneapolis Area Association of Realtors, 2009 Residential Real Estate Activity Report; BAE, 2010

Home Sales by Price in the 7-County Metro Area



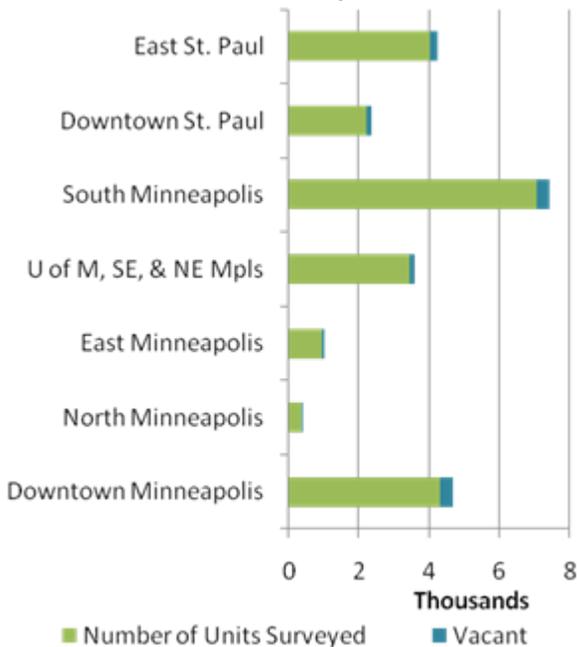
Source: Minneapolis Area Association of Realtors, Housing Supply Outlook, 2010; BAE, 2010

2. Market Conditions

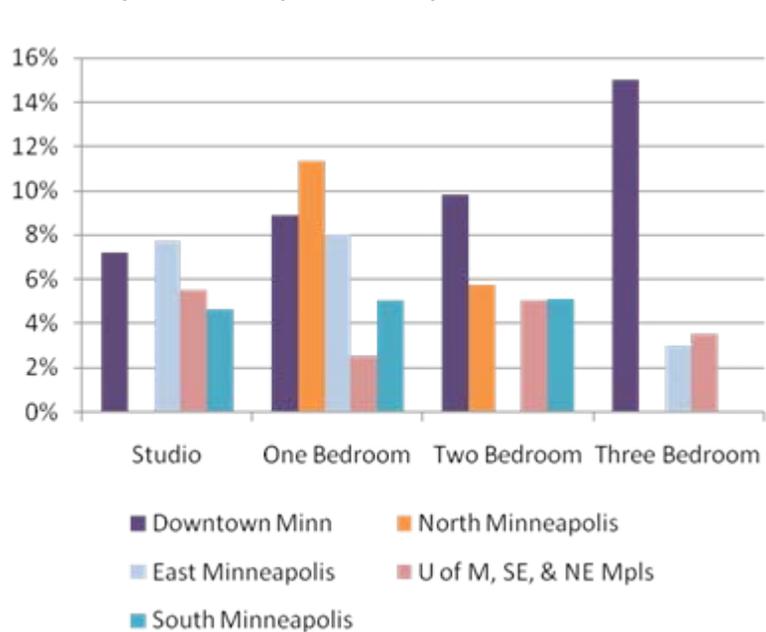
Rental Market – Inventory and Vacancy

- Claritas estimates that 48% of Minneapolis households are renters, which has remained steady with an increase of 0.2% over the past ten years.
- Rental vacancy in the City of Minneapolis is 6% - a 2% decrease over the past year - the average vacancy over the past decade is 4%.
- Outside of Downtown, the lowest vacancy rates in the city are for larger sized units - 3 bedroom (3%) and 4 bedrooms (0%).
- In past years, smaller bedrooms had lower vacancy compared to larger units – suggesting that either there is an increased supply of smaller units or that there is a trend for increased occupancy by taking roommates due to economic downturn.
- Supply increased in Downtown Minneapolis and Downtown St. Paul by 1,000 units each between 2005 and 2007 – majority of new construction were for studio, one, and two bedrooms.
- As new supply is absorbed in Downtown Minneapolis, vacancy rates increased to 8.9% from 4.7% in 2005 – slightly higher than the citywide average.
- Lowest vacancies, 3.8%, are in the University of Minnesota, North and East of the river to St. Paul, St. Anthony, and along the Columbia Heights Border – which captures the eastern part of the ATF study area – remained steady over past 5 years but with 222 fewer units online since 2005.
- The vacancy rate is 7.2% in North Minneapolis – which includes ATF study area West of the Mississippi, North of 394 to Robbinsdale, to Golden Valley and Brooklyn Center borders – the vacancy rate is 3.7% lower than 2005 with about 60 more units online.

Number of Units Surveyed, 2009 Q2



Vacancy Rates for Apartments by Size of Units, 2009 Q2



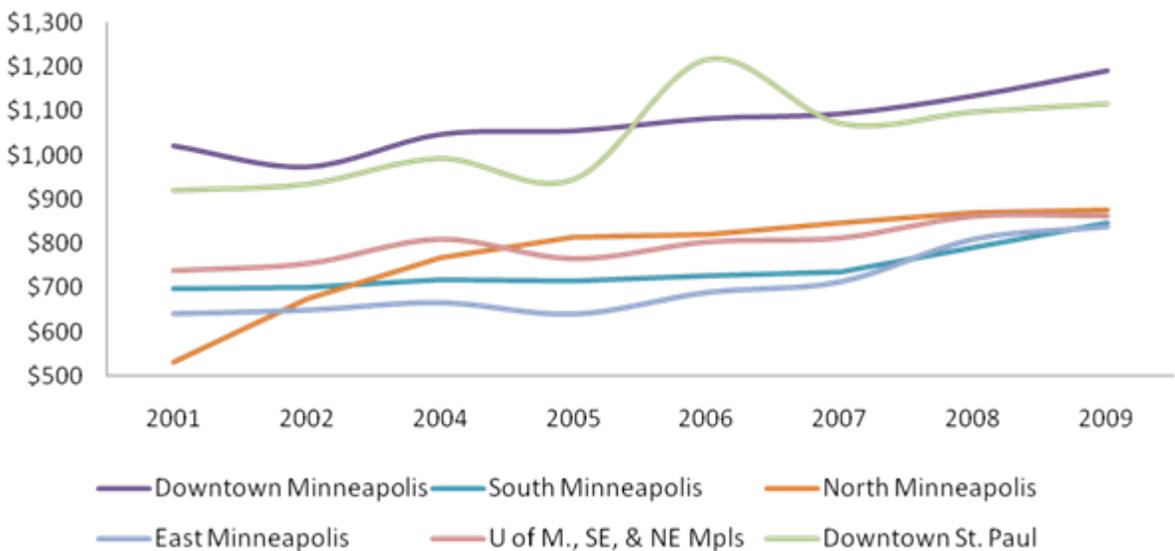
Note: GVA Marquette surveyed 16,126 units in 2010, which accounts for 20% of the rental households estimated by Claritas.
 Source: GVA Marquette Advisors, 2009, 2nd Quarter; BAE, 2010

2. Market Conditions

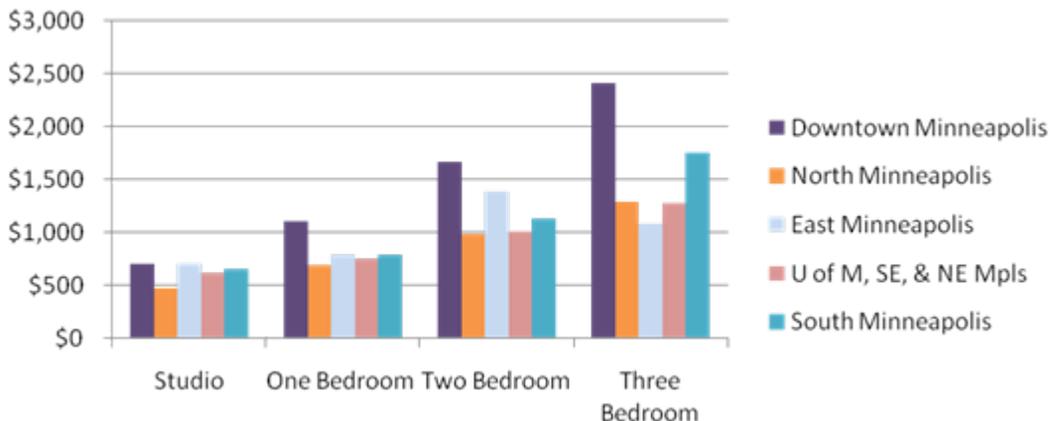
Rental Market – Average Rents

- Rents in North Minneapolis increase by 65% over past 8 years – includes ATF study area West of the Mississippi, North of 394 to Robbinsdale, to Golden Valley and Brooklyn Center borders.
- Downtown Minneapolis and St. Paul average rents increase over past 8 years – both CBDs command higher average rents than other urban areas.
- Suburban markets such as Edina, Plymouth, Eden Prairie, and Woodbury are achieving rents as high as downtown Minneapolis and St. Paul.

Average Rents in Minneapolis, 2nd Quarter



Rent Number of Bedrooms, City of Minneapolis, 2nd Quarter 2009



Source: GVA Marquette Advisors, 2009, 2nd Quarter; BAE, 2010

Market Conditions: Summary Findings

2. Market Conditions

Summary of Analysis: Office Market

- According to this analysis, the 7-County Metro Area could expect to absorb 27 million SF of office space over the next decade. This includes office space connected to warehousing and other industrial uses.
- Given past trends, professional and technical services, financial services, and management of companies are industry sectors where the City will likely be able to capture a larger share of the Metro Area's employment growth.
- The office market currently has 13.3 million SF of vacant space in multi-tenant buildings in the Minneapolis Metro Area, 4.4 million of which is in the City of Minneapolis.
- Assuming 95% occupancy of existing office space, there is an estimated residual demand for 17 million SF for new office construction in the Metro Area over the next decade.
- A possible hypothesis to explore is ATF's advantages to compete with strong suburban office markets including its proximity to downtown, ability to provide ample parking, location on the highway, and current/future waterfront amenities.

2. Market Conditions

Summary of Analysis: Industrial Market

- An estimated 7 million SF of industrial space will be needed in the 7-County Metro Area over the next decade to accommodate new employment growth – likely requiring warehouse space, flex office/warehouse space, or high-tech manufacturing space.
- The 7-County Metro Area has 326 million SF of industrial space – 25 million of which is vacant. 172 million SF of this space is office warehouse and showroom, 13 million of which is vacant.
- Despite high vacancy rates it is likely that a portion of the existing space may not suit the needs of future users, given currently high vacancy rates for older buildings with clear heights between 13 and 23 feet.
- ATF could be potentially be marketed to users requiring a combination of office, manufacturing, and distribution functions in one location.
- There is an intricate mix of smaller Production, Distribution and Repair (PDR) uses in the study area, with the bulk of current employment found in a variety of manufacturing businesses.
- Although vacancy rates cannot be tracked for the study area properties on their own, the lowest vacancy rates for tracked industrial buildings in the metro area is found in the oldest buildings with the lowest ceiling heights, suggesting that a portion of the older buildings found in the study area may actually be quite desirable and attractive for existing PDR uses.

2. Market Conditions

Summary of Analysis: Residential Market

- Residential growth is projected for Minneapolis. Analysis of various population projections and forecasts indicates that the City of Minneapolis is expected to add an estimated 8,800 households by 2020 and 15,300 households by 2030.
- The same analysis indicates the 7-County Metro Area is expected to add almost 139,000 households by 2020 and 249,000 households by 2030.
- Given wider demographic trends and greater interest in downtown/higher density living, Minneapolis may be able to increase its capture of the Metro Area's household growth.
- Over the past decade, the City of Minneapolis permitted an average annual 166 units for new single-family construction and an average annual 879 permits for multi-family construction.
- Existing higher value neighborhoods will have an advantage in attracting new multifamily development. Sales activity indicates that higher income housing markets – including downtown and Calhoun-Isles - are experiencing an upsurge in values despite recent poor economic conditions. These also tend to be the areas with a significant amount of the existing multifamily housing stock.
- Given the above trends, it is likely that most new growth in households in the City of Minneapolis will be in multi-family units.