Minneapolis Trends

A Quarterly Overview of Socioeconomic & Housing Trends in Minneapolis

second quarter 2009

Highlights for the second quarter of 2009

	2Q-09	1Q-09	2Q-08
Unemployment rate	7.6%	▲	▲
Labor force	214,369 residents	▲	▼
People employed	198,107	▲	▼
New residential permitted units	8 units	▲	▼
Permitted residential conversions, remodels and additions	149 buildings	▲	▼
Permitted non-residential conversions, remodels and additions	89 buildings	▲	▼
Residential units demolished	66 units	▲	▲
Rental vacancy rate	6%	▲	▲
Average rent in inflation-adjusted dollars	$ 943	▲	▲
Residential units sold			
Traditional	957 units	▲	▼
Lender-mediated	696 units	▲	▲
Median sale price of residential units			
Traditional	$ 212,000	▼	▼
Lender-mediated	$ 55,000	▼	▼
Foreclosed properties	532	▼	▼
Condemned and vacant buildings	858	▲	▼
Minneapolis CBD office vacancy rate	15.2%	▲	▲
Minneapolis CBD retail vacancy rate	10.3%	▲	▲

Highlights for the fourth quarter of 2008 – Jobs and Wages

	4Q-08	3Q-08	4Q-07
Number of jobs	291,046 employees	▼	▼
Wages in inflation-adjusted dollars	$ 1,152	▲	▼

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

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Minneapolis Trends

second quarter 2009

Contents

Economic indicators

- The unemployment rate increased to 7.6 percent from 7.1 percent this past quarter, and from 4.7 percent in the second quarter last year. The unemployment rate in Minneapolis was 0.2 percent lower than the metro area. The labor force and the number of people working increased both in the city and across the metro area.
- In the fourth quarter of 2008 there were a little over 291,000 jobs in Minneapolis, about 390 fewer than in the previous quarter and nearly 4,360 fewer (-1.5 percent) than in the fourth quarter the previous year. During this same 12-month period, the metro and state also lost jobs, by -1.6 percent and -1.2 percent respectively.
- Fourth quarter weekly wages were -2.3 percent lower in inflation-adjusted dollars than a year before. Wages in the metro area decreased by -1.4 percent in the metro area and by -0.6 percent in the state in inflation-adjusted dollars.

Labor force

In the second quarter of 2009 approximately 4,000 people returned to the labor force in Minneapolis and some of them became employed. The number of employed residents increased by 1.4 percent from the previous quarter, but was 3.5 percent lower than the same quarter last year. The unemployment rate at 7.6 percent was 0.5 percent higher than last quarter, and 2.9 percent higher than the second quarter of 2008. In the metro area and in the city, employment grew but the labor force increased faster, thus resulting in an increase in the unemployment rate. The unemployment rate in the metro area increased 0.1 percent from the first quarter, and was 3.1 percent higher than last year.

The local and regional increases in unemployment were consistent with national trends, with U.S. unemployment (unadjusted) at 9.1 percent and state unemployment (unadjusted) at 8.1 percent in the second quarter, although the rate of increase was higher in the US.

Table 1: **LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**
not seasonally adjusted

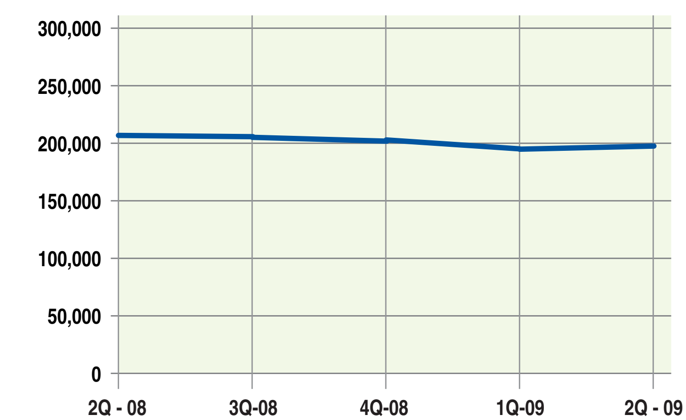
	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis					
Labor Force	215,482	219,036	215,696	210,465	214,369
Employment	205,269	206,630	203,623	195,430	198,107
Unemployment rate	4.7%	5.7%	5.6%	7.1%	7.6%
Metro area					
Labor Force	1,607,308	1,628,823	1,609,610	1,580,189	1,603,234
Employment	1,531,721	1,541,875	1,519,437	1,458,302	1,478,274
Unemployment rate	4.7%	5.3%	5.6%	7.7%	7.8%

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

Numbers reflect latest revisions by DEED

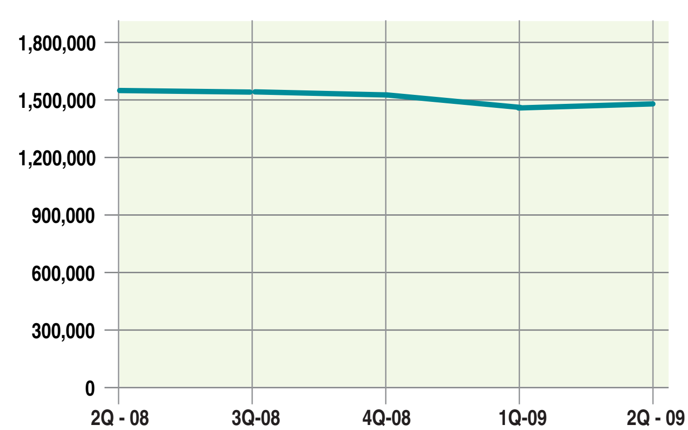
* For metro area definition, see page 13.

Figure 1: **AVERAGE EMPLOYMENT** – Minneapolis
not seasonally adjusted



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

Figure 2: **AVERAGE EMPLOYMENT** – Metro*
not seasonally adjusted



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

* For metro area definition, see page 13.

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

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08**
Total, All Industries	295,404	288,832	291,657	291,438	291,046
Manufacturing	16,411	16,699	16,745	16,625	16,209
Utilities*	2,690	2,657	2,705	2,736	2,754
Wholesale Trade	9,674	9,414	9,520	9,385	9,104
Retail Trade	15,357	15,028	15,342	14,799	14,463
Transportation and Warehousing*	4,261	3,725	3,790	3,786	3,991
Information	10,642	10,328	10,514	10,618	10,462
Finance and Insurance*	27,518	27,158	27,230	27,413	27,365
Real Estate and Rental and Leasing	6,329	6,105	6,105	6,177	6,069
Professional and Technical Services*	31,045	30,642	30,453	30,867	30,448
Management of Companies and Enterprises	16,527	17,043	17,254	17,486	17,418
Administrative and Waste Services*	15,550	14,762	15,138	15,281	14,801
Educational Services	29,137	29,031	28,065	26,107	29,534
Health Care and Social Assistance	46,541	44,973	45,738	46,079	46,238
Arts, Entertainment, and Recreation*	4,623	5,022	5,327	5,300	5,033
Accommodation and Food Services	23,875	22,667	23,701	24,016	23,375
Other Services, Ex. Public Admin*	10,475	10,115	10,293	10,266	10,113
Public Administration	12,775	12,459	12,302	12,777	12,411

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

* Private jobs only

** This is the most current information available; no change from previous quarterly report.

1 Natural resource-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 Minnesota Department of Employment and Economic Development.

Jobs

The number of jobs located in Minneapolis decreased -0.1 percent in the fourth quarter 2008. In comparison with the same quarter the previous year the number of jobs decreased by -1.5 percent (4,358 jobs).

Quarter to quarter change-
3rd to 4th quarter 2008

Most sectors decreased jobs, but the largest job decreases from third to fourth quarter took place in:

- **Accommodation and food services,** including restaurants, other food places and drinking establishments.
- **Administrative and waste services** (employment business support services, travel arrangements, security services).
- **Professional and technical services** (mostly legal and architectural and engineering services).
- **Manufacturing** (printing, primary metal, computers, machinery).

Some sectors that increased jobs in this period included:

- **Educational services** (mostly elementary and secondary schools, colleges and universities).
- **Transportation and warehousing** (transit and ground passenger transportation).
- **Health care** (ambulatory health care such as doctor's offices, and nursing and residential care).
- **Utilities** (power generation and supply).

12 month change –
4th quarter 2007 to 2008

Sectors which gained jobs:

Management of companies continued its steady growth, adding about 890 net jobs in the fourth quarter (5.4 percent growth). Most of the job growth was in managing offices, with some growth in offices of bank holding companies.

- Arts, entertainment and recreation added about 400 net jobs (9 percent growth). Fitness and recreational sport centers were responsible for most of the job growth.
- Educational services added almost 400 net jobs (1.4 percent growth). Elementary and secondary schools added over 390 jobs.
- Utilities added a net of nearly 60 jobs (2.4 percent), mostly in power generation and supply.

Sectors which lost jobs:

Retail trade lost almost 900 net jobs over the twelve-month period due mostly to losses in furniture stores, motor vehicles, building materials and food and beverage stores.

The administrative and waste service sector lost almost 750 net jobs (5 percent). Losses were felt mainly in employment services (a loss of 450 jobs), business support services and services to buildings and residential dwellings.

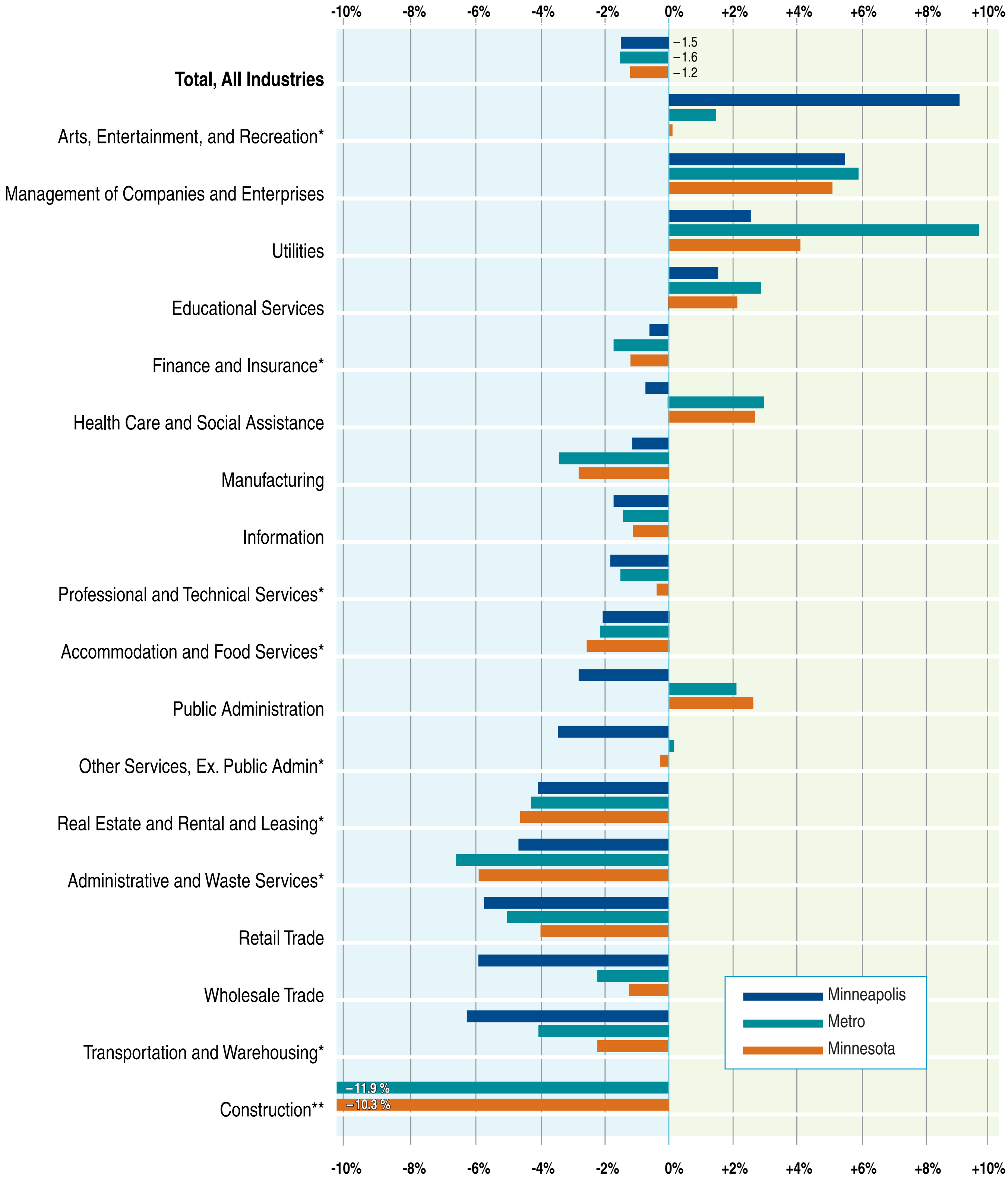
Professional and technical services lost about 600 net jobs (2 percent) mainly because of losses in scientific research and development services, such as bio-medical research, followed by architectural and engineering services and management and technical consulting.

Wholesale trade lost almost 570 net jobs (6 percent), mainly because of job losses in wholesale of durable goods such as electric goods (261 jobs) and machinery suppliers (90 jobs).

The twelve-month change in jobs underscores the impact of the current recession in Minneapolis, which started nationwide in December 2007. In the fourth quarter many employers were not hiring. Consumer confidence was low and people were cutting spending. Lack of demand and credit prompted firms to cut factory orders.

Jobs

Figure 3: **JOBS –4Q-07 TO 4Q-08**
percent change



Source: Minnesota Department of Employment and Economic Development (DEED)

* Private sector jobs only

** Minneapolis construction figures are not disclosed because of privacy of information

Jobs

As shown in Figure 3, the city, metro area, and state all lost jobs over the twelve-month period. The city's job base decreased by -1.5 percent, less than the -1.6 percent losses in the metro area, but more than the -1.2 percent posted statewide. The metro area suffered more than the city because jobs in construction, manufacturing and retail, which also decreased in the metro area and the state, are mostly concentrated in the Twin Cities metro area.

There was strong growth in the city in sectors such as arts, entertainment and recreation, and management of companies, and to a lesser degree, in educational services.

In 4Q-08 the city was hit harder than the metro or state in the transportation and warehousing and wholesale trade sectors. In proportion it lost more jobs than the state or metro in retail, public administration, professional and technical services, information and health care.

Wages

The average weekly wage in Minneapolis in the fourth quarter of 2008 was $1,152, which was slightly higher in nominal dollars than the previous year but 2.3 percent lower in inflation-adjusted dollars*. Falling wages were mostly the result of sectors such as finance and insurance and management of companies which cut wages significantly. In inflation-adjusted dollars some sectors had higher wages than a year earlier:

- **Real estate and rental and leasing** (+6 percent)
- **Arts, entertainment and recreation** (+4 percent)
- **Manufacturing** (+2 percent)

Real estate wages increased the most because of leasing of real estate operations. Within professional and technical services, architectural and engineering services, and physical, engineering and biological research wages grew much more than the average for the sector.

The sectors with the highest year-to-year wage decreases in inflation-adjusted dollars were:

- **Finance and insurance** (-8 percent)
- **Management of companies** (-8 percent)
- **Transportation and warehousing** (-9 percent)

Loss in weekly wages for the management of companies sector was the result of decreasing wages in the office management subsector. Most of the losses in financial services wages were sustained by financial investment firms. Most activities in transportation such as truck transportation, transit and ground passenger transportation, and postal services reduced their worker's wages in real dollars.

* For conversion factors, see page 13.

Table 3: **AVERAGE WEEKLY WAGE** – Minneapolis**
in current dollars

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08**
Total, All Industries	**$ 1,136**	**$ 1,202**	**$ 1,073**	**$ 1,087**	**$ 1,152**
Manufacturing	1,120	1,126	1,037	1,042	1,184
Utilities	1,590	2,219	1,549	1,556	1,620
Wholesale Trade	1,274	1,198	1,164	1,162	1,309
Retail Trade	557	587	659	569	583
Transportation and Warehousing*	802	727	717	702	755
Information	1,212	1,325	1,167	1,168	1,217
Finance and Insurance*	1,805	2,630	1,600	1,660	1,717
Real Estate and Rental and Leasing	1,244	1,516	1,357	1,264	1,370
Professional and Technical Services*	1,927	1,527	1,527	1,603	2,000
Management of Companies and Enterprises	1,697	1,898	1,752	1,554	1,628
Administrative and Waste Services*	686	676	674	668	677
Educational Services	976	1,060	987	1,111	1,028
Health Care and Social Assistance	970	925	896	939	959
Arts, Entertainment, and Recreation*	968	905	1,146	1,273	1,043
Accommodation and Food Services	370	357	349	366	370
Other Services, Ex. Public Admin*	575	566	553	584	584
Public Administration	1,043	1,101	1,150	1,125	1,067

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

* Private jobs only

** Table reflects the most current information available; no change from previous quarterly report.

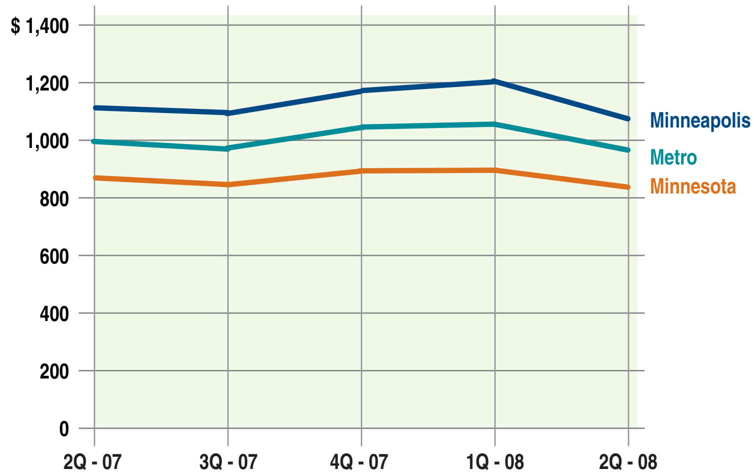
1 Natural resources and agriculture, fishing and forestry employment are not counted. Some industry numbers may not be disclosed because of privacy issues.

Wages

In general, jobs in Minneapolis command higher average weekly wages than jobs in the metropolitan area or the state. However, fourth-quarter wages in Minneapolis decreased by -2.3 percent in inflation-adjusted dollars* from a year earlier. Average wages decreased in the metro area by -1.4 percent, and by -0.6 percent in the state in inflation-adjusted dollars*.

* For conversion factors, see page 13.

Figure 4: **AVERAGE WEEKLY WAGES – 4Q-07 TO 4Q-08**
in inflation-adjusted dollars, the broken lines represent nominal dollars

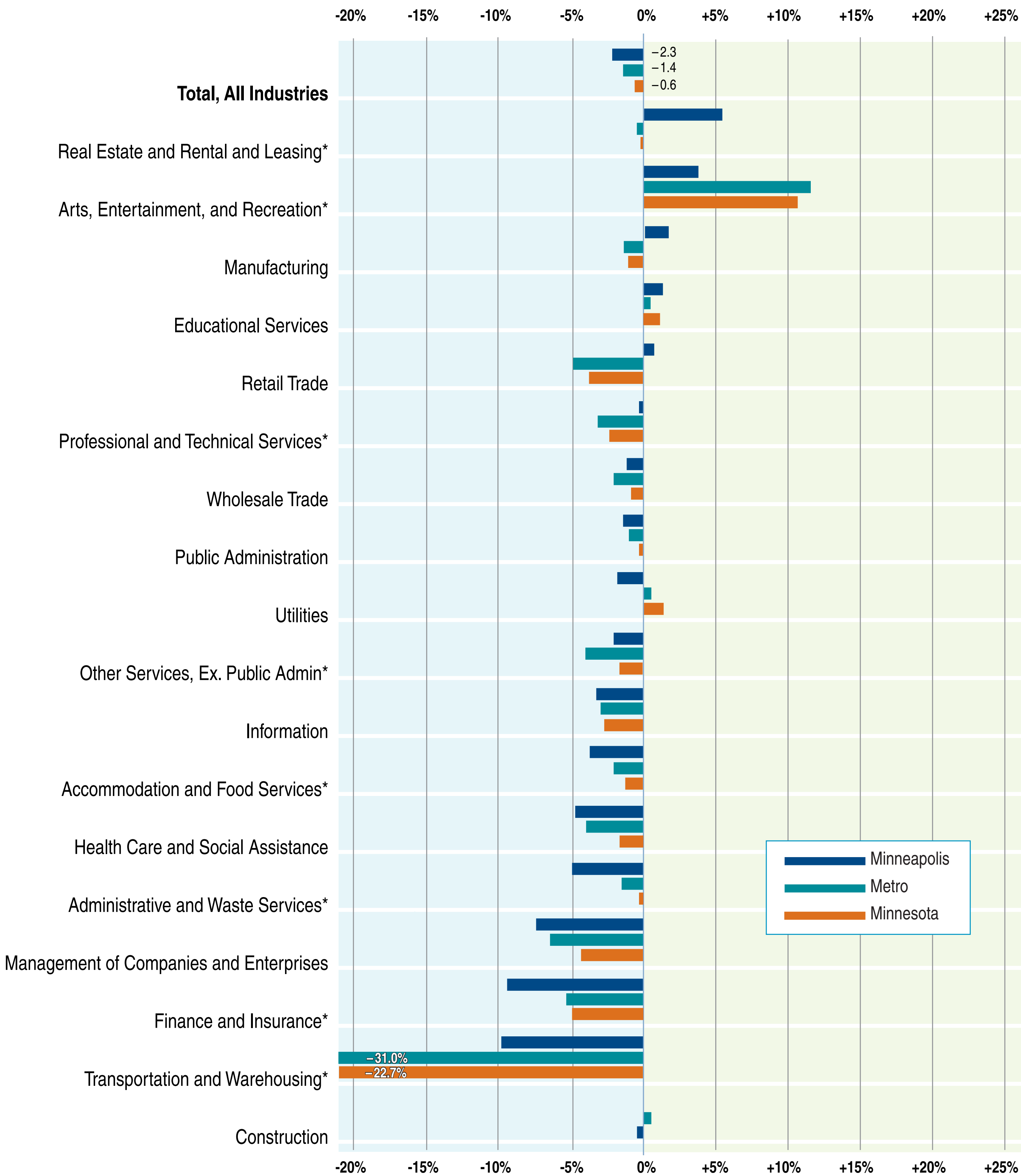


	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08	$ change 4Q-07 to 4Q-08	% change 4Q-07 to 4Q-08
Minneapolis	$ 1,180	$ 1,210	$ 1,080	$ 1,086	$ 1,152	$ (28)	-2.3%
Metro	1,047	1,059	975	978	1,032	(15)	-1.4%
Minnesota	912	913	854	862	907	(5)	-0.6%

Source: Minnesota Department of Employment and Economic Development (DEED)

Wages

Figure 5: **AVERAGE WEEKLY WAGES –** 4Q-07 to 4Q-08
percent change in inflation-adjusted dollars***



Source: Minnesota Department of Employment and Economic Development (DEED)

* Only private sector wages

** Minneapolis construction figures are not disclosed because of privacy of information

*** For conversion factors, see page 13.

Wages

Wages decreased in most industries in inflation-adjusted dollars from fourth quarter 2007 to fourth quarter 2008. However, some sectors actually grew. The following sectors exhibited the highest percentage increase in average wages within the city, and in comparison with the metro and the state:

- **Real estate and rental and leasing** average weekly wages increased in Minneapolis but, as shown in Figure 5, wages decreased in the metro and the state.
- **Arts, entertainment and recreation** wages increased by almost 4 percent in Minneapolis, but by more than 10 percent in the metro and the state.
- **Manufacturing** posted increased wages in the city, but wages in the sector decreased in the metro and the state.
- **Educational services** had higher wage increases in the city than in the estate or the metro.
- **Retail**, a sector that cut jobs, had small average weekly wage increase in the city, while decreasing in the state and metro.

Industries which experienced the steepest decline in real wages included:

- **Transportation and warehousing:** average wages decreased in the city by more than 9 percent, while increasing by more than 20 percent in the state and by more than 30 percent in the metro.
- **Finances and insurance** decreased in all geographic areas, but more in Minneapolis than in the metro or state.
- **Management of companies**, like financial services, also had a wage decrease in Minneapolis that was larger than in the metro or the state.

* For conversion factors, see *page 13*.

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 means the number of non-farm workers employed or looking for a job at a given time. Table 1 presents quarterly information for the city and the metro area.

- **Metro area:** The following counties make up the seven-county metropolitan area: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

- **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. To see how the "digits" work, go to **www.census.gov/epcd/naics02.**

- **Inflation-adjusted figures:** Values reported in table 3 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-Saint Paul, Minnesota-Wisconsin statistical metropolitan area and the Midwest urban areas. For the fourth quarter of 2008, dollars have been converted with an index reflecting the CPI for the second half of 2007 and second half of 2008, with 2008 as a base year. To look at the indexes go to: **Consumer Price Index Home Page** and click on "get detailed CPI statistics - All urban consumers (current series)."

Development indicators

- Eight new residential units were permitted this quarter in Minneapolis, all single-family. This was a slight increase since last quarter when five units were permitted. Metro-wide permitted units increased 43 percent from last quarter. The numbers of permits issued in the city as well as in the metro were down from the second quarter last year.
- The number of residential projects costing $50,000 or more permitted for remodeling and improvements in the city was about 17 percent lower than last year. The number of non-residential buildings permitted for remodeling and improvements decreased by 37 percent in comparison with last year.
- 10 commercial and residential projects costing at least $1 million were permitted this quarter, totaling $103 million. This list includes the expansion of Children's Hospital with $76.4 million of construction costs.

New construction

Eight residential units were permitted this quarter in comparison with 5 last quarter and 163 the same quarter last year, a drop of 95 percent. Since third quarter last year, the total number of permitted units in the city has stayed below 10 units per quarter. In the metro area, the volume of units permitted increased since last quarter by 43 percent, but was 36 percent lower than the same quarter 2008.

This quarter, eight single-family units and no new multifamily units were permitted. Similar to last quarter, there was no permitting activity for new multifamily units in comparison to 139 units permitted the same quarter in 2008.

Many factors have pushed construction of new units almost to a standstill in the city. Finances for new projects were tight in part because the financial market was recovering from the mortgage and security crisis, housing inventories were still high and many houses were coming to the market because of foreclosure, thus depressing prices. Demand was slow because it was more difficult for buyers to acquire a mortgage even with low interest rates, and many faced a difficult labor market with high unemployment.

Table 4: **NEW RESIDENTIAL UNITS PERMITTED**

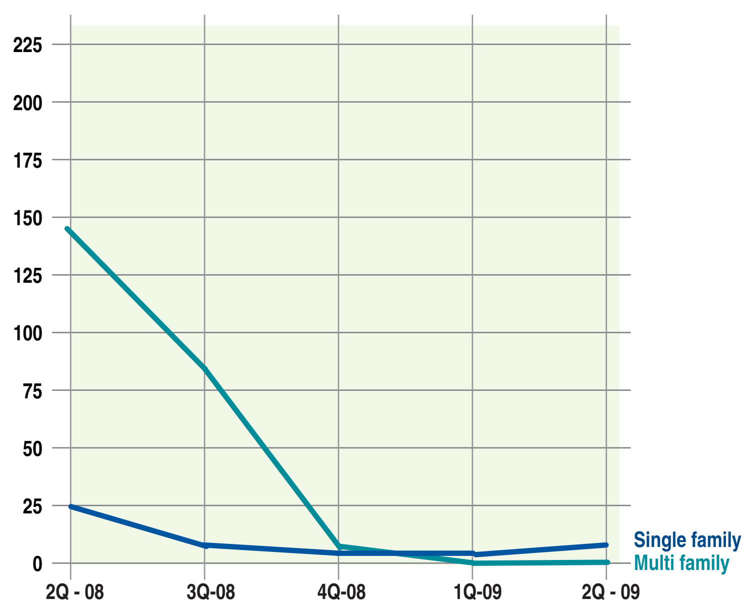
	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Single-family					
City	24	8	7	5	8
Metro	1,089	1006	703	381	798
Multifamily					
City	139*	84	5	0	0
Metro	271	702	218	225	69
Total Units					
City	163	92	12	5	8
Metro**	1,360	1,708	921	606	867

Source: U.S. Census Bureau, based on estimated number of permits with imputation

* Including 80 units of the Phoenix on the River not reported by the Census Bureau this quarter. Although a permit for The Phoenix' structure was issued in February 2008, the final construction permit was issued in April 2008 and should be included in the 2nd quarter.

** Estimated number of permits with imputation: The Census Bureau estimates that about 8 percent of the total number of units permitted are undereported by counties in the metro area.

Figure 6: **NEW RESIDENTIAL UNITS** – Minneapolis



Source: U.S. Census Bureau –estimated units with imputation. Units reported in the second quarter 2008 includes 80 units of Phoenix on the River Condos

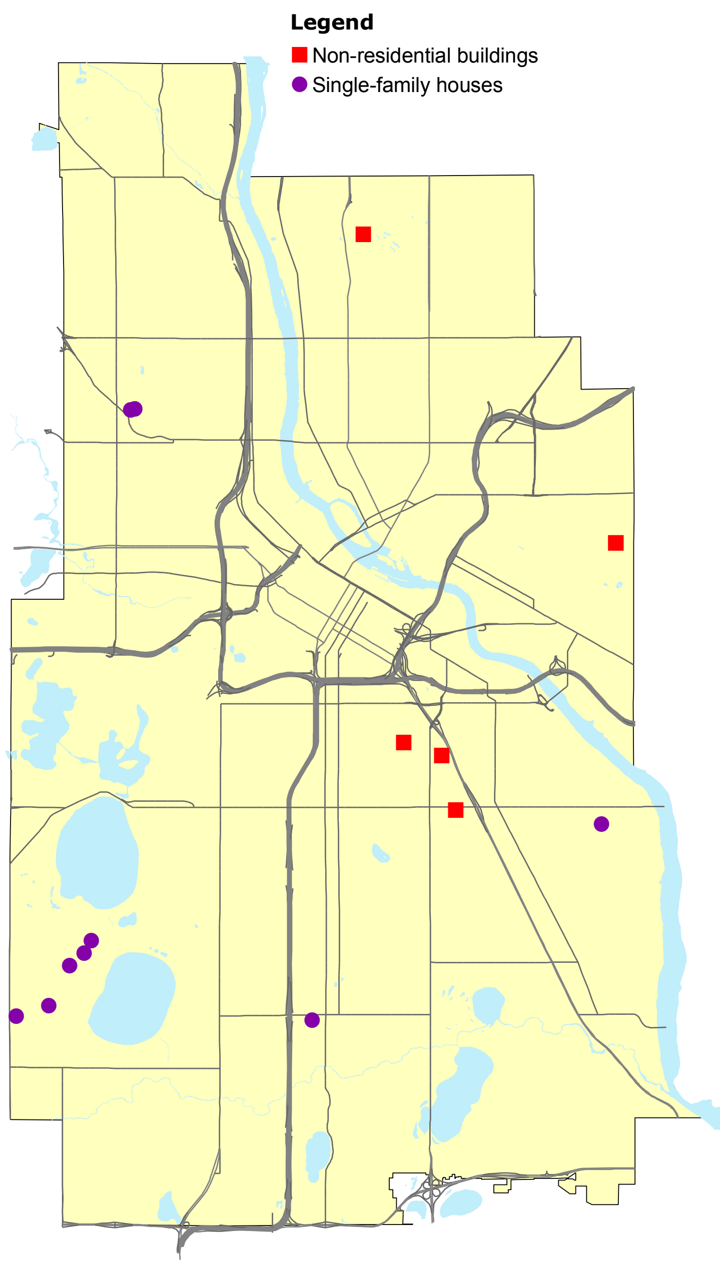
New construction

No large residential buildings were permitted this quarter.

From the five new commercial buildings permitted this quarter, three were more than $1 million in construction costs: the City of Minneapolis Public Works maintenance facility on 26th St E, three grain bins with towers and conveyors on 5th St NE, and a food preparation facility on Bloomington Ave.

Map 1: **NEW CONSTRUCTION** – 2Q-09

Source: City of Minneapolis Regulatory Services



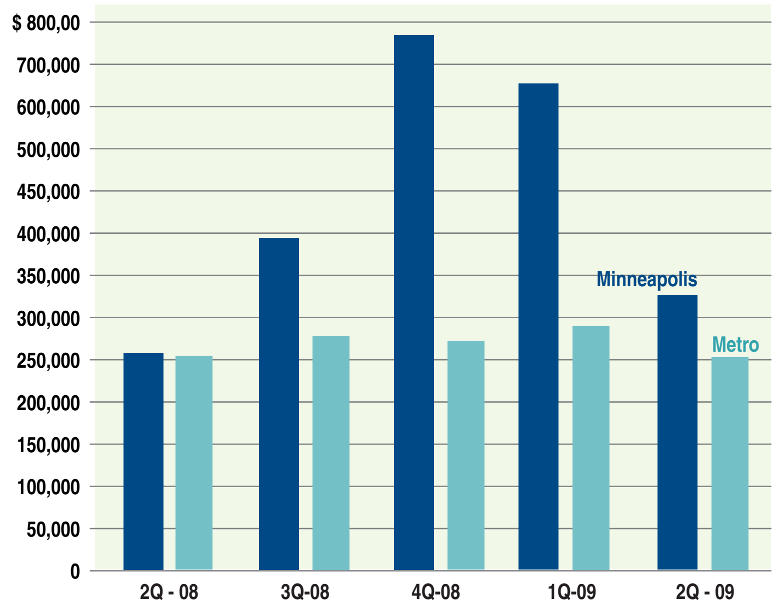
Cost of residential construction

In Minneapolis the average construction cost for single-family homes permitted this quarter was 28 percent higher than a year ago, increasing from $252,117 to $322,580. Although the houses permitted were expensive in comparison with the 2nd quarter last year, the average construction cost per unit decreased since the last quarter, when the median cost was more than $756,000.

The average construction cost for single-family homes in the metropolitan area was stable from a year ago, but 10.5 percent lower than last quarter.

No multifamily units were permitted in the city this quarter. In the metropolitan area the average cost for multifamily units increased by 27 percent, but was 2.4 percent lower than last quarter.

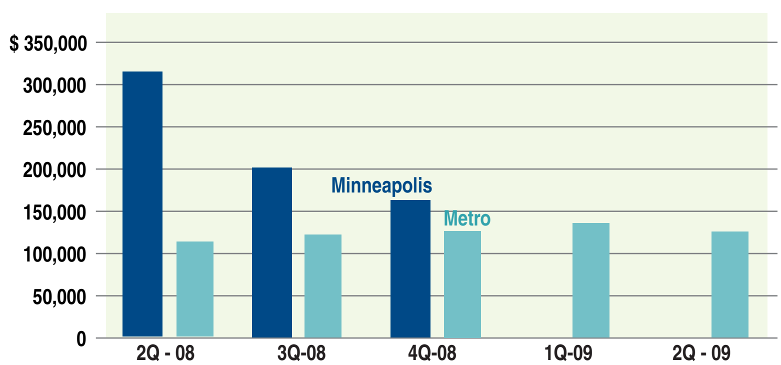
Figure 7: **SINGLE-FAMILY CONSTRUCTION COST**
per unit



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis	$ 252,117	$ 392,770	$ 770,702	$ 658,973	$ 322,580
Metro	251,914	261,322	268,324	281,418	251,849

Table values are not adjusted for inflation

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



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis	$ 339,104	$ 151,526	$ 159,890	$ 0	$ 0
Metro	106,873	126,027	135,841	138,808	135,541

Values in table are not adjusted for inflation

Conversions, remodels & additions

In second quarter 2009, the City issued permits for remodeling and renovations for 149 residential buildings, 31 fewer buildings (-17 percent) than the same quarter the previous year. It also issued permits for remodels and/or renovations in 89 non-residential buildings, 52 fewer buildings (-37 percent) than in second quarter 2008.

The total amount spent this quarter on **residential** remodeling and conversion projects costing more than $50,000 is estimated at about $17.4 million, which was 23.2 percent lower than a year ago. The projected cost of **non-residential** remodeling and addition permit work was $103.8 million, 43 percent higher than the second quarter the previous year.

The increase of non-residential permit value is the result of the Children's Hospital expansion at a cost of more than $76 million, or almost 75 percent of the total cost of non residential remodels in the second quarter.

Table 5 **PERMITTED CONVERSIONS, REMODELS AND ADDITIONS**
projects $50,000 +

	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Total Residential [1]					
Number of buildings	180	195	121	97	149
Total value	$ 22,686,000	$ 32,643,817	$ 18,712,614	$ 14,044,631	$ 17,425,076
Remodels					
Number of buildings	177	192	119	94	142
Value	$ 22,407,000	$ 27,049,001	$ 18,597,494	$ 13,686,881	$ 16,825,399
Conversions and additions [2]					
Number of buildings	3	3	2	3	7
Net number of units	2	30	0	-1	-6
Value	$ 279,000	$ 5,594,816	$ 115,120	$ 357,750	$ 599,677
Total non-residential [1]					
Number of buildings [3]	141	137	107	60	89
Value	$ 73,263,000	$ 104,757,942	$ 156,548,055	$ 56,399,582	$ 103,826,776

Source: City of Minneapolis Regulatory Services

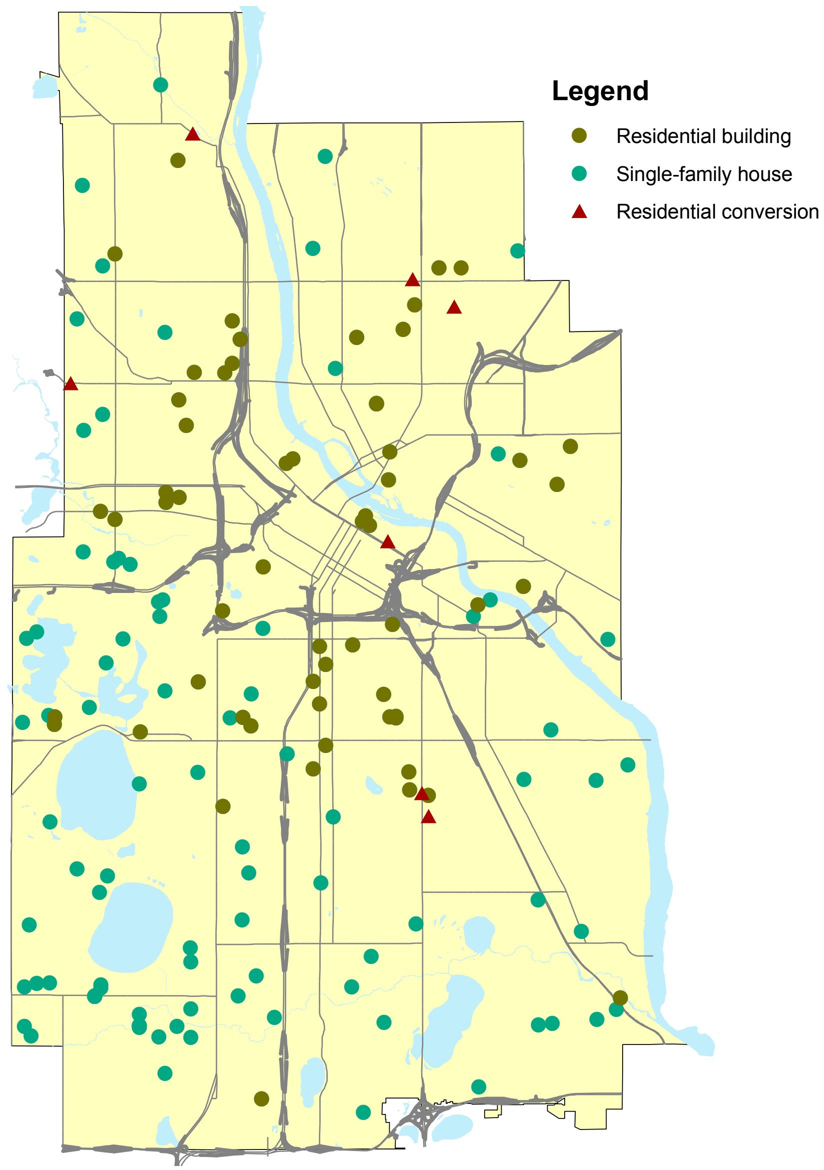
1 Residential and non-residential building listings may include structural work, build-outs and other improvements.
2 Residential conversions consist of a change in uses (e.g. from an office building to residential apartments) or subdividing or consolidating residential units.
3 Types of non-residential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

Conversions, remodels & additions

Most permits were issued for remodeling and improvement of single-family dwellings, duplexes and units in multifamily buildings. Repair, remodeling and renovation work was being done in several multifamily buildings totaling approximately 27 units. Four duplexes were converted into single-family houses, a triplex was converted into a duplex, a four-unit building was converted into a duplex, and two units in a condo building were converted into one unit. This conversion activity resulted in six fewer units.

Map 2 **RESIDENTIAL REMODELING, RENOVATION & CONVERSION** – 2Q-09
projects $50,000 +

Source: City of Minneapolis Regulatory Services

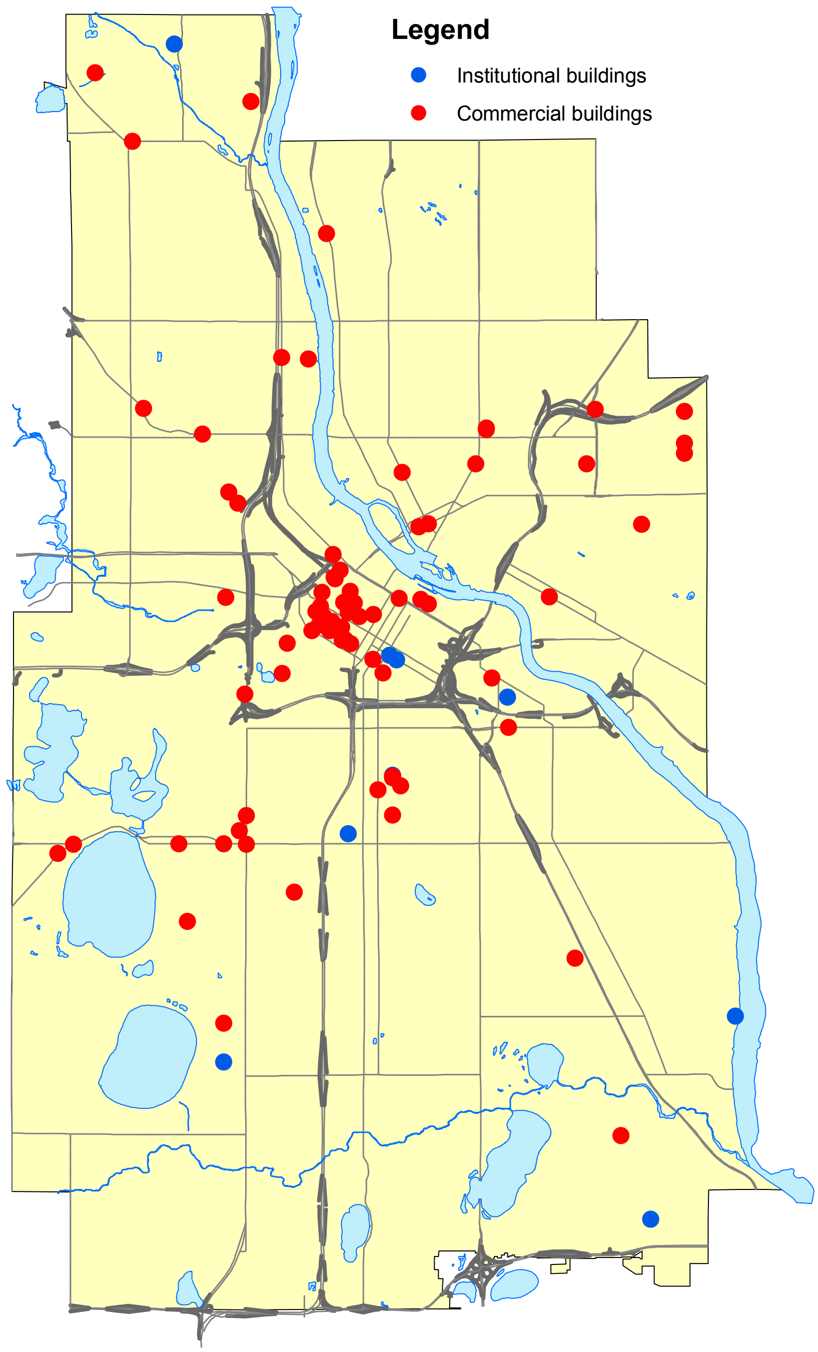


Conversions, remodels & additions

Permitting activity for non-residential remodeling and renovations tends to occur primarily in downtown. This quarter downtown had 40 percent of all permit/projects. Permits for renovation of non-residential buildings included mainly office, commercial, retail space improvements and build-outs, and change of uses. For example, a grocery store will be converted into offices on 5th Ave S; an auto-repair shop obtained a permit for conversion into a restaurant on Central Ave NE. Institutional remodel and improvement permits were mainly hospital, church and college work. The Children's Hospital expansion was the largest renovation permitted this quarter.

Map 3: **NON-RESIDENTIAL REMODELING & RENOVATION** – 2Q-09
projects $50,000 +

Source: City of Minneapolis Regulatory Services



Major construction projects

The following list shows major (projected at $1 million or more) projects permitted in Minneapolis in the second quarter of 2008. The listed amount only reflects projected construction cost for permits issued that quarter. The highest cost projects are the Children's Hospital addition and remodel in Midtown Phillips and a City of Minneapolis maintenance facility in East Phillips.

Table 6: **MAJOR CONSTRUCTION PROJECTS**
projects $1,000,000+

	Address	Neighborhood	Ward	Projected construction cost
Children's Hospital 7 story addition and remodel	2525 Chicago Ave	Midtown Phillips	9	$ 76,375,000
City of Minneapolis Hiawatha Maintenance Facility	1901 26th St E	East Phillips	9	9,868,000
Malt One Steel Bushel Bins	2901 5th St NE	Columbia Park	1	5,025,000
One Financial Plaza: 3rd and 4th floors tenant build-out*	120 6th St S	Downtown West	7	3,415,838
Opens Arms of Minnesota	2500 Bloomington Ave	Midtown Phillips	9	3,071,961
Minnesota Veterans Home*	5101 Minnehaha Ave	Hiawatha	12	1,112,238
The 1200 West Broadway Building alteration and remodel	1200 West Broadway	Jordan	5	1,100,000
Northstar center: parking structure repair	625 Marquette Ave	Downtown West	7	1,068,230
Sheraton Minneapolis Metro remodel	1330 Industrial Blvd	Mid-City Industrial	1	1,010,000
Northern States Power Building: Tenant improvement	414 Nicollet Mall	Downtown West	7	1,000,000
Hennepin County Health Service: Office remodel	525 Portland Ave	Elliot Park	7	1,028,750

* Includes more than one permit at one address

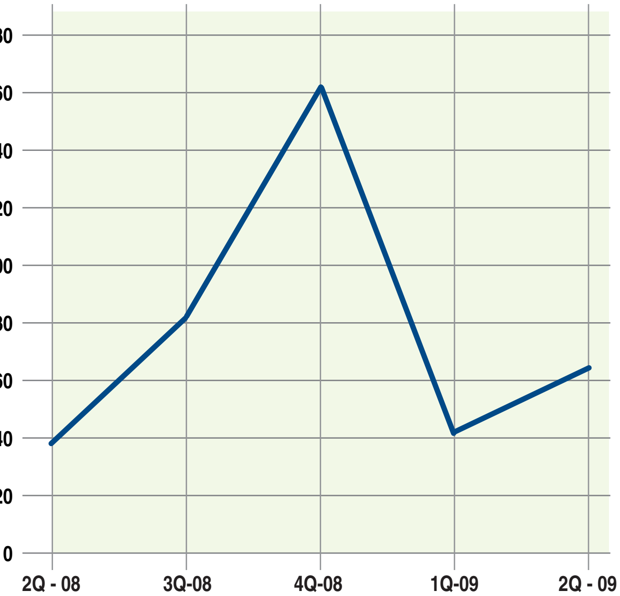
Demolitions

Permits for residential demolitions increased 57 percent this quarter from the 1st quarter, and are 73 percent higher than last year. The increase resulted from the demolition of a Veteran Home residence with 30 units in South Minneapolis. Other residential demolitions included three duplexes, a four-unit building, 21 single-family dwellings and a mixed-use building with two residential units. A three-unit structure in SE Minneapolis was moved to another location.

About 60 percent of the residential structures permitted for demolition this quarter were in North Minneapolis. A large number are located along West Broadway and Lowry avenues, both areas undergoing redevelopment.

Non-residential demolition permits included demolitions for a new office building and maintenance facility for the City's Department of Public Works located on 26th Ave S in East Phillips. They also included three office buildings, one on Lowry Ave N and two on Lyndale Ave S, and four commercial buildings on 28th St W, 5th St N and Chicago Ave.

Figure 9: **RESIDENTIAL UNITS DEMOLISHED –** Minneapolis
in permits

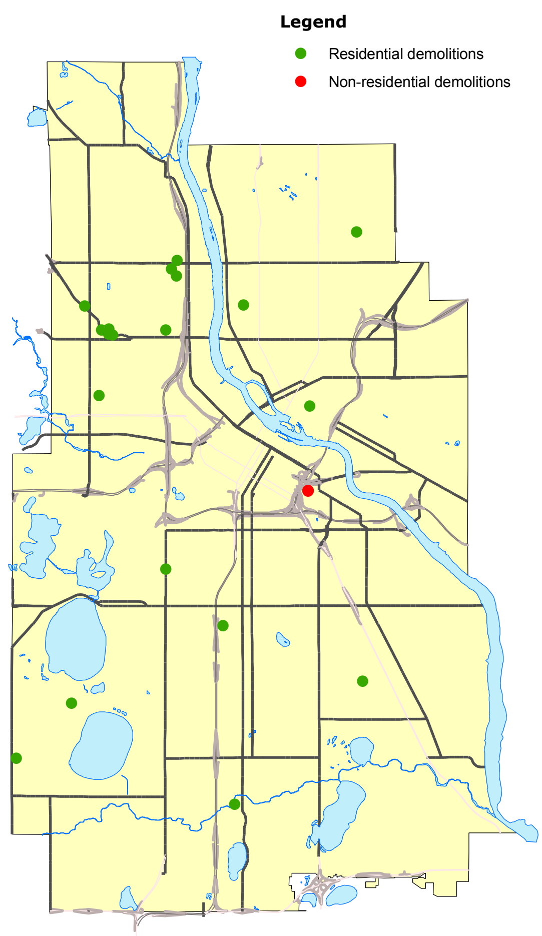


Quarter	Units
2Q-08	38
3Q-08	82
4Q-08	161
1Q-09	42
2Q-09	66

Source: City of Minneapolis Regulatory Services

Map 4: **DEMOLITIONS** – 2Q-09

Source: City of Minneapolis Regulatory Services



Definitions & sources

- **Building permits for new construction:** Permits represent construction projects (residential and non-residential) approved by the City. Typically there is a time lag between issuing a permit and actual construction. Table four 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 from the City's Regulatory Services Department. Numbers from the U.S. Census Bureau and Minneapolis Regulatory Services may differ slightly for the same period because of a time-lag in reporting. 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 counted separately (in that case, multifamily buildings have four or more units).

- **Cost of residential construction** is based on the cost developers report on permit requests for 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's Regulatory Services Department.

- **Building permits for residential remodeling, additions and conversions:** Table five 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:** 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 rentals and 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 dwellings.

  Other residential: means buildings with two (duplex and double bungalow), three (triplex) or more residential units, including townhouses. It also includes temporary housing for health-care purposes.

  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 includes remodeling or build-outs of one or more individual units and 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. It includes changing two or more residential units into a single residence or the subdivision of a single unit into several.

  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 build-out 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 one project, i.e. renovation of 33 S. Sixth St. (the former Multifoods Tower) downtown.

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

  Transportation related includes parking, skyways and bus and rail terminals.

  Map 4 – Demolitions

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

  Non-residential: all non-residential buildings and structures

Housing stock & the real estate market

- The average apartment vacancy rate in Minneapolis increased from 4.6 to 6 percent. Average rents also increased in inflation-adjusted dollars.
- The number of housing units sold increased 54 percent from last quarter and were 6 percent higher than a year ago. As traditional sales increased dramatically, so did the overall median sale prices which were 43 percent higher than last quarter, although still lower than the previous year.
- There were 532 foreclosures this quarter, a 4 percent decline from the previous quarter and a 39 percent decline from a year ago.
- The number of condemned, boarded, and vacant buildings in the city was 858, an increase of almost 3 percent from last quarter and 9 percent lower than a year ago.
- Real estate vacancy rates in the Minneapolis central business district (CBD), including office and retail, increased this quarter. The rates were higher than last year. Office vacancies were 15.2 percent and retail vacancies were 10.3 percent. The CBD office vacancy rate continued to be lower than the metro rate for the fifth consecutive quarter.

Residential vacancy rates & average apartment rents

The Minneapolis vacancy rate for multifamily rental housing, including only market-rate in buildings of 10 or more units, was 6 percent, an increase from 4.6 percent last quarter. The vacancy rate has increased steadily since the third quarter last year, and this quarter passed the 5 percent mark at which the market is considered to be balanced.

The vacancy rate was 2.3 percent higher than the previous year. The conditions of last quarter continued into this quarter: with high unemployment and a scarcity of jobs, people were not moving as frequently and some were sharing the cost of renting with others.

In the metro area, the vacancy rate also increased to 6 percent from 4.9 percent last quarter, and was 2.3 percent higher than a year ago.

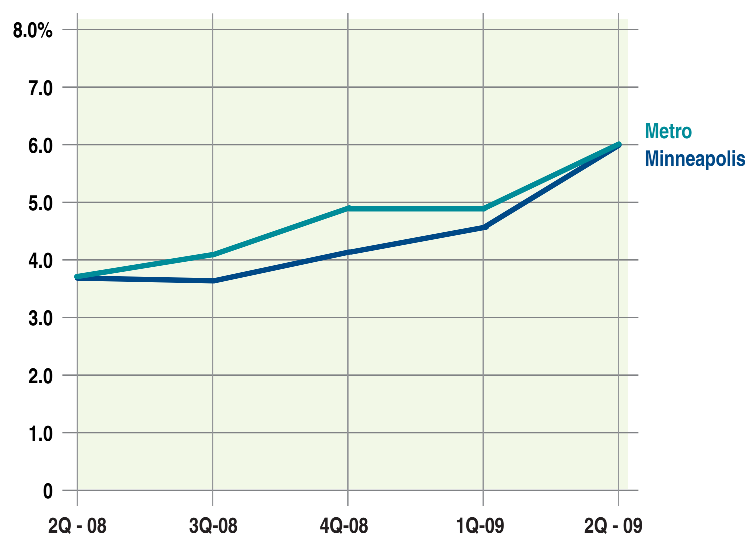
Table 7: **VACANCY RATE AND AVERAGE RENT**
in current dollars

	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis					
Units surveyed	15,606	15,536	15,621	15,874	16,126
Vacant units	581	553	661	738	961
Average rent	$ 905	$ 929	$ 914	$ 916	$ 943
Vacancy rate	3.7%	3.6%	4.2%	4.6%	6.0%
Metro					
Units surveyed	115,046	113,212	119,435	116,939	118,208
Vacant units	4,217	4,673	5,805	5,714	7,077
Average rent	$ 910	$ 922	$ 906	$ 908	$ 904
Vacancy rate	3.7%	4.1%	4.9%	4.9%	6.0%

Source: GVA Marquette Advisors Reports, based on a sample survey of market-rate rental properties 10 units and more (subsidized and small multi family rentals are excluded.)

Recorded data for the last month of the quarter

Figure 10: **RENTAL VACANCY RATES**
in percent



Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

Residential vacancy rates & average apartment rent

In Minneapolis the average rent was $943, $23 higher in inflation-adjusted dollars* than last quarter, and $54* more than a year ago. In the metro area average rent was $904, a decrease of $8 in inflation-adjusted dollars* from last quarter, and $10 from last year.

As of June, all areas in Minneapolis except East Minneapolis, experienced increased vacancy rates, and Downtown, North and East had above-average vacancy rates (6 percent.) Although increasing, the Southeast/University of Minnesota area and South Minneapolis had below-average vacancy rates.

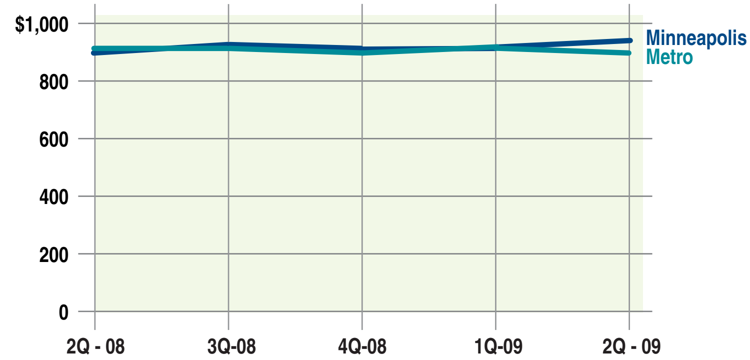
In the last two quarters, East Minneapolis rates have declined to the level of the other areas, and this quarter they were lower than Downtown and North Minneapolis rates. A year ago, the vacancy rate in East Minneapolis was 9.6 percent.

Downtown rates increased consistently since third quarter 2008, and were 4.8 percent higher than the same quarter last year. North Minneapolis was slightly below East Minneapolis with an increase of 3 percent.

In South Minneapolis, an area that has the largest number of lower price market rental units in Minneapolis, the vacancy rate was slightly below city average, but had been increasing since third quarter last year.

* For conversion factors, see page 44.

Figure 11: **AVERAGE APARTMENT RENT**
in current dollars

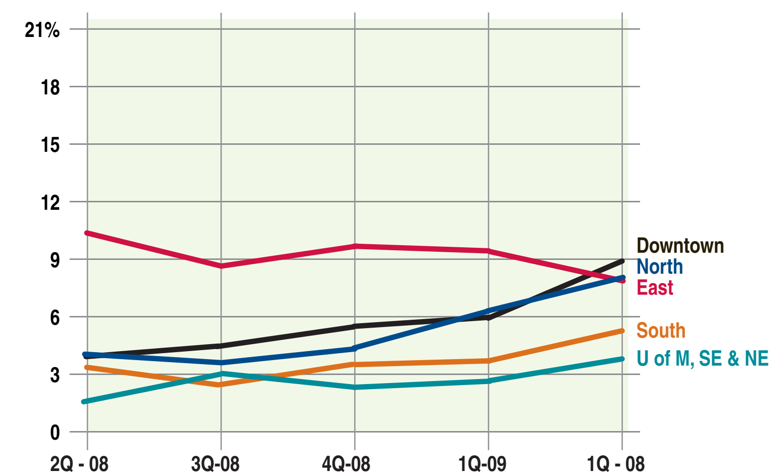


	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis	$ 905	$ 929	$ 914	$ 916	$ 943
	(889)	(919)	(922)	(920)	(943)
Metro	910	922	906	908	904
	(894)	(912)	(914)	(912)	(904)

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter
Rents in inflation-adjusted dollars are in parenthesis

Figure 12: **VACANCY RATES BY CITY SECTORS***
in percent



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Downtown	4.1%	4.5%	5.6%	6.0%	8.9%
South	3.2%	2.4%	3.5%	3.8%	5.0%
North	4.2%	3.7%	4.4%	6.4%	7.2%
East	9.6%	8.6%	10.0%	9.4%	7.1%
U of M, SW & NE	2.6%	3.0%	2.5%	2.7%	3.8%

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter
* For sector definitions, see page 42.

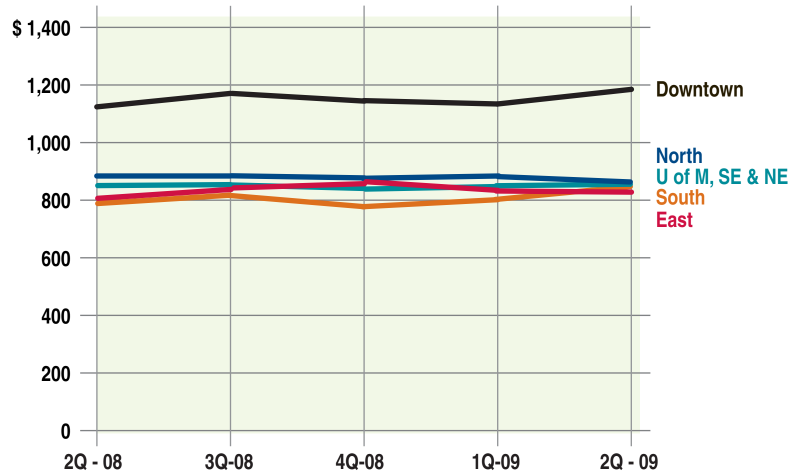
Residential vacancy rates & average apartment rent

Downtown continues to command the highest average rent in Minneapolis. Even with high vacancy rates, this quarter average rents were up $42 (4 percent) from first quarter in inflation-adjusted dollars*. In comparison with second quarter last year rents were higher $76 on average (7 percent)*. In North Minneapolis, which has a small number of market rental units and many foreclosure properties that could be leased, the average rent declined from the first quarter, although rents were higher than last year. In East Minneapolis also, rents dropped from the first quarter but were higher than last year.

In South Minneapolis, average rents have been increasing since fourth quarter 2008 in inflation-adjusted dollars, and were 9 percent higher than second quarter last year. Rents near the UMN also increased in the last quarter and were 2 percent higher than the previous year.

* For conversion factors, see page 44.

Figure 13: **AVERAGE MONTHLY RENT BY CITY SECTOR***
in current dollars



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Downtown	$1,135 (1,116)	$1,173 (1,160)	$1,157 (1,166)	$1,144 (1,150)	$1,192 (1,192)
South	793 (779)	816 (807)	783 (789)	807 (811)	848 (848)
North	872 (857)	879 (869)	877 (884)	891 (895)	877 (877)
East	811 (797)	826 (817)	866 (873)	837 (841)	839 (839)
U of M, Southeast and Northeast	862 (847)	870 (860)	857 (864)	850 (854)	863 (863)

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter.
Rents in inflation-adjusted dollars are in parenthesis.
* For sector definition, see page 42.

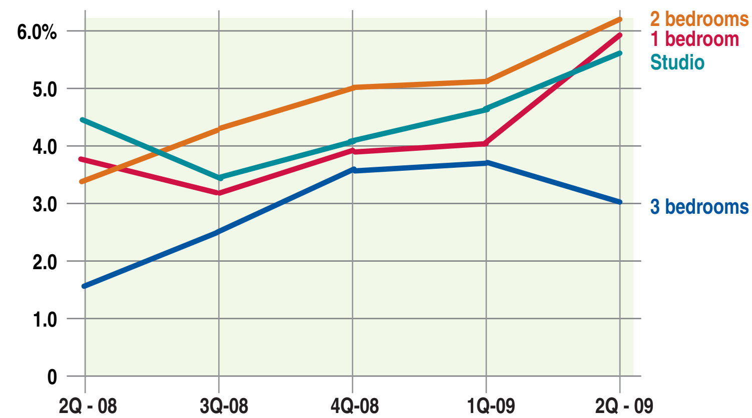
Residential vacancy rates & average apartment rent

Rents for all apartment types, except three-bedroom units, saw increased vacancy rates in comparison with first quarter. All apartment types showed higher vacancy rates than in the second quarter of 2008. The lowest rate, 3 percent, was for three-bedroom units. The largest vacancy rate was for two-bedroom units at 6.2 percent.

Average rent for all apartment types increased from last year and from last quarter in inflation-adjusted dollars. In comparison with the same quarter last year, rents for studios increased the most, by 8.6 percent, followed by three-bedroom units which increased 8.1 percent. One-bedroom units increased by 5.9 percent, and two-bedroom units by 3.8 percent. As renters cut costs, demand for smaller units increased, and so did prices. Regarding the largest units, renters could cover the cost by sharing the rent and lowering individual costs.

* For conversion factors, see page 44.

Figure 14: **APARTMENT RENTAL VACANCY RATE –** Minneapolis
in percent

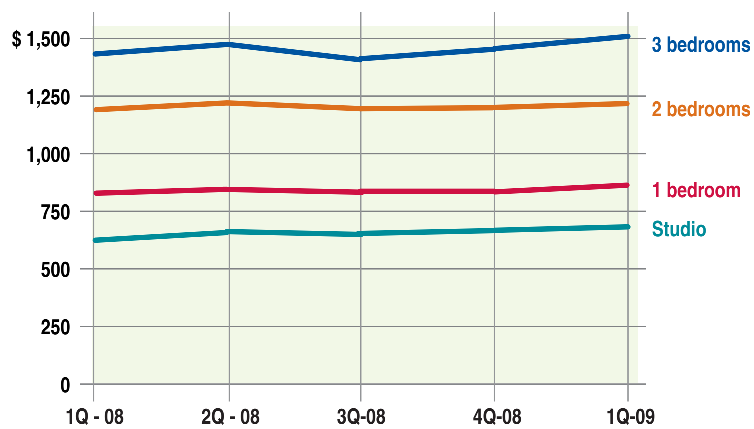


	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Studio	4.4%	3.4%	4.1%	4.5%	5.6%
One bedroom	3.7%	3.2%	3.9%	4.0%	5.9%
Two bedrooms	3.3%	4.3%	5.0%	5.2%	6.2%
Three bedrooms	1.6%	2.5%	3.6%	3.7%	3.0%

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

Figure 15: **AVERAGE APARTMENT MONTHLY RENT –** Minneapolis
in current dollars



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Studio	$ 627 (616)	$ 643 (636)	$ 640 (645)	$ 645 (648)	$ 669 (669)
One bedroom	834 (820)	848 (839)	841 (848)	840 (844)	868 (868)
Two bedrooms	1,199 (1,178)	1,223 (1,210)	1,193 (1,203)	1,207 (1,213)	1,223 (1,223)
Three bedrooms	1,413 (1,389)	1,484 (1,468)	1,382 (1,393)	1,468 (1,475)	1,501 (1,501)

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter
Rents in inflation-adjusted dollars are in parenthesis.

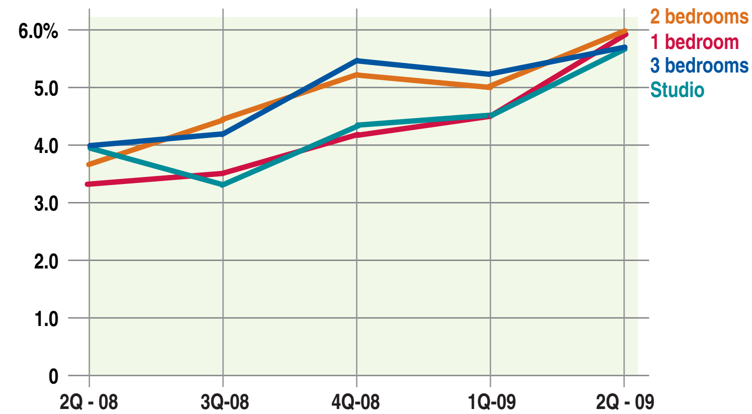
Residential vacancy rates & average apartment rent

High metro-wide vacancy rate was the result of units including dens which had large vacancies. In the region and in the city, the smallest and largest types had smaller average vacancy rates. All apartment types increased their vacancy rates in comparison with last quarter and second quarter last year.

Average rent in the metro area in inflation-adjusted dollars* increased the most for studio units (6 percent), and for one-bedrooms (2.1 percent) from a year ago. Rents for the largest units decreased 1 percent and increased half a percentage point for one-bedrooms. In comparison with first quarter, all types of apartment rents except for studios, decreased. Rents for one-bedroom and two-bedroom units decreased 1 percent, and for three-bedroom units it decreased less than 1 percent. In inflation-adjusted dollars, metro area rents were lower than rents in Minneapolis.

* For conversion factors, see page 44.

Figure 16: **APARTMENT RENTAL VACANCIES –** Metro
in percent

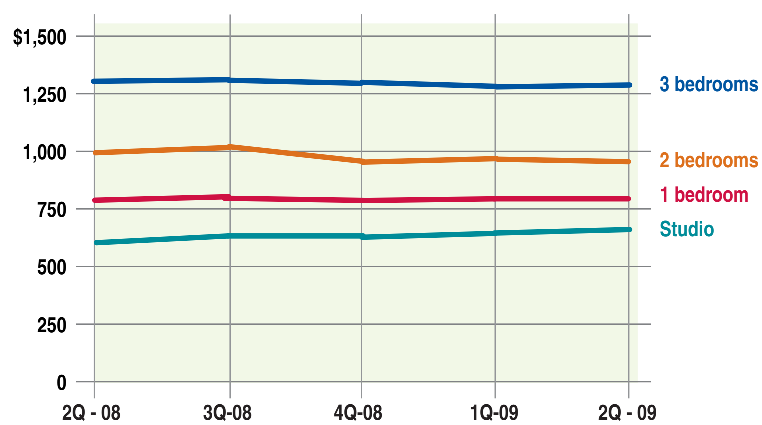


	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Studio	4.0%	3.4%	4.4%	4.5%	5.7%
One bedroom	3.4%	3.6%	4.3%	4.5%	5.9%
Two bedrooms	3.7%	4.6%	5.3%	5.0%	6.0%
Three bedrooms	4.0%	4.3%	5.5%	5.3%	5.7%

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

Figure 17: **AVERAGE APARTMENT MONTHLY RENT –** Metro
in current dollars



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Studio	$ 640 (629)	$ 650 (643)	$ 649 (654)	$ 656 (659)	$ 667 (667)
One-bedroom	784 (771)	796 (787)	788 (794)	791 (795)	787 (787)
Two-bedrooms	992 (975)	1,004 (993)	976 (984)	985 (990)	980 (980)
Three- bedrooms	1,295 (1,273)	1,289 (1,275)	1,285 (1,296)	1,264 (1,270)	1,260 (1,260)

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

Rents in inflation-adjusted dollars are in parenthesis.

* For conversion factors, see page 44.

Residential sales

Traditional housing sales in Minneapolis more than doubled this second quarter from first quarter and lender-mediated sales, which drove the market in the last quarter increased just by 5 percent. However, in comparison with a year ago, traditional sales were still 16 percent below the level of second quarter 2008 and lender-mediated sales were 68 percent higher.

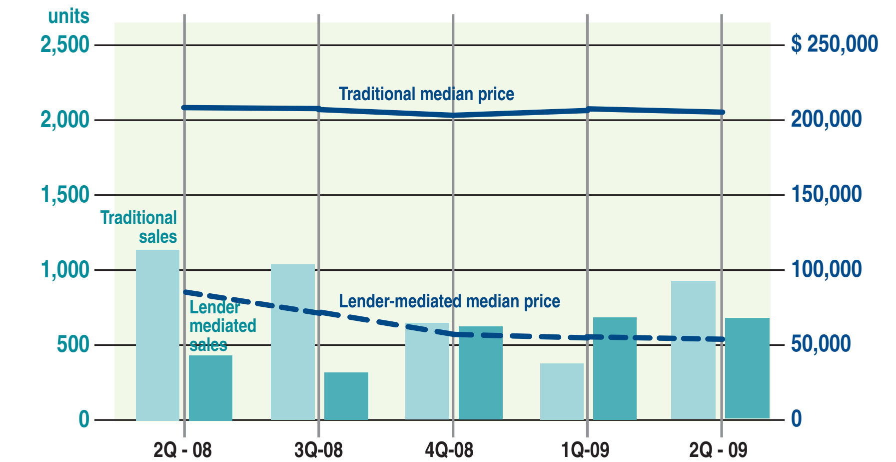
For traditional sales, prices were 2 percent lower than last quarter and 4 percent lower than the previous year. For lender-mediated sales, median prices were 4 percent and 31 percent lower than the previous quarter and previous year respectively.

The number of traditional sales in the metro area more than doubled from last quarter, while lender-mediated sales increased by 31 percent. Traditional sales were 17 percent lower than last year, and lender-mediated sales were twice as high as the previous year. Median sale prices for traditional sales dropped half a percentage point from last quarter and 7 percent from last year. On the other hand, median prices for lender-mediated sales were 6 percent lower from the previous quarter and 22 percent lower from the second quarter last year.

In Minneapolis the total number of housing units sold in the second quarter, including traditional and lender-mediated sales, increased 54 percent from first quarter, and it was 6 percent higher than a year earlier. Reversing the situation last quarter, prices increased by 43 percent- a result of an upsurge in the number of traditional sales. However, the total median sale price was still 19 percent lower than the previous year's.

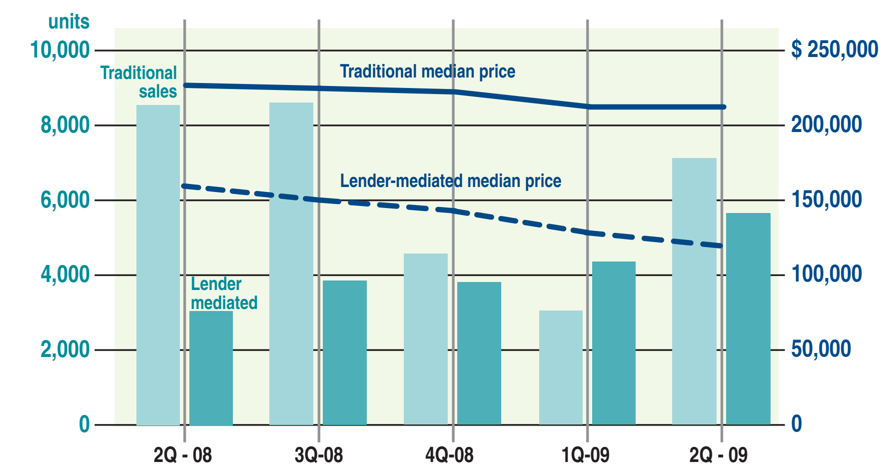
In the metro area the total number of units sold increased by 73 percent from last quarter, and 13 percent from last year. The total median sale price was 8

Figure 18: **TRADITIONAL AND LENDER-MEDIATED CLOSED SALES AND MEDIAN SALE PRICE**– Minneapolis



Source: Minneapolis Area Association of Realtors (MAAR)

Figure 19: **CLOSED SALES AND MEDIAN SALE PRICE** – Metro*



Source: Minneapolis Area Association of Realtors (MAAR)

* The metro area in this chart refers to the 13 counties covering Minnesota and Wisconsin served by the Minneapolis Area Association of Realtors.

For metro area definition, see page 44.

Table 8: **RESIDENTIAL UNITS SOLD AND MEDIAN SALE VALUES**

	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis					
Units	1,555	1,590	1,212	1,075	1,653
Median sale price	$ 194,000	$ 175,000	$ 137,750	$ 110,000	$ 156,750
Metro					
Units	11,163	12,245	8,544	7,283	12,600
Median sale price	$ 207,000	$ 198,000	$ 176,000	$ 154,900	$ 167,500

Source: Minneapolis Area Association of Realtors (MAAR)

Numbers include only single-family detached units, attached units and condominiums. They include all sales (traditional and lender-mediated).

Note that numbers for previous quarters have been revised upward by MAAR.

* Metro area refers to the 13-county area covering Minnesota and Wisconsin served by the Minneapolis Area Association of Realtors.

For the metro area definition, see page 44.

Not adjusted for inflation

percent higher than last quarter and 19 percent lower than a year ago.

The improved performance of the housing market this quarter suggests that the market is stabilizing, especially because of the high number of traditional sales. In Minneapolis the number of foreclosures is declining steadily, while inventories are also declining. The Minneapolis Area Association of Realtors' figures show that inventories of unsold housing declined 29 percent this quarter from the same quarter last year. In the metro area housing construction was coming back. But the slow labor market and a continuing rise in unemployment could slow down this incipient recovery.

Foreclosures

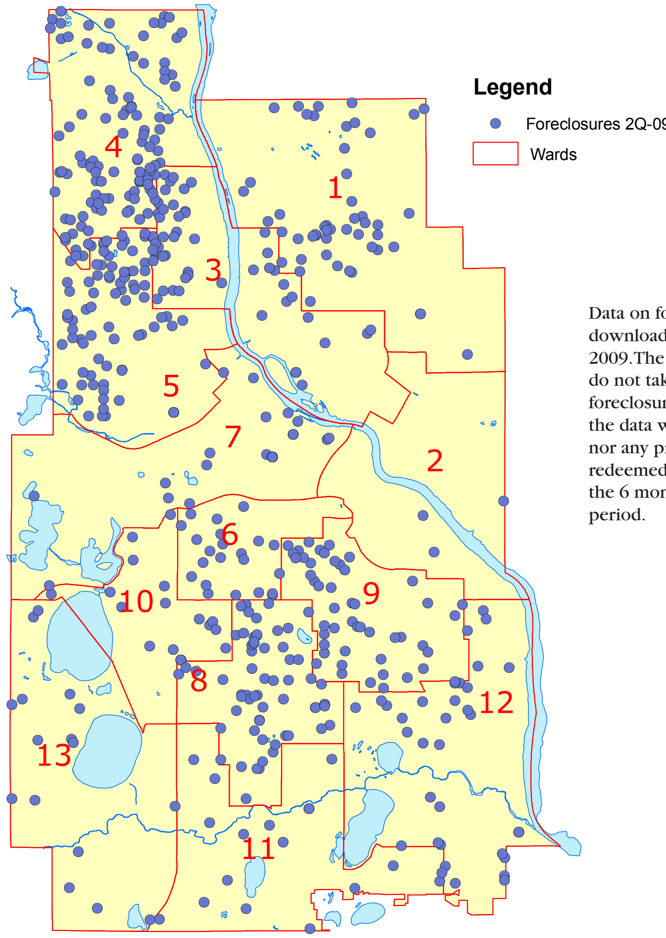
Foreclosed properties continued to decline in second quarter 2009; 532 properties were sold at public auction. This is a 4 percent decrease from last quarter and a 39 percent decrease from a year ago. Ward 4 accounted for almost 20 percent of the total foreclosures in the city. And wards 1, 3, 4, 5 and 8 had 65 percent of the total number of foreclosure sales.

The large quantity of foreclosure of properties was an important factor in depressing property values throughout the city and the region. However, with foreclosure sales slowing down in the city and an upsurge in traditional sales this second quarter, property values may start to improve.

The volume of foreclosed property sales in Minneapolis continued to decline from a peak of 870 in 2Q-08 to 532 foreclosures this quarter.

MAP 5: PROPERTIES FORECLOSED – 2Q-09
by wards

Source: Hennepin County.



Data on foreclosures downloaded as of June 15, 2009. The table and map do not take into account foreclosures recorded after the data was compiled, nor any properties later redeemed by the owner in the 6 month redemption period.

Table 9: **FORECLOSURE PROPERTIES –** Minneapolis
by wards

Ward	2Q-08 #	2Q-08 %	3Q-08 #	3Q-08 %	4Q-08 #	4Q-08 %	1Q-09 #	1Q-09 %	2Q-09 #	2Q-09 %
1	64	7.4%	63	8.0%	54	8.8%	47	8.5%	50	9.4%
2	9	1.0%	9	1.1%	8	1.3%	3	0.5%	3	0.6%
3	86	9.9%	85	10.9%	55	8.9%	54	9.7%	50	9.4%
4	170	19.5%	175	22.3%	103	16.7%	122	22.0%	105	19.7%
5	150	17.2%	118	15.1%	107	17.4%	93	16.8%	81	15.2%
6	30	3.4%	19	2.4%	19	3.1%	34	6.1%	22	4.1%
7	27	3.1%	19	2.4%	14	2.3%	18	3.2%	24	4.5%
8	96	11.0%	88	11.2%	94	15.3%	63	11.4%	62	11.7%
9	105	12.1%	87	11.1%	71	11.5%	47	8.5%	48	9.0%
10	34	3.9%	29	3.7%	19	3.1%	18	3.2%	19	3.6%
11	37	4.3%	27	3.4%	18	2.9%	20	3.6%	18	3.4%
12	40	4.6%	48	6.1%	36	5.8%	27	4.9%	34	6.4%
13	22	2.5%	16	2.0%	18	2.9%	8	1.4%	16	3.0%
Total	**870**	**100.0%**	**783**	**100.0%**	**616**	**100.0%**	**554**	**100.0%**	**532**	**100.0%**

Source: Hennepin County Sheriff's Office.

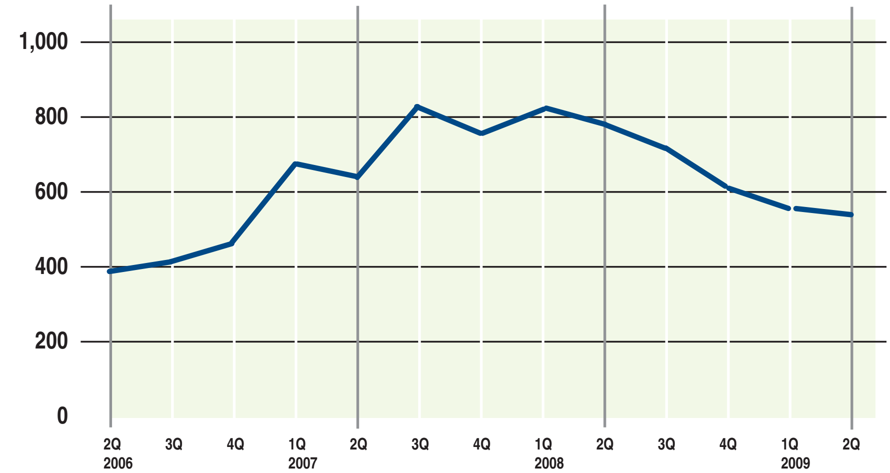
The data is subject to revision by the Sheriff's Office; for complete and current foreclosure listings, please see the Hennepin County Sheriff's website at http://www4.co.hennepin.mn.us/webforeclosure/.

Data for 2008 have been revised.

Foreclosures

The volume of foreclosed property sales in Minneapolis continued to decline from a peak of 870 in 2Q-08 to 532 foreclosures this quarter.

Figure 20: **FORECLOSURES –** Minneapolis
in units



Source: Hennepin County Sheriff's Office

Revised data for 2008

Condemned & vacant buildings

The number of condemned, boarded and vacant buildings in the city increased 2.8 percent from first quarter, and it was 9 percent lower than a year ago. Boarded and condemned buildings continued to make up the majority of the group and increased by one percent from last quarter. The number of buildings that were vacant (with some code violations but no major problems) but not condemned increased faster, by 5 percent. Both categories were down by 9 percent since a year ago.

These buildings are located mainly in the city's north and south-central areas. Their locations follow similar patterns as the foreclosures shown in the map on **page 33,** and many properties appear on both maps, i.e. they are both foreclosed and vacant.

Foreclosure map on *page 33.*
Demolitions map on *page 22.*

Map 6: **CONDEMNED AND VACANT BUILDINGS –** as of June 30, 2009

Source: City of Minneapolis Regulatory Services

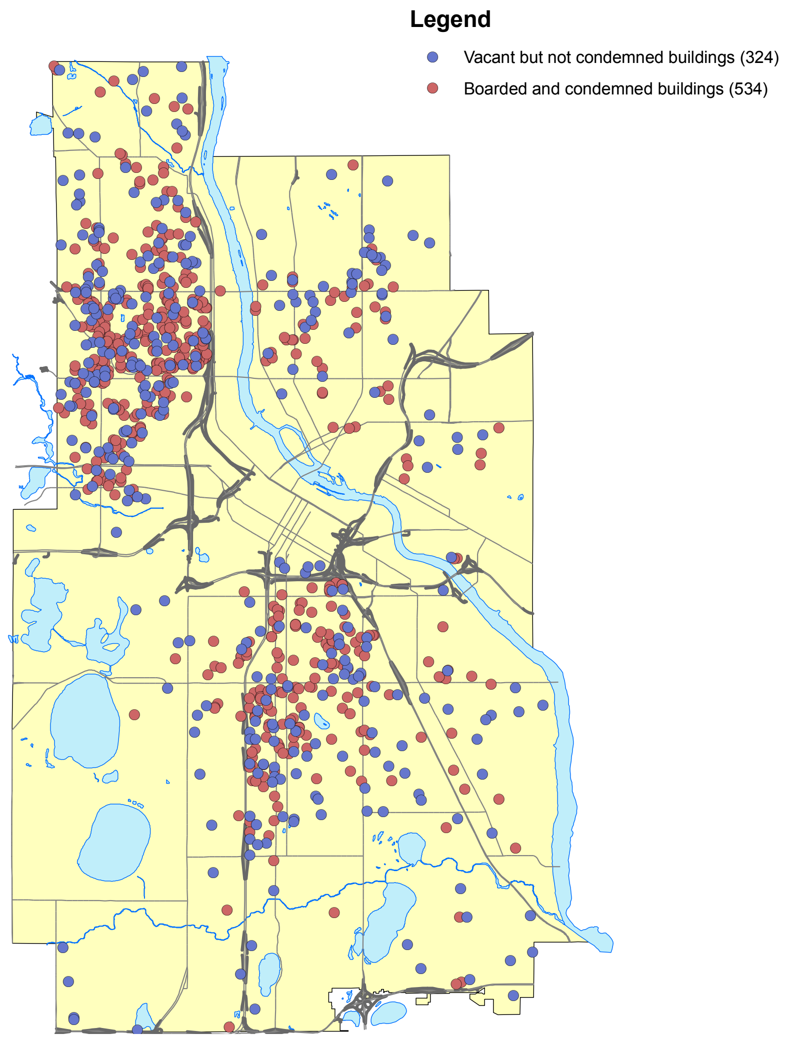


Table 10: **CONDEMNED AND VACANT BUILDINGS**
at end of quarter

	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Boarded and condemned buildings	587	599	530	528	534
Vacant but not condemned	357	349	337	307	324
Total	**944**	**948**	**867**	**835**	**858**

Source: City of Minneapolis Regulatory Services

Note: About 98 percent of the buildings in the table are residential.

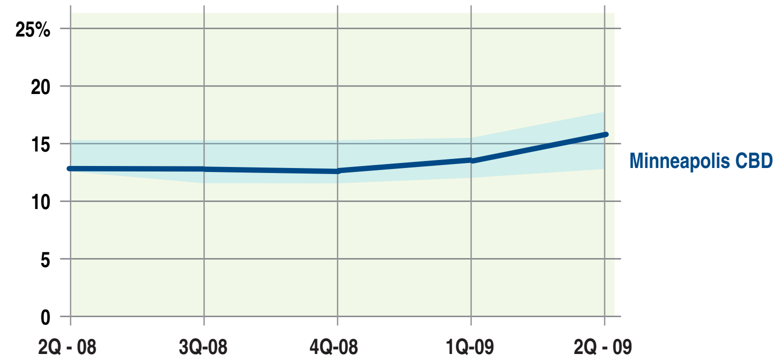
Only buildings that have been registered as vacant with the City of Minneapolis Inspections Division are included. Chapter 249 of City ordinances covers requirements for registering vacant buildings.

Office space

The vacancy rate for office space in the Minneapolis central business district (CBD) increased this quarter to 15.2 percent, and it was up by 2.5 percent from the same quarter last year. Still it remained below the metro area vacancy rate for the fifth quarter in a row. Facing decreasing employment across the economy, firms were moving to smaller spaces or vacating their premises.

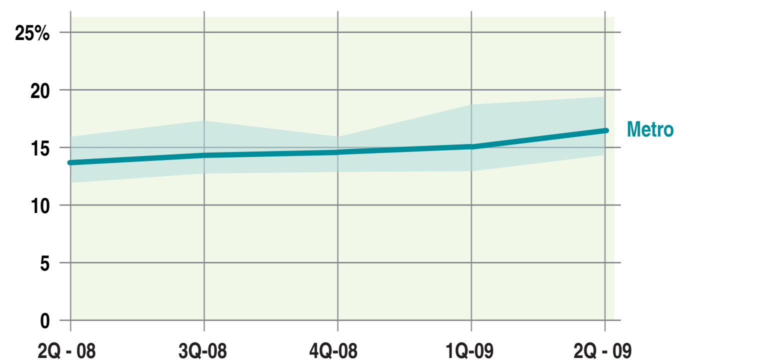
The average vacancy rate in the metro area increased to 16.5 percent from 15.1 percent last quarter; it was also much higher than last year.

Figure 21: **OFFICE SPACE VACANCY RATE** – Minneapolis CBD
in percent



Sources: CB Richard Ellis, Colliers, Welsh

Figure 22: **OFFICE SPACE VACANCY RATE** – Metro
in percent



Sources: CB Richard Ellis, Colliers, Welsh

High (H) and low (L) in the two graphs above refer to estimates made by two other commercial market firms compared to the base estimate made by CB Richard Ellis.

	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis CBD	12.7%	12.7%	12.5%	13.6%	15.2%
Metro	13.6%	14.1%	14.6%	15.1%	16.5%

Source: CB Richard Ellis

Class A, B and C multi-tenant office buildings 30,000 square feet and larger

See explanation of sources in page 43.

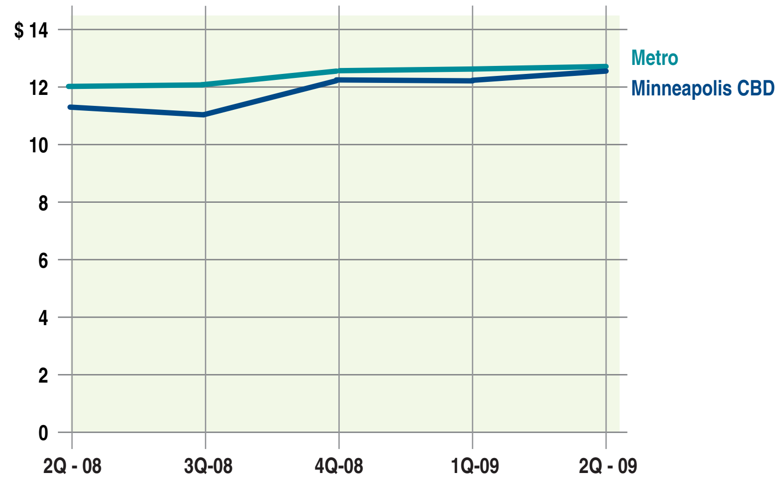
Office space

The average asking lease rates per square foot in the Minneapolis central business district (CBD) slightly increased since last quarter, and were still higher than last year's second quarter. Average asking prices were not too far apart from those in the metro area where asking prices in the first quarter were just $0.07 higher than in the Minneapolis CBD. Asking prices in the metro area were a little lower than last quarter, but about 5 percent higher than last year.

With an increasing vacancy rate this quarter, occupied office area in the Minneapolis CBD fell by 1.9 percent from the first quarter. There was no new rentable office space added since 4Q-08 and vacancies increased mainly because companies cut employment and did not renew their lease. Major tenants such as ATT and TCF left large spaces vacant. Macy's and Ameriprise listed space for lease. Some tenants renewed but took short-term leases with the exception of Target, which renewed its lease for 970,000 square feet in City Center through 2023.

In the metro area occupied office space declined by 1.1 percent. Unlike Minneapolis CDB, the metro area has added new rentable space since first quarter 2008. But as the vacancy rate increased faster, occupied office space declined this quarter more than in previous quarters.

Figure 23: **OFFICE AVERAGE ASKING LEASE RATE**
in current dollars per square foot per year

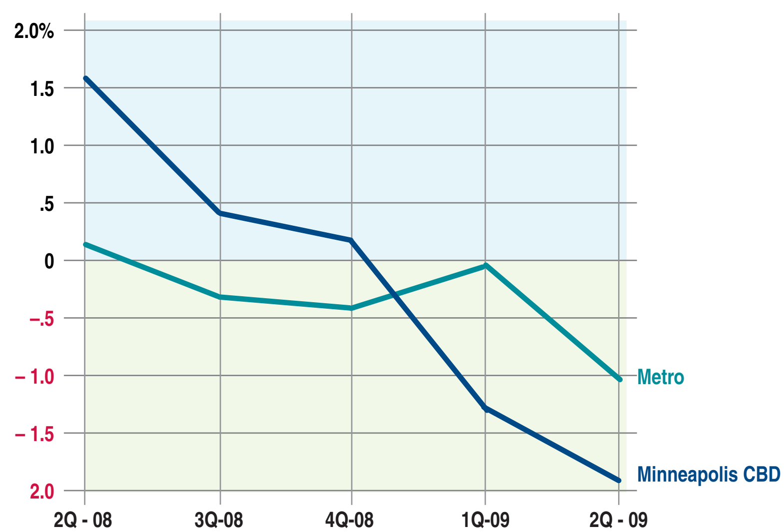


	2Q-08	3Q-08	4Q-08	1Q-08	2Q-09
Minneapolis CBD	$ 11.31	$ 11.15	$ 12.15	$ 12.10	$ 12.53
Metro	11.99	12.04	12.58	12.62	12.60

Source: CB Richard Ellis

Class A, B and C multi-tenant office buildings 30,000 square feet and larger

Figure 24: **OCCUPIED OFFICE SPACE** – rate of growth
in percent



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis CBD	1.6%	0.4%	0.2%	-1.26	-1.85%
Metro	0.2%	-0.3%	-0.4	-0.07	-1.05%

Source: CB Richard Ellis

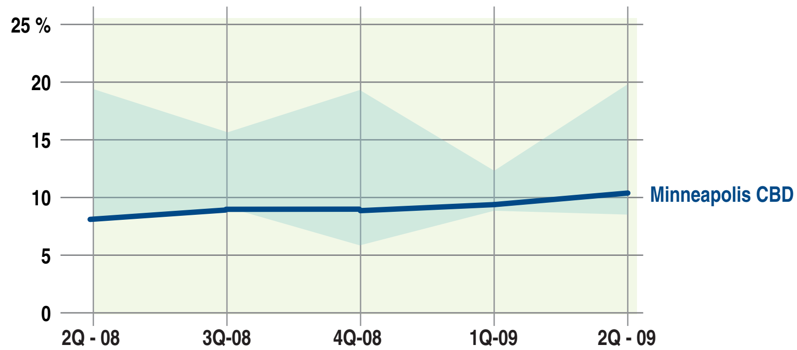
Class A, B and C multi-tenant office buildings 30,000 square feet and larger

Retail space

The retail vacancy rate in the Minneapolis CBD increased again this quarter to 10.3 percent from the previous quarter, and was 1.5 percent higher than the second quarter last year. Retail demand in the CBD as elsewhere was influenced by a tight credit market, low consumer spending and rising unemployment. The Conference Board reported that consumer confidence nationwide retreated in June after gaining in May. Consumers remained cautious and this had a negative effect on the retail market.

The vacancy rate in the metro area increased again this quarter to 7.9 percent and was higher than a year ago when it was 6.4 percent. Second quarter rate was 2.4 percent bellow that of the CBD. With low consumer spending, many shops closed or reduced size throughout the metro area, resulting in vacant space.

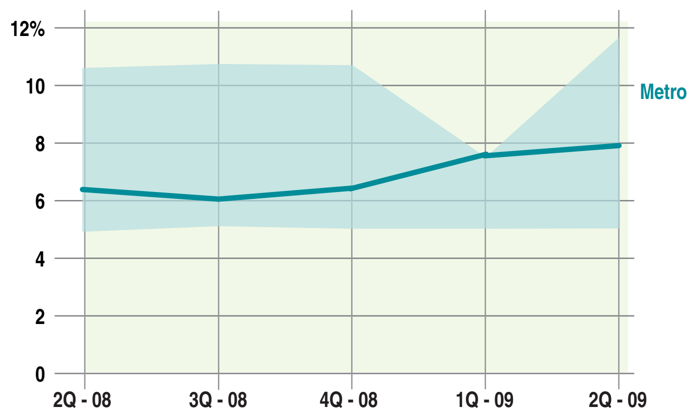
Figure 25: **RETAIL VACANCY RATE** – Minneapolis CBD
in percent



Sources: CB Richard Ellis, Colliers, Welsh

High (H) and low (L) in these two graphs refer to estimates made by two other commercial market firms compared to the base estimate made by CB Richard Ellis.

Figure 26: **RETAIL VACANCY RATE** – Metro
in percent



Sources: CB Richard Ellis, Colliers, United Properties, Welsh

High (H) and low (L) in the two graphs above refer to estimates made by the four commercial firms comparable to the base estimate made by CB Richard Ellis.

	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis CBD	8.3%	9.0%	9.1%	9.4%	10.3%
Metro	6.4%	6.0%	6.4%	7.5%	7.9%

Source: CB Richard Ellis

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

Retail space

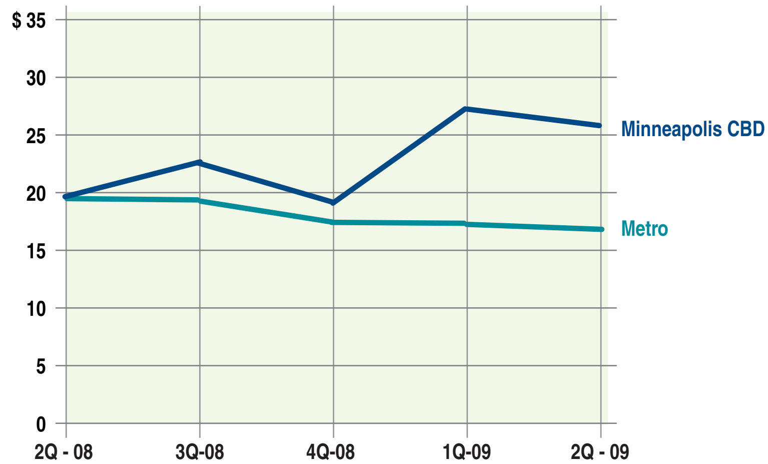
In the Minneapolis central business district (CBD), the average asking lease price declined 5.6 percent from first quarter, although it was more than 30 percent higher than last year. The high vacancy rate was putting downward pressure on lease rates; many landlords were opting for keeping tenants at a lower price.

The asking lease price also declined in the metropolitan area. Asking lease prices declined less than in the Minneapolis CBD, but they have been declining steadily throughout the year.

Occupied retail space in the Minneapolis central business district (CBD) decreased again resulting in negative absorption of 1 percent. The main contributors were high-end restaurants such as D'Amico and Morton Steakhouse.

Occupied retail space decreased in the metro area by almost 5 percent. This quarter several high-profile stores such as Ritz Camera and Eddie Bauer closed. On the other hand, several low-budget restaurants such as Five Guys Burger and Fries and Dunkin' Donuts, among others, were expanding. However, they could not make up for the loss of occupied space due to the downsizing of large retail stores.

Figure 27: **RETAIL – AVERAGE ASKING LEASE RATE**
in current dollars per square foot per year

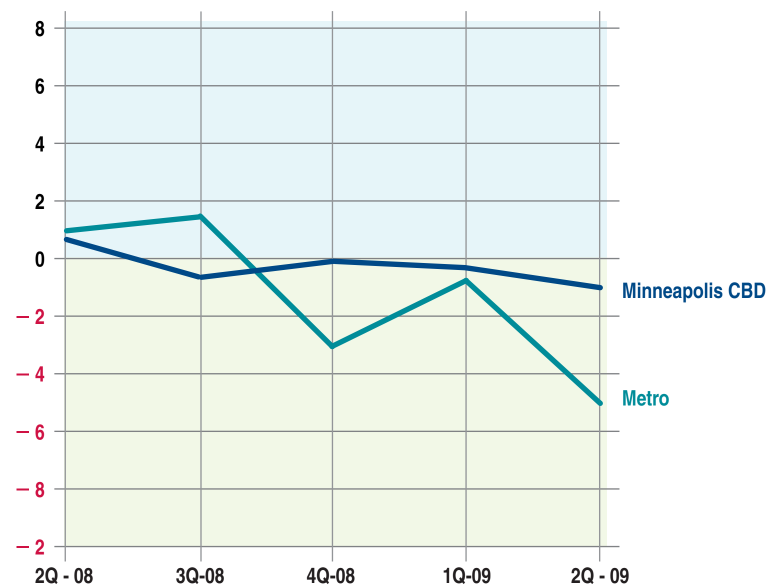


	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis CBD	$ 19.49	$ 22.72	$ 18.84	$ 27.15	$ 25.63
Metro	19.19	18.72	17.80	17.48	17.09

Source: CB Richard Ellis

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

Figure 28: **OCCUPIED RETAIL SPACE –** rate of growth
in percent



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis CBD	0.8%	-0.8%	-0.1%	-0.3%	-1.0%
Metro	0.9%	1.4%	0.0%	-0.8%	-4.8%

Source: CB Richard Ellis

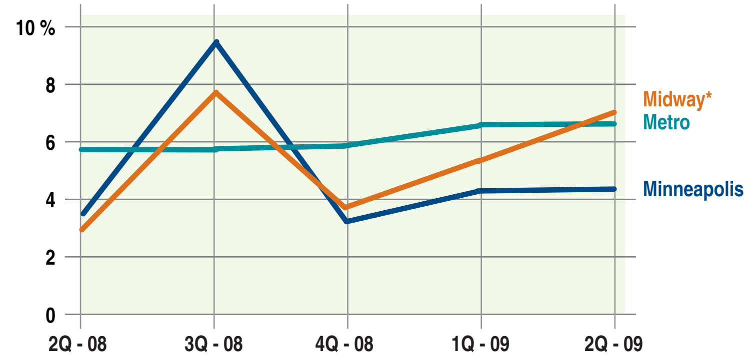
Includes all multi-tenant retail buildings 30,000 square feet and larger, including buildings under construction.

Industrial space

The industrial space vacancy rate increased from last quarter and from the same quarter last year in the industrial areas of Minneapolis, Midway, and the metro. The Welsh report observed that "Employers in the Twin Cities vacated industrial properties during the first half of the year at a rate that hasn't been seen for at least 15 years." Office warehouses were the hardest hit.

Except in Minneapolis market area, the average asking lease rate for industrial space decreased since last quarter. Though in all areas they were slightly higher than the same quarter last year. Some companies in the medical technology sector were still expanding and kept lease prices on check. The norm was to take short leases.

Figure 29: **INDUSTRIAL VACANCY RATE**
in percent



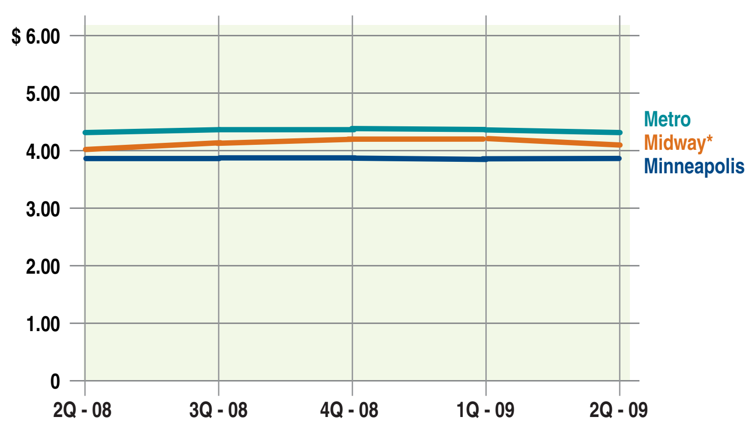
	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis	3.5%	9.4%	3.4%	3.7%	4.4%
Midway	3.1%	6.7%	3.6%	4.2%	6.8%
Metro	5.7%	5.7%	5.9%	6.4%	7.1%

Source: 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 industrial area includes parts of Northeast Minneapolis and Saint Paul.

Figure 30: **INDUSTRIAL - AVERAGE ASKING LEASE RATE**
in dollars per square foot per year



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis	$3.85	$3.88	$3.88	$3.89	$3.90
Midway	$4.07	$4.17	$4.18	$4.17	$4.08
Metro	$4.32	$4.35	$4.40	$4.42	$4.34

Source: CB Richard Ellis

Note: For Midway and Minneapolis, the industrial average asking lease rate is only for warehousing

Includes industrial buildings 100,000 square feet and larger, including buildings under construction.

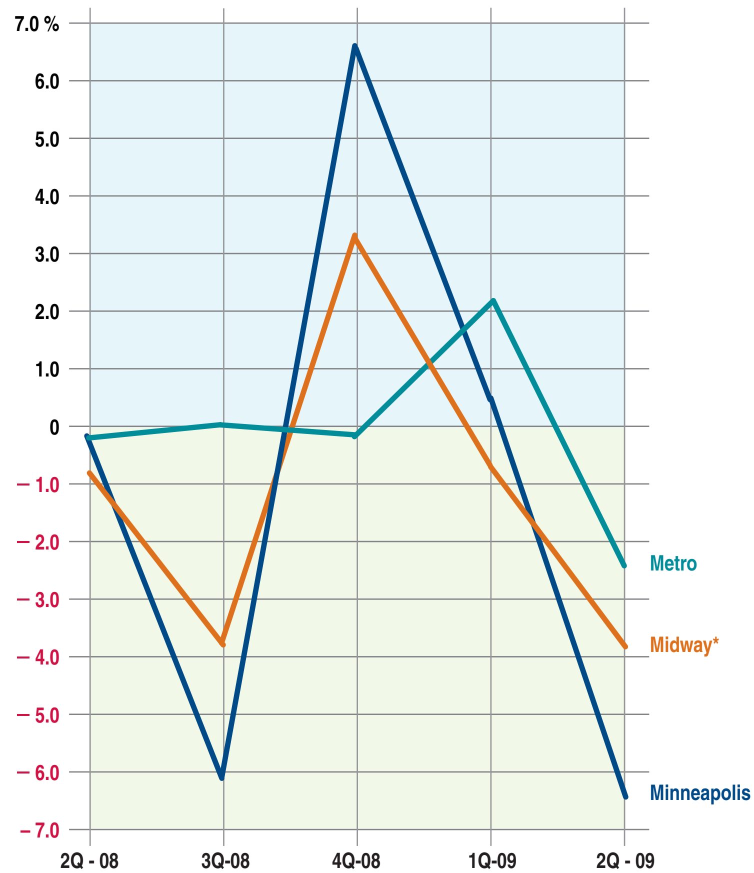
Midway includes industrial areas of northeast Minneapolis and Saint Paul.

Industrial space

Occupied industrial space decreased substantially in all areas. A weakened economy continued to affect the demand for all types of industrial space. Firms were looking for smaller spaces, and in the case of office warehouses, some firms considered taking advantage of lower office prices with better amenities and moved from industrial properties.

In the metro area, federal and some local governments were building some new facilities, but in general, new projects were on hold and tenants were seeking short-term leases.

Figure 31: **OCCUPIED INDUSTRIAL SPACE** – rate of growth
in percent



	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09
Minneapolis	-0.2%	-6.1	6.6%	0.5%	-6.3%
Midway	-0.7%	-3.7	3.3%	-0.6%	-3.8%
Metro	-0.2%	0.1	-0.2%	2.3%	-2.3%

Source: CB Richard Ellis

Includes all competitive 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.

- **Housing Vacancy Rate:** The vacancy rate is the percentage of unoccupied housing units among 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.

- **City areas:** For data analysis purposes, GVA Marquette Advisors divides the city into five sub-areas:

  Downtown: including zip codes 55401, 55402, 55403 and 55415 South: west of Interstate 35W, south of Interstate 394, bordering Edina and Richfield, including zip codes 55403, 55405, 55408, 55409, 55410 and 55419

  North: north of Interstate 394, west and north of downtown, west of the Mississippi River, bordering Robbinsdale and Brooklyn Center, including zip codes 55411 and 55412

  East: east of Interstate 35W, south of Interstate 94, bordering Richfield, including zip codes 55404, 55406, 55407 and 55417

  University of Minnesota, Southeast and Northeast: north of Interstate 94, east of the Mississippi River, bordering Saint Paul, St. Anthony and Columbia Heights, including zip codes 55413, 55414, 55418, 55454, 55455, plus a few properties in 55406 on the south side of Interstate 94 near Cedar-Riverside neighborhood.

- **Median sale values:** These values are based on home prices researched by the Minneapolis Area Association of Realtors (MAAR).

  Closed home sales: These values are based on home sales researched by the Minneapolis Area Association of Realtors (MAAR). Closed sales mean that there is an agreement to sell and steps have been taken toward that end. MAAR makes a difference between traditional sales and lender-mediated sales. The first type includes all sales that are neither foreclosures nor short sales. These two define the lender-mediated sales.

- **Metro area definition:** The Minneapolis Area Association of Realtors service area includes 12 counties in Minnesota (Chisago, Anoka, Sherburne, Wright, Hennepin, Ramsey, Washington, Dakota, Scott, Carver, Rice and Goodhue) and one county in Wisconsin (St. Croix).

- **Foreclosure sales:** These sales occur when property owners are deprived of the right to keep their properties because of failure to make payments on a mortgage or other contractual property fees, such as condominium association fees, when due. Data on foreclosure sales are reported by the Hennepin County Sheriff to Hennepin County Taxpayer Services Department and later sent to City of Minneapolis CPED Research Division. Hennepin County's methodology is to count all foreclosure sheriff's sales categories (mortgage, assessments, associations, executions and judgments). Data include only foreclosed properties in the City of Minneapolis that were sold on public option in the specified time period.

- **Boarded and vacant buildings:** A vacant property is a property identified as such by City of Minneapolis inspectors; City Ordinance 249 requires the property's owner to register it as vacant. In addition to being vacant, the property could be condemned as uninhabitable either for being boarded more than 60 days or because of lack of maintenance. Data on boarded and vacant buildings are obtained from the City Department of Regulatory Services.

- **Real estate statistics** as reported by CB Richard Ellis (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 metro area includes several submarkets and may not coincide with definitions based on jurisdictional boundaries. To compare these data from results reported by other major firms go to:

  Collier Turley Martin Tucker (**www.colliers.com/Markets/Minneapolis**),

  United Properties **http://outlook.uproperties.com**); and

  Welsh Companies (**www.welshco.com/research/CurrentMktReports.asp**)

- **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 is determined by dividing the number of vacant square feet by the net rentable area.

- **Rate of growth and absorption:** This is the change in occupied square feet from one quarter to the next, determined by subtracting vacant space from the rentable space available.

- **Note:** Beginning with "Minneapolis Trends" 1st quarter 2008, CPED tracks office and retail data from several commercial market firms and display the "high" and "low" marks against the estimate from CB Richard Ellis which we will continue to use as our baseline.Graphs 21 and 22 (office vacancy rates), and graphs 25 and 26 (retail vacancy rates) show variation in vacancy rates reported by four different firms: CB Richard Ellis, United Properties, Colliers and Welsh, with CB Richard Ellis as the benchmark. Variations in reporting are due to differences in definitions and in the number, frequency, and geographical location of buildings included in the surveys. Variations in retail vacancy rates are more evident than in the case of office vacancy rates. These variations result not only from the factors affecting office vacancies but also — and particularly in the case of the Minneapolis CBD — the relatively small amount of retail space compared to the overall metro inventory.

- **Inflation-adjusted figures:** For the purpose of analyzing residential rent, text is based on 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 1.5 million people). For the second quarter of 2008, dollars have been converted with an index of 0.9828644, the result of the relation between the CPI for June 2009 (199.319) and the CPI for June 2008 (200.671). For the period from the second quarter of 2009 to the first quarter of 2009, the index is 1.0048245, obtained by dividing 199.319 (June 2009) by 198.362 (March 2009.)

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