

Highlights for the fourth quarter of 2008

The unemployment rate decreased slightly since the last quarter from 6 to 5.7 percent. The total labor force and the number of people employed declined both in the city and the metro area.

See page 4

Residential permit volume in the city was at its lowest level since the fourth quarter of 1996 with only 12 units permitted this quarter. Permitted units also decreased significantly in the metro area from last quarter and a year ago. *See page 15*

The volume of home sales decreased since last quarter in both the city and metro area. Median sale prices were 36 percent lower in Minneapolis and 19 percent lower in the metro area than the previous year. *See page 31*

The number of properties foreclosed decreased 21 percent in the city from last quarter, and 17 percent from a year ago. The number of vacant and boarded buildings in the city decreased 9 percent from last quarter, but increased 13 percent from a year ago. *See page 32*

Apartment average vacancy rates in Minneapolis increased to 4.2 percent from 3.6 percent, and average rent continued to increase in inflation-adjusted dollars.

See page 26

The office vacancy rate in the Minneapolis central business district declined from 12.7 percent to 12.5 percent, which remains lower than the metro-wide rate for the third straight quarter. *See page 35*

Jobs and Wages- Highlights for the second quarter of 2008

The city gained 2,200 jobs in the second quarter compared to the previous quarter, but it shed more than 2,500 jobs over a twelve-month period. Wages were 3.4 percent lower in inflation-adjusted dollars than a year before. *See page 7*

Minneapolis Trends

A Quarterly Overview of Socioeconomic & Housing Trends in Minneapolis



fourth quarter 2008



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

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Minneapolis Trends



fourth quarter 2008

Contents

Economic indicators 3

Labor force 4

Jobs 5

Wages 9

Definitions & sources 13

Development indicators 14

New construction 15

Cost of residential construction 17

Conversions, remodels & additions 18

Major construction projects 21

Demolitions 22

Definitions & sources 24

Housing stock & the real estate market 25

Residential vacancy rates & average apartment rents 26

Residential sales 31

Foreclosures 32

Condemned & vacant buildings 34

Office space 35

Retail space 37

Industrial space 40

Definitions & sources 41

Economic indicators

- The fourth quarter unemployment rate decreased slightly to 5,7 percent, matching the metro-wide rate. The labor force and the number of people working both declined in the city and across the metro area.
- In the second quarter of 2008 there were almost 2,200 more jobs than in the previous quarter, but over a 12 month period (2Q-07 to 2Q-08) the city shed more than 2,500 jobs, or 0.9 percent of the total job base. During this same 12-month period, the metro and state also lost jobs, by 0.6 percent and 0.2 percent respectively.
- Second quarter weekly wages were 3.4 percent lower in inflation-adjusted dollars than a year before. Wages in the metro area decreased by 2.5 percent and in the state they declined by 1.9 percent in inflation-adjusted dollars.

Labor force

In the fourth quarter of 2008 the labor force in Minneapolis decreased as many people left the labor market. The number of residents who had jobs decreased 1.1 percent from the previous quarter and 2.3 percent from the previous year. The unemployment rate was lower than last quarter because people were discouraged from looking for jobs, but it was 1.6 percent higher than the fourth quarter last year. In the metro area the unemployment rate increased 0.1 percentage point from the third quarter, and it was 1.7 percent higher than last year.

Unemployment was spreading in the city and the region, consistent with national trends with U.S. unemployment inching up to 7.2 percent in December, according to the Bureau of Labor Statistics, and to 6.8 percent in Minnesota, according to DEED.

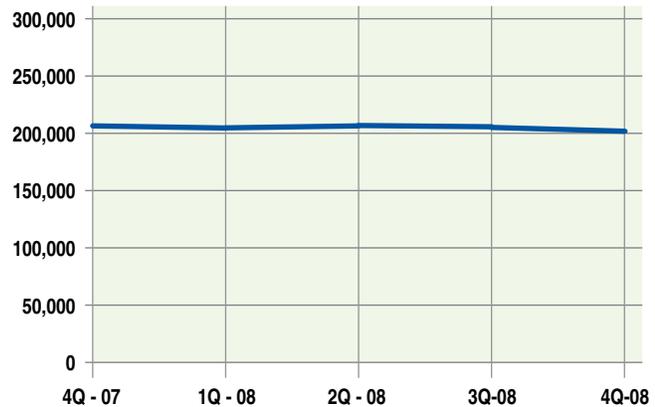
Table 1: **LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis					
Labor Force	216,481	213,838	216,756	218,131	215,088
Employment	207,517	204,900	206,554	205,143	202,785
Unemployment rate	4.1%	4.2%	4.7%	6.0%	5.7%
Metro					
Labor Force	1,616,900	1,603,370	1,620,252	1,625,254	1,608,438
Employment	1,551,784	1,532,220	1,544,590	1,534,035	1,516,402
Unemployment rate	4.0%	4.4%	4.7%	5.6%	5.7%

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

* For metro area definition, see [page 13](#).

Figure 1: **AVERAGE EMPLOYMENT – Minneapolis**



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

Figure 2: **AVERAGE EMPLOYMENT – Metro***



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

* For metro area definition, see [page 13](#).

Jobs

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

	2Q-2007	3Q-2007	4Q-2007	1Q-2008	2Q-2008 **
Total, all industries ¹	293,416	293,285	295,259	288,687	290,864
Manufacturing	16,467	16,397	16,426	16,701	16,757
Utilities*	2,649	2,656	2,690	2,651	2,699
Wholesale trade	9,822	9,827	9,664	9,402	9,495
Retail trade	15,115	14,969	15,374	15,079	15,367
Transportation and warehousing*	4,021	3,989	4,262	3,732	3,795
Information	10,972	10,625	10,627	10,316	10,189
Finance and insurance*	27,357	27,618	27,511	27,133	27,213
Real estate and rental and leasing	6,294	6,373	6,341	6,124	6,124
Professional and technical services*	30,553	30,954	30,983	30,561	30,303
Management of companies and enterprises	16,144	16,377	16,544	17,042	17,208
Administrative and waste services*	15,974	15,923	15,545	14,635	14,817
Educational services	27,754	25,851	29,161	29,040	28,097
Health care and social assistance	45,837	46,357	46,473	45,009	45,546
Arts, entertainment and recreation*	4,919	4,859	4,623	5,021	5,321
Accommodation and food services	23,898	24,410	23,847	22,668	23,571
Other services*	10,643	10,436	10,441	10,110	10,310
Public administration	12,881	13,213	12,775	12,459	12,646

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. The most recent figures available are from the second quarter of 2008.

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

Jobs

The number of jobs located in Minneapolis increased since the first quarter of 2008 by 0.8 percent (2,177 jobs). Minnesota and the metro area had an increase in jobs for the same period. Higher employment in the second quarter usually follows a pattern of seasonal change- employment tends to be higher in the spring than in the winter months. In addition, the 2008 rebates given by the Federal government last spring, may have had an impact. However, the number of jobs declined since the second quarter 2007 by 0.9 percent (2,552 jobs.)

Quarter to quarter change- 1st to 2nd quarter 2008

Most sectors increased jobs, but the largest job increase from the first to the second quarter took place in

- **Accommodation and food services** (eating places, traveler accommodations, drinking places.)
- **Health care and social assistance** (individual and family services, nursing care facilities, ambulatory health care services such as ambulance and blood and organ banks.)
- **Arts, entertainment and recreation** (such as museums and historical sites.)

Three sectors decreased jobs in this period:

- **Educational services** (colleges and universities, technical and trade schools.)
- **Professional and technical services** (scientific research and development services, accounting, computer system design.)
- **Information** (newspapers, picture and video industry, wired telecommunication carriers.)

12 month change - 2nd quarter 2007 to 2nd quarter 2008

Sectors which gained jobs:

- **Management of companies** continued its steady growth throughout the year, adding 1,064 net jobs (6.6 percent growth.) All of the job growth was in managing offices of companies.
- **Arts, entertainment and recreation** added more than 400 net jobs (8.2 percent growth.) Performing companies added more than 40 jobs. There were 13 more independent artists, writers and performers than in the same quarter last year.
- **Educational services** added a little more than 340 net jobs (1.2 percent growth.) Elementary and secondary schools added over 200 jobs.
- **Manufacturing** added almost 300 jobs (1.8 percent.) About 100 jobs were in Semiconductors and electronic components, food manufacturing, textile mills and products, miscellaneous manufacturing, coating and engraving and commercial refrigeration.
- **Retail trade and utilities** combined added a net of about 300 jobs (1.7 percent.) General merchandise stores alone increased in about 900 jobs.

Sectors which lost jobs:

- **Administrative and waste services** lost more than 1,150 net jobs over the twelve-month period due mostly to losses in employment services (almost 1,000 jobs) and services to buildings and dwellings (over 300 jobs.)
- The **Information** sector lost more than 780 net jobs (-7.1 percent). Losses were felt mainly in publishing (over 500 jobs), and broadcasting -except internet (more than 530 jobs). Motion pictures lost 175 jobs and search portals and data processing lost another 135 jobs.
- **Services** including maintenance, personal care, religious and social organizations, household services and others lost more than 300 net jobs mainly because of losses in commercial machinery repair (over 150 jobs), and personal care services (more than 110 jobs.)
- **Accommodation and food services and wholesale trade** lost more than 300 jobs each (-3.3 percent), mainly because of job losses in drinking establishments (more than 260 jobs), traveler accommodations (more than 250 jobs), electric goods wholesalers (more than 160 jobs.)

Jobs

Figure 3: **JOBS -2Q-07 TO 2Q-08**
percent change



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

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 slightly (less than 1 percent.) Construction jobs decreased in the metro area and the state. The city was hit particularly hard in the administrative/waste services, transportation and warehousing and information sectors.

On the other hand, there was a strong growth in the city in sectors such as arts, entertainment and recreation and management of companies, and to a lesser degree, in retail and manufacturing.

Wages

The average weekly wage in Minneapolis in the second quarter of 2008 was \$1,075, \$38 lower than the previous year in inflation-adjusted dollars*. In inflation-adjusted dollars some sectors had higher wages than a year earlier. These sectors posted increases:

- **Real estate and rental and leasing** (+\$174)
- **Retail trade** (+\$94)
- **Administrative and waste services** (+\$33)

Real estate wages increased the most for leasing of real estate. General stores weekly wages increased more than the total retail sector average. Administrative and waste services' weekly wages increased mainly because wages in waste collection and employment services

increased more than the average for the whole sector.

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

- **Management of companies** (-\$552)
- **Arts, entertainment and recreation** (-\$176)
- **Finance and insurance** (-\$139)

Loss in weekly wages for the management of companies sector was the result of decreasing wages in managing offices. Most activities in arts, entertainment and recreation such as performing arts, arts and sport promotion, and museums, parks and historical sites reduced their worker's wages in real dollars.

* For conversion factors, see [page 13](#).

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

	2Q-2007	3Q-2007	4Q-2007	1Q-2008	2Q-2008
Total, all industries ¹	\$1,072	\$1,071	\$1,137	\$1,202	\$1,075
Manufacturing	\$992	\$989	\$1,119	\$1,126	\$1,036
Utilities*	\$1,565	\$1,464	\$1,590	\$2,221	\$1,547
Wholesale trade	\$1,136	\$1,277	\$1,274	\$1,198	\$1,163
Retail trade	\$543	\$526	\$557	\$587	\$658
Transportation and warehousing*	\$718	\$695	\$802	\$727	\$717
Information	\$1,203	\$1,220	\$1,212	\$1,326	\$1,182
Finance and insurance*	\$1,678	\$1,634	\$1,805	\$2,623	\$1,603
Real estate and rental and leasing	\$1,134	\$1,083	\$1,244	\$1,515	\$1,351
Professional and technical services*	\$1,470	\$1,500	\$1,927	\$1,528	\$1,527
Management of companies and enterprises	\$2,223	\$1,797	\$1,702	\$1,898	\$1,756
Administrative and waste services*	\$620	\$639	\$686	\$674	\$677
Educational services	\$929	\$1,126	\$976	\$1,060	\$986
Health care and social assistance	\$897	\$940	\$971	\$925	\$899
Arts, entertainment and recreation*	\$1,275	\$1,280	\$968	\$904	\$1,148
Accommodation and food services	\$347	\$352	\$370	\$357	\$350
Other services*	\$551	\$589	\$576	\$566	\$552
Public administration	\$1,083	\$1,044	\$1,043	\$1,101	\$1,140

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

* Only private wages

** Table reflects the most current information available.

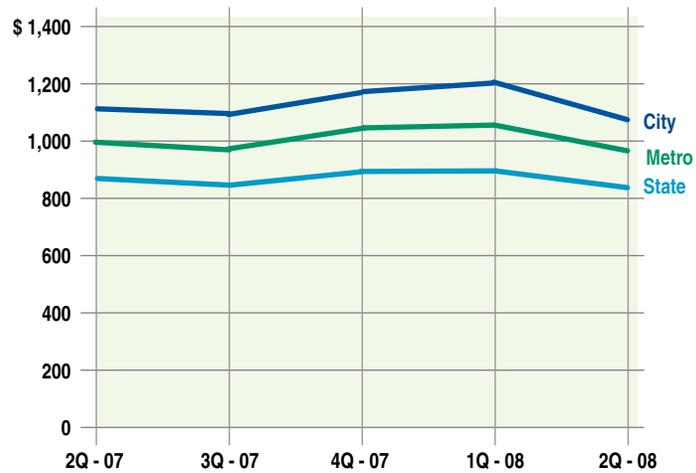
1 Natural resources and agriculture, fishing and forestry employment are not counted. Some industry numbers may not be disclosed because of privacy issues.

Wages

In general, jobs in Minneapolis command higher average weekly wages than jobs in the metropolitan area or the state. Second-quarter wages in Minneapolis decreased by 3.4 percent in *inflation-adjusted dollars** from a year earlier. Average wages decreased in the metro area by 2.5 percent, and by 1.9 percent in the state in *inflation-adjusted dollars*.*

* For conversion factors, see [page 13](#).

Figure 4: **AVERAGE WEEKLY WAGES – 2Q-07 to 2Q-08**
in inflation-adjusted dollars

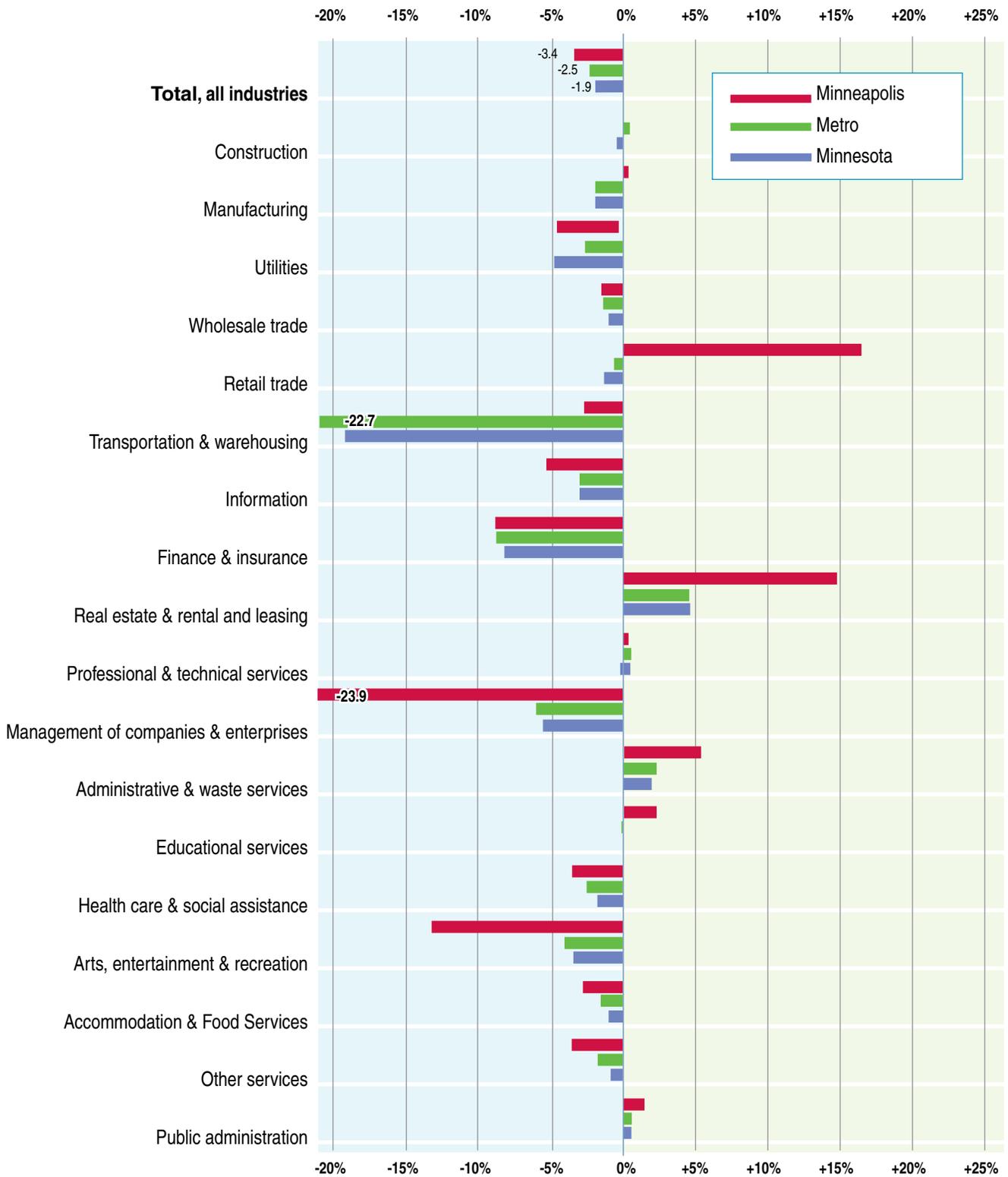


	2Q-07	3Q-07	4Q-07	1Q-08	2Q-08	\$ annual change	% annual change
Minneapolis	\$ 1,113	\$ 1,105	\$ 1,173	\$ 1,202	\$ 1,075	\$ (37.9)	-3.4%
Metro area	994	966	1,040	1,052	969	(24.5)	-2.5%
Minnesota	866	844	906	908	849	(16.7)	-1.9%

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

Wages

Figure 5: **AVERAGE WEEKLY WAGES** – 2Q-07 to 2Q-08
percent change in inflation-adjusted dollars



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

* For conversion factors, see . . .

Wages

Wages decreased in most industries in *inflation-adjusted dollars* from the second quarter of 2007 to the second quarter of 2008. However, some sectors actually grew. The following sectors exhibited the highest percentage increase in average wages within the city:

- In **retail trade** wages increased by almost 17 percent in the city, while wages declined in the metro and the state.
- In **real estate and rental and leasing** wages increased almost 15 percent in Minneapolis, in part responding to higher activity in building rental activity. As shown in the graph above, the metro and the state had much smaller wage increases in this sector than the city.
- **Administrative and waste services** wages increased by 5.2 percent in Minneapolis, and to a lesser degree, in the region and the state.

Industries which experienced the steepest decline in real wages within the city included:

- **Management of companies** (24 percent loss in real wages), a sector that was steadily increasing until the current crisis. This sector also decreased in the metro and the state but not as much as in the city.
- **Arts, entertainment and recreation** (13.3 percent loss in real wages), a strong sector in Minneapolis. The decrease was particularly sharp in the city.

Finance and insurance (8 percent loss in real wages), wages declined in the city, metro and the state.

* For conversion factors, see [page 13](#).

- **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 most tables in this section of the report are expressed in current dollars (not adjusted for inflation). For analysis purposes, however, text is based on these table values converted to constant (inflation-adjusted) dollars based on the U.S. Bureau of Labor Statistics’ Consumer Price Index (CPI) for all urban consumer goods in the Minneapolis-Saint Paul, Minnesota-Wisconsin statistical metropolitan area and the Midwest urban areas. For the second quarter of 2008, dollars have been converted with an index reflecting the CPI for the first half of 2007 and first 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

- 12 new residential units were permitted this quarter in Minneapolis. This was the lowest quarterly number of units permitted since the fourth quarter of 1996. Metro-wide permitted units also decreased.
- The number residential projects costing \$50,000 or more in the city permitted for remodeling and improvements was about 10 percent lower than last year and 38 percent lower than last quarter. The number of non-residential buildings with permits for remodeling and improvements decreased by nearly 10 percent in comparison with last year, but their cost was twice as much.
- 18 commercial and residential projects costing at least \$1 million were permitted this quarter, totaling \$144.6 million. This list includes a new addition to Fairview Hospital for more than \$107 million.

New construction

Construction of new units permitted plummeted to only 12, a decrease of 87 percent since last quarter. New residential construction was at its lowest level since the fourth quarter of 1996, when there were 18 permitted units. In the metro area, permitting activity declined since last quarter by 46 percent. According to the Minneapolis Area Association of Realtors, at the end of December the supply of newly built homes for sale in the metro area was nearly 3,500 units, or 11.2 months worth of inventory, compared to a 5-month supply, at which the market is considered to be balanced between buyers and sellers. Large inventories of unsold new houses and lack of credit have resulted in developers cutting back production of new housing.

This quarter, single-family units permitted were more than multi-family units. Minneapolis permits for new multifamily units — usually the main component of new residential construction in the city — decreased to just 5 units compared to 84 last quarter, including a new duplex and 3 townhouses in the northeast and southeast respectively.

Table 4: NEW RESIDENTIAL UNITS

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Single-family					
City	25	14	24	8	7
Metro area	1,095	624	1,089	1006	703
Multifamily					
City	282	80*	139**	84	5
Metro area	562	280	271	702	218
Total Units					
City	307	94	163	92	12
Metro area***	1,657	904	1,360	1,708	921

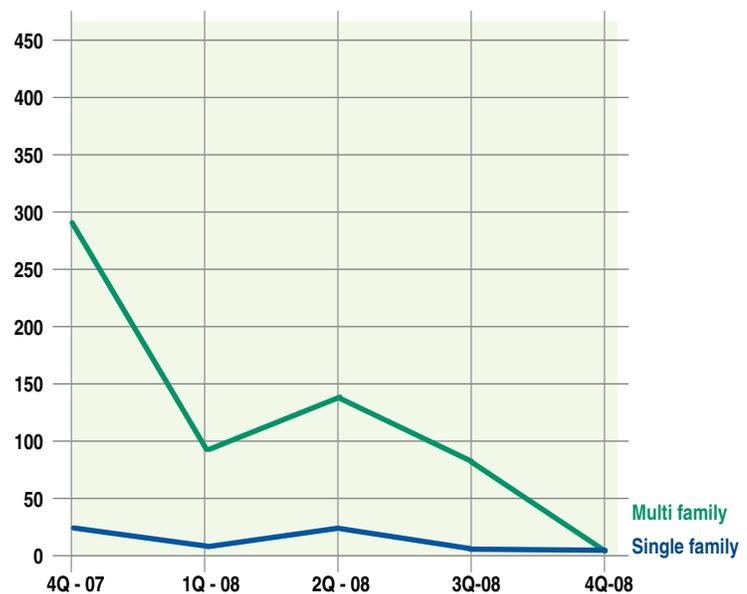
Source: U.S. Census Bureau, based on estimated number of permits with imputation

* Excludes 70 units of Hiawatha Flats which were erroneously counted twice by the City.

** 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 (1Q-08), the final construction permit was issued in April 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 underreported 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 includes 80 units of Phoenix on the River Condos

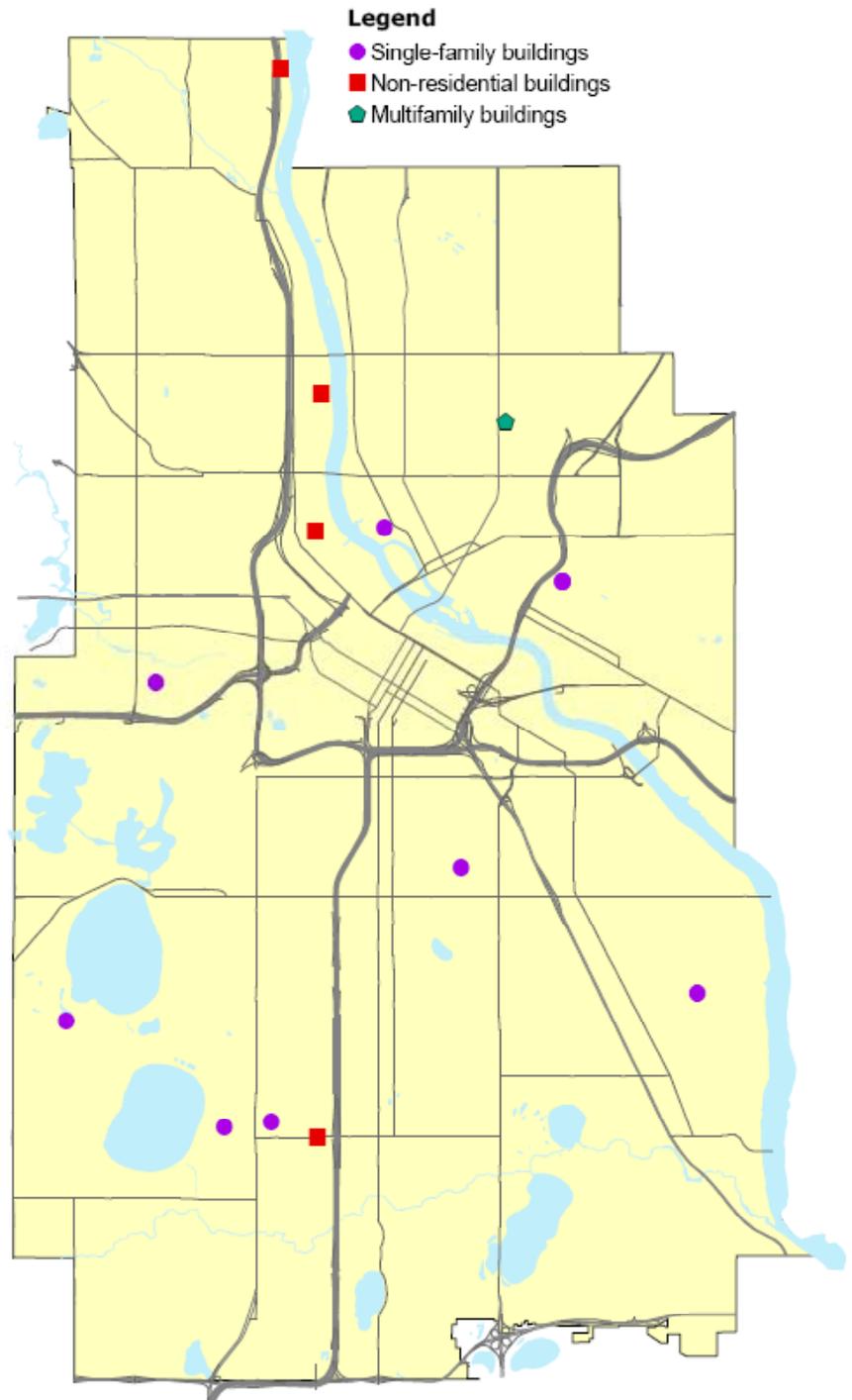
New construction

The few single-family houses that were permitted were scattered around the city. No large residential buildings were permitted this quarter.

Permits were issued for four commercial buildings. One building is a new processing and recycling facility –Northern Metal Recycling- on Pacific St. Another is an office/warehouse on Plymouth Ave N. Both buildings will be built in North Minneapolis. The two other commercial structures are a service station and a picnic shelter.

Map 1: **NEW CONSTRUCTION** – 4Q-08

Source: City of Minneapolis Regulatory Services



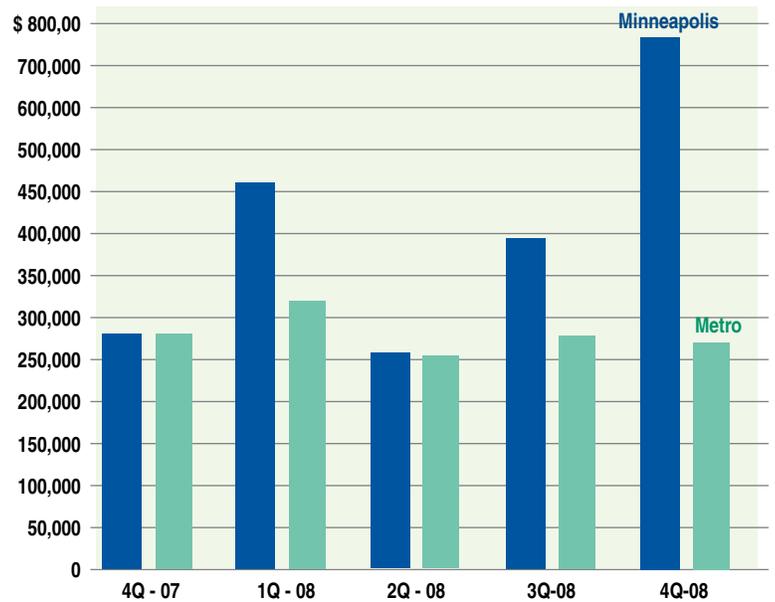
Cost of residential construction

In Minneapolis the average construction cost for single-family homes increased more than 170 percent from a year ago, from \$281,423 to \$770,702. Two residences over a million dollars each skewed the average this quarter. The median value is much lower: between \$270,000 and \$300,000.

The average construction cost for single-family homes in the metropolitan area decreased since a year ago by about 5 percent, from \$281,469 to \$268,324.

In Minneapolis the average construction cost for multifamily units increased by 14 percent since a year ago, from \$140,472 to \$159,890; this was 18 percent higher than the average cost in the metro area. In the metropolitan area the average cost increased 2.4 percent, from \$132,624 to \$135,841.

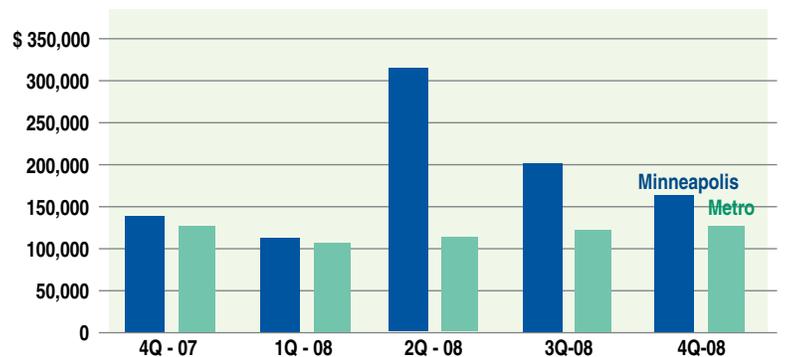
Figure 7: **SINGLE-FAMILY CONSTRUCTION COST**
per unit



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis	\$ 281,423	\$ 460,708	\$ 252,117	\$ 392,770	\$ 770,702
Metro area	281,469	311,009	251,914	261,322	268,324

Table values are not adjusted for inflation

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



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis	\$ 140,472	\$ 111,476	\$ 339,104	\$ 151,526	\$ 159,890
Metro area	132,624	107,353	106,873	126,027	135,841

Values in table are not adjusted for inflation

Conversions, remodels & additions

In the fourth quarter of 2008, the City issued permits for remodeling and renovations for 121 residential buildings, 10.4 percent less than the same quarter the previous year. It also issued permits for 107 non-residential buildings, a 0.9 percent decrease from fourth quarter 2007.

The total amount of permitted work this quarter on *residential* remodeling and

conversion projects costing more than \$50,000 is estimated at about \$18.7 million —5 percent less than a year ago. The projected cost of *non-residential* remodeling and addition permit work was \$156.6 million, 3 times more than in the fourth quarter the previous year. This increase was the result of just one project: the new addition to Fairview Riverside Hospital.

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

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Total Residential ¹					
Number of buildings	134	132	180	195	121
Total value	\$ 19,698,000	\$ 21,297,000	\$ 22,686,000	\$ 32,643,817	\$ 18,712,614
Remodels					
Number of buildings	132	127	177	192	119
Value	\$ 19,438,000	\$ 17,843,000	\$ 22,407,000	\$ 27,049,001	\$ 18,597,494
Conversions and additions ²					
Number of buildings	2	5	3	3	2
Net number of units	-2	30	2	30	0
Value	\$260,000	\$ 3,454,000	\$ 279,000	\$ 5,594,816	\$ 115,120
Total non-residential ¹					
Number of buildings ³	108	106	141	137	107
Value	\$ 49,506,000	\$ 71,660,000	\$ 73,263,000	\$ 104,757,942	\$ 156,548,055

Source: 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.

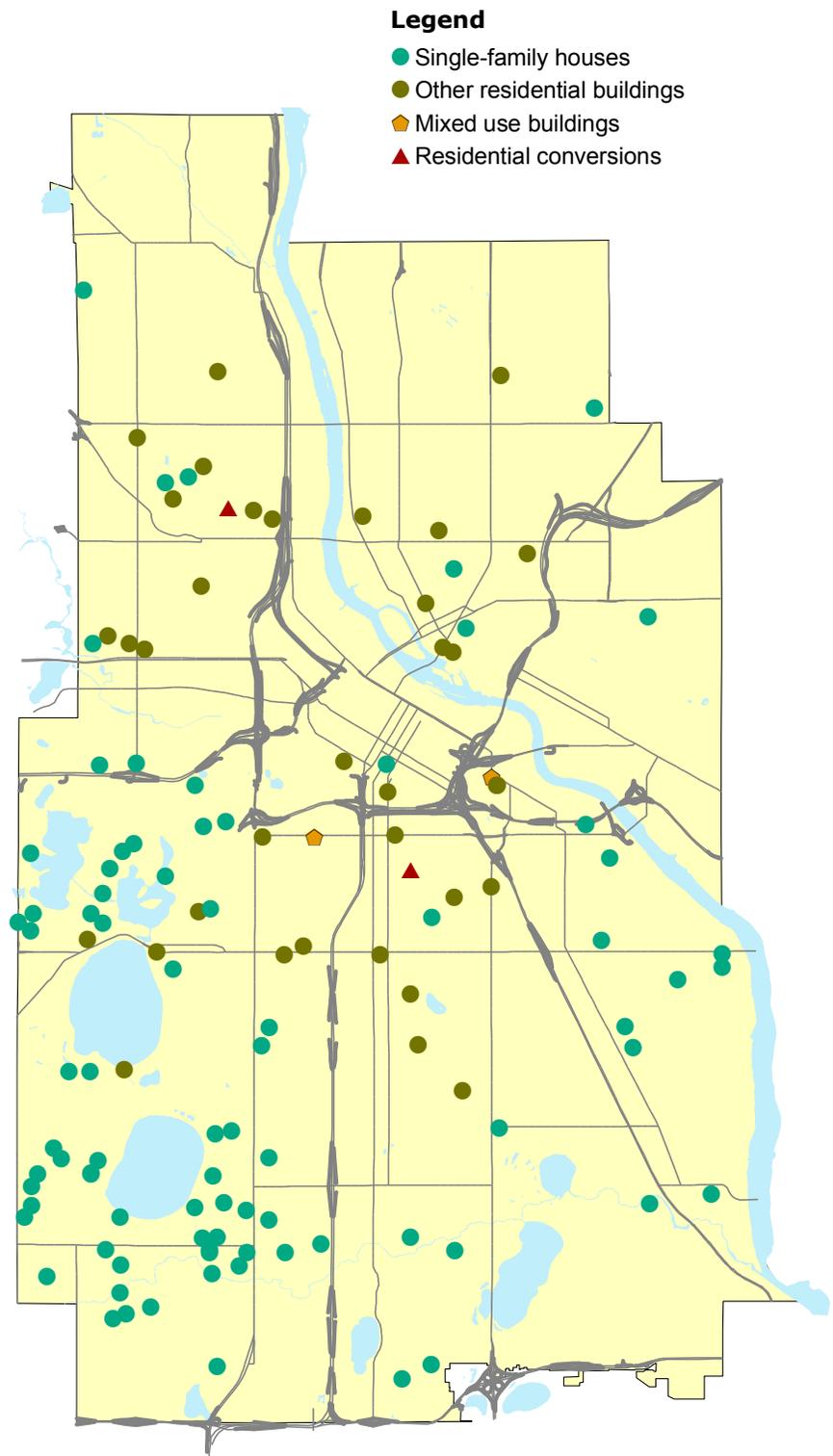
3 Types of non-residential buildings vary, including parking ramps; communication equipment; and public works, commercial or industrial buildings.

Conversions, remodels & additions

Remodeling and improvements to single-family housing in projects \$50,000 or more took place mainly in the southern part of the city, and to a lesser extent in the north and east. Most permits were issued for remodel and improvement of duplexes and single-family units.

Map 2: **RESIDENTIAL REMODELING, RENOVATION & CONVERSION** – 4Q-08
projects \$50,000 +

Source: City of Minneapolis Regulatory Services

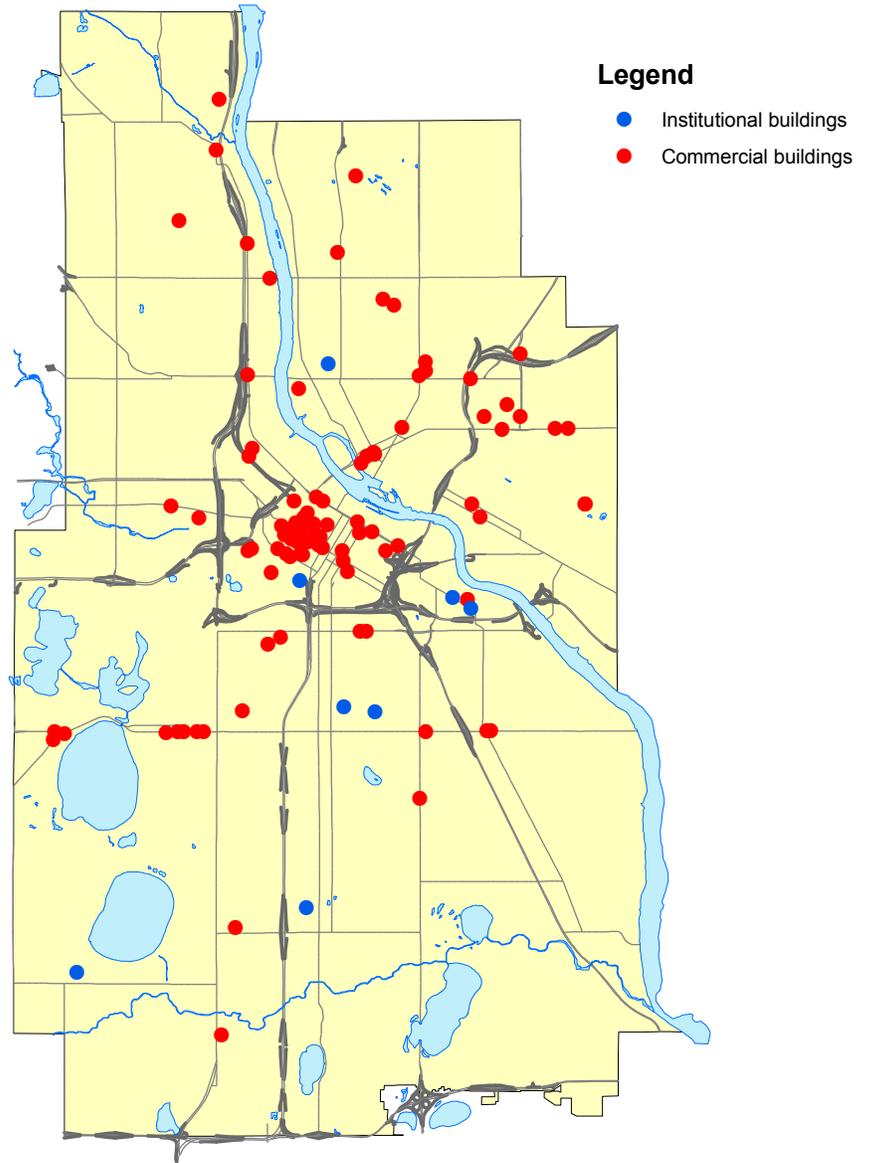


Conversions, remodels & additions

Permitting activity for non-residential remodeling and renovations in the third quarter occurred primarily in downtown, followed by northeast Minneapolis, and the area between Franklin Avenue and Lake Street. Permits for renovation of non-residential buildings included mainly office, industrial, commercial and retail space improvements and build-outs. Institutional remodel and improvement permits were mainly hospital, church and school work. Institutional improvements included the Hennepin County Juvenile Court remodel and the Fairview Hospital addition among others. Fairview was the largest renovation permitted this quarter at an estimated cost of more than \$107 million.

Map 3: **NON-RESIDENTIAL REMODELING & RENOVATION – 4Q-08**
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 fourth quarter of 2008. The listed amount only reflects projected construction cost for that quarter. The highest cost project is the Fairview Hospital addition, already

mentioned, in Cedar-Riverside. The second largest project is the 4-story addition to the Midwestern Machinery Co. The third largest project is the Hennepin County Juvenile Court remodel, mentioned above.

Table 6: **MAJOR CONSTRUCTION PROJECTS** projects \$1,000,000+ in thousands of dollars

Description	Address	Neighborhood	Ward	Project \cost
Fairview Hospital addition	2450 Riverside Ave	Cedar-Riverside	2	\$107,303,646
Midwestern Machinery Co: 4 story addition	2848 Pleasant Ave	Whittier	6	\$8,862,375
Hennepin County Juvenile Court-Probation Center remodel	626 6th St S	Elliot Park	7	\$3,430,226
Hennepin County Medical Center: office remodel	701 Park Ave*	Elliot Park	7	\$2,996,079
Ivy Condo completion of 92 units	201 11th St S	Downtown West	7	\$2,838,996
Northern Metal Recycling: new recycling facility	2800 Pacific St*	Hawthorne	6	\$2,324,489
Standard Heating: new office/warehouse	130 Plymouth Ave N	Near North	5	\$1,996,545
New home	3833 York Ave S	Linden Hills	13	\$1,990,827
Office/retail building remodel	401 1st Ave N	Downtown West	7	\$1,836,143
New Horizon Academy: conversion from restaurant to daycare	1310 Hennepin Ave*	Loring Park	7	\$1,395,461
Marriott Hotel remodel	30 7th St S*	Downtown West	7	\$1,322,189
ING: repair of reflective pool	20 Washington Ave S*	Downtown West	7	\$1,292,976
CSM Kasota: warehouse improvements	719 Kasota Ave*	Como	2	\$1,264,932
Sushi Tango restaurant remodel	3001 Hennepin Ave*	ECCO	10	\$1,259,875
AT&T: 10th floor remodel	420 3rd Ave S	Downtown West	7	\$1,239,593
Highpoint Center of Printmaking remodel of existing building	912 Lake St W	Lowry Hill East	10	\$1,161,853
New home	4501 E Lake Harriet Pkwy	East Harriet	13	\$1,043,463
Renaissance Square lobby remodel	500 Nicollet Mall	Downtown West	7	\$1,019,188

Source: City of Minneapolis Regulatory Services

* Multiple building permits

Demolitions

Permits for residential demolitions increased again this quarter to 161, the largest count since first quarter 2002.

Permits for demolition included: 63 single-family houses, 28 duplexes, 3 triplexes, 3 four-plexes, and 3 multi-family buildings with five or more units.

About 70 percent of this quarter's residential demolitions were in North Minneapolis. This is part of the City's and community's continued efforts to address blight in this area.

Non-residential demolition permits included 11 commercial structures.

Map 4: **DEMOLITIONS** – 4Q-08

Source: City of Minneapolis Regulatory Services

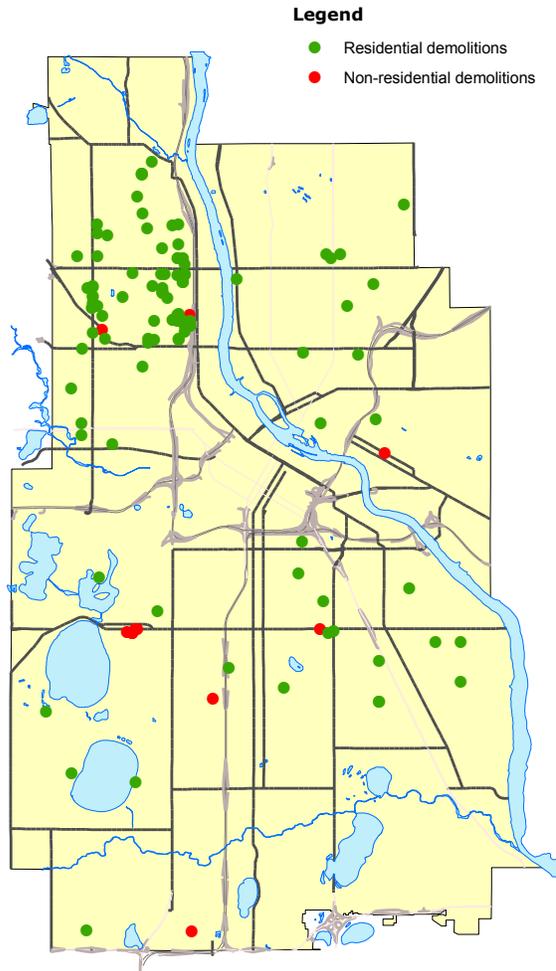
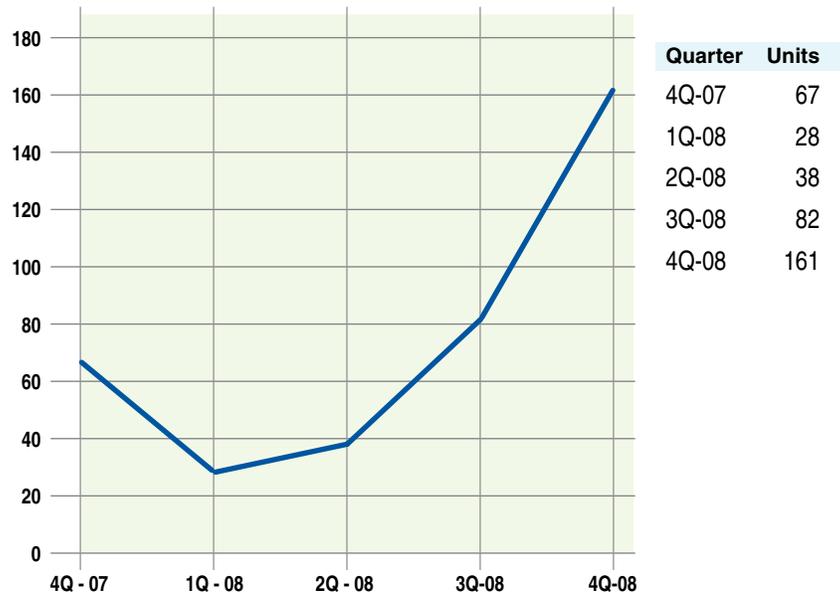


Figure 9: **RESIDENTIAL UNITS DEMOLISHED** in permits



Source: City of Minneapolis Regulatory Services

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

Tables four and five and figures six to eight are based on monthly figures for the city of Minneapolis and metropolitan area provided by the U.S. Census Bureau. For mapping purposes, data on new building construction, remodels, conversions and demolitions for the city are based on permit information by address 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, eldercare facilities, 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 vacancy rate in Minneapolis increased from 3.6 to 4.2 percent. However, despite this increase, average rents continued to increase in *inflation-adjusted* dollars.
- In Minneapolis and the metro area the number of housing units sold decreased from last quarter but it is still higher than a year ago. However, median sale prices were 36 percent lower in Minneapolis and 19 percent lower in the metro area than the previous year, as lender-mediated sales depressed values and inventories remained at high levels.
- There were 616 foreclosures in Minneapolis this quarter, a 21 percent decline from the previous quarter and a 17 percent decline from a year ago.
- The number of condemned, boarded, and vacant buildings in the city was 867, a decrease of 9 percent from last quarter, but 13 percent higher than a year ago.
- The office vacancy rate in the Minneapolis central business district (CBD) declined from 12.7 to 12.5 percent, and it is lower than the fourth quarter last year. The CBD vacancy rate was lower this quarter than the metro rate for the third consecutive quarter.

Residential vacancy rates & average apartment rents

The Minneapolis vacancy rate for multifamily rental housing was 4.2 percent, an increase from 3.6 percent last quarter. The vacancy rate increased this quarter because, according to G.V.A. Marquette Advisors, many renters vacated their units in the fourth quarter.

The rate was still lower than the previous year because, with construction at a standstill and lower demand, there were few additional apartment units entering the market.

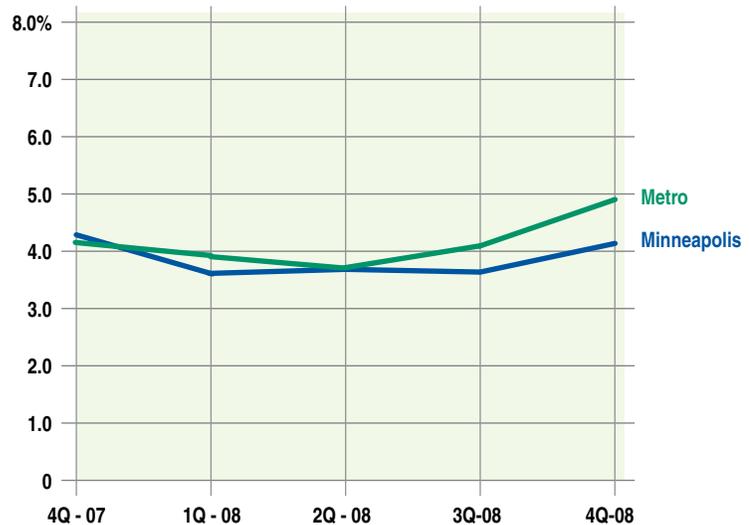
In the metro area, the vacancy rate, at 4.9 percent, was up from 4.1 percent last quarter and 4.2 percent a year ago.

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

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis					
Units surveyed	15,175	14,989	15,606	15,536	15,621
Vacant units	657	541	581	553	661
Average rent	\$ 876	\$ 892	\$ 905	\$ 929	\$ 914
Vacancy rate	4.3%	3.6%	3.7%	3.6%	4.2%
Metro area					
Units surveyed	113,113	111,233	115,046	113,212	119,435
Vacant units	4,765	4,284	4,217	4,673	5,805
Average rent	\$ 899	\$ 908	\$ 910	\$ 922	\$ 906
Vacancy rate	4.2%	3.9%	3.7%	4.1%	4.9%

Source: GVA Marquette Advisors Reports, based on a sample survey of market-rate rental properties
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 \$914, \$3 higher in *inflation-adjusted dollars** than last quarter, and \$28 more than a year ago. In the metro area average rent was \$906, an increase of \$2 in *inflation-adjusted dollars** since last quarter and a decrease of \$4 since one year ago.

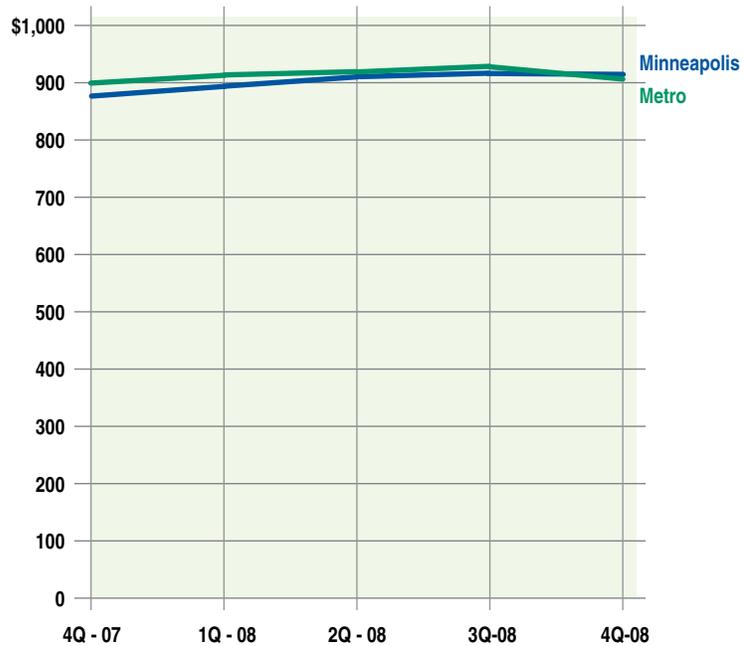
As of December, two areas in Minneapolis had below-average vacancy rates (4.2 percent): the Southeast/University of Minnesota area and South Minneapolis.

Three areas had above-average vacancy rates: North Minneapolis, Downtown and East Minneapolis.

Average vacancy rates increased in all city areas except in University/ Southeast/ Northeast. In the Southeast/University of Minnesota area, vacancy rates increased from the fourth quarter last year, but decreased from the previous quarter. In North Minneapolis, an area with a relatively small number of market rental units, vacancies were much lower than last year, but tended to increase this quarter from the third quarter rates. In South Minneapolis, an area that has the largest number of affordable rental units in Minneapolis, the vacancy rate is still below city average. In downtown, where rents tend to be high, the vacancy rate increased in part because of competition from condo units being rented out. In East Minneapolis, the vacancy rate increased this quarter after steadily decreasing from a peak in fourth quarter 2007, as a result of new apartments filling up.

*For conversion factors, see [page 43](#)

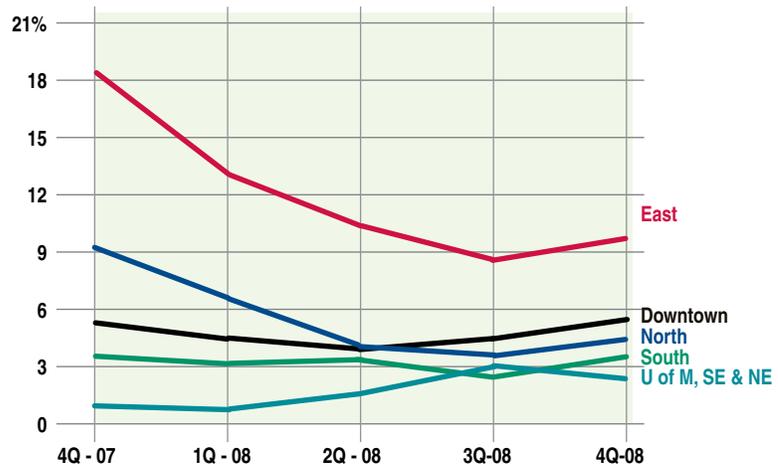
Figure 11: **AVERAGE APARTMENT RENT**
in current dollars



Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

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



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Downtown	5.0%	4.5%	4.1%	4.5%	5.6%
South	3.4%	3.1%	3.2%	2.4%	3.5%
North	9.1%	6.7%	4.2%	3.7%	4.4%
East	18.3%	13.1%	9.6%	8.6%	10.0%
U of M, SE & NE	1.2%	1.0%	2.6%	3.0%	2.5%

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

* For sector definitions, see [page 41](#)

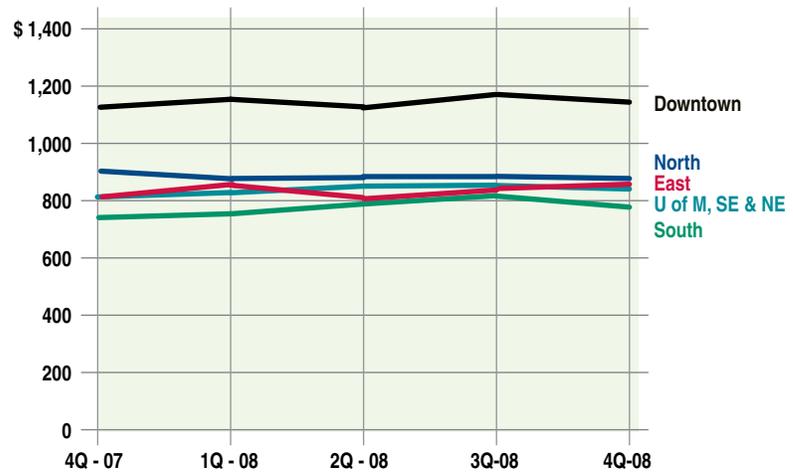
Residential vacancy rates & average apartment rent

Downtown continues to command the highest average rent in Minneapolis. This quarter average rents increased \$21 (2 percent) from the fourth quarter last year in *inflation-adjusted dollars**. In comparison with the third quarter, it increased only \$6 on average (1 percent)*.

In all sectors of the city except the South sector, average rent increased in *inflation-adjusted dollars** from last quarter and also increased since last year. East Minneapolis average rent increased the most, \$41 in *inflation-adjusted dollars** in the twelve-month period, and \$56 from the previous quarter.

* For conversion factors, see [page 43](#)

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



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Downtown	\$ 1,123	\$ 1,144	\$ 1,135	\$ 1,173	\$ 1,157
South	750	769	793	816	783
North	888	864	872	879	877
East	815	856	811	826	866
U of M, SE & NE	817	825	862	870	857

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

* For sector definition, see [page 41](#).

Residential vacancy rates & average apartment rent

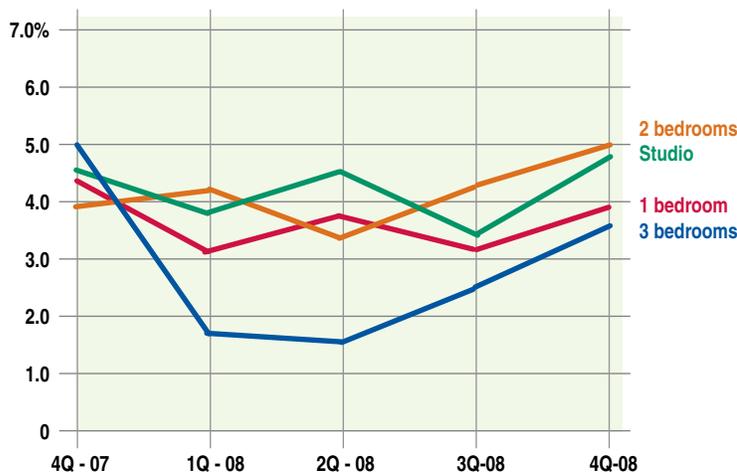
Three and one-bedroom apartments, and studios had lower vacancy rates than the city's average, while two-bedrooms had the highest vacancy rates.

Although increasing from last quarter, three-bedroom, one-bedroom and studio vacancies have declined from last year. The lowest rate is for three bedrooms which is 3.6 percent. More than 50 percent of the apartments surveyed in the city have only one bedroom and therefore they have great impact on the overall city average vacancy rate. One-bedroom apartment vacancy rate now is 3.9 percent- below the city average. On the other hand two-bedroom apartments, which comprise 24 percent of the apartment stock, had the highest vacancy rate in the fourth quarter of all types of apartments in the city.

Average rent for all apartment types except for three-bedrooms increased since last year in *inflation-adjusted dollars**. Rents for the smallest types rose the most, by 6 percent. Rents increased moderately in *inflation-adjusted dollars** from last quarter for studios and one-bedrooms, but decreased 5 percent for the largest units. Two-bedrooms had a small decrease of less than 1 percent.

* For conversion factors, see [page 43](#)

Figure 14: **RENTAL VACANCY RATE – Minneapolis**
by apartment type in percent

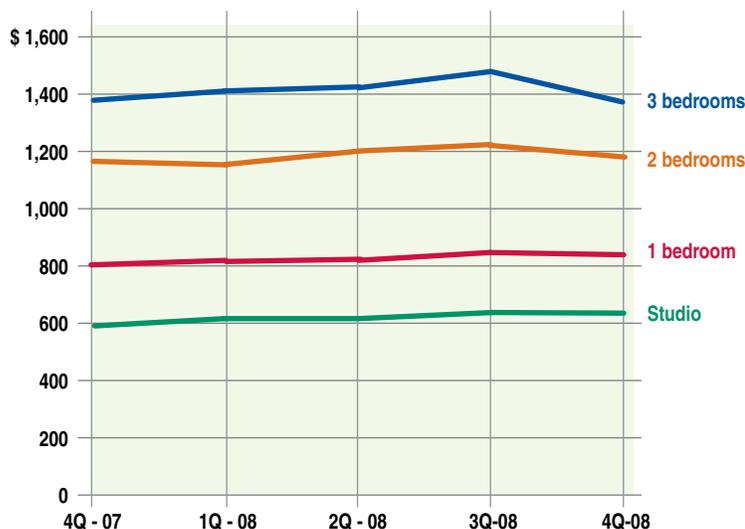


	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Studio	4.6%	3.8%	4.4%	3.4%	4.1%
One bedroom	4.4%	3.2%	3.7%	3.2%	3.9%
Two bedrooms	3.9%	4.2%	3.3%	4.3%	5.0%
Three bedrooms	5.0%	1.7%	1.6%	2.5%	3.6%

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

Figure 15: **AVERAGE MONTHLY RENT – Minneapolis**
by apartment type in current dollars



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Studio	\$ 597	\$ 617	\$ 627	\$ 643	\$ 640
One bedroom	809	823	834	848	841
Two bedrooms	1,162	1,158	1,199	1,223	1,193
Three bedrooms	1,382	1,407	1,413	1,484	1,382

Source: GVA Marquette Advisors

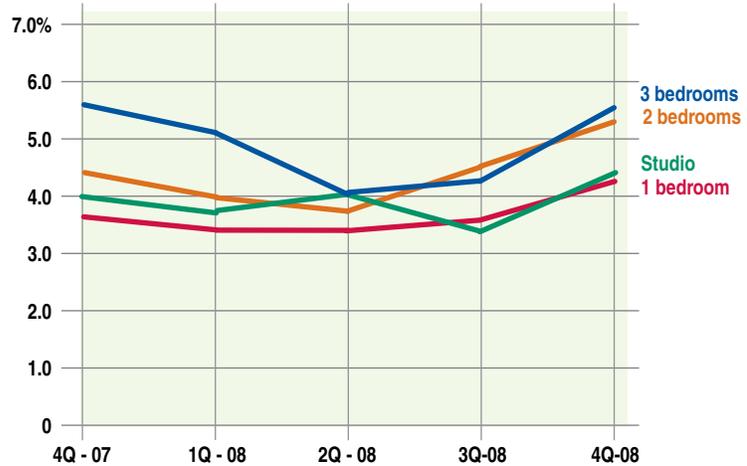
Recorded data for the last month of the quarter

Residential vacancy rates & average apartment rent

Average rent in the metro area in *inflation-adjusted dollars** increased by \$14 for studio apartments compared to a year ago, but the increase for one-bedrooms was only \$1. On the other hand, rent for three-bedroom apartments decreased by \$15 and rent for two-bedrooms decreased by \$12 in *inflation-adjusted dollars**. Average rent in *inflation-adjusted dollars** for the largest apartment types (three-bedrooms) in the metro area increased as much as \$20 dollars since last quarter, while rent for two-bedroom units decreased as much as \$9.

* For conversion factors, see [page 41](#)

Figure 16: **RENTAL VACANCIES – Metro**
by apartment type in percent

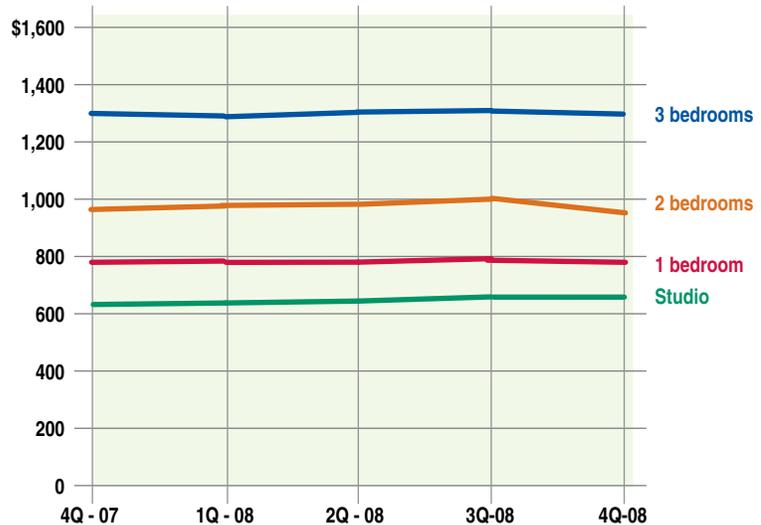


	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Studio	4.1%	3.8%	4.0%	3.4%	4.4%
One bedroom	3.7%	3.4%	3.4%	3.6%	4.3%
Two bedrooms	4.4%	4.0%	3.7%	4.6%	5.3%
Three bedrooms	5.6%	5.1%	4.0%	4.3%	5.5%

Source: GVA Marquette Advisors

Recorded data for the last month of the quarter

Figure 17: **AVERAGE MONTHLY RENT – Metro**
by apartment type in current dollars



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Studio	\$ 628	\$ 635	\$ 640	\$ 650	\$ 649
One bedroom	778	786	784	796	788
Two bedrooms	976	984	992	1,004	976
Three bedrooms	1,285	1,279	1,295	1,289	1,285

Source: GVA Marquette Advisors

Not adjusted for inflation

Recorded data for the last month of the quarter

Residential sales

Housing sale volume declined in the fourth quarter in comparison with third quarter volume, but it was higher than the fourth quarter a year ago. In Minneapolis the number of housing units sold in the fourth quarter was 24 percent lower than the third quarter but 19 percent higher than a year earlier. However, prices continued to decline. The median sale price was 21 percent lower than the previous quarter and 36 percent lower than the previous year.

In the metro area the number of units sold decreased by 30 percent from last quarter, however it was 7 percent higher than last year. Meanwhile, the median sale price was 11 percent lower than last quarter and 19 percent lower than a year ago.

Several factors held the prices down in the city and the metro area: a large inventory of unsold units (new and pre-owned), an increase of lender-mediated sales (foreclosures and short sales), credit tightening, and job losses.

According to the Minneapolis Association of Realtors (MAAR), lender-mediated sales in Minneapolis increased by 222 percent (412 units) from the previous year, while traditional sales were 26 percent lower. In the metro area, lender-mediated sales were 186 percent higher and traditional sales were 30 percent lower in the same period.

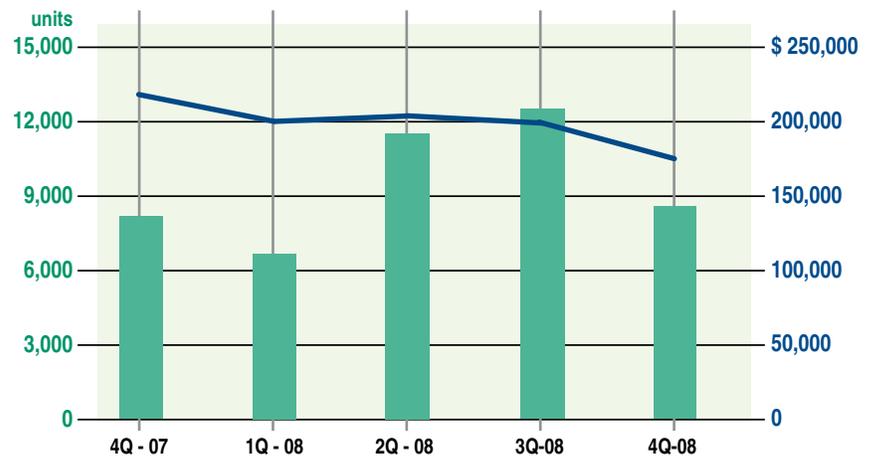
Figure 18: **CLOSED SALES AND MEDIAN SALE PRICE – Minneapolis**



Source: Minneapolis Area Association of Realtors (MAAR)

With updated information, numbers have been revised upward as of July 24, 2008

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



Source: Minneapolis Area Association of Realtors (MAAR)

With updated information, numbers have been revised upward as of July 24, 2008

* 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 41](#).

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

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis					
Units	1,007	935	1,554	1,586	1,202
Median sale price	\$ 214,450	\$ 193,640	\$ 194,250	\$ 175,000	\$ 138,000
Metro area					
Units	7,916	6,876	11,146	12,216	8,498
Median sale price	\$ 216,500	\$ 200,000	\$ 207,000	\$ 198,000	\$ 176,000

Source: Minneapolis Area Association of Realtors (MAAR)

Numbers include only single-family detached units, attached units and condominiums. They include all sales closed between buyers and sellers.

* 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 41](#).

Not adjusted for inflation

Foreclosures

During the fourth quarter of 2008, 616 properties were sold at public auction. This is a 21-percent decrease from last quarter and a 17 percent decrease from a year ago. Wards 4, 5, 8 and 9 accounted for 61 percent of total foreclosures in the city.

As pointed out in the previous section, the large quantity of foreclosures has depressed property values throughout the city and the region.

MAP 5: PROPERTIES FORECLOSED – 4Q-08
by wards

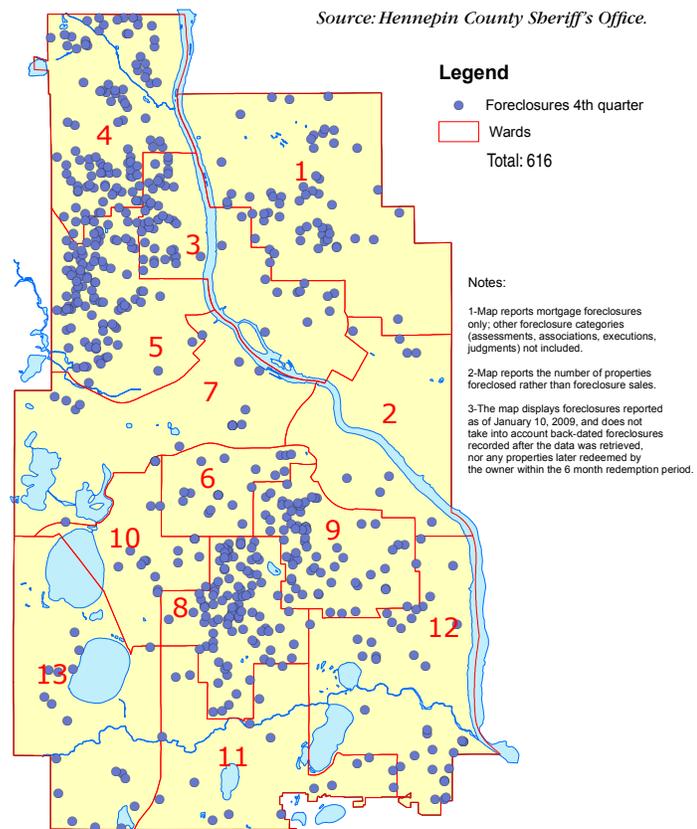


Table 9: **FORECLOSURE PROPERTIES**
by wards

Ward	4Q-07		1Q-08		2Q-08		3Q-08		4Q-08	
	#	%	#	%	#	%	#	%	#	%
1	44	5.9%	64	7.9%	64	7.4%	63	8.0%	54	8.8%
2	4	0.5%	7	0.9%	9	1.0%	9	1.1%	8	1.3%
3	81	10.9%	91	11.2%	86	9.9%	85	10.9%	55	8.9%
4	186	25.0%	196	24.1%	170	19.5%	175	22.3%	103	16.7%
5	140	18.8%	158	19.4%	150	17.2%	118	15.1%	107	17.4%
6	30	4.0%	32	3.9%	30	3.4%	19	2.4%	19	3.1%
7	19	2.6%	17	2.1%	27	3.1%	19	2.4%	14	2.3%
8	64	8.6%	71	8.7%	96	11.0%	88	11.2%	94	15.3%
9	73	9.8%	80	9.8%	105	12.1%	87	11.1%	71	11.5%
10	25	3.4%	14	1.7%	34	3.9%	29	3.7%	19	3.1%
11	21	2.8%	26	3.2%	37	4.3%	27	3.4%	18	2.9%
12	43	5.8%	31	3.8%	40	4.6%	48	6.1%	36	5.8%
13	13	1.7%	21	2.6%	22	2.5%	16	2.0%	18	2.9%
Total	743	100.0%	813	100.0%	870	100.0%	783	100.0%	616	100.0%

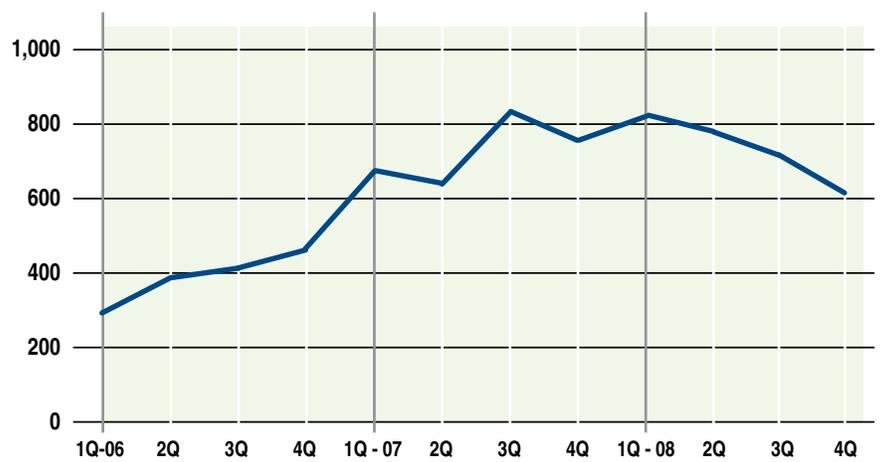
Source: Hennepin County Sheriff's Office. The data is subject to revision by the Sheriff's Office; for complete and current foreclosure listings, please see the Hennepin County Sheriff's website at <http://www4.co.hennepin.mn.us/webforeclosure/>.

Data for 2008 have been revised.

Foreclosures

However the numbers are giving a respite. Historical data show that since first quarter 2006, foreclose property sales in Minneapolis peaked in third quarter 2007, and then increased in the second quarter 2008 and declined to 616 foreclosures this quarter.

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



Source: Hennepin County Sheriff's Office

Condemned & vacant buildings

The number of condemned, boarded and vacant buildings in the city declined 9 percent since last quarter after increasing steadily for nearly two years. However, it was 13 percent higher than a year ago. Boarded and condemned buildings made up the majority of the group and decreased this quarter by 12 percent, 10 percent higher than a year ago. The number of buildings that are vacant but not condemned (with some code violations but no major problems) also dropped this quarter, but their numbers were up 18 percent in comparison with 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 45, and many properties appear on both maps, i.e. they are both foreclosed and vacant.

In an effort to control blight, the City carefully follows "problem" properties. An abandoned property may be boarded, and if it can't be rehabilitated and put in use again, it is demolished. See Figure 9 and Map 4 of this report which show increasing demolitions especially in North Minneapolis.

Foreclosure map on [page 32](#)

Demolitions map on [page 22](#).

Map 6: **CONDEMNED AND VACANT BUILDINGS**
as of December 31, 2008

Source: City of Minneapolis Regulatory Services

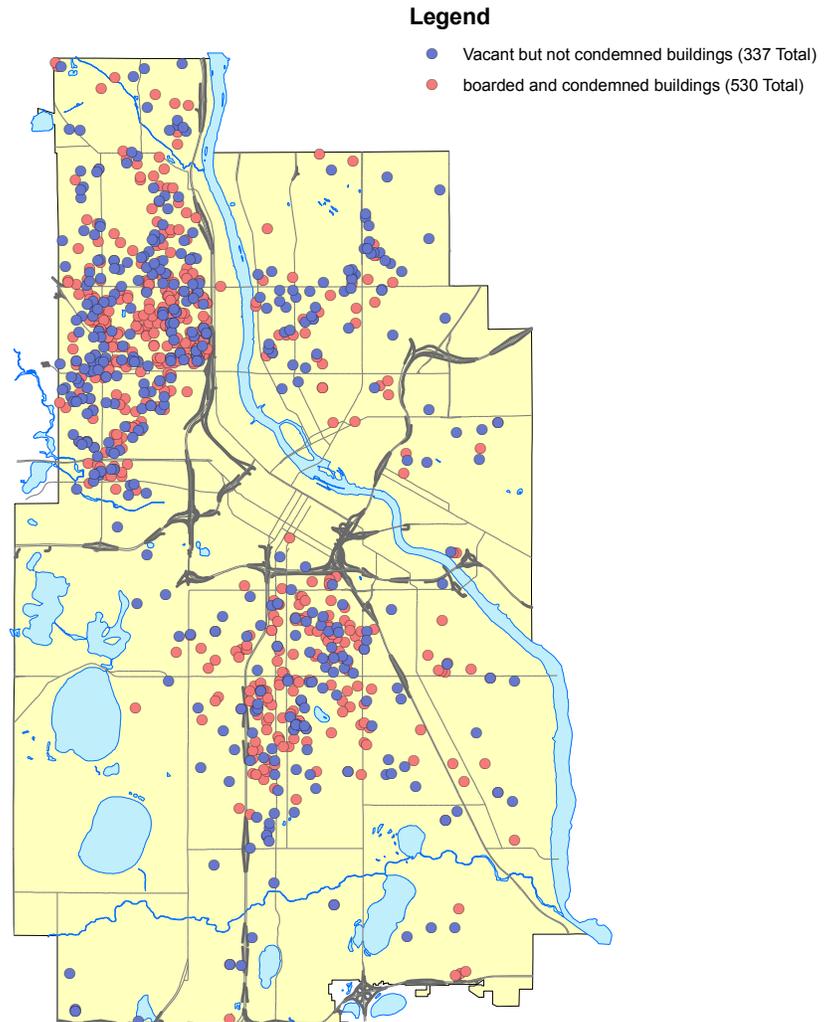


Table 10: **CONDEMNED AND VACANT BUILDINGS**
at end of quarter

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Boarded and condemned buildings	484	547	587	599	530
Vacant but not condemned	285	360	357	349	337
Total	769	907	944	948	867

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) dropped this quarter and is down from the same quarter last year, remaining below the metro area vacancy rate for the third consecutive quarter. In spite of the economic slowdown, downtown still attracts tenants. Some firms are moving to downtown Minneapolis from suburban locations because of access to mass transportation and amenities.

The average vacancy rate in the metro area, reacting to slow economic activity, increased to 14.6 percent from 13.8 percent last year. It was also higher than the third quarter. The economic downturn has affected industries which depend on a substantial and trained workforce such as information, financial services, and professional and technical services. A decrease in employment in these industries resulted in increased vacant space and higher vacancy rates.

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

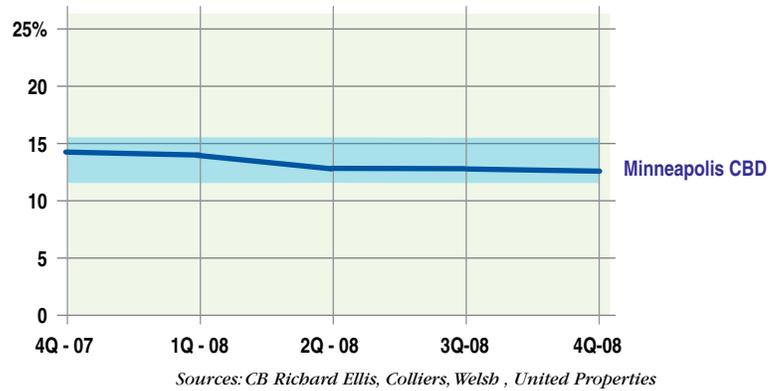
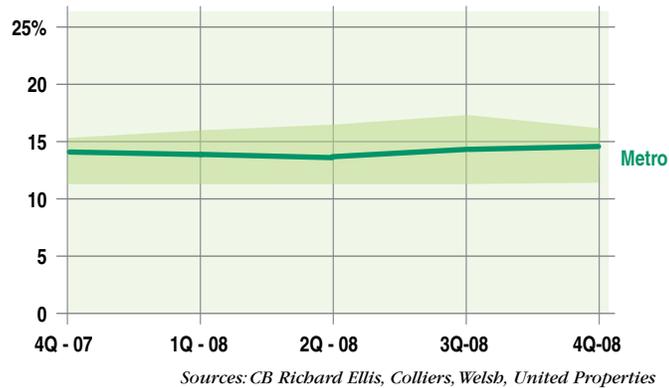


Figure 22: **OFFICE VACANCY RATE – Metro**
in percent



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

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis CBD	14.2%	14.1%	12.7%	12.7%	12.5%
Metro area	13.8%	13.7%	13.6%	14.1%	14.6%

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 42](#)

Office space

The average asking lease rates per square foot in the Minneapolis central business district (CBD) increased since last year. Average asking prices remained slightly lower than in the metro area where asking prices in the fourth quarter were just \$0.43 higher than in the Minneapolis CBD. Asking prices were about 4 percent higher in the metro area than last year.

Office rentable area in the Minneapolis CBD has been increasing for the last two quarters. With a declining vacancy rate, the occupied office space increased by 0.2 percent this quarter. But growth has decreased considerably in comparison with the first and second quarters. In the metro area, rentable space has steadily grown since second quarter 2008. But, as the vacancy rate increased faster, occupied office space declined by 0.4 percent this quarter.

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



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis CBD	\$ 11.69	\$ 11.90	\$ 11.31	\$ 11.15	\$ 12.15
Metro	12.07	12.15	11.99	12.04	12.58

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



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis CBD	0.1%	0.2%	1.6%	0.4%	0.2%
Metro	0.3%	-0.1%	0.2%	-0.3%	-0.4%

Source: CB Richard Ellis

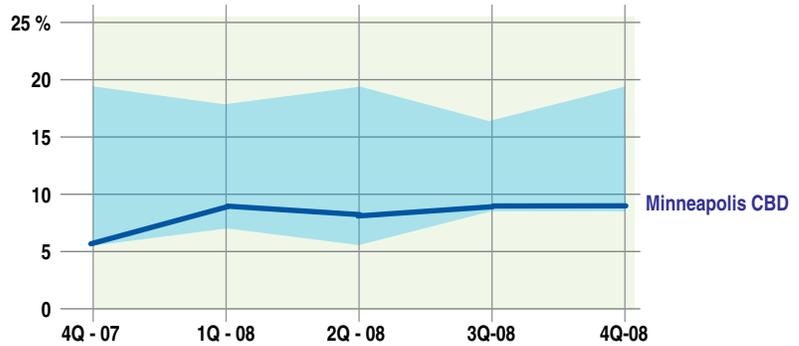
Class A, B and C multi-tenant office buildings 30,000 square feet and larger

Retail space

The retail vacancy rate in the Minneapolis CBD increased slightly this quarter to 9.1 percent from the previous quarter, and higher than 5.7 percent reported in the fourth quarter last year. Retail demand showed decreasing activity due to a tight credit market, rising unemployment and low consumer spending.

The vacancy rate in the metro area increased in comparison with one year ago, ending the fourth quarter at 6.4 percent, below the CBD's rate, but above the level of the third quarter. The factors affecting the broad economy are taking their toll in the metro area. With low consumer spending, many shops are closing or reducing size resulting in vacant space.

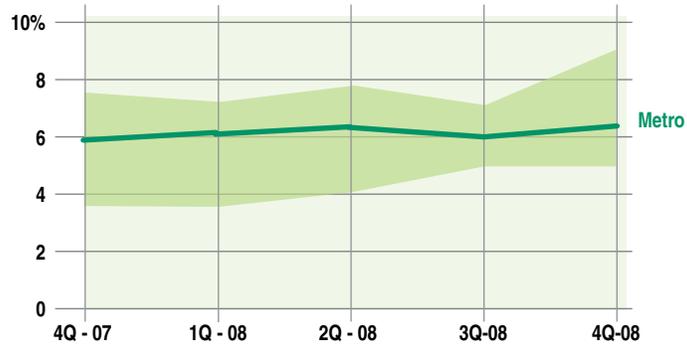
Figure 25: **RETAIL VACANCY RATE – Minneapolis CBD**
in percent



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.

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.

	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis CBD	5.7%	9.0%	8.3%	9.0%	9.1%
Metro	5.9%	6.2%	6.4%	6.0%	6.4%

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 was 17 percent higher this quarter than the same quarter last year, and it is also 17 percent lower than the third quarter. On the other hand, the price declined in the metropolitan area by 11 percent, in comparison with the same quarter last year, and by 5 percent since the previous quarter.

Occupied retail space in the Minneapolis central business district (CBD) decreased again, however, less than in the previous quarter and resulting in negative absorption of 0.1 percent.

Occupied space also declined in the metro area where the economic downturn was felt most in retail with generalized consumer retrenchment.

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

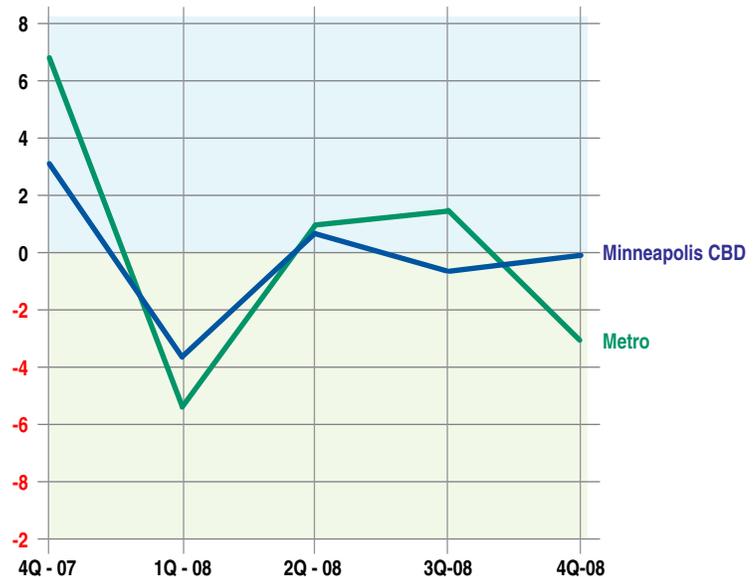


	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis CBD	\$ 16.07	\$ 16.07	\$ 19.49	\$ 22.72	\$ 18.84
Metro	20.04	20.21	19.19	18.72	17.80

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



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis CBD	3.0%	-3.5%	0.8%	-0.8%	-0.1%
Metro	6.8%	-5.4%	0.9%	1.4%	-2.9%

Source: CB Richard Ellis

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

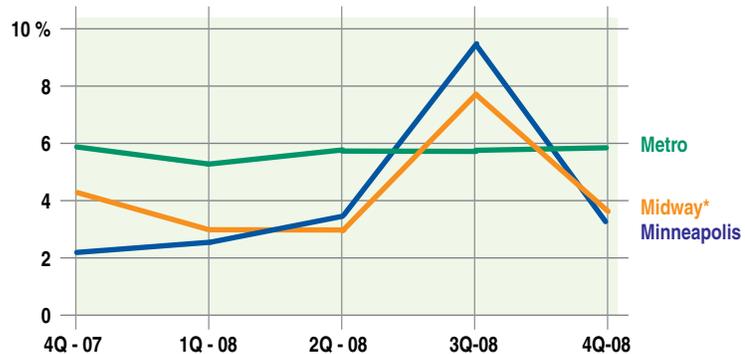
Industrial space

The industrial space vacancy rate decreased from last quarter in the industrial areas of Minneapolis and Midway. In the Minneapolis area it was still higher than a year ago. At the same time, metro-wide rates remained stable in comparison with last year and increased from the last quarter.

Vacancy rates were driven in the metro area by demand for bulk warehouses for distribution purposes.

The average asking lease rate for warehouse space in Minneapolis and the Midway increased since last year, but remained more or less stable since last quarter. In the metro area, asking lease rates increased in the fourth quarter.

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

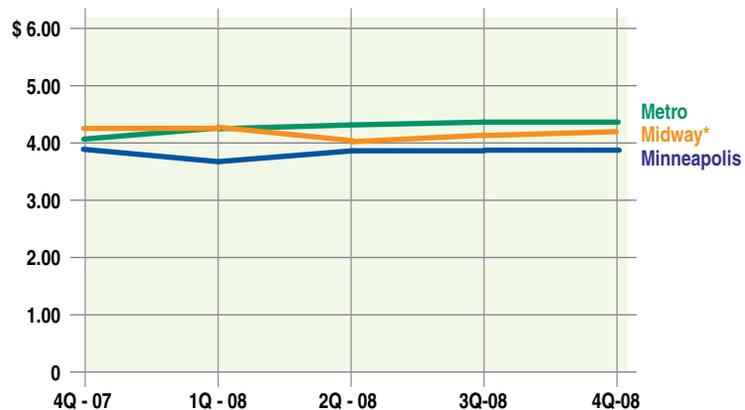


	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis		2.2%	2.7%	3.5%	9.4%
Midway	4.3%	3.1%	3.1%	6.7%	3.6%
Metro	5.9%	5.5%	5.7%	5.7%	5.9%

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



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis	\$ 3.91	\$ 3.72	\$ 3.85	\$ 3.88	\$ 3.88
Midway	4.22	4.24	4.07	4.17	4.18
Metro	4.11	4.26	4.32	4.35	4.40

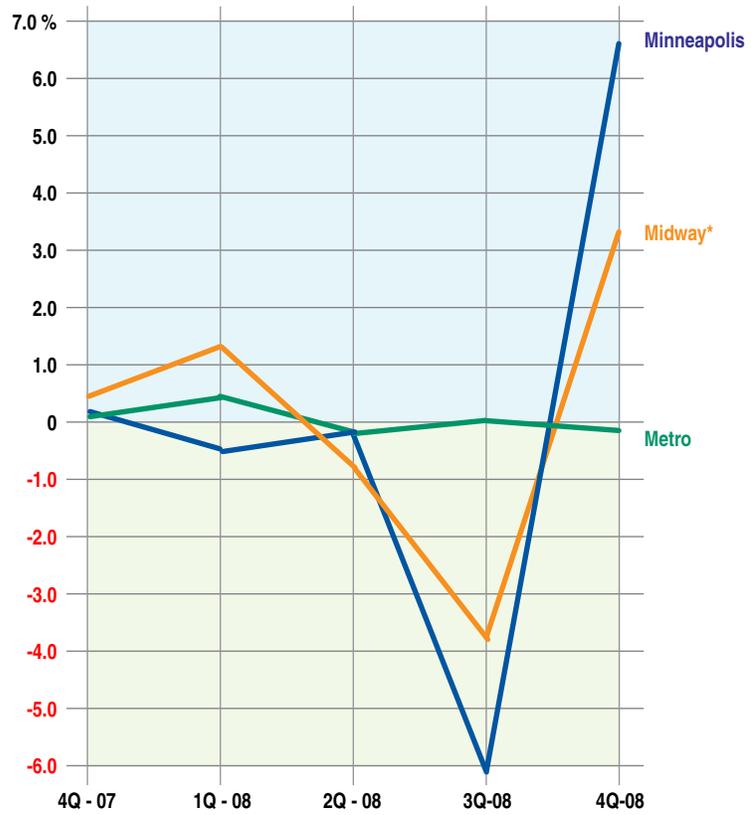
Source: CB Richard Ellis

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

With prices low in Minneapolis and Midway, occupied industrial space increased more in Minneapolis this quarter than in Midway. No space was added because new development was put on hold. The metro area, which had more available space, was affected more by the economic downturn as job loss in industrial sectors continued to increase. Occupied space decreased accordingly.

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



	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08
Minneapolis	0.2%	-0.4%	-0.2%	-6.1	6.6%
Midway	0.6%	1.4%	-0.7%	-3.7	3.3%
Metro	0.1%	0.4%	-0.2%	0.1	-0.2%

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.
- **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 obtained from Hennepin County Sheriff records and include only foreclosed properties in the City of Minneapolis that were sold on public auction 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.

Figures 21 and 22 (office vacancy rates), and figures 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:** Values reported in tables in this section of the report are expressed in current dollars (not adjusted for inflation). For the purpose of analyzing residential rent, however, text is based on the values converted to constant (inflation-adjusted) dollars based on the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) for housing in the Midwest urban areas category sized "class A" (more than 1.5 million people). For the fourth quarter of 2008, dollars have been converted with an index of 1.01190537, the result of the relation between the CPI for December 2008 (197.7) and the CPI for December 2007 (195.374). For the period from the third quarter of 2008 to the fourth quarter of 2008, the index is 0.9810441, obtained by dividing 197.7 (December '08) by 201.52 (September '08).



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