Construction
The value of construction permits issued in 2002 showed a 2% increase over the previous year with higher dollar values for additions and remodels. In 2003 the total value of all construction permits increased only 1% in comparison with the previous year. Construction permit values can serve as a leading economic indicator.

Years	Total Value of all Permits (dollars)	% Value: Additions and Repairs	% Value: New Construction	Annual Change (%)
1996	$296,128,370	89%	11%	
1997	$483,825,940	68%	32%	63%
1998	$365,096,329	43%	57%	-25%
1999	$700,609,948	63%	37%	92%
2000	$1,166,839,846	54%	46%	67%
2001	$751,065,992	64%	36%	-36%
2002	$766,703,334	58%	42%	2%
2003	$771,988,267	56%	44%	1%

Source: Minneapolis Inspections

During 2002 and 2003 permit value rate of change for new construction, additions and remodels combined grew very slowly in comparison to previous years. In spite of this slow growth, total values in the last two years compared favorably with values for 1999.

Activity in renovations and additions was complimented by new construction both in downtown Minneapolis and in the surrounding neighborhoods. An indication of this activity was the 20 major projects under construction in 2002 and 2003, as shown below.

2002 Major Construction Projects
Minneapolis Permits Issued

Address	Project value	Use	Type of permit
800 28 ST E	$ 63,326,308	Hospital	addition
500 11 ST S	$ 49,075,000	Residential	new
2508 DELAWARE ST	$ 36,500,000	Residential	new
1101 HARMON PL	$ 20,026,000	Law school	new
750 2 ST S	$ 18,495,000	Residential	new
727 VINELAND PL	$ 16,800,000	Parking Garage	new
1601 50 ST W	$ 16,799,000	School	new
111 4 AVE N	$ 15,251,000	Residential	new
500 WASHINGTON AVE S	$ 12,684,005	Office/retail	new
1808 UNIVERSITY NE	$ 9,615,837	Residential	new
625 MAIN ST SE	$ 9,261,467	Residential	new
25 11 ST S	$ 9,200,000	Parking Ramp	new
2935 FREMONT AVE S	$ 8,131,186	Residential	new
627 MAIN ST SE	$ 7,517,392	Residential	new
35 7 ST S	$ 6,700,000	Retail	remodel
2801 4 AVE S	$ 6,521,000	Commercial	remodel
301 KENWOOD PKWY	$ 6,418,849	Residential	new
2101 KENNEDY ST NE	$ 6,400,000	Office	rehab
317 17 AVE SE	$ 6,140,000	Residential	new
2101 KENNEDY ST NE	$ 5,970,000	commercial	addition

Source: Minneapolis Department of Regulatory Services, Inspections Division

2003 Major Construction Projects
Minneapolis Permits Issued

Address		Value	Description	Type
818 2 ST S	$	82,985,770	theater	new
725 VINELAND PL	$	38,116,446	institutional	addition
2400 3 AVE S	$	31,660,000	museum	addition
2650 WELLS FARGO WAY	$	24,761,700	office	new
150 2 ST NE	$	18,750,000	residential	new
200 PARK AVE	$	12,561,000	residential	new
2833 CHICAGO AVE	$	9,220,627	commercial	new
720 LAKE ST W	$	8,538,264	residential	new
525 3 ST N	$	8,200,000	residential	conversion
1501 HENNEPIN AVE	$	7,077,000	commercial/hist.	remodel
2714 33 ST E	$	6,880,000	industrial	repair
301 CLIFTON AVE	$	6,713,950	residential	new
2919 RANDOLPH ST	$	6,675,000	senior housing	new
1900 CENTRAL AVE NE	$	5,318,656	residential/retail	new
800 28 ST E	$	5,251,800	institutional	remodel
545 2 ST S	$	5,234,861	residential	new
2310 LAKE ST E	$	5,000,000	rail station	new
1829 3 AVE S	$	4,906,283	residential	new
500 11 ST S	$	4,900,000	residential	addition

Source: Minneapolis Department of Regulatory Services, Inspections Division

Development Activity

Development activity slowed down considerably following the overall decrease in economic activity, which in turn drove down demand for office space. Downtown was the largest office space market in the metropolitan area accounting for just over 40% of the private market multi-tenant office space in the region and was a center for arts, entertainment, retail, and government activity. The downtown office and general employment market exerted considerable influence over the rest of the region. The Metropolitan Council estimated that 143,000 people worked in the downtown area, and it was expected to attract nearly 170,000 workers by 2020. Downtown also had approximately 20,200 residents according to the 2000 Census.

During 2002, construction proceeded at a slow pace in Downtown Minneapolis. Real estate reports indicated that the vacancy rate in the office market grew in downtown from 7.5% in the second quarter of 2001 to 14.1% in the second quarter of 2002. At the end of 2002 it had reached a level of more than 17%. A shrinking economy with layoffs in key sectors and the amount of space built during the previous years were responsible for the steep hike of the vacancy rate. In the 4th quarter of 2002 the Colliers Towle reported 4,461,500 square feet of total vacant space in the Minneapolis central business district.

Multi-Tenant Office Space

The high increase of the vacancy rate for downtown office space was mostly felt in Class B and C buildings, with vacant space increasing by more than 20% at the end of the year. These buildings suffered because large tenants relocated to new buildings. Class A and renovated buildings faired better, with a vacancy rate of between 14 and 15%. Because of the large amount of vacant space, rents decreased slightly in some segments of the market, especially in Class A buildings; average property taxes fell in the fourth quarter.

Office Space Classifications
Class A: Newer buildings in first class condition, decor and design. Large and/or tall in size with mostly multiple skyway linkage.
Class B: Seasoned buildings in good condition and generally over ten years old. Mid-rise in size and may include skyway linkage.
Class C: Older buildings of any size in average to poor condition. They may or may not have skyway linkage.
Renovated: Buildings which have had a complete renovation, including all mechanical systems and exterior treatment. Many of these buildings have been readapted to office usage from multi-story industrial designs.

Source: Towle Real Estate Company, 2003 Local Real Estate, Globally

Trends in Vacancy Rates
By Type of Space and Location

	Study Date	Rental Area	Amount Vacant	Vacancy Rate
Minneapolis	2nd Qtr 2001	23,258,813	1,735,476	7.5%
CBD	2nd Qtr 2002	25,322,820	3,571,297	14.1%
	4th Qtr 2002	25,599,769	4,461,500	17.4%
Class A	2nd Qtr 2001	11,472,592	641,245	5.6%
	2nd Qtr 2002	13,160,256	1,806,474	13.7%
	4th Qtr 2002	13,170,578	1,908,958	14.5%
Class B	2nd Qtr 2001	6,813,731	565,704	8.3%
	2nd Qtr 2002	7,316,897	1,009,782	10.9%
	4th Qtr 2002	7,316,823	1,618,820	22.1%
Class C	2nd Qtr 2001	1,803,577	223,079	12.4%
	2nd Qtr 2002	1,687,309	395,709	23.5%
	4th Qtr 2002	1,685,806	398,519	23.6%

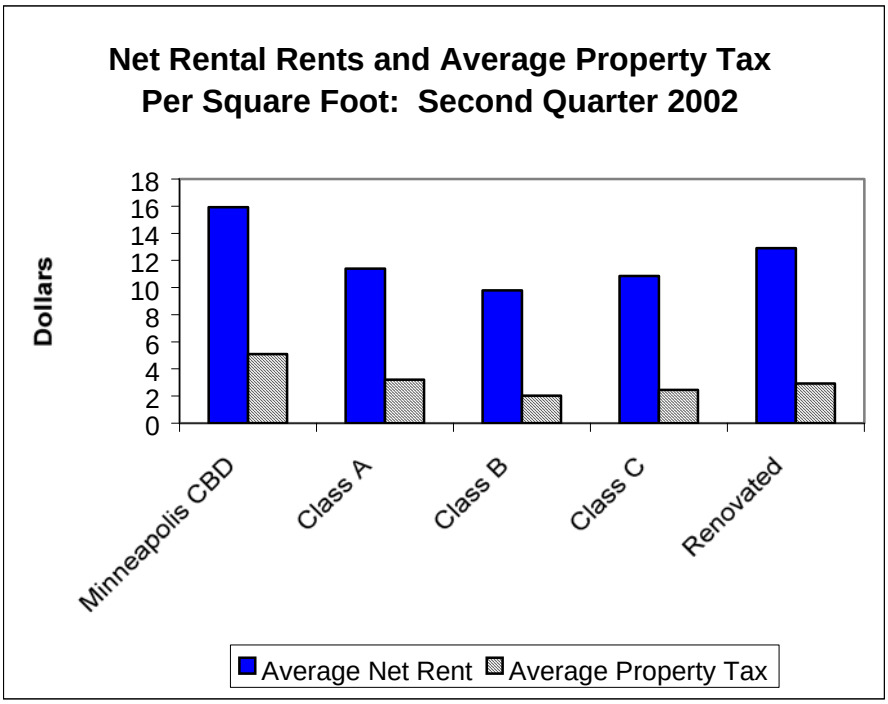
Source: Towle Real Estate Company, Local Real Estate, Globally (2003)

Net Rental Rates: Second Quarter 2002

	Average Net Rent		Net Rent Range Low-High	Average Prop. Tax
Minneapolis CBD				
Class A	$	16	$11.75-$21.5	5.09
Class B	$	11	$ 8.5-$15.5	3.22
Class C	$	10	$6.75-$12	2.04
Renovated	$	11	$8.25-$13.5	2.46
Out of CBD	$	13	$7.50-$20	2.93

Source: Towle Real Estate Company, Local Real Estate, Globally (2003)

Net Rental Rates: Fourth Quarter 2002

	Average Net Rent		Net Rent Range: Low-High	Average Property Tax
Minneapolis CBD				
Class A	$	15	$11-$17.50	4.8
Class B	$	11	$ 7.75-$15	3.4
Class C	$	9	$ 5-$11	2.04
Renovated	$	9	$ 5-$14	2.46
Out of CBD	$	13	$6.50-$18	2.94

Source: Towle Real Estate Company, Local Real Estate, Globally (2003)