

MINNEAPOLIS-ST. PAUL

# INDUSTRIAL MARKET REPORT



## Industrial Market Experiences Strong Investor Interest

### VACANCY AND ABSORPTION TRENDS

Industrial absorption was positive in the third quarter of 2011. Absorption was 565,160 square feet bringing the year-to-date total to 582,748. Vacancy is 10.7 percent, down from 11.4 percent in the second quarter. Vacancy is lowest in office warehouse properties at 9.1 percent.

### LEASING & SALES ACTIVITY

Several investors have recently purchased a significant amount of industrial space. Liberty Property Trust purchased over 450,000 square feet of space in Champlin, Rogers and Egan. Travelers Company recently bought the 574,000-square-foot Evergreen Industrial portfolio in Roseville and Champlin. These transactions show strong confidence by these investors in the future health of the Minneapolis market. In addition, land sales tied to user-driven development have been strong.

Additional confidence in the market is evident in industrial leasing. Tenants have become more willing to sign longer-term leases than they have in the past. Significant leases since first quarter include Computer Sciences Corporation's lease of 163,000 square feet at First Park Lakeville for a seven-year term. This property has been vacant since its completion in 2008.

Companies continue to "shop the market" to see what opportunities are provided by favorable tenant market conditions. Where previously this resulted in tenants hesitating or choosing to stay in their current location, we have seen an increase in this activity turning to new lease transactions. This is another sign of increased business confidence.

We continue to see well-located, newer properties experience the strongest activity and rate stabilization and some rate increases. Older, less functional properties struggle and see little activity and rates remain low. Tenants are taking advantage of favorable lease terms to upgrade their space.

### MARKET INDICATORS

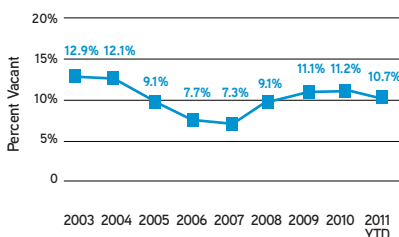
Q3 2011

VACANCY	↓
NET ABSORPTION	↑
RENTAL RATE	↔

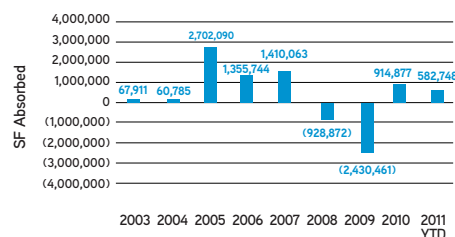
### NATIONAL SPOTLIGHT

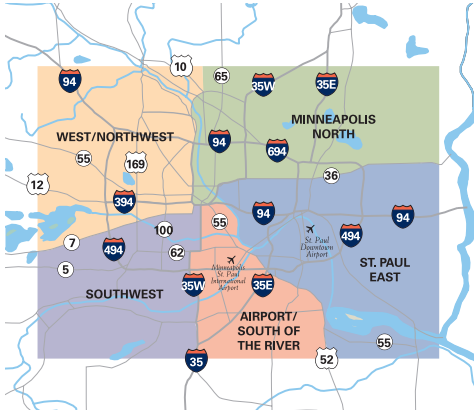
National Industrial absorption totaled 36.2 million square feet and vacancy decreased to just under 10 percent. Occupied space has now increased for the sixth consecutive quarter. There are a few pockets of weakness, but 79 percent of markets reported positive absorption compared to 77 percent in the second quarter. Upcoming quarters should include continued absorption fueled by modest growth in the economy, manufacturing and global trade.

### VACANCY



### NET ABSORPTION





**FUTURE TRENDS**

We expect to see steady activity during the fourth quarter. Rates have bottomed and are beginning to stabilize as conditions improve. While there are still significant concessions in the market, they are slowly decreasing. We expect to see a continued movement toward quality space as tenants favor newer, well-located properties.

**SIGNIFICANT LEASE AND SALES ACTIVITY**

**LEASE ACTIVITY**

TENANT	BUILDING	CITY	SIZE (SF)	SUBMARKET
Room & Board	Diamond Lake 2	Rogers	258,000	West/Northwest
Arizant Inc	Shady Oak Business Center D	Eden Prairie	163,473	Southwest
Computer Sciences Corporation	First Park Lakeville Distribution Ctr	Lakeville	162,772	Airport/South of the River
U.S. Venture, Inc	Roseville Distribution Center	Roseville	132,483	St. Paul East
Murphy Warehouse Co	Kasota Distribution Center	St Paul	94,680	St. Paul East
Cokem	Hampshire Distribution Center South	Bloomington	80,390	Airport/South of the River
Black Box Corporation	11601 93rd Ave N	Maple Grove	80,000	West/Northwest
Eagle Ridge Academy	Creek Edge Business Center	Eden Prairie	76,297	Southwest
Nestle Healthcare Nutrition	12500 Whitewater Dr	Minnetonka	75,784	Southwest
Northstar Balloons LLC	Plymouth Ponds V	Plymouth	67,455	West/Northwest
Process Displays Co	Xenium Distribution Center	Plymouth	59,517	West/Northwest
The Bernard Group	Lake Drive Business Center	Chanhassen	56,049	Southwest
Xcel Products	Elm Creek Commerce Center I	Champlin	48,410	West/Northwest
Process Displays Co	Sunlite Commerce Center	Brooklyn Center	45,230	West/Northwest
Hockenbergs Equipment & Supply	Silver Bell Commons	Eagan	44,800	Airport/South of the River
Illinois Central School Bus LLC	900 Hennepin Ave	Minneapolis	43,554	Minneapolis North

**SALES ACTIVITY**

BUILDING	BUYER	SELLER	PRICE	PRICE PSF	SIZE (SF)	SUBMARKET
20015 & 20195 Diamond Lake Road	20015/20195 South Diamond Lake Road Investors	Capri Capital Partners	\$34,200,000	\$65.77	520,000	Northwest
12571 & 12551 Oliver Ave	James Campbell Company, LLC	United Properties	\$17,980,000	\$99.62	180,480	Airport/South of the River
Cardinal Health Company Building, 9000 109th Ave N	Liberty Property Trust	KBS Industrial Portfolio, LLC	\$12,780,000	\$57.63	221,750	Northwest
3940 N Quebec Ave	Razor Marketing Group Inc.	Paddock Prop Ltd Ptrshp	\$12,000,000	\$66.67	180,000	West/Northwest
AMB Rogers Distribution Center	Perrigo Company	Artis Real Estate Investment Trust	\$6,900,000	\$46.89	147,160	West/Northwest
Cedar Bluffs Business Center	Liberty Property Trust	KBS Industrial Portfolio, LLC	\$5,120,000	\$62.95	81,329	Southeast
9775 85th Ave N	West Real Estate Management Inc.	Physician and Surgeons Capital Corporation	\$3,300,000	\$51.90	63,584	West/Northwest

## Market Statistics

SUBMARKET	TOTAL SF	DIRECT VACANT SF	SUBLEASE VACANT SF	% VACANT DIRECT	% VACANT W/SUBLEASE	3RD QUARTER ABSORPTION	YTD ABSORPTION	QUOTED NET RENTAL RATES
<b>AIRPORT/SOUTH OF THE RIVER</b>								
Bulk Warehouse	4,694,373	833,276	3,000	17.8%	17.8%	45,294	136,647	\$4.30
Office Showroom	3,183,447	728,979	0	22.9%	22.9%	(36,351)	19,987	\$9.50/\$4.80
Office Warehouse	8,907,258	812,663	52,622	9.1%	9.7%	67,743	102,579	\$9.25/\$4.70
<b>Totals:</b>	<b>16,785,078</b>	<b>2,374,918</b>	<b>55,622</b>	<b>14.1%</b>	<b>14.5%</b>	<b>76,686</b>	<b>259,213</b>	<b>\$9.32/\$4.61</b>
<b>MINNEAPOLIS NORTH</b>								
Bulk Warehouse	5,953,072	564,982	17,000	9.5%	9.8%	0	(17,071)	\$4.25
Office Showroom	3,692,235	370,019	13,582	10.0%	10.4%	64,487	101,201	\$9.40/\$4.45
Office Warehouse	18,341,533	1,859,530	391,443	10.1%	12.3%	(7,063)	(188,165)	\$9.10/\$4.40
<b>Totals:</b>	<b>27,986,840</b>	<b>2,794,531</b>	<b>422,025</b>	<b>10.0%</b>	<b>11.5%</b>	<b>57,424</b>	<b>(104,035)</b>	<b>\$9.15/\$4.37</b>
<b>SOUTHWEST</b>								
Bulk Warehouse	6,229,942	776,345	20,045	12.5%	12.8%	48,156	(133,790)	\$4.30
Office Showroom	7,781,672	1,494,570	43,836	19.2%	19.8%	(17,662)	(140,607)	\$9.75/\$4.90
Office Warehouse	16,464,736	1,551,826	12,000	9.4%	9.5%	(54,688)	(15,204)	\$9.50/\$4.85
<b>Totals:</b>	<b>30,476,350</b>	<b>3,822,741</b>	<b>75,881</b>	<b>12.5%</b>	<b>12.8%</b>	<b>(24,194)</b>	<b>(289,601)</b>	<b>\$9.58/\$4.75</b>
<b>ST. PAUL EAST</b>								
Bulk Warehouse	8,344,169	781,826	0	9.4%	9.4%	120,781	(119,023)	\$4.10
Office Showroom	2,611,462	216,835	23,488	8.3%	9.2%	36,794	12,057	\$9.65/\$4.40
Office Warehouse	13,753,702	722,931	29,230	5.3%	5.5%	(20,376)	381,429	\$9.45/\$4.40
<b>Totals:</b>	<b>24,709,333</b>	<b>1,721,592</b>	<b>52,718</b>	<b>7.0%</b>	<b>7.2%</b>	<b>137,199</b>	<b>274,463</b>	<b>\$9.48/\$4.30</b>
<b>WEST/NORTHWEST</b>								
Bulk Warehouse	16,050,520	1,643,048	461,982	10.2%	13.1%	160,691	66,732	\$4.15
Office Showroom	5,984,329	749,325	0	12.5%	12.5%	(28,461)	(85,508)	\$9.75/\$4.60
Office Warehouse	21,418,672	2,251,218	50,934	10.5%	10.7%	185,815	461,484	\$9.20/\$4.55
<b>Totals:</b>	<b>43,453,521</b>	<b>4,643,591</b>	<b>512,916</b>	<b>10.7%</b>	<b>11.9%</b>	<b>318,045</b>	<b>442,708</b>	<b>\$9.32/\$4.41</b>
<b>TOTAL ALL MARKETS</b>								
Bulk Warehouse:	41,272,076	4,599,477	502,027	11.1%	12.4%	374,922	(66,505)	\$4.19
Office Showroom:	23,253,145	3,559,728	80,906	15.3%	15.7%	18,807	(92,870)	\$9.65/\$4.68
Office Warehouse:	78,885,901	7,198,168	536,229	9.1%	9.8%	171,431	742,123	\$9.29/\$4.57
<b>Totals:</b>	<b>143,411,122</b>	<b>15,357,373</b>	<b>1,119,162</b>	<b>10.7%</b>	<b>11.5%</b>	<b>565,160</b>	<b>582,748</b>	<b>\$9.37/\$4.48</b>

The above table is summarized data on multi-tenant industrial buildings greater than 20,000 square feet. Not included are single-tenant or owner-occupied buildings.



### FIRST PARK LAKEVILLE - DISTRIBUTION FACILITY

Computer Sciences Corporation leased 163,000 square feet at First Park Lakeville, a 282,100 square foot distribution facility built in 2008.

## Market Statistics (EXPANDED MARKET)

SUBMARKET	TOTAL SF	DIRECT VACANT SF	SUBLEASE VACANT SF	% VACANT DIRECT	% VACANT W/SUBLEASE	3RD QUARTER ABSORPTION	YTD ABSORPTION	QUOTED NET RENTAL RATES
<b>AIRPORT/SOUTH OF THE RIVER</b>								
Bulk Warehouse	18,853,839	1,354,106	3,000	7.2%	7.2%	77,865	169,218	\$4.30
Office Showroom	4,689,104	797,837	0	17.0%	17.0%	(21,598)	34,740	\$9.50/\$4.80
Office Warehouse	10,492,876	915,067	52,622	8.7%	9.2%	63,602	98,438	\$9.25/\$4.70
<b>Totals:</b>	<b>34,035,819</b>	<b>3,067,010</b>	<b>55,622</b>	<b>9.0%</b>	<b>9.2%</b>	<b>119,869</b>	<b>302,396</b>	<b>\$9.33/\$4.49</b>
<b>MINNEAPOLIS NORTH</b>								
Bulk Warehouse	25,784,679	1,010,603	17,000	3.9%	4.0%	52,883	35,810	\$4.25
Office Showroom	5,296,924	646,501	13,582	12.2%	12.5%	(35,513)	1,201	\$9.40/\$4.45
Office Warehouse	19,942,116	1,967,035	391,443	9.9%	11.8%	(9,580)	(190,682)	\$9.10/\$4.40
<b>Totals:</b>	<b>51,023,719</b>	<b>3,624,139</b>	<b>422,025</b>	<b>7.1%</b>	<b>7.9%</b>	<b>7,790</b>	<b>(153,671)</b>	<b>\$9.16/\$4.33</b>
<b>SOUTHWEST</b>								
Bulk Warehouse	25,580,891	1,780,831	20,045	7.0%	7.0%	88,822	(93,124)	\$4.30
Office Showroom	10,296,637	1,649,404	43,836	16.0%	16.4%	(78,793)	(201,738)	\$9.75/\$4.90
Office Warehouse	18,689,541	1,736,065	12,000	9.3%	9.4%	(65,938)	(26,454)	\$9.50/\$4.85
<b>Totals:</b>	<b>54,567,069</b>	<b>5,166,300</b>	<b>75,881</b>	<b>9.5%</b>	<b>9.6%</b>	<b>(55,909)</b>	<b>(321,316)</b>	<b>\$9.59/\$4.60</b>
<b>ST PAUL EAST</b>								
Bulk Warehouse	24,819,404	1,143,401	14,000	4.6%	4.7%	119,781	(120,023)	\$4.10
Office Showroom	4,257,308	304,166	23,488	7.1%	7.7%	37,986	13,249	\$9.65/\$4.40
Office Warehouse	15,904,809	1,207,033	64,230	7.6%	8.0%	(20,376)	381,429	\$9.45/\$4.40
<b>Totals:</b>	<b>44,981,521</b>	<b>2,654,600</b>	<b>101,718</b>	<b>5.9%</b>	<b>6.1%</b>	<b>137,391</b>	<b>274,655</b>	<b>\$9.49/\$4.23</b>
<b>WEST/NORTHWEST</b>								
Bulk Warehouse	43,641,500	2,891,003	690,447	6.6%	8.2%	(46,585)	(140,544)	\$4.15
Office Showroom	8,292,059	876,568	0	10.6%	10.6%	(37,911)	(94,958)	\$9.75/\$4.60
Office Warehouse	25,974,076	2,659,757	50,934	10.2%	10.4%	317,119	592,788	\$9.20/\$4.55
<b>Totals:</b>	<b>77,907,635</b>	<b>6,427,328</b>	<b>741,381</b>	<b>8.2%</b>	<b>9.2%</b>	<b>232,623</b>	<b>357,286</b>	<b>\$9.33/\$4.33</b>
<b>TOTAL ALL MARKETS</b>								
Bulk Warehouse:	138,680,313	8,179,944	744,492	5.9%	6.4%	292,766	(148,663)	\$4.21
Office Showroom:	32,832,032	4,274,476	80,906	13.0%	13.3%	(135,829)	(247,506)	\$9.64/\$4.67
Office Warehouse:	91,003,418	8,484,957	571,229	9.3%	10.0%	284,827	855,519	\$9.29/\$4.57
<b>Totals:</b>	<b>262,515,763</b>	<b>20,939,377</b>	<b>1,396,627</b>	<b>8.0%</b>	<b>8.5%</b>	<b>441,764</b>	<b>459,350</b>	<b>\$9.38/\$4.39</b>

The above table is summarized data on multi- and single-tenant industrial buildings greater than 10,000 square feet. Owner-occupied properties are also included.

512 offices in  
61 countries on  
6 continents

- \$1.5 billion in annual revenue
- 979 million square feet under management
- Over 12,500 professionals

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