

MINNEAPOLIS-ST. PAUL RETAIL MARKET REPORT



Strong, Recession-Proof Retailers and Grocery Drive Retail Market

VACANCY AND ABSORPTION TRENDS

The Minneapolis/St. Paul retail market recorded positive absorption of 225,894 square feet during the third quarter of 2011, bringing the year-to-date total to 315,199. Vacancy stands at 6.2 percent overall, with neighborhood centers recording the highest vacancy at 10 percent and regional centers the lowest at 3.3 percent.

RETAILER ACTIVITY DRIVEN BY SURVIVORS

Retailers driving activity have survived the recent market downturn due to strong balance sheets and well-executed retail strategies. Empty retail space vacated by big and junior box tenants such as Linens 'N Things, Ultimate Electronics and Borders are slowly being filled. Aldi, Whole Foods and Trader Joes are examples of the retailers signing leases at these locations. The vacancies provided these retailers with opportunities to penetrate top tier locations that were previously unavailable.

Retailer motives for locating to a particular area have shifted. Historically driven by market penetration and achieving store count goals, retailers are now more concerned with locating in top tier locations that will provide strong sales. They are drawn to areas with strong daytime population in addition to high, growing population densities and income levels.

GROCERY KEY DRIVER

The grocery sector is a key driver in the market including the previously-mentioned tenants (Aldi, Whole Foods and Trader Joe's). In addition, big box tenants such as Walmart and Target continue to increase the amount of space dedicated to grocery within their stores even while they reduce the overall size of their stores.

MARKET INDICATORS

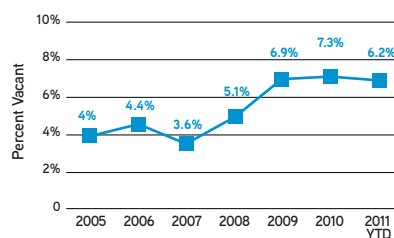
Q3 2011

VACANCY	↓
NET ABSORPTION	↑
RENTAL RATE	↔

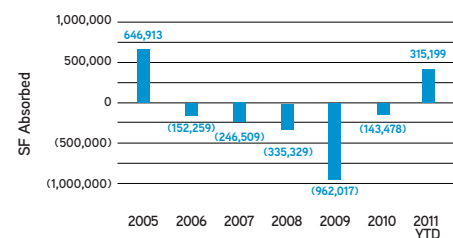
NATIONAL SPOTLIGHT

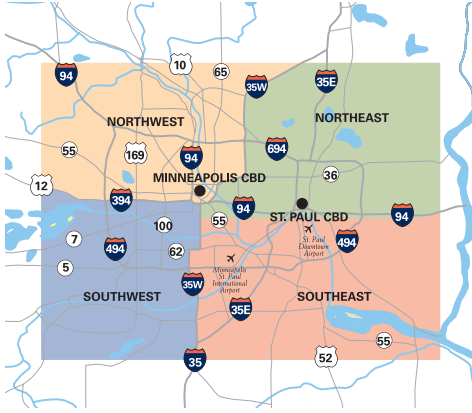
According to the International Council of Shopping Center (ICSC), September same-store sales rose 5.5 percent, the strongest performance since June 2011 when same-store sales were up 6.9 percent. This increase was reassuring to market watchers expecting a more significant retreat as sluggish growth continues in the national economy. The ICSC, the National Retail Federation and ShopperTrak forecast year-over-year holiday sales gains ranging from 2.2 percent to 3.0 percent. This is tempered growth compared to 2010's rate of 5.2 percent, which outperformed most analyst's predictions. While a growth rate of 2.8 percent would be half the 2010 growth rate, it is still an improvement over 2008 and 2009's negative holiday sales seasons.

VACANCY



NET ABSORPTION





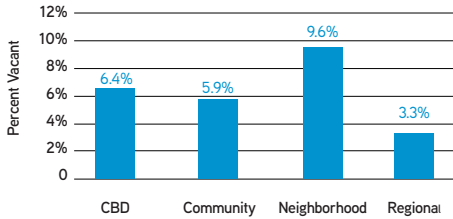
DEVELOPMENT: LIMITED, BUT CITIES BEGIN TO WELCOME RETAIL

In previous years, the priority of city governments in regards to commercial development and zoning was to pursue companies that would provide new office employment. The Minneapolis/St. Paul metropolitan area has experienced a number of corporate campus closings in recent years including Lockheed Martin and Delta. In addition, due to the recession, the pool of expanding office tenants has decreased, and retailers priorities have shifted. Welcoming retail development might not provide a large number of higher paying jobs, but they do increase in cities' tax bases; making rezoning to retail more attractive.

most exciting project, if approved, is CSM's purchase of the former Lockheed Martin corporate campus in Eagan, which is planned to include some retail. The Eagan market is an example of a strong retail area with low vacancy, high incomes and existing daytime population.

Redevelopment of existing centers has not been extensive, although many centers have undergone "facelifts" which include new pylon signage and freshening of interiors to compete with existing space options. This is the type of tenant improvement that in the past may not have been made until a tenant was secured but now is necessary while the space is being marketed.

VACANCY



INVESTMENT ACTIVITY

Investment activity in the retail market is a story of "haves" and "have nots". Well-located, grocery-anchored properties are experiencing increasing values and struggling centers continue to experience decreasing values.

There is no new development, or "pioneering" occurring in the outer ring suburbs as was happening in previous years. Many pioneering developments completed in the past five years or so have the same vacancies today as the time they were built. The projects were built around a large big box user such as Target or Walmart. Most of those large boxes are still occupied, but much of the space built for additional tenants was not leased as outer-ring population growth stalled or existing population was not sufficient to sustain additional tenants.

FUTURE TRENDS

We expect to see slow, steady activity in coming quarters and improvement in vacancy rates. The market will continue to be a tenant's market. Even prime trade areas continue to have space to fill and are competing with numerous options available to tenants. Until this excess space is occupied, there will not be significant rental growth.

Although there are few new projects under construction or in the planning phase, talk of future development has begun in earnest. The



The Minneapolis/St. Paul grocery sector is a key driver in retail leasing and investment.

SIGNIFICANT LEASE AND SALES ACTIVITY

LEASE ACTIVITY

TENANT	BUILDING	CITY	SIZE (SF)	SUBMARKET
Bed Bath and Beyond	Rosedale Commons	Roseville	26,716	Northeast
HomeGoods	The Fountains of Arbor Lakes	Maple Grove	25,000	Northwest
Dick's Last Resort of Bloomington	MOA	Bloomington	15,379	Southeast
The Vitamin Shoppe	Rosedale Commons	Roseville	10,500	Northeast
FedEx Office	Oxboro Plaza	Bloomington	8,000	Southwest
Athleta	50th & France	Edina	4,000	Southwest
Timberland	Calhoun Square	Minneapolis	2,000	Southwest
Peeps Candy	MOA	Bloomington	2,500	Southeast
Freeziac Yogurt	4105 Vinewood Lane	Plymouth	1,062	Northwest

SALES ACTIVITY

BUILDING	BUYER	SELLER	PRICE	PRICE PSF	SIZE (SF)	SUBMARKET
Calhoun Commons	Regency Centers Corp.	Doran Companies	\$21,000,000	\$317.46	66,150	Southwest
Rockridge Center	Regency Centers Corp.	Hempel Properties	\$20,500,000	\$163.72	125,213	Northwest
Champlin Marketplace	Inland Real Estate Group	Teachers Insurance and Annuity Association of New York	\$13,200,000	\$143.96	91,689	Northwest
Cub Foods Center	Acof TI Burnsville LLC	T-I Burnsville LLC	\$8,000,000	\$85.12	93,984	Southwest
Walgreens Store	PVP St. Michael LLC	NLD Holdings IX LLC	\$6,938,000	\$661.33	10,491	Northwest
Vernon Shops	Semper Holdings	Jerry's Enterprises, Inc.	\$6,160,000	\$229.11	26,887	Southwest
Stella's Fish Café Building	SH Uptown LLC (Group of investors assembled by Upper Midwest Management)	Lake & Girard LLC	\$5,450,000	\$294.59	18,500	Southwest
1740 S Robert Street (Panera Bread, Mattress Giant)	RLW Properties LLC	United Growth	\$4,075,000	\$347.02	11,743	Southeast
Primrose School of Eagan	ETC Kids Corporation	Four Points Real Estate Development, Ltd.	\$3,426,712	\$244.77	14,000	Southeast
115 South 4th Street	Rick's Cabaret International, Inc.	VCG Holding Corporation	\$3,250,000	\$280.17	11,600	Northeast
Valley Ridge Shopping Center	Dakota County Community Development Agency	Kraus-Anderson Realty Company	\$3,171,000	\$35.79	88,595	Southeast
Vadnais Square	Rubloff Development Group, Inc.	R&R Commercial Properties LLC	\$2,950,000	\$262.95	11,219	Southeast
Stillwater Applebee's	J. Fletcher Creamer & Sons, Inc.	Fortress Investment Group	\$2,465,667	\$445.71	5,532	Southeast
Monticello Applebee's	J. Fletcher Creamer & Sons, Inc.	Fortress Investment Group	\$1,665,000	\$325.90	5,109	Northwest
5734-5736 North Lakeland Ave	Crystal Medical Building, LLC	Hiway Federal Credit Union	\$1,250,000	\$93.98	13,300	Northwest
Former Cattle Company Building	Affinity Plus Federal Credit Union	FGM Roseville LLC	\$1,215,000	\$115.63	10,508	Northeast
232 Marschall Rd S	Heartland Tire Shakopee	Country South Investments, LLC	\$1,100,000	\$113.17	9,720	Southwest

Market Statistics

SUBMARKET	TOTAL SF	DIRECT VACANT SF	SUBLEASE VACANT SF	% VACANT DIRECT	% VACANT W/SUBLEASE	3RD QUARTER ABSORPTION	YTD ABSORPTION
CBD							
Minneapolis CBD	2,489,918	158,883	2,551	6.4%	6.5%	5,017	(2,159)
NORTHEAST							
Community	3,954,366	278,546	10,900	7.0%	7.3%	11,295	86,208
Neighborhood	3,305,998	370,686	40,000	11.2%	12.4%	21,203	43,094
Regional	2,782,758	112,756	0	4.1%	4.1%	35,674	14,830
Totals:	10,043,122	761,988	50,900	7.6%	8.1%	68,172	144,132
NORTHWEST							
Community	5,801,932	433,692	0	7.5%	7.5%	(53,700)	(29,626)
Neighborhood	6,779,576	630,156	11,434	9.3%	9.5%	22,091	66,946
Outlet Mall	430,000	0	0	0.0%	0.0%	0	0
Regional	4,745,213	210,777	1840	4.4%	4.5%	31,889	(57,145)
Totals:	17,756,721	1,274,625	13,274	7.2%	7.3%	280	(19,825)
SOUTHEAST							
Community	4,242,594	183,576	39,672	4.3%	5.3%	7,475	(6,253)
Neighborhood	4,977,658	494,956	20,134	9.9%	10.3%	19,662	377
Regional	6,989,944	165,989	0	2.4%	2.4%	37,135	54,078
Totals:	16,210,196	844,521	59,806	5.2%	5.6%	64,272	48,202
SOUTHWEST							
Community	4,107,340	176,846	74,081	4.3%	6.1%	23,606	81,565
Neighborhood	4,796,694	418,349	2,950	8.7%	8.8%	61,604	68,444
Regional	5,951,076	179,041	0	3.0%	3.0%	2,943	(5,160)
Totals:	14,855,110	774,236	77,031	5.2%	5.7%	88,153	144,849
TOTAL ALL MARKETS							
Community	18,106,232	1,072,660	124,653	5.9%	6.6%	(11,324)	131,894
Neighborhood	19,859,926	1,914,147	74,518	9.6%	10.0%	124,560	178,861
Outlet Mall	430,000	0	0	0.0%	0.0%	0	0
Regional	20,468,991	668,563	1,840	3.3%	3.3%	107,641	6,603
Minneapolis CBD	2,489,918	158,883	2,551	6.4%	6.5%	5,017	(2,159)
Totals:	61,355,067	3,814,253	203,562	6.2%	6.5%	225,894	315,199

The above table is summarized data on multi-tenant retail centers greater than 30,000 square feet.

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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