

NAI Welsh

Twin Cities Industrial Report | Second Quarter 2010



Industrial



TRENDS

VACANCY RATE



NET ABSORPTION



ASKING RENTS



OVERVIEW

The Twin Cities industrial market posted 387,800 SF of positive net absorption in 2nd Quarter 2010, which is up from 1st Quarter's 22,095 SF of positive net absorption. The vacancy rate remains relatively unchanged at 11.1 percent. Quoted rental rates are also stable at \$8.96 per square foot (PSF) for office and \$4.46 PSF for warehouse.

Activity in the Twin Cities industrial market is up from that of a year ago, but overall still remains slow. Landlords continue to offer concessions, with one month of free rent for every year on the lease term being the norm. Most tenants are renewing their current leases at more favorable rates, while some are shopping around for the best rates. A few are moving from office to flex space to take advantage of significantly reduced rates.

The sales market remains extremely slow compared to that of a couple years back, but some deals are closing. AMB Property Corporation recently listed a 25-building, 15-property, 2.3 million SF industrial portfolio for sale in the Twin Cities, which is being billed as the largest portfolio ever listed for sale in the Twin Cities.

Slow growth through the end of the year is anticipated in the industrial sector. There is a lot of empty space that needs to be filled before there will be demand for new space. If employment levels continue to climb and consumer demand spikes we may see an increased need for the manufacturing, storage and distribution of goods, but it is going to take some time.

NAI Welsh's quarterly market update for the Twin Cities of Minneapolis and St. Paul is a comprehensive report designed to provide you with an accurate, objective representation of the local commercial real estate climate.

We have drawn on our resources, expertise, and supporting data to compile this detailed snapshot of the local market. The industrial market statistics have been extracted from our internal database, with up-to-date information supplied by our brokerage and management staff.

We have also utilized data available from the Minnesota Commercial Property Exchange internet database to obtain current vacancy information. Our absorption statistics are calculated comparing occupancy to occupancy and account for occupied square footage associated with new construction.

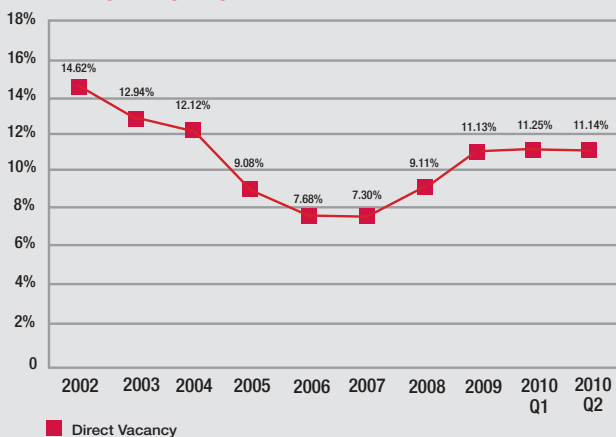
METHODOLOGY

Our industrial submarkets have been aligned according to criteria specified by the Minnesota Chapter of the National Association of Industrial and Office Properties.

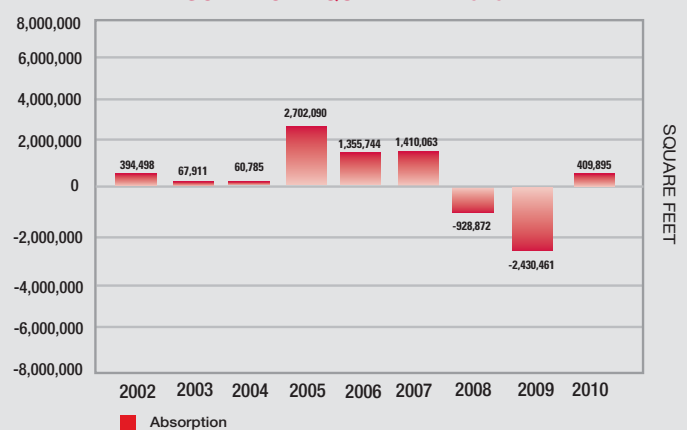
Our Industrial Universe consists of a sample of

- Existing multi-tenant office/ warehouse, office/showroom, and bulk warehouse buildings
- 25,000 SF or more

**TWIN CITIES INDUSTRIAL MARKET
DIRECT VACANCY YTD**



**TWIN CITIES INDUSTRIAL MARKET
NET ABSORPTION - QUARTER 2 2010**



Airport South of the River

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OVERVIEW

The Airport/South of the River industrial submarket posted 95,614 SF of positive net absorption in 2nd Quarter 2010, as compared to 16,251 SF of negative net absorption recorded in 1st Quarter. This submarket holds the highest vacancy rate in the industrial sector, recording 14.8 percent, which is down slightly from the 15.4 percent recorded in 1st Quarter. Quoted rental rates remain flat but actual rates are much lower.

Activity in this submarket remains slow, although there has been some growth in the past couple of months. Landlords continue to offer concessions to keep their properties occupied. Large leases signed this quarter include Materials Processing Corporation's 95,489 SF at 2000 West 94th St in Mendota Heights, Superior Gold Cars' 23,436 SF at 3640 Kennebec Dr in Eagan, and Modular Concepts' 21,600 SF at Larc Industrial Park II in Burnsville.

The sales market remains slow, although a few deals were closed this quarter, including 2805 W Service Rd in Eagan, 220 W 81st St in Bloomington, and 1960 Seneca Rd in Eagan.

Slow growth is expected to continue through the end of year, but don't expect to see a major turnaround for quite some time.



SUBMARKET STATISTICS

Market Size (SF)	16,817,379
Direct Vacancy (SF)	2,484,247
Sublease Vacancy (SF)	99,554
Direct Vacancy (%)	14.77%
Overall Vacancy (%)	15.36%
2nd Quarter Absorption (SF)	95,614
YTD Absorption	79,363
Office/Whse Rates	\$8.95/4.49

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Materials Processing Corporation	Pilot Knob Distribution Center	Mendota Heights	95,489
Superior Golf Cars, LLC	3640 Kennebec Dr	Eagan	23,436
Modular Concepts	Larc Industrial Park II	Burnsville	21,600
Factory Motor Parts	CDI	Eagan	15,202

NOTABLE BUILDING SALES

ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
2805 W Service Rd	48,062	\$2,650,000	\$55.14	Russ Davis Wholesale Inc	Olson Rudolph K & Mary E
220 W 81st St	45,080	\$2,117,000	\$46.96	American Boulevard, LLC	Old Forester, LLC
1960 Seneca Rd	30,286	\$1,850,000	\$61.08	Horizon Equipment	Cedarberg John F Iii
1333 Mendota Heights Rd	49,043	\$1,600,000	\$32.62	ORBIT Systems, Inc.	Tr Mendota Heights Llc
3306 Mike Collins Dr	12,658	\$1,325,000	\$104.68	Opus Design Build LLC	Opus Northwest Const Llc

Minneapolis North



SUBMARKET STATISTICS

Market Size (SF)	27,969,045
Direct Vacancy (SF)	2,510,308
Sublease Vacancy (SF)	34,471
Direct Vacancy (%)	8.98%
Overall Vacancy (%)	9.10%
2nd Quarter Absorption (SF)	4,037
YTD Absorption	-13,924
Office/Whse Rates	\$9.92/4.55

OVERVIEW

The Minneapolis North industrial submarket posted 4,037 SF of positive net absorption in 2nd Quarter. Negative net absorption of 17,961 SF was reported in 1st Quarter. The vacancy rate remains at about 9 percent, which is the lowest of any industrial submarket. Quoted rental rates are also steady.

Activity levels in the Minneapolis North submarket remain flat, although they are up compared to the same time last year. Small concessions are still being offered to entice tenants. The majority of deals being done today are renewals, most of which are 1-3 year extensions at more favorable rates. Large lease signings this quarter include 28,014 SF at Rice Creek Business Center I in Shoreview for MSP Corp, 19,682 SF at Centre Pointe Business Park II in Roseville for Apnex Medical, and 15,277 SF at the Waterbury Building for Sleeping Dogs Ltd. One sale occurred in 2nd Quarter – 900 and 907 Sibley St NE.

Current activity levels are expected to remain steady through the end of 2010, but there are no new developments planned. One 14,000 SF building was delivered to market in 2nd Quarter. It is located at 2480 7th Ave E in St. Paul and is 100 percent occupied.

TRENDS

VACANCY RATE



NET ABSORPTION



ASKING RENTS



NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
MSP Corp	Rice Creek Business Center I	Shoreview	28,014
Apnex Medical	Centre Pointe Business Park II	Roseville	19,682
Sleeping Dog Ltd	Waterbury Building	Minneapolis	15,277
Finish Master	104-148 Osborne Rd NE	Fridley	12,115
Fireball Fab & Metal Sales	70 Woodlynn Ave	Little Canada	11,000
Velocity Tech Solutions, Inc.	2265-2285 Co Rd C W	Roseville	10,944

NOTABLE BUILDING SALES

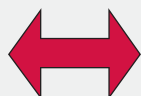
ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
900 Sibley St NE & 907 Sibley St NE	137,228	\$7,700,000	\$56.11	City of Minneapolis	Scherer Limited Partnership

Southwest



TRENDS

VACANCY RATE



NET ABSORPTION



ASKING RENTS



OVERVIEW

The Southwest industrial submarket posted 123,878 SF of positive net absorption in 2nd Quarter 2010, an increase from the 27,099 SF of positive net absorption that was reported in 1st Quarter. Vacancy sits at 12.6 percent, which is relatively unchanged from 1st Quarter. Quoted rental rates also remain constant, but actual rates are much lower.

Activity in the Southwest industrial submarket continues to be slow. Some class B office users are transitioning into office/showroom space since rates have fallen significantly.

The sales market is showing some activity, but is still relatively slow. This is partially due to the fact that there is still a significant disconnect between what buyers are willing to pay and what sellers will accept.

The Southwest industrial submarket is expected to remain flat throughout the remainder of 2010. Additional jobs need to be added in order to create demand for more space. There are no immediate developments underway; however, Goodrich Corp. is expected to move ahead with a long-term expansion that will add 52,000 SF to their existing 243,000-SF Sensors and Integrated Systems Division in Burnsville.

SUBMARKET STATISTICS

Market Size (SF)	30,348,069
Direct Vacancy (SF)	3,818,150
Sublease Vacancy (SF)	170,860
Direct Vacancy (%)	12.58%
Overall Vacancy (%)	13.14%
2nd Quarter Absorption (SF)	123,878
YTD Absorption	150,977
Office/Whse Rates	\$8.96/4.54

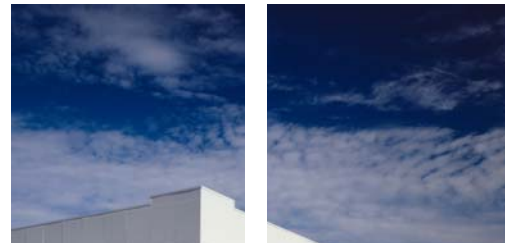
NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Illume	2000 West 94th Street	Bloomington	100,850
Verizon Wireless	Hampshire Distribution Center North	Bloomington	44,700
SSDS Inc.	Old Shakopee Business Center	Bloomington	31,000
Eagle Ridge Academy	Creek Edge Business Center	Eden Prairie	27,970
Illume Candle Company	1900-1920 94th St W	Bloomington	26,000
Sisinni Food Services Inc.	Braemar III	Edina	22,949
Environmental Graphics Inc.	Westside Business Park	Hopkins	20,825
ARAnet, Inc.	Westside Business Park	Hopkins	20,260
Marco	Highway 7 Corporate Center	Saint Louis Park	15,347
Polar Semiconductor	Penn James Commerce Center	Bloomington	10,000

NOTABLE BUILDING SALES

ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
11300 Hampshire Ave S	145,351	\$9,674,840	\$66.56	BNC National Bank	Geneva Industrial Exchange XXX LLC
7000 S Washington Ave	119,000	\$1,700,000	\$14.29	Continental Property Group Inc	R.R. Donnelley Printing Company LP
6365 Carlson Dr	27,198	\$1,040,400	\$38.25	Chris Schmidt	The Geneva Organization

St. Paul East

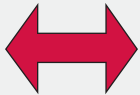


SUBMARKET STATISTICS

Market Size (SF)	24,703,630
Direct Vacancy (SF)	2,232,209
Sublease Vacancy (SF)	89,635
Direct Vacancy (%)	9.04%
Overall Vacancy (%)	9.40%
2nd Quarter Absorption (SF)	75,313
YTD Absorption	192,591
Office/Whse Rates	\$8.25/4.42

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OVERVIEW

The St. Paul East industrial submarket posted 75,313 SF of positive net absorption in 2nd Quarter. Positive net absorption of 117,278 SF was reported in 1st Quarter. The vacancy rates remains unchanged at about 9 percent, while quoted rental rates are also flat.

Activity in this submarket has increased in the first half of 2010, with minimal growth in all product types across the board. Landlords are continuing to offer concessions and reduced rental rates in order to keep their properties occupied, while tenants shop around for the best rate. New leases closed this quarter include Forest River Community Church's 30,000 SF and Vee Corporation's 20,000 SF at MSP Midway Industrial Park #13 in Saint Paul, and Horizon Foods Wholesale's 14,367 SF at 549-557 Topping St, also in Saint Paul.

The sales market remains slow, but three deals were closed in 2nd Quarter. They include 222 Maxwell Ave in Newport, and 2375-2395 Capp Rd and 3119 23rd Ave S, both of which are located in Saint Paul.

Expect to see continued slow growth in this industrial submarket through the end of the year. One 10,715 SF project broke ground this quarter – at 2613 4th St SE in Minneapolis – that is slated to deliver to market in 4th Quarter. There are no other new or planned developments.

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Forest River Community Church	MSP Midway Industrial Park #13	Saint Paul	30,000
Vee Corporation	MSP Midway Industrial Park #13	Saint Paul	20,000
Advanced Distribution	MSP Midway Industrial Park #12	Saint Paul	18,467
Horizon Foods Wholesale, Inc.	549-557 Topping St	Saint Paul	14,367
Minnesota State Lottery	Kasota Industrial Center II	Minneapolis	13,635
Interior Construction Services LLC	MSP Midway Industrial Park #7	Saint Paul	13,150

NOTABLE BUILDING SALES

ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
2222 Maxwell Ave	46,162	\$3,295,000	\$71.38	Washington Cnty Regional Rail	Cemstone Products Co.
2375-2395 Capp Rd	39,461	\$1,150,000	\$29.14	Infinity Properties LLC	Randeva Holdings Llp
1251 Arundel St	15,200	\$1,020,000	\$67.11	Prism Pigments	Jasaka Co

West/Northwest



SUBMARKET STATISTICS

Market Size (SF)	43,087,619
Direct Vacancy (SF)	4,875,592
Sublease Vacancy (SF)	619,831
Direct Vacancy (%)	11.32%
Overall Vacancy (%)	12.75%
2nd Quarter Absorption (SF)	88,958
YTD Absorption	888
Office/Whse Rates	\$8.61/4.35

TRENDS

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NET ABSORPTION



ASKING RENTS



OVERVIEW

The West/Northwest industrial submarket posted 88,958 SF of positive net absorption in 2nd Quarter 2010, which is much higher than the 88,070 SF of negative net absorption that was recorded in 1st Quarter. The vacancy rate holds steady at 11.3 percent, while quoted rental rates have fallen slightly to \$8.61 for office and \$4.35 for warehouse.

Activity picked up in the first half of 2010 as tenants are testing the market to find their best options. Rates have continued to fall and landlords are offering deeper concessions in order to fill their spaces.

The sales market in the West/Northwest industrial submarket is very slow, although a few deals did close in 2nd Quarter. The Minneapolis Park Board recently purchased 11 acres of industrial property from Scherer Brothers Lumber Co., which they plan to turn into a public park. It is located between the Broadway and Plymouth Ave bridges near Boom Island.

The current level of activity is expected to continue through the remainder of 2010. There are no new developments planned at this time.

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Caterpillar Paving Products, Inc.	93rd Avenue Industrial Center	Maple Grove	117,731
SDDS Holdings, Inc.	Holsum Country Hearth Building	Plymouth	25,460
JJJ Specialty	Park Industrial Village - Bldg F	Plymouth	15,000
Lifeworks Services, Inc.	Northland Interstate Business Center III	Brooklyn Park	12,560
Maki Strunc Photography	International Square	Golden Valley	11,100
Form Tools	Plymouth Oaks Park - Bldg 2	Plymouth	10,202

NOTABLE BUILDING SALES

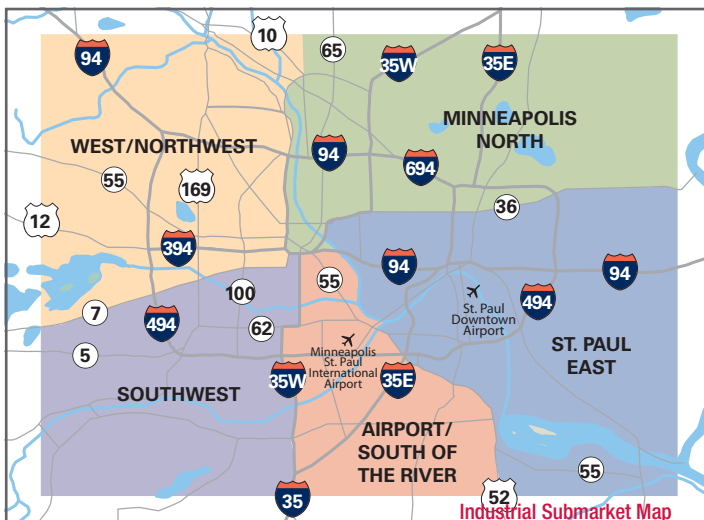
ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
10700 165th Ave NW & 14210 Sherburne Ave	103,850	\$6,063,839	\$58.39	Great River Energy	Resource Recovery Technologies, LLC
6200 N Lakeland Ave	50,332	\$2,570,550	\$51.07	Minneapolis Pipefitters Journeyman & App Tr Fund	Stephen H & Suzanne R Saltzman
307 Chelsea Rd	36,381	\$1,650,000	\$45.35	Hoglund Bus & Truck Co	Olson Living Trust
5455 Highway 169 N	10,000	\$1,125,000	\$112.50	Once Innovations Inc	RJM Construction

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SUBMARKET	TOTAL SF	DIRECT VACANT SF	SUBLEASE VACANT SF	% VACANT DIRECT	% VACANT W/SUBLEASE	2nd QUARTER ABSORPTION	YTD ABSORPTION	OFFICE/WHSE RATES
Airport/South of the River								
Bulk Warehouse	4,766,024	1,014,893	3,000	21.29%	21.36%	13,867	-22,134	\$4.15
Office Showroom	3,181,140	702,000	54,353	22.07%	23.78%	24,805	-7,703	\$9.10/\$4.70
Office Warehouse	8,870,215	767,354	42,201	8.65%	9.13%	56,942	109,200	\$8.90/\$4.60
Totals:	16,817,379	2,484,247	99,554	14.77%	15.36%	95,614	79,363	\$8.95/\$4.49
Minneapolis North								
Bulk Warehouse	5,952,171	310,254	17,000	5.21%	5.50%	22,962	22,139	\$4.30
Office Showroom	3,647,245	436,861	0	11.98%	11.98%	91,039	132,708	\$10.50/\$4.70
Office Warehouse	18,369,629	1,763,193	17,471	9.60%	9.69%	-109,964	-168,771	\$9.80/\$4.60
Totals:	27,969,045	2,510,308	34,471	8.98%	9.10%	4,037	-13,924	\$9.92/\$4.55
Southwest								
Bulk Warehouse	6,024,038	833,619	20,045	13.84%	14.17%	-25,232	53,144	\$4.25
Office Showroom	7,893,600	1,357,026	38,930	17.19%	17.68%	132,389	149,491	\$10.00/\$5.05
Office Warehouse	16,430,431	1,627,505	111,885	9.91%	10.59%	16,721	-51,658	\$8.46/\$4.40
Totals:	30,348,069	3,818,150	170,860	12.58%	13.14%	123,878	150,977	\$8.96/\$4.54
St. Paul East								
Bulk Warehouse	8,341,643	899,920	0	10.79%	10.79%	12,794	75,780	\$4.30
Office Showroom	2,611,283	220,976	7,605	8.46%	8.75%	28,345	-10,775	\$9.55/\$5.00
Office Warehouse	13,750,704	1,111,313	82,030	8.08%	8.68%	34,174	127,586	\$8.00/\$4.40
Totals:	24,703,630	2,232,209	89,635	9.04%	9.40%	75,313	192,591	\$8.25/\$4.43
West/Northwest								
Bulk Warehouse	15,936,979	2,010,948	443,382	12.62%	15.40%	-33,416	94,941	\$4.35
Office Showroom	5,872,502	659,384	73,179	11.23%	12.47%	89,505	54,193	\$9.20/\$4.70
Office Warehouse	21,278,138	2,205,260	103,270	10.36%	10.85%	32,869	-148,246	\$8.45/\$4.25
Totals:	43,087,619	4,875,592	619,831	11.32%	12.75%	88,958	888	\$8.61/\$4.35
Total All Markets								
Bulk Warehouse:	41,020,855	5,069,634	483,427	12.36%	13.54%	-9,025	223,870	\$4.29
Office Showroom:	23,205,770	3,376,247	174,067	14.55%	15.30%	366,083	317,914	\$9.70/\$4.85
Office Warehouse:	78,699,117	7,474,625	356,857	9.50%	9.95%	30,742	-131,889	\$8.74/\$4.43
Market Totals:	142,925,742	15,920,506	1,014,351	11.14%	11.85%	387,800	409,895	\$8.96/\$4.46



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NAI Global Statistics at-a-glance:

Over 325 offices - 55 countries - more than 5,000 professionals