NAIOP

NATIONAL ASSOCIATION OF INDUSTRIAL AND OFFICE PROPERTIES - MINNESOTA CHAPTER

2008 ANNUAL INDUSTRIAL MARKET UPDATE

To: Attendees of NAIOP's 2008 Industrial Market Program

From: Murray Kornberg, Minnesota Chapter President

Date: June 26, 2008

On behalf of the Minnesota Chapter of NAIOP, I am proud to welcome you to the 2008 Industrial Market Report, a comprehensive review of our region's industrial market.

We are fortunate to have with us a top-flight collection of our industry's most experienced commercial real estate professionals. They have contributed substantial time and effort to not only provide you with the very best market information available, but to also share with you their invaluable analysis and insights into the forces at work in today's marketplace.

Please join me in thanking this year's panel that includes as the Moderator …

Mark Sims – Equity, a Transwestern Company

and the following professionals, each covering his or her specific sub-market:

Southwest	**Kris Smeltzer – NorthMarq**
Northwest	**Jim DePietro – CB Richard Ellis**
Southeast	**Ted Carlson – NAI Welsh**
Northeast & East	**David Stokes – Colliers Turley Martin Tucker**
Land	**Maren Leuer – NorthMarq**

Please contact these individuals if you have questions about our industrial market. Their contact information can be found on the disk included with your information folder.

This program could not have happened without the hard work of several other contributors. Thank you to our friends and colleagues at the **Minnesota Commercial Association of REALTORS®** and their MNCAR Exchange market database. Their knowledge & expertise is vital in creating this report.

Maura Carland again provided tireless work in preparing the data, with **Susan Diamond** providing invaluable help with the program presentation. I'd also like to recognize the chair of this year's program committee, **Pat Mascia,** for overseeing the production. Thank you Maura, Susan and Pat!

On behalf of NAIOP, I would like thank all of this year's contributors for their time and commitment, and thank all of the attendees for making this presentation one of the most anticipated educational and networking events in our industry.

Sincerely,

Murray Kornberg
President
NAIOP Minnesota Chapter

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Thank you to these market experts for their time & contributions to creating the 2008 Industrial Market Report.

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GROUND RULES AND DEFINITIONS

1. This report covers multi-tenant office warehouse, office showroom, and bulk warehouse buildings in excess of 25,000 square feet.

2. Properties that were designed to be multi-tenant are included in this report even if they have been leased entirely to one tenant. Single tenant leased properties that were developed on a build-to-suit basis, and that would not function well as multi-tenant properties, are not included in this report. Owner occupied properties are also not included in this report.

3. Rental rates are based on quoted net rates exclusive of transaction costs. Actual effective rates will vary.

4. Expenses are quoted as an estimate for the 2007 calendar year.

5. **Existing Projects**: Building construction completed prior to May 1st, 2007

6. **New Projects**: Building construction completed between May 1st 2007 and May 1st 2008.

7. **Current Universe**: Combined Existing Projects and New Projects as of May 1st 2008

8. **Projects Under Construction**: Projects under construction as of May 1st 2008.

9. **Planned Projects**: Projects with a greater than 50% probability of construction commencement prior to May 1st 2009.

10. **Vacant space**: Space that is unoccupied and not under lease.

11. **Absorption**: The positive or negative difference in the amount of space occupied between May 1st 2007 and May 1st 2008.

12. **Sublease space**: Space that is marketed for lease to a new tenant by an existing tenant.

13. Sublease space, either physically occupied or vacant, is considered occupied space in the universe until the lease runs out.

14. Space that is physically occupied by a tenant prior to May 1st 2008, but marketed for lease is considered occupied space.

15. Space occupied by a tenant on a month-to-month lease that is also marketed for lease to a new, long-term tenant is considered occupied space.

16. The report does not track "shadow" space, or buildings that are leased by tenants who are not using the space but not trying to sublease it.

PROFILE OF PROJECT TYPES

Project Type	Typical Tenant Size	Clear Ceiling Height	Bay Depth	Office or Showroom
Office Warehouse	7,000 Sq. Ft. +	16-24 Ft.	120-160 Ft.	10%-40%
Office Showroom	3,000 Sq. Ft. +	12-16 Ft.	80-120 Ft.	25%-75%
Bulk Warehouse	20,000 Sq. Ft. +	20+ Ft.	160-200 Ft.	0%-10%

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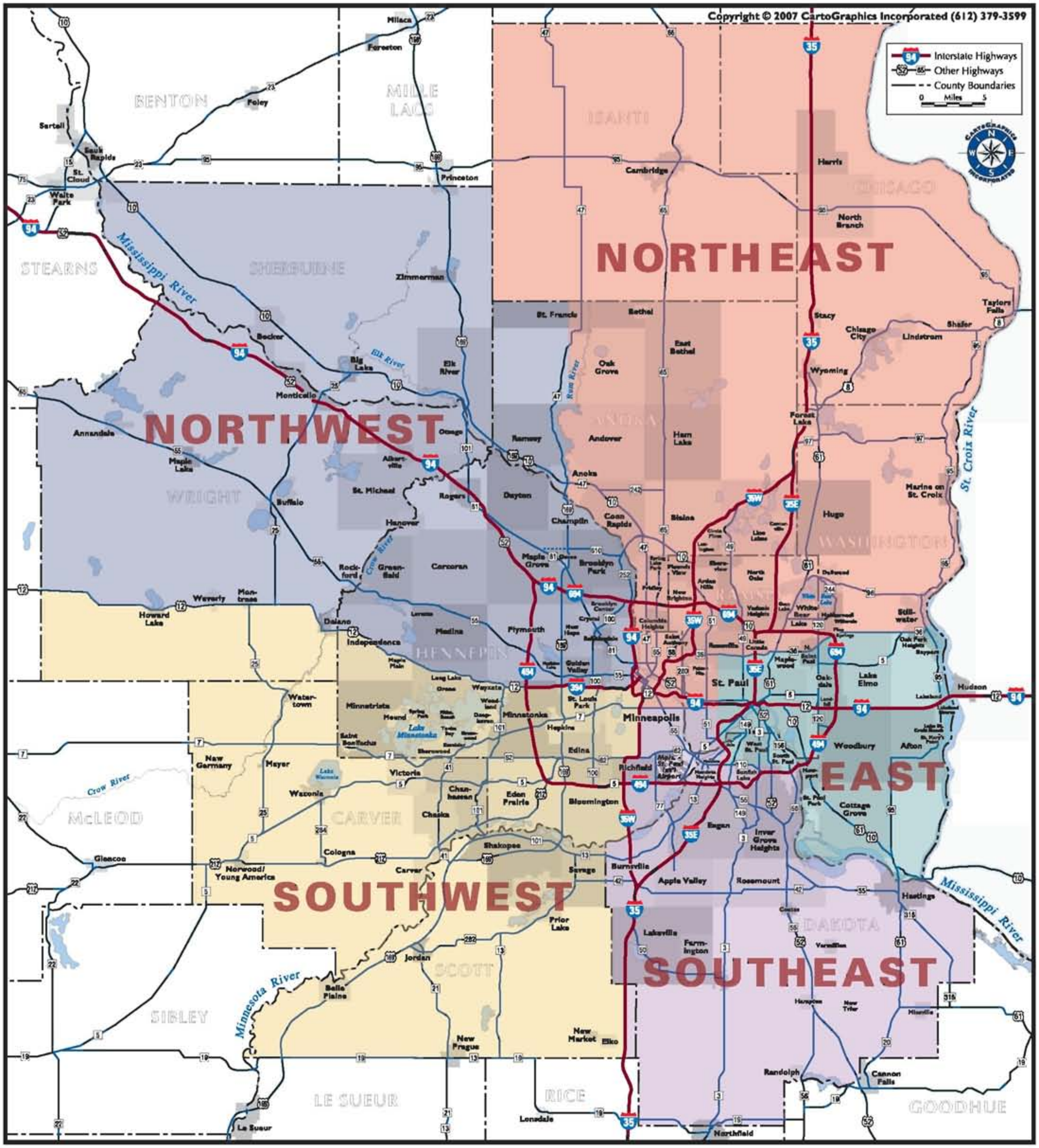


TWIN CITIES METROPOLITAN AREA

INDUSTRIAL SUBMARKETS

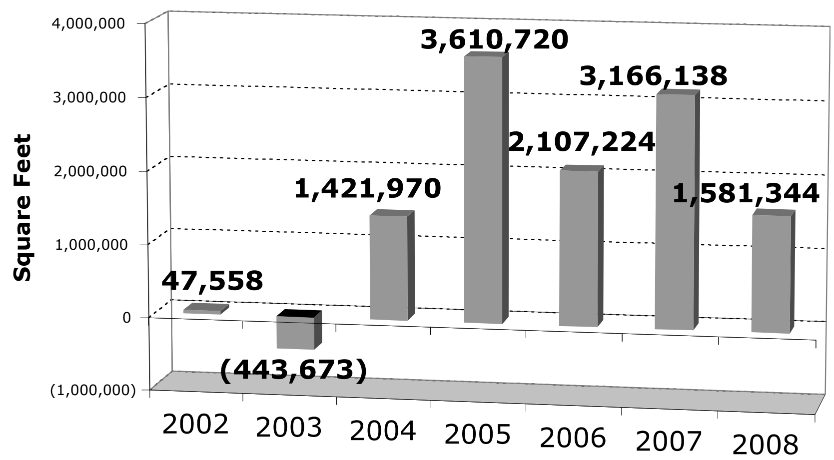
TOTAL MARKET

SIGNIFICANT EVENTS AND TRENDS

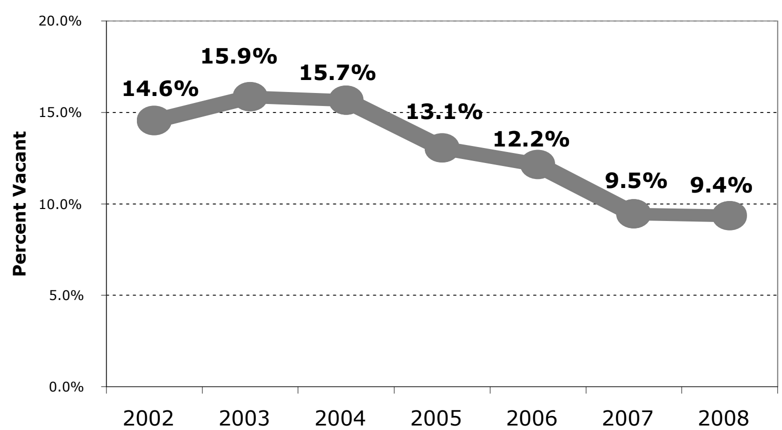
- Overall vacancy rates practically unchanged from 9.5% in 2007 to 9.4% in 2008
- Absorption dropped by 50% from 3,166,138 square feet in 2007 to 1,581,344 square feet in 2008
- Overall market indicators are healthy in spite of low absorption levels and weak market activity
- Land prices plateau and are under downward pressure from the stalling residential and retail markets
- Developers in all submarkets demonstrate market confidence by delivering 1.5 million square feet of new product
- Second generation lease rates, which have been increasing, have peaked, particularly in the smaller tenant market
- Developers are getting new construction lease rates in tight markets with larger tenants who have geographic constraints and are requiring modern efficient space

TOTAL MARKET

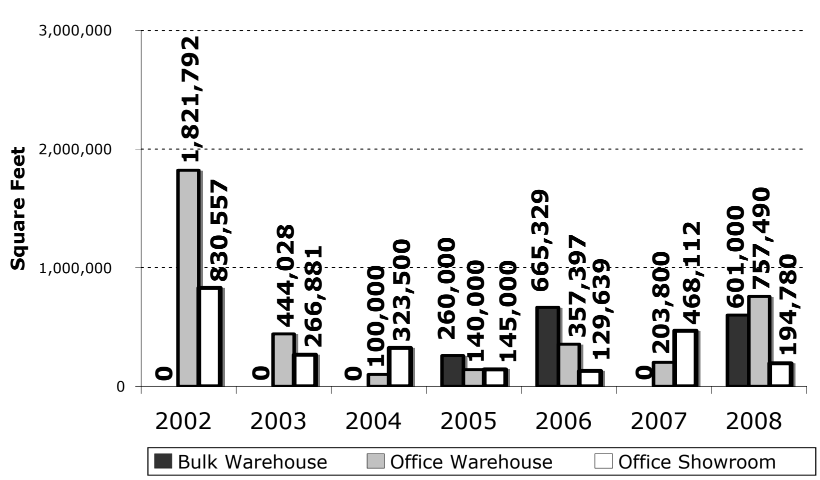
ABSORPTION TRENDS



HISTORICAL VACANCY RATES



NEW PROJECTS



2008 MARKET OVERVIEW

MARKET	YEAR	UNIVERSE SQ. FT.	TOTAL VACANT SQ. FT.	PERCENT VACANT	ANNUAL ABSORPTION SQ. FT.
Northeast					
Bulk Warehouse					
	2005	8,267,831	887,567	10.7%	
	2006	8,273,815	972,954	11.8%	(85,387)
	2007	8,408,800	700,907	8.3%	272,047
	2008	8,979,612	504,255	5.6%	454,652
Office Showroom					
	2005	4,129,369	539,166	13.1%	
	2006	4,162,189	595,931	14.3%	3,535
	2007	4,125,923	485,412	11.8%	121,119
	2008	4,127,723	527,977	12.8%	(12,565)
Office Warehouse					
	2005	18,951,061	2,591,322	13.7%	
	2006	21,010,534	2,653,112	12.6%	575,116
	2007	20,999,844	1,854,563	8.8%	798,549
	2008	20,657,010	2,152,374	10.4%	(57,931)
Totals Northeast					
	2005	**31,348,261**	**4,018,055**	**12.8%**	
	2006	**33,446,538**	**4,221,997**	**12.7%**	**493,264**
	2007	**33,534,567**	**3,040,882**	**9.1%**	**1,191,715**
	2008	**33,764,345**	**3,184,606**	**9.4%**	**384,156**

MARKET	YEAR	UNIVERSE SQ. FT.	TOTAL VACANT SQ. FT.	PERCENT VACANT	ANNUAL ABSORPTION SQ. FT.
East					
Bulk Warehouse					
	2005	3,167,567	207,549	6.6%	
	2006	3,167,567	208,148	6.6%	(599)
	2007	2,979,570	82,079	2.8%	(20,928)
	2008	3,192,062	329,087	10.3%	(34,516)
Office Showroom					
	2005	1,576,494	185,208	11.8%	
	2006	1,576,494	192,582	12.2%	(7,374)
	2007	1,745,768	286,560	16.4%	82,796
	2008	1,846,672	343,583	18.6%	58,028
Office Warehouse					
	2005	3,298,940	467,732	14.2%	
	2006	3,298,940	557,652	16.9%	(89,920)
	2007	2,861,630	181,250	6.3%	56,123
	2008	2,803,575	147,420	5.3%	33,830
Totals East					
	2005	**8,043,001**	**860,489**	**10.7%**	
	2006	**8,043,001**	**958,382**	**11.9%**	**(97,893)**
	2007	**7,586,968**	**549,889**	**7.2%**	**117,991**
	2008	**7,842,309**	**820,090**	**10.5%**	**57,342**

Southeast				
Bulk Warehouse				
2005	6,654,937	1,833,441	27.6%	
2006	6,744,425	1,362,449	20.2%	552,321
2007	6,735,129	1,268,500	18.8%	93,949
2008	6,852,060	834,676	12.2%	459,506
Office Showroom				
2005	3,894,641	475,557	12.2%	
2006	3,972,394	555,057	14.0%	(10,161)
2007	4,020,020	531,238	13.2%	70,319
2008	4,020,020	629,003	15.6%	(97,765)
Office Warehouse				
2005	6,708,292	493,739	7.4%	
2006	6,767,524	489,094	7.2%	103,305
2007	6,686,507	346,893	5.2%	183,901
2008	6,836,102	445,515	6.5%	50,973
Totals Southeast				
2005	**17,257,870**	**2,802,737**	**16.2%**	
2006	**17,484,343**	**2,406,600**	**13.8%**	**645,465**
2007	**17,441,656**	**2,146,631**	**12.3%**	**348,169**
2008	**17,708,182**	**1,909,194**	**10.8%**	**412,714**

Southwest				
Bulk Warehouse				
2005	4,088,984	1,147,742	28.1%	
2006	4,126,222	1,108,642	26.9%	39,100
2007	3,837,083	388,289	10.1%	620,155
2008	3,837,083	353,001	9.2%	35,288
Office Showroom				
2005	5,707,012	624,317	10.9%	
2006	5,675,771	535,843	9.4%	88,474
2007	6,345,740	642,688	10.1%	88,918
2008	6,347,454	730,294	11.5%	(71,929)
Office Warehouse				
2005	12,948,428	1,390,877	10.7%	
2006	13,360,177	1,543,393	11.6%	(29,604)
2007	12,895,402	1,472,128	11.4%	25,892
2008	12,779,199	1,209,301	9.5%	262,957
Totals Southwest				
2005	**22,744,424**	**3,162,936**	**13.9%**	
2006	**23,162,170**	**3,187,878**	**13.8%**	**97,970**
2007	**23,078,225**	**2,503,105**	**10.8%**	**734,965**
2008	**22,963,736**	**2,292,596**	**10.0%**	**226,316**

Northwest				
Bulk Warehouse				
2005	9,924,230	1,065,178	10.7%	
2006	10,606,570	1,417,828	13.4%	231,352
2007	10,315,998	910,495	8.8%	550,531
2008	10,563,998	705,359	6.7%	452,936
Office Showroom				
2005	5,163,177	647,728	12.6%	
2006	5,164,977	505,986	9.8%	141,742
2007	5,072,288	401,107	7.9%	29,555
2008	5,011,288	409,691	8.2%	(8,584)
Office Warehouse				
2005	13,016,744	1,474,202	11.3%	
2006	12,943,493	878,878	6.8%	595,324
2007	13,129,908	899,366	6.8%	193,212
2008	13,386,908	1,112,702	8.3%	56,464
Totals Northwest				
2005	**28,104,151**	**3,187,108**	**11.3%**	
2006	**28,715,040**	**2,802,690**	**9.8%**	**968,418**
2007	**28,518,194**	**2,210,968**	**7.8%**	**773,298**
2008	**28,962,194**	**2,227,752**	**7.7%**	**500,816**

TOTAL MARKET				
Bulk Warehouse				
2005	**32,103,549**	**5,141,477**	**16.0%**	
2006	**32,918,599**	**5,070,021**	**15.4%**	**736,787**
2007	**32,276,580**	**3,350,270**	**10.4%**	**1,515,754**
2008	**33,424,815**	**2,726,378**	**8.2%**	**1,367,866**
Office Showroom				
2005	**20,470,693**	**2,471,976**	**12.1%**	
2006	**20,551,825**	**2,385,399**	**11.6%**	**216,216**
2007	**21,309,739**	**2,347,005**	**11.0%**	**392,707**
2008	**21,353,157**	**2,640,548**	**12.4%**	**(132,815)**
Office Warehouse				
2005	**54,923,465**	**6,417,872**	**11.7%**	
2006	**57,380,668**	**6,122,129**	**10.7%**	**1,154,221**
2007	**56,573,291**	**4,754,200**	**8.4%**	**1,257,677**
2008	**56,462,794**	**5,067,312**	**9.0%**	**346,293**
TOTALS				
2005	**107,497,707**	**14,031,325**	**13.1%**	
2006	**110,851,092**	**13,577,549**	**12.2%**	**2,107,224**
2007	**110,159,610**	**10,451,475**	**9.5%**	**3,166,138**
2008	**111,240,766**	**10,434,238**	**9.4%**	**1,581,344**

TOTAL MARKET - COMBINED

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	1,312	109,687,496	9,484,393	8.6%	977,919
New Projects	16	1,553,270	949,845	61.2%	603,425
Current Universe	1,328	111,240,766	10,434,238	9.4%	1,581,344

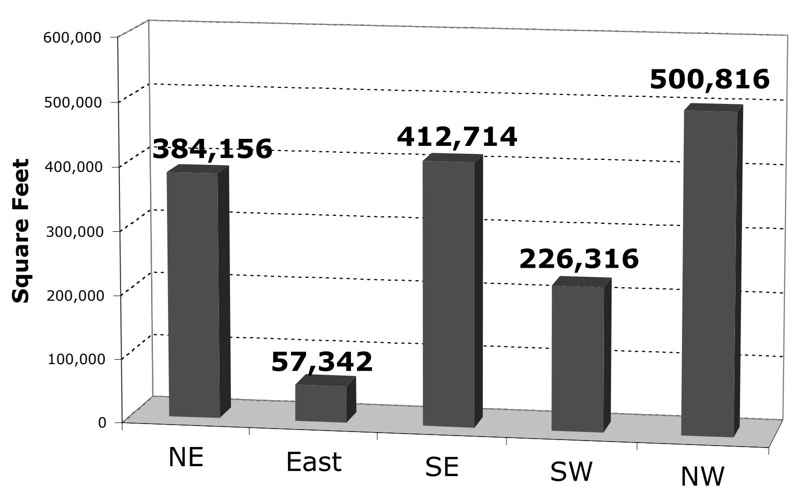
FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	492,373	6
Planned Projects	2,435,000	21
Total UC & Planned	2,927,373	27

ABSORPTION (Years Ended April 30)

Year	Annual Net Absorption Sq. Ft.
2004	1,421,970
2005	3,610,720
2006	2,107,224
2007	3,166,138
2008	1,581,344
Five Year Average	2,377,479

ABSORPTION BY MARKET AREA



TOTAL MARKET – BULK WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	244	32,823,815	2,440,378	7.4%	1,052,866
New Projects	4	601,000	286,000	47.6%	315,000
Current Universe	248	33,424,815	2,726,378	8.2%	1,367,866

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	151,200	1
Planned Projects	306,000	3
Total UC & Planned	457,200	4

TOTAL MARKET – OFFICE SHOWROOM

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	316	21,158,377	2,562,922	12.1%	(249,969)
New Projects	5	194,780	77,626	39.9%	117,154
Current Universe	321	21,353,157	2,640,548	12.4%	(132,815)

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	218,373	3
Planned Projects	510,000	7
Total UC & Planned	728,373	10

TOTAL MARKET – OFFICE WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	752	55,705,304	4,481,093	8.0%	175,022
New Projects	7	757,490	586,219	77.4%	171,271
Current Universe	759	56,462,794	5,067,312	9.0%	346,293

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	122,800	2
Planned Projects	1,619,000	11
Total UC & Planned	1,741,800	13

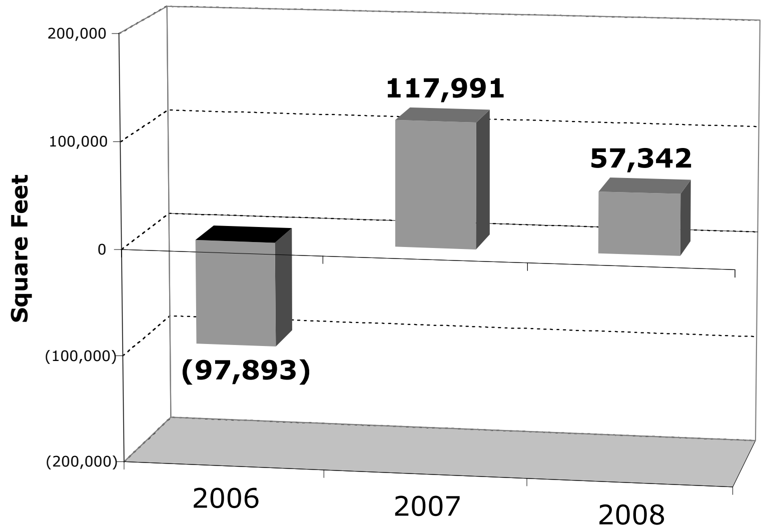
EAST

SIGNIFICANT EVENTS AND TRENDS

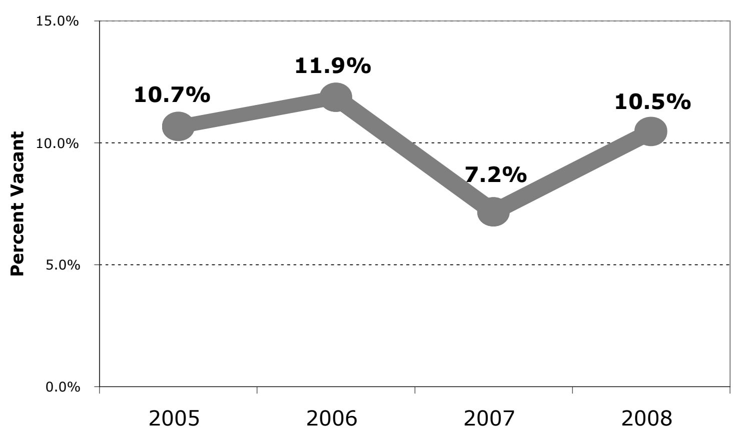
- Office-Showroom is the “hot” product in this submarket
- Three office showroom properties came on the market, and three are planned
- Vacancy constant at four-year average of 10%
- Absorption above three-year average, at 57,000 square feet

EAST

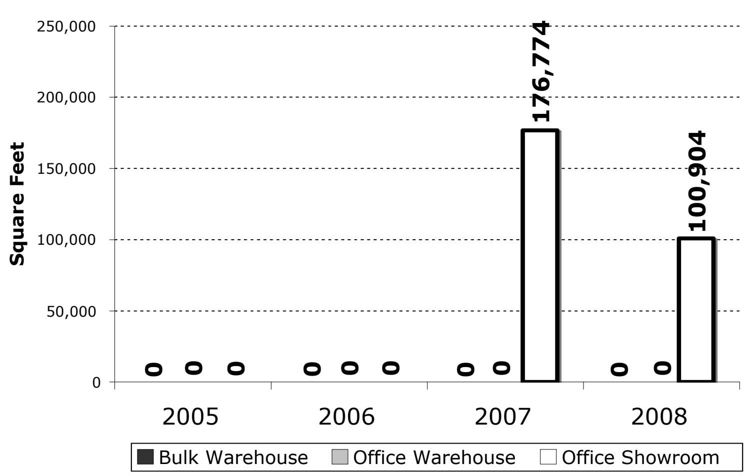
ABSORPTION TRENDS



HISTORICAL VACANCY RATES



NEW PROJECTS



EAST - COMBINED

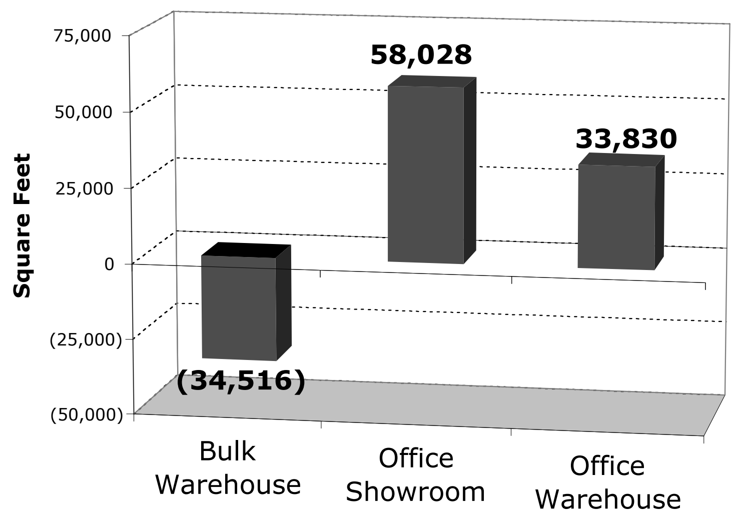
CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	88	7,741,405	786,959	10.2%	(10,431)
New Projects	3	100,904	33,131	32.8%	67,773
Current Universe	91	7,842,309	820,090	10.5%	57,342

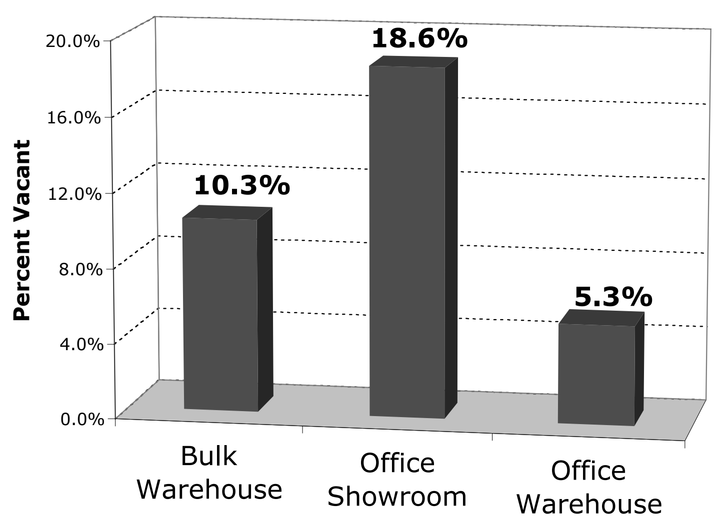
FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	102,373	2
Planned Projects	390,000	4
Total UC & Planned	492,373	6

ABSORPTION BY PRODUCT TYPE



VACANCY BY PRODUCT TYPE



EAST – BULK WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	20	3,192,062	329,087	10.3%	(34,516)
New Projects	0	0	0		0
Current Universe	20	3,192,062	329,087	10.3%	(34,516)

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects		
Total UC & Planned		

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- None

EAST – OFFICE SHOWROOM

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	25	1,745,768	310,452	17.8%	(9,745)
New Projects	3	100,904	33,131	32.8%	67,773
Current Universe	28	1,846,672	343,583	18.6%	58,028

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	102,373	2
Planned Projects	310,000	3
Total UC & Planned	412,373	5

FUTURE PROJECTS LIST

Under Construction:

- 700 Crossroads Commerce Center, Woodbury, 52,000 square feet
- Bridgepoint Business Center I, South St. Paul, 50,373 square feet

Planned:

- Crossroads 650, Oakdale, 65,000 square feet
- Red Rock Territory Business Park, Woodbury, 120,000 square feet
- River Bend Business Park Phase III, St. Paul, 125,000 square feet

EAST – OFFICE WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	43	2,803,575	147,420	5.3%	33,830
New Projects	0	0	0		0
Current Universe	43	2,803,575	147,420	5.3%	33,830

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	80,000	1
Total UC & Planned	80,000	1

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- River Grove Business Center, Cottage Grove, 80,000 square feet

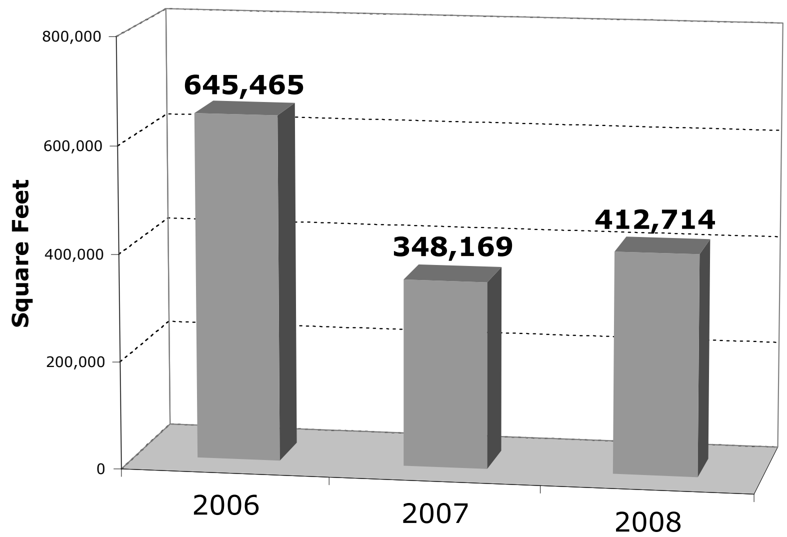
SOUTHEAST

SIGNIFICANT EVENTS AND TRENDS

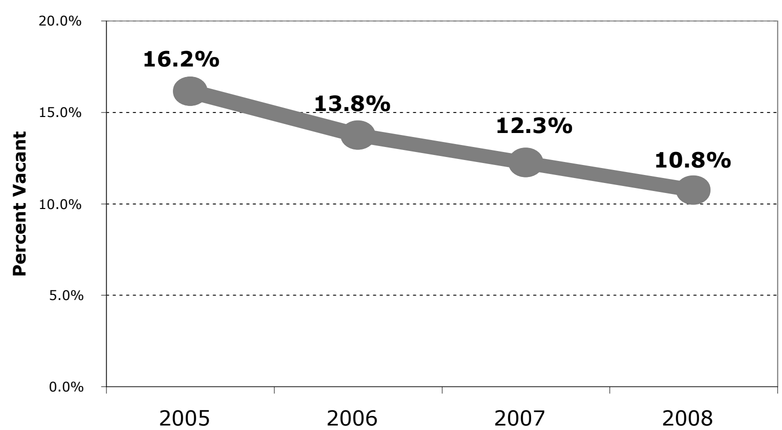
- Overall vacancy rate dropped to 10.8%
- Lease rates remain strong in office warehouse due to lack of supply
- Office showroom underperforming - supply and vacancy increase
- There is a lack of quality bulk warehouse space – the vacancy is 6.0% when challenged facilities are removed from this market
- Separation of quality – build to suit tenants are willing to pay increased rent for new, high quality facilities
- Very few sites available for development in the core Southeast submarket
- Northwest Airlines/Delta merger will have minimal impact in the immediate future
- 50,000+ square foot users in office warehouse or office showroom have limited existing options, must consider build to suit options

SOUTHEAST

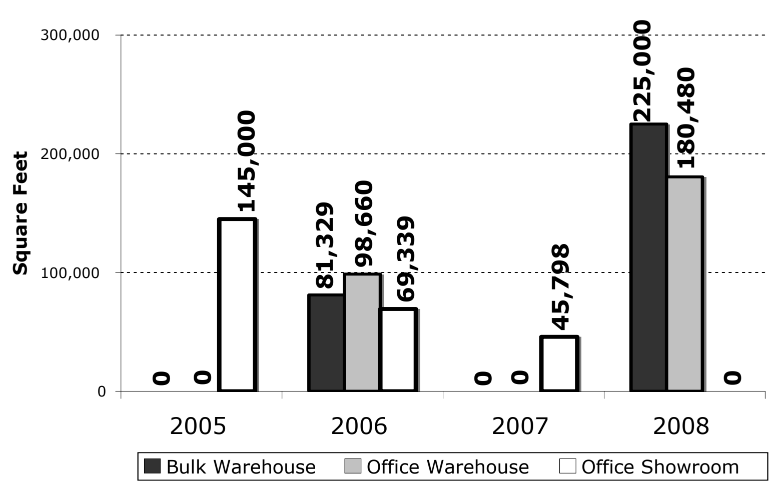
ABSORPTION TRENDS



HISTORICAL VACANCY RATES



NEW PROJECTS



SOUTHEAST - COMBINED

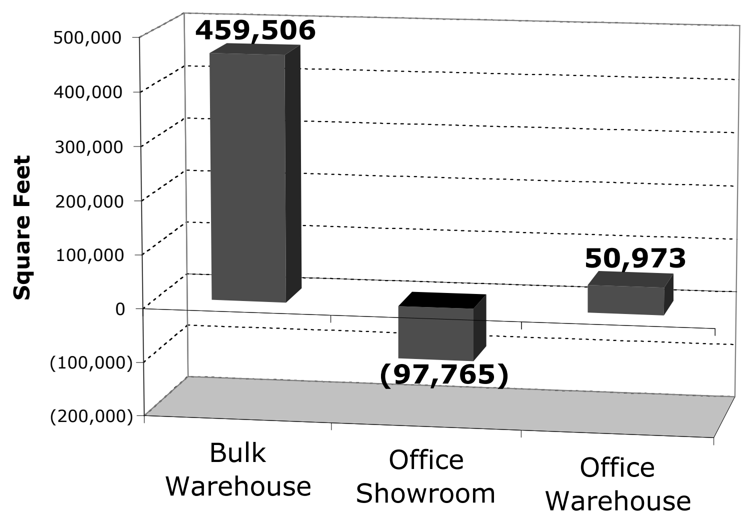
CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	215	17,302,702	1,689,194	9.8%	227,234
New Projects	2	405,480	220,000	54.3%	185,480
Current Universe	217	17,708,182	1,909,194	10.8%	412,714

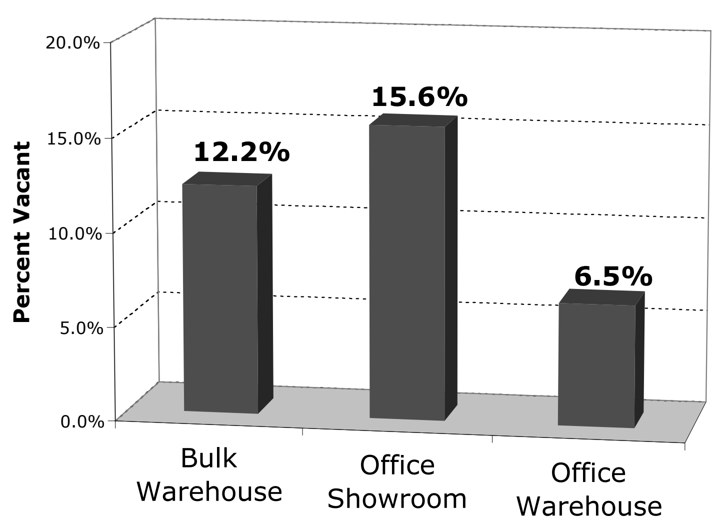
FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	116,000	1
Planned Projects	558,000	5
Total UC & Planned	674,000	6

ABSORPTION BY PRODUCT TYPE



VACANCY BY PRODUCT TYPE



SOUTHEAST – BULK WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	55	6,627,60	754,676	11.4%	314,506
New Projects	1	225,000	80,000	35.6%	145,000
Current Universe	56	6,852,060	834,676	12.2%	459,506

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	248,000	2
Total UC & Planned	248,000	2

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- 160TH & Highway 3, Rosemount, 48,000 square feet
- Inverwood Business Park, Inver Grove Heights, 200,000 square feet

SOUTHEAST – OFFICE SHOWROOM

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	67	4,020,020	629,003	15.6%	(97,765)
New Projects	0	0	0		0
Current Universe	67	4,020,020	629,003	15.6%	(97,765)

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	116,000	1
Planned Projects	100,000	2
Total UC & Planned	216,000	3

FUTURE PROJECTS LIST

Under Construction:

- Boulder Lakes Office III, Eagan, 116,000 square feet

Planned:

- Apple Valley Business Park, Apple Valley, 60,000 square feet
- Burnsville West Business Center, Burnsville, 40,000 square feet

SOUTHEAST – OFFICE WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	93	6,655,622	305,515	4.6%	10,493
New Projects	1	180,480	140,000	77.6%	40,480
Current Universe	94	6,836,102	445,515	6.5%	50,973

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	210,000	1
Total UC & Planned	210,000	1

FUTURE PROJECTS LIST

Under Construction:

- None

Planned

- Lo Nidy Business Park, Eagan, 210,000 square feet

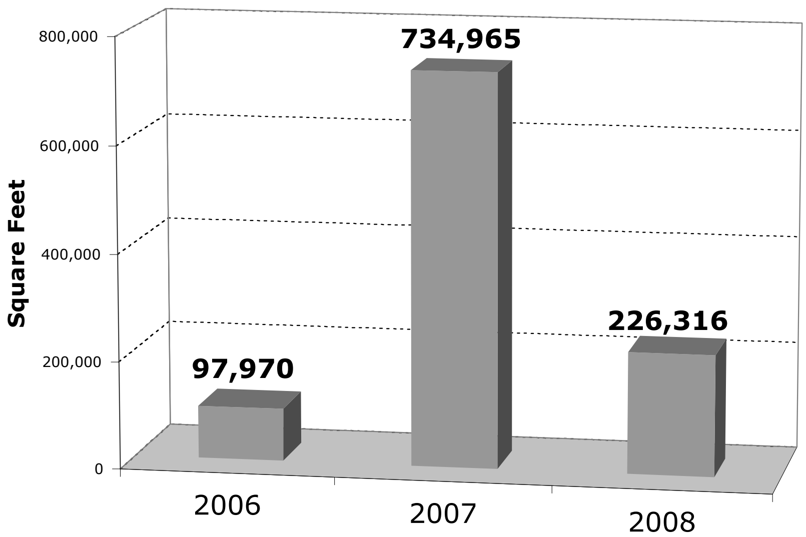
SOUTHWEST

SIGNIFICANT EVENTS AND TRENDS

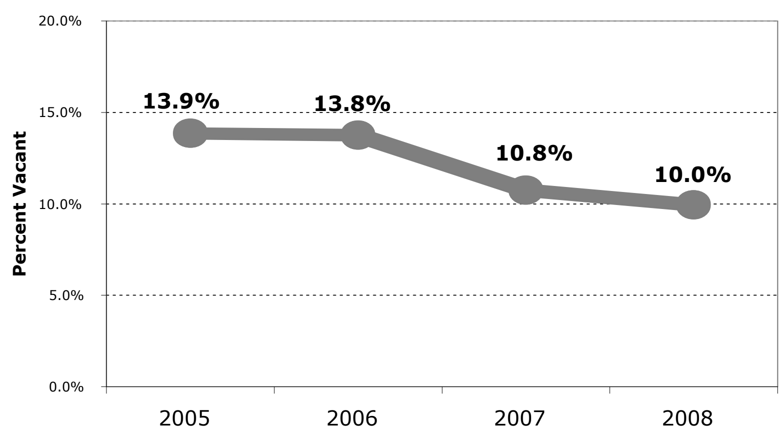
- Few good existing options larger than 50,000 square feet
- Vacancy continues to slowly drop
- Shakopee showed strong activity
- Speculative projects look to close the gap on build-to-suit activity
- New Highway 212 gains momentum

SOUTHWEST

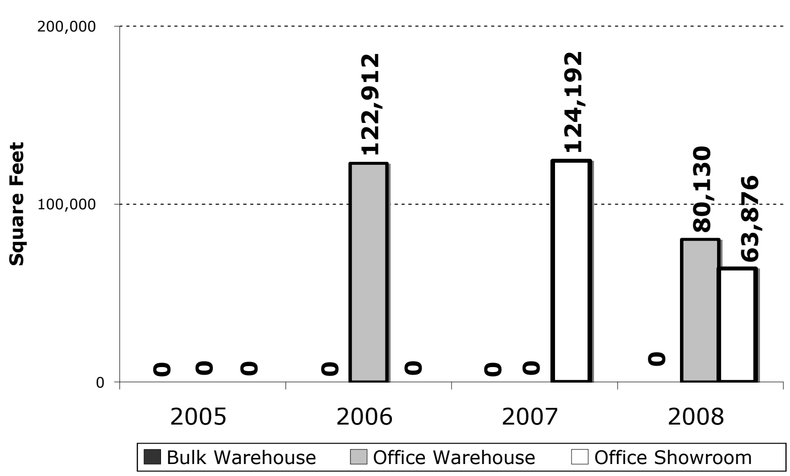
ABSORPTION TRENDS



HISTORICAL VACANCY RATES



NEW PROJECTS



SOUTHWEST - COMBINED

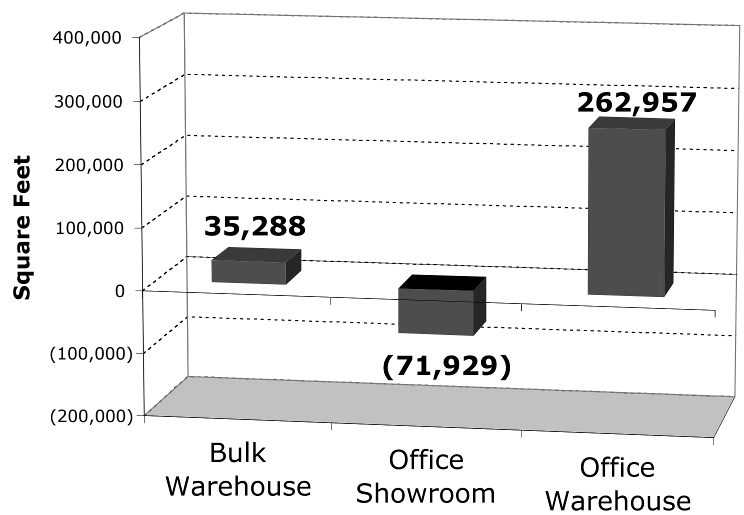
CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	307	22,819,730	2,231,762	9.8%	143,144
New Projects	2	144,006	60,834	42.2%	83,172
Current Universe	309	22,963,736	2,292,596	10.0%	226,316

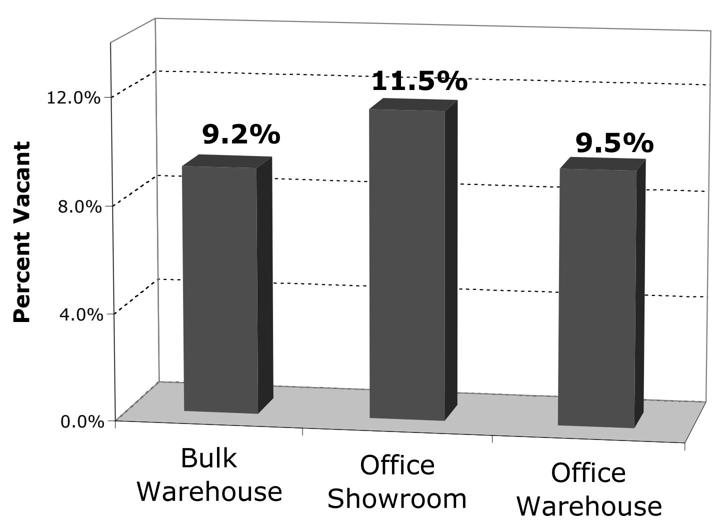
FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	64,800	1
Planned Projects	255,000	3
Total UC & Planned	319,800	4

ABSORPTION BY PRODUCT TYPE



VACANCY BY PRODUCT TYPE



SOUTHWEST – BULK WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	28	3,837,083	353,001	9.2%	35,288
New Projects	0	0	0		0
Current Universe	28	3,837,083	353,001	9.2%	35,288

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	0	0
Total UC & Planned	0	0

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- None

SOUTHWEST – OFFICE SHOWROOM

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	89	6,283,578	700,799	11.2%	(106,310)
New Projects	1	63,876	29,495	46.2%	34,381
Current Universe	90	6,347,454	730,294	11.5%	(71,929)

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	40,000	1
Total UC & Planned	40,000	1

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- Crystal Bay Business Center, Long Lake, 40,000 square feet

SOUTHWEST – OFFICE WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	190	12,699,069	1,177,962	9.3%	214,166
New Projects	1	80,130	31,339	39.1%	48,791
Current Universe	191	12,779,199	1,209,301	9.5%	262,957

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	64,800	1
Planned Projects	215,000	2
Total UC & Planned	279,800	3

FUTURE PROJECTS LIST

Under Construction:

- 12th Avenue Business Center Phase II, Shakopee, 64,800 square feet

Planned:

- Continental's Bloomington Industrial, Bloomington, 65,000 square feet
- Continental's Bloomington Industrial, Bloomington, 150,000 square feet

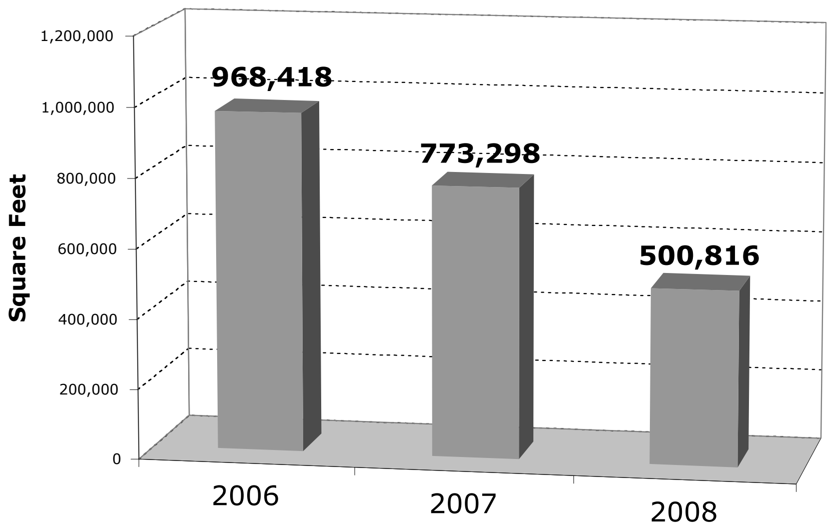
NORTHWEST

SIGNIFICANT EVENTS AND TRENDS

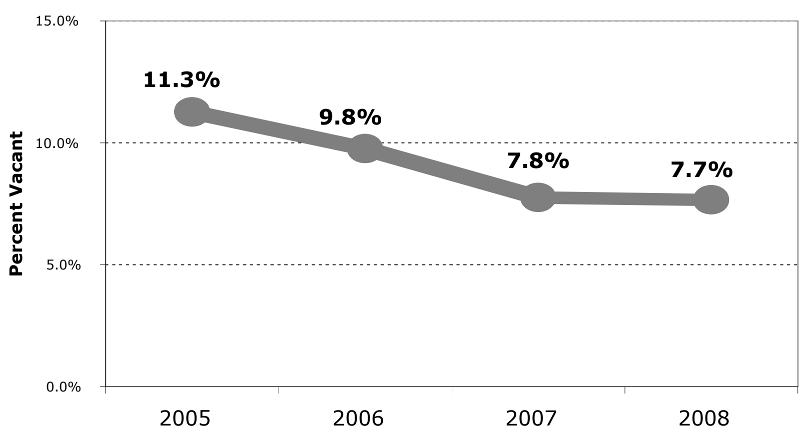
- Absorption trend continues three-year slide.
- Rents <u>flat for Existing</u> and <u>up for New</u>.
- Worst case scenario never materialized.
- New construction way down.

NORTHWEST

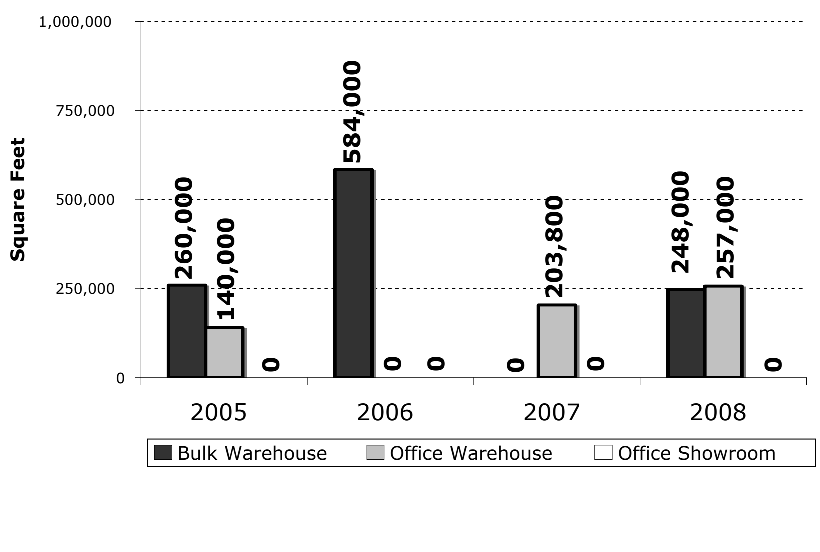
ABSORPTION TRENDS



HISTORICAL VACANCY RATES



NEW PROJECTS



NORTHWEST - COMBINED

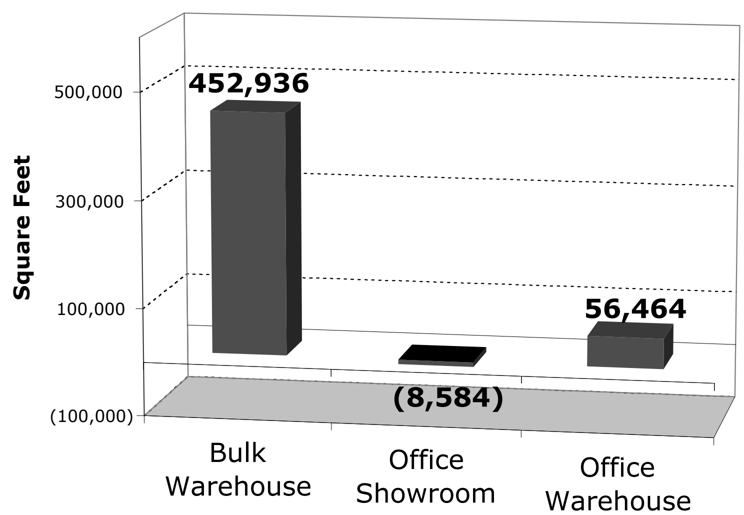
CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	337	28,457,194	1,892,752	6.7%	330,816
New Projects	4	505,000	335,000	66.3%	170,000
Current Universe	341	28,962,194	2,227,752	7.7%	500,816

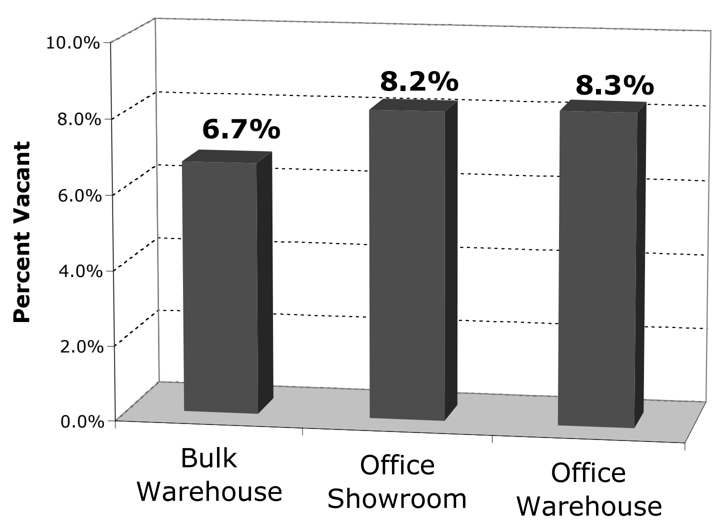
FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	151,200	1
Planned Projects	348,000	3
Total UC & Planned	499,200	4

ABSORPTION BY PRODUCT TYPE



VACANCY BY PRODUCT TYPE



NORTHWEST – BULK WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	81	10,315,998	627,359	6.1%	282,936
New Projects	2	248,000	78,000	31.5%	170,000
Current Universe	83	10,563,998	705,359	6.7%	452,936

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	151,200	1
Planned Projects	58,000	1
Total UC & Planned	209,200	2

FUTURE PROJECTS LIST

Under Construction:

- Rogers Commerce Center, Rogers, 151,200 square feet

Planned:

- 19875 South Diamond Lake Road, Rogers, 58,000 square feet

NORTHWEST – OFFICE SHOWROOM

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	75	5,011,288	409,691	8.2%	(8,584)
New Projects	0	0	0		0
Current Universe	75	5,011,288	409,691	8.2%	(8,584)

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	0	0
Total UC & Planned	0	0

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- None

NORTHWEST – OFFICE WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	181	13,129,908	855,702	6.5%	56,464
New Projects	2	257,000	257,000	100.0%	0
Current Universe	183	13,386,908	1,112,702	8.3%	56,464

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	290,000	2
Total UC & Planned	290,000	2

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- Corcoran Business Park, Corcoran, 190,000 square feet
- CSM, Brooklyn Park, 100,000 square feet

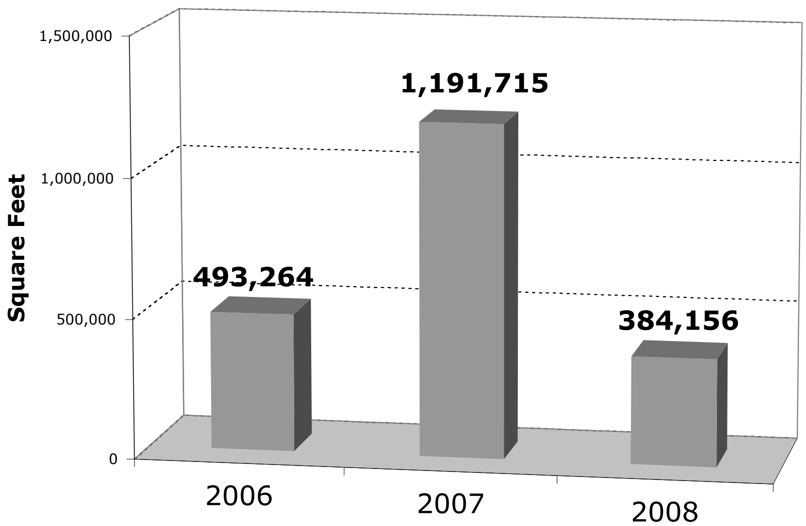
NORTHEAST

SIGNIFICANT EVENTS AND TRENDS

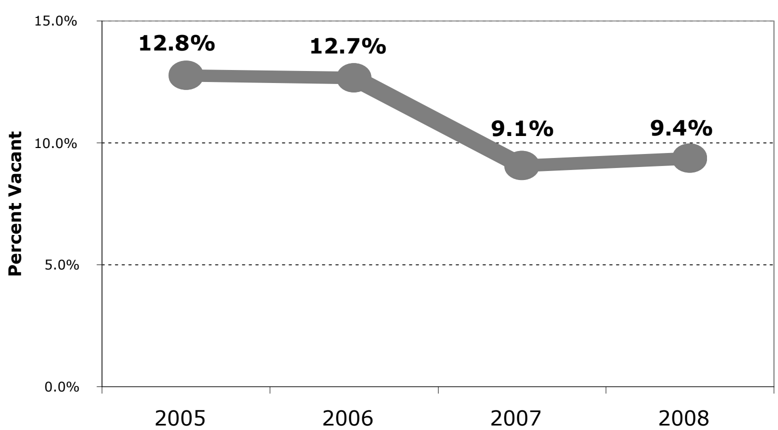
- Overall vacancy flat, at a healthy 9.4%
- Bulk warehouse strong with absorption of 450,000 square feet and vacancy of 5.6%
- Office warehouse especially active with new and planned projects
- Former corporate facilities being converted to multitenant properties
- New development continues to push up I-35W and I-35E

NORTHEAST

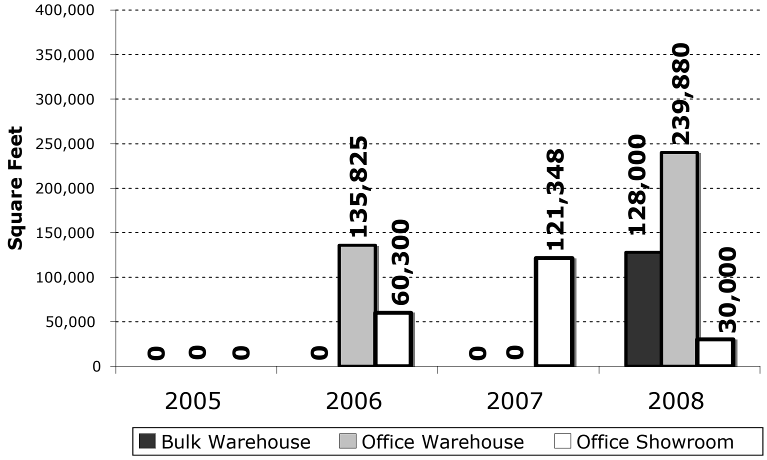
ABSORPTION TRENDS



HISTORICAL VACANCY RATES



NEW PROJECTS



NORTHEAST - COMBINED

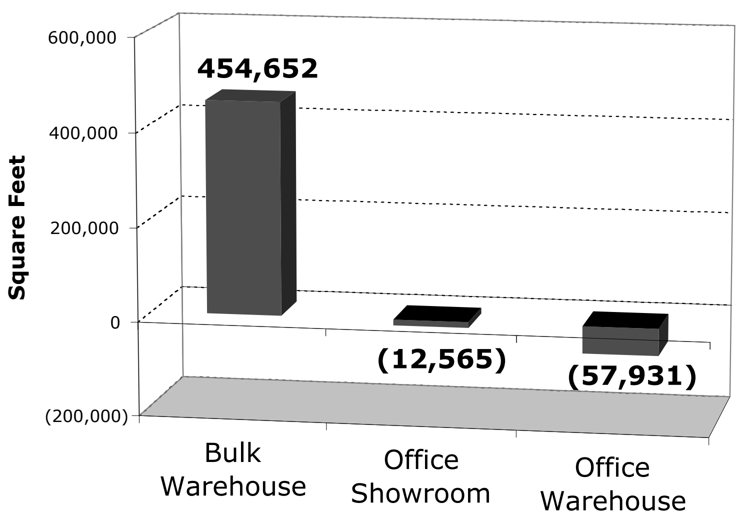
CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	365	33,366,465	2,883,726	8.6%	287,156
New Projects	5	397,880	300,880	75.6%	97,000
Current Universe	370	33,764,345	3,184,606	9.4%	384,156

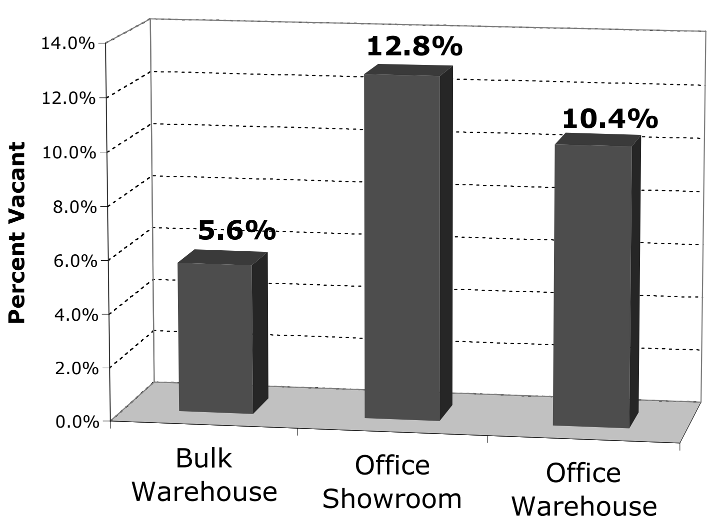
FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	884,000	6
Planned Projects	58,000	1
Total UC & Planned	942,000	7

ABSORPTION BY PRODUCT TYPE



VACANCY BY PRODUCT TYPE



NORTHEAST – BULK WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	60	8,851,612	376,255	4.3%	454,652
New Projects	1	128,000	128,000	100.0%	0
Current Universe	61	8,979,612	504,255	5.6%	454,652

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	0	0
Total UC & Planned	0	0

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- None

NORTHEAST – OFFICE SHOWROOM

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	60	4,097,723	512,977	12.5%	(27,565)
New Projects	1	30,000	15,000	50%	15,000
Current Universe	61	4,127,723	527,977	12.8%	(12,565)

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	0	0
Planned Projects	60,000	1
Total UC & Planned		

FUTURE PROJECTS LIST

Under Construction:

- None

Planned:

- Minnesota Innovation Center, Minneapolis, 60,000 square feet

NORTHEAST – OFFICE WAREHOUSE

CURRENT UNIVERSE

	# of Projects	Total Sq. Ft.	Vacant Sq. Ft.	Percent Vacant	Absorption Sq. Ft.
Existing Projects	245	20,417,130	1,994,494	9.8%	(139,931)
New Projects	3	239,880	157,880	65.8%	82,000
Current Universe	248	20,657,010	2,152,374	10.4%	(57,931)

FUTURE PROJECTS

	Total Sq. Ft	Number
Under Construction	58,000	1
Planned Projects	824,000	5
Total UC & Planned	882,000	6

FUTURE PROJECTS LIST

Under Construction:

- New Brighton Commons, New Brighton, 58,000 square feet

Planned:

- 85th Avenue Business Center, Blaine, 60,000 square feet
- Glen Meadows, Blaine, 100,000 square feet
- 1-35's Business Park, Columbus, 500,000 square feet
- Lexington Preserve Business Park III, Blaine, 114,000 square feet
- Park Place Storage, Columbus, 50,000 square feet

LAND

SIGNIFICANT EVENTS AND TRENDS

- Industrial land prices are leveling off due to increased construction prices
- Banks are foreclosing on land sites for development projects that the market cannot support
- Senior housing developers have been aggressively seeking land positions for projects
- The stagnant residential and retail markets continue to push down land pricing

Thanks to
Colliers Turley Martin Tucker
for the providing the Regional Description & Demographic Data.

REGIONAL DESCRIPTION

Minneapolis and St. Paul, which are known as the Twin Cities, and the surrounding suburban area represent Minnesota's largest metropolitan area and make up the 15th largest consolidated metropolitan statistical area (CMSA) in the United States. Minnesota is the northern most state in the contiguous United States and is bordered by Canada to the north, Wisconsin to the east, Iowa to the south, and North and South Dakota to the west. The following statistics highlight Minnesota and the Twin Cities metropolitan area from a national perspective.

- In 2007 "Forbes Magazine" ranked Minnesota as the 10th Best State for Business, based on best growth prospects, best labor pools, best regulatory environments, quality of life, and low business costs. Minnesota was at the top of the list in terms of best quality of life.

- "Viewpoint 2007" released by Integra Realty Resources, notes that Minneapolis' Industrial Market is in the "Expansion Stage" of the Industrial Market Cycle, with decreasing vacancy rates, moderate/high new construction, high absorption and moderate/high employment growth.

- The Twin Cities was named the "Top City for Business" by MarketWatch from DowJones in 2007. This rating was based on concentration of Fortune 1000, S&P 500, Russell 2000, and Forbes 400 private companies along with population growth, unemployment, and job growth. As of 2008, the Twin Cites have:

    - 32 Fortune 1000 companies
    - 15 S&P 500 firms
    - 31 Russell 2000 companies

- The Minnesota Department of Employment and Economic Development reports that Minnesota's December 2007 unemployment figure was 4.5%. This remains lower than the nationwide number at 4.8%.

- The annual Morgan Quitno study has ranked Minnesota as the most livable state for 1997, 1998, 1999, 2000, 2001, 2002, and 2003. From 2004-2007, Minnesota was ranked as the second most livable state.

The Minneapolis-St. Paul metropolitan area is located in the southeast portion of the state at the confluence of the Mississippi and Minnesota Rivers. The Minneapolis-St. Paul metropolitan area is the largest metropolitan area located within a broad radius in the north-central region. The closest metropolitan areas to Minneapolis-St. Paul are Milwaukee, Wisconsin, Chicago, Illinois, and Kansas City, Kansas being 330, 430, and 440 miles distant, respectively. The Minneapolis-St. Paul CMSA is the largest CMSA between Chicago and the West Coast north of Texas and Arizona.

The Twin Cities population was ranked as the 15th largest metropolitan area in the nation in 2000 according to the Bureau of the Census in 2000 (U.S. Census estimates may differ from Metropolitan Council estimates).

The Census also reported that the Twin Cities are growing faster than any other "frost belt" metropolitan area, and it ranked ninth overall in terms of major metropolitan area growth between 1990 and 2000.

The following chart lists the 25 most populous metropolitan areas in the country as of 2000 and their respective growth rates from 1990 to 2000.

The Top 25 Metropolitan Area Populations				
Rank	**MSA OR CMSA**	**2000**	**1990**	**1990-2000**
1	New York–Northern New Jersey	21,199,865	19,549,649	8.4%
2	Los Angeles–Riverside–Orange County	16,373,645	14,531,529	12.7%
3	Chicago–Gary–Kenosha	9,157,540	8,239,820	11.1%
4	Washington–Baltimore	7,608,070	6,727,050	13.1%
5	San Francisco–Oakland–San Jose	7,039,362	6,253,311	12.6%
6	Philadelphia–Wilmington–Atlantic City	6,188,463	5,892,937	5.0%
7	Boston–Worcester–Lawrence	5,819,100	5,455,403	6.7%
8	Detroit–Ann Arbor–Flint	5,456,428	5,187,171	5.2%
9	Dallas–Fort Worth	5,221,801	4,037,282	29.3%
10	Houston–Galveston–Brazoria	4,669,571	3,731,131	25.2%
11	Atlanta	4,112,198	2,959,950	38.9%
12	Miami–Fort Lauderdale	3,876,380	3,192,582	21.4%
13	Seattle–Tacoma–Bremerton	3,554,760	2,970,328	19.7%
14	Phoenix–Mesa	3,251,876	2,238,480	45.3%
15	**Minneapolis–St. Paul**	**2,968,806**	**2,538,834**	**16.9%**
16	Cleveland–Akron	2,945,831	2,859,644	3.0%
17	San Diego	2,813,833	2,498,016	12.6%
18	St. Louis	2,603,607	2,492,525	4.5%
19	Denver–Boulder–Greeley	2,581,506	1,980,140	30.4%
20	San Juan–Caguas–Arecibo	2,450,292	2,270,808	7.9%
21	Tampa–St. Petersburg–Clearwater	2,395,997	2,067,959	15.9%
22	Pittsburgh	2,358,695	2,394,811	-1.5%
23	Portland–Salem	2,265,223	1,793,476	26.3%
24	Cincinnati–Hamilton	1,979,202	1,817,571	8.9%
25	Sacramento–Yolo	1,796,857	1,481,102	21.3%

Source: Bureau of the Census, 2000.

Most of the population of the Minneapolis-St. Paul metropolitan area is found within the seven-county area that includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington. This region's Metropolitan Statistical Area (MSA) actually covers these seven counties plus six more: the Minnesota counties of Chisago, Isanti, Wright, and Sherburne; and the Wisconsin counties of Pierce and St. Croix.

The following chart presents the 2000 Census and 2030 forecasts for the seven county metropolitan area.

Regional Forecasts			
	Population	**Households**	**Employment**
2000	2,642,062	1,021,459	1,563,245
2030	3,640,000	1,497,000	2,138,000
Growth 2000-2030	997,938	475,541	574,755

Source: Metropolitan Council, 2006.

The Minneapolis-St. Paul metropolitan region can be classified as having an extreme climate, which has resulted in high standards for building code and construction requirements, and presents many challenges to managing real estate assets.

The Minneapolis-St. Paul area is a growing urban center. Its seven county population increased by 23.3% between 1990 and 2006. Current, historical, and estimated population figures for the metropolitan area are shown in the following table.

Population Minneapolis-St. Paul Seven-County Area, Minnesota and the United States					
Area	1970	1980	1990	2000	2006 Estimate
Mpls.-St. Paul (7 county area)	1,874,612	1,985,873	2,288,721	2,642,056	2,821,779
Minnesota	3,806,103	4,075,970	4,375,099	4,919,479	5,167,101
United States	203,211,926	224,454,272	248,709,873	281,421,906	299,398,484

Source: U.S. Bureau of the Census, Metropolitan Council, 2007.

Most of the state's net population increase during the 1990s occurred in the Twin Cities metropolitan area with the great majority of this growth being in the developing suburbs. In the first half of the 2000s, much of the Twin Cities population growth was occurring in the third-ring suburbs and beyond, with some influx also in the central cities. In the 1980s and much of the 1990s, many of the mature, inner-ring suburbs actually lost population due to migration to the outer-ring suburbs and declining household sizes. However, the rate of loss observed in the two central cities and the inner-ring suburbs slowed in the late-1990s and many interior communities then witnessed population and household growth. In fact, redevelopment projects around Minneapolis and St. Paul as well as first-ring communities reached a peak in 2005 and 2006. However, with the rapid downturn in almost all residential markets in the Twin Cities region in the second half of 2006, and with a continued loss of momentum in this market in 2007, there has been significantly less redevelopment and/or new development in both the inner-ring communities as well as the outer suburbs of late. Some projects were even halted partway into their planning and construction phases.

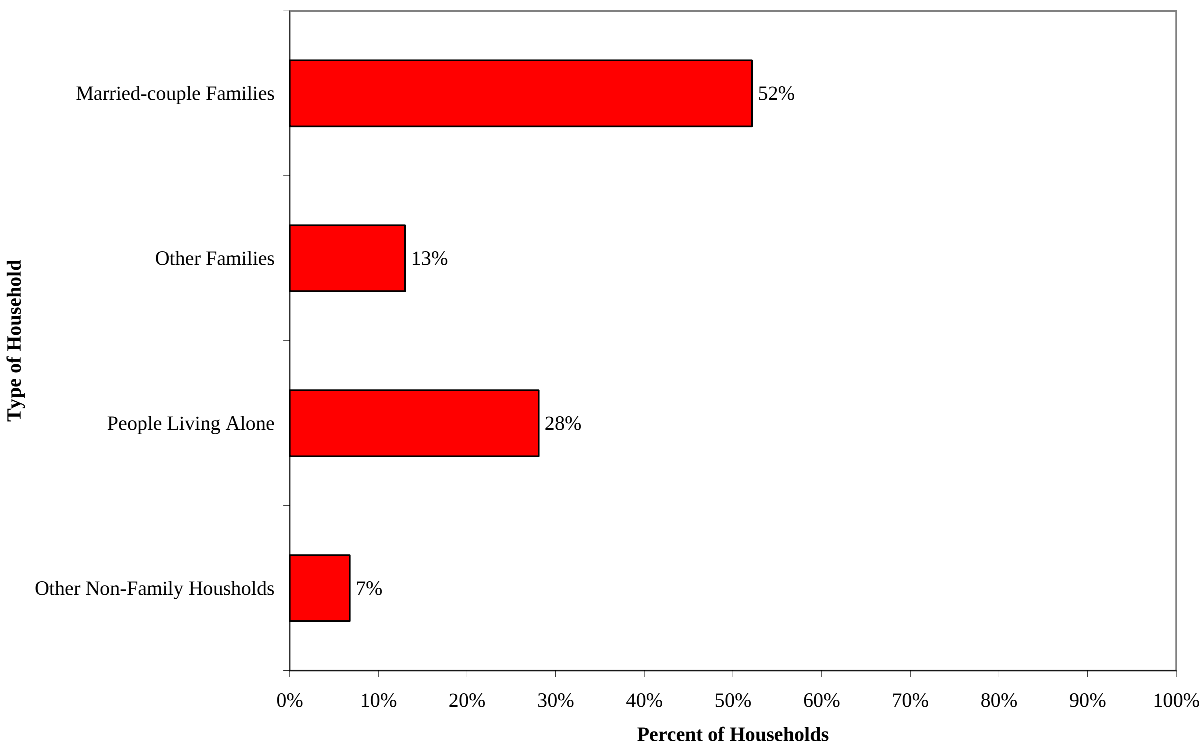
According to the Metropolitan Council's 2006 household estimates for the seven-county metropolitan area, the total number of households was 1,109,836 with 2.54 persons per household. The following table shows the Metropolitan Council's household estimates for 1980, 1990, 2000, and 2006 by county. Following the household estimates, the types of households by percent in Minnesota are provided from the U.S. Census Bureau, American Community Survey.

Household Estimates
Minneapolis-St. Paul Seven-County Region

	Households				Persons Per Household			
County	**1980**	**1990**	**2000**	**2006 Est.**	**1980**	**1990**	**2000**	**2006 Est.**
Anoka	60,716	82,437	106,428	119,138	3.20	2.93	2.77	2.76
Carver	12,011	16,601	24,356	30,968	3.02	2.84	2.84	2.78
Dakota	64,087	98,293	131,151	147,824	3.01	2.78	2.70	2.65
Hennepin	365,536	419,060	456,129	479,483	2.51	2.41	2.39	2.40
Ramsey	170,505	190,500	201,236	206,149	2.60	2.47	2.45	2.50
Scott	13,501	19,367	30,692	42,512	3.20	2.95	2.89	2.81
Washington	35,001	49,246	71,462	83,762	3.18	2.91	2.69	2.72
Metro Total/Average	7212,357	875,504	1,021,454	1,109,836	2.69	2.56	2.69	2.54

Source: Metropolitan Council and U.S. Bureau of the Census, 2007

Types of Households in Minnesota in 2006



Source: American Community Survey, 2008.

From 1990 to 2000, persons per household slightly decreased in the Twin Cities area and a majority of households are married-couple families followed by persons residing alone. The trend of smaller average size families and more people living alone while population continues to grow suggests household growth is surpassing population.

Also increasing is household income in the Twin Cities. As of 2006, the most recent data available, the US Census Bureau estimates Minnesota's median household income to be $54,023, which is 11.5% higher than the national average of $48,451. Although recent statistics for the Twin Cities metropolitan area are currently unavailable, the metropolitan area has historically had a higher median household income than the state overall. The following chart shows the Minnesota median household income as compared to the nation for the period of 1996 to 2006.

Median Household Income Minnesota and the U.S.				
Area	**1996**	**2000**	**2006**	**1996-2006 Change**
Minnesota	$40,991	$47,111	$54,023	31.8%
United States	$35,492	$41,994	$48,451	36.5%

Source: U.S. Census Bureau.

Sales and Marketing's 2006 article, "The 20 Hottest Cities for Selling," ranked the Minneapolis-St. Paul-Bloomington area 15th based on anticipated growth percentage rates over the next 5 years; consumers' effective buying income (EBI)—the after-tax or disposable income; and buying power index (BPI)—a unique measure of spending power that takes population, EBI, and retail sales into account to determine a market's ability to buy. This area has a total EBI of over $71 billion annually with a median household EBI of $48,419. The per capita EBI of the Twin Cities area is ranked 17th nationally, and the manufacturing and high-tech BPIs are ranked 5th and 14th respectively.

When compared with most other states in the nation, Minnesota is clearly a national leader in household income, housing value, education, and employment. The information on the following page, compiled from the American Community Survey, 2006, compares Minnesota with other states in various categories.

How Minnesota Compares to Other States					
	Minnesota	National Average	Minnesota Rank	# 1 Ranked State	# 50 Ranked State
Home-Ownership Rate	76.3%	67.3%	# 1	Minnesota	New York 55.6 %
Median Housing Value (2006 Inflation Adjusted Dollars)	$208,200	$185,200	# 20	California $535,700	Mississippi $88,600
Median Household Income (2006 Inflation Adjusted Dollars)	$54,023	$48,451	# 10	Maryland $65,144	Mississippi $34,473
Employment Ratio	76.9%	69.2%	# 2	Nebraska 77.3%	West Virginia 61.5%
High School Graduates (incl Equivalency)	90.7%	84.1%	# 1	Minnesota	Mississippi 77.9%
College Graduates Bachelor's Degree or Higher	30.4%	27.0%	# 12	Massachusetts 37.0%	West Virginia 16.5%
Individuals Below Poverty	9.8%	13.3%	# 44	Mississippi 21.1%	Maryland 7.8%
Foreign Born Population	6.6%	12.5%	# 25	California 27.2%	West Virginia 1.2%
Average Travel Time to Work	22 Minutes	25 Minutes	# 35	New York 30.9 minutes	North Dakota 15.5 Minutes

Source: U.S. Census—American Community Survey, 2008

In the past few years, the demand for housing has been high. Approximately 94.1% of the total housing units in the metro area were occupied for year 2006, which is almost 6% higher than the national occupancy average of 88.4%. The table on the following page illustrates occupied housing units vs. total housing units by county in the Twin Cities area.

Housing Units Minneapolis-St. Paul Seven County Region			
County	**Total Housing Units**	**Occupied Housing Units**	**% Occupied**
Anoka	123,343	117,643	95.4%
Carver	32,651	31,228	95.6%
Dakota	153,617	148,617	96.7%
Hennepin	496,083	460,441	92.8%
Ramsey	213,802	198,812	93.0%
Scott	44,221	42,046	95.1%
Washington	87,037	83,611	96.1%
Metro Area	1,150,754	1,082,398	94.1%

Source: U.S. Bureau of the Census, 2006 (Estimate).

Although vacancy rates in the Twin Cities region are lower than the national average, the demand for all types of housing in this market (i.e. for rent and for sale units) began to slow in 2007. This is reflected in the January 2007 median sale price of existing single-family homes in the Twin Cities metropolitan area, which was $225,000, a 0.7% decrease from the January 2006 median sale price of $226,700. The following table ranks the median sale prices of the top 15 metropolitan areas in the United States according to population, followed by a comparison of the Minneapolis-St. Paul area in relation to other upper-Midwest metropolitan areas.

Median Sales Price of Existing Single Family Homes Largest Metropolitan Areas of the United States								
Rank	**MSA**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007****	**% Change 2002-07**
-	**United States**	**$158,100**	**$169,900**	**$195,200**	**$219,000**	**$221,900**	**$218,967**	**38.50%**
-	**Midwest**	**$136,000**	**$141,000**	**$151,500**	**$168,300**	**$164,800**	**$162,867**	**19.75%**
1	New York-Northern New Jersey	$309,800	$353,000	$385,900	$445,200	$469,300	$472,867	52.64%
2	Los Angeles Area	$286,000	$357,700	$446,400	$529,000	$584,800	$590,800	106.57%
3	Chicago Area	$220,900	$238,900	$240,100	$264,200	$273,500	$278,967	26.29%
4	Washington-DC/MD/VA	$250,000	$286,000	$339,800	$425,800	$431,000	$436,933	74.77%
5	San Francisco Bay Area	$517,100	$558,100	$641,700	$715,700	$736,800	$806,767	56.02%
6	Philadelphia, PA/NJ/DE/MD	$146,100	$168,000	$185,100	$215,300	$230,200	$236,167	61.65%
7	Boston, MA	NA	$354,800	$389,700	$413,200	$402,200	$405,133	NA
8	Detroit Area	NA	NA	$161,000	$163,800	$151,700	$143,750	NA
9	Dallas-Fort Worth-Arlington	$135,200	$138,400	$138,200	$147,600	$149,500	$149,600	10.65%
10	Houston-Baytown-Sugarland	$132,800	$136,400	$136,000	$143,000	$149,100	$152,633	14.93%
11	Atlanta-Marietta	$146,500	$152,400	$156,900	$167,200	$171,800	$173,733	18.59%
12	Miami-Fort Lauderdale	$189,800	$226,800	$286,400	$363,900	$371,200	$372,167	96.08%
13	Seattle-Tacoma-Bremerton	$254,000	$268,800	$284,600	$316,800	$361,200	$390,067	53.57%
14	Phoenix-Mesa	$143,800	$152,500	$169,400	$247,400	$268,200	$260,933	81.46%
15	**Minneapolis-St. Paul**	**$185,000**	**$199,600**	**$217,400**	**$234,800**	**$232,300**	**$226,400**	**22.38%**
-	Madison, WI	$177,000	$188,700	$200,800	$218,300	$223,200	$226,333	27.87%
-	Milwaukee, WI	$173,800	$182,100	$197,100	$215,700	$220,900	$220,733	27.00%
-	Green Bay, WI	$130,100	NA	$143,300	$154,800	$151,300	$153,733	18.17%
-	Omaha, NE	$122,400	$128,100	$131,300	$136,200	$138,400	$137,933	12.69%
-	Des Moines, IA	$130,200	$133,900	$140,800	$145,500	$145,100	$149,000	14.44%
-	Sioux Falls, SD	$116,700	$123,800	$129,200	$135,800	$138,000	$144,700	23.99%
-	Fargo-Moorhead, ND/MN	$107,700	$115,100	$124,200	$132,800	$136,500	$140,700	30.64%

** Average of First three quarters of 2007

Source: National Association of Realtors, 2008

The Minneapolis-St. Paul metropolitan area has a strong and diverse economic base with no untoward dependency on any single employment industry. The region's employment has steadily increased over the past ten years and the area has consistently had low unemployment rates. Much of Minnesota's economy originated from the agricultural and resource industries. Over the past 50 to 60 years, however, the state's and metropolitan area's economy and employment have expanded to include a broad foundation of income-producing trades including agribusiness, computer/high technology systems, machinery manufacturing, graphic arts, government, medical and educational institutions.

As shown in the following table, numerous corporations which rank in the top of their categories, as listed by Fortune magazine, are headquartered in the Twin Cities area.

Fortune 500 Largest U.S. Corporations With Headquarters in the Twin Cities Area			
Company	Headquarters Location	2007 National Ranking	Revenue in Millions
UnitedHealth Group	Minnetonka	21	71,542.00
Target	Minneapolis	33	59,490.00
Best Buy	Richfield	72	30,848.00
Travelers Cos.	St. Paul	89	25,090.00
3M	St. Paul	97	22,923.00
Supervalu	Eden Prairie	117	19,863.60
U.S. Bancorp	Minneapolis	123	19,109.00
CHS	Inver Grove Heights	166	14,383.80
Northwest Airlines	Eagan	195	12,568.00
General Mills	Minneapolis	213	11,640.00
Medtronic	Minneapolis	222	11,292.00
Xcel Energy	Minneapolis	251	9,847.80
Ameriprise Financial	Minneapolis	297	8,140.00
Land O'Lakes	Arden Hills	329	7,102.30
C.H. Robinson Worldwide	Eden Prairie	349	6,556.20
Thrivent Financial for Lutherans	Minneapolis	370	6,164.60
Hormel Foods	Austin	403	5,745.50
Mosaic	Plymouth	427	5,305.80
Ecolab	St. Paul	457	4,895.80
Nash-Finch	Minneapolis	476	4,631.60

Source: Fortune 500, 2007

In fact, the Twin Cities region has one of the highest rates of Fortune 500 companies per million residents in the entire country (6.7 per 1,000,000).

The seven-county Minneapolis-St. Paul metropolitan area has mostly experienced employment gains in the non-agricultural industries since 1976 excluding the manufacturing industry, with the exception of the 1980-82, 1991, and 2000-2001 recessionary periods.

The following table shows the metropolitan area's employment by industry from 2000 through 2006.

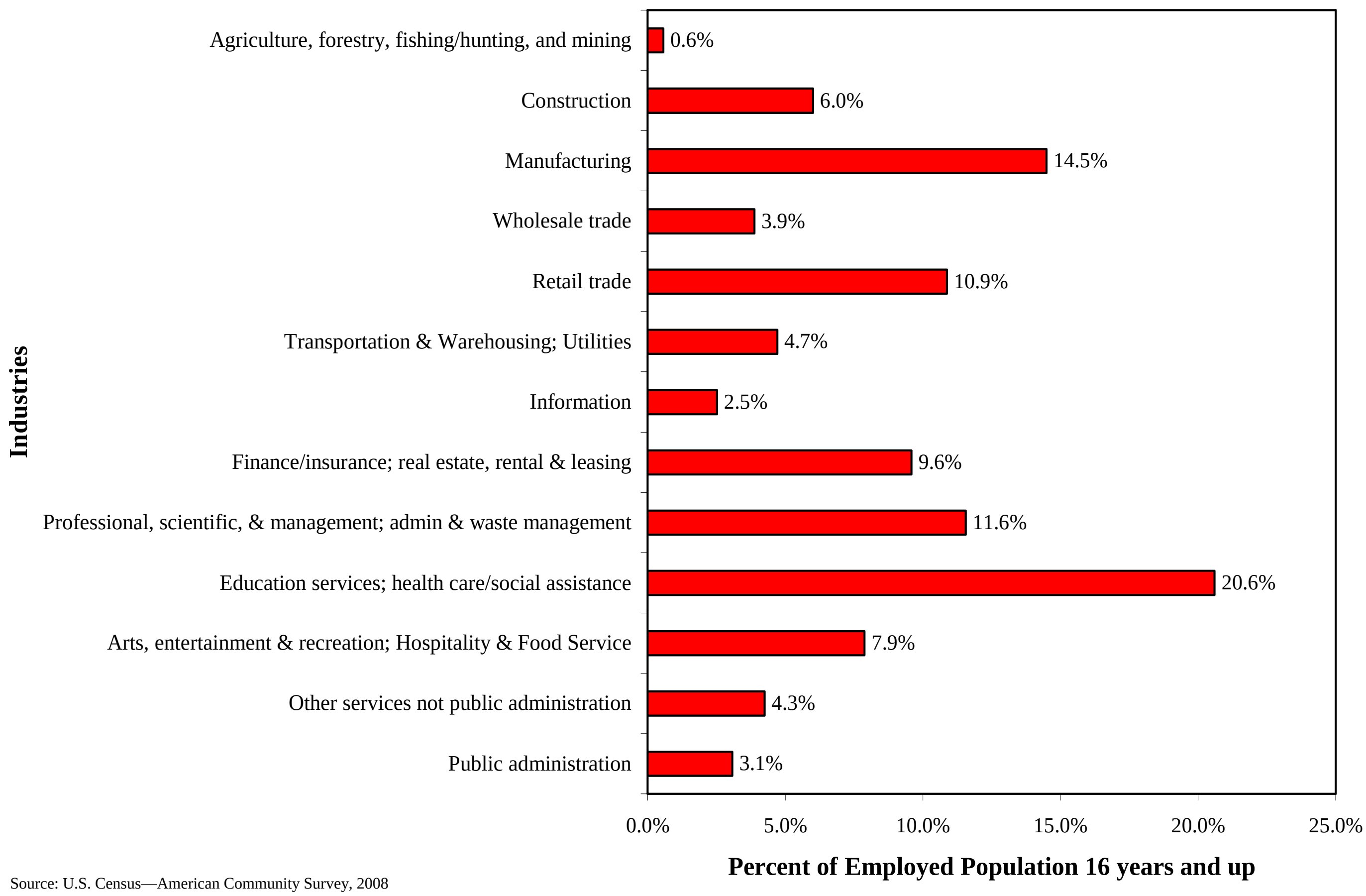
Seven County Minneapolis-St. Paul Metropolitan Area
Average Number of Employees in Non-Agricultural Employment

Industry	2000	2001	2002	2003	2004	2005	2006	% Growth 2000-2006
Goods Producing								
Natural Resources and Mining	3,221	3,239	3,270	3,236	3,590	3,568	3,605	11.92%
Construction	75,143	77,941	76,773	75,166	77,556	78,501	75,929	1.05%
Manufacturing	217,072	206,855	193,787	187,732	184,826	186,254	185,261	-14.65%
Total Goods-Producing Domain	295,436	288,035	273,830	266,134	265,972	268,323	264,795	-10.37%
Service-Providing								
Trade, Transportation and Utilities	341,186	N/A	N/A	325,585	325,533	327,904	326,239	-4.38%
Professional and Business Services	263,823	N/A	N/A	236,498	241,510	244,141	254,464	-3.55%
Education and Health Services	263,829	273,505	282,151	289,231	294,878	302,267	315,636	19.64%
Leisure and Hospitality	138,720	N/A	N/A	145,002	148,290	150,719	152,991	10.29%
Public Administration	55,631	60,766	62,308	63,332	62,844	63,752	64,602	16.13%
Other Service Providing	241,911	975,825	947,062	235,840	235,450	237,282	236,603	-2.19%
Total Service-Providing Domain	1,305,100	1,310,096	1,291,521	1,295,488	1,308,505	1,326,065	1,350,535	3.48%
Total, All Industries	1,600,536	1,598,131	1,565,351	1,561,622	1,574,478	1,594,388	1,615,330	0.92%

Source: Minnesota Department of Employment and Economic Development, Quarterly Census of Employment and Wages (QCEW), 2008

Provided on the following page is a chart showing the percentage breakdown of employment by industry in the Twin Cities metropolitan area. Note that, like most of the rest of the United States, manufacturing employment continues to lose ground in this category; whereas the services industry continues to gain an even greater share of the overall employment picture.

Employment by Industry in Minneapolis-St. Paul MSA in 2006



Source: U.S. Census—American Community Survey, 2008

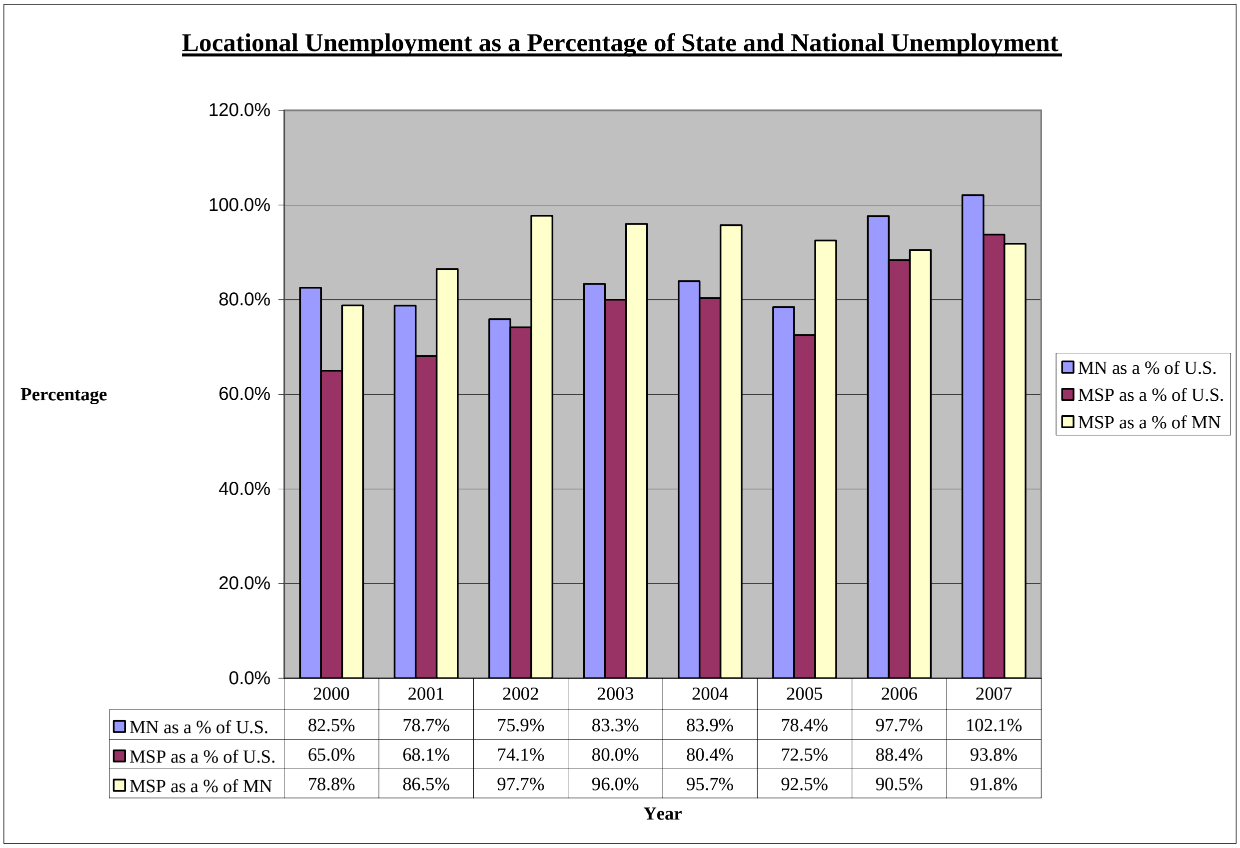
The Twin Cities metropolitan area has experienced consistently lower annual unemployment rates than both Minnesota and the United States since 1980. Unemployment for the Twin Cities 11-county metropolitan area was 4.5% in 2007, nearly unchanged from the 2005 rate of 3.7 percent. Comparative rates for Minnesota and the United States were 4.9% and 4.8%, respectively. The following table shows historical unemployment from 1995 through 2007 for the Minneapolis-St. Paul area, Minnesota, and the United States.

Annual Average Unemployment
Minneapolis-St. Paul MSA, Minnesota and the United States
(In Percents)

Area	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Minneapolis-St. Paul (11-County)	2.9	3.1	2.5	2.0	2.2	2.6	3.2	4.3	4.8	4.5	3.7	3.8	4.5
Minnesota	3.7	4.0	3.3	2.5	2.8	3.3	3.7	4.4	5.0	4.7	4.0	4.2	4.9
United States	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.6	5.1	4.3	4.8

Source: Minnesota Department of Employment and Economic Development, 2008

Using the above figures, the following chart illustrates the Minnesota unemployment rate as a percentage of the national unemployment rate as well as the Minneapolis-St. Paul unemployment rate as a percentage of both the national and state unemployment rates.



	2000	2001	2002	2003	2004	2005	2006	2007
MN as a % of U.S.	82.5%	78.7%	75.9%	83.3%	83.9%	78.4%	97.7%	102.1%
MSP as a % of U.S.	65.0%	68.1%	74.1%	80.0%	80.4%	72.5%	88.4%	93.8%
MSP as a % of MN	78.8%	86.5%	97.7%	96.0%	95.7%	92.5%	90.5%	91.8%

For a growing metropolitan area, transportation infrastructure is essential to move people, goods and services throughout the region. The metropolitan area is well serviced by several forms of transportation. Two major interstate highway systems traverse the area including Interstate 94, which extends east and west, and Interstate 35, which runs north and south. Interstates 694 and 494 form a beltway around the metropolitan area and facilitate travel in the outer-ring suburbs. Interstate 35W and 35E split north and south of the metropolitan area and bisect downtown Minneapolis and downtown St. Paul, respectively.

The Minneapolis-St. Paul International Airport is located approximately ten miles from both downtown Minneapolis and St. Paul. The airport is home base to Northwest Airlines, one of the largest airlines in the nation, with non-stop flights to over 100 cities worldwide, and Sun Country Airlines.

The metropolitan area is serviced by rail lines, which include Burlington Northern, Santa Fe and Canadian Pacific. Over 150 trucking firms service the area. Both Minneapolis and St. Paul have ports along the Mississippi River, which handle over eleven million tons of cargo for U.S. and foreign markets annually.

Public passenger service in the metropolitan area is managed by the Metropolitan Council Transit Operations (MCTO), which provides bus service to the Twin Cities and the outer suburban area. The Hiawatha light rail train line serves the Minneapolis CBD, MSP International Airport and the Mall of America. Construction has begun on the first 40 mile stretch of the commuter rail service known as the Northstar "heavy" rail that will eventually link St. Cloud and Hastings with the Twin Cities. This first phase of the Northstar rail is expected to be completed in 2009 and will connect Big Lake with the Twin Cities. There is also a lot of discussion surrounding the Central Corridor which will link downtown Minneapolis and St. Paul. These discussions are still preliminary as that line is not expected to be ready until 2014; however, the zoning and planning processes have begun.

Minnesota is well known for its education system and is recognized for its innovation in the educational field. According to the Minneapolis Chamber of Commerce, a total of 39 public school districts offering kindergarten through high school education, and 254 private elementary and secondary schools are located in the Twin Cities area. Minnesota has one of the highest graduation rates in the United States with 80% of the people 25 years and older in the metropolitan area being high school graduates. There are currently thirteen universities and colleges in the Twin Cities area providing both undergraduate and graduate studies.

Minneapolis and St. Paul are the cultural and entertainment centers of the state. The Guthrie Theater, Minnesota Orchestra, the Minneapolis Institute of Arts, and the Minnesota Opera, to name a select few, find their home in the Twin Cities. The metro area is currently represented in four professional sports including baseball, football, basketball and ice hockey. Basketball games take place in Minneapolis at the Target Center, and hockey is played in St. Paul at the Xcel Energy Center. Baseball and football are played in the Hubert H. Humphrey Metrodome. However in 2005 the Minnesota State Legislature approved a bill calling for an increase in sales tax in Hennepin County to fund a new baseball stadium for the Minnesota Twins. Ground was broken for the new stadium on August 30th, 2007, and the new park is scheduled to open in 2010. It will be located near the Warehouse District in Minneapolis, close to the Target Center. Additionally, the Twin Cities rich natural resource base provides numerous state and local parks available to the public. Total parkland includes approximately 136,900 acres. Further, approximately 5% of the total metropolitan area is water acreage resulting from an abundance of natural lakes, which are a significant component of the living environment.

The Twin Cities continued growth, infrastructure improvements, economic climate, socio-economics, and cultural resources contribute to a diverse real estate market. Institutional and individual investors, both domestic and foreign, are very active in the Twin Cities real estate market. Tenants-in-Common (TICs), real estate investment trusts (REITs), life insurance companies and pension funds from throughout the nation also invest in this market. Investor activity in virtually all markets was strong in the mid-to-late-1980s, again in the mid-to-late 1990s into 2000, and again from 2003 to mid-2006. At the present time, however, investor activity has slowed somewhat because of uncertainty about the market, which can be partially attributed to the fallout from the subprime mortgage crisis.

As mentioned above, the national economy as a whole has slowed down over the past year. Starting in late-2007, there has been a lot of talk of recession among experts and non-experts alike, but no one has a definitive answer as to whether the U.S. is already in a recession, whether it is going to go into a recession in the coming year, or whether it is not going to go into a recession at all. On the one hand, much of the country has seen a significant drop in property values and 2007 holiday retail sales were lackluster, but on the other hand, the services, tourism, and agriculture industries have seen relatively steady growth over the last year. Regardless of whether the U.S. economy has truly gone into a recession or not, the economy as a whole as become sluggish.

Minnesota’s economy is no different; in fact, for the first time in several decades, Minnesota’s unemployment picture is worse than the national average, along with its GDP. The local Minneapolis/St. Paul MSA economy is currently dealing with a variety of mixed indicators. Unemployment rates in the Twin Cities, while relatively low, have been somewhat inconsistent in recent months and jumped 0.6% between November and December 2007, to 4.9%, while the national unemployment rate only increased 0.3% in that same time frame. Single-family home sales and new constructions have slowed considerably since 2006, but expansion in business services, healthcare, and nonresidential construction have been helping to offset this loss.

The impact of this slowdown on the other major local real estate markets (office, industrial and retail) has been a bit mixed, and it has been slow in coming.

Over the last year, the office market in the Twin Cities has remained relatively steady. In early 2007, office building sales were strong, but by midyear, lending requirements had tightened significantly, which lead to a slowdown of sales. This trend has not stopped the listing and sale of buildings, but it has taken some buyers who did not have the equity to meet the more restrictive underwriting requirements out of the equation.

Another factor affecting the office market in the Twin Cities area is the job market. Minnesota's job growth has been declining since June of 2006, and by September of 2007 it slowed to less than the national rate for the first time in 25 years. Office related jobs continue to increase, but at a rate that is only half of what it was at the end of 2006. On the positive side, however, although the unemployment rate in the Twin Cities MSA has been rising, it is still well below both the national and statewide rates. Although office vacancy rates are expected to increase slightly during 2008, experts also predict that rental rates will simultaneously increase.

The Twin Cities industrial market continued its positive direction in 2007, but did slow down dramatically from the past two years. The absorption for the overall market came in at 943,461 square feet (SF), which is approximately one third of last year's 2,961,616 SF. Vacancy for the market rose from 10.4% at the end of 2006 to 10.6% at the end of 2007. It is forecasted, however, that in 2008 vacancy rates will come down and rents will increase as some of the vacant space is absorbed.

The Twin Cities retail market had a shaky year in 2007, and it is not likely to improve much in the near future. Although vacancy rates technically declined in 2007, leasing is steadily becoming more difficult. This weakening of the retail market can be largely attributed to the slumping housing market for two reasons. The first reason is the affect housing has on retail sales. Increasing mortgage payments due to adjusting mortgage interest rates as well as a general fear of home devaluation leave consumers with less disposable income. Consumers therefore spend less which adversely affects the retail industry. The second reason concerns starting businesses. Most small business start-ups and franchise owners come up with the capital to invest in a new business by borrowing against their current assets, primarily their homes. With the housing slump in affect, there are fewer people willing to and/or able to take out an additional mortgage to fund these ventures.

There is no doubt that the Twin Cities is a great place to live, with a relatively stable, diversified economy and outstanding commercial facilities. The Twin Cities economy mirrors the national economy but typically without the same degree of volatility. Overall, it seems to hold up better during periods of economic downturn, with smaller scale layoffs and closings occurring a few months after the experience at the national level. During a recovery period, the local economy continues to follow suit, moving upward within a few months after the national economic recovery begins.

In summary, the Minneapolis-St. Paul MSA has historically been a strong and stable urban community with low unemployment rates that have consistently been below state and national levels while maintaining steady growth in per capita income. As with the rest of the country, the state's economy has been steadily slowing, but the Twin Cities have not been hit as hard as much of the country with plummeting home values. Still, it currently is experiencing the highest unemployment rate and slowest growth rate in GDP that it has seen in decades. So while the real estate market as a whole has begun to soften over the past year from its stable condition over the preceding four years or so, the office and industrial markets are still faring fairly well and generally have been able to retain their increases in property value that they witnessed from 2003 into 2007. However, the retail and, especially, the residential markets have a bit more room for recovery on an overall basis.