

NAI Welsh

Twin Cities Industrial Report | Fourth Quarter 2010



Industrial



TRENDS

VACANCY RATE



NET ABSORPTION



ASKING RENTS



OVERVIEW

The Twin Cities industrial market posted 321,677 SF of positive net absorption in 4th Quarter 2010, and 914,877 SF of positive net absorption for the year. Vacancy is relatively unchanged since 3rd Quarter, currently sitting at 11.23 percent. Rental rates are also unchanged.

There was a significant increase in activity and transactions in 2010, as opposed to the past couple of years. Landlords are still offering concessions and most deals are still short-term renewals, but we're seeing rental rates stabilize and space beginning to fill. Over the past few years tenants have been reluctant to sign longer-term deals due to fears about the economy, but today those hesitations reside with landlords as they fear being locked into extremely low rates when the economy rebounds. The overall sales market remains slow, but some industrial sales are closing as buyers take advantage of significantly reduced prices. One 10,715-square-foot industrial building, located at 2613 4th St. SE in Minneapolis, was delivered to market in 4th Quarter.

We expect to see a continued increase in activity in 2011, with a resurgence of larger tenants looking for space. Greater consumer and business spending has been predicted to increase manufacturing output by about four percent this year, which should help the industrial sector continue to rebound. A random sample survey by the Minnesota Department of Employment and Economic Development (DEED) showed that state manufacturers had a better year in 2010 than they did in 2009. More than one-half of those surveyed saw increased orders and production, and more than one-third hired new workers. More than one-half expect another increase in 2011, and more than one-third plan to increase hiring. Although no new developments are currently underway, there is some speculation that a need could arise by the end of 2011 as current spaces lease up.

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.

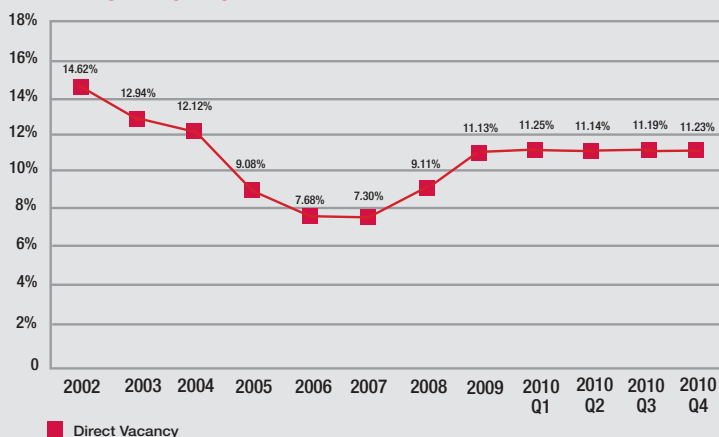
METHODOLOGY

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

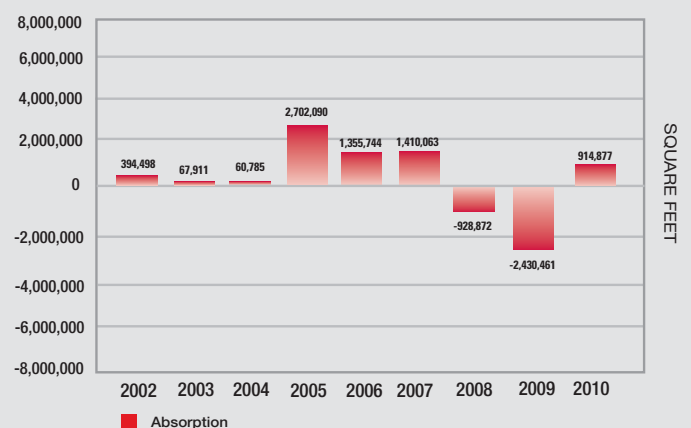
Our Industrial Universe consists of a sample of

- 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



Airport South of the River

TRENDS

VACANCY RATE



NET ABSORPTION



ASKING RENTS



OVERVIEW

The Airport/South of the River industrial submarket posted 86,602 SF of negative net absorption in 4th Quarter 2010, and 102,071 SF of negative net absorption for the year. Having posted the highest industrial vacancy rate in the Twin Cities, at 15.7 percent, this submarket continues to struggle as the economy slowly rebounds.

There was an increase in activity in the 4th Quarter in both sales and leases. Sales prices are low, but are realistic for the current market conditions. Rental rates have stabilized, and landlords continue to offer concessions. Some large users are currently active in this submarket as they look to enter or expand operations. This should lead the way for smaller users to begin making moves.

New ideas and businesses tend to flourish during weak economic times. A 30,000 SF industrial space, located at 1055 American Blvd, is slated to become a Lucky Dog Pet Lodge. The facility will comprise 12,000 SF of indoor space with room for 80 kennels, and 18,000 SF of outdoor space.

We expect transaction levels to continue to rise over the next several quarters. No new developments are planned, but as recovery continues we may see a need for quality high bulk distribution warehouses.



SUBMARKET STATISTICS

Market Size (SF)	16,746,110
Direct Vacancy (SF)	2,629,878
Sublease Vacancy (SF)	108,333
Direct Vacancy (%)	15.70%
Overall Vacancy (%)	16.35%
4th Quarter Absorption (SF)	-102,071
YTD Absorption	-86,602
Office/Whse Rates	\$8.93/4.55

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Bachman's	Enterprise Industrial Center	Mendota Heights	47,228
William L. Griffin & Co.	Airport Business Center Bldg B	Bloomington	33,613
BIMBO Bakeries USA	Corporate Square A	Eagan	15,000
Fujikura Richard Manufacturing, Inc.	Armstrong Business Center I	Eagan	10,362
Everyday Living	Oakview Business Center II	Eagan	6,156
Tri-Ed Distribution, Inc.	Oakview Business Center II	Eagan	6,140

NOTABLE BUILDING SALES

ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
2855 Eagandale Blvd	68,812	\$2,450,000	\$35.60	Hanco Corporation	Factory Motor Parts Company
22068 Canton Ct	12,625	\$546,666	\$43.30	Hometown Realty	22068 Canton Ct

Minneapolis North

TRENDS

VACANCY RATE



NET ABSORPTION



ASKING RENTS



OVERVIEW

The Minneapolis North industrial submarket posted 199,471 SF of positive net absorption in 4th Quarter 2010, and 217,783 SF of positive net absorption for the year. Vacancy was about 10 percent in 4th Quarter, which is just slightly above the 9.76 percent recorded in 3rd Quarter. Quoted rental rates remain steady.

There was a slight increase in activity in 4th Quarter, but completed deals are still few and far between. Small short-term leases are getting done as tenants continue to upgrade to higher quality spaces at more favorable rates. Landlords are also still offering concessions. The sales market remains slow, although bank-owned properties have started to move as buyers take advantage of discounted properties.

We expect 2011 to make steady gains throughout the year. No new developments have been finalized, although there has been talk of some speculative development along Highway 280 for a property with lofty clear heights. Shadow space will need to be filled before any new construction takes place.



SUBMARKET STATISTICS

Market Size (SF)	27,923,823
Direct Vacancy (SF)	2,794,221
Sublease Vacancy (SF)	56,168
Direct Vacancy (%)	10.01%
Overall Vacancy (%)	10.21%
4th Quarter Absorption (SF)	199,471
YTD Absorption	217,783
Office/Whse Rates	\$9.58/4.53

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Hood Packaging	Arden Hills Lakeside Center	Arden Hills	115,581
Ting Yong Zheng	1500 Washington Ave N Building	Minneapolis	30,956
North Suburb's Access Corporation	Twin Lakes Corporate Centre III	Roseville	13,571
Wicked Moose Volleyball	North Park Business Center	Fridley	12,832
Cope Plastics	Vadnais Heights Business Center	Vadnais Heights	9,796
Twin Town Pedicabs	Former Shinders Headquarters	Minneapolis	7,480
Automated Testing Solutions, Inc.	88th Avenue Business Center	Blaine	6,040

NOTABLE BUILDING SALES

ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
5730-5800 Main St NE	207,309	\$10,300,000	\$49.68	AX TC Industrial L.P	AMB Partners II, L.P
701 N 2nd St	14,000	\$980,000	\$70.00	Summit Community Bank	Sheriff of Hennepin County
1490 94th Ave	23,288	\$725,000	\$31.13	Product Development Solutions, LLC	Associated Bank
2052 Gateway Circle	11,972	\$637,500	\$53.25	Tomain Investments PTY Limited	Central Bank

Southwest



SUBMARKET STATISTICS

Market Size (SF)	30,354,279
Direct Vacancy (SF)	3,582,171
Sublease Vacancy (SF)	214,132
Direct Vacancy (%)	11.80%
Overall Vacancy (%)	12.51%
4th Quarter Absorption (SF)	216,872
YTD Absorption	423,075
Office/Whse Rates	\$8.96/4.54

TRENDS

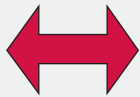
VACANCY RATE



NET ABSORPTION



ASKING RENTS



OVERVIEW

The Southwest industrial submarket posted the strongest absorption numbers for the quarter and year-end, but also has the highest vacancy rate. Having recorded 216,872 SF of positive net absorption for 4th Quarter and 423,075 SF of positive net absorption for the year, the vacancy rate sits at 11.8 percent. Quoted rental rates remain steady.

We've seen a significant increase in activity this year as opposed to the same time last year, but long-term deals remain scarce. Short-term renewals are still the norm as landlords have become hesitant to sign deals in the 5-10 year range for fear of being locked into extremely low rates as the economy rebounds.

The sales market remains slow as owners hold on to their properties instead of selling in current market conditions. It will still take some time before the sales market rebounds to pre-recessionary levels, but we are beginning to see some movement in distressed properties for discounted prices.

There is no speculative development for 2011, but we do expect to see more positive absorption and longer-term deals. As distribution space within the submarket leases up, there may be a need for some new construction.

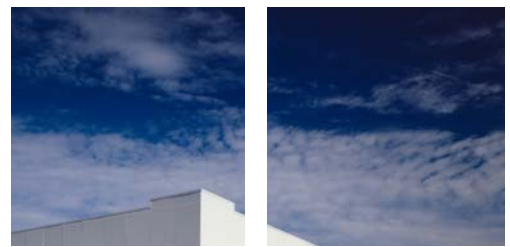
NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Murphy Warehouse Co.	I-35 Industrial Center	Burnsville	100,000
Bakemark USA	Continental Distribution Center	Shakopee	77,554
MVP Distribution, Inc.	Shakopee Industrial Center	Shakopee	32,330
C.E. Sundberg Co.	Anderberg-Lund Building	Saint Louis Park	21,581
Precision Gasket Company	5720 Lincoln Dr	Edina	17,091
MVP Distribution, Inc.	Shakopee Industrial Center	Shakopee	13,619
Go-Float	The Johnson Building	Hopkins	13,308
The Bernard Group	Lake Drive Business Center	Chanhassen	10,000
John Deere Landscapes, Inc.	Braemar III	Edina	8,758

NOTABLE BUILDING SALES

ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
8675 Eagle Creek Parkway	122,912	\$5,800,000	\$47.19	AX TC Industrial, LP	AMB Fund III Mosiac, LLC
6251 Bury Dr	51,901	\$3,500,000	\$67.44	Westwood Eden Prairie, LLC	Westwood III, LLC
6815 Shady Oak Rd	90,000	\$3,000,000	\$33.33	Stratasys, Inc	6815 Shady Oak Road
9955-9995 69th St W	60,000	\$3,000,000	\$50.00	AX TC Industrial, LP	AMB Partners II, LP
14255 W Burnsville Pky	40,713	\$2,043,823	\$50.20	Wells Fargo Bank	Sheriff of Dakota County

St. Paul East

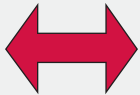


SUBMARKET STATISTICS

Market Size (SF)	24,709,154
Direct Vacancy (SF)	2,081,466
Sublease Vacancy (SF)	202,432
Direct Vacancy (%)	8.42%
Overall Vacancy (%)	9.24%
4th Quarter Absorption (SF)	40,150
YTD Absorption	329,409
Office/Whse Rates	\$8.24/4.22

TRENDS

VACANCY RATE



NET ABSORPTION



ASKING RENTS



OVERVIEW

The St. Paul East industrial submarket holds the lowest vacancy rate at 8.42 percent, and posted 40,150 SF of positive net absorption in 4th Quarter 2010, and 329,409 SF of positive net absorption for the year. Quoted rental rates hold steady.

There has been an increase in activity and completed deals over the past three to six months, with bulk warehouse being the most sought-after product. Other products are slowly catching up. Landlords continue to offer concessions on most deals, which will likely continue as the market slowly rebounds. The sales market remains slow but we are seeing more activity than we have in the past couple of years.

We've seen a mini-trend of technology companies moving into downtown St. Paul, the latest being BioMedix, Inc. will lease 20,000 SF in a refurbished building located at 178 E Ninth St in Lowertown St. Paul.

New and speculative development is scarce, although the St. Paul Port Authority is currently redeveloping a Midway-area site located at 656 Pelham Blvd. The former home of Overnight Express has been demolished and, although some remediation work remains, a 68,000 SF state-of-the-art office/warehouse facility is slated to be built on the 5.2-acre site.

We expect a continued trend of increased activity in 2011, with positive absorption over the next couple of quarters.

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Americraft Carton, Inc.	MSP Midway Industrial Park #13	Saint Paul	100,631
McCollister's Transportation Group, Inc.	Case Distribution Center	Saint Paul	42,000
McDonough Trucking	MSP Midway Industrial Park #12	Saint Paul	26,000
Derovations dba Dero Bike Racks	Midway Business Center	Minneapolis	23,879
Mach 1 Global Services	Grand Oak Business Center I	Eagan	11,735

NOTABLE BUILDING SALES

ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
625 2nd St	59,685	\$5,500,000	\$92.15	Realty Income Properties 3, LLC	Marathon Petroleum Company, LP
200 W 2nd St	161,406	\$3,024,612	\$18.74	Hastings Economic Dev & Redev	H.D. Hudson Manufacturing Co
800 E 10th St	102,000	\$2,800,000	\$27.45	H.D. Hudson Manufacturing Co	Intek Plastics, Inc.
1100 Spiral Blvd	50,280	\$1,652,361	\$32.86	Vermillion State Bank	Sheriff of Dakota County
9050 Jefferson Trail	12,320	\$1,300,000	\$105.52	D. Oren B., LLC	Gerda Limited Partnership
1689 Oakdale Ave	50,365	\$1,050,000	\$20.85	Roth Holdings, LLC	Roth Oakdale, LLC

West/Northwest



SUBMARKET STATISTICS

Market Size (SF)	43,092,644
Direct Vacancy (SF)	4,947,765
Sublease Vacancy (SF)	658,112
Direct Vacancy (%)	11.48%
Overall Vacancy (%)	13.01%
4th Quarter Absorption (SF)	-32,745
YTD Absorption	31,212
Office/Whse Rates	\$8.22/4.10

TRENDS

VACANCY RATE



NET ABSORPTION



ASKING RENTS



OVERVIEW

The West/Northwest industrial submarket posted 32,745 SF of negative net absorption in 4th Quarter 2010, and 31,212 SF of positive net absorption for the year. Vacancy currently sits at 11.5 percent, and rental rates have increased.

Activity levels have increased in the past six months, and deals are finally being completed. Most activity is focused within the 494 loop, and very little is happening in rural areas. Landlords continue to offer concessions, with the norm being one month free for every year on the lease. We believe rental rates have hit bottom and will remain steady for much of 2011. The sales market continues to struggle as landlords who are able hold on to their properties.

Real deals, activity, and positive net absorption should pick up as the year progresses. We may even see a very slight increase in rates in 4th Quarter 2011.

NOTABLE LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)
Deltak, LLC	13100 12th Ave N	Plymouth	48,000
Rapid Packaging	Elm Creek Commerce Center III	Champlin	43,345
Process Displays	2720 Nevada Ave N Building	New Hope	30,000
Hamer, LLC	Circle Star Distribution Center	Plymouth	25,669
Tree Trust, Inc.	Swanson and Youngdale Building	Saint Louis Park	16,888
Nassau Foods	Northland Park Business Center VI	Brooklyn Park	13,024
Carlson Piano	Westpark Plaza-Bldg A	Plymouth	8,910
Juhl Brokerage	Plymouth Oaks Park - Bldg 5	Plymouth	7,850
Naturescape Lawn Inc.	Plymouth Oaks Park - Bldg 1	Plymouth	6,075
Absolute Sourcing Inc.	Southshore Industrial Center	Plymouth	5,913

NOTABLE BUILDING SALES

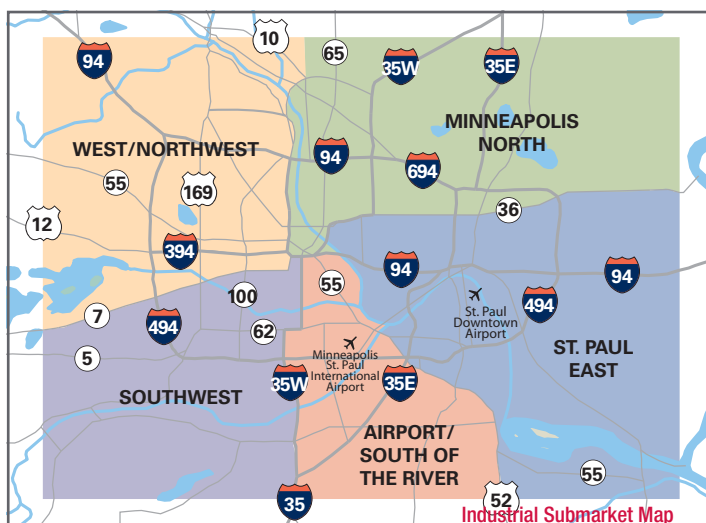
ADDRESS	SIZE (PSF)	PRICE	PRICE PSF	BUYER	SELLER
19850 Diamond Lake Rd	319,725	\$19,700,000	\$61.62	STAG GI Rogers, LLC	APTVS Rogers MN, LLC
7500 Setzler Parkway	119,560	\$7,500,000	\$62.73	AX TC Industrial, LP	AMB US Logistics Fund, LP
7300 49th Ave N	120,400	\$6,850,000	\$56.89	AX TC Industrial, LP	AMB U.S Logistics Fund, LP
13098-13150 George Weber Dr	147,160	\$6,400,000	\$43.49	AX TC Industrial, LP	AMB Rogers, LLC
5609-5633 International Pky	80,000	\$3,500,000	\$43.75	Waymouth Farms	FLS Properties

NAI Welsh

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SUBMARKET	TOTAL SF	DIRECT VACANT SF	SUBLEASE VACANT SF	% VACANT DIRECT	% VACANT W/SUBLEASE	4th QUARTER ABSORPTION	YTD ABSORPTION	OFFICE/WHSE RATES
Airport/South of the River								
Bulk Warehouse	4,694,373	969,923	3,000	20.66%	20.73%	-67,520	22,836	\$4.20
Office Showroom	3,181,379	748,966	52,053	23.54%	25.18%	-39,457	-28,026	\$9.00/\$4.80
Office Warehouse	8,870,358	910,989	53,280	10.27%	10.87%	4,906	-81,412	\$8.90/\$4.65
Totals:	16,746,110	2,629,878	108,333	15.70%	16.35%	-102,071	-86,602	\$8.93/\$4.55
Minneapolis North								
Bulk Warehouse	5,888,171	547,911	19,670	9.31%	9.64%	20,591	296,762	\$4.20
Office Showroom	3,692,845	467,227	0	12.65%	12.65%	36,432	105,742	\$10.00/\$4.70
Office Warehouse	18,342,807	1,779,083	36,498	9.70%	9.90%	142,448	-184,721	\$9.50/\$4.60
Totals:	27,923,823	2,794,221	56,168	10.01%	10.21%	199,471	217,783	\$9.58/\$4.53
Southwest								
Bulk Warehouse	6,024,038	20,045	11.32%	11.65%	136,725	205,100	\$4.25	
Office Showroom	7,866,061	1,363,886	71,256	17.34%	18.24%	68,050	178,750	\$10.00/\$5.05
Office Warehouse	16,464,180	1,536,622	122,831	9.33%	10.08%	12,097	39,225	\$8.46/\$4.40
Totals:	30,354,279	3,582,171	214,132	11.80%	12.51%	216,872	423,075	\$8.96/\$4.54
St. Paul East								
Bulk Warehouse	8,344,169	747,247	0	8.96%	8.96%	18,595	228,453	\$3.85
Office Showroom	2,611,283	228,892	23,488	8.77%	9.66%	-3,007	-18,691	\$9.50/\$5.00
Office Warehouse	13,753,702	1,105,327	178,944	8.04%	9.34%	24,562	119,647	\$8.00/\$4.30
Totals:	24,709,154	2,081,466	202,432	8.42%	9.24%	40,150	329,409	\$8.24/\$4.22
West/Northwest								
Bulk Warehouse	15,936,750	1,757,805	535,592	11.03%	14.39%	53,617	348,084	\$3.90
Office Showroom	5,899,023	638,511	51,300	10.82%	11.69%	82,945	125,219	\$9.00/\$5.00
Office Warehouse	21,256,871	2,551,449	71,220	12.00%	12.34%	-169,307	-442,091	\$8.00/\$4.00
Totals:	43,092,644	4,947,765	658,112	11.48%	13.01%	-32,745	31,212	\$8.22/\$4.10
Total All Markets								
Bulk Warehouse:	40,887,501	4,704,549	578,307	11.51%	12.92%	162,008	1,101,235	\$4.02
Office Showroom:	23,250,591	3,447,482	198,097	14.83%	15.68%	144,963	362,994	\$9.55/\$4.94
Office Warehouse:	78,687,918	7,883,470	462,773	10.02%	10.61%	14,706	-549,352	\$8.55/\$4.35
Market Totals:	142,826,010	16,035,501	1,239,177	11.23%	12.09%	321,677	914,877	\$8.78/\$4.35



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NAI Global Statistics at-a-glance:

Over 350 offices - 55 countries - more than 5,000 professionals