NAI Welsh

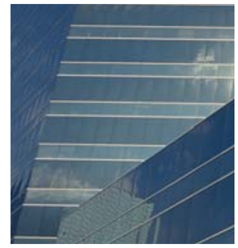
Twin Cities Retail Report | Fourth Quarter 2010

NAI WELSH

Commercial Real Estate Services, Worldwide.

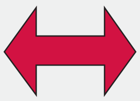
WELSH

Retail

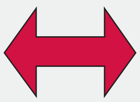


TRENDS

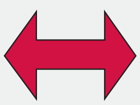
VACANCY RATE



NET ABSORPTION



ASKING RENTS



RETAIL MARKET OVERVIEW

The Twin Cities retail market posted 8,049 SF of positive net absorption in 4th Quarter 2010, but had 143,478 SF of negative net absorption for the year. The vacancy rate holds steady at 7.3 percent.

There was an increase in activity and completed deals in 4th Quarter 2010, although they are still taking longer to close. Discounters remain active and big box spaces are now beginning to fill. Whole Foods announced that they will open two new stores in the Twin Cities; one in the former Circuit City space in Minnetonka, located at 1001 Plymouth Road, and one in Edina that will open in 2012. Gordman's is also opening two stores in the Twin Cities; one in Burnsville and one in Woodbury.

Landlords continue to offer concessions to retain current tenants and to get new lessees in the door. This may become less common as we move throughout the year and spaces begin to fill.

Consumer spending was up over the 2010 Holiday Season. Regional shopping malls fared well, holding under a 5 percent vacancy rate. After all, they're the most convenient stop for consumers who are looking for a variety of products under one roof. Retailers heavily utilized in-mall temporary kiosks, carts and stores this season to garner a presence in regional shopping centers during peak sales times. Rosedale Center, Mall of America, Burnsville Center, and Maplewood Mall were all nearly 100 percent leased throughout the Holidays due, in part, to the use of temporary kiosks.

The sales market is beginning to thaw, as investors take advantage of good deals. WalMart purchased the 101,265 SF Four Seasons Mall in Plymouth and the 62,000 SF Diffley Marketplace in Eagan was sold to Inland Real Estate Corporation.

Two large retail centers - Woodbury Lakes and Brookdale Center - emerged from troubled status this year. Woodbury Lakes was purchased by a joint venture called DBRA RED, who will continue current operations of the mall. Gatlin Development bought Brookdale Center with plans for renovation anchored by a 150,000 SF WalMart store.

We anticipate a drop in overall vacancy in 2011, which will likely encourage retailers to make quicker real estate decisions. There is no speculative development on the horizon. Vacancies need to be filled before we will see a demand for any new construction.

LEASE TRANSACTIONS

TENANT	BUILDING	CITY	SIZE (SF)	SUBMARKET
Whole Foods Market, Inc	Centennial Lakes Plaza	Edina	32,340	Southwest
Frattallone's Ace Hardware	Normandale Village	Bloomington	17,926	Southwest
Wilson's Leather Outlet	Rosedale Square Shopping Center	Roseville	6,400	Northeast
Christopher & Banks	Yorkdale Shoppes	Edina	3,612	Southwest
Verizon	Midway Center	Saint Paul	3,003	Northeast

NOTABLE BUILDING SALES

ADDRESS (SUBMARKET)	SIZE	PRICE PSF	PRICE	BUYER	SELLER
1100 Brookdale Center Northwest	201,747	$8.67	$1,750,000	Gatlin Development Co., Inc	Macy's Retail Holdings, Inc
4100-4236 Lancaster Lane N Northwest	102,000	$103.92	$10,600,000	Wal-Mart R.E Business Trust	Four Seasons II, LLC
1004-1020 Diffley Dr Southeast	64,955	$182.60	$11,860,700	Inland Diffley Marketplace, LLP	Diffley Ventures, LLC
13513 Ridgedale Dr Southwest	48,000	$118.75	$5,700,000	Best Buy Stores, L.P	M.T.F & Co,, A Minnesota Limited Partnership
4801 American Blvd W Southwest	41,431	$136.37	$5,650,000	Luther Automotive Services, Llc	Palmer Ltd Partnership

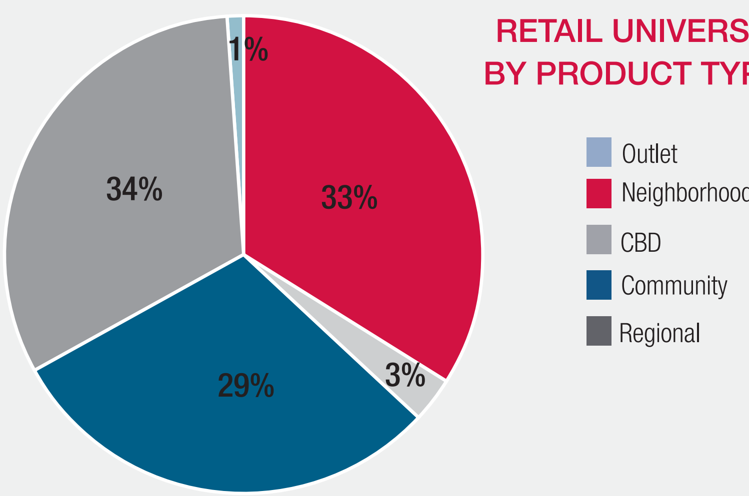
SIGNIFICANT LEASE

Whole Foods Market

Centennial Lakes Plaza | 7501 France Ave. | Edina, MN

Size: 32,340 SF
Lessor: Centennial Lakes
Tenant: Whole Foods

RETAIL UNIVERSE BY PRODUCT TYPE



Downtown Retail

TRENDS

VACANCY RATE

NET ABSORPTION

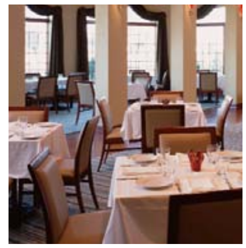
MINNEAPOLIS CBD

The Minneapolis CBD posted 42,964 SF of positive net absorption in 4th Quarter 2010, an increase from the 30,000 SF of negative net absorption that was reported in 3rd Quarter. This submarket rounded out the year with 30,993 SF of positive net absorption. The vacancy rate fell to 7.8 percent in 4th Quarter, down from 9.9 percent reported in 3rd Quarter.

It was a slow quarter for downtown retail in the Twin Cities. Demand continues to be constrained by slow consumer spending, which can be partially attributed to the still inflated unemployment numbers. However, we did see more activity in 4th Quarter 2010 than in 2009, so the trend is moving in a positive direction. Wuollet Bakery announced this quarter that they will open a location in the Minneapolis CBD. The 784 SF store is scheduled to open late this spring in the skyway level of U.S. Bank Plaza.

The retail sales market is still weak, but two retail properties in the CBD did change hands in 4th Quarter. Cole Credit Property Trust purchased 949 Portland Ave for $4.2 million, and Dayton Hudson Corp purchased 1011-1013 Nicollet Ave for $3 million. We saw a number of office sales in the last half of 2010 in the CBD, including 50 South Sixth and 337 Oak Grove Street.

We expect activity and completed deals to continue to climb as we move through 2011. We may see vacancy drop, which could cause tenants to begin making quicker real estate decisions.



SUBMARKET STATISTICS

# of Buildings	13
Market Size (SF)	2,025,160
Direct Vacancy (SF)	156,724
Sublease Vacancy (SF)	58,575
Direct Vacancy (%)	7.74%
Overall Vacancy (%)	10.63%
4th Quarter Absorption (SF)	42,964

North Metro

TRENDS

VACANCY RATE

NET ABSORPTION

NORTHEAST

The Northeast retail submarket posted 102,435 SF of negative net absorption in 4th Quarter 2010, and 148,607 SF of negative net absorption for the year. Vacancy is 8.1 percent, which is up slightly from 7 percent recorded last quarter.

Retail activity overall increased during the 4th Quarter. Discounters are still on the move, vacant big boxes are beginning to fill, and second generation retail is also moving. Aldi announced plans to open two new stores in the metro, one of which will reside in Oak Park Heights.

Landlords continue to offer concessions in order to get new tenants in the door, and especially to persuade current tenants to stay. Deals are still taking longer to close, which is something we expect to change in 2011. We believe that vacancy will begin to decline, which may cause tenants to make quicker decisions or face losing space.

SUBMARKET STATISTICS

# of Buildings	74
Market Size (SF)	10,043,155
Direct Vacancy (SF)	813,170
Sublease Vacancy (SF)	12,274
Direct Vacancy (%)	8.10%
Overall Vacancy (%)	8.22%
4th Quarter Absorption (SF)	-102,435

VACANCY RATE

NET ABSORPTION

NORTHWEST

The Northwest retail submarket posted 3,749 SF of negative net absorption in 4th Quarter 2010, and 6,363 SF of negative net absorption for the year. The vacancy rate remains unchanged since 3rd Quarter, at 10.7 percent, which is the highest retail vacancy in the metro.

This quarter saw an increase in both activity and completed deals. Consumer confidence is on the rise, which in-turn is giving retailers some confidence for expansion. Vacant big boxes are beginning to fill and discounters remain active. Whole Foods recently announced that they will open a new store in Minnetonka at 1001 Plymouth Road, which is the former location of Circuit City. They also plan to expand into Edina in 2012. Aldi has plans for two new stores in the metro in 2011; one in Crystal and the other in Oak Park Heights. Dickey's Barbeque leased 3,159 SF at The Shops at Plymouth Creek, located at 3195 Vicksburg Lane. This will be their sixth Twin Cities location.

Future plans in this submarket include two new Wal-Marts. The discount retailer purchased the 120,000 SF Four Seasons Mall at Highway 169 and Rockford Road and is part of the Gatlin Development Company's plans for the redevelopment of Brookdale Center, which would be anchored by a 150,000 SF WalMart Super Center.

SUBMARKET STATISTICS

# of Buildings	129
Market Size (SF)	18,070,390
Direct Vacancy (SF)	1,927,686
Sublease Vacancy (SF)	3,000
Direct Vacancy (%)	10.67%
Overall Vacancy (%)	10.68%
4th Quarter Absorption (SF)	-3,749

South Metro

TRENDS

VACANCY RATE

NET ABSORPTION

SOUTHEAST

The Southeast retail submarket fared well in 4th Quarter 2010, as compared to its counterparts. Positive net absorption of 67,304 SF was recorded for 4th Quarter, with a total of 49,586 SF of positive net absorption for the year. The vacancy rate currently sits at 4.9 percent, which is the lowest retail vacancy in the Twin Cities.

The last quarter of 2010 saw an increase in activity and completed deals. Landlords continue to offer concessions, especially to keep their spaces occupied. The Mall of America continues to attract unique tenants. Betty's Pies, a world famous pie company and family restaurant that originated on Minnesota's north shore, plans to open a 4,300 SF shop at the Mall this spring.

The sales market also saw an increase in 4th Quarter. Grocery-anchored retail products seem to be drawing strong interest from investors and are being competitively bid. The Cub Foods-anchored, 62,000 SF Diffley Marketplace, located at 1020 Diffley Road in Eagan, was sold to Inland Real Estate Group.

There is no new development planned for 2011, but United Growth does expect to open its 100 percent leased 11,800 SF retail center on Robert Street in St. Paul.

SUBMARKET STATISTICS

# of Buildings	123
Market Size (SF)	16,255,719
Direct Vacancy (SF)	788,105
Sublease Vacancy (SF)	66,762
Direct Vacancy (%)	4.85%
Overall Vacancy (%)	5.26%
4th Quarter Absorption (SF)	67,304

VACANCY RATE

NET ABSORPTION

SOUTHWEST

The Southwest retail submarket posted 3,965 SF of positive net absorption in 4th Quarter, and 69,087 SF of negative net absorption for the year. Vacancy is 5.1 percent, which is unchanged from 3rd Quarter.

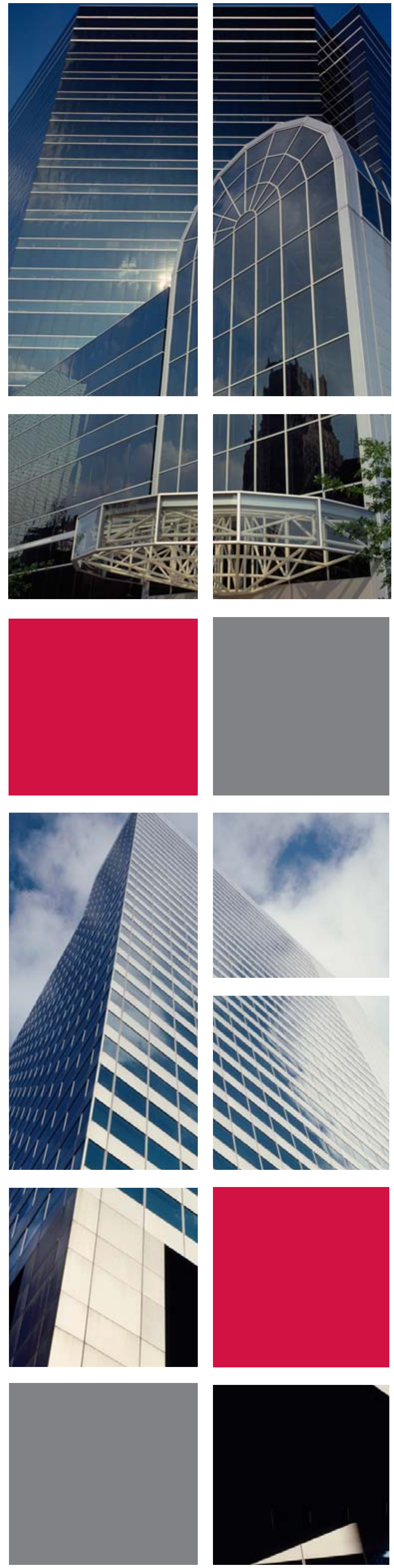
Retailers continue to expand in densely populated infill areas with high daytime populations and we're starting to see some redevelopment and new concepts coming to market. Calhoun Square has recently attracted a number of smaller, specialized retail tenants. The After Midnight Group signed a lease at the former Steak & Ale site in Bloomington, located at 2801 Southtown Drive, where they plan to open a Cowboy Jack's bar and restaurant. Nolan Companies plans to redevelop the former Boulevard Gardens Floral Shop, located at 3100 Excelsior Blvd in Minneapolis, by constructing a new 4,400 SF retail center.

Eden Prairie has traditionally been a strong market for retail, but there has been a recent turn in restaurant vacancies. Boston Market, Fuddruckers, Kabobi, Cosi, Baja Sol Cantina, and T.G.I. Friday's have already or will soon be vacating space. The Prairie Ale House opened in the former Timber Lodge location, and the former Outback Steak House is slated to become a Freewheel Bike Shop.

SUBMARKET STATISTICS

# of Buildings	101
Market Size (SF)	14,924,866
Direct Vacancy (SF)	763,546
Sublease Vacancy (SF)	87,474
Direct Vacancy (%)	5.12%
Overall Vacancy (%)	5.70%
4th Quarter Absorption (SF)	3,965

What’s Ahead



WHAT’S AHEAD?

Activity and completed deals should continue to increase throughout 2011, which will lead to a decrease in overall vacancy. Retailers are most interested in densely populated areas with high daytime populations, so we’ll continue to see most activity within the 1st tier suburbs. Discounters will remain active throughout the year. Dollar General is looking for space in the Twin Cities; T-Mobile, GNC and Best Buy Mobile are also looking to expand. As the market begins to tighten and competition increases, tenants will need to make quicker real estate decisions or face losing potential deals. Development will be almost non-existent, but there should be signs of life in the development and construction pipeline towards the end of the year with some new projects breaking ground early in 2012.

METHODOLOGY

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 retail 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.

Retail properties have been classified into three categories as established by the Minnesota Shopping Center Association:

- Regional Centers: 400,000 SF or more
- Community Centers: 150,000 - 399,999 SF or more
- Neighborhood Centers: 30,000 - 149,999 SF

Our Retail Universe consists of samples of

- Existing multi-tenant retail centers
- 30,000+ SF

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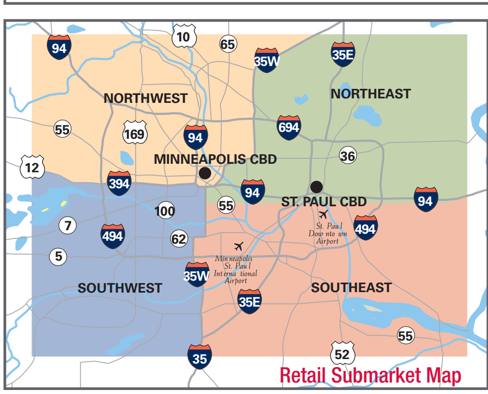
Twin Cities Retail Report | Fourth Quarter 2010

SUBMARKET	TOTAL SF	DIRECT VACANT SF	SUBLEASE VACANT SF	% VACANT DIRECT	% VACANT W/SUBLEASE	4TH QUARTER ABSORPTION	YTD ABSORPTION
CBD							
CBD of Minneapolis	2,025,160	156,724	58,575	7.74%	10.63%	42,964	30,993
Totals:	2,025,160	156,724	58,575	7.74%	10.63%	42,964	30,993
NorthEast							
Community Center	3,954,366	364,754	12,274	9.22%	9.53%	4,889	-5,069
Neighborhood Center	3,306,031	413,780	0	12.52%	12.52%	-107,324	-166,044
Regional Center	2,782,758	34,636	0	1.24%	1.24%	0	22,506
Totals:	10,043,155	813,170	12,274	8.10%	8.22%	-102,435	-148,607
NorthWest							
Community Center	5,572,760	404,066	0	7.25%	7.25%	3,977	55,310
Neighborhood Center	6,830,652	681,620	3,000	9.98%	10.02%	1,132	-58,457
Outlet Mall	430,000	0	0	0.00%	0.00%	0	0
Regional Center	5,236,978	842,000	0	16.08%	16.08%	-8,858	-3,216
Totals:	18,070,390	1,927,686	3,000	10.67%	10.68%	-3,749	-6,363
SouthEast							
Community Center	4,264,610	151,874	46,628	3.56%	4.65%	25,354	62,520
Neighborhood Center	5,055,515	490,164	20,134	9.70%	10.09%	3,432	12,075
Regional Center	6,935,594	146,067	0	2.11%	2.11%	38,518	-25,009
Totals:	16,255,719	788,105	66,762	4.85%	5.26%	67,304	49,586
SouthWest							
Community Center	4,179,298	251,422	75,581	6.02%	7.82%	-6,743	5,920
Neighborhood Center	4,794,492	496,243	11,893	10.35%	10.60%	10,708	-78,920
Regional Center	5,951,076	15,881	0	0.27%	0.27%	0	3,913
Totals:	14,924,866	763,546	87,474	5.12%	5.70%	3,965	-69,087
Total All Markets							
Community Center:	17,971,034	1,172,116	134,483	6.52%	7.27%	27,477	118,681
Neighborhood Center:	19,986,690	2,081,807	35,027	10.42%	10.59%	-92,052	-291,346
Outlet Mall:	430,000	0	0	0.00%	0.00%	0	0
Regional Center:	20,906,406	1,038,584	0	4.97%	4.97%	29,660	-1,806
CBD of Minneapolis:	2,025,160	156,724	58,575	7.74%	10.63%	42,964	30,993
Market Totals:	**61,319,290**	**4,449,231**	**228,085**	**7.26%**	**7.63%**	**8,049**	**-143,478**



Retail Submarket Map