

MINNEAPOLIS-ST. PAUL

INDUSTRIAL MARKET REPORT



Demand for bulk warehouse fuels several large build-to-suit developments

OVERALL

The overall vacancy rate in the industrial market is 10.2%, down slightly from 10.7% in the 3rd quarter and 11.2% at year-end 2010. Vacancy rates in office showroom properties are the highest at 15.5%. This sector continues to struggle to attract tenants while the Bulk Warehouse market is experiencing strong demand, particularly for space with 32' clear height ceilings. The lack of large blocks of space with these ceiling heights has led to large-user activity including Uline and Medline. Uline is relocating to Hudson, Wisconsin from Eagan, and construction has begun on a 640,000 square foot facility. Uline produces industrial and packaging materials, including over 1,100 shipping box sizes. Medline, a medical supply company, recently completed construction on 350,000 square feet of warehouse space in Rogers.

Office showroom properties will continue to experience negative absorption as mergers and acquisitions among tenants in these properties continues.

The market was tenant-driven for all of 2011. We see this slowly tightening, especially for quality, well-located properties. Savvy tenants will consider committing to as long of a lease term as possible at current rates. Landlords will continue to be aggressive to sign tenants and focus on companies with good credit. Concessions will continue but will slowly decrease in the form of a shift from gross free rent to net free rent. Landlords will continue offer incentives until significant absorption occurs.

Space efficiency is key in the industrial market. Tenants are looking to reduce their space needs in any way that they can.

Activity was steady among users and investors for industrial product. It continues to be a buyer's

MARKET INDICATORS

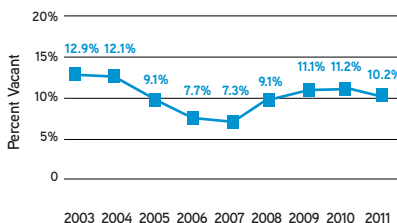
Q4 2011

| | |
|----------------|---|
| VACANCY | ↓ |
| NET ABSORPTION | ↑ |
| RENTAL RATE | ↔ |

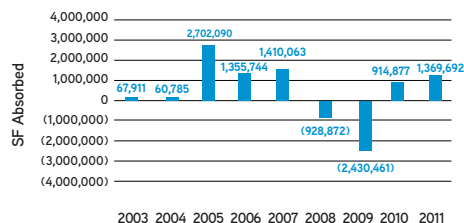
NATIONAL SPOTLIGHT

On a national level, quality warehouse properties will be in demand for investors. These properties have the least amount of new construction underway among the major commercial real estate property types. Capitalization (CAP) rates on these properties have yet to see major compression. CAP rates are still above six percent for even class A in core port markets.

VACANCY



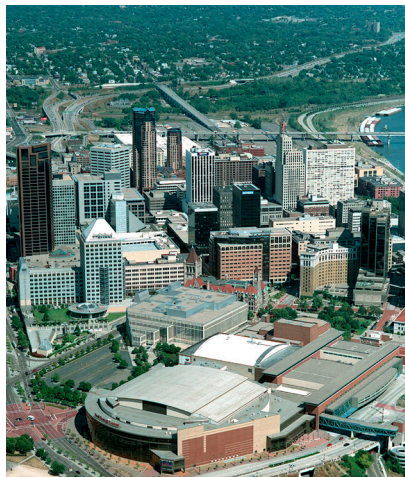
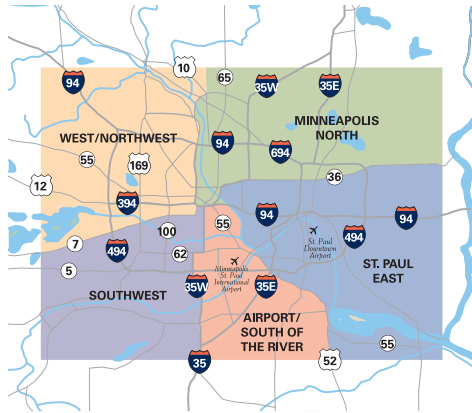
NET ABSORPTION



OVERALL (CONT.)

Activity was steady among users and investors for industrial product. It continues to be a buyer’s market, although functional, well-located buildings are seeing activity, and are holding their value. Most properties will sell if priced at market values, which are still low unless the property has high clear height and is well-located. We expect offering and sales prices to slowly increase in 2012. Older real estate with fewer efficiencies will continue to struggle and will have a smaller pool of buyers.

We expect slow to no growth through 1st quarter of 2012 with moderate growth through the balance of 2012. The market will improve for landlords and worsen for tenants, especially if the tenant is looking for more than 100,000 square feet. For tenants looking for spaces less than 50,000 square feet there are still plenty of options. Overall we expect continued incentives until significant job growth and absorption occurs.



ST. PAUL EAST

Absorption in the St. Paul East market was minimal at 31,836 square feet for the 4th quarter, and vacancy stands at 6.5%. Slowly decreasing space options have led to increased interest in build-to-suit opportunities. This could result in some new, tenant-driven build-to-suit construction in 2012.

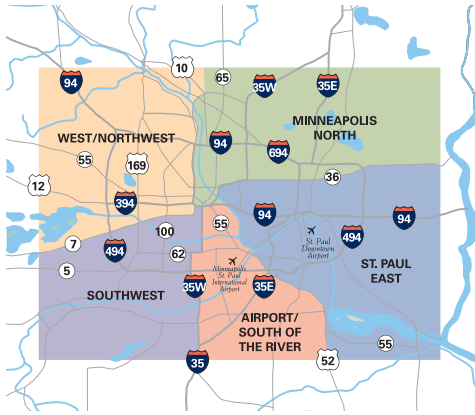
We saw an uptick in activity during the end of the 4th quarter as tenants looked at available space options. Concessions are still the rule, including free rent and options to expand, renew and terminate.

Rates have remained steady and comparable to previous quarters’ rates. We have seen landlords pushing to avoid reducing rental rates and instead using concessions to come to an agreement on the total occupancy costs to the tenant. For their part, tenants are looking for an upgraded space at the same price.



SIGNIFICANT SALE

Xenium Distribution Center
\$16,050,000



MINNEAPOLIS NORTH

The vacancy rate in the Minneapolis North submarket is 9.6%, and the market absorbed 57,550 square feet overall for the year. This submarket does not attract the institutional owners and large bulk users that the western submarkets include but has more of a mix of smaller businesses. The market tends to not experience deep swings in vacancy, and is currently experiencing slow but steady absorption.

Concessions are prevalent for tenants, including free rent and below-market rates. Landlords are adding aggressive tactics, including “face-lift” renovations to interiors and exteriors to distinguish their building from the competition. Sales are up as owners face market realities and reduce sale prices.

Lease-terms overall are longer, especially among larger companies.

SOUTHWEST

The Southwest submarket’s vacancy rate stands at 11.6% and absorption was 300,670 square feet. The vacancy rate in bulk warehouse and office warehouse properties is 9.5%, and 8.8%, respectively, compared to 19.0% in office showroom. Demand for bulk warehouse space with 24’+ clear heights continues to be strong.

Across the submarket, the combination of stronger tenant confidence and bottoming occupancies costs translate into many businesses using the opportunity to sign leases for longer terms. Those tenants with solid credit are able to secure tenant improvements.

WEST/NORTHWEST

The vacancy rate in the West/Northwest submarket stands at 10.5%. Absorption was steady at 76,580 square feet. Rates have remained steady, although landlords are becoming less willing to compromise on rates and are instead focusing on offering concessions. Tenants are moving in order to upgrade their space without increasing overall occupancy costs, and longer-term leases have become more prevalent.



8401 JEFFERSON HIGHWAY, MAPLE GROVE

Aspen Research leased 104,000 square feet at 8401 Jefferson Highway in Maple Grove. The property, a former Boston Scientific facility, sat vacant for three years before being leased in the 4th Quarter.

SIGNIFICANT LEASE AND SALES ACTIVITY

LEASE ACTIVITY

| TENANT | BUILDING | CITY | SIZE (SF) | SUBMARKET |
|-------------------------------|--------------------------------------|-------------|-----------|----------------|
| Aspen Research | 8401 Jefferson Hwy | Maple Grove | 104,000 | West/Northwest |
| Black Box Network Services | 11601 N 93rd Ave | Maple Grove | 81,664 | West/Northwest |
| Superior 3rd Party Logistics | Mid-City Business Center North | Minneapolis | 71,000 | Southwest |
| Midway Party Rental | Automotive Cooling Products Building | Minneapolis | 60,780 | St Paul East |
| 1-800-PACK-RAT | Ladybird Distribution Center | Burnsville | 42,143 | Southwest |
| The Bernard Group (Expansion) | Lake Drive Business Center | Chanhausen | 40,995 | Southwest |
| Process Displays Co | 2720 Nevada Ave N Building | New Hope | 38,400 | West/Northwest |
| Polaris | Plymouth Business Center | Plymouth | 30,000 | West/Northwest |
| Imagine Print Solutions | Valley Oaks Distribution Center | Shakopee | 25,101 | Southwest |
| TerraMax | Lyndale Commons | Bloomington | 12,000 | Southwest |

SALES ACTIVITY

| BUILDING | BUYER | SELLER | PRICE | PRICE PSF | SIZE (SF) | SUBMARKET |
|---|-------------------------------|--|--------------|-----------|-----------|-------------------------------|
| Minnesota Valley West Building; I-35 Business Center; FujiFilm Building | Duke Realty Corp. | DCT MN Valley LLC | \$22,500,000 | \$63.18 | 356,143 | Southwest & Minneapolis North |
| Evergreen Industrial Portfolio | The Travelers Companies, Inc. | Waterton Associates LLC | \$17,000,000 | \$29.62 | 574,000 | Minneapolis North |
| Xenium Distribution Center | TA Associates Realty | Carlson Real Estate Co. LLLP | \$16,050,000 | \$47.90 | 335,063 | West/Northwest |
| Former Williams Steel Building (60 28th Ave NE) | Greenheck | D&K Management III LLC | \$9,000,000 | \$39.30 | 229,000 | Minneapolis North |
| 18800 W 78th St | BlackEagle Partners | Lyman Lumber Co. | \$5,500,000 | \$55.90 | 98,393 | Southwest |
| 15197 Boulder Ave | Proto Labs, Inc. | Webb Properties LLC | \$3,950,000 | \$31.79 | 124,271 | Airport/South of the River |
| 8235 220th St West | Jim Pattison Development | Covalence Specialty Materials Corp. | \$3,800,000 | \$18.58 | 204,548 | Airport/South of the River |
| Sara Lee Plant | Grupo Bimbo | Sara Lee | \$3,640,000 | \$35.16 | 103,534 | Minneapolis North |
| Craven Warehouse Building | DPS-Minnetonka Culliigan, LLC | CSK Office-Warehouse | \$3,139,440 | \$48.89 | 64,214 | Southwest |
| 8651 Naples St NE | Sunderland Properties, LLC | M&I Regional Properties | \$2,700,000 | \$49.79 | 54,232 | West/Northwest |
| 9650 Newton Ave S | Activar Newton Properties LLC | Kensington Investments I LLC | \$2,650,000 | \$43.90 | 60,360 | Southwest |
| 521 Barge Channel Rd | Northern Metal Recycling, LLC | Gorden Real Estate Investments | \$2,500,000 | \$44.51 | 56,171 | St. Paul East |
| 2700 Campus Drive | Eniva USA Inc. | Andrew P Kociscak | \$2,434,000 | \$50.51 | 48,189 | West/Northwest |
| 2860 Water Tower Place | Borger Corp | Parker Hannifin Corp. | \$2,300,000 | \$71.88 | 32,000 | Southwest |
| 550 Old Crystal Bay Road | Pine Corner Properties LLC | Ryan Companies | \$1,750,000 | \$43.72 | 40,028 | West/Northwest |
| Former Flame Metal Processing Corp. manufacturing site | Hardcoat Inc. | A&D Holdings | \$1,010,000 | \$31.03 | 32,550 | West/Northwest |
| 3301 East 26th St | MHZ LLC | J&C Larson Enterprises LP | \$900,000 | \$63.78 | 14,112 | West/Northwest |
| 850 Mendelssohn Ave N | LAMN LLC | Lessor's Realty Services Inc. | \$750,000 | \$41.67 | 18,000 | West/Northwest |
| Minneapolis Sawing and Drilling Building (sale-leaseback) | City of Brooklyn Park | Minneapolis Concrete Sawing and Drilling | \$575,000 | \$94.26 | 6,100 | West/Northwest |
| Drew Professional Building | IRET | Ronald and Jennifer Groat | \$505,000 | \$145.53 | 3,470 | Southwest |

Market Statistics

| SUBMARKET | TOTAL SF | DIRECT VACANT SF | SUBLEASE VACANT SF | % VACANT DIRECT | % VACANT W/SUBLEASE | 4TH QUARTER ABSORPTION | YTD ABSORPTION | QUOTED NET RENTAL RATES (OFFICE/WHSE) |
|-----------------------------------|--------------------|-------------------|--------------------|-----------------|---------------------|------------------------|------------------|---------------------------------------|
| AIRPORT/SOUTH OF THE RIVER | | | | | | | | |
| Bulk Warehouse | 4,694,373 | 757,168 | 44,435 | 16.1% | 17.1% | 76,108 | 212,755 | \$4.30 |
| Office Showroom | 3,209,466 | 712,305 | 0 | 22.2% | 22.2% | 23,981 | 43,968 | \$9.50/\$4.80 |
| Office Warehouse | 8,907,258 | 710,159 | 52,622 | 8.0% | 8.6% | 116,184 | 218,763 | \$9.25/\$4.70 |
| Totals: | 16,811,097 | 2,179,632 | 97,057 | 13.0% | 13.5% | 216,273 | 475,486 | \$9.32/\$4.61 |
| MINNEAPOLIS NORTH | | | | | | | | |
| Bulk Warehouse | 5,851,221 | 536,741 | 13,300 | 9.2% | 9.4% | 28,241 | 11,170 | \$4.25 |
| Office Showroom | 3,909,960 | 444,660 | 0 | 11.4% | 11.4% | 15,763 | 116,964 | \$9.40/\$4.45 |
| Office Warehouse | 18,521,533 | 1,741,949 | 418,781 | 9.4% | 11.7% | 117,581 | (70,584) | \$9.10/\$4.40 |
| Totals: | 28,282,714 | 2,723,350 | 432,081 | 9.6% | 11.2% | 161,585 | 57,550 | \$9.15/\$4.38 |
| SOUTHWEST | | | | | | | | |
| Bulk Warehouse | 6,229,942 | 592,656 | 20,045 | 9.5% | 9.8% | 183,689 | 49,899 | \$4.30 |
| Office Showroom | 7,800,555 | 1,481,889 | 43,836 | 19.0% | 19.6% | 17,462 | (123,145) | \$9.75/\$4.90 |
| Office Warehouse | 16,447,794 | 1,452,307 | 39,632 | 8.8% | 9.1% | 99,519 | 84,315 | \$9.50/\$4.85 |
| Totals: | 30,478,291 | 3,526,852 | 103,513 | 11.6% | 11.9% | 300,670 | 11,069 | \$9.58/\$4.75 |
| ST. PAUL EAST | | | | | | | | |
| Bulk Warehouse | 8,344,169 | 733,326 | 0 | 8.8% | 8.8% | 4,000 | (115,023) | \$4.10 |
| Office Showroom | 2,611,462 | 188,087 | 20,445 | 7.2% | 8.0% | (6,011) | 6,046 | \$9.65/\$4.40 |
| Office Warehouse | 13,753,702 | 689,084 | 0 | 5.0% | 5.0% | 33,847 | 415,276 | \$9.45/\$4.40 |
| Totals: | 24,709,333 | 1,610,497 | 20,445 | 6.5% | 6.6% | 31,836 | 306,299 | \$9.48/\$4.30 |
| WEST/NORTHWEST | | | | | | | | |
| Bulk Warehouse | 15,484,979 | 1,606,582 | 461,982 | 10.4% | 13.4% | 33,906 | 100,638 | \$4.15 |
| Office Showroom | 5,984,329 | 814,239 | 0 | 13.6% | 13.6% | (74,914) | (160,422) | \$9.75/\$4.60 |
| Office Warehouse | 21,382,867 | 2,097,929 | 70,934 | 9.8% | 10.1% | 117,588 | 579,072 | \$9.20/\$4.55 |
| Totals: | 42,852,175 | 4,518,750 | 532,916 | 10.5% | 11.8% | 76,580 | 519,288 | \$9.32/\$4.41 |
| TOTAL ALL MARKETS | | | | | | | | |
| Bulk Warehouse: | 40,604,684 | 4,226,473 | 539,762 | 10.4% | 11.7% | 325,944 | 259,439 | \$4.19 |
| Office Showroom: | 23,515,772 | 3,641,180 | 64,281 | 15.5% | 15.8% | (23,719) | (116,589) | \$9.65/\$4.68 |
| Office Warehouse: | 79,013,154 | 6,691,428 | 581,969 | 8.5% | 9.2% | 484,719 | 1,226,842 | \$9.29/\$4.57 |
| Market Totals: | 143,133,610 | 14,559,081 | 1,186,012 | 10.2% | 11.0% | 786,944 | 1,369,692 | \$9.37/\$4.48 |

The above table is summarized data on multi-tenant industrial buildings greater than 20,000 square feet. Not included are single-tenant or owner-occupied buildings.

Market Statistics (EXPANDED MARKET)

| SUBMARKET | TOTAL SF | DIRECT VACANT SF | SUBLEASE VACANT SF | % VACANT DIRECT | % VACANT W/SUBLEASE | 4TH QUARTER ABSORPTION | YTD ABSORPTION | QUOTED NET RENTAL RATES (OFFICE/WHSE) |
|-----------------------------------|--------------------|-------------------|--------------------|-----------------|---------------------|------------------------|------------------|---------------------------------------|
| AIRPORT/SOUTH OF THE RIVER | | | | | | | | |
| Bulk Warehouse | 18,853,839 | 1,504,886 | 44,435 | 8.0% | 8.2% | (150,780) | 18,438 | \$4.30 |
| Office Showroom | 4,715,123 | 758,163 | 0 | 16.1% | 16.1% | 46,981 | 81,721 | \$9.50/\$4.80 |
| Office Warehouse | 10,492,876 | 813,163 | 52,622 | 7.7% | 8.3% | 115,584 | 214,022 | \$9.25/\$4.70 |
| Totals: | 34,061,838 | 3,076,212 | 97,057 | 9.0% | 9.3% | 11,785 | 314,181 | \$9.33/\$4.49 |
| MINNEAPOLIS NORTH | | | | | | | | |
| Bulk Warehouse | 25,668,828 | 991,241 | 13,300 | 3.9% | 3.9% | 9,862 | 45,672 | \$4.25 |
| Office Showroom | 5,514,649 | 712,568 | 0 | 12.9% | 12.9% | 24,337 | 25,538 | \$9.40/\$4.45 |
| Office Warehouse | 20,122,116 | 1,919,299 | 418,781 | 9.5% | 11.6% | 117,581 | (73,101) | \$9.10/\$4.40 |
| Totals: | 51,305,593 | 3,623,108 | 432,081 | 7.1% | 7.9% | 151,780 | (1,891) | \$9.16/\$4.33 |
| SOUTHWEST | | | | | | | | |
| Bulk Warehouse | 25,580,891 | 1,612,093 | 20,045 | 6.3% | 6.4% | 436,077 | 342,953 | \$4.30 |
| Office Showroom | 10,315,520 | 1,779,558 | 43,836 | 17.3% | 17.7% | (125,373) | (327,111) | \$9.75/\$4.90 |
| Office Warehouse | 18,672,599 | 1,636,546 | 39,632 | 8.8% | 9.0% | 99,519 | 73,065 | \$9.50/\$4.85 |
| Totals: | 54,569,010 | 5,028,197 | 103,513 | 9.2% | 9.4% | 410,223 | 88,907 | \$9.59/\$4.60 |
| ST. PAUL EAST | | | | | | | | |
| Bulk Warehouse | 24,804,404 | 1,090,551 | 14,000 | 4.4% | 4.5% | 8,350 | (111,673) | \$4.10 |
| Office Showroom | 3,892,174 | 273,956 | 20,445 | 7.0% | 7.6% | (4,549) | 8,700 | \$9.65/\$4.40 |
| Office Warehouse | 15,904,809 | 710,840 | 35,000 | 4.5% | 4.7% | 55,707 | 437,136 | \$9.45/\$4.40 |
| Totals: | 44,601,387 | 2,075,347 | 69,445 | 4.7% | 4.8% | 59,508 | 334,163 | \$9.49/\$4.23 |
| WEST/NORTHWEST | | | | | | | | |
| Bulk Warehouse | 43,045,381 | 2,769,924 | 690,447 | 6.4% | 8.0% | 128,519 | (12,025) | \$4.15 |
| Office Showroom | 8,292,059 | 934,264 | 0 | 11.3% | 11.3% | (67,696) | (162,654) | \$9.75/\$4.60 |
| Office Warehouse | 25,938,271 | 2,496,340 | 70,934 | 9.6% | 9.9% | 109,045 | 701,833 | \$9.20/\$4.55 |
| Totals: | 77,275,711 | 6,200,528 | 761,381 | 8.0% | 9.0% | 169,868 | 527,154 | \$9.33/\$4.33 |
| TOTAL ALL MARKETS | | | | | | | | |
| Bulk Warehouse: | 137,953,343 | 7,968,695 | 782,227 | 5.8% | 6.3% | 432,028 | 283,365 | \$4.21 |
| Office Showroom: | 32,729,525 | 4,458,509 | 64,281 | 13.6% | 13.8% | (126,300) | (373,806) | \$9.64/\$4.67 |
| Office Warehouse: | 91,130,671 | 7,576,188 | 616,969 | 8.3% | 9.0% | 497,436 | 1,352,955 | \$9.29/\$4.57 |
| Market Totals: | 261,813,539 | 20,003,392 | 1,463,477 | 7.6% | 8.2% | 803,164 | 1,262,514 | \$9.38/\$4.39 |

The above table is summarized data on multi- and single-tenant industrial buildings greater than 10,000 square feet. Owner-occupied properties are also included.

512 offices in
61 countries on
6 continents

- \$1.5 billion in annual revenue
- 979 million square feet under management
- Over 12,500 professionals

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