

MINNEAPOLIS-ST. PAUL MEDICAL OFFICE MARKET REPORT



Stability continues in the medical office market

VACANCY AND ABSORPTION TRENDS

The medical office market vacancy rate stands at 8.9%. There was negative absorption of 1,917 square feet for the 4th quarter and 26,412 square feet for all of 2011.

Medical office tenants continue to trend toward locating in historically retail locations. There are also large variations on rates and occupancy levels depending on location and quality. In quality locations, vacancy is low and rental rates have remained steady with newer construction charging premium rates. This compares to secondary markets and older buildings where rates have been decreasing.

Concessions overall include some free rent in addition to significant contributions from landlords for tenant improvements as users avoid using their own cash. Large group practices and systems are active but can take a year or more to make long-term decisions, leading to overall longer negotiation processes.

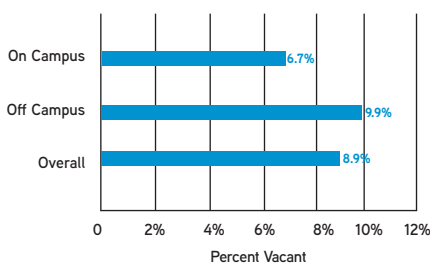
The medical office investment sale market is tight with few medical properties available, especially properties located on medical campuses where premium pricing exists. CAP rates are compressed for quality properties, and pricing is determined by the quality of the tenant and the system. Institutional REITs are actively seeking medical office buildings, especially on-campus, system-anchored buildings.

Among independent practices, we expect to see continued consolidation and partnerships in addition to absorption into larger medical systems. Implementation of the healthcare reform act puts pressure on independents to consolidate or be absorbed in order to handle the increased costs that will occur in this new environment.

FUTURE TRENDS

In 2012, development activity will pick up as construction is completed on several buildings and construction commences on additional projects. Rates at newer, quality properties will stay stable or increase slightly. Older properties with significant vacant space will need to lower rents and increase tenant improvements in order to fill their spaces. Large medical systems, including CentraCare and Essentia, will continue to dominate the market.

VACANCY



SIGNIFICANT LEASE AND SALES ACTIVITY

LEASE ACTIVITY

TENANT	BUILDING	CITY	SIZE (SF)	SUBMARKET
HealthEast Medical Research	1390 University Ave W	St Paul	22,721	NA
PrairieCare	Southdale Physicians Building	Edina	24,000	Southdale

SALES ACTIVITY

BUILDING	BUYER	SELLER	PRICE	PRICE PSF	SIZE (SF)	SUBMARKET
Crossroads Center	RE/MAX Advantage Plus	The Craig Company, Inc.	\$950,000	\$78.46	12,108	Southwest
Parkway Professional Building	HealthPartners	John C DeMoss Ltd Attys	?	?	8,600	West & Northwest

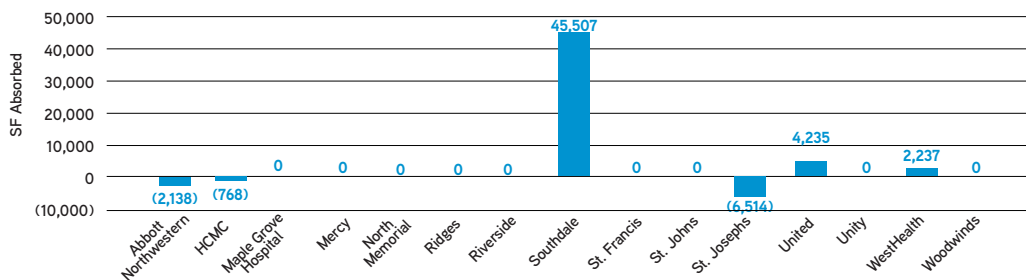


SIGNIFICANT LEASE

HealthEast is opening a clinic at Midway Marketplace in the space formerly occupied by a Borders Bookstore.

ABSORPTION

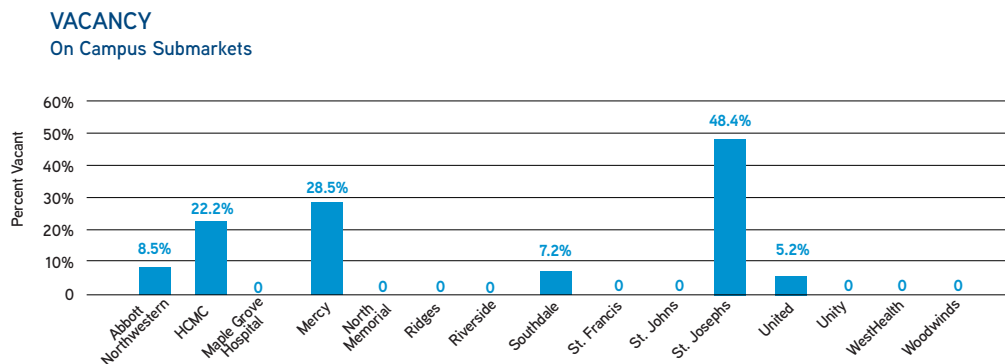
On Campus Submarkets



Market Statistics

SUBMARKET	BASE	VACANT SF	% VACANT	W/SUBLEASE	% VACANT W/ SUBLEASE	SUBLEASE VACANT	Q4 ABSORPTION	2011 ABSORPTION
Minneapolis	588,966	79,233	13.5%	95,226	16.2%	15,993	0	(2,812)
NE	583,871	61,778	10.6%	61,778	10.6%	0	(8,840)	(11,398)
NW	1,740,648	200,148	11.5%	216,148	12.4%	16,000	2,988	27,321
SE	1,454,227	118,021	8.1%	120,430	8.3%	2,409	1,844	24,071
St Paul	924,866	127,687	13.8%	127,687	13.8%	0	(28,976)	(55,898)
SW	2,008,930	133,780	6.7%	153,101	7.6%	19,321	1,422	2,569
Off Campus	7,301,508	720,647	9.9%	774,370	10.6%	53,723	(31,562)	(16,147)
Abbott Northwestern	424,766	36,266	8.5%	36,266	8.5%	0	408	(2,138)
HCMC	161,057	35,765	22.2%	35,765	22.2%	0	0	(768)
Maple Grove Hospital	250,000	0	0.0%	0	0.0%	0	0	0
Mercy	92,256	26,258	28.5%	26,258	28.5%	0	0	0
North Memorial	250,000	0	0.0%	0	0.0%	0	2,430	0
Ridges	89,700	0	0.0%	0	0.0%	0	0	0
Riverside	255,000	0	0.0%	0	0.0%	0	0	0
Southdale	383,392	27,521	7.2%	33,032	8.6%	5,511	28,678	45,507
St Francis	100,000	0	0.0%	0	0.0%	0	0	0
St Johns	102,437	0	0.0%	0	0.0%	0	0	0
St Josephs	105,329	51,007	48.4%	51,007	48.4%	0	0	(6,514)
United	435,541	22,835	5.2%	37,066	8.5%	14,231	(1,871)	4,235
Unity	78,500	0	0.0%	0	0.0%	0	0	0
WestHealth	181,600	0	0.0%	0	0.0%	0	0	2,237
Woodwinds	74,938	0	0.0%	0	0.0%	0	0	0
On Campus	2,984,516	199,652	6.7%	219,394	7.4%	19,742	29,645	42,559
Markets Total	10,286,024	920,299	8.9%	993,764	9.7%	73,465	(1,917)	26,412

The above table is summarized data on multi-tenant medical office properties greater than 20,000 square feet.



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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