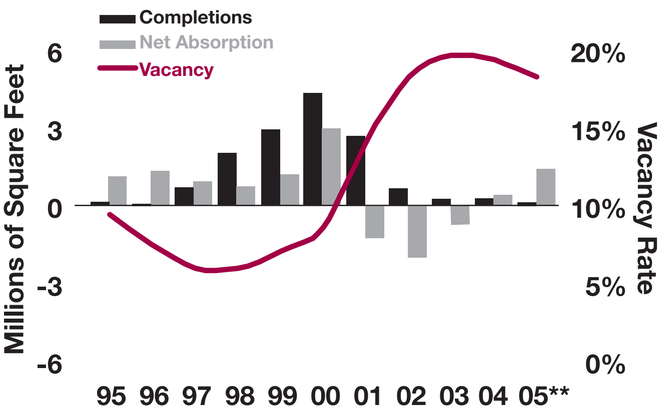
Office Supply and Demand



▼ 2005 NOI Rank: 32, Down 7 Places. Minneapolis-St. Paul dropped seven spots in the NOI, as vacancy will remain above the national rate and employment gains are near the average.

▲ Employment Forecast: The affordable cost of doing business, coupled with a well-educated work force, is luring companies to the metro. During the year, we expect employment to increase 2.1 percent, a gain of 37,000 jobs.

▲ Construction Forecast: New office supply will be limited in 2005, as most developers are holding off new projects until vacancy returns to a healthier level. Completions will total 195,000 square feet this year, down from 295,000 square feet in 2004.

▲ Vacancy Forecast: Tenant demand for space is starting to rise due to the influx of new firms and increased space requirements of local firms. As a result, vacancy is forecast to decline by 110 basis points, to 18.2 percent.

Investors Targeting Minneapolis CBD Properties

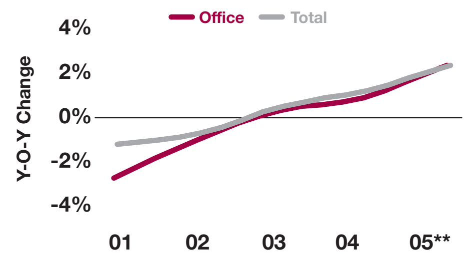
Underperforming office buildings are becoming a prime investment target in the Minneapolis-St. Paul metro area. Economic improvement is expected in 2005, which will lead to increased space requirements by local office-using firms. Despite the lack of growth in office-using employment last year, leasing activity started to rise, and the metro posted positive net absorption for the first time in four years. Much of the gain was reported in the suburban submarkets of Dakota County and the Northeast, where vacancy dropped to 14.6 percent and 15.2 percent, respectively. Overall, Class A buildings have been outperforming as tenants take advantage of lower rents to upgrade to higher-quality space. Owners of Class A buildings in the Minneapolis CBD have positioned themselves to achieve substantial gains in occupancy in 2005 by offering generous tenant improvement allowances and other concessions. The resulting expansion or relocation of many businesses to the Minneapolis CBD is expected to decrease vacancy in the submarket by 250 basis points, to 17 percent. Among the many tenants rumored to be on the hunt for space in the the CBD is Target, which is expected to expand its downtown presence by more than 200,000 square feet.

Sales velocity is forecast to increase in the metro area given the improving economy and the fact that many high-vacancy buildings are being offered at or below replacement cost. The apparent bottoming of the office market is encouraging investors to purchase buildings in struggling submarkets in anticipation of growing demand for space later in the year. The St. Paul CBD, for instance, recently reported vacancy in excess of 25 percent, but the area has attracted the attention of many institutional players since corporate downsizing is a thing of the past, and revenue growth in the submarket is now expected to exceed 5 percent this year.

▲ Rent Forecast: The large amount of space sitting vacant in the market will preclude most owners from achieving any asking rent growth this year, but concessions will begin to ease. As a result, effective rents will increase by 1 percent, to an average of $16.96 per square foot, by year end.

▲ Investment Forecast: Suburban properties will remain a favorite among local investors due to the lack of construction and relatively healthy vacancy rates. The two CBDs are now garnering interest from institutional buyers as it becomes apparent that tenant demand for downtown space is on the rise.

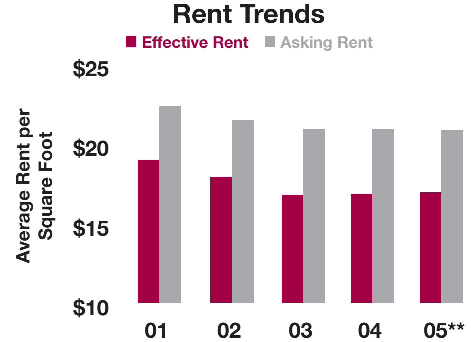
Employment Trends



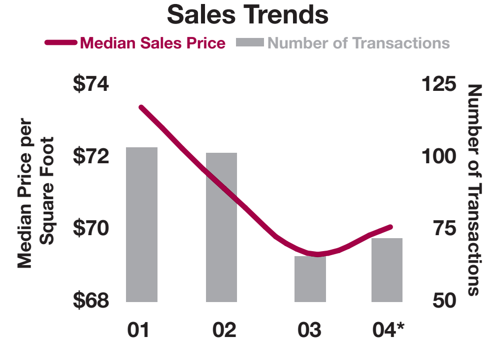
Absolute Change (000s)

	01	02	03	04	05**
Office	-12	-5	1	3	9
Total	-23	-14	6	18	37

Rent Trends



Sales Trends



* Estimate **Forecast