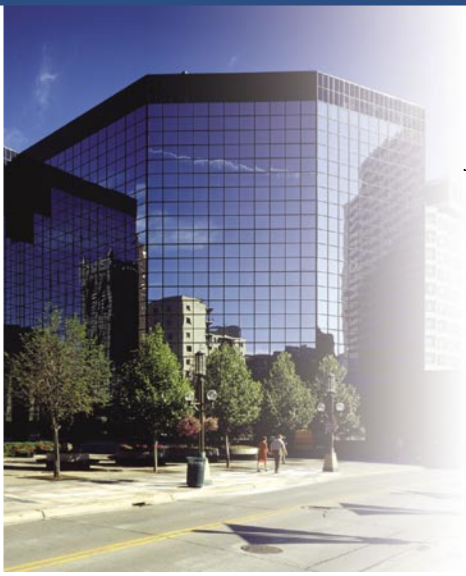
OFFICE

Minneapolis/St. Paul • Towle Report 2003



HIGHLIGHTS

- Negative six-month absorption of 1.4 million sq. ft. spiked the overall vacancy to 17.6% by yearend. The majority of the losses are due to corporate downsizing or relocations to build-to-suit facilities.
- A glut of sublease space totaling 2.4 million sq. ft. brought the true overall Metro vacancy to 21.1%.
- Falling asking rents reflect how competitive the "tenant's market" has become. There will be continued migration of Class B tenants to Class A buildings at the same rental rates.
- With the office market solidly in the overbuilt stage of the real estate cycle, little development is currently under construction or planned.
- All indicators point to economic recovery in late 2003 and early 2004.

Pictured above is 1221 Nicollet Mall in Downtown Minneapolis, which saw a 33% improvement in occupancy in a down market.

MARKET OVERVIEW

The following report provides data for the six-month period from second quarter 2002 to fourth quarter 2002.

Like most of the nation, the Twin Cities Metro area office market took a giant step backwards the last six months of 2002. There was 1.4 million sq. ft. of negative absorption raising the overall vacancy from 14.8% to 17.6%. When the glut of sublease space totaling 2.4 million sq. ft. is factored in, the true vacancy stands at 21.1%.

What started as a national technology crash in 1999 has permeated most facets of the economy. Locally, layoffs in the financial services industry and corporate built to suits during 2002 created the situation. Some industry observers link the struggling office market directly to Wall Street with $7 trillion lost in the equity markets, the loss of faith and credibility in corporate America, and the threat of war.

While there are a few small sectors that posted tenant growth and healthy vacancy rates below 10% (Anoka County, St. Paul Out-of-CBD and Washington County), most areas had tenant losses and vacancies between 13% and 25% before factoring in sublease space. When added in, those vacancies rose to 16.1% and 31.3% (Minneapolis Out-of-CBD being the highest).

In terms of negative six-month absorption, the Minneapolis CBD had the most with 775,624 sq. ft., (most of it due to American Express Financial Advisors moving out of the multi-tenant market into their own building in August.), the West sector had 443,543 sq. ft. and the Southwest sector had 97,462 sq. ft. of occupancy losses.

Falling asking rents reflect how competitive the tenants market has become, with reported decreases ranging from $1 to $3 psf since midyear (see page 12), and deals getting done even lower.

INVESTMENT SALES

The 2002 office building sales ranged from empty turnarounds to fully leased properties. The number of sales was on par with past years. Not all of the properties on the market sold. Some sellers did not obtain satisfactory offers and are biding their time. Despite the tremendous demand for investment real estate, office-building investors are careful.. Getting in right is the key to getting out right.

There is enough history to show the cycle of price swings relative to occupancy, rental rates and overall market conditions. There are many good times to buy. Solid underwriting results in sound pricing for buyers. If an owner will sell at the buyer's price, the buyer should make money upon a sale after lease up and the market's recovery.

Selling in today's market and profiting is possible with strong occupancy and low near term lease rollover exposure. There are investors seeking stable, quality assets.

COLLIERS TOWLE

MINNEAPOLIS CBD

Universe includes:

- 92 buildings
- 25.6 million sq. ft.

Overall, the downtown office market suffered negative six-month absorption of 775,624 sq. ft., which raised the vacancy rate from 14.1% at midyear to 17.4% by fourth quarter 2002. When available sublease space of 997,909 sq. ft. is added, the overall vacancy jumps to 21.3%.

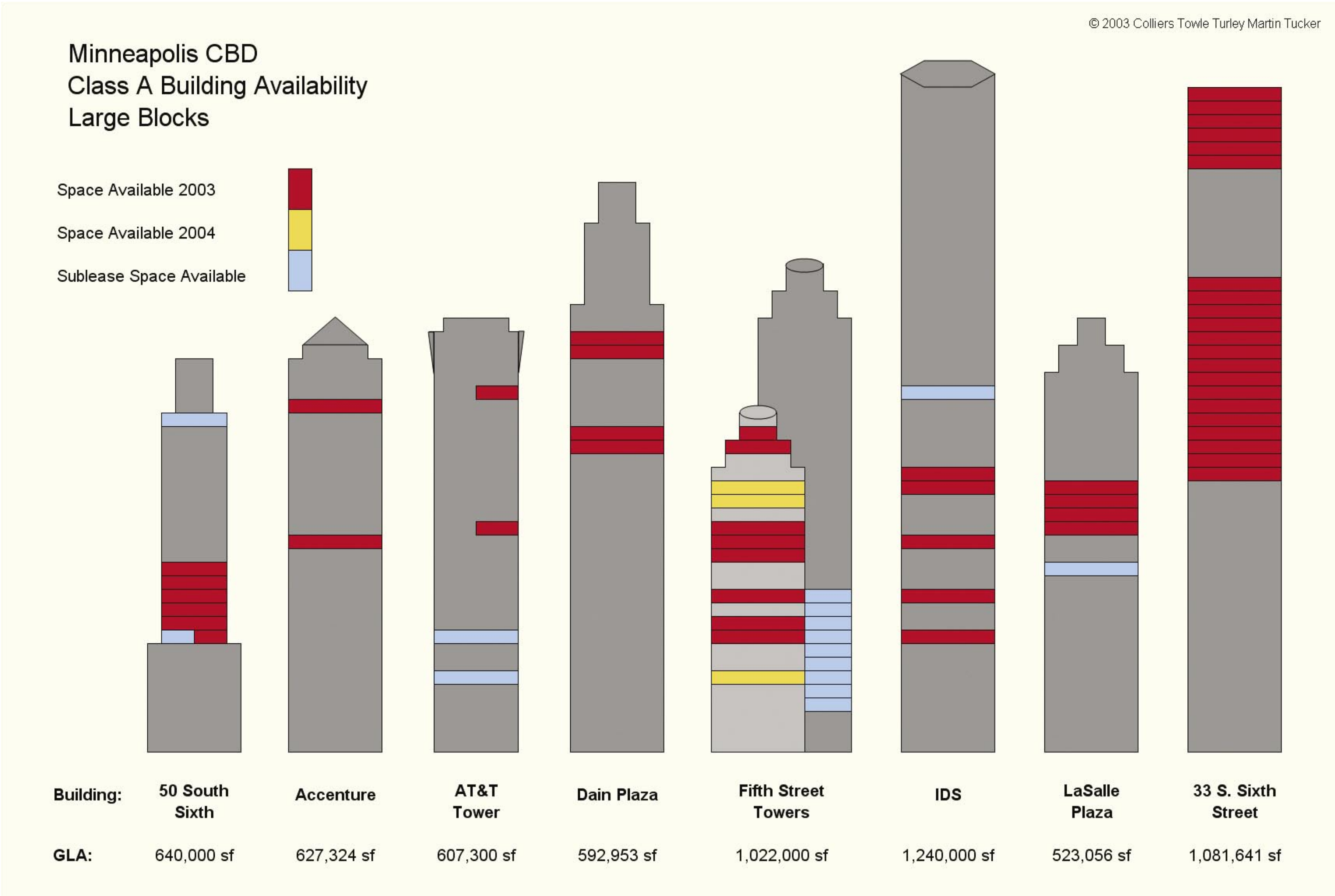
Lower net rents, higher tenant improvement allowances, and other concessions such as free rent reflect the pressure of a large amount of quality sublease space competing with an oversupply of direct space on the market.

The Class A segment had tenant losses of 102,484 sq. ft., raising the vacancy from 13.7% to 14.5%. And, because Class A buildings have 79% of the CBD's sublease space, that figure rises to a true vacancy of 20.5%. Major losses include Arthur Andersen's demise and subsequent vacating of 71,000 sq. ft. in **Plaza VII** and American Express Financial Advisors leaving space in the **IDS Center** in favor of their own facilities. On the positive side, **Marquette Plaza** is providing a 100,000 sq. ft. temporary home to the Minneapolis Public Library. **Piper Jaffray Tower** was renamed **Campbell Mithun Tower** when the advertising agency renewed and exercised its naming rights option.

Class A asking rents dropped over $1 psf to $14.65 psf, however deals are getting done in the $9 to $13 psf range. Average real estate taxes also decreased, from $5.09 psf to $4.80 psf, as did total operating expenses, from $11.51 psf to $11.06 psf.

Dramatic changes in the Class B segment resulted in record negative six-month absorption of 694,848 sq. ft. (To put that into context, the average annual Class B absorption is 60,000 sq. ft., so the leasing challenge is enormous.) The resulting vacancy of 22.1% rises to 24.3% when sublease space is considered. There are several reasons for the current conditions: **Northstar Center** and the **Baker Block** lost approximately 600,000 sq. ft. when American Express Financial Advisors moved to their new building in August. Also, the law firm of Fredrickson & Byron moved to the Class A **Pillsbury Center**, vacating over 200,000 sq. ft. in **International Centre**. New to the multi-tenant survey is the 50,000 sq. ft. **Schmitt Music** building, where renovations are planned and the first and second floors are available for office and/or retail use.

With tenants shopping the market to take advantage of competitive conditions, Class B average net quoted



rents fell from $11.40 psf to $10.99 psf, with deals reportedly getting done in the $6 to $8 psf net range. Taxes rose from $3.22 psf to $3.40 psf, as did total operating expenses, from $9.95 psf to $10.46 psf.

The Class C segment had minimal negative six-month absorption of 2,810 sq. ft., ticking up the vacancy from 23.5% to 23.6% by fourth quarter 2002. Less than 1,000 sq. ft. of sublease space was reported.

Class C asking rents also dropped, from $9.78 psf to $8.56 psf. Taxes remained the same at $2.04 psf but total operating expenses fell, from $6.70 psf to $6.49 psf

There were several additions to the Renovated segment. **1010 Metrodome Square** (170,000 sq. ft.) became multi-tenant again when US Bank sold the building to Timeshare Properties and reduced its presence; the 68,000 sq. ft. former **HGA Architects** building was moved from Class B; and the 30,000 sq. ft. **Harmon Court** building was added to the multi-tenant survey.

The Renovated segment was the only one to report net tenant growth in the CBD, though minimal at 24,518 sq. ft. But because more space was added than absorbed, the vacancy rate rose, from 11.4% at midyear to 15.6% by yearend.

Renovated rental rates dropped over $1 psf, from $10.85 psf to $9.21 psf. Real estate taxes were steady at $2.46 psf and total operating expenses inched up from $7.51 psf to $7.63 psf.

ST. PAUL CBD

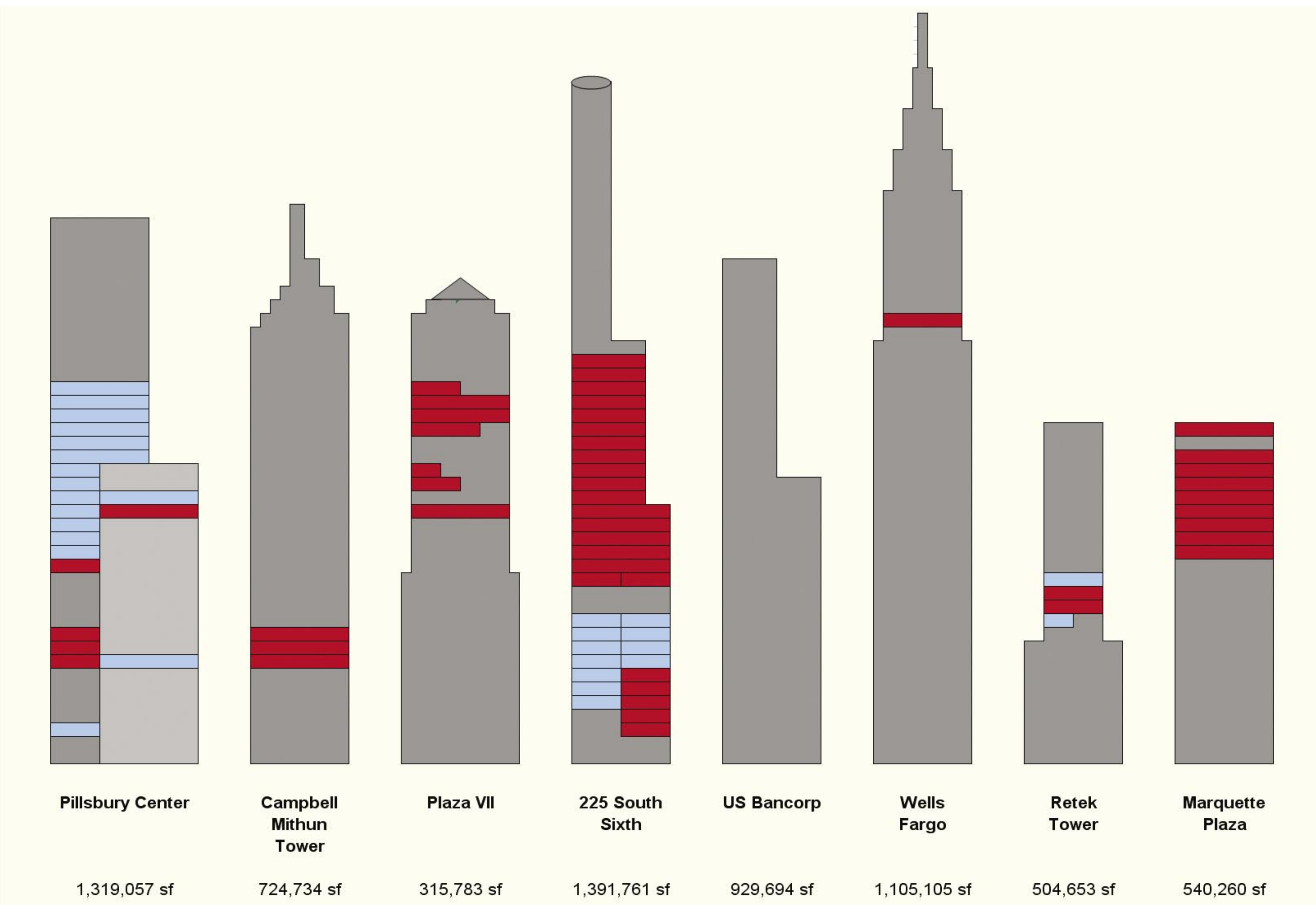
Universe includes:

- 39 buildings
- 7,990,086 rentable sq. ft.

Despite growth and success in entertainment and residential development, the St. Paul CBD's multi-tenant office market continues to be plagued with negative absorption, rising vacancies, an abundance of sublease space, and asking rents that are $2-$3 lower per square foot than last year. The majority of space that has come back to the market is due to corporate downsizing, dot.com failures, and move-outs of legal and accounting firms.

For the six-month period ending fourth quarter 2002, overall tenant losses of 54,212 sq. ft. raised the vacancy slightly, from 20.4% to 20.9%. However, when sublease space of 161,764 sq. ft. is added in, the vacancy stands at 22.9%.

The small Class A segment of four buildings posted negative absorption of 32,193 sq. ft., all of which can be traced to **Landmark Towers**. The resulting vacancy is 27%, up from 25.3% at midyear. Available sublease space of 69,194 sq. ft. brings the true vacancy to 31.1%.



St. Paul's Army Corps of Engineers Centre was re-named Sibley Square at Mears Park to reflect its location and multi-tenant status.

Average Class A asking rents dropped dramatically, from $14.10 psf to $11.17 psf. Real estate taxes and total operating expenses rose, however, to $4.27 psf (from $4.15 psf) and $10.57 psf (from $10.30 psf), respectively.

The Class B segment of 23 buildings was the only one in St. Paul to report positive growth with 10,572 sq. ft. of six-month absorption. Leasing progress at **Galtier Plaza** and the **First National Bank** building were responsible for the net gain.

This improved the vacancy rate from 19.2% to 18.7%, however, when 88,978 sq. ft. of sublease space is factored in, the vacancy is 20.5%.

Average Class B asking rents also saw a steep decline, from $10.42 psf to $8.89 psf. Real estate taxes were stable at $2.51 psf, as were total operating expenses at $9.34 psf.

The Class C segment continues to struggle with negative six-month absorption of 32,591 sq. ft. reported. The fourth quarter vacancy rate of 20.9% is up from 18.9% at midyear. Minimal sublease space of 3,592 sq. ft. bumps the vacancy up to 21.2%.

Class C asking rents remained steady at $8.25 psf. Average real estate taxes and total operating expenses saw little change at $1.42 psf and $5.71 psf, respectively.

The short-term outlook for St. Paul is challenging, There is some good news: the IRS is coming out of the **Federal Building** and will occupy 90,000 sq. ft. in the multi-tenant universe.

MINNEAPOLIS OUT-OF-CBD

Universe includes:

- 21 buildings
- 2,183,331 rentable sq. ft.

Big challenges face this sector of 21 buildings. Negative six-month absorption of 86,377 sq. ft. was reported, more than half of it due to tenant loss at **Broadway Place West**.The resulting vacancy grew from 20.9% to 24.9% since midyear, and when sublease space of 141,259 sq. ft. is added in, the vacancy spikes to an alarming 31.3%.

These market conditions will likely delay the start of the sector's only planned project: Hillcrest Development/RREEF's 700,000 sq. ft. facility at **2300 Kennedy Street**. Adjustments in asking rents and expenses have not yet caught up with market conditions, however. Asking rents barely decreased, from $12.90 psf to $12.70 psf. Average real estate taxes remained the same at $2.94 psf, and total operating expenses were one of a very few to rise in the Metro area, increasing from $8.90 psf to $9.27 psf.

OFFICE BUILDINGS SOLD • 2002

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BUILDING NAME	CITY	PRICE PSF	YR BLT
Wells Fargo Bank Bldg.	Wayzata	$152	1981
MAPP Center	St. Paul	$142	1952
Gateway Building	Woodbury	$140	2000
Creekridge I & II	Bloomington	$119	1985
Centennial Lakes III	Edina	$118	1998
480 Cedar St.	St. Paul CBD	$117	1972
International Plaza	Bloomington	$117	1984
Valley Square Corp. Ctr	Golden Valley	$110	1991
Wirth Corporate Center	Golden Valley	$109	1991
Thresher Square	Minneapolis CBD	$93	1900
Southdale Office Center	Edina	$90	1968
One Corporate Center IV	Edina	$84	1982
12400 Whitewater Dr.	Minnetonka	$82	1984
12501 & 12701 Whitewater Dr.	Minnetonka	$70	1985/87
American Financial Ctr	Bloomington	$67	1972
Three Paramount Plaza	Bloomington	$63	1982
Brenwood Office Park	Minnetonka	$63	1980
Atrium Office Building	St. Paul	$58	1900
Plymouth Building	Minneapolis CBD	$55	1910
800 Minnehaha Ave	St. Paul	$55	1982
Saint Paul Building	St. Paul CBD	$52	1889
2420 West County Road C	Roseville	$31	1980
Brown & Bigelow Bldg.	St. Paul	$22	1979
607 Marquette	Minneapolis CBD	$18	1949

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ST. PAUL OUT-OF-CBD

Universe includes:

- 19 buildings
- 2,056,317 rentable sq. ft.

Flat absorption of 16,204 sq. ft. was reported in this sector of 19 buildings. However, it was not enough to offset the 45,000 sq. ft. new expansion at **Griggs-Midway**, so the resulting vacancy rose from 8.5% to a still healthy 9.8% by fourth quarter 2002.

Suburban St. Paul will be home to 100 units of the current trend of "town offices", with an average size of 2,500 sq. ft. A longtime trend of build-to-suit facilities will continue when Bremer Financial Services completes a 100,000 sq. ft. operations center at **Eagle Point Business Park**. A watchful eye is needed going forward, however, as this sector has a history of single tenant corporate buildings being vacated and returning space to the market.

Average asking rents remained steady at $11.18 psf. However, real estate taxes rose from $2.27 psf to $2.57 psf, and total operating expenses went up from $6.93 psf to $7.66 psf.

NORTHEAST METRO

Universe includes:

- 30 buildings
- 2,949,664 rentable sq. ft.

Six-month negative absorption of 72,708 sq. ft. raised the vacancy rate from 10.7% to 13.1% by fourth quarter 2002.When 87,178 sq. ft. of sublease space is added in the vacancy stands at 16.1%.

No new development occurred, however Chesapeake Co's still hopes to build up to 500,000 sq. ft. in **Interstate Crossing** in Arden Hills. The Northeast Metro was the only sector to report a rise in the average asking rents, from $12.03 psf mid year to $12.40 psf by fourth quarter 2002. Average real estate taxes also went up, from $2.62 psf to $2.88 psf. Total operating expenses remained steady at $6.60 psf.

NORTHWEST

Universe includes:

- 18 buildings
- 1,242,925 rentable sq. ft.

With the Metro area's highest fourth quarter vacancy of 25.1%, the Northwest sector faces a big challenge. Minimal sublease space brings the true vacancy to 25.8%. Negative absorption of 34,430 sq. ft. was posted for the six-month period.

Although there were no new buildings added due to development, the number of buildings rose to 18 because **Palmer Lake Plaza** was divided into separate buildings for our survey.

Future development of 50,000 sq. ft. is planned with 40 "town office" units of 1,250 sq. ft. by Atlas Homes. In other news, Target Corp. completed a 455,000 sq. ft. office building in Brooklyn Park for 780 employees.

Asking rental rates remained steady at $9.83 psf, as did total operating expenses at $6.60 psf. Average real estate taxes declined, from $2.13 psf to $1.84 psf.

VACANCY AND ABSORPTION

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MINNEAPOLIS/ST. PAUL METROPOLITAN AREA 2001-2002

MARKET SECTOR	STUDY DATE	NUMBER OF BLDGS	TOTAL RENTABLE AREA	TOTAL AMOUNT VACANT	VACANCY RATE	NET ABSORPTION
Anoka County	2nd Qtr. 2001	13	466,966	28,048	6.0%	49,546
	2nd Qtr. 2002	11	464,300	25,429	5.5%	2,619
	4th Qtr. 2002	11	464,300	10,565	2.3%	14,864
Dakota County	2nd Qtr. 2001	34	1,645,164	232,575	14.1%	112,649
	2nd Qtr. 2002	39	1,919,545	314,906	16.4%	119,669
	4th Qtr. 2002	40	1,977,503	392,527	19.8%	-22,221
Minneapolis CBD						
Class A	2nd Qtr. 2001	14	11,472,592	641,245	5.6%	-109,749
	2nd Qtr. 2002	17	13,160,256	1,806,474	13.7%	469,765
	4th Qtr. 2002	17	13,170,578	1,908,958	14.5%	-102,484
Class B	2nd Qtr. 2001	30	6,813,731	565,704	8.3%	-99,530
	2nd Qtr. 2002	34	7,316,897	1,009,782	10.9%	-294,253
	4th Qtr. 2002	34	7,316,823	1,618,820	22.1%	-694,848
Class C	2nd Qtr. 2001	12	1,803,577	223,079	12.4%	94,525
	2nd Qtr. 2002	12	1,687,309	395,709	23.5%	-106,816
	4th Qtr. 2002	12	1,685,806	398,519	23.6%	-2,810
Renovated	2nd Qtr. 2001	26	3,168,913	305,448	9.6%	18,027
	2nd Qtr. 2002	26	3,158,268	359,332	9.5%	-53,884
	4th Qtr. 2002	29	3,426,562	535,203	15.6%	24,518
Subtotal	2nd Qtr. 2001	82	23,258,813	1,735,476	7.5%	-96,727
	2nd Qtr. 2002	89	25,322,820	3,571,297	14.1%	14,812
	4th Qtr. 2002	92	25,599,769	4,461,500	17.4%	-775,624
Minneapolis Out-of-CBD	2nd Qtr. 2001	18	1,719,067	288,592	16.8%	164,779
	2nd Qtr. 2002	21	2,182,592	456,822	20.9%	289,970
	4th Qtr. 2002	21	2,183,331	543,199	24.9%	-86,377
Northeast Metro	2nd Qtr. 2001	28	2,840,425	314,451	11.1%	121,787
	2nd Qtr. 2002	30	2,946,686	315,049	10.7%	81,404
	4th Qtr. 2002	30	2,949,664	387,757	13.1%	-72,708
Northwest	2nd Qtr. 2001	14	1,143,587	215,602	18.9%	193,128
	2nd Qtr. 2002	16	1,241,601	277,606	22.4%	38,524
	4th Qtr. 2002	18	1,242,925	312,036	25.1%	-34,430

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SOUTHWEST

Universe includes:

- 141 buildings
- 15,648,528 sq. ft.

Weak demand and corporations moving to owned facilities continue to be challenges in this sector. Negative six-month absorption of 97,462 sq. ft. was reported overall. This raised the vacancy from 14.4% to 15.6%. When substantial sublease space of 627,420 sq. ft. is added in, the vacancy soars to 19.5%.

The Class A segment had tenant losses of 52,376 sq. ft., which increased the vacancy from 13.2% to 14.1% by fourth quarter. With sublease space of 414,923 sq. ft added in, the vacancy rose to 20.6%. Leasing activity was mixed, with ups and downs in several properties. **One Southwest Crossing** saw the 108,000 sq. ft. exit of SuperValu to its own building, **Northland Plaza** lost several tenants totaling 55,000 sq. ft., and Wilson Learning gave up 32,000 sq. ft. at **Wilson Ridge**. On the flip side, several newcomers posted significant gains: NCS Pearson's 152,000 sq. ft. lease brought **Norman Pointe's** occupancy to 100% and **Flagship Corporate Center** is now 65% leased.

Class A asking rents dropped from \$15.86 psf to \$15.01 psf, as did real estate taxes, from \$5.24 psf to \$4.79 psf. Total operating expenses also dipped, from \$11.23 psf to \$11.08 psf.

The large Class B segment of 111 buildings posted six-month negative absorption of 45,086 sq. ft., increasing the vacancy from 15.1% to 16.6%. With sublease space of 212,497 sq. ft. factored in, the vacancy is 18.8%.

With the exception of **Prairie Lakes Corporate Center I**, which lost almost it's entire tenancy to **Norman Pointe**, the negative absorption was a combination of small losses in many Class B buildings. Added to the survey was a vacant 103,000 sq. ft. former user property at **9705 Data Park Drive** that is being marketed for multi-tenant use.

Class B asking rents also dropped, from \$12.01 psf to \$11.48 psf, as did total operating expenses, from \$11.23 psf to \$11.08 psf. Average taxes remained the same at \$3.32 psf.

A light rail station planned near the Mall of America in 2004 has sparked a grand 10-year plan for a transit development that could have up to 1,000 new homes, a hotel, health club, retail, and eventually up to 500,000 sq. ft. of office space surrounding the HealthPartners headquarters. McGough Development purchased the 45-acre site with plans for **Bloomington Corporate Center** and a hotel initially, but added complementary parts after studying successful transit developments in other cities.

VACANCY AND ABSORPTION

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MINNEAPOLIS/ST. PAUL METROPOLITAN AREA 2001-2002

MARKET SECTOR	STUDY DATE	NUMBER OF BLDGS	TOTAL RENTABLE AREA	TOTAL AMOUNT VACANT	VACANCY RATE	NET ABSORPTION
St. Paul CBD Class A	2nd Qtr. 2001	4	1,618,488	426,803	26.4%	289,492
	2nd Qtr. 2002	4	1,652,854	417,472	25.3%	9,331
	4th Qtr. 2002	4	1,664,333	449,665	27.0%	-32,193
Class B	2nd Qtr. 2001	23	4,743,566	703,212	14.8%	-221,231
	2nd Qtr. 2002	23	4,752,273	914,693	19.2%	1,788
	4th Qtr. 2002	23	4,828,849	904,121	18.7%	10,572
Class C	2nd Qtr. 2001	13	1,423,375	160,465	11.3%	100,205
	2nd Qtr. 2002	12	1,488,182	280,680	18.8%	-120,215
	4th Qtr. 2002	12	1,496,904	313,271	20.9%	-32,591
Subtotal	2nd Qtr. 2001	40	7,785,429	1,290,480	15.5%	168,466
	2nd Qtr. 2002	39	7,893,309	1,612,845	20.4%	-109,096
	4th Qtr. 2002	39	7,990,086	1,667,057	20.9%	-54,212
St. Paul Out-of-CBD	2nd Qtr. 2001	21	1,995,176	303,404	15.2%	70,681
	2nd Qtr. 2002	19	2,011,317	171,867	8.5%	39,537
	4th Qtr. 2002	19	2,056,317	200,663	9.8%	16,204
Southwest Class A	2nd Qtr. 2001	27	5,619,345	657,076	11.7%	361,789
	2nd Qtr. 2002	30	6,302,417	834,033	13.2%	427,043
	4th Qtr. 2002	30	6,302,417	886,409	14.1%	-52,376
Class B	2nd Qtr. 2001	106	9,017,794	1,171,521	13.0%	37,229
	2nd Qtr. 2002	110	9,254,561	1,401,345	15.1%	-18,419
	4th Qtr. 2002	111	9,346,111	1,549,431	16.6%	-45,086
Subtotal	2nd Qtr. 2001	133	14,637,139	1,828,597	12.5%	399,018
	2nd Qtr. 2002	140	15,556,978	2,235,378	14.4%	408,624
	4th Qtr. 2002	141	15,648,528	2,435,840	15.6%	-97,462
Washington County	2nd Qtr. 2001	8	523,413	38,261	7.3%	161,199
	2nd Qtr. 2002	8	523,463	10,376	2.0%	27,885
	4th Qtr. 2002	11	672,923	37,402	5.6%	122,434
West Class A	2nd Qtr. 2001	11	2,367,330	259,448	11.0%	468,200
	2nd Qtr. 2002	13	2,685,762	414,979	15.5%	168,833
	4th Qtr. 2002	14	3,027,532	570,455	11.8%	-155,476
Class B	2nd Qtr. 2001	63	4,638,107	725,328	15.6%	-128,517
	2nd Qtr. 2002	63	4,664,022	626,091	13.4%	174,937
	4th Qtr. 2002	65	4,711,827	976,158	20.7%	-288,067
Subtotal	2nd Qtr. 2001	74	7,005,437	984,776	14.1%	339,683
	2nd Qtr. 2002	76	7,349,784	1,041,070	14.2%	338,770
	4th Qtr. 2002	79	7,739,359	1,546,613	20.0%	-443,543
Metropolitan Total	2nd Qtr. 2001	463	63,020,616	7,260,262	11.5%	1,684,209
	2nd Qtr. 2002	488	67,412,395	10,032,645	14.8%	1,252,718
	4th Qtr. 2002	501	68,524,705	11,995,159	17.6%	-1,433,075

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Wayzata Executive Park , (104,000 sq. ft.) was built recently by Hammer Residences & Wayham LLC.

In single user news, HealthPartners committed to a 15-year lease in the former Ceridian building in Bloomington. Best Buy's high profile campus is nearing completion in Richfield. The 1.5 million sq. ft., 4-building campus is near I-35W and I-494. It is scheduled to open on a staged basis beginning in December 2002 with subsequent openings in January through March of 2003.

WEST

Universe includes:

- 79 buildings
- 7,739,359 rentable sq. ft.

Corporate consolidations and abundant sublease space set the stage for the current market conditions in the historically sought-after West sector. Negative six-month absorption of 443,543 sq. ft. brought the overall vacancy to 20%, up 5.8 percentage points since mid year 2002. When 355,245 sq. ft. of sublease space is factored in, the vacancy climbs to 24.5%. Four buildings have contiguous blocks of 100,000 sq. ft. or more.

The Class A segment reported 155,476 sq. ft. of tenant losses, despite the aggressive leasing of over 130,000 sq. ft. at the **1600 Tower**. Added to the multi-tenant market was the 350,000 sq. ft. **3033 Campus Dr.**, formerly occupied by Prudential. Downsizing resulted in the company leasing 60% of the building, leaving 140,000 sq. ft. for lease. The resulting Class A vacancy is 18.8%, up from 15.5% at midyear. With sublease space of 226,106 sq. ft, the vacancy stands at 26.3%.

Class A average asking rents decreased, from $16.37 psf to $15.99 psf, as did real estate taxes, from $5.50 psf to $4.71 psf. Total operating expenses also dropped, from $11.68 psf to $10.47 psf.

The Class B segment also suffered negative absorption totaling 288,067 sq. ft. due to large tenant losses in **Interchange Tower**, **South & West**, **5353 Wayzata Blvd.**, **Wirth Park II**, and **Parkdale Center**. This increased the vacancy from 13.4% to 20.7%. When sublease space of 129,139 sq. ft. is factored in, the true vacancy is 23.4%.

Added to the Class B market was the new **Valley Plaza Office Building**, a 32,000 sq. ft. facility in Golden Valley that is 37.5% occupied.

Average Class B asking rents fell slightly, from $12.04 psf to $11.92 psf. Real estate taxes decreased from $3.64 psf to $3.42 psf and total operating expenses dropped from $9.51 psf to $9.31 psf.

In development news, DaVern Inc. is completing the 48,000 sq. ft. **Fernbrook Townoffice Park** in Plymouth. It is 100% sold to 18 owners. In single user news, a 6-story, 324,000 sq. ft. office building for General Mills is scheduled for completion in 2003.

SIX-MONTH NET ABSORPTION – OFFICE

MINNEAPOLIS/ST. PAUL METRO AREA
2ND QUARTER – 4TH QUARTER 2002

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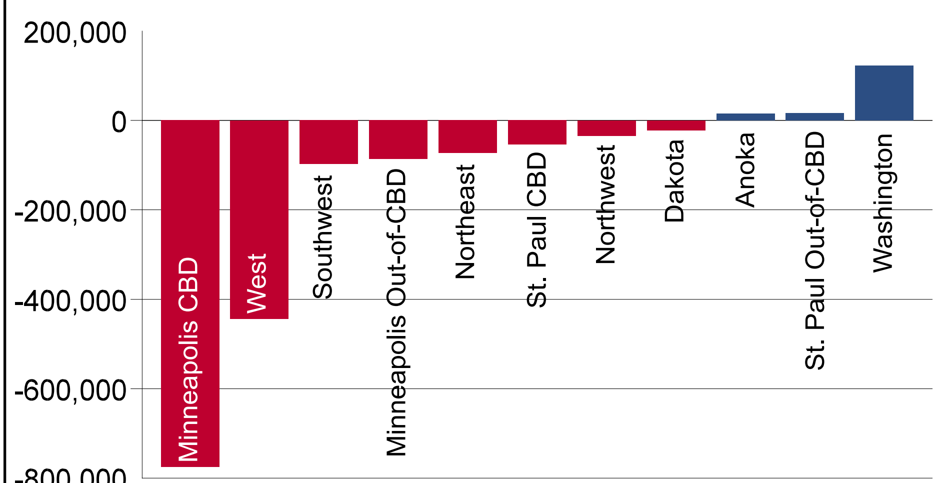

MARKET SECTOR	ABSORPTION SQ. FT.	MARKET SECTOR	ABSORPTION SQ. FT.
ANOKA COUNTY	14,864	ST. PAUL CBD	-54,212
DAKOTA COUNTY	-22,221	ST. PAUL OUT-OF-CBD	16,204
MINNEAPOLIS CBD	-775,624	SOUTHWEST	-97,462
MINNEAPOLIS OUT-OF-CBD	-86,377	WASHINGTON COUNTY	122,434
NORTHEAST	-72,708	WEST	-443,543
NORTHWEST	-34,430		

TOTAL **-1,433,075 sq. ft.**

ANOKA COUNTY

Universe includes:

- 11 buildings
- 464,300 rentable sq. ft.

With a vacancy rate of 2.3% and no sublease space available, Anoka County is the healthiest sector in the Metro area. It was also one of the few sectors to report tenant growth of 14,864 sq. ft.

Although no new development occurred, Andover is feeling the effects of urban sprawl, with two mixed-use developments underway. United Properties' 20-acre **Andover Station** will have up to 10 small office buildings. The City is seeking a developer for a 100-acre site across from Andover Station. The two areas together will form a commercial downtown. In Ramsey, a 60,280 sq. ft. building planned in **Sunfish Gateway** by Sharpe & Associates has anchor tenant Anoka-Ramsey Technical College.

Asking net rents remained steady at $11.30 psf. Real estate taxes rose from $2.45 to $2.63 psf as did total operating expenses from $6.85 to $6.15 psf

DAKOTA COUNTY

Universe includes:

- 40 buildings
- 1,977,503 rentable sq. ft.

Tenant losses of 22,221 sq. ft. raised the vacancy from 16.4% to 19.8% for the six-month period ending fourth quarter 2002. With minimal sublease space factored in, the vacancy bumps up to 20.9%.

Grand Oak II (55,000 sq. ft.) in Eagan was completed by Interstate Partners LLC. The anchor tenant is Environmental Systems Research Institute. More Grand Oak development is scheduled as new construction in Eagan is getting leased. Rental rates were flat (see chart below).

WASHINGTON COUNTY

Universe includes:

- 8 buildings
- 523,463 rentable sq. ft.

This small sector posted strong absorption of 122,434 sq. ft., however it was not enough to improve the vacancy from 2% at midyear to 5.6% by fourth quarter.

Three buildings were added to the survey: **Crossroads at Oakdale 1 & 2** totaling 117,000 sq. ft. Also added was the newly constructed 32,000 sq. ft. **Eagle Point Office Center I**, in Lake Elmo. A new interchange at I-494 and Tamarack Road in Woodbury is expected to lead to more development, where a lifestyle center is favored.

Average asking rents dipped from $12.65 psf to $12.08 psf, as did taxes, from $2.74 psf to $2.40 psf. Total operating expenses also dropped slightly, from $7.31 psf to $7.24 psf.

STATED ANNUAL NET RENTAL RATES AND EXPENSES

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MINNEAPOLIS/ST. PAUL METROPOLITAN AREA - SECOND QUARTER 2002 vs. FOURTH QUARTER 2002 (PSF)

MARKET SECTOR	AVERAGE NET RENT		NET RENT RANGE LOW-HIGH	NET RENT RANGE LOW-HIGH	AVERAGE PROPERTY TAX		AVERAGE TOTAL EXPENSES (including taxes)	
	2002 4th Q	2002 2nd Q	2002 4th Q	2002 2nd Q	2002 4th Q	2002 2nd Q	2002 4th Q	2002 2nd Q
Anoka County	$11.30	$11.34	$6.60-$14.00	$6.60-$14.00	$2.63	$2.45	$6.15	$6.85
Dakota County	$11.69	$11.61	$8.50-$14.50	$8.00-$16.00	$2.51	$2.98	$6.73	$6.76
Minneapolis CBD								
Class A	$14.65	$15.92	$11.00-$17.50	$11.75-$21.50	$4.80	$5.09	$11.06	$11.51
Class B	$10.99	$11.40	$7.75-$15.00	$8.50-$15.50	$3.40	$3.22	$10.46	$9.95
Class C	$8.56	$9.78	$5.00-$11.00	$6.75-$12.00	$2.04	$2.04	$6.49	$6.70
Renovated	$9.21	$10.85	$5.00-$14.00	$8.25-$13.50	$2.46	$2.46	$7.63	$7.51
Mpls. Out-of-CBD	$12.70	$12.90	$6.50-$18.00	$7.50-$20.00	$2.94	$2.93	$9.27	$8.90
Northeast	$12.40	$12.03	$9.00-$16.00	$7.00-$16.25	$2.88	$2.62	$7.83	$7.81
Northwest	$9.83	$9.89	$6.50-$14.00	$6.50-$14.00	$1.84	$2.13	$6.60	$6.64
St. Paul CBD								
Class A	$11.17	$14.10	$10.00-$14.00	$10.00-$20.00	$4.27	$4.15	$10.57	$10.30
Class B	$8.89	$10.42	$7.00-$13.00	$6.00-$14.50	$2.51	$2.49	$9.34	$9.31
Class C	$8.25	$8.28	$5.00-$11.00	$6.00-$11.00	$1.42	$1.35	$5.71	$5.77
St. Paul Out-of-CBD	$11.18	$11.18	$8.00-$14.00	$8.60-$15.00	$2.57	$2.27	$7.66	$6.93
Southwest								
Class A	$15.01	$15.86	$12.00-$18.00	$13.00-$19.25	$4.79	$5.24	$11.08	$11.23
Class B	$11.48	$12.01	$8.00-$17.75	$7.50-$17.75	$3.32	$3.33	$8.99	$8.89
Washington County	$12.08	$12.65	$8.50-$14.50	$9.50-$15.50	$2.40	$2.74	$7.24	$7.31
West								
Class A	$15.99	$16.37	$13.00-$17.50	$13.00-$17.50	$4.71	$5.50	$10.47	$11.68
Class B	$11.92	$12.04	$9.00-$16.50	$9.00-$16.75	$3.42	$3.64	$9.31	$9.51

COLLIERS TOWLE REAL ESTATE

OFFICE PROJECTS PROPOSED, PLANNED AND UNDER CONSTRUCTION

MINNEAPOLIS/ST. PAUL METRO AREA - FOURTH QUARTER 2002

MULTI-TENANT PROJECT NAME	SIZE/Sq. ft.	CITY	DEVELOPER	STATUS
Cedar Grove Corporate Center	150,000	Eagan	United Properties	P
Burns Professional Center	34,500	Burnsville	United Properties	P
Eagandale Commerce Center	49,000	Eagan	Paramount	P
Gateway Office Plaza II	94,800	Burnsville	Kraus Anderson	P
Grand Oak VII	106,000	Eagan	Interstate Partners	U/C
Grand Oak VIII	40,000	Eagan	Interstate Partners	U/C
Mendota Office Center VI	40,000	Mendota Heights	United Properties	P
Riverwoods Corporate Center	110,000	Eagan	United Properties	P
Thomas Lake Executive Center	36,000	Eagan	Lovering Johnson	P
Dakota County	**660,300**			
Depot Office Center	160,000	Minneapolis	CSM Corporation	U/C
Stone Arch Plaza	62,000	Minneapolis	Brighton Development	U/C
Minneapolis CBD	**222,000**			
2300 Kennedy Street	700,000	Minneapolis Out-of-CBD	Hillcrest Dev/RREEF	P
Minneapolis Out-of-CBD	**700,000**			
Interstate Crossing	500,000	Arden Hills	Chesapeake Co.s	P
Northeast	**500,000**			
Arbor Lakes I-III	300,000	Maple Grove	Opus Northwest LLC	P
Wedgwood 12,14 & 15	215,000	Maple Grove	TOLD Development	P
Northwest	**515,000**			
Capital Pointe I & II	300,000	Eden Prairie	Northco & GE Capital	P
MarketPointe II	220,000	Edina	Ryan Companies & Lutheran Brotherhood	P
Eden Prairie Corporate Centre	130,000	Eden Prairie	Andreas Development Co.	P
Southwest	**650,000**			
Eagle Point Office Center II-III	90,000	Lake Elmo	United Properties	P
Inwood Hills of Oakdale	80,200	Oakdale	Welsh Companies	P
Woodlake Office Center	100,000	Woodbury	Kraus-Anderson	P
Washington County	**270,200**			
3501 Plymouth Blvd	47,000	Plymouth	Carlson RE	P
Wolf Lake Park	50,000	St. Louis Park	Beltline Industrial	P
West	**97,000**			

Metro Total Under Construction = 368,000 sq. ft.

Metro Planned/Proposed = 3.3 million • Metro Total = 3.6 million sq. ft.

Key: P = Proposed or Planned • U/C = Under Construction

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COLLIERS TOWLE'S OFFICE MARKET OUTLOOK

- Office vacancy rates *nationwide* are about 5 percentage points below their peaks in the early 1990's, for both downtowns and suburbs. The rise in office vacancy from mid-2000 to now is the sharpest vacancy rise in the history of this statistical series, with both downtown and suburban rates doubling in two years, according to Anthony Downs of the Brookings Institute.

- All indicators point to economic recovery in late 2003 and early 2004. Some companies will make early moves but it will be 2004 before we see significant absorption.

- The overbuilt phase we are in will end, and the gradual absorption phase will begin, when market conditions stop getting worse, but before they get good enough to stimulate more new development. This generally happens when the economy begins growing, but has not yet stimulated enough new demand to cause rents to rise.

- There will be continued migration of Class B tenants into Class A buildings at the same rental rates, especially in the Minneapolis CBD.

- Property management should receive primary attention from all property owners. During the overbuilt and gradual absorption phases, the emphasis should be on retaining tenants and maintaining a competitive advantage.

- Initial estimates of how costly insurance would be after 9/11 were too high, but insurance costs, as well as security costs, will continue to escalate for all real estate properties.

CSM's Depot Office Center, (160,000 sq. ft.) is under construction in Downtown Minneapolis.

MINNEAPOLIS CBD

- We're going to see some tenant moves as 10-year leases made in the 1992-1994 space glut expire. Examples are Winthrop & Weinstine moving to 225 S. 6th and Foley & Mansfield moving to Marquette Plaza.

- By yearend 2003 we should see the apex of the downturn, with the overall CBD vacancy of direct space reaching approximately 18%, and 22% including sublease space.

- According to the Metropolitan Council, 46% of downtown workers use mass transit. Light rail service begins in April of 2004. This will be a great amenity for the business traveler for easy access to and from the airport.

SOUTHWEST SECTOR

- This year BestBuy is returning 750,000 sq. ft. to the market as they move into their new headquarters. While only __% is being marketed as multi-tenant space, its single use properties may draw tenants from multi tenant buildings, impacting the market.

- Now that development has been completed in this real estate cycle, the historically strong sector will play catch up with the new space that came online during 2001-2002. Sublease packages with attractive rates, furniture and systems will likely be leased up before direct space.