MARKETVIEW

Minneapolis/St. Paul Office, Q1 2016

Owner and occupier favorability consistent year-over-year

Vacancy Rate 15.9%

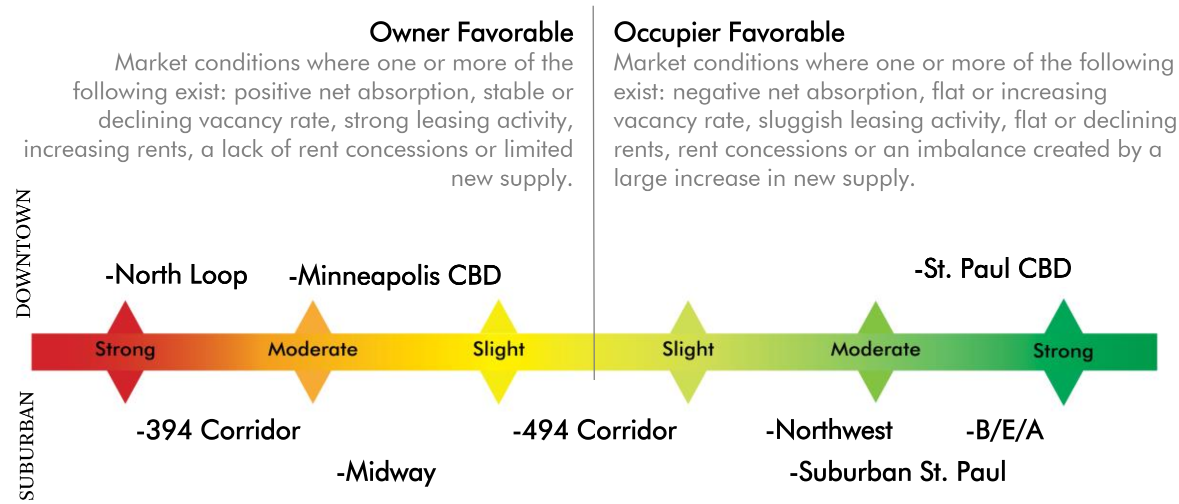
Net Asking Rate $14.27

Net Absorption 191,038 Sq. Ft.

Under Construction 234,000 Sq. Ft.

Figure 1: Owner-Favourable vs. Occupier-Favourable Submarkets

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2016.

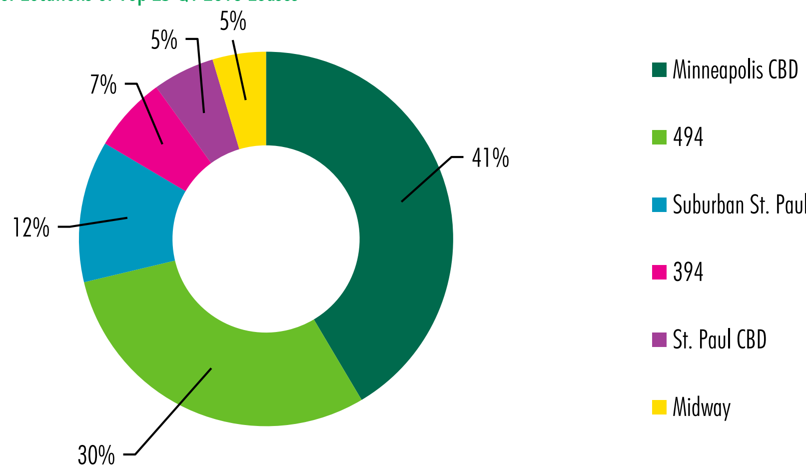
- Owner favourable markets remain for the Minneapolis CBD and 394 submarkets compared to Q1 2015 while occupier favourable markets strongest in the St. Paul CBD and BEA submarkets (Figure 1).
- Strong leasing in both the suburban and downtown submarkets show that tenants are relocating but not completely forgoing the suburbs.
- The St. Paul CBD submarket has had approximately 1.8 million sq. ft. removed from its tracked base over the last ten years. Of this total, almost a million sq. ft. has been renovated into residential properties in the Lowertown area (Figure 4).

MARKET OVERVIEW

Q1 2016 was a steady quarter by all metrics. The direct vacancy rate was flat compared to year-over-year figures and from the beginning of the year. Asking rates are up 7.4% year-over-year and net absorption was positive. The Midway submarket regained some of the negative absorption lost Q4 2015 from Be the Match when Blue Cross Blue Shield occupied approximately 30,000 sq. ft. at Broadway Place East. Otherwise, most submarkets saw marginal absorption.

When considering the outlook for the market overall, the favorability factors from Q1 2015 are largely unchanged. For occupiers, the St. Paul CBD and BEA submarkets are the most attractive. Owners are seeing favorable times in the 394 and North Loop submarkets as limited supply and low vacancy is leading to higher asking rates.

Figure 2:Submarket Locations of Top 25 Q1 2016 Leases



Source: CBRE Research, Q1 2016.

DOWNTOWN MIGRATION AND SUBURBAN RENEWALS PRESENT IN TOP TRANSACTIONS

Since 2013, 874,379 sq. ft. of office users have relocated to downtown Minneapolis, in both the Minneapolis CBD and the North Loop submarkets. Of that total, 224,663 sq. ft. of the leases were signed in Q1 2016 alone. However, as the popularity of downtown increases, suburban submarkets are not totally out of the leasing activity. As Figure 2 illustrates, suburban submarkets saw strong leasing volume Q1 2016.

Two of the top five leases of Q1 2016 are among this list. The first and largest was ECMC Group Inc., which relocated from Oakdale in the Suburban St. Paul submarket where they had been occupying space on Imation Corporation's campus. The new space at 111 Washington will allow further growth plans as well as facilitate talent retention.

The other relocation came from a General Services Administration (GSA) lease for United States Citizenship and Immigration Services. The federal agency moved its office from the 494 submarket to Marquette Plaza in the Minneapolis CBD submarket. The new location is off of a transit route that will foster easier access.

The second largest lease of Q1 2016 was a renewal and expansion of CBRE Minneapolis' current space in Two Marketpointe. A second lease was also signed by CBRE Q1 2016 for 33,933 sq. ft. which will relocate Asset Services and Brokerage into one downtown Minneapolis office from the 494 Submarket. The renewal indicates the continued investment in the suburbs while the new lease allows investments to be made in technology, mobility and talent retention.

Figure 3: Notable Lease Transactions

Tenant	Property	Address	City	Size (sq. ft.)
ECMC Group Inc.	111 Washington	111 Washington Ave.	Minneapolis	125,010
CBRE Group Inc. *	Two Marketpointe	4400 W. 78th St	Bloomington	108,168
Archdiocese of St. Paul & Minneapolis **	Phalen Park Office Center	777 Forest St.	St. Paul	63,305
Comcast	River Park Plaza	10 River Park Plaza	St. Paul	42,024
GSA - USCIS	Marquette Plaza	250 Marquette Ave.	Minneapolis	36,954

Source: CBRE Research, Q1 2016.

*Renewal

** Lease was signed but is pending bankruptcy procedures

LEASING ACTIVITY CONTINUED

The Archdiocese of St. Paul and Minneapolis signed a 63,305-sq.-ft. lease at the Phalen Park Office Center in St. Paul. This lease has been signed and was announced to parishioners, but it is still pending bankruptcy court approval.

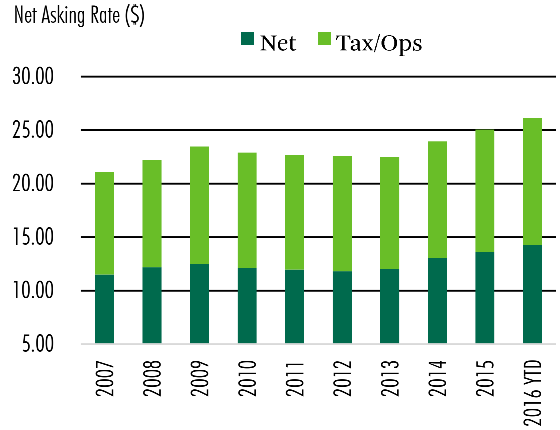
The final top lease of the quarter was the expansion of Comcast at their current River Park Plaza location in the St. Paul CBD.

ST. PAUL CBD REDEVELOPMENT TRENDS FOLLOWING NATIONAL ONES

According to CBRE Research, 1.8 million sq. ft. of office space has been removed from the St. Paul CBD submarket's tracked base over the last ten years. Of this total, almost one million sq. ft. was converted to multifamily housing projects in and around the bustling Lowertown Neighborhood of St. Paul. Figure 4 illustrates the desirable locations of these renovated office buildings in relation to the new home of the St. Paul Saints and the river. This redevelopment trend is not unique to St. Paul. Many older cities see their older office and industrial space in urban areas repurposed for residential use.

New residents are not the only ones attracted to this area. The St. Paul CBD submarket saw record absorption in 2015 and has seen positive net absorption since 2012. Vacancy rates are 313 basis points (bps) lower year-over-year and owners are not the only ones benefiting from these conditions. Occupier-favorable asking rates averaging $10.03 per sq. ft. are below the other downtown submarket averages.

Figure 5: Gross Asking Rate Break Down

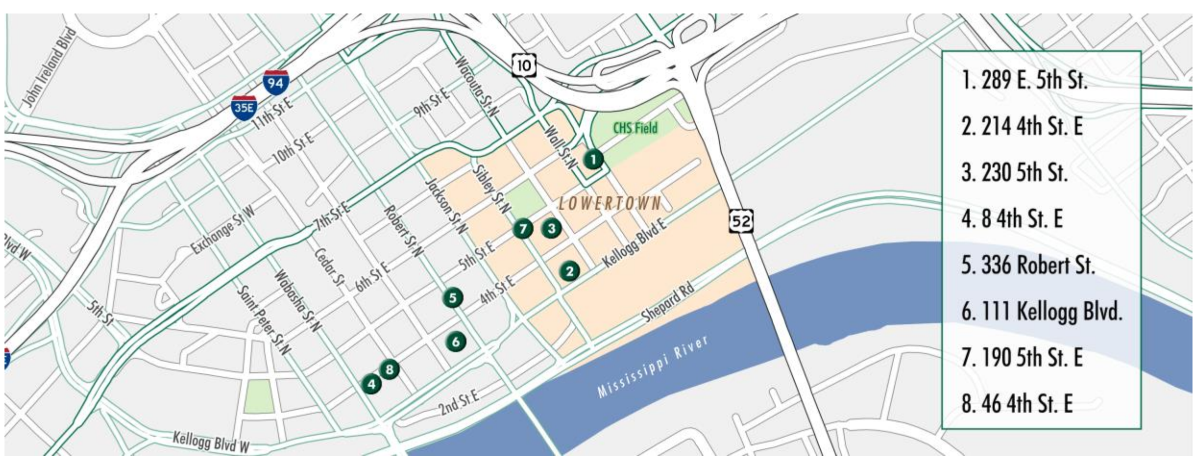


Source: CBRE Research, Q1 2016.

GROSS RENTAL RATES INCREASING, SIMILAR TO NET RATES

Figure 5 depicts the recent increase in gross asking rates (the net rate, in addition to the operating expenses and taxes on a per sq. ft. basis) which are up 3.8% year-over-year. While net asking rates have increased steadily over the last three years due to a tightening market, buildings' taxes and operating have just begun to go up incrementally. Taxes have increased as a factor of buildings trading hands at higher-than-assessed prices, requiring an adjustment by counties. Meanwhile, many building owners have begun investing money into upgrading their buildings' common areas, such as adding fitness centers, tenant lounges, and renovating common corridors. Both of these latest phenomena have led to an overall increase in the taxes and operating expenses and gross rent averages.

Figure 4: Map of Repurposed Office Buildings



Source: CBRE Research, Q1 2016.

DOWNTOWN SALES CONTINUE IN Q1 2016

In the largest sale of Q1 2016, the Lawson Commons building at 380 St. Peter Street sold for $68.4 million ($157 per sq. ft.) to Bloomington-based Frauenshuh Commercial Real Estate. Dallas-based Tier REIT had originally bought the building in 2005 after buying it from Frauenshuh. Travelers relocated from its tower to Lawson Commons Q1 2016 to bring the occupancy of the building to 96.7%.

The Internet Exchange building in the downtown Minneapolis North Loop submarket also sold this quarter in a joint venture between CPM Development and Swervo Development Corporation. The $10 million sale included an adjacent surface parking lot.

SUBURBAN SALES INCLUDE OWNERSHIP BUY-OUTS, NEW HEADQUARTERS

Southdale Office Center in Edina sold for $55 million Q1 2016 as Minnetonka-based Wildamere Properties bought out majority stakeholder, GE Capital, and became the sole owner of the four building, 447,042-sq.-ft. complex. GE Capital has been selling off real estate interests over the last year mainly to Blackstone. This transaction allowed ownership to remain in the Minneapolis/St. Paul metro.

The Excelsior Group bought the former Delta Airlines Headquarters in Q3 2015 for $10.4 million. Q1 2016 saw the property trade again as multiple joint ventures purchased the two building, 190 acre site for $18.6 million. Because of the high proportion of land on the transaction, a true price per sq. ft. is difficult to determine. The Minnesota Vikings and team owners were among the parties on the sale. The site in Eagan is slated to become the new headquarters and practice facility for the team along with the possibility of other mixed use multifamily housing, office space and a hotel development.

Minnetonka Corporate Campus I, formerly occupied by Cargill, was purchased by Associated Financial Group, subsidiary of Green Bay, WI-based Associated Banc-Corp. The building was vacant at the time of the $9.2 million sale. Associated Financial plans to relocate its employees from three separate buildings in Edina, Eden Prairie and Minnetonka once a build out is complete.

Figure 7: Minnetonka Corporate Campus I

Source: CBRE Research, Q1 2016.

Figure 6: Notable Sale Transactions

Property/Portfolio	Size (Sq. Ft.)	City	Buyer	Price	Price (per sq. ft.)
Lawson Commons	436,478	St. Paul	Frauenshuh	$68,400,000	$157
Southdale Office Centre *	447,042	Edina	Wildamere Properties	$55,000,000	$123
Future Minnesota Vikings Campus *	550,000	Eagan	Multiple	$18,660,000	N/A
Internet Exchange	78,000	Minneapolis	CPM Development JV Swervo	$10,000,000	$128
Minnetonka Corporate Campus I	91,761	Hopkins	Associated Bank	$9,200,000	$100

Source: CBRE Research, Q1 2016.

*Figures reflect entire portfolio.

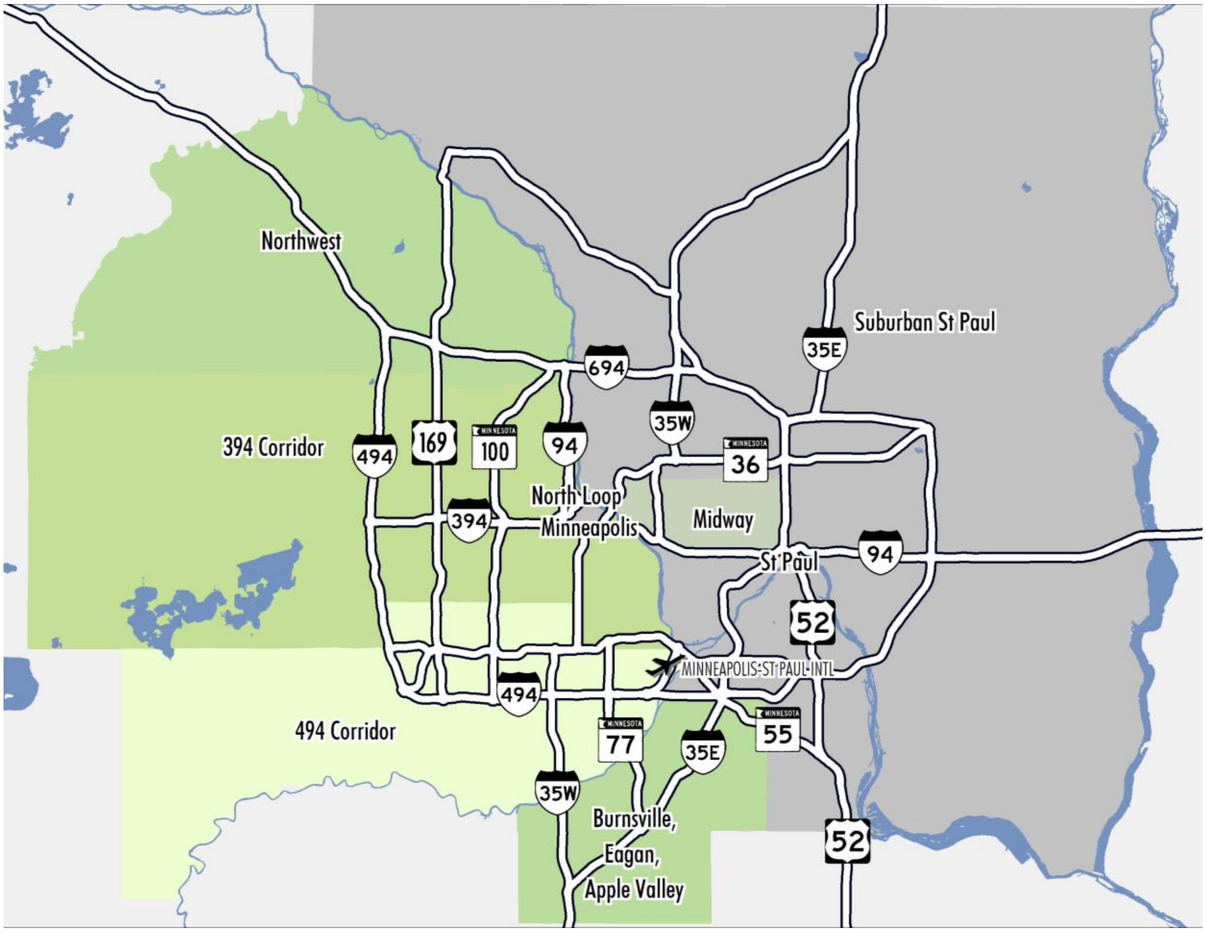
Figure 8: Minneapolis/St. Paul Multi-Tenant Office Market Statistics

Submarket	Rentable Area (Sq. Ft.)	Direct Vacancy Rate (%)	Y-o-Y Vacancy Trend	Average Net Asking Rate ($/Sq. Ft./Yr)	Y-o-Y Asking Rate Trend	Q1 Net Absorption (Sq. Ft.)	Y-o-Y Net Absorption Trend	YTD Net Absorption (Sq. Ft.)	Multi-Tenant Construction (Sq. Ft.)
Metro Overall	69,242,529	15.9	→	$14.27	↑	191,038	↑	191,038	234,000
Class A	35,041,341	13.2	→	$16.99	↑	175,975	↑	175,975	234,000
Class B	25,448,551	19.2	↓	$12.10	↑	(42,963)	↓	(42,963)	-
Class C	8,752,637	17.4	↑	$10.88	↑	58,026	↑	58,026	-
394 Corridor	8,637,414	13.4	↑	$16.30	↑	(43,409)	↓	(43,409)	-
Class A	3,769,780	10.7	↑	$19.58	↑	(81,037)	↓	(81,037)	-
Class B	3,738,623	17.1	↑	$13.93	↑	34,978	↑	34,978	-
Class C	1,129,011	10.1	↑	$10.64	↑	2,650	↓	2,650	-
494 Corridor	17,414,153	18.7	↑	$14.40	↑	5,049	↓	5,049	-
Class A	8,458,337	14.4	→	$17.73	↑	94,418	↑	94.418	-
Class B	7,074,865	23.0	↑	$12.33	→	(93,951)	↓	(93,951)	-
Class C	1,880,951	22.2	↓	$10.87	↑	4,582	↓	4,582	-
BEA	2,355,698	15.7	↓	$11.99	↑	36,650	→	36,650	-
Class A	1,092,162	8.4	↓	$13.73	↑	4,813	↑	4,813	-
Class B	960,918	19.6	↓	$12.28	↑	29,049	↑	29,049	-
Class C	302,618	29.3	↓	$9.13	↑	2,788	↓	2,788	-
Midway	4,430,462	15.1	↑	$12.63	↑	93,389	↓	93,389	-
Class A	964,812	30.6	↑	$13.55	→	37,570	↑	37,570	-
Class B	2,545,069	10.3	↓	$11.29	↑	48,237	↑	48,237	-
Class C	920,581	12.0	↑	$8.00	↑	7,582	↓	7,582	-
Northwest	1,310,796	21.7	↓	$11.22	↑	7,301	↓	7,301	-
Class A	127,000	38.0	↓	$12.46	↑	2,610	↓	2,610	-
Class B	846,937	18.2	↓	$11.54	↑	27,414	↑	27,414	-
Class C	336,859	24.2	↑	$9.25	↑	(22,723)	↓	(22,723)	-
Suburban St. Paul	3,461,310	20.3	↓	$10.19	↓	(29,892)	↓	(29,892)	-
Class A	1,310,143	9.6	↓	$12.43	↑	(2,074)	↓	(2,074)	-
Class B	1,377,096	23.2	→	$10.00	↓	(30,566)	↓	(30,566)	-
Class C	774,071	33.0	→	$8.90	→	2,748	↑	2,748	-
Minneapolis CBD	21,873,909	15.0	↓	$15.58	↑	(5,905)	↑	(5,905)	-
Class A	15,634,401	13.1	→	$17.60	↑	42,258	↑	42,258	-
Class B	4,470,924	20.6	↓	$12.52	↑	(57,785)	↓	(57,785)	-
Class C	1,768,584	17.8	↑	$11.41	↑	9,622	↑	9,622	-
North Loop	3,68,797	6.3	↓	$15.08	↑	55,325	↑	55,325	234,000
Class A	1,118,914	7.5	↓	$15.72	↑	20,001	↑	20,001	234,000
Class B	1,082,414	4.2	↓	$14.74	↑	(14,961)	↓	(14,961)	-
Class C	1,167,469	7.1	↓	$14.80	↑	50,285	↑	50,285	-
St. Paul CBD	6,389,990	17.0	↓	$10.03	↓	72,530	↑	72,530	-
Class A	2,565,792	11.5	↓	$10.78	↓	57,416	↑	57,416	-
Class B	3,351,705	22.0	↓	$7.72	↓	14,622	↑	14,622	-
Class C	472,493	11.7	→	$7.69	↓	492	↓	492	-

Note: The tracked base includes all multi-tenant office buildings larger than 30,000 sq. ft. and does not include any single-tenant buildings. This quarter, CBRE Minneapolis building records were modified, added or removed to more accurately reflect true market realities.

Source: CBRE Research, Q1 2016.

Figure 9: Minneapolis/St. Paul Office Submarket Map



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