


Minneapolis/St. Paul Retail, Q2 2015

Steady Q2 2015 gearing up for a flurry of activity

 Vacancy Rate
7.3%

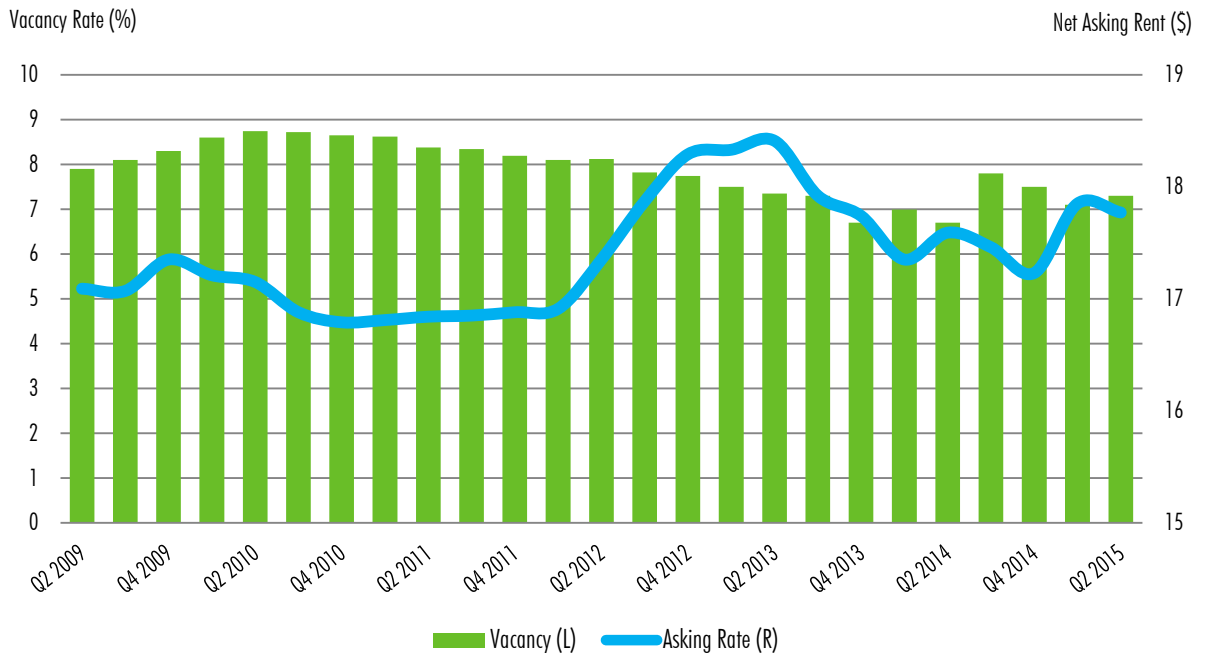
 Net Asking Rate
\$17.77

 Net Absorption
36,104SF

 Under Construction
1,863,361 SF

Figure 1: Direct Vacancy Rate and Lease Rate

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q2 2015.

- Walgreens set to open in both Minneapolis and St. Paul CBDs after announcing it will occupy 25,000 sq. ft. in the long vacant former Macy's store in St. Paul.
- Toys R Us vacates 44,000 sq. ft. from Southtown Shopping Center after 26 years.
- Fresh Thyme plans to anchor Plymouth redevelopment at Highway 55 & Vicksburg Lane, making this the fourth planned Fresh Thyme in the Twin Cities.
- City of Cottage Grove reaches deal to acquire long-vacant Home Depot store with hopes to finally reshape the struggling center, co-anchored by a vacant Rainbow Foods.

MARKET OVERVIEW

Q2 2015 marked relatively stagnant numbers in the Minneapolis/St. Paul Retail Market. Availability bumped up 30 basis points from 7.8% to 8.1% and vacancy only rose 20 basis points from 7.1% to 7.3%. The market posted 36,104 sq. ft. of positive absorption in Q2 2015, making the year-to-date total positive 49,414 sq. ft.

Asking rent changes were rather dormant in Q2 2015, having only dropped seven cents to \$17.77 net since Q1 2015. Rents are expected to increase due to the pent up competition that is ever-present among retailers to grab both premium and secondhand spaces alike.

GEARING UP

After posting modest numbers for two consecutive quarters, the Minneapolis/St. Paul Retail Market is being prepped for what could be an explosion of new retail space in the near future. Construction is at an all-time high for recent years with several developments underway that are well over 100,000 sq. ft.

The Central Park Commons development in Eagan broke ground in Q2 2015, which will deliver 434,100 sq. ft. of retail space, much of which is already pre-leased to big name retailers like Hy-Vee and Best Buy. This comes not long after the opening of the Twin Cities Premium Outlet Mall which delivered 409,000 sq. ft. of retail space to the same submarket in Q3 2014.

RETAIL MOMENTUM IN BROOKLYN PARK

Brooklyn Park’s Highway 610 corridor is well-poised for retail growth in the upcoming years. The area has seen steady and sustained residential growth and office growth in recent years – both of which are core drivers for retail. Also, the Minnesota Department of Transportation (MNDOT) is going to follow through with a plan to extend Highway 610 to Interstate Highway 94, thus potentially increasing the amount of traffic flowing through the corridor. In the last year,

Target Corp. expanded its North Campus and several other companies have expanded or relocated headquarters on the 610 corridor.

All of these signs have not gone unseen by retail developers looking to take part in all of the action. Developers have mostly honed in on the Highway 610-Zane Avenue intersection, where there are currently three distinct projects at various stages in development. Should they come to fruition, they will bring 84 acres of retail development to the intersection, highlighted by a grocery store from Hy-Vee. We can expect to see more developers submit plans to develop the many vacant land parcels that stretch along the corridor.

TOP LEASE TRANSACTIONS

Leasing activity was fairly modest in Q2 2015 with the largest transaction being Hobby Lobby’s 64,130-sq.-ft. deal at a former Rainbow Foods in Bloomington. This marks the second former Rainbow Foods to be taken over by Hobby Lobby, which could make this a trend in the foreseeable future. Following Hobby Lobby is a Sun Foods expansion in Brooklyn Center and Bauer Hockey’s second U.S. retail store, which has plans for an opening day sometime in Q4 2015. Bauer Hockey’s footprint will be roughly 33,000 sq. ft.

Figure 2: Top Retail Transactions

Tenant/Building	Location/ Sale Price	Size (Sq. Ft.)	City	Transaction Type
Hobby Lobby	Former Rainbow Foods	64,130	Bloomington	Lease – New
Sun Foods	6300 Brooklyn Blvd	35,000	Brooklyn Center	Lease – Expansion
Bauer Hockey	REI Building	33,000	Bloomington	Lease – New
Lifetime Fitness	\$37,000,000	258,602	St. Louis Park	Sale-Leaseback
Lifetime Fitness	\$29,200,000	152,000	Lakeville	Sale-Leaseback
Lifetime Fitness	\$23,200,000	145,896	Eden Prairie	Sale-Leaseback
Waterford Park Plaza	\$19,500,000	121,287	Plymouth	Sale

Source: CBRE Research, Q2 2015.

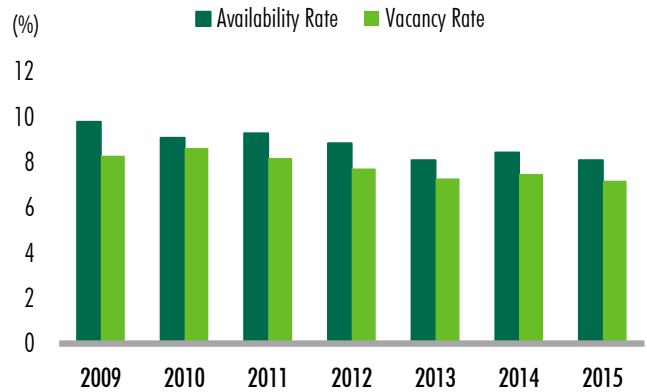
TOP SALES TRANSACTIONS

Retail investment sales remains a hot trend in Q2 2015 as seen by the trading of three Lifetime Fitness establishments, as well as a 127,600-sq.-ft. shopping center.

Life Time Fitness underwent a costly buyout to go private in Q2 2015 and needed to free up some capital by undergoing sale-leaseback deals for 29 of its 114 fitness centers. It sold three of its centers throughout the metro in St. Louis Park, Eden Prairie, and Lakeville. The Lakeville location was the most profitable of the three for Life Time at \$192.11 per-sq.-ft. The signed leases ran anywhere from 20 to 24 years.

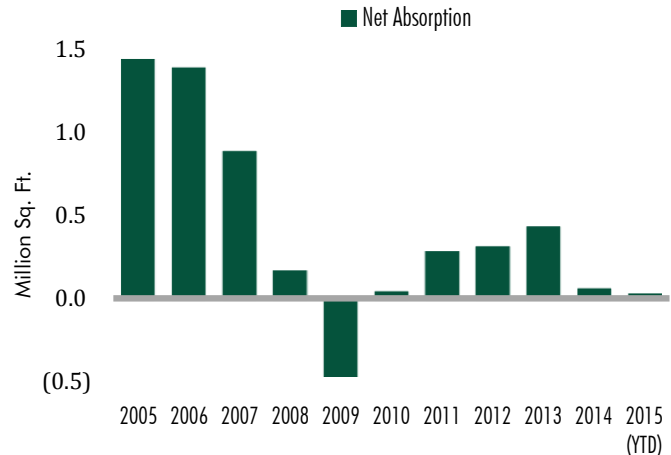
Phillips Edison expanded their footprint in the Minneapolis/St. Paul market with the acquisition of Waterford Park Plaza. This is on the heels of their first acquisition in our market in Q4 2014 (\$25 million for Crossroads of Shakopee). The 127,600-sq.-ft. development was 96% leased at the time of sale and sold for roughly \$153 per-sq.-ft.

Figure 3: Direct Vacancy vs. Availability Rate



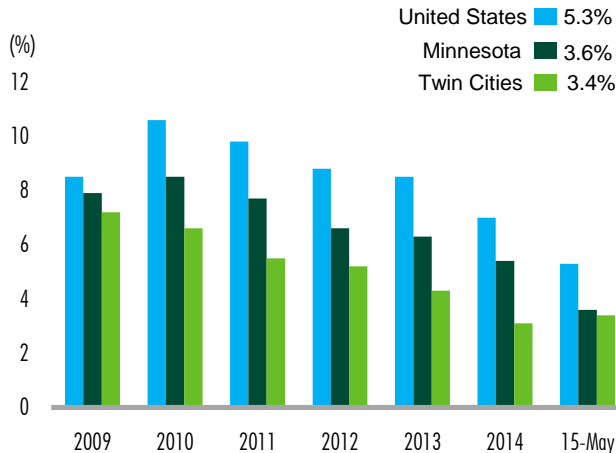
Source: CBRE Research, Q2 2015.

Figure 4: Historical Net Absorption



Source: CBRE Research, Q2 2015.

Figure 5: Unemployment



Source: BLS and MN DEED, May 2015
Non-seasonally adjusted figures

UNEMPLOYMENT DOWN FOR Q2 2015

Non-seasonally-adjusted unemployment numbers for Q2 2015 are reported at 3.4% for the Twin Cities metro. The State of Minnesota Department of Employment and Economic Development (DEED), the rate of participation in the labor force is up for the fifth consecutive month to 70.8%. Nationally, Minnesota is still well below the average unemployment rate of 5.3% (non-seasonally-adjusted figure).

CONSTRUCTION LED BY EXPANSIONS

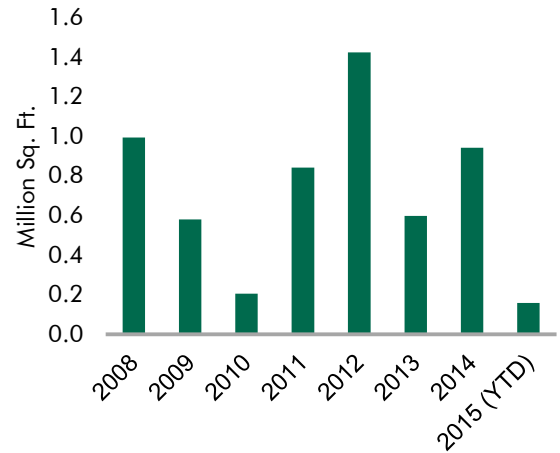
The Minneapolis/St. Paul retail market is showing over 1.8 million sq. ft. of retail developments larger than 30,000 sq. ft. currently under construction. The 1,863,361-sq.-ft. number is primarily led by expansions and redevelopments.

Ridgedale Mall's three-year redevelopment/expansion project is now nearing its first full year of progress. It is currently in the process of constructing the Nordstrom addition and expanding the super-regional center by an additional 85,000 sq. ft. The Mall of America is also in the midst of an expansion which will make way for an additional 150,000 sq. ft. of retail space. Both of these expansions are slated for a Q3 2015 completion.

Several developments in the metro are currently in the process of receiving substantial renovations and complete redevelopment, most notable of those being City Place in Woodbury. What was once a vacant State Farm campus will turn into a 700,000-sq.-ft. mixed-use campus anchored by Whole Foods Market with shopping, restaurants, a 116-room Residence Inn, and additional office space. Approximately 150,000 sq. ft. of this development is dedicated strictly to retail. Another substantial development in Woodbury is Bielenberg Gardens which has added roughly 78,000 sq. ft. in Q2 2015 and has another 70,000 sq. ft. to be completed.

As previously mentioned, we should expect to see substantial retail development along the Highway 610 Corridor in Brooklyn Park in the near future. There are also areas on the outskirts of the metro being prepped for development. Prior Lake has a proposal for 76,000 sq. ft. of retail and restaurants at Highway 21 and Fish Point Road. Chanhassen is considering a development that will bring 360,000 sq. ft. of commercial space along with 40,000 sq. ft. of offices and a 190-unit apartment complex. Both areas are among the top five for median household income of Minneapolis/St. Paul Metro cities.

Figure 6: Retail Construction Completions



Source: CBRE Research, Q2 2015.

Figure 7: Woodbury's City Place development



Source: Elion Partners

Figure 8: Notable Twin Cities Retail Construction Projects

Project	Sq. Ft.	Submarket
Central Park Commons	434,100	Eagan
Ridgedale Expansion	200,000	Ridgedale
Walmart	180,000	Coon Rapids
MOA Expansion	150,000	Southdale
City Place	150,000	Woodbury
White Bear Marketplace	120,000	Maplewood
Shingle Creek	106,000	Brookdale
New Hope Hy-Vee	90,000	Brookdale
Oakdale Hy-Vee	90,000	Woodbury

Source: CBRE Research, Q2 2015.

Figure 9: Minneapolis/St. Paul Retail Market Statistics

Submarket	Rentable Area (Sq. Ft.)	Direct Vacancy Rate(%)	Average Net Asking Rate (\$/Sq. Ft./Yr)	Q2 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Construction (Sq. Ft.)
A.V. – Lakeville	3,499,383	7.2	16.77	(4,082)	(27,975)	
Brookdale	3,299,561	12.8	14.41	(20,596)	(8,143)	196,578
Burnsville	3,361,110	7.2	19.71	42,864	3,919	
Calhoun	1,258,636	6.0	26.83	(1,810)	(10,966)	
Coon Rapids	4,168,306	3.5	9.14	8,052	14,650	180,000
Eagan	2,205,232	7.2	15.18	(17,430)	2,382	434,100
Eden Prairie	3,713,103	4.4	12.04	(22,546)	(23,225)	
Maple Grove	5,331,416	4.8	19.04	(7,709)	45,098	
Maplewood	3,563,352	4.5	16.13	11,778	10,213	120,000
Minneapolis CBD	1,876,735	11.8	24.54	(9,158)	43,892	
Northtown	3,063,899	17.5	6.59	(6,046)	(36,177)	
Ridgedale	5,502,483	2.9	21.18	(7,005)	(30,456)	281,458
Rosedale	5,132,953	8.6	20.49	61,605	20,358	
Southdale	9,316,416	5.2	20.15	(44,974)	(9,058)	202,000
St. Paul Highlands	1,413,147	6.1	17.39	0	(314)	54,000
West St. Paul	1,258,502	10.5	13.92	2,985	18,010	47,000
Woodbury	4,580,267	13.8	14.52	50,176	37,206	348,225
Total (Metro)	62,544,501	7.3	17.77	36,104	49,414	1,863,361

Source: CBRE Research, Q2 2015.

QUARTER-END SUBMARKET ANALYSIS

The most dynamic submarkets this quarter on a sq.-ft.-basis were the Woodbury, Rosedale, and Southdale submarkets.

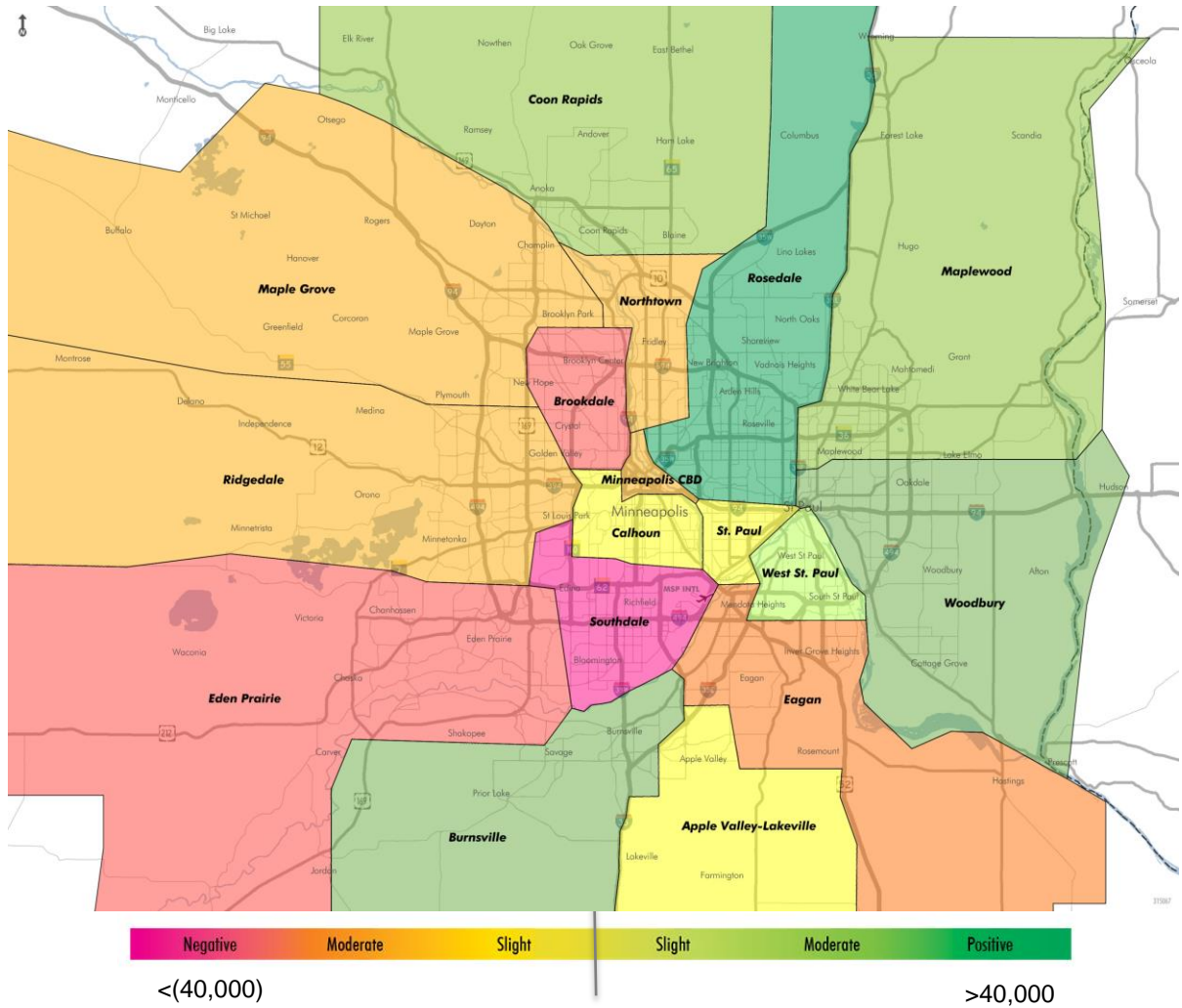
Jerry's Foods opened up its 78,000-sq.-ft. shop in Woodbury this quarter, resulting in a large amount of absorption for that submarket. Rosedale also saw an increase in absorption due to several tenants signing leases at the Rosedale Commons.

The negative absorption figure from Southdale, normally a strong market, is largely due to the loss of Toys R Us in a spot which they've occupied for 26 years.

Mayo Clinic Square (formerly Block E) was introduced back into the Minneapolis CBD after receiving substantial renovations and improvements. The first floor will be reserved for restaurant space whereas the second floor is being speculated for office space.

The Eagan submarket takes the lead in the construction race and has a total of 434,100 sq. ft. in active construction for developments greater than 30,000 sq. ft. This is followed closely behind by Woodbury's CityPlace and Bielenberg Gardens developments. We should expect to see much higher absorption numbers in these submarkets in the foreseeable future.

Figure 10: Q2 2015 Submarket Absorption



Absorption is the change in total occupied sq. ft. from one period to the next, in this instance – per quarter. The above color scale represents the degree of absorption for each submarket on a sq.-ft.-basis for Q2 2015

Source: CBRE Research, Q2 2015.

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