

Minneapolis Trends

A Quarterly Overview of Socioeconomic and Housing Trends in Minneapolis

Highlights for the third quarter of 2005

- Labor force and employment are increasing in the city, while unemployment is decreasing. (see page 4)
- New residential construction slowed down in the Twin Cities metropolitan region but grew in the city. Construction costs decreased. (see page 12)
- Conversion of non-residential buildings into residential in the city picked up. (see page 15)
- The average vacancy rate in Minneapolis' rental housing is stable since the last quarter, but rent is down from last year's third quarter. (see page 24)
- Housing sales are slowing down, but prices increased steadily in constant dollars. (see page 26)
- Vacancy rates are declining for both office and retail space in the city. (see page 27)
- Occupied industrial space is increasing in both the metropolitan area and the city. (see page 29)



third quarter 2005



Minneapolis
City of Lakes

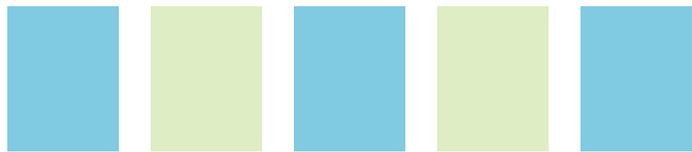
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Minneapolis Trends

third quarter 2005



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DEMOGRAPHIC & ECONOMIC INDICATORS

- The labor force and residential employment expanded steadily in the city since the first quarter of 2005, while unemployment decreased to its lowest level since the second quarter of 2001 (Table 1).
- In the first quarter of 2005 total employment in the city was 1,300 jobs higher than the same period last year, but lower than the fourth quarter of 2004 (Table 2).
- Wage and salary levels decreased slightly in Minneapolis in constant dollars since the same period last year. In the city, state and metropolitan area, most industries did not keep up with inflation.

LABOR FORCE

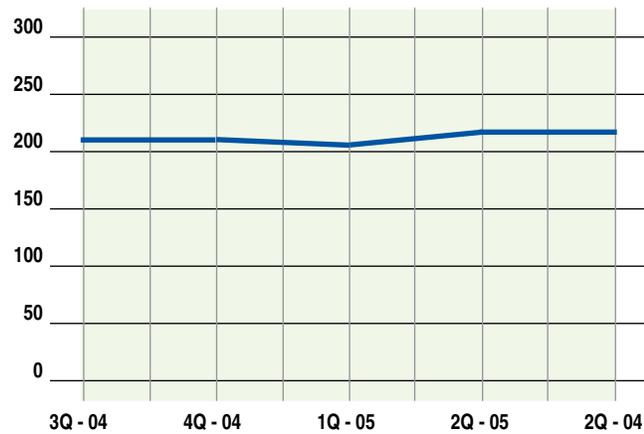
Employment rose 1 percent from the same time the previous year, while unemployment shrank to 4 percent. The labor force (people with jobs and people looking for work) decreased slightly by 0.6 percent. A trend continued from the first quarter: increasing labor force and employment and decreasing unemployment.

Table 1: **LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT – Minneapolis**

	2004 3Q-04	4Q-04	2005 1Q-05	2Q-04	3Q-04
Labor Force	226,999	225,070	221,358	224,866	225,613
Employment	214,473	214,859	211,485	215,474	216,625
Unemployment Rate	5.5%	4.5%	4.5%	4.2%	4.0%

Source: Minnesota Department of Employment and Economic Development (DEED),

Figure 1: **AVERAGE RESIDENTIAL EMPLOYMENT – Minneapolis**
in thousands



Source: CPED with data from Minnesota Department of Employment and Economic Development (DEED) - labor market information. Numbers reflect new revisions made by DEED

JOBS

Minneapolis had more than 280,500 jobs in the first quarter of 2005. The average number of jobs in the quarter decreased from the previous quarter, but increased from the same quarter of the previous year, adding almost 1,300 jobs. The sectors with the largest growth were transportation and warehousing, which grew at 9.2 percent,

adding 370 jobs. Real estate services grew at 8.1 percent and added 450 jobs. Administrative and waste services grew at almost 7 percent and gained 880 jobs. Management of companies and enterprises grew at 4.6 percent and added about 640 jobs. Sectors that lost jobs included wholesale trade and information services.

Table 2: **AVERAGE NUMBER OF JOBS BY INDUSTRY – Minneapolis**

	1Q-2004	2Q-2004	3Q-2004	4Q-2004	1Q-2005
Manufacturing	16,369	16,653	16,750	16,530	16,288
Utilities	3,158	3,290	3,179	3,225	3,261
Wholesale trade	10,638	10,819	10,715	10,730	9,263
Retail trade	15,867	16,277	16,488	17,122	15,881
Transportation and warehousing	4,035	4,407	4,323	4,881	4,406
Information	12,004	11,788	11,261	11,281	11,125
Finance and insurance	27,372	27,343	26,975	27,140	26,940
Real estate and rental and leasing	5,550	5,783	6,114	5,989	5,999
Professional and technical services	27,550	28,083	28,196	28,288	27,632
Management of companies and enterprises	14,075	14,269	14,455	14,259	14,716
Administrative and waste services	12,781	13,948	14,195	14,300	13,661
Educational services	27,327	26,679	25,208	27,343	27,655
Health care and social assistance	41,583	42,360	42,264	42,036	42,208
Arts, entertainment and recreation	4,595	4,915	4,767	4,810	4,552
Accommodation and food services	20,302	21,391	22,209	21,786	20,889
Other services	10,630	10,687	10,495	10,667	10,141
Public administration	12,617	12,800	13,075	12,792	12,733
Total, all industries¹	279,223	284,787	284,793	286,987	280,521

Source: Minnesota Department of Employment and Economic Development (DEED)
- Minnesota Quarterly Census, Employment and Wages

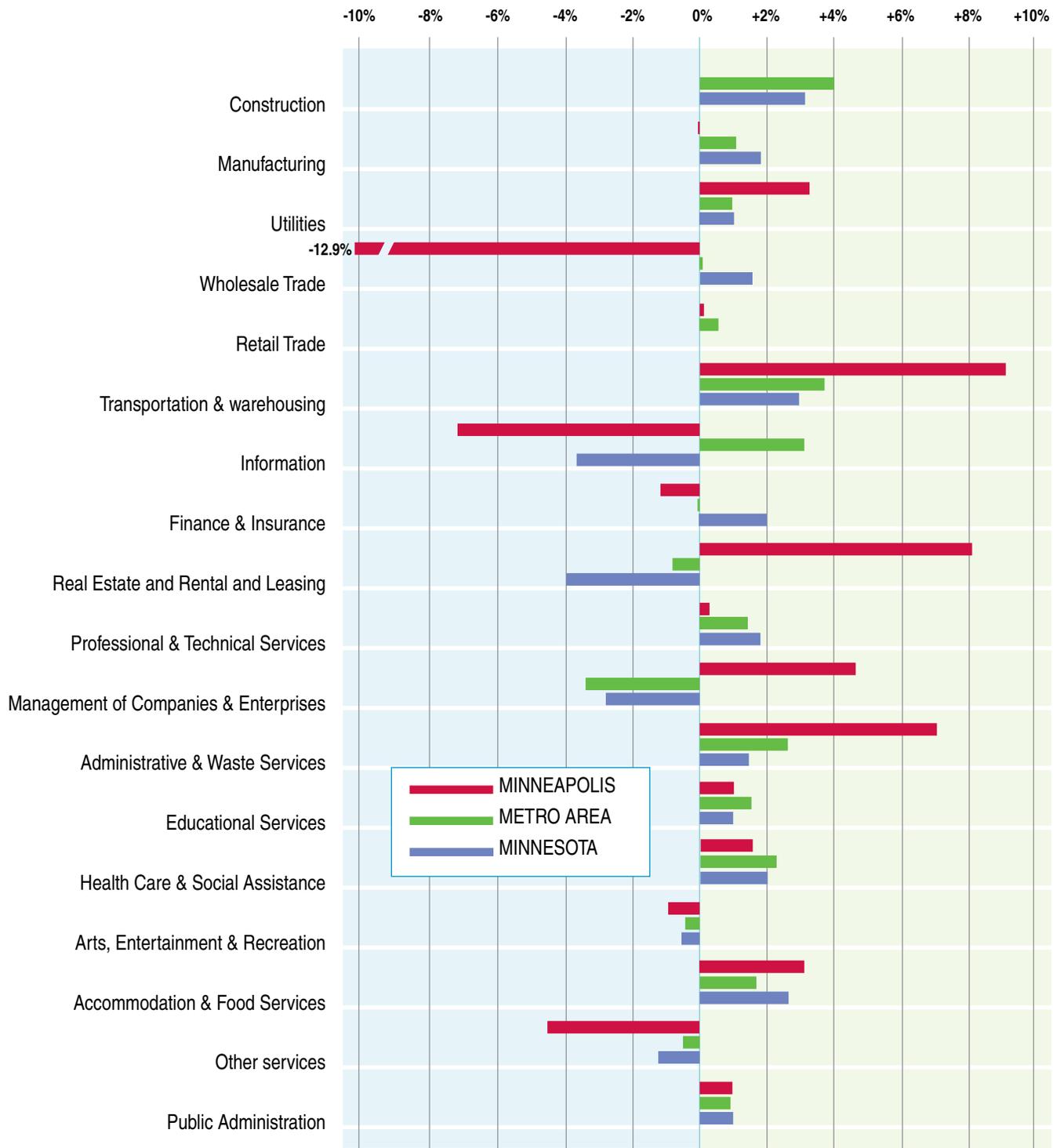
¹ Natural resources-based industries and agriculture, fishing and forestry employment are not shown in the table. Some industry numbers may not be disclosed because of privacy issues, so totals do not add up. Table reflects latest revision by DEED.

JOBS

In the first quarter of 2005, many economic sectors gained jobs in spite of overall slow activity since last year. Gains were widespread in sectors such as utilities, transportation and warehousing, administrative and waste services, health and social assistance services, educational services and public administration. Minneapolis was especially favored with gains in real estate, management of companies and enterprises, transportation and warehousing and administrative and waste services related jobs. On the other hand, the city lost about 13 percent of the jobs in the wholesale trade sector. Information, which includes publishing, internet publishing and telecommunication, continued to lose jobs in the city and the metro area, but grew in the rest of the state. Losses were widespread in sectors such as art, entertainment and recreation and in other services such as personal services.

Figure 2: **JOBS** – 1Q-04 to 1Q-05 – percent change

Source: CPED with data from DEED



WAGES

The average weekly wage in Minneapolis in the first quarter was \$1,056, a nominal increase of \$22, but a decrease of \$10 in constant dollars* from the same period last year. Following a steadily increasing trend, real estate services compensation was able to leap from a relatively low-paying sector in the first quarter of 2004 to a relatively high-paid sector in the fourth quarter of last year and the first quarter of 2005, a result of a booming housing market.

Compensation for real estate services increased by almost \$578 per week on average (\$558 in constant dollars) from \$634 (\$654 in constant dollars)* in the first quarter of 2004 to \$1,212 in the first quarter of 2005. In the same period, compensation for management of companies and enterprises services increased by \$287 per week (\$240 in constant dollars). Meanwhile salaries in the utility sector declined by an average of \$649 per week (\$719 in constant dollars)* from the same period last year, from \$2,246 (\$2,316 in constant dollars).

* For conversion index, see page 10

Table 3: **AVERAGE WAGE PER WEEK - Minneapolis**
in current dollars

SECTOR	1Q-04	2Q-04	3Q-04	4Q-04	1Q-05
Manufacturing	\$ 986	\$ 903	\$ 947	\$ 1,050	\$ 973
Utilities	2,246	1,365	1,393	1,429	1,597
Wholesale Trade	1,094	1,075	1,146	1,236	1,139
Retail Trade	591	581	614	598	545
Transportation & Warehousing	633	636	637	724	596
Information	1,130	1,075	1,111	1,089	1,127
Finance & Insurance	2,266	1,465	1,418	1,715	2,302
Real Estate and Rental and Leasing	634	668	708	1,054	1,212
Professional & Technical Services	1,295	1,359	1,345	1,738	1,341
Management of Companies & Enterprises	1,523	1,419	1,410	1,876	1,810
Administrative & Waste Services	532	510	522	570	545
Educational Services	901	888	945	888	913
Health Care & Social Assistance	780	817	823	890	799
Arts, Entertainment & Recreation	908	1,115	1,176	1,154	952
Accommodation & Food Services	319	328	328	347	315
Other services	538	537	529	571	519
Public Administration	976	974	979	1,078	966
Total, all industries	\$ 1,034	\$ 940	\$ 947	\$ 1,073	\$ 1,056

Source: CPED with data from DEED - Minnesota Quarterly Census, Employment and Wages

¹Natural resources and agriculture, fishing and forestry employment are not counted. Some industry numbers may not be disclosed because of privacy issues. Table reflects the latest revisions by DEEDS.

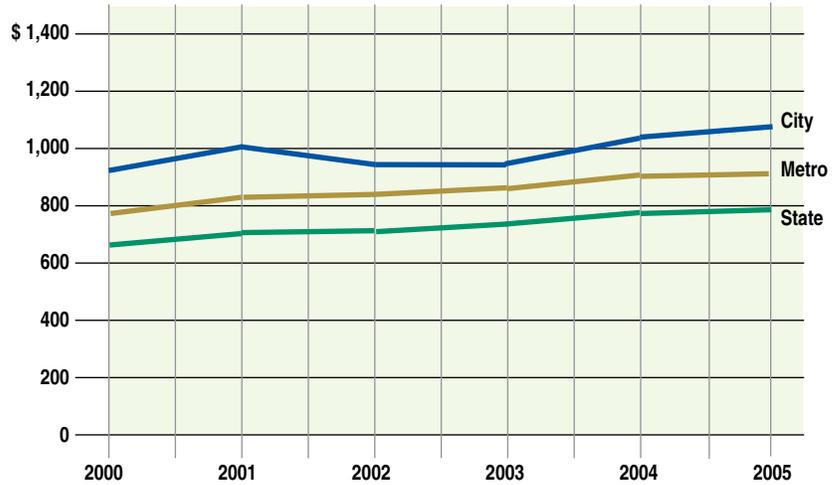
WAGES

For all industries, employees in Minneapolis commanded higher average weekly wages than employees in the metropolitan area or the state. When those first-quarter wages are adjusted to 2005 dollars and compared to the same period from the previous year, Minneapolis' growth of 2.6 percent in current dollars results in a decrease of 0.5 percent in constant dollars. The city was better off this period than the metropolitan area or the state, where salaries decreased 1.5 percent and 1.8 percent respectively in constant dollars*.

With a few exceptions, most industry salaries did not keep up with inflation when compared to the first quarter of 2004. The following graph shows percentage changes by industry in the three geographic areas.

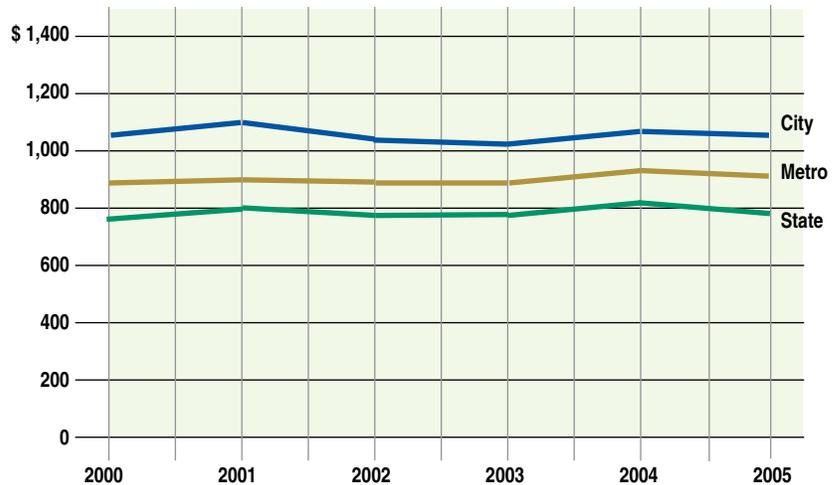
* For conversion index, see page 10

Figure 3: **AVERAGE WEEKLY WAGES**— first quarter
in current dollars



Source: CPED with data from DEED.

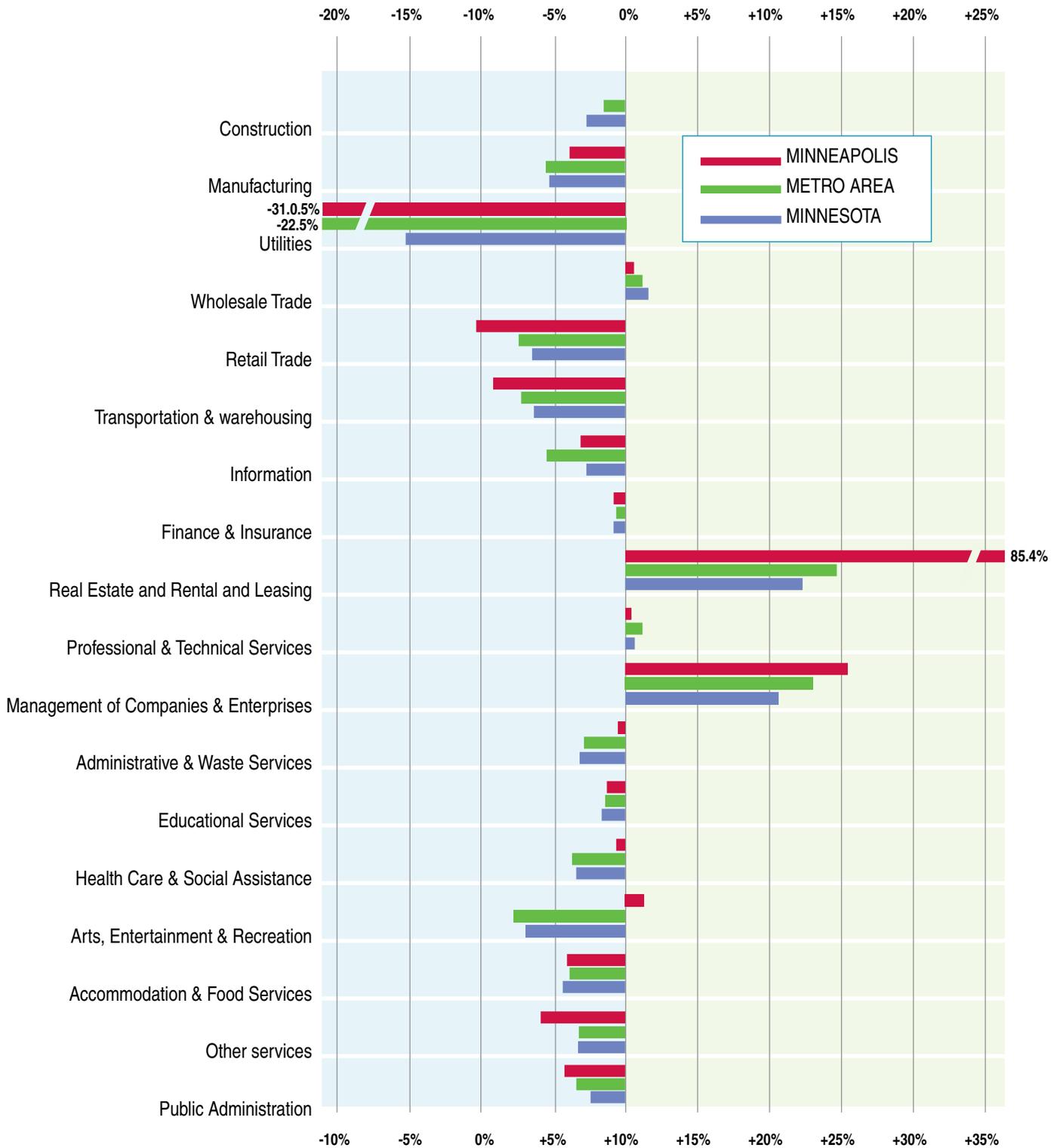
Figure 4: **AVERAGE WEEKLY WAGES** – first quarter
in first half 2005 dollars



Source: CPED with data from DEED. Total values converted to inflation-adjusted dollars based on Bureau of Labor Statistics' Consumer Price Index for all urban consumer goods. Figures are adjusted to first-half year 2005.

WAGES

Figure 5: **AVERAGE WEEKLY SALARIES** – 1Q-04 to 1Q-05
in constant dollars*



Source: CPED with data from DEED

* For conversion index, see page 10

DEFINITIONS AND SOURCES

Labor Force, Employment and Unemployment: Labor force, employment and unemployment by place of residence are based on monthly figures from the Minnesota Department of Economic Development. Labor force is the average number of non-farm workers employed or looking for a job at a given time. Table 1 presents quarterly information for the city.

Jobs and Wages: Average number of jobs by industry is based on data of all establishments covered under the Unemployment Insurance System, which includes about 97 percent of Minnesota employment. Some categories of employment are excluded, including sole proprietors, self-employed people, railroad workers, elected government officials and others working on a commission basis. Tables 2 and 3 show data to two digits by industry in the North American Industry Classification System (NAIC) for Minneapolis, the seven-county metropolitan area and Minnesota.

Inflation-adjusted figures: Values reported in tables in this section of the report are expressed in current dollars (not adjusted for inflation). For analysis purposes, however, text is based on these table values converted to constant (inflation-adjusted) dollars based on the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) for all urban consumer goods in the Minneapolis-Saint Paul-WI metropolitan area as defined by the U.S. Office of Management and Budget, and in the Midwest urban areas when applied. For the first quarter of 2005, dollars have been converted with an index reflecting the CPI for the first half of the respective years from 2000 to 2005 with 2005 as a base year.

DEVELOPMENT INDICATORS

- New residential construction grew in Minneapolis while decreasing in the metropolitan area.
- Multifamily construction was strong in the city and in the region, despite a slowdown of total construction activity in general.
- Although the average construction cost per single-family home decreased in the city by 31 percent, the average construction cost per multifamily unit increased by almost 90 percent in constant dollars.
- After two inactive periods, there was an upsurge this quarter in converting office and industrial buildings into residential buildings with new residential units added.
- Construction of new housing continued to take place mainly in the vicinity of the Heritage Park development and on the north side in general.

NEW RESIDENTIAL CONSTRUCTION

In Minneapolis, new residential construction picked up this quarter, surpassing the level of the third quarter last year. In the metropolitan area, the activity level was lower than last year and also lower than last quarter's.

Table 4: **NEW RESIDENTIAL CONSTRUCTION**
by unit

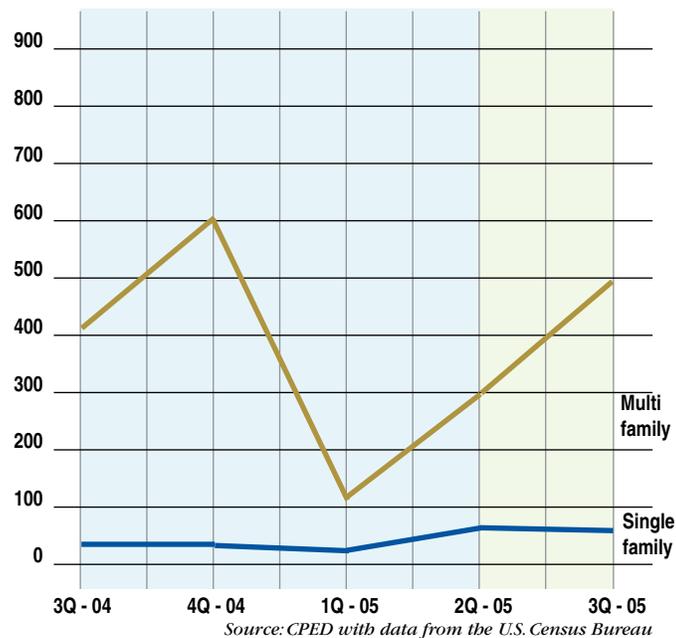
	2004 3Q-2004	4Q-2004	2005 1Q-2005	2Q-2005	3Q-2005
Single-family					
Minneapolis	47	50	30	66	60
Metropolitan area	3,964	3,254	2,256	3,502	3,368
Multifamily					
Minneapolis	411	614	111	299	494
Metropolitan area	2,441	2,110	668	1,098	4,450
Total number of units					
Minneapolis	458	664	137	365	554
Metropolitan area	6,405	5,364	2,924	4,600	4,450

Source: CPED with data from the U.S. Census Bureau, based on permit information

In Minneapolis, single-family housing construction was more than 27 percent higher in the third quarter than in the same period last year, but somewhat lower than in the second quarter this year. Multifamily unit construction increased by 20.2 percent, steadily growing since the low level of the first quarter.

Single-family construction in the metropolitan area decreased since the third quarter last year, but there was an upsurge in multifamily construction, with the number of units increasing 82.3 percent.

Figure 6: **PERMITTED NEW RESIDENTIAL UNITS – Minneapolis**

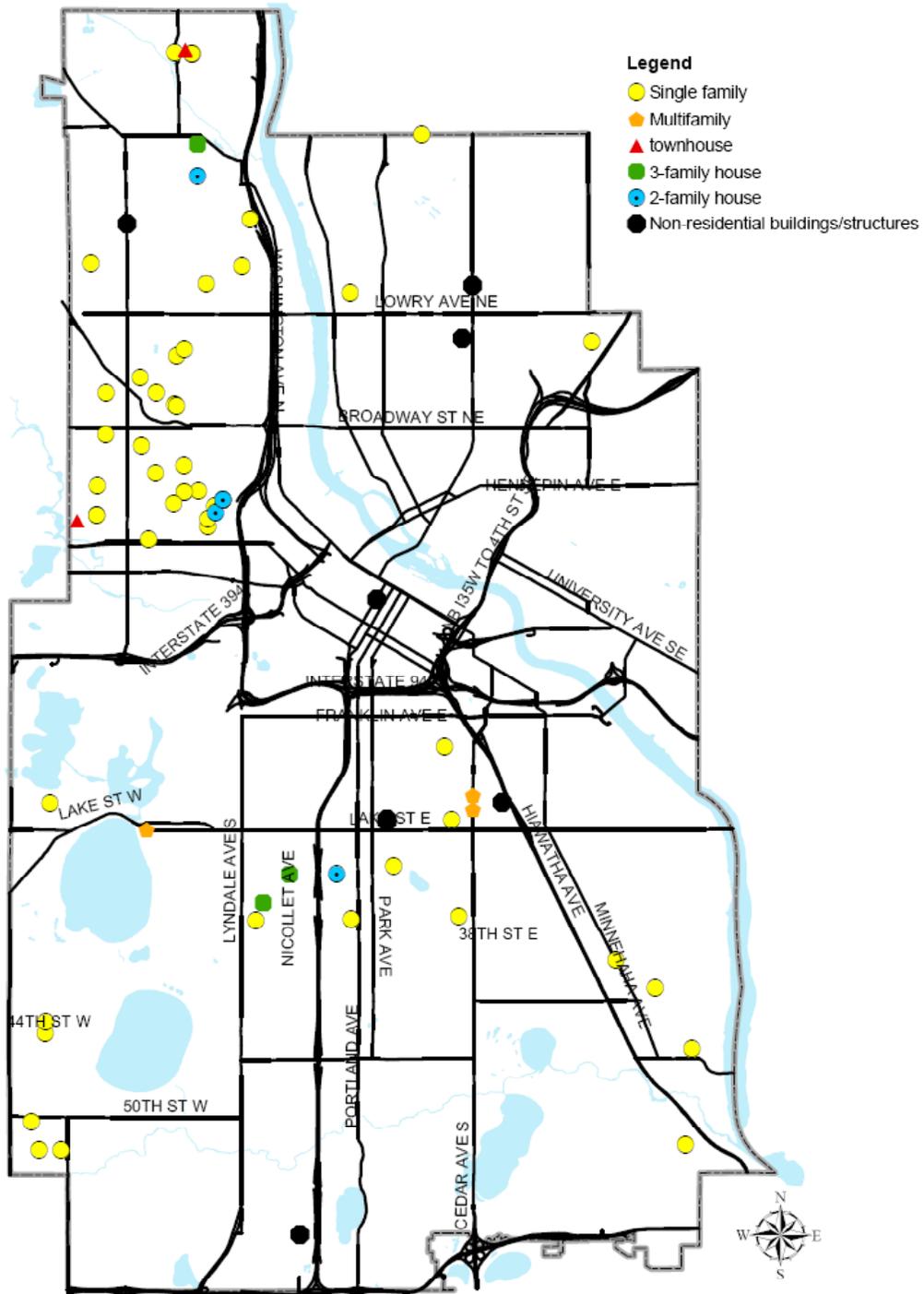


NEW RESIDENTIAL CONSTRUCTION

The majority of new single-family housing permits this quarter were for the north side of the city. Some concentrations appeared south of Lake Street East, along the Hiawatha corridor, and in the southwest corner of the city. Three new multifamily buildings with a total of 64 units were permitted along Cedar Avenue South and Lake Street East, and Lake Street West near Lake Calhoun.

Seven non-residential units and structures were permitted. Two of the most significant are skyway connections, one across 4th Street South in downtown, and the other at the former Sears building on Chicago Avenue.

Map 1: **PERMITTED NEW CONSTRUCTION** – tthird quarter 2005



Source: CPED with data from Regulatory Services

REMODELS, CONVERSIONS AND DEMOLITIONS

In the third quarter, 159 residential buildings were remodeled, converted from other non-residential uses, repaired, added or renewed. Seven of these buildings were converted from other uses to residential uses, adding 217 new units.

The projected construction cost of residential buildings in projects costing \$50,000 or more was almost \$48 million, divided equally between remodels and conversions. The cost increased by more than 67 percent from the dollar amounts reported in the third quarter of 2004 (a 59.6-percent increase in constant dollars)*. In the third quarter of 2005, the total number of buildings remodeled or converted in projects costing \$50,000 or more was similar to the total number reported last year. However, the increase in value represents more residential conversions, with 217 new residential units.

The cost of non-residential projects decreased by nearly 40 percent (42.3 percent in constant dollars) over the same period.

* For conversion index see page 21

Table 5: **CONVERSIONS, REMODELS AND ADDITIONS residential & non-residential projects of \$50,000 +**

	3Q-2004	UNITS	BUILDINGS ¹	VALUE
A – Residential			160	\$ 28,558,979
Remodels			158	23,283,979
Conversions and additions # of units ²		68	2	5,275,000
B – Non-Residential			131	71,656,841
	4Q-2004	UNITS	BUILDINGS ¹	VALUE
A – Residential			128	\$ 86,732,308
Remodels			120	13,852,017
Conversions and additions # of units ²		720	8	72,880,291
B – Non-Residential			114	41,310,674
	1Q-2005	UNITS	BUILDINGS ¹	VALUE
A – Residential			110	\$ 19,883,398
Remodels			108	19,536,398
Conversions and additions # of units ²		-2	2	0
B – Non-Residential			100	104,073,352
	2Q-2005	UNITS	BUILDINGS ¹	VALUE
A – Residential			136	\$ 29,652,150
Remodels			133	25,578,798
Conversions and additions # of units ²		-15	3	4,073,352
B – Non-Residential			126	62,472,207
	3Q-2005	UNITS	BUILDINGS ¹	VALUE
A – Residential			159	\$ 47,800,240
Remodels			152	23,928,691
Conversions and additions # of units ²		217	7	23,871,549
B – Non-Residential			107	43,379,389

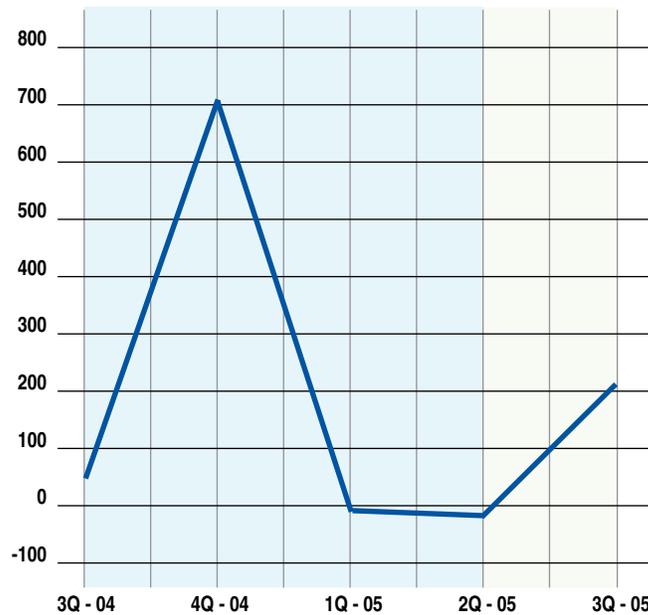
Source: CPED with data from Regulatory Services

- ¹ Residential and non-residential building listings may include structural work, build-outs, and other improvements.
- ² Residential conversions consist of a change in uses, e.g. from an office building to residential apartments, subdivisions or consolidation of residential units.
- ³ Types of non-residential buildings vary, including parking ramps; communication equipment; and public works, commercial or industrial buildings.

REMODELS, CONVERSIONS AND DEMOLITIONS

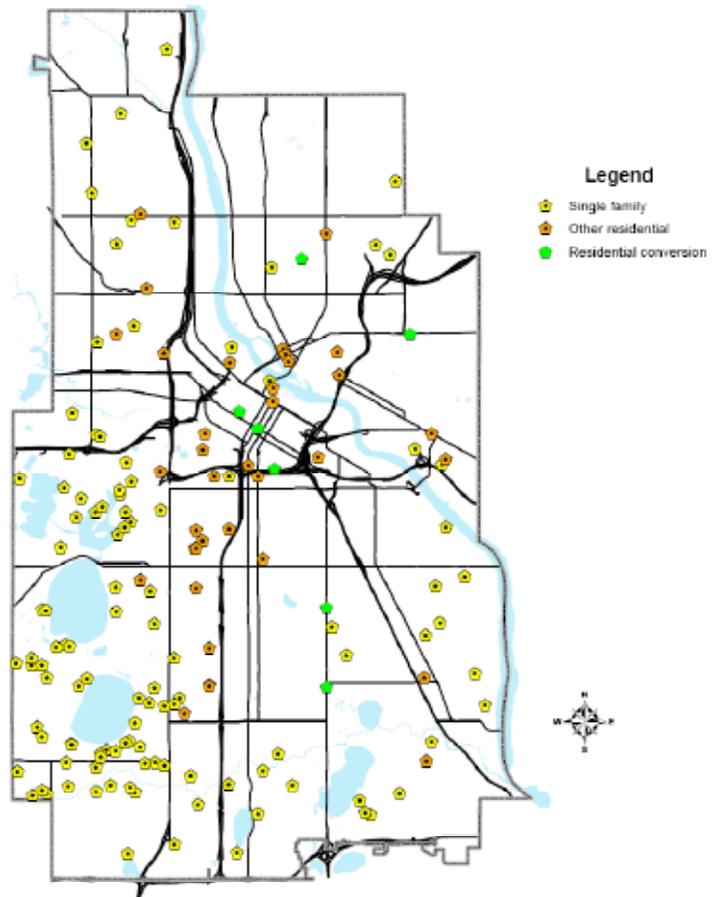
Permits for housing remodeling were for places mainly in the southern half of the city, with a larger concentration in the lakes area. Downtown, the east bank of the Mississippi River and neighborhoods east of the Hiawatha rail line also developed substantially, with a mix of single-family and other residential buildings, including multifamily and townhouses.

Figure 7: **NEW UNITS ADDED TO EXISTING BUILDINGS OR IN BUILDINGS CONVERTED FROM ANOTHER USE - Minneapolis**



Source: Minneapolis Community Planning and Economic Development with data from Regulatory Services

Map 2: **PERMITTED FOR RESIDENTIAL REMODEL AND RENOVATION projects \$50,000 + third quarter 2005**

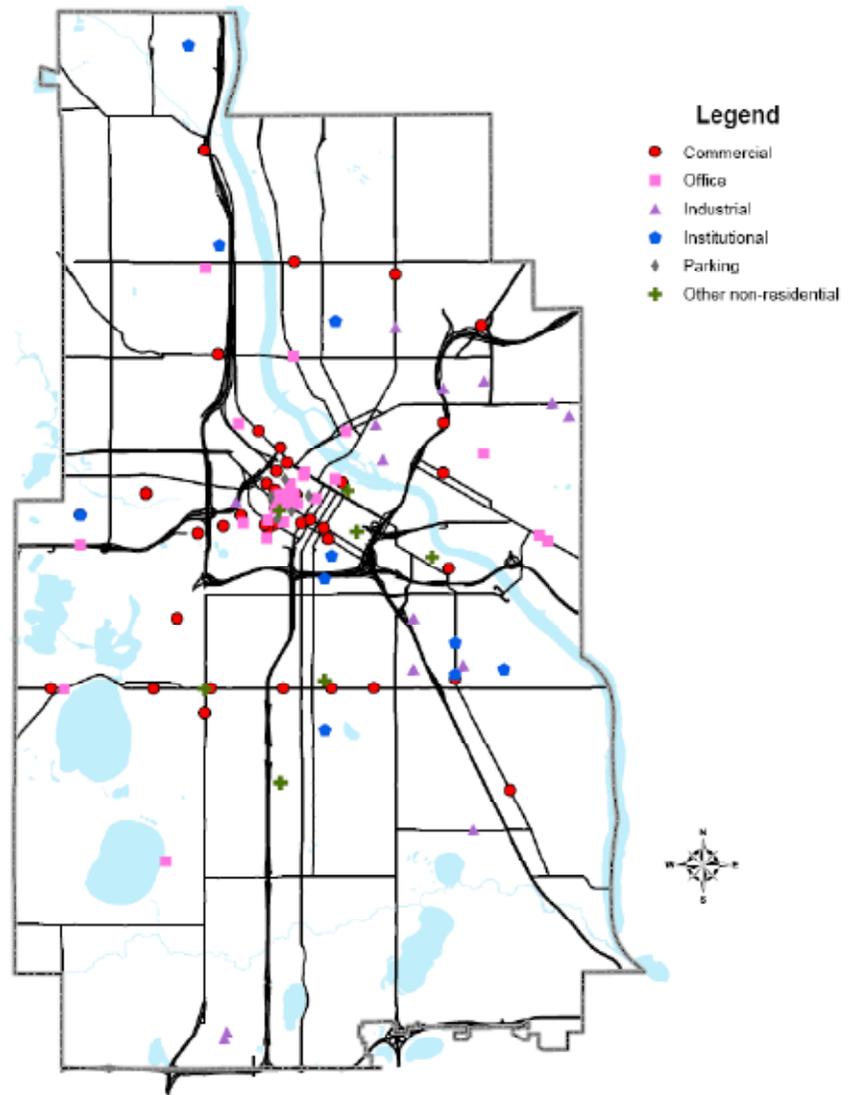


Source: CPED with data from Regulatory Services

REMODELS, ADDITIONS AND DEMOLITIONS

Commercial and office remodeling and renovation permits issued in the third quarter were mostly for downtown projects. There was also significant activity along Lake Street. Renovation and remodeling of industrial buildings took place on the east side, along or near Hennepin Avenue and to a lesser extent near the north portion of the Hiawatha light-rail transit line and near the city's south border.

Map 3: **PERMITTED NON-RESIDENTIAL REMODELING AND RENOVATION**
projects \$50,000 +
second quarter 2005



Source: CPED with data from Regulatory Services

REMODELS, CONVERSIONS AND DEMOLITIONS

Following is a list of major projects (valued at \$1 million or more) permitted in Minneapolis in the third quarter of 2005. The highest cost project is the conversion of an office building into the Sexton Lofts condominium at 521 Seventh Street South.

Table 6: **MAJOR CONSTRUCTION PROJECTS IN MINNEAPOLIS**
projects \$1,000,000 +

ADDRESS	ZIP CODE	VALUE	DESCRIPTION
521 7th St S	55415	\$ 12,696,049	Conversion of office building to Sexton Lofts condominium
1805 Lake St W	55408	\$ 9,758,405	New six-story residential building
1701 Madison St NE	55413	\$ 6,900,000	Conversion of warehouse to Presidents Row Lofts
401 2nd St N	55401	\$ 4,690,100	Buildout of Security Warehouse Lofts
920 Lake St E	55407	\$ 4,388,719	Buildout of Global Market
1410 Elliot Ave	55404	\$ 3,682,275	Remodel and addition to chapel at North Central University
2850 Cedar Ave S	55407	\$ 3,042,985	New three-story condominium building
5801 Nicollet Ave	55419	\$ 2,700,000	New auto repair and gasoline station with store
33 6th St S	55402	\$ 2,663,777	Office remodel
401 4th Ave S	55415	\$ 2,572,500	New skyway across 4th St
3355 4th St N	55412	\$ 2,547,324	Two-story addition to Fellowship Baptist Church
2020 28th St E	55407	\$ 2,490,590	New office/warehouse
1901 Hennepin Ave E	55402	\$ 2,100,000	Conversion of factory to 1901 Lofts condominium
2750 Cedar Ave S	55413	\$ 2,012,753	New 15-unit condominium
601 Marquette Ave	55402	\$ 2,009,500	Unit remodel at Six Quebec Condominium
1540 New Brighton Blv	55403	\$ 1,531,365	Rainbow Foods store remodeling
90 7th St S	55402	\$ 1,421,000	Office remodel
2929 Chicago Ave	55407	\$ 1,411,540	Skyway/corridor link
600 1st Ave N	55401	\$ 1,267,000	Restaurant remodel at Target Center
700 Nicollet Mall	55402	\$ 1,136,724	Store remodeling
2001 24th St E	55404	\$ 1,115,000	Meat processing and office area remodeling
3101 Talmage Ave SE	55414	\$ 1,000,000	Warehouse addition

Source: CPED with data from City Regulatory Services

* More than one permit is involved

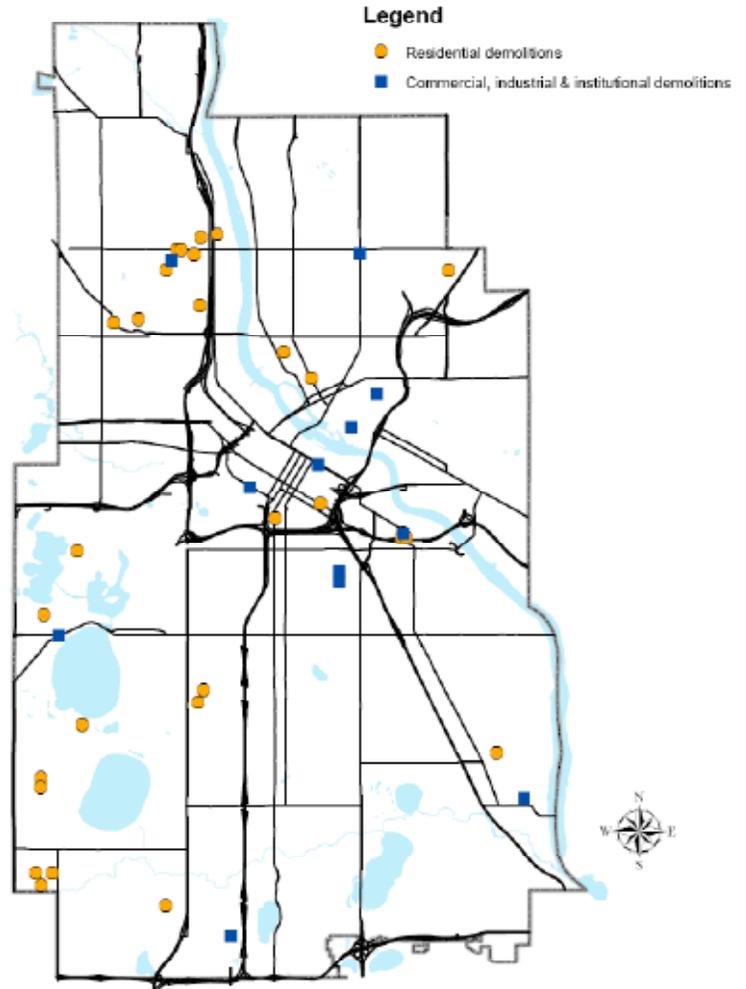
REMODELS, CONVERSIONS AND DEMOLITIONS

Building permits for demolition

Residential demolitions increased in the third quarter of 2005. There were 43 housing units demolished during the quarter, compared to a low of 22 in the same period last year and 37 in the last quarter. Despite this increase, demolitions were still lower this quarter than they were in the fourth quarter of last year.

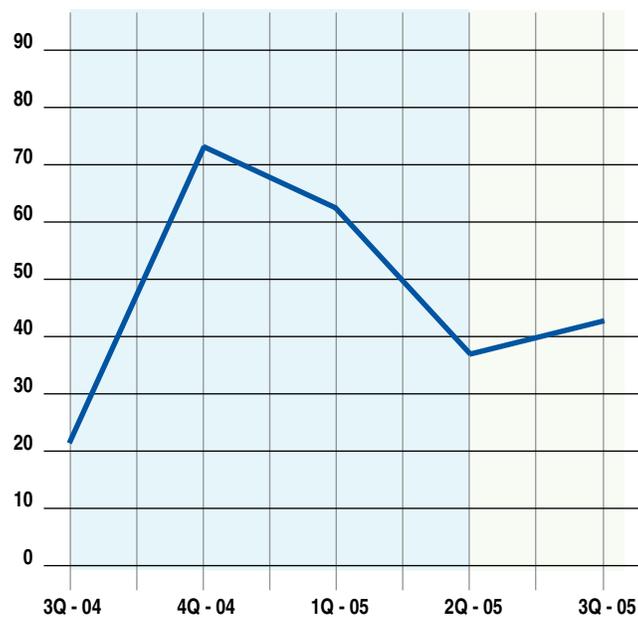
Non-residential building demolitions took place mostly in downtown, the east side and near Franklin Avenue East.

Map 3: PERMITS FOR DEMOLITIONS – third quarter 2005



Source: CPED with data from Regulatory Services

Figure 8: PERMITTED RESIDENTIAL DEMOLITIONS
in units



Source: CPED with data from Regulatory Services

RESIDENTIAL CONSTRUCTION COSTS

In Minneapolis, the total cost of new residential construction decreased by 48 percent (49 percent in constant dollars) since the third quarter of 2004. The costs of single-family and multifamily new construction both decreased, with multifamily construction leading the way at a decrease of more than \$24 million (\$25.7 million in constant dollars)*.

In the seven-county metropolitan area, the total cost of new construction also decreased, with the multifamily construction cost declining by almost 39 percent (41 percent in constant dollars) and single family by 9 percent (11 percent in constant dollars)*.

* For conversion index see page21

Table 7: **RESIDENTIAL CONSTRUCTION COSTS** – in dollars

	3Q-2004	4Q-2004	1Q-2005	2Q-2005	3Q-2005
Single family					
Minneapolis	\$ 11,584,711	\$ 7,864,399	\$ 6,440,616	\$ 12,263,689	\$ 10,472,695
Metropolitan area	787,911,264	674,806,252	500,110,698	765,363,387	718,624,444
Multifamily					
Minneapolis	41,755,679	91,357,608	18,244,663	76,399,197	17,289,225
Metropolitan area	208,498,890	266,739,535	85,918,361	196,893,422	127,558,968
Total number of units					
Minneapolis	53,340,390	99,222,007	24,685,279	88,662,866	27,761,920
Metropolitan area	996,410,154	941,545,787	586,029,059	953,256,829	846,143,412

Source: CPED with data from the U.S. Census Bureau

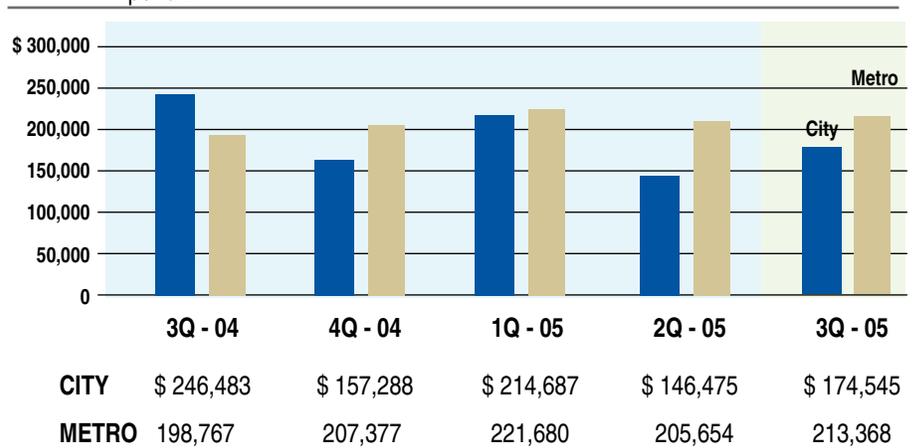
Table values are not adjusted for inflation

RESIDENTIAL CONSTRUCTION COST

The average cost of building a house in Minneapolis decreased by 29 percent (31 percent in constant dollars) in the third quarter of 2005, from \$246,483 (\$253,981 in constant dollars)* in the same period last year to \$174,545.

In the metropolitan area the average cost of building a house increased by 7 percent (4 percent in constant dollars), from \$198,770 (\$204,810 in constant dollars)* in this period last year to \$213,370 now, reflecting a more dynamic market than the city.

Figure 9: **SINGLE FAMILY CONSTRUCTION COSTS**
per unit

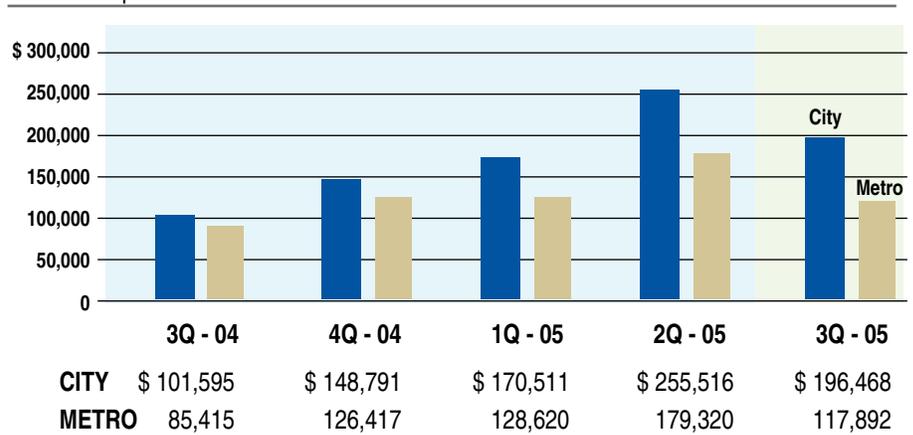


Source: CPED with data from the U.S. Census Bureau

Values in graph are not adjusted for inflation

For both Minneapolis and the metropolitan area, the average cost of constructing multifamily units declined this quarter from three-year highs in the second quarter. Compared to the same period last year though, the cost per unit increased in Minneapolis from \$101,595 (\$104,686 in constant dollars)* to \$196,468 this quarter, almost 90 percent more than the cost in the third quarter of 2004. The increase in cost was lower in the metropolitan area than in the city, but it still was substantial: about 40 percent in constant dollars. Higher construction costs reflect construction of higher cost housing in the high end market.

Figure 10: **MULTIFAMILY CONSTRUCTION COSTS**
per unit



Source: CPED with data from the U.S. Census Bureau

⁵ For conversion index see page 21

Building permits for new construction: Permits represent construction projects (residential and non-residential) submitted to the City for approval. Typically there is a time lag between permitting a project and actual construction.

Tables 4 and 7 are based on monthly figures for the City of Minneapolis and metropolitan area provided by the U.S. Census Bureau. For mapping purposes, data on new building construction, remodels, conversions and demolitions for the city are based on permit information by address provided by the City's Regulatory Services Department. Numbers from the Census Bureau and Regulatory Services may differ slightly for the same period. Census Bureau numbers do not include additions, remodels or demolitions.

Single-family buildings include only one unit in the building.

Multifamily buildings include two or more units in the building, except when noted that triplexes and duplexes are accounted separately.

Cost of residential construction is based on the amount of dollars that developers report as cost of their projects.

Construction cost per unit refers to the total construction cost reported divided by the number of units permitted during the period considered.

Non-residential buildings include any kind of use except residential. Cost-value is based on the amount the developer reports to Regulatory Services.

Building permits for residential remodeling, additions and conversions: Table 5 and maps 2 and 3 are based on data from City of Minneapolis Regulatory Services Department. Information includes all City-approved projects for remodeling, additions and conversions with a value of \$50,000 or more.

Building permits for demolitions or wrecking: These data were obtained from City of Minneapolis Regulatory Services Department and include all partially or totally demolished buildings.

Inflation-adjusted figures: Values reported in tables in this section of the report are expressed in current dollars (not adjusted for inflation). For analysis purposes, however, text is based on these table values converted to constant (inflation-adjusted) dollars. Inflation adjustment is based on the U.S. Bureau of Labor Statistics' Consumer Price Index for all items in the Midwest urban areas. For the third quarter of 2005, dollars have been converted with an index of 1.0484749 reflecting CPI September 2005 (192.5) and CPI for September 2004 (183.6). For housing the corresponding index is 1.0304203, calculated with a CPI 180.8 for September 2004 and a CPI 186.3 for September 2005.

HOUSING STOCK AND THE REAL ESTATE MARKET

- Average vacancy rates went down, but average rents also decreased in real value since the same quarter of last year.
- Although sale of housing units dropped in Minneapolis, the median sale price has been increasing steadily in constant dollars.
- The average vacancy rate for office space continued a downward trend in both the Minneapolis central business district and the metropolitan area. While the average price asked per square foot slightly dropped, growth of occupied space in the city picked up again.
- Although the average retail vacancy rate fell in the Minneapolis CBD, it is still high compared to the third quarter last year and also high compared to the metropolitan area.
- The industrial vacancy rate in Minneapolis remained quite stable during 2005, but it is higher than it was during 2004. The average asking lease price per square foot did not change substantially since the fourth quarter of last year, and occupied industrial space rose to a higher level than in the same period last year.

RESIDENTIAL VACANCY RATES

The Minneapolis vacancy rate for multifamily rental units was 4.3 percent, down 0.6 percent from 4.9 percent at the end of the third quarter last year.

The average rent was \$820, up \$12 from last quarter, and down \$17 (\$42 in constant dollars)* from the same period last year.

* For conversion index see page 30

Table 8: VACANCY RATE & AVERAGE RENT

MINNEAPOLIS	2004		2005		
	3Q-04	4Q-04	1Q-05	2Q-05	3Q-05
Units surveyed	16,460	15,686	15,683	15,052	15,364
Vacant units	811	748	661	647	659
Average rent	\$ 837	\$ 822	\$ 824	\$ 808	\$ 820
Vacancy rate	4.9%	4.8%	4.2%	4.3%	4.3%

METRO AREA	2004		2005		
	3Q-04	4Q-04	1Q-05	2Q-05	3Q-05
Units surveyed	123,814	121,641	119,728	117,709	116,699
Vacant units	8,325	8,905	8,262	7,033	6,564
Average rent	\$ 851	\$ 849	\$ 850	\$ 848	\$ 848
Vacancy rate	6.7%	7.3%	6.9%	6.0%	5.6%

Source: GVA Marquette Advisors Report 2004 and 2005 based on survey of market rate of rental properties.

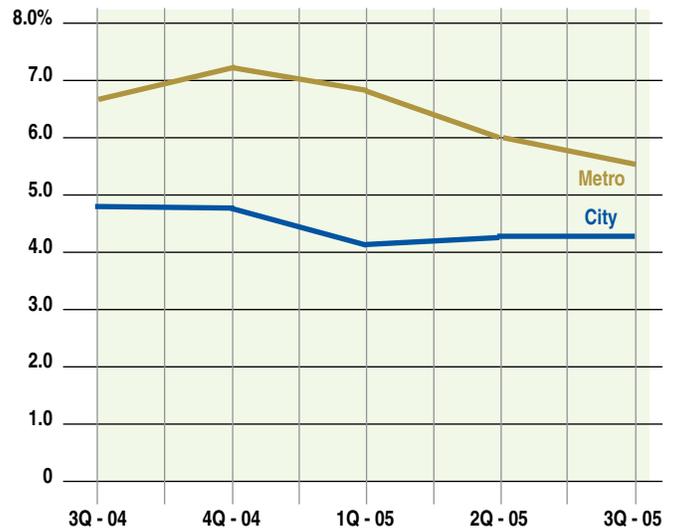
Recorded data for the last month of the quarter

RESIDENTIAL VACANCY RATES

Vacancy rates in Minneapolis for studio and one-bedroom apartments were lower than they were in the same period last year. Vacancy rates for three-bedroom units increased to 9.7 percent from 2.9 percent last year, while the rate for two bedrooms did not change.

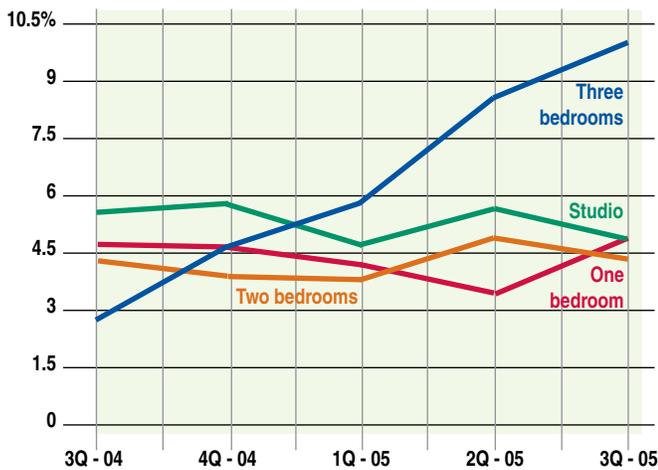
In the metropolitan area, vacancy rates for all sizes of apartments except for three-bedroom apartments decreased in the third quarter from highs reached during the same period last year. For three-bedroom units the vacancy rate increased to 8.5 percent from 7.9 percent last year.

Figure 11: **RENTAL VACANCY RATE**
Minneapolis & Metro area



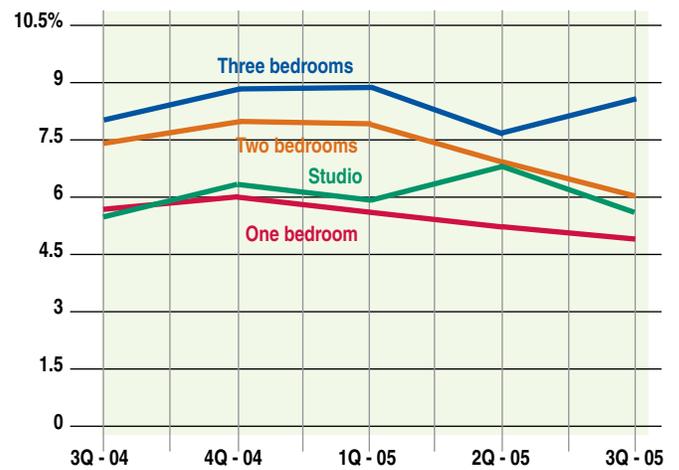
Source: CPED with data from GVA Marquette Advisors
Recorded data for the last month of the quarter

Figure 12: **RENTAL VACANCY RATE – Minneapolis**
by apartment type



Source: CPED with data from GVA Marquette Advisors
Recorded data for the last month of the quarter

Figure 13: **RENTAL VACANCY RATE– Metro area**
by apartment type



Source: CPED with data from GVA Marquette Advisors
Recorded data for the last month of the quarter

RESIDENTIAL VACANCY RATES

Except for studio apartments, average rent for all types of apartments in Minneapolis has gone down since the third quarter of 2004. For large apartments (three bedrooms), rent went from \$1,380 (\$1,422 in constant dollars)* for the third quarter of 2004 to \$1,309, a decrease of about 5 percent (7.9 percent in constant dollars)*.

Rent for all sizes of apartments except studios declined throughout the Twin Cities metropolitan area. However, these decreases were not as dramatic as the ones in Minneapolis. Rent for one-bedroom and two-bedroom units went down the most in the metro area. One-bedroom apartment average rent declined by 0.7 percent (3.6 percent in constant dollars) from \$736 (\$758 in constant dollars)* in the third quarter last year. Two-bedroom average rent declined from \$930 (\$958 in constant dollars) in the third quarter of 2004 to \$925, a drop of 0.5 percent (3.4 percent in constant dollars)*.

* For conversion index see page 30

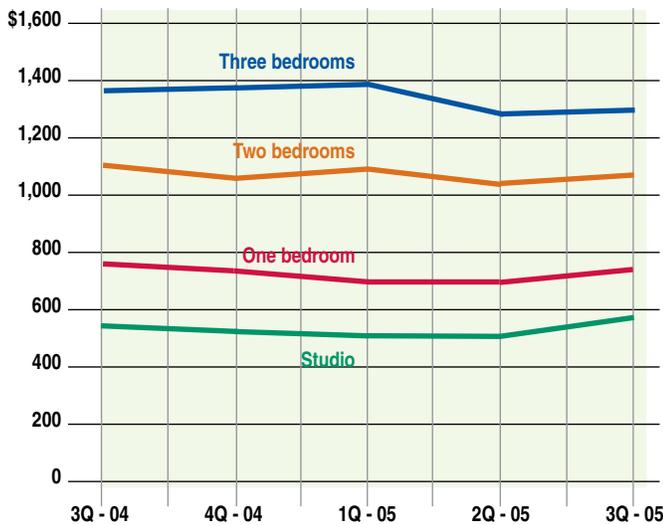
Figure 15: **AVERAGE APARTMENT RENT**
in current dollars



Source: CPED with data from GVA Marquette Advisors

Recorded data for the last month of the quarter

Figure 16: **AVERAGE RENT— Minneapolis**

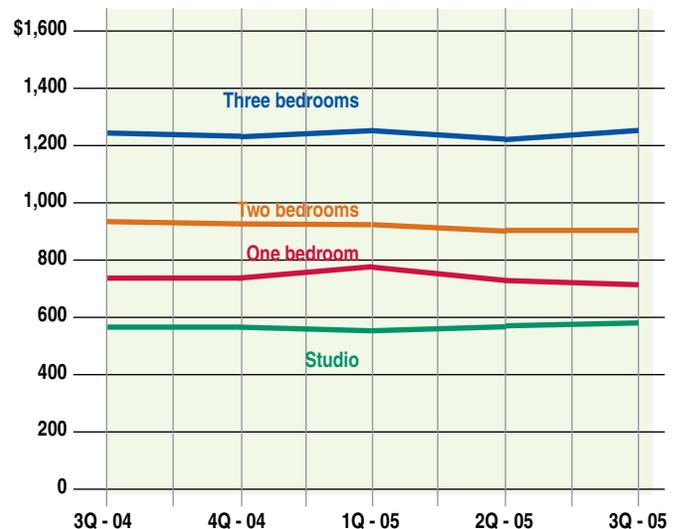


Source: CPED with data from GVA Marquette Advisors

Numbers in table are not adjusted for inflation

Recorded data for the last month of the quarter

Figure 17: **AVERAGE RENT – Metro area**



Source: CPED with data from GVA Marquette Advisors

Numbers in table are not adjusted for inflation

Recorded data for the last month of the quarter

RESIDENTIAL SALES

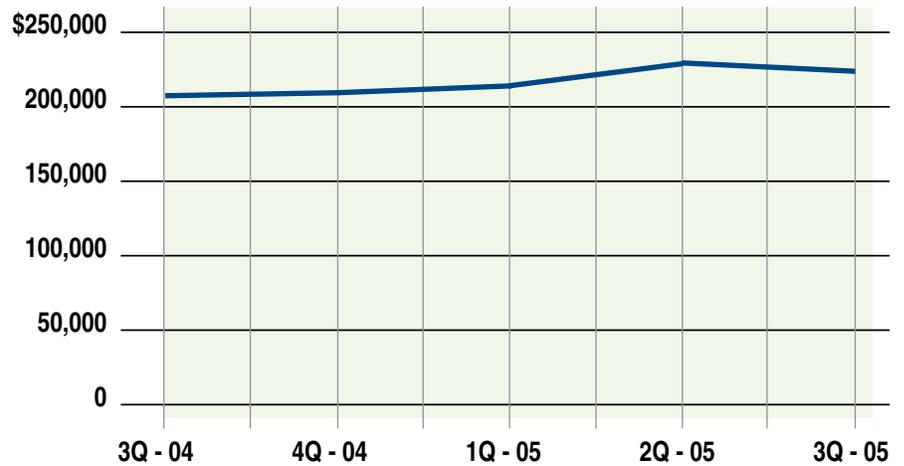
The total number of housing units sold dropped by 44 percent since this period last year, but median sale prices increased by 7.9 percent (4.7 percent in constant dollars)*. The median housing price dropped by 1 percent in constant dollars since the second quarter.

In comparison with the same period of 2004, single-family houses gained \$21,000 in value (\$14,900 in constant dollars), while condominiums and townhouses that had been appreciating steadily dropped in value by more than \$5,000 (\$11,400 in constant dollars)*.

Median sale prices (in September 2005 dollars) for housing have steadily increased until the second quarter, dropping in the third quarter.

* For conversion index, see page 30

Figure 17: **MEDIAN HOUSING PRICES**
in September 2005 dollars



Source: CPED with data from the City Assessor's Office and the U.S. Bureau of Labor Statistics.

Figures converted into constant dollars using CPI index for housing - Midwest urban areas

Table 10: **RESIDENTIAL UNITS SOLD AND MEDIAN SALE VALUES**¹ – Minneapolis

	3Q-2004		4Q-2004		1Q-2005		2Q-2005		3Q-2005	
	# UNITS	MED. SALE								
Single-Family	1,827	\$ 201,000	1,341	\$ 200,000	852	\$ 199,450	1,144	\$ 215,000	1,102	\$ 222,000
Duplex/Triplex	311	257,000	246	245,000	151	250,000	169	266,000	163	275,000
Condominium/ Townhouse	536	202,947	565	222,000	292	242,500	241	248,500	234	197,750
TOTAL	2,674	\$ 208,500	2,152	\$ 209,900	1,295	\$ 214,000	1,554	\$ 225,000	1,499	\$ 225,000

Source: CPED with data from the City of Minneapolis Assessor's Office

Table values are not adjusted for inflation

¹ Numbers do not include apartments, vacant land sold or unclassified residential units.

REAL ESTATE TRENDS: OFFICE SPACE

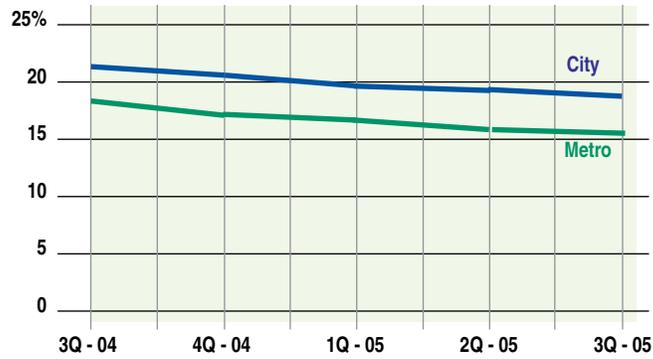
The average vacancy rate for office space in both the Minneapolis central business district and the metropolitan area continued a downward trend in the third quarter of 2005. In Minneapolis, vacancies went down from 18.8 percent last quarter and from 21.4 percent a year ago to 18.1 percent. In the metro area, the rate went from 16.2 percent last quarter and from 18.2 percent a year ago to 15.8 percent.

Average asking lease rates in Minneapolis decreased slightly from \$9.65 per square foot in the second quarter of 2005 to \$9.59 in the third quarter. In the third quarter of 2004, the average was \$9.76, or 1.7 percent higher than the current number. In constant dollars, the third quarter 2004 average was a higher \$10.20. In the metro area, prices declined from \$10.52 (\$11.03 in constant dollars) a year ago to \$10.40 this quarter*.

* For conversion index, see page 30

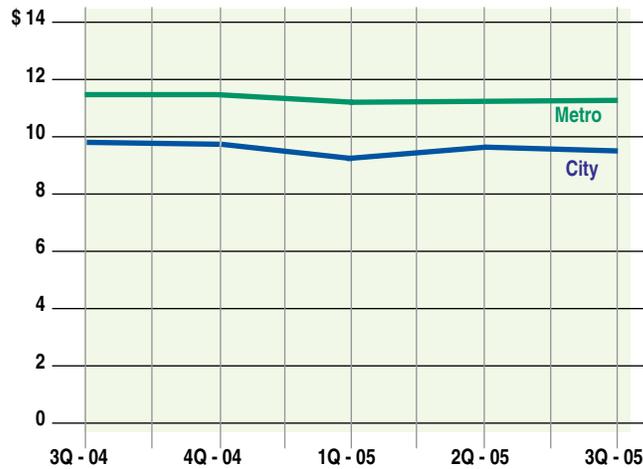
Office space continues to fill in the city and, at a lower pace, in the metropolitan area, reversing a negative trend seen in both markets since the second quarter of 2004. Growth of occupied office space picked up again in Minneapolis after a slowdown in the second quarter of 2005. Absorption increased as prices per square foot declined.

Figure 18: OFFICE VACANCY RATE



Source: CPED with data from CB Richard Ellis
Class A, B and C office buildings 10,000 square feet and larger

Figure 19: OFFICE AVERAGE ASKING LEASE RATE
in dollars per square foot



Source: CPED with data from CB Richard Ellis
Figures are not adjusted for inflation
Class A, B and C office buildings 10,000 square feet and larger

Figure 20: OCCUPIED OFFICE SPACE – rate of growth

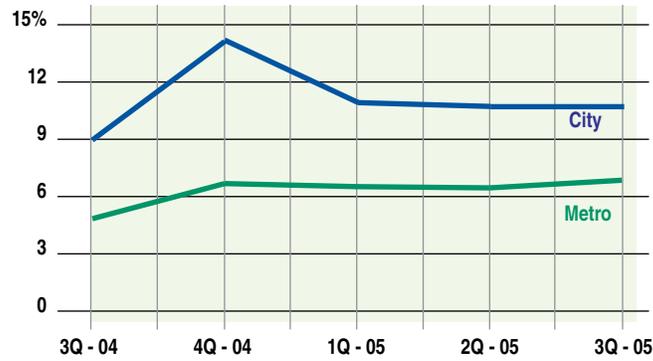


Source: CPED with data from CB Richard Ellis
Class A, B and C office buildings 10,000 square feet and larger

REAL ESTATE TRENDS: RETAIL SPACE

Although falling, the retail vacancy rate in the Minneapolis central business district is still high compared to this period last year. The rate in the metropolitan area increased 3 percent and is higher than last year's rate but is still not as high as Minneapolis'.

Figure 21: **RETAIL VACANCY RATE**



Source: CPED with data from CB Richard Ellis

Includes all multi-tenant retail buildings 30,000 square feet and larger including buildings under construction

In the city's central business district, average asking lease prices went down since the third quarter of 2004, falling \$2.15 per square foot (\$3.50 in constant dollars) from \$28.35. In the metropolitan area, prices are slightly up from the same quarter last year*.

* For conversion index, see page 30

Figure 22: **RETAIL - AVERAGE ASKING LEASE RATE**
in dollars per square foot per year



Source: CPED with data from CB Richard Ellis

Includes all multi-tenant retail buildings 30,000 square feet and larger, including buildings under construction

The city's rate of growth in occupied retail space partially recovered from fourth-quarter losses. The metropolitan area also rebounded since the fourth quarter. Occupied space increased in the third quarter in the metropolitan area after a slowdown in the second quarter. In Minneapolis' central business district, however, growth went down since the second quarter and did not change since the same period last year.

Figure 23: **OCCUPIED RETAIL SPACE - rate of growth**



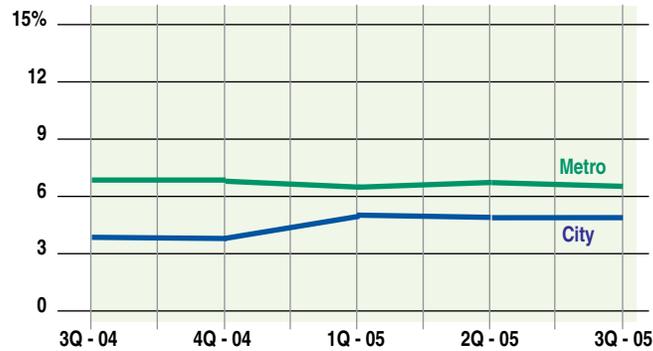
Source: CPED with data from CB Richard Ellis

Includes all multi-tenant retail buildings 30,000 square feet and larger, including buildings under construction

REAL ESTATE TRENDS: INDUSTRIAL SPACE

The industrial space vacancy rate in Minneapolis slightly decreased from last quarter by just 1 percent, but it was higher than it was during the same period last year. The vacancy rate also decreased in the metropolitan area and is still lower than last year's, but it is higher than Minneapolis'.

Figure 24: INDUSTRIAL VACANCY RATE

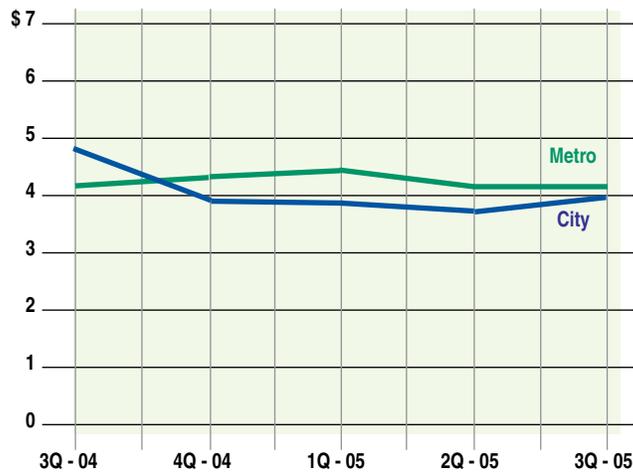


Source: CPED with data from CB Richard Ellis

Includes industrial buildings 100,000 square feet and larger. Market consists of bulk warehouses, office warehouses, office showrooms, and manufacturing and specialty buildings.

The average asking lease rate for industrial space in Minneapolis has only changed slightly since the fourth quarter of last year, when it dropped considerably. Now it is about 17.3 percent lower (21.1 percent in constant dollars) than it was a year ago. In the metropolitan area, prices are higher by 0.2 percent, but in constant dollars, prices are 4.8 percent lower than last year*.

Figure 25: INDUSTRIAL - AVERAGE ASKING LEASE RATE
in dollars per square foot per year



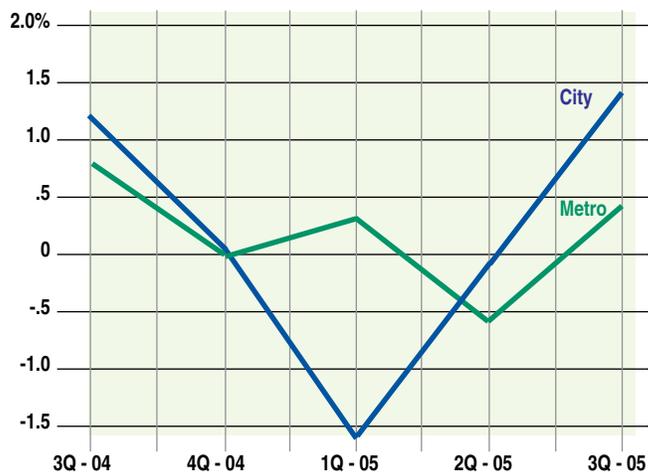
Source: CPED with data from CB Richard Ellis

Includes industrial buildings 100,000 square feet and larger. Market consists of bulk warehouses, office warehouses, office showrooms, and manufacturing and specialty buildings.

* For conversion index, see page 30

More square feet of industrial space in Minneapolis are occupied than in the third quarter of last year, when absorption was at its peak. This quarter, occupied industrial space in the city rebounded from the second quarter, when it was decreasing instead of growing. The metropolitan area also increased occupied industrial space but at a lower rate than the city.

Figure 26: INDUSTRIAL OCCUPIED SPACE – rate of growth



Source: CPED with data from CB Richard Ellis

Includes industrial buildings 100,000 square feet and larger. Market consists of bulk warehouses, office warehouses, office showrooms, and manufacturing and specialty buildings.

DEFINITIONS AND SOURCES

Housing Vacancy Rate: Vacancy rate is the percentage of unoccupied housing units in the total number of housing units.

Vacancy rates for the multifamily rental market are calculated quarterly by GVA Marquette Advisors based on a quarterly survey of properties in the Twin Cities metropolitan area. The survey also tracks the average rent paid for apartment units.

Median sale values: These values are based on home prices reported to the Hennepin County Assessor. The figures are unverified and may not reflect the actual sale value.

Real estate statistics as reported by CB Richard Ellis (see Web site at www.cbre.com) include office, retail and industrial space vacancy rates, yearly lease price per square foot and absorption of square feet for the Twin Cities metropolitan area and Minneapolis (industrial space) or Minneapolis central business district (office and retail space). The metropolitan area includes several submarkets and may not coincide with definitions based on jurisdictional boundaries.

Data cover approximately 5,000 industrial buildings, 370 retail buildings and 65 million square feet of office space in the Twin Cities metropolitan area.

Average asking lease rate: Determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of all available space

Average vacancy rate: Vacant square feet divided by the net rentable area

Rate of growth and absorption: The change in occupied square feet from one period to the next, determined by subtracting vacant from rentable space available.

Inflation-adjusted figures: Values reported in tables in this section of the report are expressed in current dollars (not adjusted for inflation). For analysis purposes, however, text is based on these table values converted to constant (inflation-adjusted) dollars based on the U.S. Bureau of Labor Statistics' Consumer Price Index for all urban consumer goods in the Midwest urban areas. For the third quarter of 2005, dollars have been converted with an index of 1.0484749, reflecting the CPI for September 2005 (192.5) and the CPI for September 2004 (183.6).

To convert housing values, a CPI for housing in Midwest urban areas is used. To compare the 2005 third quarter with the 2004 third quarter, the index is 1.0304203, the result of the relation between the CPI for September 2005 (186.3) and the CPI for September 2004 (180.8).



Project coordinator:

Cecilia Bolognesi, AICP
Principal Planner

Minneapolis Department
of Community Planning & Economic Development
Research
350 South 5th Street- Room 210
Minneapolis, MN 55415-1385

Phone: 612-673-2495

e-mail: cecilia.bolognesi@ci.minneapolis.mn.us

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Communications Department