



# Minneapolis Trends

*An Overview of Socioeconomic &  
Housing Trends in Minneapolis*



## 2000–2005



**City of Minneapolis**  
*Department of Community Planning  
& Economic Development - CPED*

Revised  
November 2006



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Project coordinators:

Cecilia Bolognesi, AICP  
Principal Planner

612-673-2495  
cecilia.bolognesi@ci.minneapolis.mn.us

Jeff Schneider  
Manager, Special Projects & Research

612-673-5124  
jeff.schneider@ci.minneapolis.mn.us

Minneapolis Department of  
Community Planning & Economic Development  
105 5th Avenue So  
Minneapolis, MN 55401

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This report is a five-year version of the quarterly report "Minneapolis Trends," a report which analyzes trends in population, employment, jobs, housing and commercial real estate. This special edition offers a five year rather than the normal five quarter time frame on most of the indicators included in the existing Trends reports, as well as a small number of additional indicators for which data is available only on an annual basis. This longer horizon provides a clearer understanding of quarterly changes, as well as an opportunity to display selected annual trends. Data is presented from 2000 through 2005. In some cases however (e.g. industrial vacancy rates), changes in methodology prevented going back as far as 2000.

A second feature of this special edition is a new section entitled "Minneapolis Snapshots" which includes the latest available figures for a select number of indicators.

Unless otherwise noted, sources and definitions pertaining to this report are the same as used in the quarterly Minneapolis Trends report, available at [www.ci.minneapolis.mn.us/cped/trends\\_reports\\_home.asp](http://www.ci.minneapolis.mn.us/cped/trends_reports_home.asp)

## Minneapolis Snapshots Highlights

- As of April 1, 2005, the City's population was estimated to be 387,711.
- As of January 2, 2006 there were 173,799 residential housing units in the City. Approximately 50% of residential units were single family dwellings, of which 86% were homesteaded.
- For 2005, the median sales price of a single family home was \$223,000.
- For 2005, there were 214,872 Minneapolis residents employed, with an unemployment rate of 4.2%.
- In 2005 there were 286,856 jobs located in Minneapolis with an average wage of \$ 1,015 per week.
- As of 2005, median household income in the City was estimated at \$ 41,829.
- As of the fourth quarter 2005, the Minneapolis CBD office vacancy rate was 17.2%; the Minneapolis CBD retail vacancy rate was 10.6%.

population	387,711
residential housing units	173,799
median sales price	\$ 223,000
median household income	\$ 41,829

## Five Year Trend Highlights

### Job Growth in Minneapolis 2000–2005

Health care and social assistance  
+2,628 jobs

**Real estate, rental and leasing**  
+1,665 jobs

Educational services  
+1,499 jobs

**Management of companies**  
+ 978 jobs

Accommodation and food services  
+ 952 jobs

**Arts, entertainment and recreation**  
+ 589 jobs

*Sectors in **bold** grew faster in Minneapolis  
than in the region during this period*

### Population

- Since 2000, population levels remained essentially flat in the central cities of Minneapolis and Saint Paul, while the balance of the metropolitan area grew by an average of 1.6 percent annually. In 2005, the estimated population of Minneapolis was 387,711 or 1.3 percent greater than 2000.
- The Minneapolis population continued to diversify, with the proportion of non- white residents increasing from 37 percent in 2000 to 38 percent in 2005.
- Between 2000 and 2005, the number of children up to 14 years old and well as the number of 45- to 64-year-olds increased in the city. The populations of all other age groups declined.

### Employment

- Fewer Minneapolis residents were employed in 2005 than in 2000, but by 2005, the unemployment rate declined to its lowest level since 2002.
- The unemployment gap between the city and the metropolitan region was closing, but unemployment rates for both the city and the region remained higher in 2005 than in 2000.

### Jobs

- From 2000 to 2004, both Minneapolis and Saint Paul lost jobs at a greater rate than the region or state. By 2005, both the region and the state had returned to pre-recession jobs levels. In 2005, the city reversed a four year trend of recessionary job losses, but the total number of jobs were still 22,500 below 2000 levels.
- The recession of 2001 negatively affected three broad industries and all sectors related to them: information technology-related manufacturing, information industries and services, and transportation.
- In spite an overall job loss, six Minneapolis employment sectors gained jobs between 2000 and 2005; see sidebar for details.

### Housing production

- New housing production in Minneapolis has been growing rapidly, driven by growth in multi-family housing, which includes both condominiums and rental apartments.
- Net new units (after demolitions) have increased by more than 5,800 units since 2001.

## **Housing sales**

- Annual residential sales increased steadily in Minneapolis from 2001 through 2004, but declined in 2005.
- Median housing prices in the city in 2005 were almost 35 percent more than in 2001, after adjusting for inflation.

## **Rental property**

- Vacancy rates in rental properties in the city peaked in 2003 and have begun to decline; regional vacancy rates are also declining but not as fast.
- Rental property vacancy rates are higher in the region than in Minneapolis.
- Rent has only risen modestly as vacancy rates have declined. However, the rent levels did not keep up with inflation.

## **Office market**

- Office vacancy rates in the Minneapolis central business district and the metropolitan area grew steadily from 2000 through 2004, before declining in 2005.
- In 2000, Minneapolis CBD vacancy rates were lower than the region, but since 2003 have been higher. Correspondingly, CBD lease rates dropped and are now slightly lower than the metro area office lease rates.

## **Retail market**

- After a decline from 2002 to 2003, retail vacancy rates rose steadily in the Minneapolis CDB; in the metro area, they were stable until a rise in 2005, but remained lower than in the city.
- Average lease per square foot costs were higher in the Minneapolis central business district than in the metro area, but in 2005 costs declined sharply in the city, but remained slightly higher than the metro area rate.

## **Industrial market**

- Available industrial space grew steadily in Minneapolis between 2002 and 2005.
- In the metro area and Midway Industrial Area (in northeast Minneapolis), available industrial space began to decline in 2004.
- Industrial lease rates remained stable throughout the region.

This report is a five-year version of the quarterly report “Minneapolis Trends,” which tracks changes in selected employment, jobs, housing and commercial real estate indicators. This special edition offers a five year rather than the usual five quarter time frame for the existing Trends indicators, as well as a small number of additional indicators for which data is available only on an annual basis. This longer horizon provides a clearer understanding of quarterly changes, as well as an opportunity to display selected annual indicators. Data is presented from 2000 through 2005. In some cases however (e.g. industrial vacancy rates), changes in methodology by data sources prevented going back as far as 2000.

This report has two parts:

## **Part I: 2005 Snapshots**

The first part shows snapshots of Minneapolis using the latest available date. Arrows indicate direction of the trend since 2000.

## **Part II: Trends 2000-2005**

The second part shows five-year trends in three broad categories: population, employment and jobs, housing and commercial property,

Following the practice of the quarterly Minneapolis Trends reports, data is from several standard sources:

1. Population figures - the U.S. Census of Population and Housing and estimates from the Metropolitan Council for 2001 to 2004;
2. Income and certain demographic information - data from the American Community Survey (ACS), a relatively new survey by the U. S. Census Bureau. The survey is a useful tool, although the size of the sample is small. As a result, the margin of error for ACS data as currently reported is higher than the decennial census reports. The survey includes only household information; people living in group quarters (jails, student dormitories, nursing homes and others) are not included.
3. Employment and job information - data from the Minnesota Department of Employment and Economic Development (DEED), the U.S. Bureau of Labor Statistics (BLS), the Federal Reserve Bank and the U.S. Bureau of Economic Analysis.



4. Housing and housing market information - the Minneapolis Assessor's Office and the Regulatory Services Department, the U.S. Census Bureau, the Minneapolis Area Association of Realtors and GVA Marquette Advisers, a residential market research firm. The Federal Reserve Bank provided market analysis background information.
5. Commercial property trends -  
CB Richard Ellis, a private commercial real estate firm.

Unless otherwise noted, "metropolitan area" means the 7 county metropolitan area. For a more complete list of sources and definitions, please see the quarterly Trends reports at [http://www.ci.minneapolis.mn.us/cped/trends\\_reports\\_home.asp](http://www.ci.minneapolis.mn.us/cped/trends_reports_home.asp)

In 2005, the Metropolitan Council estimated that 387,711 people lived in Minneapolis. The population increased 1.3 percent from 2000, when the Census of Population and Housing recorded 382,618 people.

Population estimate in 2005:  
**387,711 people**

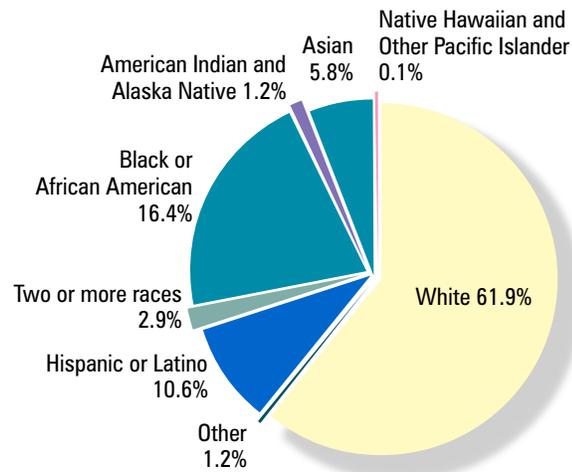
(Source: Metropolitan Council)

**2000-2005  
Population in Minneapolis**

Graph 1  
**2005 population by ethnicity**

Source: Census Bureau-American Community Survey

In 2005, non-white people in Minneapolis made up 38 percent of the total household population, up from 37 percent in 2000.

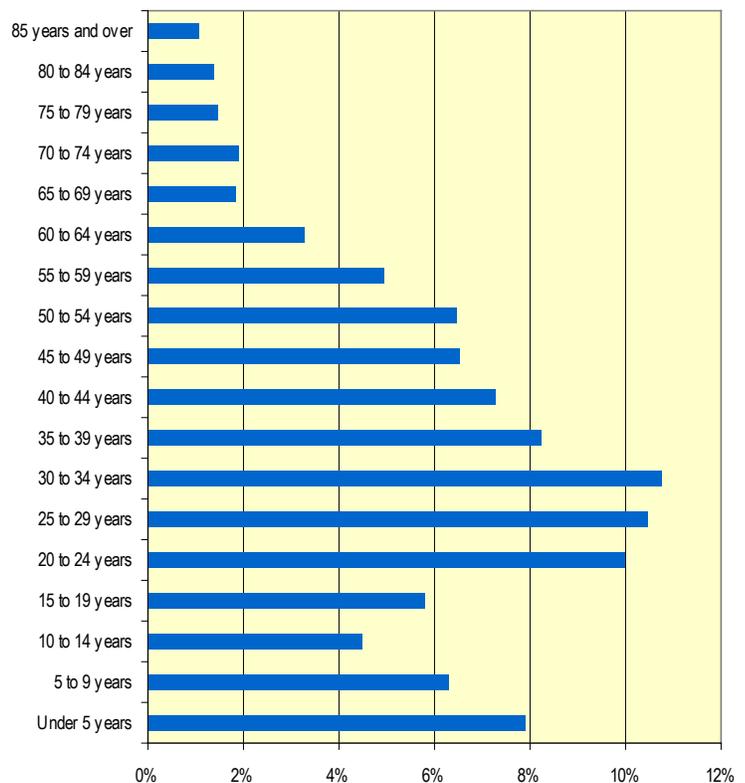


**2000-2005  
Percentage of populations  
other than white**

Graph 2  
**2005 population by age group**

Source: Census Bureau-American Community Survey

Minneapolis has more working-age people than people of any other age group. In 2005, 73.7 percent of the household population in Minneapolis was between 15 and 64 years old. In 2000, people in the same age brackets accounted for 71.5 percent of the total household population.



**2000 - 2005 change**

**Population 0 to 14 years old**

**Population 15 to 24 years old**

**Population 25 to 44 years old**

**Population 45 to 64 years old**

**Population 65 and older**

Table 1

**Median household income**

2005 estimate

Source: Census Bureau-American Community Survey

The median household income in Minneapolis was \$ 1,357 lower in 2005 than in 2000, after adjusting for inflation.

Minneapolis	Mpls-St Paul-MSA*
\$ 41,829	\$ 59,691

\* Includes 13 county Metropolitan Statistical Area



**2000 - 2005**  
**Median Household Income**  
**in Minneapolis**

Table 2

**Per capita income**

2005 estimate

Source: Census Bureau-American Community Survey

Per capita income was \$1,217 lower in 2005 than in 2000 after adjusting for inflation.

Minneapolis	Mpls-St Paul-MSA*
\$ 26,886	\$ 30,363

\* Includes 13 county Metropolitan Statistical Area



**2000 - 2005**  
**Per Capita Income in Minneapolis**

Table 3

**Percentage of population below the poverty level**

2005 estimate

Source: Census Bureau-American Community Survey

The percentage of people in poverty in Minneapolis in 2005 was higher than in 2000, when the percentage of people below the poverty level was 16.6 percent.

Minneapolis	Mpls-St Paul-MSA*
20.8%	8.3%

\* Includes 13 county Metropolitan Statistical Area



**2000 - 2005**  
**Poverty in Minneapolis**

Graph 3

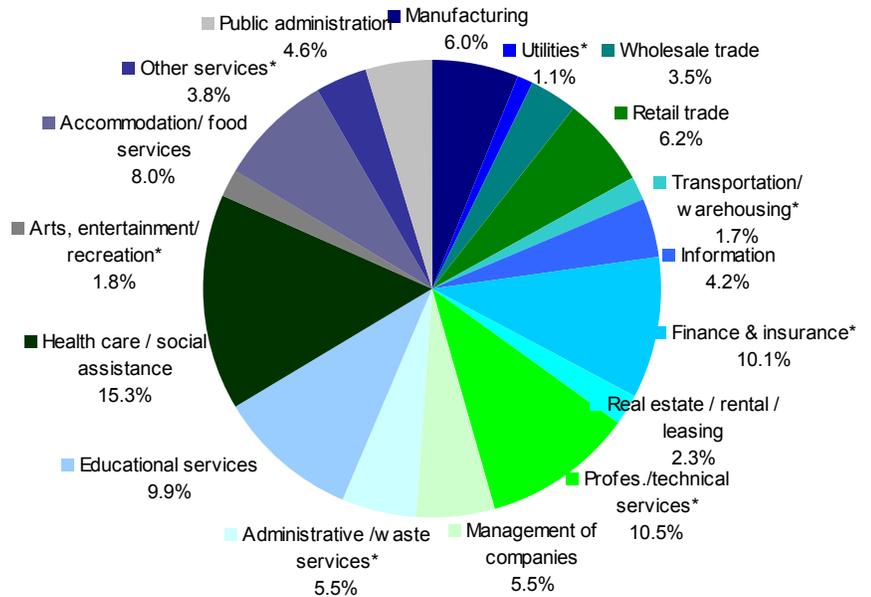
**Percentage of jobs in 4th quarter 2005 by economic sectors**

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

At this point in time, the City's largest job categories were:

- Health care and social assistance 15.3%**
- Professional and technical services 10.5%**
- Finance and insurance 10.1%**
- Educational Services 9.9%**

In the fourth quarter of 2005 the city had 1,927 more jobs than the fourth quarter of 2004, but 22,480 fewer jobs than it had in the fourth quarter of 2000.



**Fourth quarter 2000 to fourth quarter 2005 Average number of jobs**

Fourth quarter 2005 estimated jobs:  
**292,127**

Table 4

**2005 estimated market value (for 2006 taxes) by category**

Source: City Assessor, December 12, 2005

From 2000 to 2005 the estimated market value for the city increased by 61 percent after adjusting for inflation. The residential category increased the most, at 85.6 percent; commercial increased by only 3.3 percent.

Group	Market value	Percentage
Residential	\$24,309,841,700	70.7%
Commercial	\$5,282,717,800	15.4%
Apartment	\$3,393,675,300	9.9%
Industrial	\$1,392,094,300	4.0%
Other	\$21,557,100	0.1%
Total	\$34,399,886,200	100.0%



**2000 - 2005 Estimated market value**

Map 1  
**Major projects permitted in 2005**  
 \$1 million+

Source: Minneapolis Regulatory Services

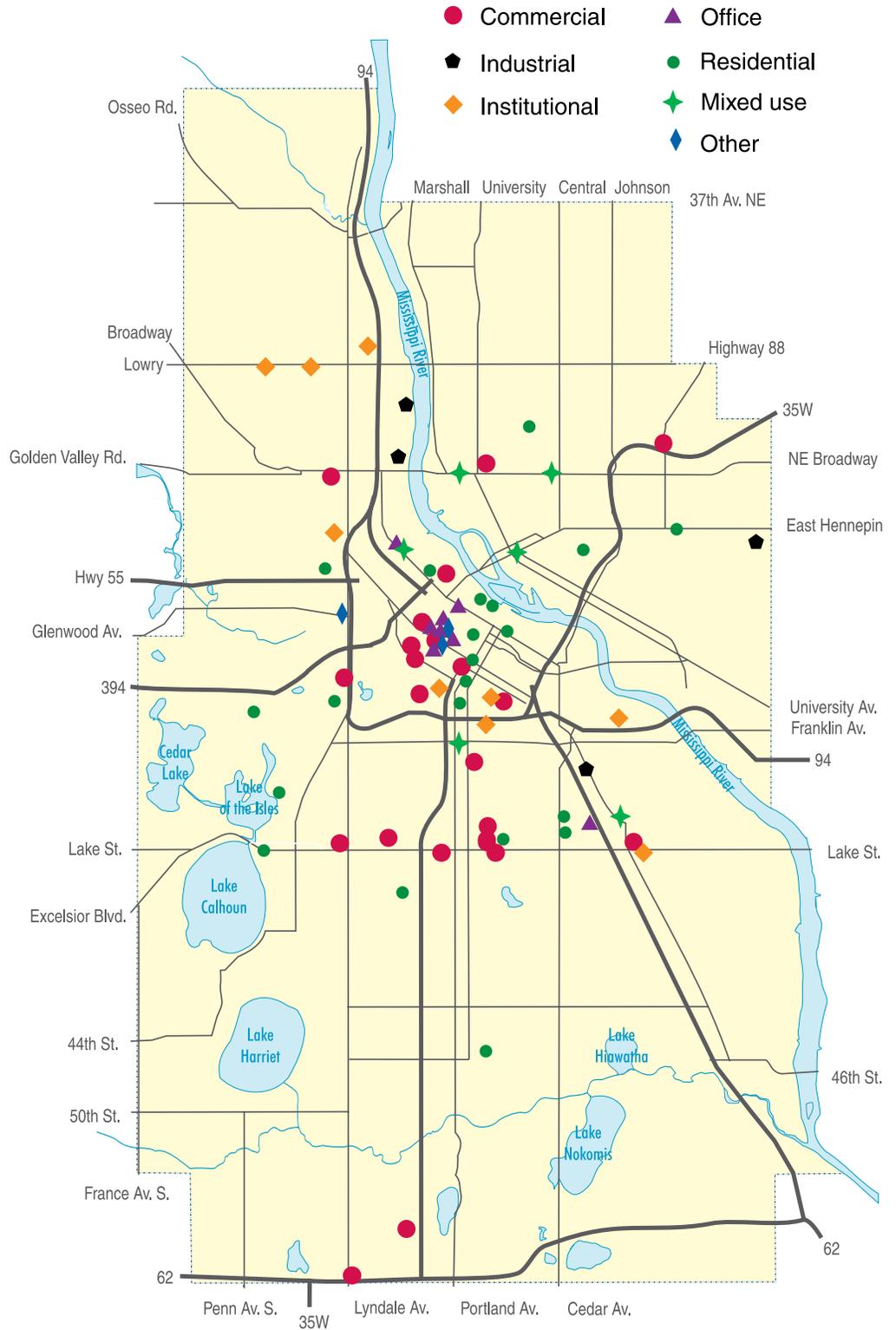


Table 5  
**Major development projects permitted in 2005**  
 \$1 million+

Source: Minneapolis Regulatory Services.

In 2005 Minneapolis approved 80 projects valued at \$1 million or more, with a total estimated construction cost of \$505.8 million.

30 percent of the projects were for residential use, 9 percent were for mixed use (commercial with a residential component) and 29 percent were approved for commercial use.

Project description	Estimated construction cost	Address
The Carlyle: new high-rise 255-unit condominium	\$ 71,231,486	100 Third Ave. S.
Exterior remodel of former Sears bldg	\$ 55,824,659	2929 Chicago Ave.
Skyscape: new 252-unit condominium	\$ 53,678,274	929 Portland Ave.
Cobalt: new mixed-use 98-unit condominium	\$ 42,000,000	45 University Ave. S.
New parking structure	\$ 15,569,621	2935 10th Ave. S.
Chambers Hotel buildout	\$ 14,562,648	901 Hennepin Ave.
Allina Commons buildout	\$ 14,330,532	2925 Chicago Ave.
Conversion of office building to Sexton Lofts condominium	\$ 13,829,049	521 7th St. S.
St. Anthony Mills: New 93-unit apartment building	\$ 11,540,398	720 Washington Ave. S.
The Edgewater: New six story-residential building	\$ 9,758,405	1805 Lake St. W.
Sheraton Hotel buildout	\$ 9,691,561	2901 Chicago Ave.
Crescent Trace: New mixed-use 56-unit condominium	\$ 9,429,931	1101 Main St. NE
Mill Trace: New 50-unit condominium	\$ 9,013,372	619 Eighth St. SE
Hiawatha Commons: New mixed-use 80-unit apartment building	\$ 8,877,078	2740 Minnehaha Ave.
The Greenway at Midtown: New 57-unit condominium	\$ 8,711,678	2900 11th Ave. S.
Olin Crossings: New 48-unit condominium	\$ 7,090,000	4750 53rd St. E.
Conversion of warehouse to Presidents Row Lofts	\$ 6,900,000	1701 Madison St. NE
The Jourdain: New mixed-use 41-unit building	\$ 6,095,602	2000 Portland Ave.
Peters Billiards: New retail building	\$ 4,857,000	6150 Lyndale Ave. S.
Buildout of Security Warehouse Lofts	\$ 4,690,100	401 Second St. N.
New parking ramp-skyway	\$ 4,555,458	320 Market St.

Buildout of Global Market	\$ 4,388,719	920 Lake St. E.
3310 Nicollet Avenue: New 35-unit condominium	\$ 4,352,007	3310 Nicollet Ave.
Augustana Homes: nursing home remodeling	\$ 4,350,150	1007 14th St. E.
Steele Flats: new 31-unit condominium	\$ 3,902,040	4500 Chicago Ave.
Remodel and addition to chapel at North Central University	\$ 3,682,275	1410 Elliot Ave.
Wells Fargo Center: remodeling of various office spaces	\$ 3,217,342	90 Seventh St. S.
Alteration of existing building (IMF Manufacturing) for proposed metal fabrication	\$ 3,082,800	2801 Pacific St.
New fire station # 14	\$ 3,050,000	2002 Lowry Ave. N.
Greenway Terrace on Cedar: New three-story condominium building	\$ 3,042,985	2850 Cedar Ave. S.
East Lake Community Library: Remodeling and addition	\$ 2,792,000	2727 Lake St. E.
City Center common areas retail mall remodeling	\$ 2,735,600	40 Seventh St. S.
North Regional Library remodeling	\$ 2,720,000	1315 Lowry Ave. N.
New auto repair and gasoline station with store	\$ 2,700,000	5801 Nicollet Ave.
Normandy Inn hotel remodeling	\$ 2,675,727	405 Eighth St. S.
City Center: office remodeling	\$ 2,663,777	33 Sixth St. S.
New skyway across Fourth Street	\$ 2,572,500	401 Fourth Ave. S.
Fellowship Baptist Church: Two-story addition	\$ 2,547,324	3355 Fourth St. N.
New office/warehouse	\$ 2,490,590	2020 28th St. E.
Fairview Riverside Medical Center hospital remodel at St. Thomas	\$ 2,457,909	2450 Riverside Ave.
University of St. Thomas Terrence Murphy Hall cafeteria remodel	\$ 2,259,467	1000 LaSalle Ave.
First Bank: various office spaces remodeling	\$ 2,220,190	225 Sixth St. S.
Dain Rauscher office remodeling	\$ 2,157,823	60 Sixth St. S.
Dunwoody two-story infill addition	\$ 2,100,000	818 Dunwoody Blvd.
Central Lutheran Church: New bell tower	\$ 2,100,000	333 12th St. S.
Conversion of factory to 1901 Lofts condominium	\$ 2,100,000	1901 Hennepin Ave. E.
New CVS Apothecary	\$ 2,055,947	2426 West Broadway
IMF Manufacturing: Remodeling and conversion to multiuse building	\$ 2,021,000	1121 Jackson St. NE
New commercial building	\$ 2,019,800	2910 Pillsbury Ave.
Cedar Avenue Condominiums: New 15-unit building	\$ 2,012,753	2750 Cedar Ave. S.
Six Quebec: remodeling	\$ 2,009,500	601 Marquette Ave.

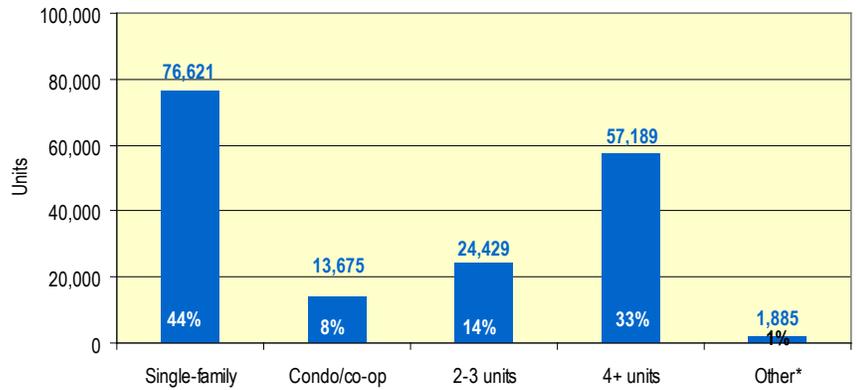
New superstructure for recycling building	\$ 1,912,000	111 22nd Ave. N.
Groveland Terrace Condominium conversion: 62 apart. to 59 condo units	\$ 1,838,381	52 Groveland Terrace
IDS tower: Remodeling of various office spaces	\$ 1,807,310	80 Eighth St. S.
Old Federal Reserve Bank: Office remodeling	\$ 1,807,300	250 Marquette Ave.
Wasie Ctr for child care: Remodeling	\$ 1,802,350	800 28th St. E.
Fifth Street Tower bldg: Skyway level remodeling	\$ 1,796,867	100 Fifth St. S.
212 Lofts buildout	\$ 1,724,687	212 First St. N.
Washington Lofts exterior restoration	\$ 1,566,593	800 Washington Ave. N.
Rainbow Foods: Store remodeling	\$ 1,531,365	1540 New Brighton Blvd.
Rainbow Foods: Store remodeling	\$ 1,500,000	2919 26th Ave. S.
Single-family home addition	\$ 1,500,000	-
Trocaderos: Restaurant /nightclub addition/renovation	\$ 1,468,000	107 Third Ave. N.
Groveland Terrace Condominium conversion: 57 apart. to 47 condo units	\$ 1,464,473	48 Groveland Terrace
Riverwest condominium: Residential units remodeling	\$ 1,428,470	401 First St. S.
Catholics Healthcare Partners: Renovation of existing building	\$ 1,425,000	1800 Chicago Ave.
Phillips Eye Institute bldg buildout	\$ 1,371,702	2215 Park Ave.
Northern States Power Co.: Office remodeling	\$ 1,325,000	414 Nicollet Mall
Plaza at Lake bldg addition and remodeling	\$ 1,293,717	334 Lake St. E.
Target Center: Restaurant remodeling	\$ 1,267,000	600 First Ave. N.
Elliot Park Commons: apartment building remodeling	\$ 1,200,000	610 15th St. E.
Hmong American Mutual Assistance: Church and warehouse conversion into school and community center	\$ 1,200,000	1203 Bryant Ave. N.
Ritz Theater remodeling	\$ 1,176,882	343 13th Ave. NE
Five Restaurant	\$ 1,175,000	2917 Bryant Ave. S.
Marshall Fields building remodeling	\$ 1,136,724	700 Nicollet Mall
Minneapolis Convention Center: facility management remodeling	\$ 1,136,220	1301 Second Ave. S.
CFM: Food and meat processing and office area remodeling	\$ 1,115,000	2001 24th St. E.
New single family dwellings	\$ 1,050,000	-
New eight-unit dwellings	\$ 1,048,070	843 Eighth Ave. N.
WS Warehouse: addition	\$ 1,000,000	3101 Talmage Ave. SE
<b>Total</b>	<b>\$ 505,785,188</b>	

Graph 4  
**Housing stock, January 2006**

Source: Minneapolis City Assessor

On January 2, 2006, 44 percent of the total number of housing units in Minneapolis was single-family, and 33 percent was multifamily with four or more units (not including condominiums).

There were 5,886 more units in 2005 than in 2001. In 2001, single-family units were 45 percent of the total, and multifamily units with four or more units (not including condominiums) were 36 percent.



\*Other includes residential units located in group homes, such as, rehabilitation facilities, fraternities, etc., and units in residential/commercial buildings

 **2001 to 2005**  
**Total number of units**

Total units  
as of January 2, 2006:

**173,799**

Table 6  
**2005 median sales prices by communities**

Source: Minneapolis Area Association of Realtors (MAAR)

City Assessor data show that the median sale price in Minneapolis in 2005 for a dwelling unit was \$223,000, 35 percent more than in 2001 (accounting for inflation).

In 2005 Southwest and Calhoun-Isles commanded the highest median sale prices, while North Minneapolis and Camden had the lowest.

 **2001 to 2005**  
**Median sale price in Minneapolis**

MLS area in Minneapolis	Median sales price
Calhoun-Isles	\$255,000
Camden	\$163,950
Central	\$247,045
Longfellow	\$211,000
Nokomis	\$223,450
North	\$159,000
Northeast	\$205,900
Phillips	\$174,500
Powderhorn	\$193,400
Southwest	\$285,000
University	\$239,414

Table 7  
**Single-Family Dwellings Homesteaded for Tax Year 2006**

Source: City Assessor

Homestead rates for single family detached dwellings have declined in recent years, to an average of just under 86% citywide. A homesteaded property is a residential property occupied by the owner(s) as their principal residence on the January 2 assessment date [in the above case January 2, 2005] and said owner is also a Minnesota resident.



**2000 to 2006**  
**Single family Homestead rates in Minneapolis**

Community% Homesteaded	
Southwest	91.8%
Longfellow	91.5%
Nokomis	90.7%
Calhoun-Isles	89.3%
Northeast	88.3%
Powderhorn	86.0%
<b>CITY-WIDE AVERAGE</b>	<b>85.9%</b>
Camden	78.6%
Phillips	72.7%
University	69.8%
Near North	65.9%
Central	59.0%

Table 8  
**Home ownership by ethnicity in 2005**

Source: Census Bureau-American Community Survey

Home ownership rates for black and Hispanic householders increased from 2000 to 2005. It decreased for Asian and was unchanged for non-Hispanic white householders.



**2000 to 2005**  
**Home ownership**  
**White (non-Hispanic)**



**Black**



**Asian**



**Hispanic**

Ethnic group	Homeownership
White (non-Hispanic)	62%
Black	28%
American Indian	*
Asian	39%
Hispanic	24%

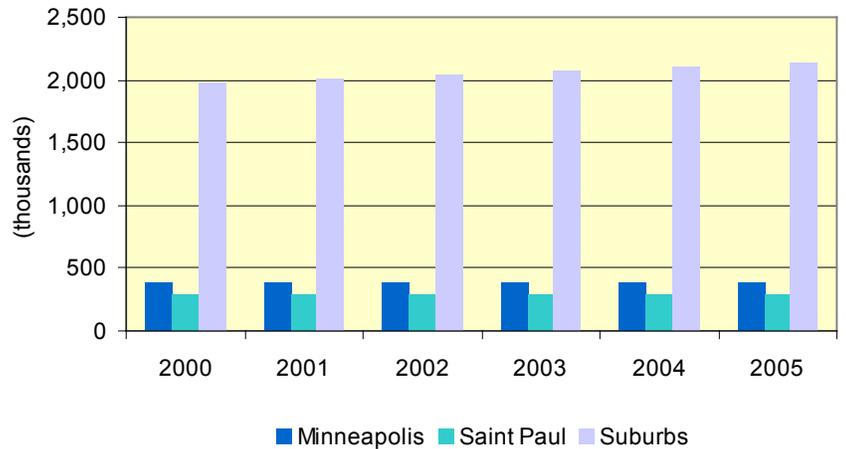
Note: Due to the small sample size, 2005 data for American Indian households is not shown on this table.

Graph 5  
**2000 – 2005 Population**

Source: 2000 Census of Population and Housing and 2001-05 Metropolitan Council population estimates

After a modest increase in the 1990s, population from 2000 to 2005 remained stable in the two central cities, while the suburbs grew at a 1.6 percent annual growth rate.

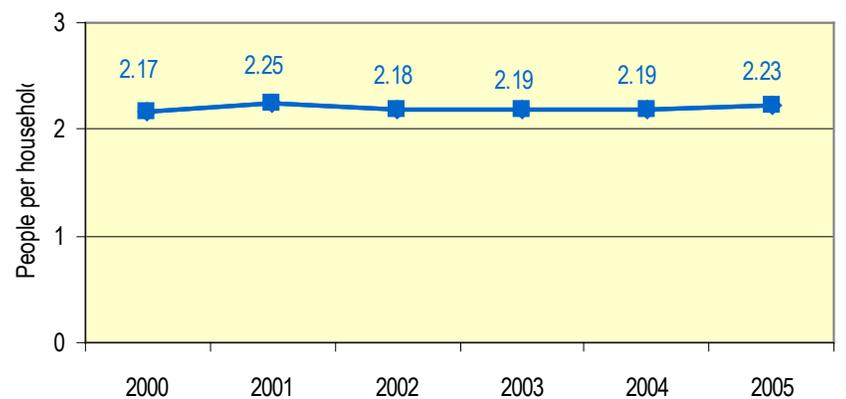
The Metropolitan Council estimated that Minneapolis had 378,711 residents for an increase of 1.4 percent over the previous year. This increase reflects the significant growth in housing units in recent years.



Graph 6  
**Average household size**

Source: Bureau of the Census – American Community Survey (ACS)

The American Community Survey (ACS) shows a slight increase in persons per household over this period, in part reflecting the growth in the number of children up to 14 years old.



## Labor force, employment and unemployment

From 2001 to 2003, employment of Minneapolis residents declined, unemployment increased and people withdrew from the labor force. These trends changed in 2003, when employment began to grow. As of 2005, however, total employment of city residents had still not reached the 2000 level, and unemployment was still 1.2 percent higher than it was in 2000.

Table 9  
**Labor force, employment and unemployment**

Source: MN DEED

Labor force, which closely follows population trends, also remained stable. From 2000 to 2005 in the metro area, the labor force increased continuously, as did population.

<b>Minneapolis</b>						
	2000	2001	2002	2003	2004	2005
Labor force	224,631	228,495	222,096	221,696	224,220	222,097
Employment	217,862	219,574	211,017	209,968	212,894	214,872
Unemployment Rate	3.0%	3.9%	5.0%	5.3%	5.1%	4.2%
<b>Seven-county metro area</b>						
	2000	2001	2002	2003	2004	2005
Labor force	1,560,857	1,594,056	1,596,455	1,613,234	1,631,511	1,627,205
Employment	1,519,359	1,538,476	1,526,567	1,538,363	1,559,798	1,566,866
Unemployment Rate	2.7%	3.5%	4.4%	4.6%	4.4%	3.7%

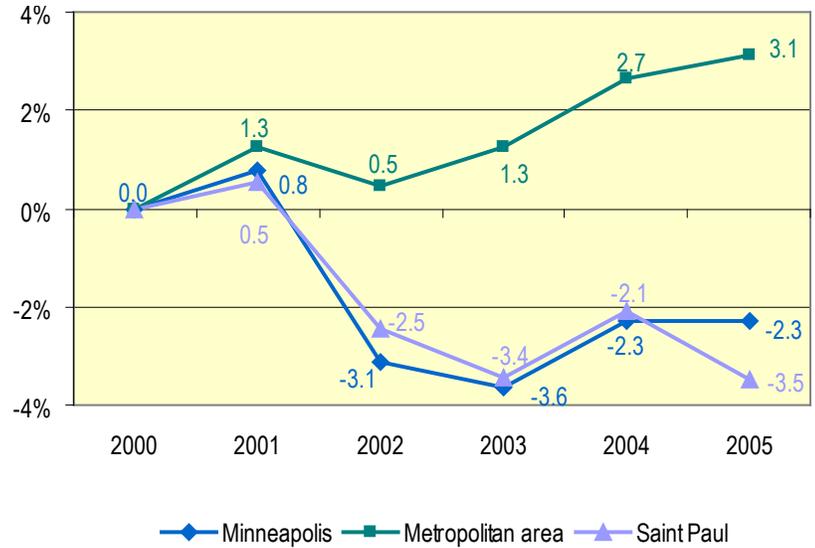
Graph 7

**Cumulative percentage employment change**

(employment by place of residence)  
2000 = base year = 0

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

Employment of both Minneapolis and Saint Paul residents declined from 2000 to 2005, but while Minneapolis residents gained employment since 2003, Saint Paul residential employment declined again in 2005.

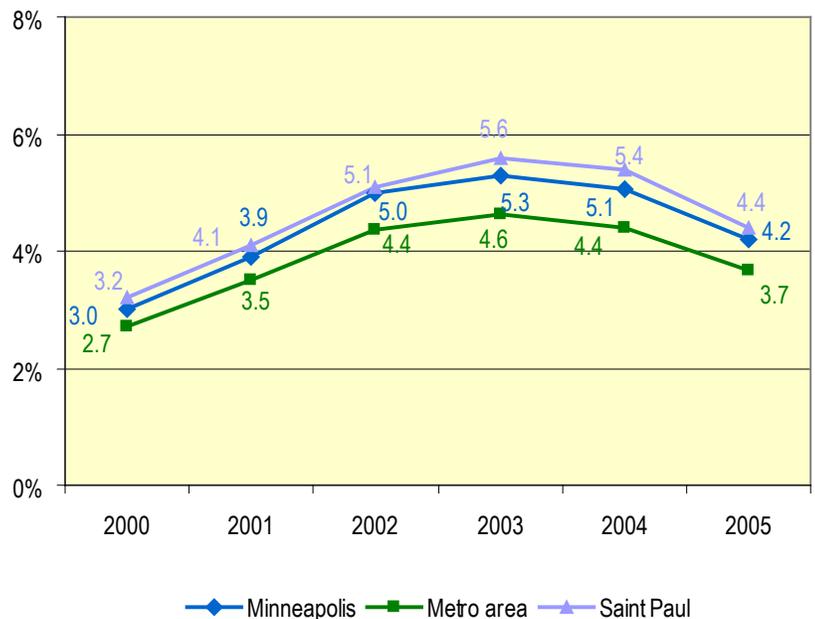


Graph 8

**Average unemployment rate**

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

In 2005, unemployment in Minneapolis and the metro area both declined to nearly their 2001 levels, but was still higher than 2001 in Saint Paul.



**Jobs**

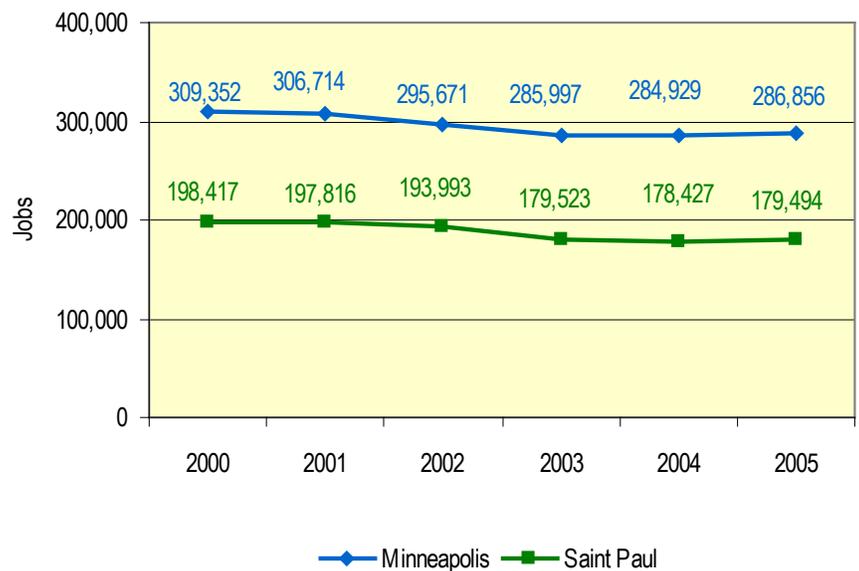
The recession in the United States officially ended in November 2001. The rate of growth of national gross domestic product (GDP) accelerated between 2001 and 2004, but the years were characterized by some economists as a “jobless recovery” in the nation as well as in the Twin Cities and the City of Minneapolis. This was in part because workers were able to increase output per work hour, thus increasing productivity.

Until 2001, the Minnesota economy and the Twin Cities in particular were characterized by tight labor markets and grew at a faster rate than the national economy. After 2001, the local economy suffered larger job losses than the nation and is recovering jobs more slowly.

**Graph 9**  
**Average number of jobs**

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

The total number of jobs located in both Minneapolis and Saint Paul declined in the first four years of the decade, at a pace relatively greater than corresponding decreases in the region and state. The state’s and region’s job losses hit a low point in 2003, and began to rise slightly in 2004 (see graph 12). In 2005 Minneapolis and St. Paul reversed the decline and started to gain jobs.

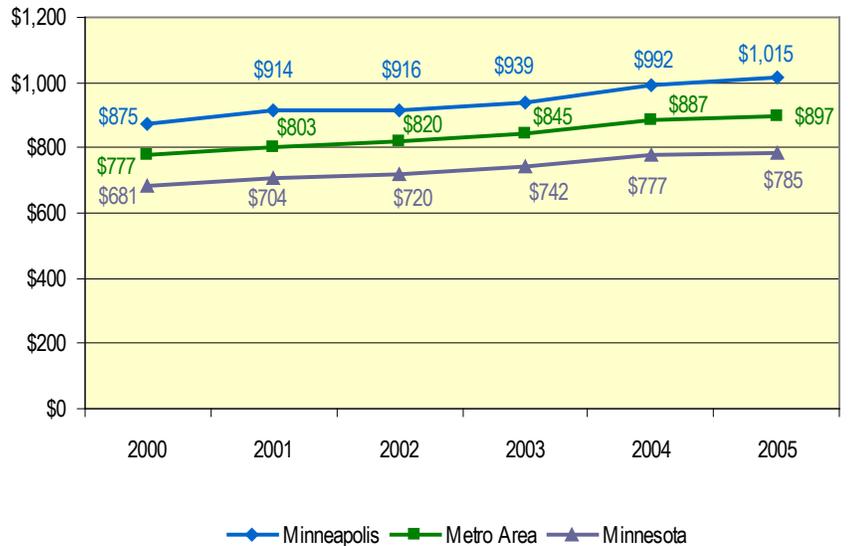


Graph 10

**Average weekly wages**

In current dollars

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

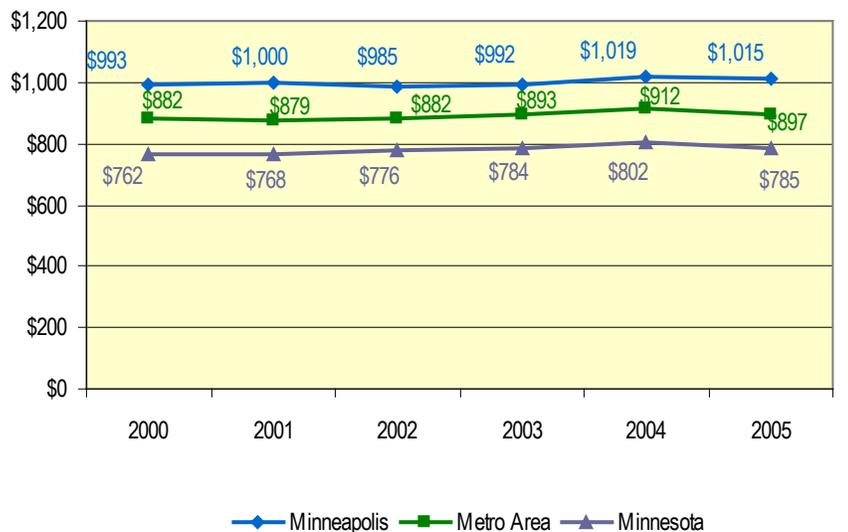


Graph 11

**Average weekly wages in 2005 dollars**

Source: Minnesota Department of Employment and Economic Development

Average wages barely kept up with inflation. In 2005 in Minneapolis, they were 2.2 percent higher in inflation-adjusted dollars than in 2000. In the metro area and the state, wages were lower than in the city. In the state they tended to rise faster than in the city, at 0.6 percent annually in comparison with 0.4 percent per year in Minneapolis. Between 2004 and 2005 wages fell in inflation-adjusted dollars by 0.4 percent in Minneapolis. They also fell in the metro area and the state by 1.6 percent and 2.1 percent respectively.



Graph 12

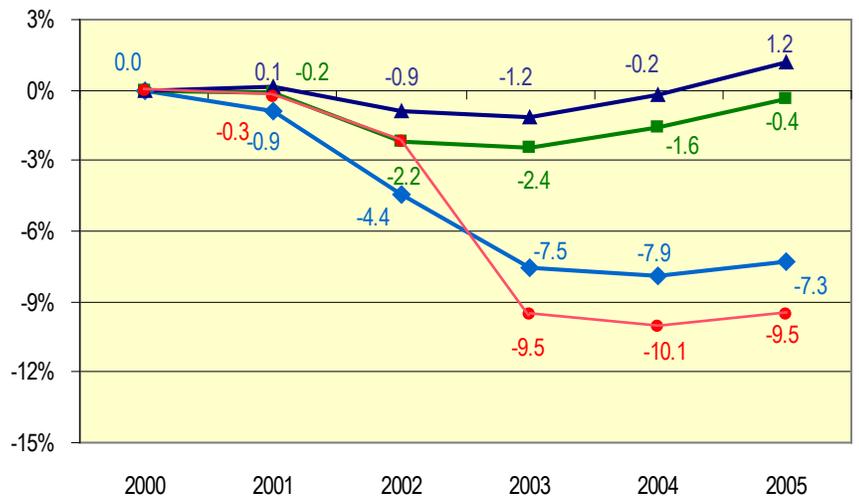
**Percentage change of jobs since 2000**

2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

Job losses began to slow down after 2002 in the metro area and state. By 2004, jobs had reversed their downward trend and began to grow in the metropolitan area and the state. In 2005, the central cities slowly began to reverse the trend, but the one-year gain did not make up for the sustained losses of the last years.

Job losses in the state were offset by agricultural and natural resources based-jobs, while jobs in the metro area and in particular the central cities suffered greater losses because of the concentration of industries that were hard-hit nationwide, such as manufacturing and information technology.



◆ Minneapolis    ■ Metro Area    ▲ Minnesota    ● Saint Paul

### Change in economic sectors

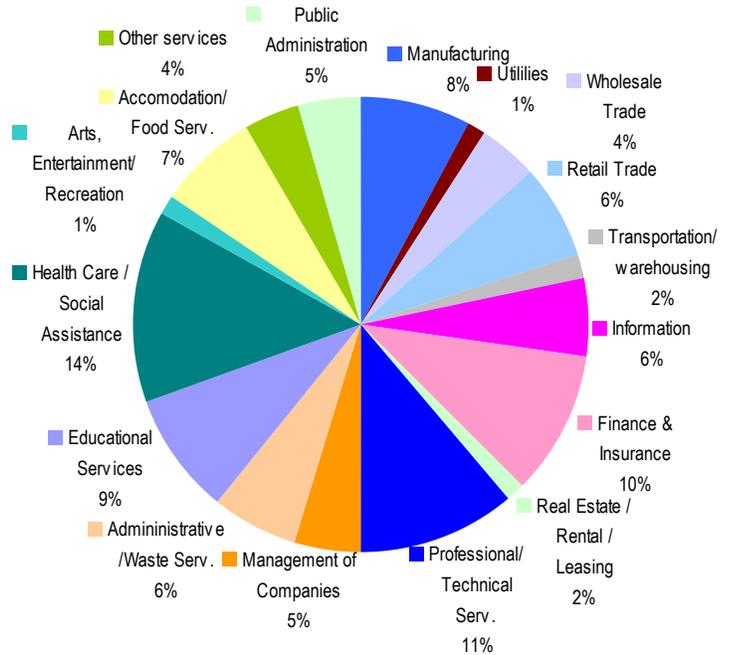
Graph 13

### Jobs by economic sectors

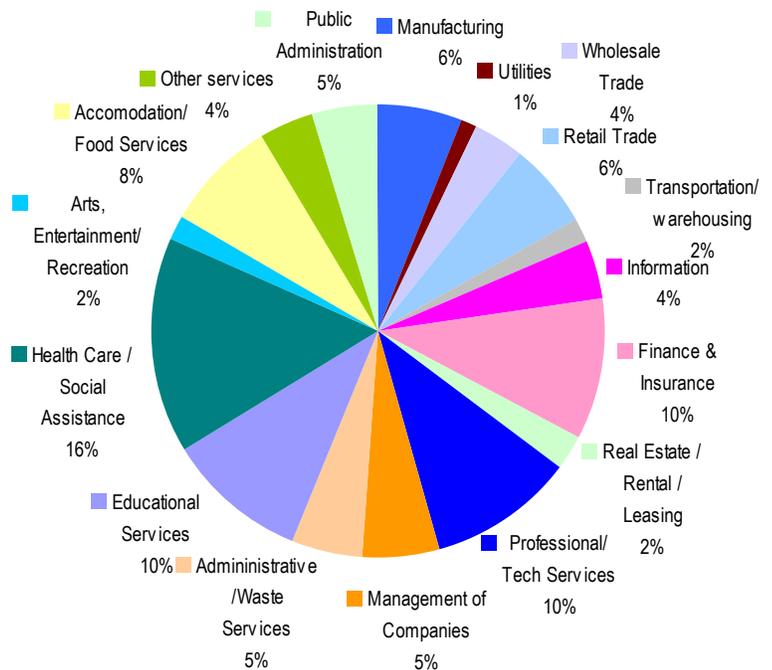
Source: Minnesota Department of Employment and Economic Development

Between 2000 and 2004, Minneapolis steadily lost jobs with many layoffs in key industries such as manufacturing, information, and professional and technical services. By 2005, the city’s economic base had changed with a relatively higher proportion of jobs in health and social services, education, accommodation and food services, art and recreation. The city began to gain jobs again in 2005.

The recession of 2001 affected three broad industries nationwide: information technology-related manufacturing, information industries and transportation. In the first two, their financial situation was compromised by the dot-com bubble with the following stock-market decline, and the third, by the aftermath of September 11, 2001.



**Jobs in 2000 = 309,352**



**Jobs in 2005 = 286,856**

## Change in economic sectors

The following sectors gained relative share during this five-year period: health care and social assistance; real estate, rental and leasing; educational services; management of companies; accommodation and food services; arts, entertainment and recreation, and public administration.

The following sectors lost relative share during this same period: manufacturing, information services, administrative and waste services, professional and technical services, and wholesale trade.

Between 2000 and 2005, only six economic sectors created jobs, as shown on the following table.

Table 10

### Change in economic sectors 2000 to 2005

Source: Minnesota Department of Employment and Economic Development

Sector	Percent change	Change in number of jobs
<b>A- Sectors growing faster than the region as a whole</b>		
1- Real estate, rental and leasing	36.2%	1,665
2- Arts, entertainment and recreation	13.7%	589
3- Management of companies and enterprises	7.1%	978
<b>B- Sectors growing but not as fast as the region as a whole</b>		
1- Health care and social assistance	6.6%	2,628
2- Educational services	5.9%	1,499
3- Accommodation and food services	4.5%	952
<b>C- Sectors declining faster than the region as a whole</b>		
1- Public administration	-2.3%	(303)
2- Other services	-5.8%	(646)
3- Finance and insurance	-7.3%	(2,178)
4- Professional and technical services	-11.8%	(3,800)
5- Retail trade	-12.1%	(2,299)
6- Transportation and warehousing	-13.0%	(666)
7- Administrative and waste services	-21.5%	(3,900)
8- Wholesale trade	-21.9%	(2,697)
9- Utilities	-25.2%	(1,068)
10- Manufacturing	-26.7%	(6,066)
11- Information	-31.4%	(4,506)

Graphs 14 to 30 compare relative job change since 2000 for each economic sector, for Minneapolis, the region, and the state.

 **Sectors growing faster than the region as a whole**

Graph 14

**Real estate, rental and leasing: Percentage change in jobs since 2000**

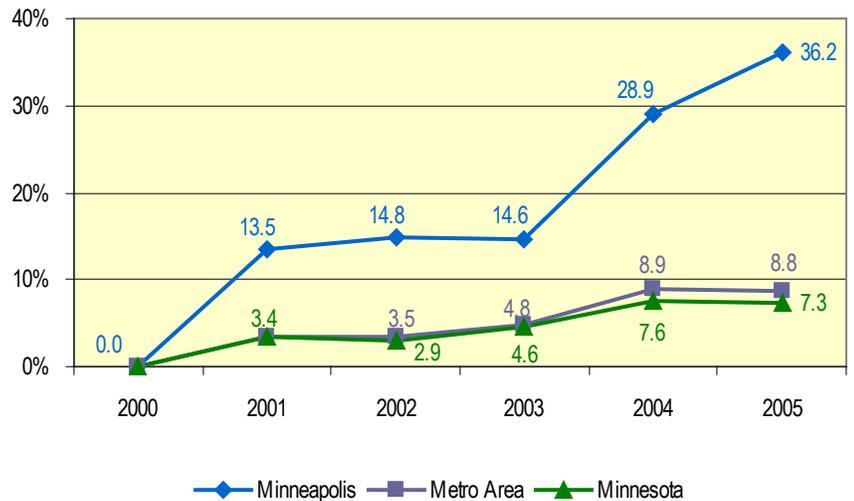
2000 = base year = 0

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

Real estate, rental and leasing services grew faster in Minneapolis than in the region or the state. In 2005 the sector had more jobs than in 2000, but its share of total employment remained at 2 percent of the total number of jobs in Minneapolis.

Jobs grew faster in real estate than in rental and leasing services, suggesting that the growth was caused by a real estate boom.

In 2005, Minneapolis' share of jobs in this sector in the metropolitan area was 21 percent, up from 17 percent in 2000.



Graph 15

**Art, entertainment and recreation**

Percentage change in jobs since 2000  
2000 = base year = 0

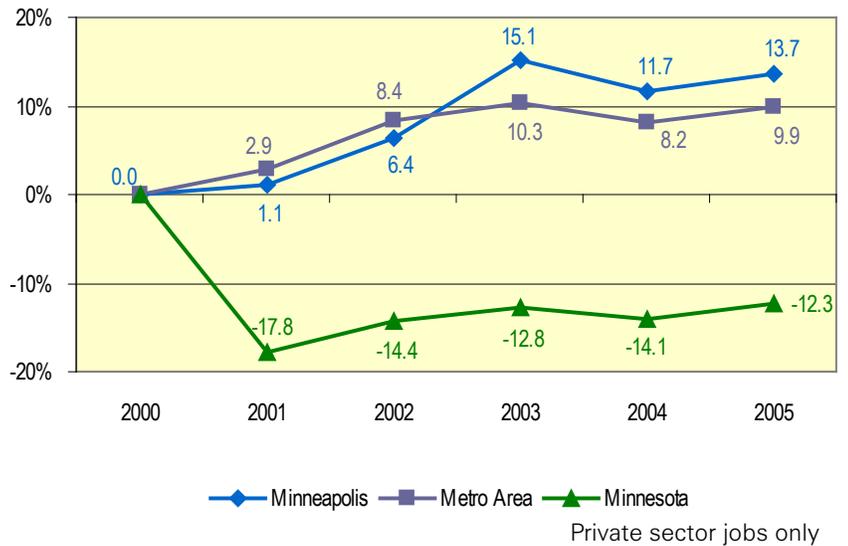
Source: Minnesota Department of Employment and Economic Development (DEED)

Arts, entertainment and recreation was another economic sector growing faster in Minneapolis and the metro area than in the state.

This sector includes activities strongly concentrated in Minneapolis such as performing arts, museums, spectator sports, artists and their managers, and others that locate mostly in the metro area such as casinos and other establishments related to the gambling industry.

The sector increased its share of total jobs in Minneapolis from 1 percent in 2000 to 2 percent in 2005.

In 2005, Minneapolis' share of jobs in this sector in the metropolitan area was 19.2 percent, up from 18.5 percent in 2000.



Graph 16

**Management of companies and enterprises**

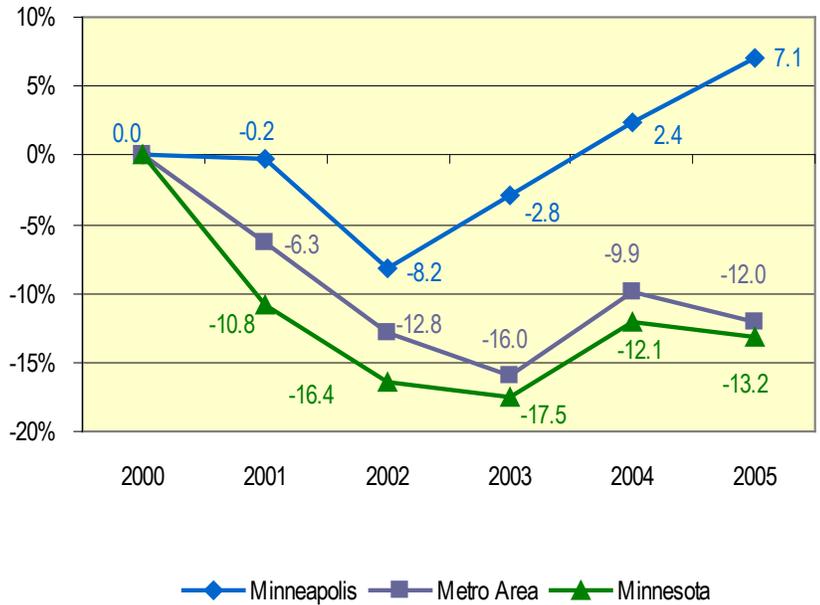
Percentage change in jobs since 2000  
 2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

Management of companies is one of the bright spots in Minneapolis. This sector has risen steadily since 2002, and by 2005 it had 7.1 percent more jobs than in 2000, while the metropolitan area and the state were still below their respective 2000 levels. The sector’s total number of jobs in Minneapolis remained at 5 percent in 2000 and 2005.

This sector includes bank holding companies and corporate, subsidiary and regional managing offices, and it reflects the city’s historical role as a corporate and regional headquarters.

Minneapolis is a preferential location nationwide for this economic category, with more than a quarter of the sector’s jobs in the metropolitan area.



**Sectors growing more slowly than the region as a whole**

Graph 17

**Health care and social assistance**

Percentage change in jobs since 2000  
2000 = base year = 0

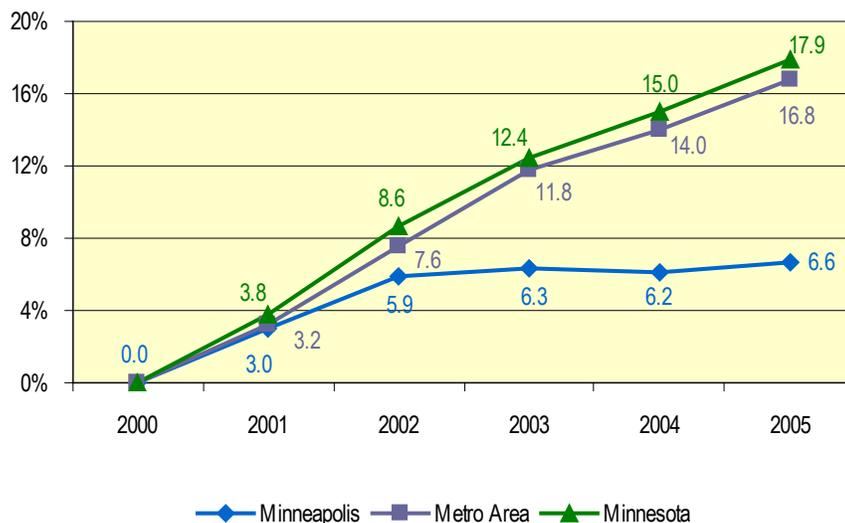
Source: Minnesota Department of Employment and Economic Development

Health care and social assistance services added more jobs in the city than any other sector, but jobs in this sector grew even faster outside the city than in the city. The sector had 16 percent of the citywide jobs in 2005 compared to 14 percent in 2000.

By 2005, Minneapolis' share of jobs in this sector in the metropolitan area was 22 percent.

Jobs grew steadily in ambulatory health care services, hospitals, nursing and resident care and social assistance services, but not in nursing home services.

As with technology manufacturers, this sector was hit hard when the dot-com bubble burst and has not yet recovered.



Graph 18

**Educational services**

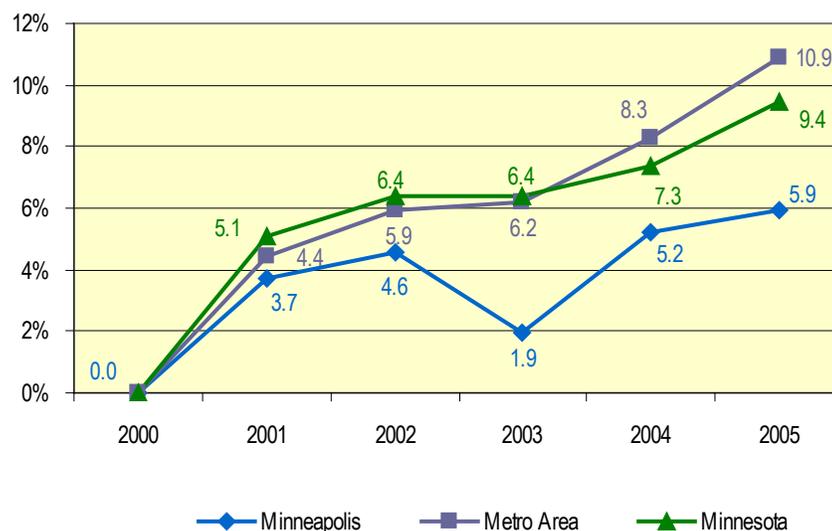
Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

The sector includes all levels of education from primary to university and related activities such as exam preparation and tutoring.

After slowing down in 2003, jobs in education within the city grew again in 2004 and 2005 to 5.9 percent greater than 2000 levels. In 2005 their share in the total number of jobs in Minneapolis was 10 percent, up from 9 percent in 2000.

In 2005, Educational services in Minneapolis comprised 24 percent of educational jobs in the metropolitan area, partly because of its concentration of educational facilities including the University of Minnesota and two major online universities – Walden and Capella.



Graph 19

**Accommodation and food services**

Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

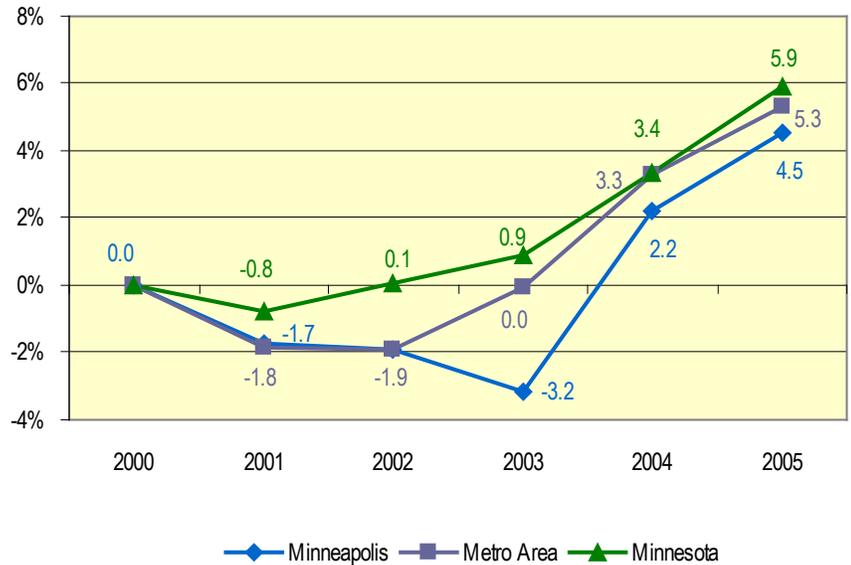
The sector includes traveler accommodations, rooming houses and drinking and eating establishments.

Minneapolis fully recovered from its losses in this sector by 2004 and continued growing in 2005, when its number of jobs reached 4.5 percent higher than its 2000 number. In 2005 this sector accounted for 8 percent of Minneapolis jobs, 1 percent higher than in 2000.

This sector closely follows changes in purchasing power and income. It continued to lose jobs until 2003, when it picked up. The sector was less affected in the state and the metropolitan area because the recession was milder in these areas than in Minneapolis.

Grocery stores, caterers, bars and restaurants did particularly well.

As a preferential location in the metropolitan area, Minneapolis accounted for 18 percent of all jobs in the sector in 2005.



 **Sectors declining faster than the region as a whole**

Graph 20

**Manufacturing**

Percentage change in jobs since 2000  
2000 = base year = 0

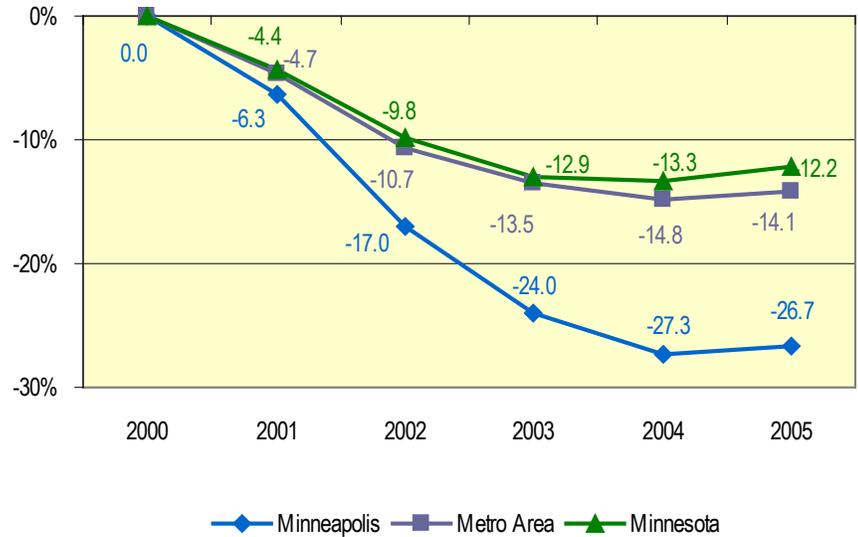
Source: Minnesota Department of Employment and Economic Development

Manufacturing employment was the hardest hit employment sector in the recession following 2001

The sector had 8 percent of the total employment in Minneapolis in 2000, decreasing to 6 percent in 2005. In 2005, Minneapolis' share of manufacturing jobs in the metro area was 9 percent.

The most negatively affected sub-sector was the manufacturing of computer and electronic products, which includes computers, peripheral, components and communication equipment such as telephones. It also includes instruments that use computer and electronic components as part of equipment, such as electro-medical equipment (scanners, ultrasonic equipment, etc.), flight instruments, X-rays, and computer software and videos.

The sector was affected in the city, metro and state by competition in global markets and outsourcing, as manufacturers tried hard to reduce labor costs..



Graph 21

**Information**

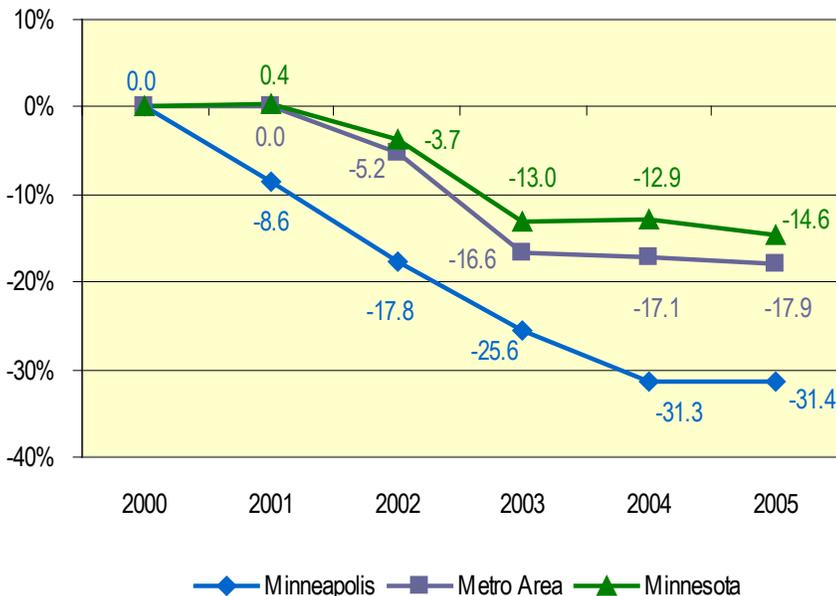
Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

The sector includes publishing such as newspapers and books, and also Internet providers, Web portals, data processing, software publishers, wireless communications, telecommunications, cable, television, broadcasting and other information services.

The information sector is linked to manufacturing of technology equipment (computers, electronics, etc. discussed above). It had 6 percent of the total number of jobs in Minneapolis in 2000 but declined to 4 percent in 2005. In 2005, 24 percent of the sector’s jobs in the metro area were in Minneapolis.

As with technology manufacturers, this sector was hit hard when the dot-com bubble burst and has not yet recovered.



Graph 22

**Administrative and waste services**

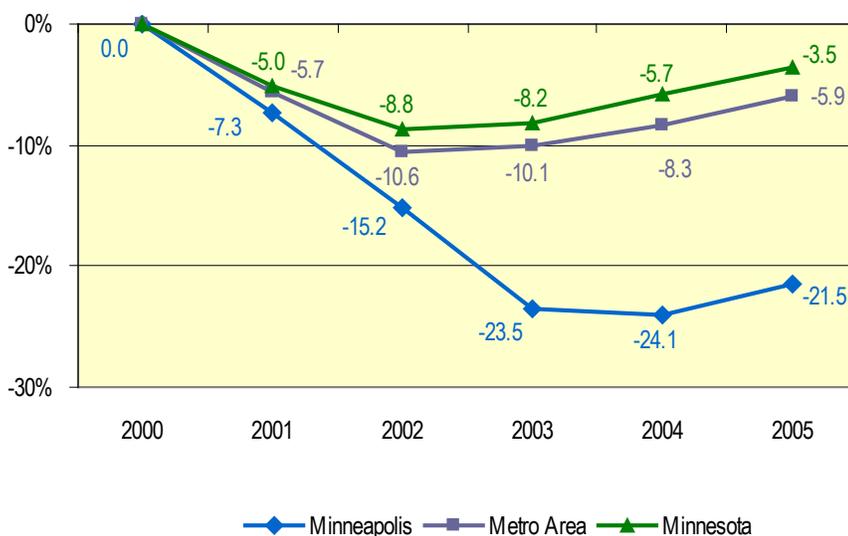
Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

This sector includes jobs in office support, facilities, employment placement, janitorial and building support services, call centers, telemarketing, also travel agencies, convention centers and waste collection, treatment, disposal and remediation.

In 2000, the sector had 6 percent of the jobs in the city, which declined to 5 percent by 2005. In 2005, the city’s share of the sector’s jobs in the metro area was 16 percent.

As an industry providing many support services to sectors related to information technology, it suffered the same trends as those sectors after 2001.



Graph 23

**Professional and technical services**

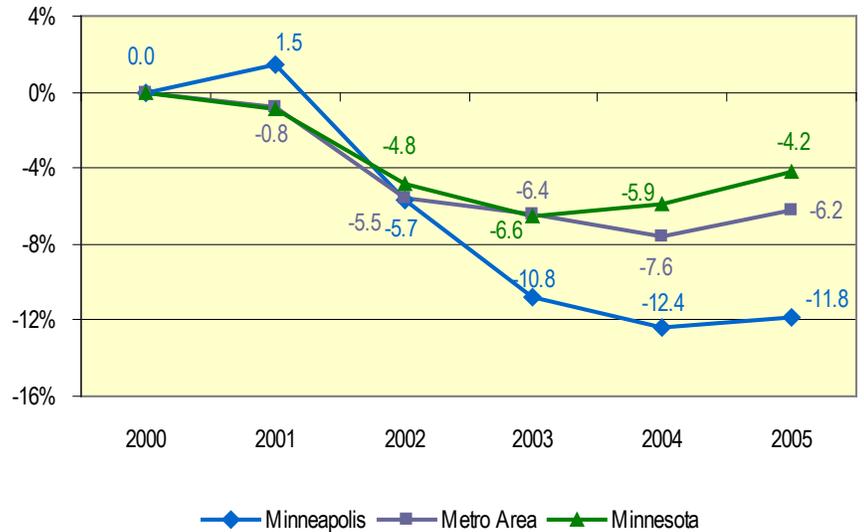
Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

Professional and technical services include jobs in legal, accounting, architectural, engineering, graphic design, computer systems, management consulting, environmental consulting, scientific research and development, photography, advertising, translation and veterinarian services.

These services were 11 percent of the jobs in Minneapolis in 2000 and 10 percent in 2005. In 2005, the city had 30 percent of the metro area’s jobs in this sector.

To the extent that these services were related to the technology and information industries, they followed the same trends.



Graph 24

**Finance and insurance**

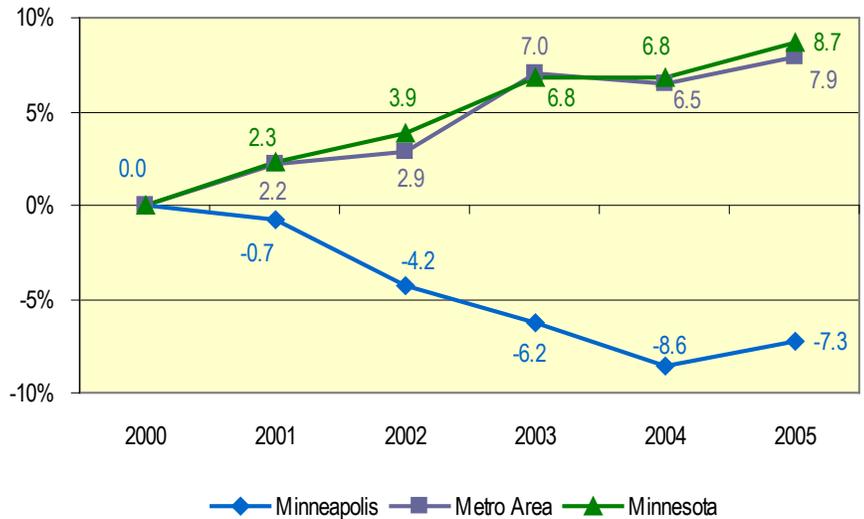
Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

The finance and insurance sector includes all those activities and or establishments involved in financial transactions such as banks; credit unions; credit cards; consumer, real estate and international credit or lending; brokers; securities; investment; and insurance such as life, medical and property, and funds and trusts such as pension funds, investment trusts and other financial vehicles.

Finance and insurance were 10 percent of the jobs in Minneapolis in 2000 and 2005, in spite of steadily declining in the five-year period. This sector in Minneapolis accounted for 26 percent of this sector’s jobs in the metropolitan area in 2005.

The industry recovered in the metro area and the state, but the security and investment part of the industry, which is very sensitive to the business cycle and declined until 2003, suffered a larger relative job loss in Minneapolis, where most financial jobs are located.



Graph 25

**Retail trade**

Percentage change in jobs since 2000  
 2000 = base year = 0

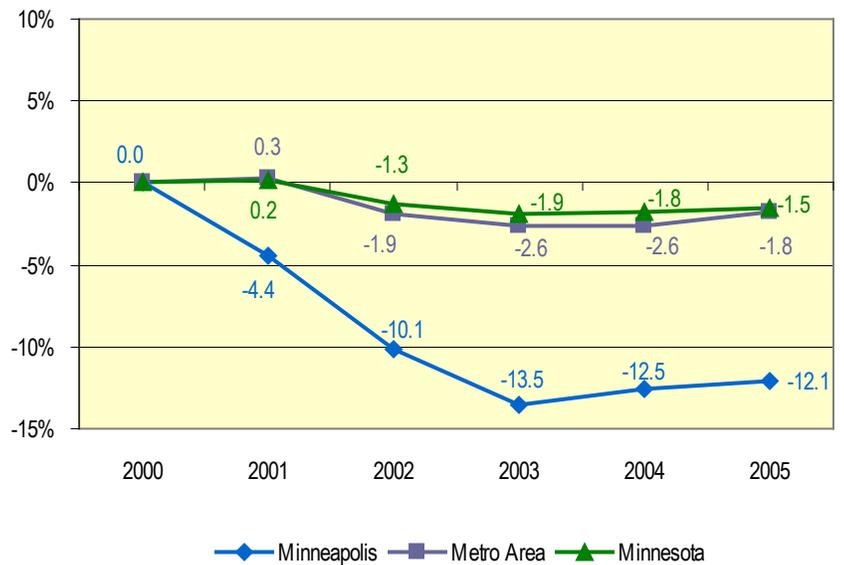
Source: Minnesota Department of Employment and Economic Development

Since the recession, retail jobs have been slow, and the sector was still smaller in 2005 than in 2000.

Retail job loss in Minneapolis was greater than losses in the metropolitan region, where consumer spending and incomes are higher, and the state, which is greatly influenced by patterns in the Twin Cities metropolitan area.

Even with declining numbers of jobs, the retail sector made up 6 percent of all jobs in Minneapolis in 2000 and 2005. In 2005, Minneapolis had 10 percent of the sector’s jobs in the metro area.

Consolidation of stores into retail super centers, a combination of supermarket and general merchandise stores, explains job losses in this sector. Super centers are taking the place of traditional supermarkets and department stores, and they compete strongly with small retail. This trend is further reflected in increased vacancy rates and decreased lease rates as described pages 59 and 60 of this report.



Graph 26

**Wholesale trade**

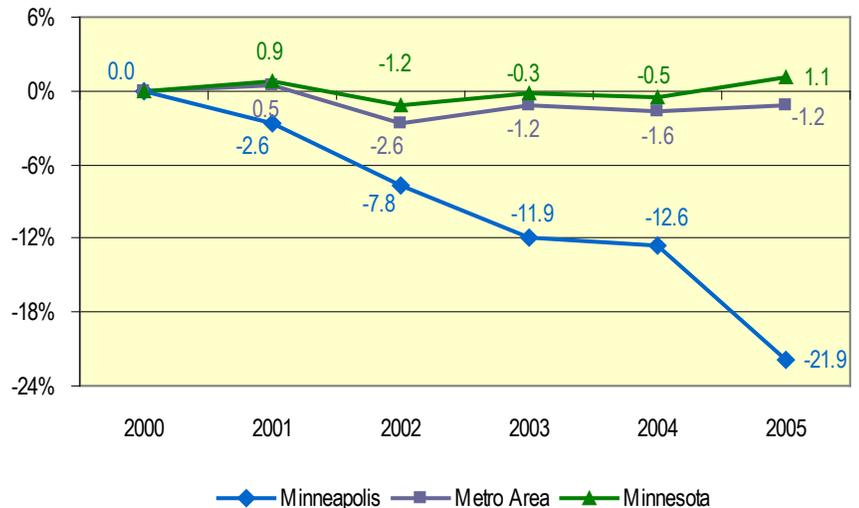
Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

Wholesale trade involves operations in bulk directly from the producer or manufacturer; there is no contact with the general public. Wholesale traders commonly operate from warehouses or offices.

Operations in need of warehouse space may favor major transportation routes and suburban location rather than city locations. In Minneapolis, 4 percent of the total number of jobs was in wholesale trade in 2000 and 2005. In 2005 it accounted for 12 percent of the wholesale trade jobs in the metropolitan area.

This sector did not regain the jobs it had in 2000 in the city or in the metro area or state



Graph 27

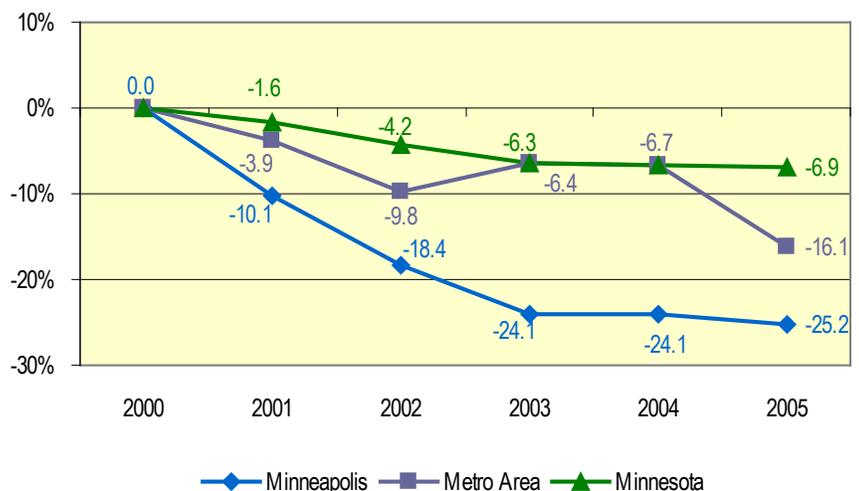
**Utilities**

Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

The sector involves electricity generation, transmission and distribution systems, gas distribution, water supply, sewer and irrigation systems and air conditioning systems.

In 2005 in Minneapolis, only one percent of the jobs were in the sector, but the city had 59 percent of all utility jobs in the metropolitan area.



Graph 28

### Transportation and warehousing

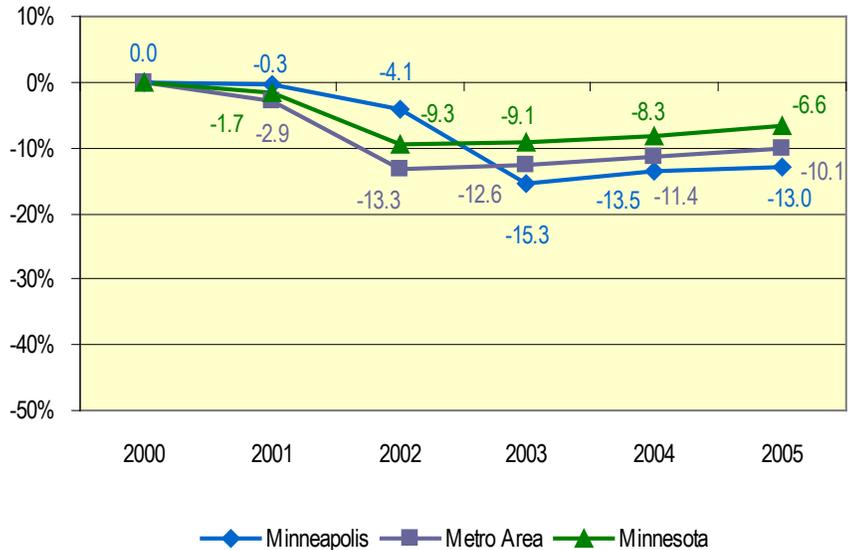
Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

This sector includes all areas of transportation-related services, such as air, water, train, bus, taxi, postal service, couriers and warehousing.

The sector has 2 percent of the total Minneapolis employment. In 2005, the city had 8 percent of the sector’s jobs in the region.

Because the region is a hub for Northwest Airlines, it was especially affected by difficulties in the airline industry after 2001.



Graph 29

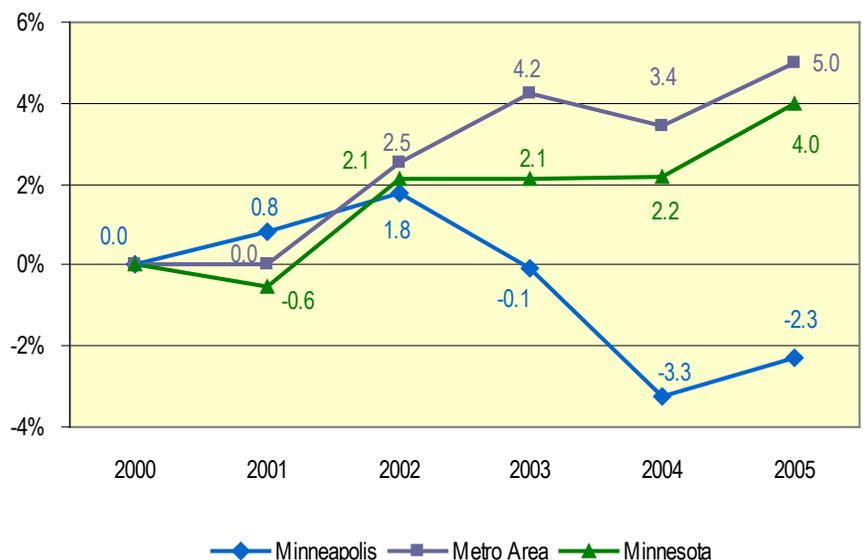
### Public administration

Percentage change in jobs since 2000  
2000 = base year = 0

Source: Minnesota Department of Employment and Economic Development

Public administration includes all levels of government: local, state and federal employees in the executive, legislative and judicial branches.

In 2000 and 2005, 5 percent of the Minneapolis jobs were in public administration. Facing budgetary constraints, governments throughout the region cut employment. While government jobs in the region recovered quite fast after 2001, jobs located in Minneapolis have been decreasing steadily since 2002, but increased slightly in 2005.



Graph 30

**Other services**

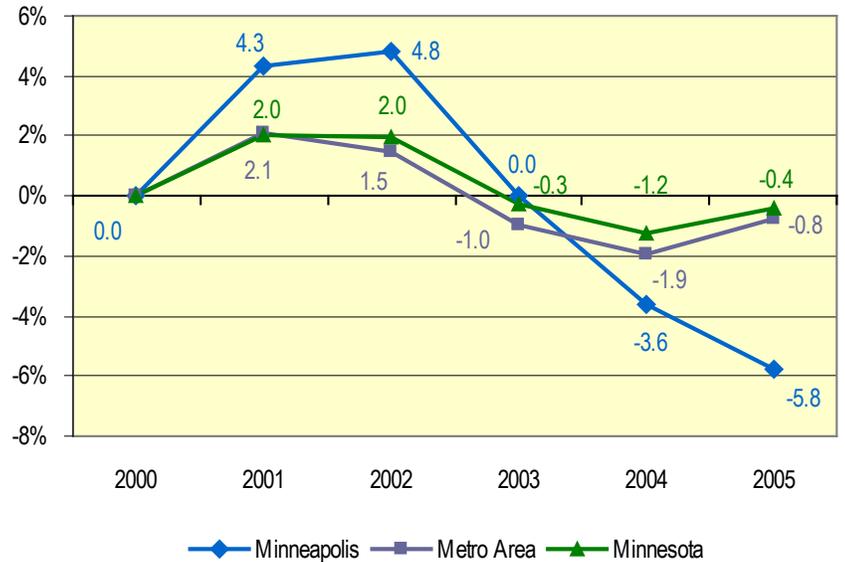
Cumulative percentage change in jobs since 2000  
2000 = base year = 0

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

Other services include repair of all kinds of goods and machinery; personal care such as barbers and beauty parlors; parking lots and garages; religious, grant-making, civic, professional and similar organizations; and work in private households.

In Minneapolis, 4 percent of the jobs were in these diverse kinds of services. In 2005, 19 percent of the sector’s jobs in the metro area were concentrated in Minneapolis.

The sector increased steadily until 2002 and then declined.



## Minneapolis jobs in the region

The following table displays Minneapolis' proportion of jobs in the metropolitan area for all economic sectors from 2000 to 2005. The table displays historical changes in the city's portion of overall regional employment for each sector; it is organized from the highest percentage sector in 2005 (utilities) to the lowest (transportation and warehousing.)

Table 11

### Minneapolis jobs

Percentage in the seven-county metropolitan area

Source: CPED with data from Minnesota Department of Employment and Economic Development (DEED)- Updated

Sectors	Percentage share of jobs in the metro area							# of jobs	2000-2005 Change
	2000	2001	2002	2003	2004	2005			
Utilities	66.6%	62.3%	60.3%	58.5%	58.7%	59.4%	3,171	↓	
Professional /Technical Services	31.8	32.5	31.7	30.5	30.2	29.9	28,371	↓	
Management of Companies / Enterprises	21.7	23.1	22.8	25.1	24.7	26.4	14,842	↑	
Finance & Insurance	30.1	29.3	28.0	26.4	25.9	25.9	27,643	↓	
Educational Services	24.9	24.8	24.6	23.9	24.2	23.8	26,886	↓	
Information	n/a	29.7	28.5	29.6	27.4	23.6	9,862	↓	
Real estate / Rental / Leasing	16.8	18.4	18.6	18.3	19.9	21.0	6,261	↑	
Health Care / Social Assistance	24.5	24.5	24.1	23.3	22.9	22.4	42,336	↓	
Public Administration	n/a	22.0	21.7	20.9	20.5	20.3	12,969	↓	
Other Services	20.1	20.6	20.8	20.3	19.8	19.1	10,533	↓	
Arts, Entertainment/ Recreation	18.5	18.2	18.2	19.3	19.1	19.2	4,884	↑	
Accommodation / Food Service.	18.5	18.5	18.5	17.9	18.3	18.4	22,003	↓	
Administration / Waste Services.	18.7	18.4	17.8	15.9	15.5	15.6	14,199	↓	
Wholesale Trade	14.8	14.3	14.0	13.2	13.1	11.7	9,644	↓	
Retail Trade	10.9	10.4	10.0	9.7	9.8	9.8	16,670	↓	
Manufacturing	10.5	10.3	9.7	9.2	8.9	9.0	16,678	↓	
Transportation / warehousing	8.5	8.7	9.4	8.2	8.3	8.2	4,463	↓	

Utilities had the highest concentration of jobs in Minneapolis, with 59 percent of the metro area utilities jobs in 2005. However, this sector had only 1 percent of the total jobs in the city, and that was declining.

Of the sectors growing faster in the region than the total job growth (see table 2), the most prominent is management of companies, with 5 percent of the total city jobs, but more than a quarter of the

regional jobs. The sector has tended to increase its concentration in the city.

The other two sectors growing faster in the City than the region – real estate, and arts, entertainment and recreation – are small sectors and also tended to become more prominent in the city.

The most significant sector in terms of overall number of jobs in Minneapolis is health care and social assistance. The city's share of the regional jobs in this sector has declined from almost 25 percent in 2000 to about 22 percent in 2005.

Educational services, the other prominent sector in terms of number of jobs, slightly decreased its share almost 25 percent in 2000 to just under 24 percent.

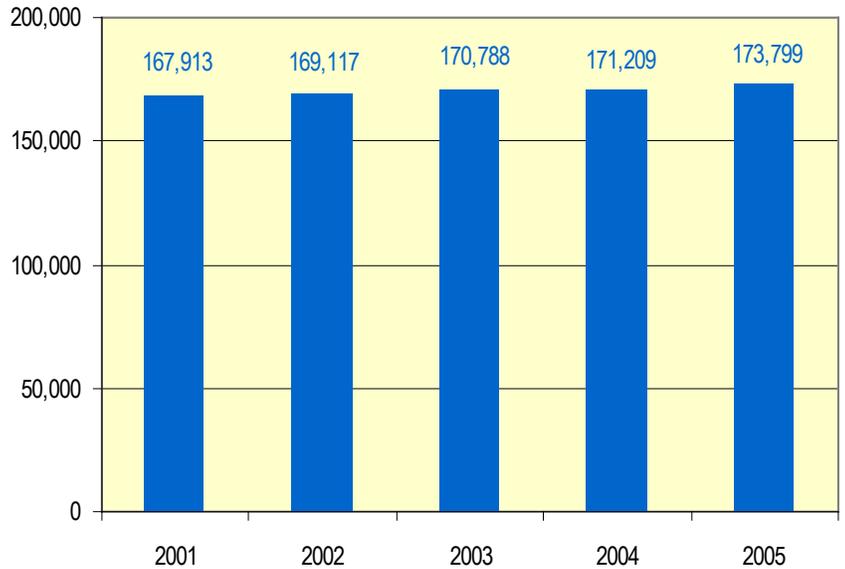
Graph 31

**Number of housing units**

Source: City Assessor

Despite the overall stability in population, the city added more than 5,800 housing units since 2001.

New construction, residential conversions from other uses and decreasing levels of demolitions were primary reasons for the increase in the housing supply.



### Residential construction activity

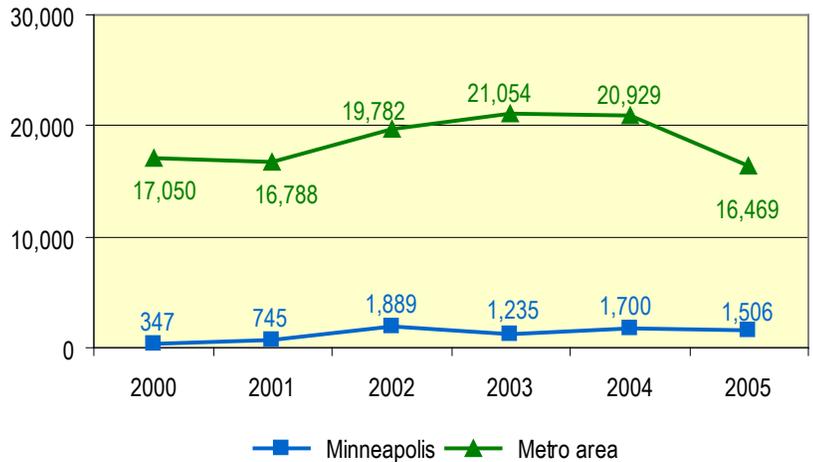
Graph 32

#### Permitted new residential units

Conversions are not included

Source: Census bureau

The number of permits for new residential units in the Twin Cities metropolitan area and in Minneapolis picked up after 2001 and reached their highest point in the region in 2003, before declining in 2005. In the city, housing construction was at its highest point in 2004 and slowed modestly in 2005. However, the city’s 1,506 new units was the highest number of any metropolitan jurisdiction in 2005.



	2000	2001	2002	2003	2004	2005
<b>Single-family</b>						
Minneapolis	95	226	237	331	250	198
Metro area	12,260	11,786	11,989	14,461	13,876	12,022
<b>Multifamily</b>						
Minneapolis	252	519	1,652	904	1,450	1,308
Metro area	4,790	5,002	7,793	6,593	7,053	4,447
<b>Total Units</b>						
Minneapolis	347	745	1,889	1,235	1,700	1,506
Metro area	17,050	16,788	19,782	21,054	20,929	16,469

Graph 33

**Annual permitted new residential units**

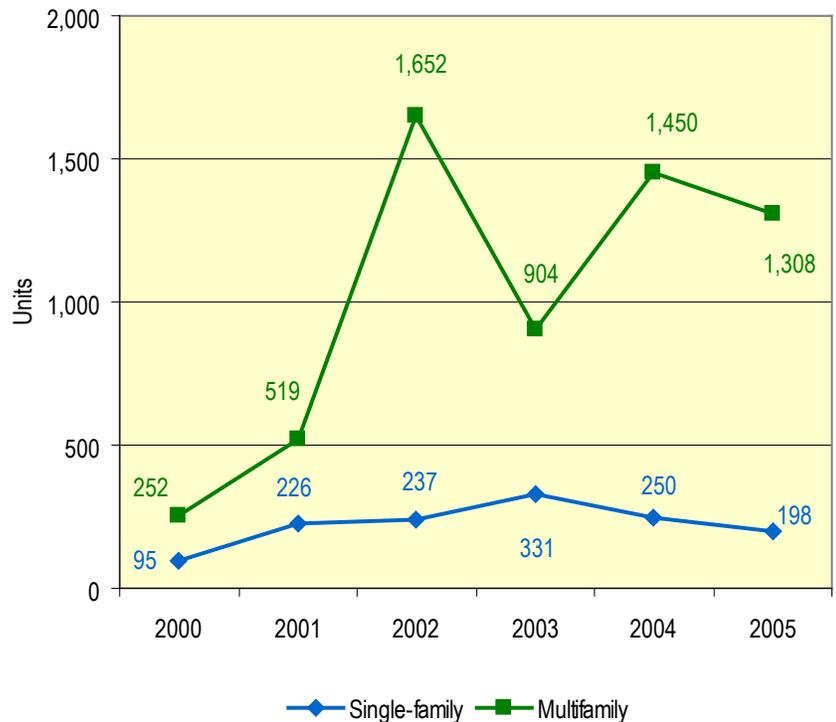
Source: Census Bureau

While new housing construction in the metropolitan region was fueled by demand for single-housing units, in Minneapolis housing demand was driven by multifamily building construction

In 2002, when construction activity picked up, more than 1,000 rental apartments were permitted in Minneapolis. After that, permitting of new units slowed down and built up again in 2004. After 2003, as demand for home ownership increased, developers built more condominium-type buildings, either townhouses or four-to five-story buildings, and more recently high-rises.

One activity that gained momentum was the conversion of commercial or industrial buildings into residential space, most of the time sold as condominiums. In downtown Minneapolis, specifically in the Warehouse District, many buildings were converted into residential lofts from wholesale or manufacturing uses. Although conversions in this district were not new, they increased considerably in this period.

Conversions were attractive to developers and financial institutions alike because large amounts of commercial and industrial space lay vacant after the market downturn of 2001, and residential uses became a more profitable investment.



Graph 34

**Residential units in commercial / industrial buildings converted to housing**

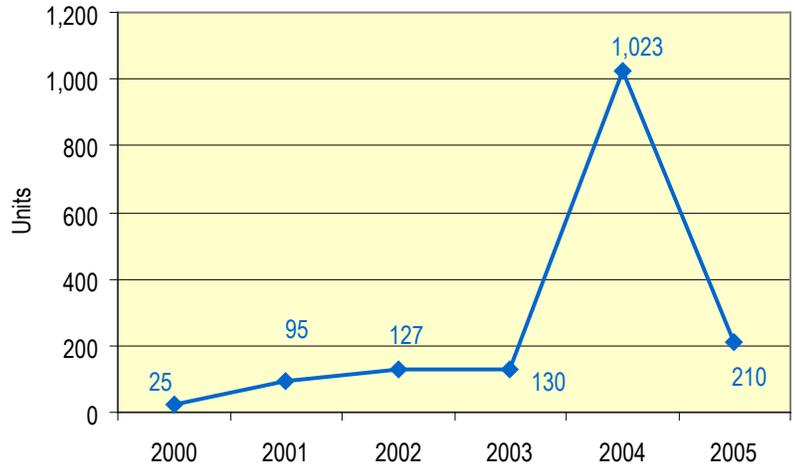
Source: Regulatory Services Department

Residential conversions began to rise slowly in 2000 and increased sharply in 2004, when more than a million square feet of retail and commercial space of the former Sears building were converted into a mixed-use development, including 308 units of ownership and rental housing.

As buildings suitable for conversion were being used up quickly, new high-rise condominium-type construction began to take place in Minneapolis. These new high-rises are being built for the higher end of the market, and to entice buyers, plans include amenities such as concierge service, solarium, year-round swimming pools and more.

Developers of downtown properties especially tapped into buyers such as “empty nesters” who desired to sell houses and purchase condominiums.

This market also created opportunities for the conversion of rental property into condominiums.



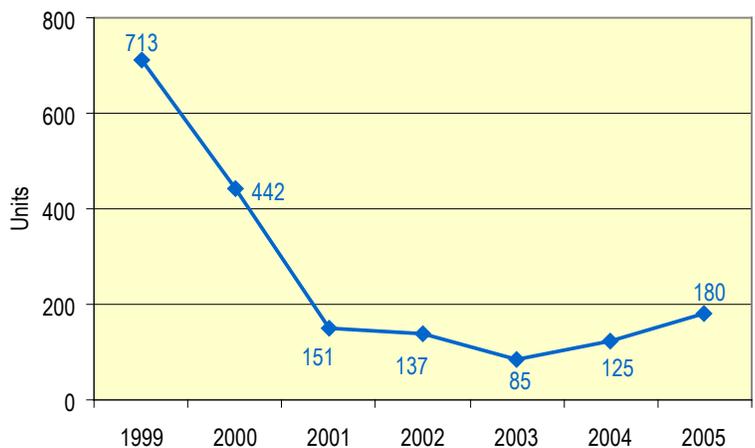
Note: Only includes conversion from other uses into residential uses and does not include conversions from rental apartments to condominiums

Graph 35

**Residential demolitions**

Source: Regulatory Services Department

Housing prices began to increase, not only because of demand, but also because land was becoming scarce. Demolitions decreased sharply in Minneapolis after the completion of demolition for the Heritage Park development and did not begin to rise again until 2003.



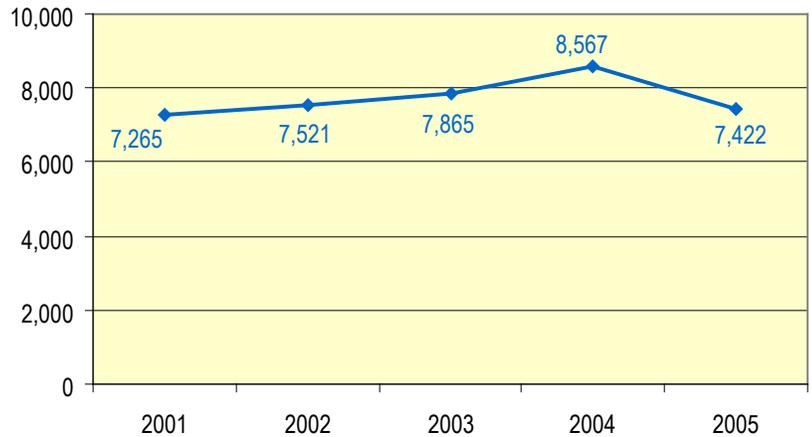
## Residential property sales

Graph 36

### Total units sold in Minneapolis

Source: Minneapolis City Assessor

Sales per year of all units, existing and new construction, increased steadily in Minneapolis from 2001 to 2004, but declined in 2005 due in part to rising interest rates and costs of the housing market.



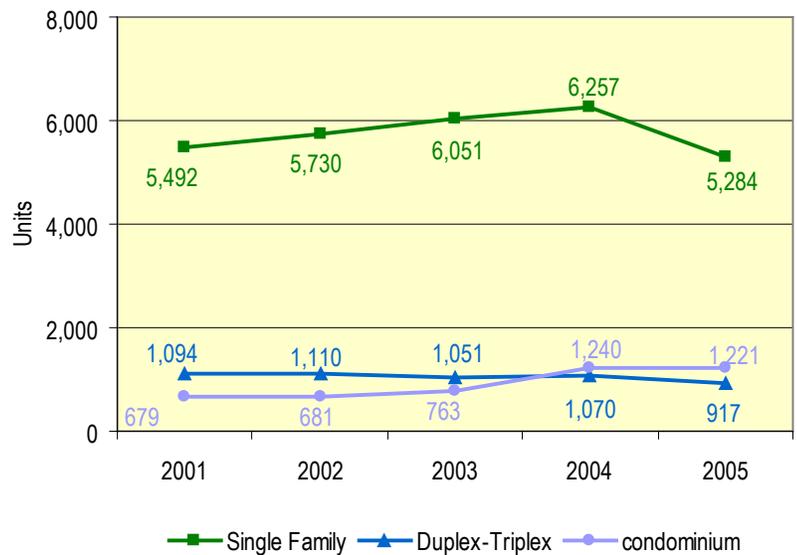
Graph 37

### Residential housing units sold

Source: Minneapolis City Assessor

Most residential units sold in the city are still single-family homes; it is this segment of the market that declined significantly in 2005.

Sales of condominiums increased steadily through 2004 and then held at about the same level in 2005.



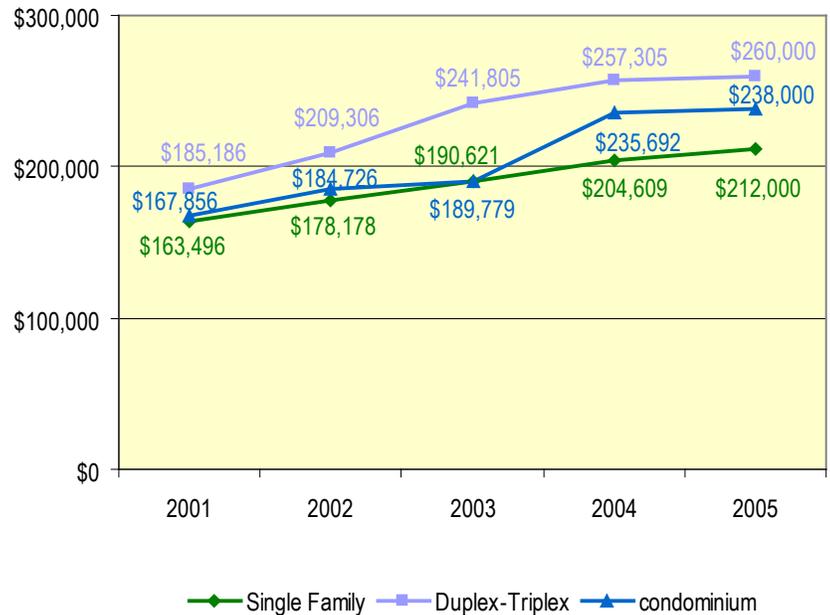
Graph 38

**Annual median housing price**

In 2005 dollars

Source: Minneapolis City Assessor

Median sale prices of housing units in Minneapolis in 2005 were almost 35 percent above the 2001 prices in constant dollars. Units sold in 2004 were 18 percent more than units sold in 2001, but in 2005 they were only 2.2 percent above the 2001 level, a signal that the market was starting to cool off.



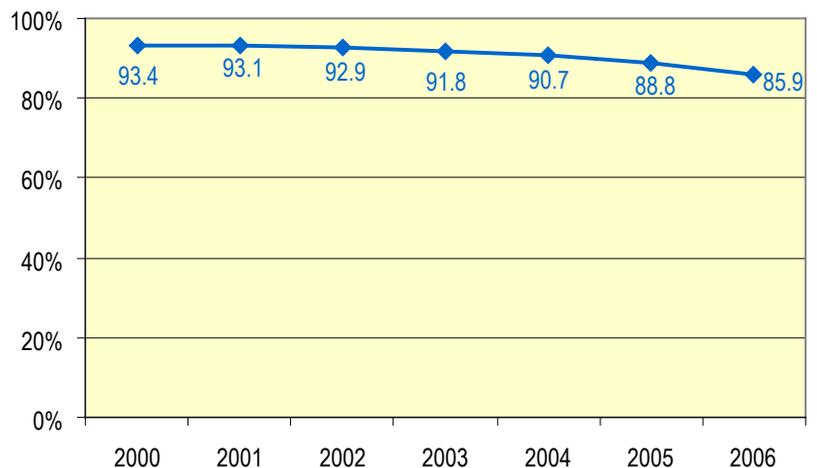
Graph 39

**Single-family dwelling homestead rates**

Source: Minneapolis City Assessor

Homestead rates for single family dwellings have steadily declined throughout the city over the past six years; the citywide average declined from 93% in 2000 to 86% in 2006.

According to the City Assessor’s Office, this is due to a combination of factors: changes in property tax laws have reduced the tax differential of owning non-homesteaded property and a thriving real estate market with strong valuation appreciation have combined to make non-homestead real estate a more profitable investment option.



## Residential rental property

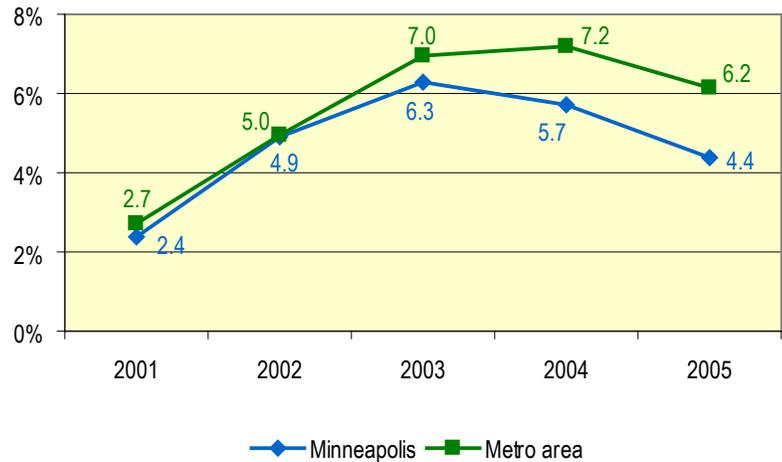
Graph 40

### Average apartment vacancy rate

Source: G.V.A. Marquette Advisors

Vacancy rates for rental property increased steadily from 2001 to 2003 but decreased in 2004. In 2005 they were down but not to the level of 2001, when not even 2.5 percent of the units were vacant in Minneapolis.

The city had lower vacancy rates than the metropolitan area.



Graph 41

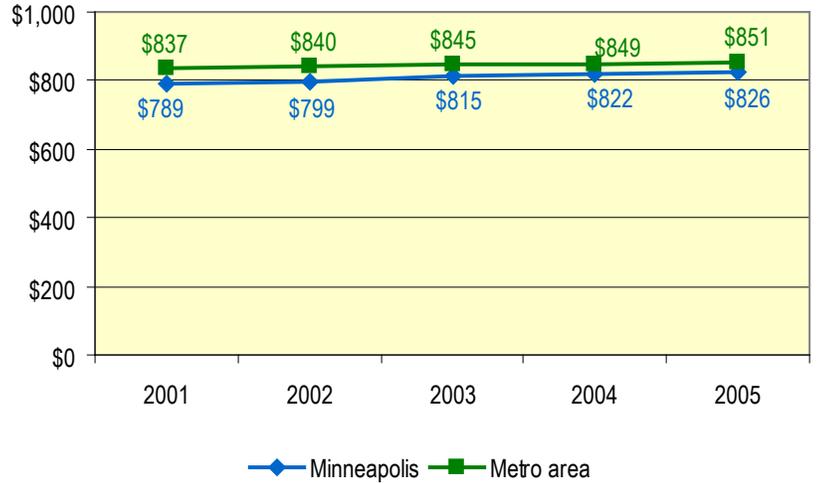
**Average apartment rent**

Source: G.V.A. Marquette Advisor

Although rent levels increased modestly in nominal dollars, after adjusting for inflation average rent levels in Minneapolis remained flat during the 5-year period.

Rental property owners employed a number of strategies to increase profits, including increasing use of various rental concessions and selling rental properties to condominium developers who were responding to the demand for ownership units. The strategies had some impact, as vacancy rates slowed down.

In nominal dollars



In 2005 dollars



## Office space

Graph 42

### Average office vacancy rate

Source: CB Richard Ellis

Vacancy rates in the Minneapolis central business district (CBD) and in the Twin Cities metropolitan area grew steadily from 2000 to 2004 but began declining in 2005. In 2003 vacancy rates in the Minneapolis CBD surpassed vacancy rates in the metropolitan area.

During the boom of the late 1990s, office space was overbuilt. Because of so much new space and the downturn in the economy, vacancy rates began to rise in the metropolitan area.

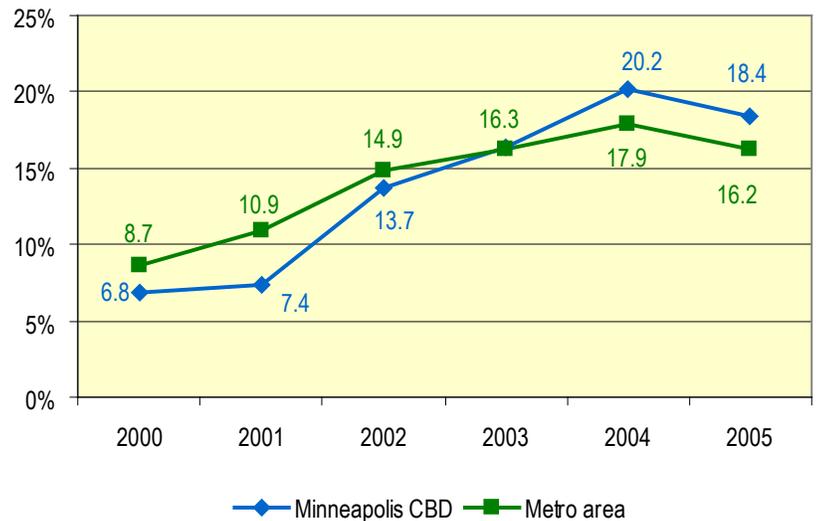
By 2002, layoffs in the technology and financial sectors of the economy left many thousands of square feet in office space vacant at a time when many office building projects were still under construction.

The Minneapolis CBD was affected by a financial industry consolidation. In 2003 some large firms vacated thousands of square feet in downtown Minneapolis, and the city's vacancy rate reached the same level as the metropolitan area's vacancy rate.

Because of new space offered at relatively low costs, tenants moved from Class B to Class A buildings. Significant new construction projects disappeared from the market by 2003.

In 2004, the Minneapolis CBD had more than 4.5 million square feet of vacant space compared to 1.4 million square feet in 2000.

2005 was the first year when both the metropolitan area and the Minneapolis CBD showed a declining vacancy rate, although levels remained high compared to the 2000 rates. Fewer new buildings and an improving economy contributed to lower vacancy rates.



Graph 43

**Average office lease**

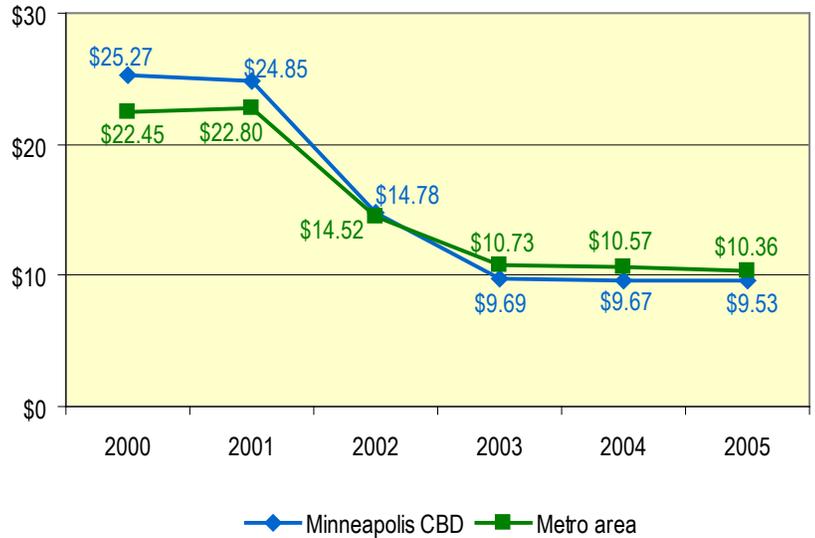
In current dollars per square feet per year

Source: CB Richard Ellis

As vacancy rates increased, lease rates decreased, and the commercial office space industry was a “tenant’s market” from 2000 to 2005. Tenants were able to receive concessions from landlords who had an excess of vacant space.

Asking lease rates remained fairly stable until 2002, when they rapidly declined. In 2002 Minneapolis CBD rates declined faster than rates in the metropolitan area. Since then, they have been lower because of lack of activity and very soft lease packages including free rent, commissions and physical improvements.

Lower property lease rates in turn offset the estimated market value of commercial property in the city, resulting in a decline of the commercial property tax base (see table 4.)



## Retail space

Graph 44

### Average retail vacancy rate

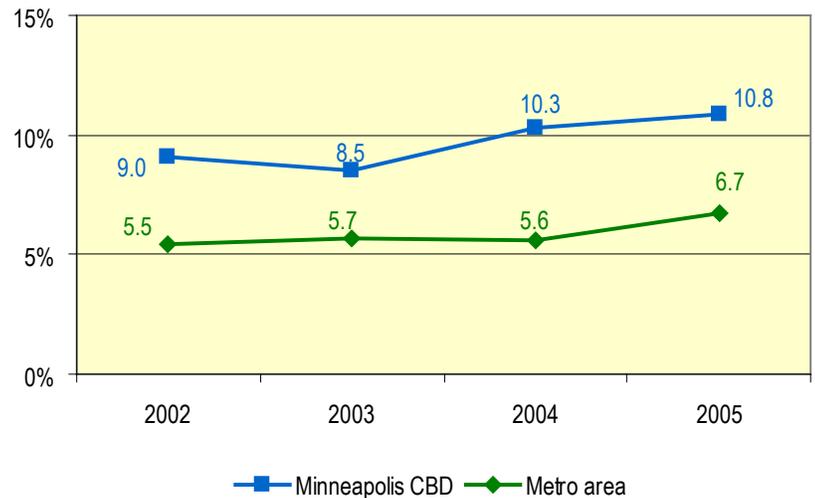
Source: CB Richard Ellis

Consumer spending fuelled by low interest rates kept the retail vacancy rate down, even when the vacancy rate began to rise slightly in 2003 in the metropolitan area and in 2004 in the city. Retail vacancy rates never reached the high level of office vacancy rates in the metro area or the Minneapolis CBD.

The Minneapolis CBD vacancy rate remained higher than the metropolitan area with a tendency to increase faster.

Vacancy rates rose in 2005 in both the metropolitan area and Minneapolis CBD because new construction added retail space into the market. However, retail competition for the best location kept vacancy rates in check.

Spurred by expansion plans of large retailers such as Target, Cub Foods and Lowe's, new retail space was added in the metropolitan area, although in 2003 new construction began to slow down. Big retailers in turn attracted multi-tenant development. New construction took place mainly in suburban areas with comparatively inexpensive land, high income and high population growth, while central cities were building mixed-use development and redevelopment.



Graph 45

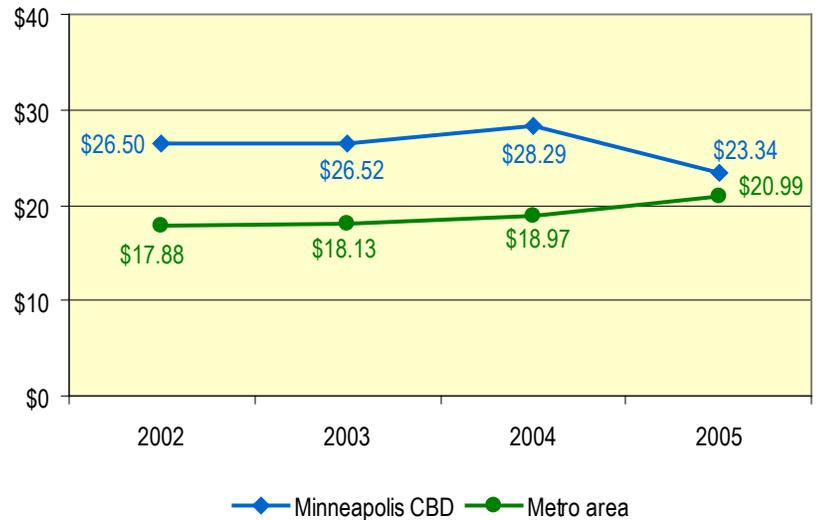
**Average retail lease**

In current dollars per square feet per year

Source: CB Richard Ellis

Average annual lease rate per square foot continued to rise in the metropolitan area, affected mainly by new construction which demanded higher construction and land costs. High competition from retailers for best location and the lack of quality space pushed lease prices up.

The Minneapolis CBD continued to command high prices per square foot, but in 2005 prices declined to almost the metropolitan area level. Relatively high vacancy rates and available space in the market pushed price levels down.



## Industrial Space

Graph 46

### Average availability rate

In square feet

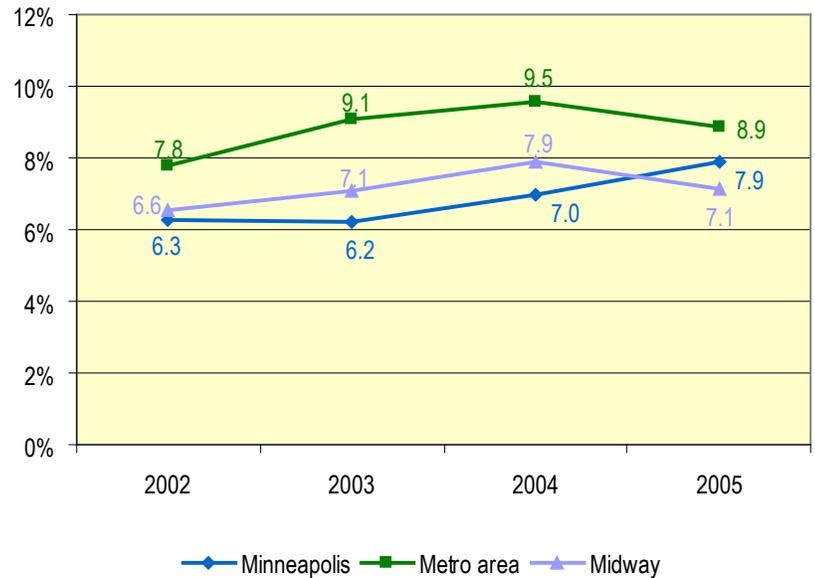
Source: CB Richard Ellis

Industrial space in Minneapolis, the Midway Industrial area and the rest of the metropolitan area includes warehouses, office warehouses, office showrooms and manufacturing and specialty buildings, such as telecommunication facilities.

The availability rate of those spaces increased steadily in Minneapolis industrial areas. In the metropolitan area and the Midway industrial area, the availability rate tended to decrease after 2004.

During 2002 and 2003 available space was plentiful, projects were scaled back and investors sought to purchase rather than lease industrial space, helped by low interest rates.

The recovery began in 2004 and continued gradually in 2005, when demand for office/warehouse space increased.



**Note:**

- i. Available space is all space being marketed to potential occupants, either for lease, sublease or sale. It includes vacant and non-vacant space.
- ii. The Midway industrial area, as defined by CB Richard Ellis, includes the Mid-City Industrial Area which straddles NE Minneapolis and extends into Saint Paul.

Graph 47

**Average asking lease rate for industrial property**

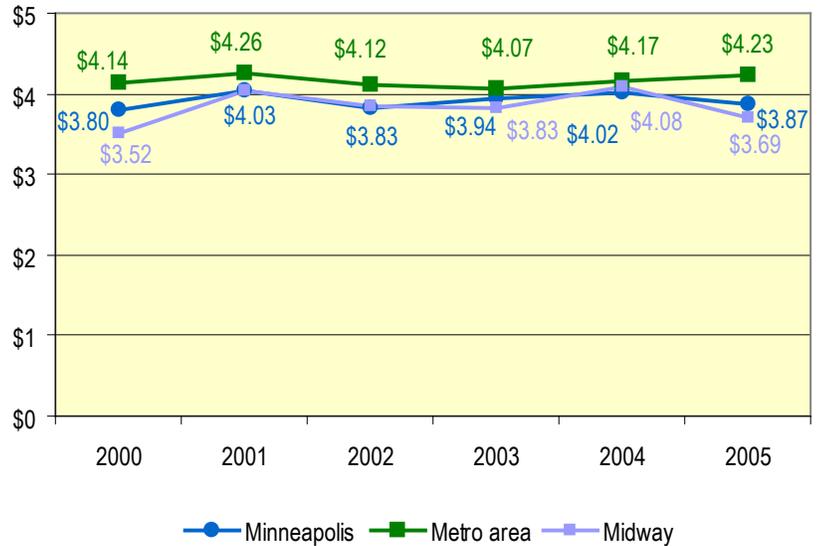
In current dollars per square feet per year

Source: CB Richard Ellis

In spite of the economic downturn after 2000, average rates in the industrial market were quite stable in the first five years of the decade, fluctuating in Minneapolis between \$3.80 per square foot in 2000 and \$3.87 per square foot in 2005.

Lease rates remained steady because flat construction activity until 2004 prevented the increase of available space, thus price per square foot did not decline.

Purchases of industrial space and conversion to other uses also decreased the amount of space availability for industrial uses. Finally, concessions to tenants made the lease option attractive without decreasing the price asked, at least in nominal dollars. By 2004 the market had improved and concessions to tenants had declined.



**Note:**

- i. The Midway industrial area, as defined by CB Richard Ellis, includes the Mid-City Industrial Area which straddles NE Minneapolis and extends into Saint Paul.