

Minneapolis Trends

*A Quarterly Overview of
Socioeconomic & Housing Trends
in Minneapolis*

Highlights for the fourth quarter of 2005

- Unemployment decreased to its lowest level since the second quarter of 2001, while the labor force and employment declined in the city. (see page 4)
- The number of permits for new residential units grew at a fast pace in Minneapolis, primarily because of an upsurge in multifamily construction. (see page 12)
- The number of residential and non-residential remodels and conversions fell sharply in the city. (see page 17)
- The rental housing vacancy rate increased, as did the cost of rent. (see page 25)
- Housing sales are slowing down, but sale prices remain high. (see page 27)
- Vacancy rates are declining for both of office and retail space in the city. Office vacancy rates in Minneapolis' central business district reached their lowest level since the last quarter of 2003. (see page 28 & 29)
- The industrial vacancy rate is decreasing and occupied industrial space is increasing in the city. (see page 30)



fourth quarter 2005



Minneapolis
City of Lakes

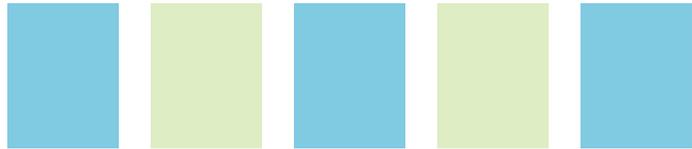
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Minneapolis Trends

fourth quarter 2005



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ECONOMIC INDICATORS

- Unemployment decreased to 3.7%, its lowest level since the second quarter of 2001, while the labor force declined and employment decreased from the third quarter (Table 1).
- In the first quarter of 2005, there were 1,300 more jobs in the city than in the same period of 2004 (Table 2).
- Overall wage and salary levels did not keep up with inflation in Minneapolis since the same period last year, as was also the case in the region and the state.

EMPLOYMENT

Employment was up by 0.1 percent from the same time the previous year, while unemployment shrank to 3.7 percent. The labor force (people with jobs and people looking for work) decreased by 0.7 percent. Although labor force and employment continuously increased from the first quarter to the third quarter, they dipped this quarter. Unemployment shrank even more – to its lowest point since 2001.

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

	2004 4Q-04	2005 1Q-05	2Q-04	3Q-04	4Q-05
Labor Force	225,070	221,358	224,866	225,613	223,412
Employment	214,859	211,485	215,474	216,625	215,096
Unemployment Rate	4.5%	4.5%	4.2%	4.0%	3.7%

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

Figure 1: **AVERAGE 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 number of jobs 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, adding 450 jobs. Administrative and waste services grew at almost 7 percent, gaining 880 jobs. Management of companies and enterprises grew at 4.6 percent, with the addition of 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. DEED's data for the second quarter 2005 is not available yet.

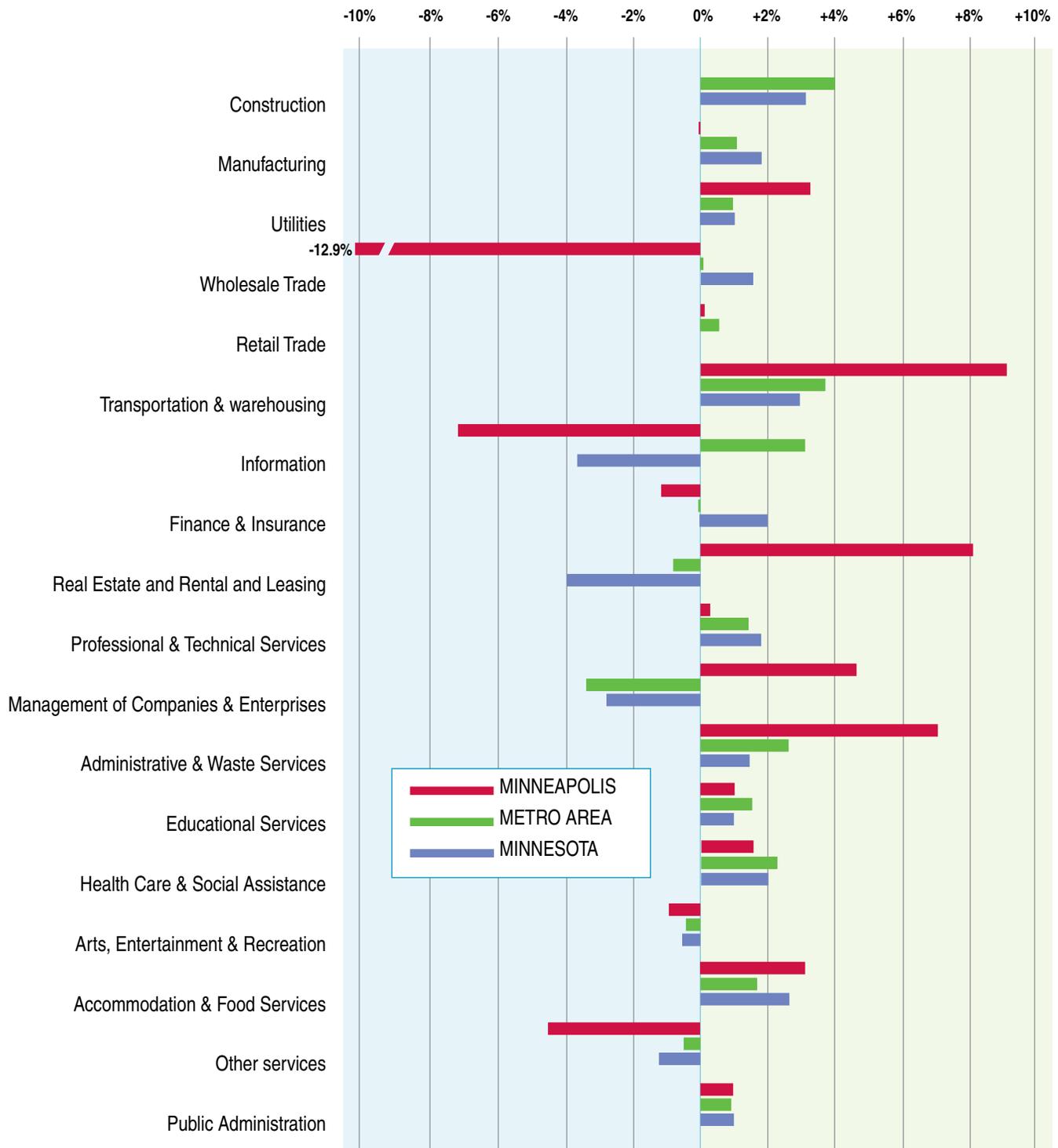
- (1) Natural resources-based industries and agriculture, fishing and forestry employment are not shown in the table. Some industry numbers may not be disclosed because of privacy issues, so totals do not add up. Table reflects latest revision by DEED..

JOBS

In the first quarter of 2005, many economic sectors gained jobs in spite of overall slow activity since 2004. 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 it 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. DEED's data for the second quarter 2005 is not available yet.



WAGES

The average weekly wage in Minneapolis in the first quarter of 2005 was \$1,056, a nominal increase of \$22 but a decrease of \$10 in constant dollars* from the same period the previous 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-paying sector in the fourth quarter of 2004 and the first quarter of 2005, the 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 increased by \$287 per week (\$240 in constant dollars*). Meanwhile salaries in the utilities sector declined by an average of \$649 per week (\$719 in constant dollars*) from the same period 2004, 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

- (1) Natural 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 DEED.

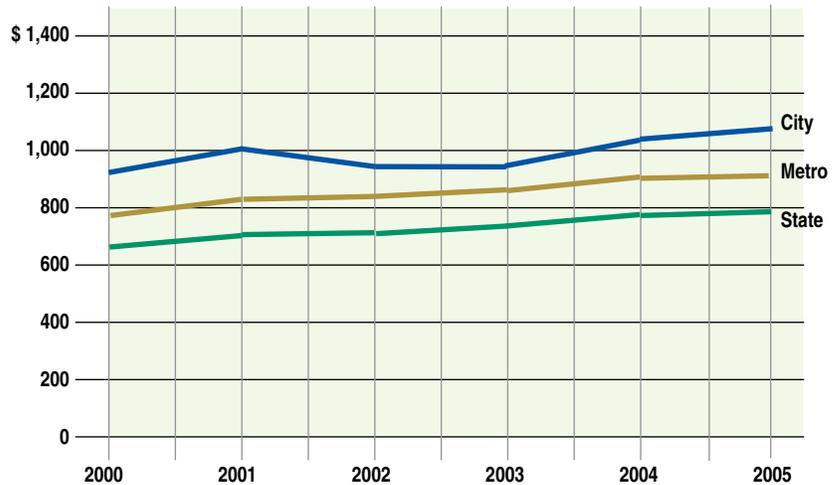
WAGES

For all industries, employees in Minneapolis commanded higher average weekly wages than employees in the metropolitan area or the state. When first-quarter wages are adjusted to 2005 dollars and compared to the same period from 2004, 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.

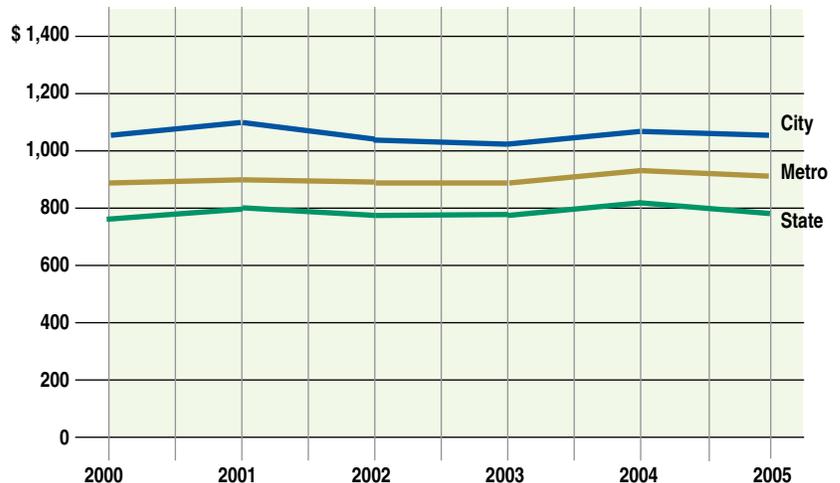
* For conversion index, see page 10

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



Source: CPED with data from DEED. DEED's data for the second quarter 2005 is not available yet. Total values converted to constant dollars adjusted to first-half of 2005 dollars based on Bureau of Labor Statistics' Consumer Price Index for all urban

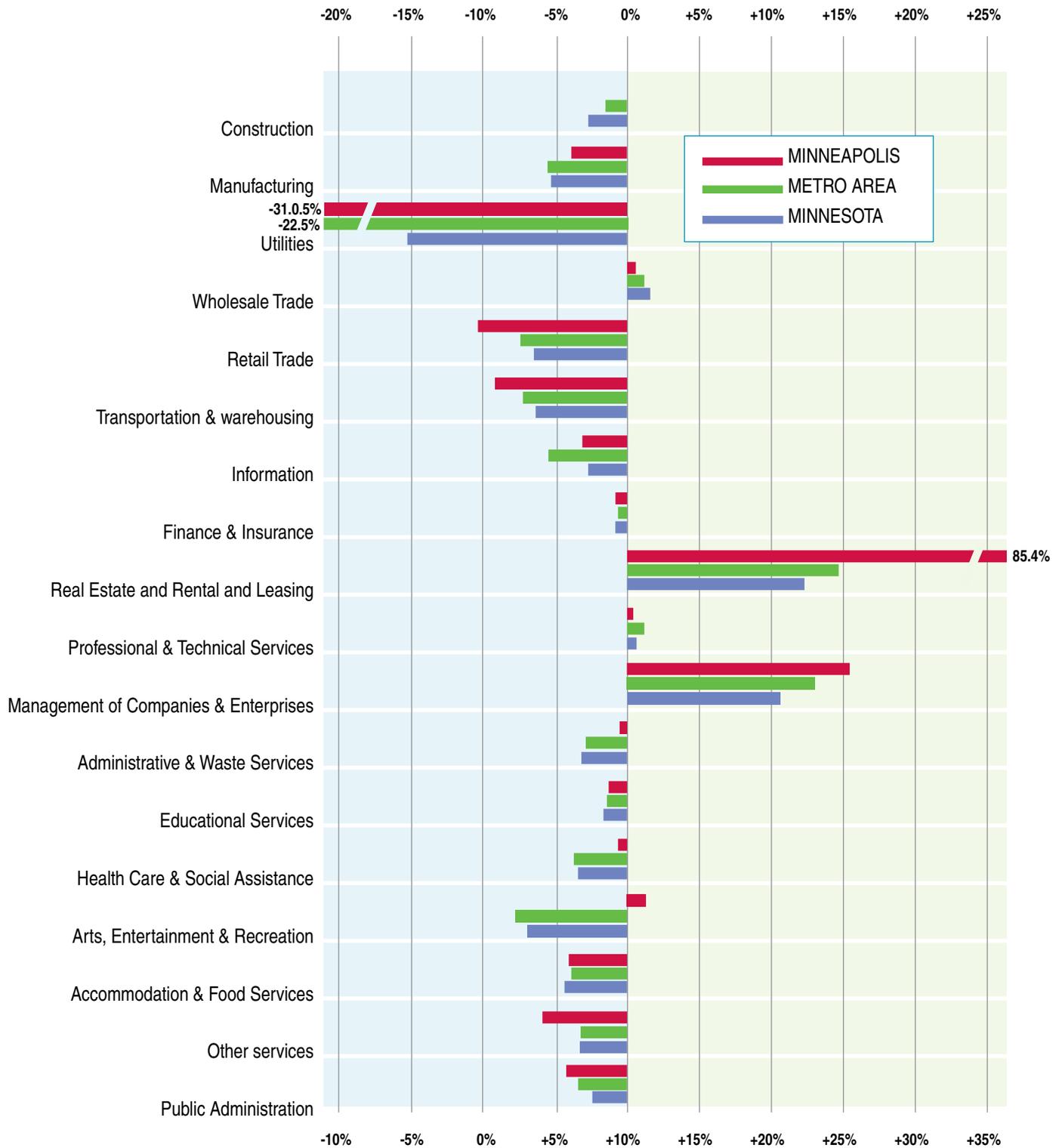
Figure 4: **AVERAGE WEEKLY WAGES** – first quarter
in first half 2005 dollars



Source: CPED with data from DEED. DEED's data for the second quarter 2005 is not available yet. Total values converted to constant dollars adjusted to first-half of 2005 dollars based on Bureau of Labor Statistics' Consumer Price Index for all urban consumer goods.

WAGES

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



Source: CPED with data from DEED. DEED's data for the second quarter 2005 is not available yet.

* 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, Minnesota and the United States. Percentage changes are not shown for the United States because of slightly different categories.

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. To look at the indexes go to: www.bls.gov/home.htm and click on "All urban consumers (current series)."

DEVELOPMENT INDICATORS

- The number of permits issued for new residential units increased in Minneapolis at a fast pace, surpassing the number of units permitted last year in the same period (Table 4).
- Multifamily construction was very strong in the city and accounted for most of the growth in the city's residential permits. Condominium buildings figured prominently in the list of new projects (Figure 6).
- The number of residential and non-residential remodels in the city fell sharply from the third quarter and the fourth quarter of 2004. There was no significant conversion activity (Table 5).
- The average construction cost per single-family home and multifamily unit increased in the city by 22 percent and 30 percent respectively in constant dollars. In the metropolitan area, construction costs increased at a lower pace.

NEW RESIDENTIAL CONSTRUCTION

In Minneapolis, residential new construction grew briskly this quarter, surpassing the previous quarter by 55 percent and the same quarter the previous year by 29 percent. In the metropolitan area, residential new construction was 16 percent lower than in 2004 and 1 percent higher than the previous quarter.

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

	2004 4Q-2004	2005 1Q-2005	2Q-2005	3Q-2005	4Q-2005
Single-family					
Minneapolis	50	30	66	60	42
Metropolitan area	3,254	2,256	3,502	3,368	2,896
Multifamily					
Minneapolis	614	111	299	494	814
Metropolitan area	2,110	668	1,098	4,450	1,599
Total number of units					
Minneapolis	664	137	365	554	856
Metropolitan area	5,364	2,924	4,600	4,450	4,496

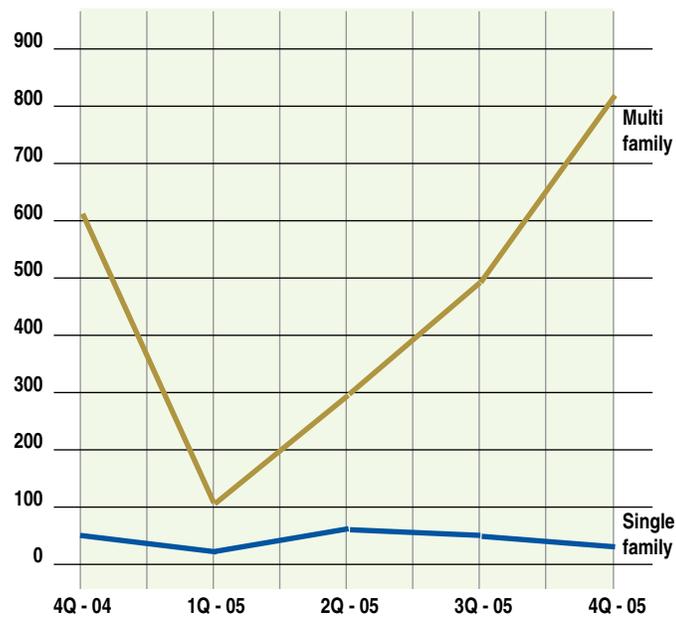
Source: CPED with data from the U.S. Census Bureau, based on permit information

Activity was higher in Minneapolis this quarter because of a sustained increase in new construction of multifamily units. These were permitted in higher numbers throughout 2005 after a slump in the first quarter. There were fewer permitted new single-family units, which decreased from the previous quarter.

Multifamily construction was also strong in the metropolitan area. Permits for new units increased by almost 48 percent from the third quarter. However, there were 24 percent fewer units permitted this quarter than in the same period in 2004.

Single-family construction in the metropolitan area decreased since 2004 by 11 percent and since the previous quarter by 14 percent.

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



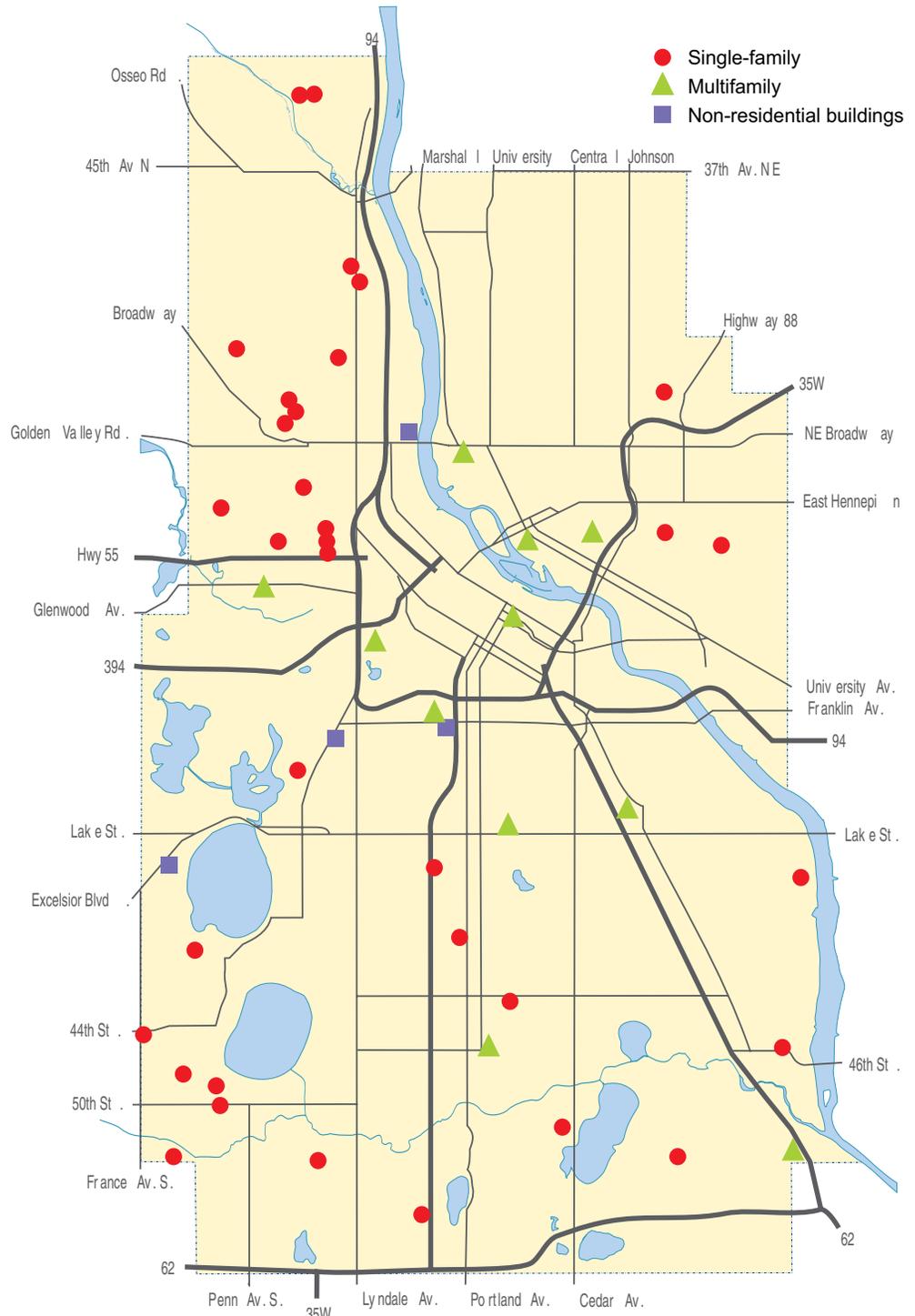
Source: CPED with data from the U.S. Census Bureau

NEW RESIDENTIAL CONSTRUCTION

New single-family housing permits this quarter were concentrated in the north side of the city and in the southwest; many others were scattered citywide. Three new condominium buildings with a total of 204 units were permitted in the northeast, including Cobalt Condominiums at 45 University Ave. Downtown, permits were issued for two apartment buildings with a total of 96 units and one condominium building, Skyscape at 929 Portland Ave. with 249 units. The City also gave permits to build a mixed-use building and a condominium with a total of 47 units just south of downtown. In south Minneapolis, four buildings totaling 216 units were permitted. Two of them will be built on the Hiawatha corridor.

Four non-residential structures were permitted: for a recycling center, offices, a restaurant and a warming house for paddle tennis courts.

Map 1: NEW CONSTRUCTION PERMITS – fourth quarter 2005



Source: CPED with data from Regulatory Services

NEW RESIDENTIAL CONSTRUCTION

In Minneapolis, the total cost of new residential construction increased 62 percent (57 percent in constant dollars) since the fourth quarter of 2004. The amounts spent on new single-family and multifamily construction both increased, with multifamily construction leading the way at an increase of more than \$61 million (\$58.3 million in constant dollars)*.

In the seven-county metropolitan area, the total spent on new construction decreased, with the multifamily construction cost declining by 2.1 percent (5 percent when adjusted for inflation) and single-family by 0.4 percent (3.4 percent in constant dollars)*.

* For conversion index see page 22

Table 5: **RESIDENTIAL CONSTRUCTION COSTS** – in dollars

	4Q-2004	1Q-2005	2Q-2005	3Q-2005	4Q-2005
Single family					
Minneapolis	\$ 7,864,399	\$ 6,440,616	\$ 12,263,689	\$ 10,472,695	\$ 8,313,893
Metropolitan area	674,806,252	500,110,698	765,363,387	718,624,444	672,278,335
Multifamily					
Minneapolis	91,357,608	18,244,663	76,399,197	17,289,225	152,525,123
Metropolitan area	266,739,535	85,918,361	196,893,422	127,558,968	260,941,872
Total number of units					
Minneapolis	99,222,007	24,685,279	88,662,866	27,761,920	160,839,016
Metropolitan area	941,545,787	586,029,059	953,256,829	846,143,412	933,220,207

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

Table values are not adjusted for inflation

NEW RESIDENTIAL CONSTRUCTION

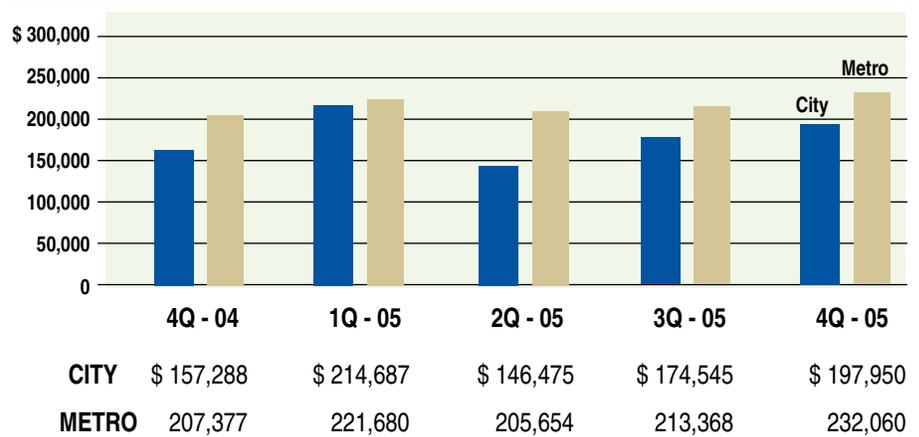
The average cost of building a house in Minneapolis increased by 26 percent (22 percent in constant dollars) in the fourth quarter of 2005, from \$157,300 (\$162,200 in constant dollars*) in the fourth quarter 2004 to \$197,950.

In the metropolitan area the average cost of building a house increased by 8.5 percent (12 percent in constant dollars), from \$207,400 (\$213,800 in constant dollars*) in the fourth quarter 2004 to \$232,000 in the fourth quarter of 2005.

For both Minneapolis and the metropolitan area, the average cost of constructing a multifamily unit increased from the fourth quarter of 2004. In Minneapolis, the cost per unit increased from \$148,800 (\$153,400 in constant dollars*) to \$187,400, almost 26 percent more. For the metropolitan area, the rise in cost was slightly lower than the city's, but it still increased more than 25 percent in constant dollars. Higher construction costs reflect construction of higher quality and value housing.

* For conversion index see page 22

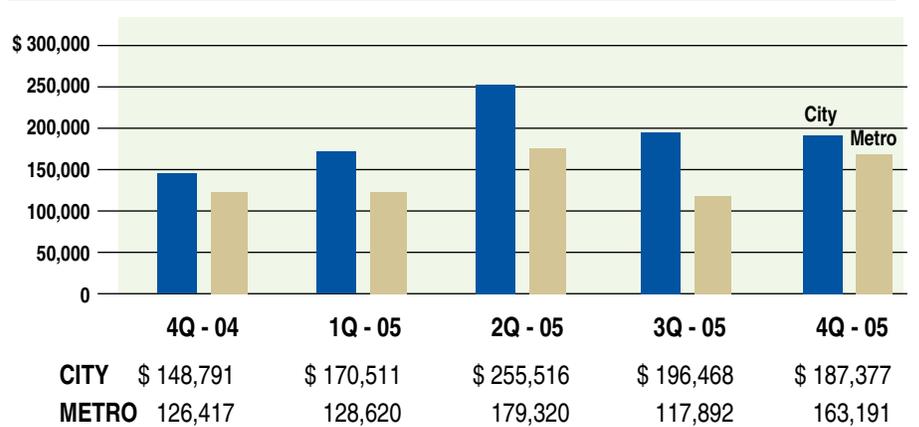
Figure 7: **SINGLE FAMILY CONSTRUCTION COSTS**
per unit



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

Values in graph are not adjusted for inflation

Figure 8: **MULTIFAMILY CONSTRUCTION COSTS**
per unit



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

Values in graph are not adjusted for inflation

REMODELS, CONVERSIONS AND DEMOLITIONS

In the fourth quarter, 40 residential buildings were remodeled, converted from other uses, repaired, added or renewed. Two of these buildings had two units converted into one.

The projected construction cost of residential remodeling projects costing \$50,000 or more was about \$6 million, much smaller than the previous quarter and less than 10 percent of the amount reported in the same quarter in 2004. There were no significant conversion projects. The number of units remodeled was 69 percent lower than the number from the same period of 2004.

The amount spent on non-residential projects decreased by 8.3 percent (11.2 percent in constant dollars) from the same period the previous year.

* For conversion index see page 22

Table 6: **CONVERSIONS, REMODELS AND ADDITIONS**
residential & non-residential projects of \$50,000 +

4Q-2004	UNITS	BUILDINGS ³	VALUE
A – Residential ¹		128	\$ 86,732,308
Remodels		120	13,852,017
Conversions and additions ²	720	8	72,880,291
B – Non-Residential ¹		114	41,310,674
1Q-2005	UNITS	BUILDINGS ³	VALUE
A – Residential ¹		110	\$ 19,883,398
Remodels		108	19,536,398
Conversions and additions ²	-2	2	0
B – Non-Residential ¹		100	104,073,352
2Q-2005	UNITS	BUILDINGS ³	VALUE
A – Residential ¹		136	\$ 29,652,150
Remodels		133	25,578,798
Conversions and additions ²	-15	3	4,073,352
B – Non-Residential ¹		126	62,472,207
3Q-2005	UNITS	BUILDINGS ³	VALUE
A – Residential ¹		159	\$ 47,800,240
Remodels		152	23,928,691
Conversions and additions ²	217	7	23,871,549
B – Non-Residential ¹		107	43,379,389
4Q-2005	UNITS	BUILDINGS ³	VALUE
A – Residential ¹		40	\$ 5,941,525
Remodels		38	5,656,525
Conversions and additions ²	-2	2	285,000
B – Non-Residential ¹		59	37,868,665

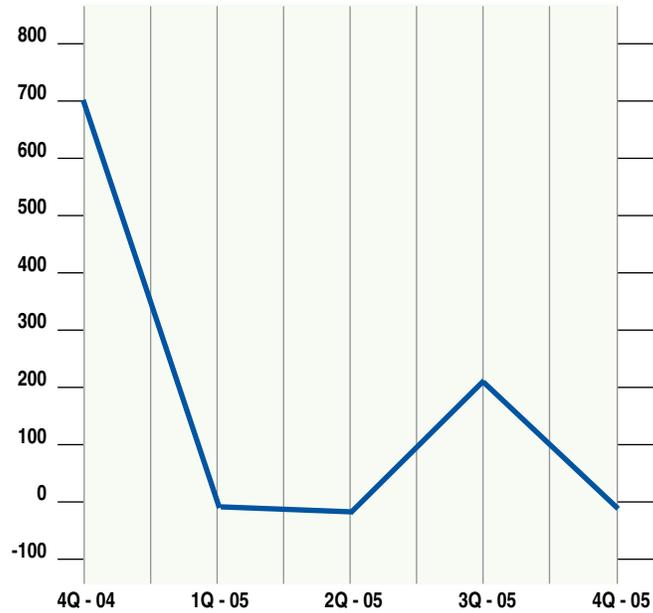
Source: CPED with data from Regulatory Services

- (1) Residential and non-residential building listings may include structural work, buildouts, and other improvements.
- (2) Residential conversions consist of a change in uses, e.g. from an office building to residential apartments or subdividing or consolidating 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

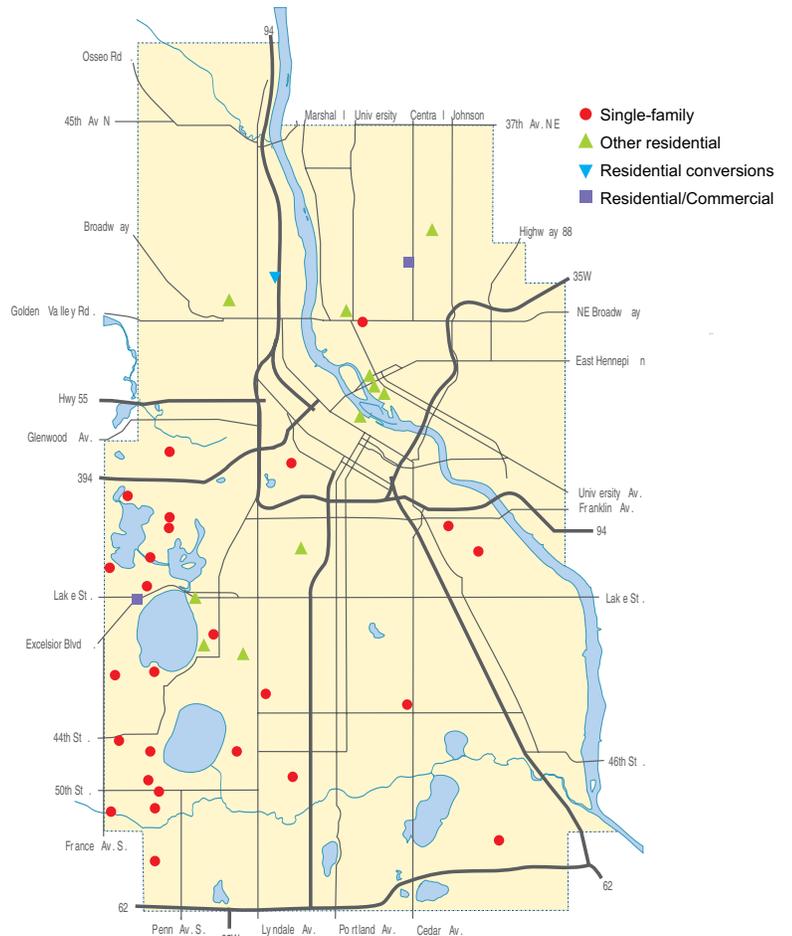
Permits for residential remodeling were mainly requested and issued in the southern half of the city, with a larger concentration in the lakes area. Other areas seeing improvements were downtown and the east bank of the Mississippi River and to a lesser extent, neighborhoods east of the Hiawatha rail line.

Figure 9: **NEW UNITS ADDED TO (OR SUBTRACTED FROM) EXISTING BUILDINGS OR IN BUILDINGS CONVERTED FROM ANOTHER USE - Minneapolis**



Source: CPED with data from Regulatory Services

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

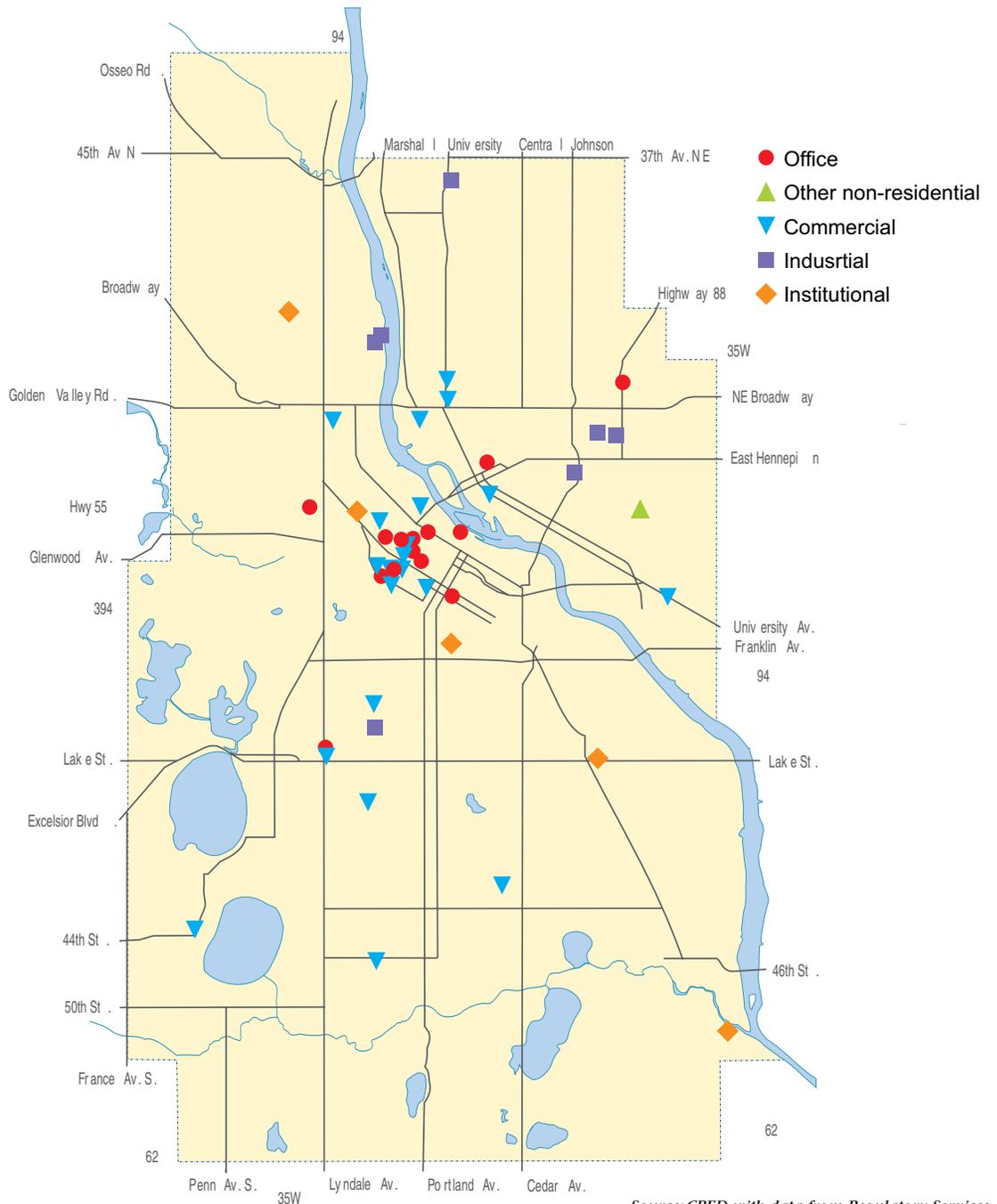


Source: CPED with data from Regulatory Services

REMODELS, CONVERSIONS AND DEMOLITIONS

Permits issued in the fourth quarter for commercial and office remodeling and renovation were mostly for downtown projects. There was also significant activity in northeast Minneapolis. A permit was issued for a significant industrial renovation and alteration on the northwest bank of the Mississippi River, for future metalwork fabrication.

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



Source: CPED with data from Regulatory Services

REMODELS, CONVERSIONS AND DEMOLITIONS

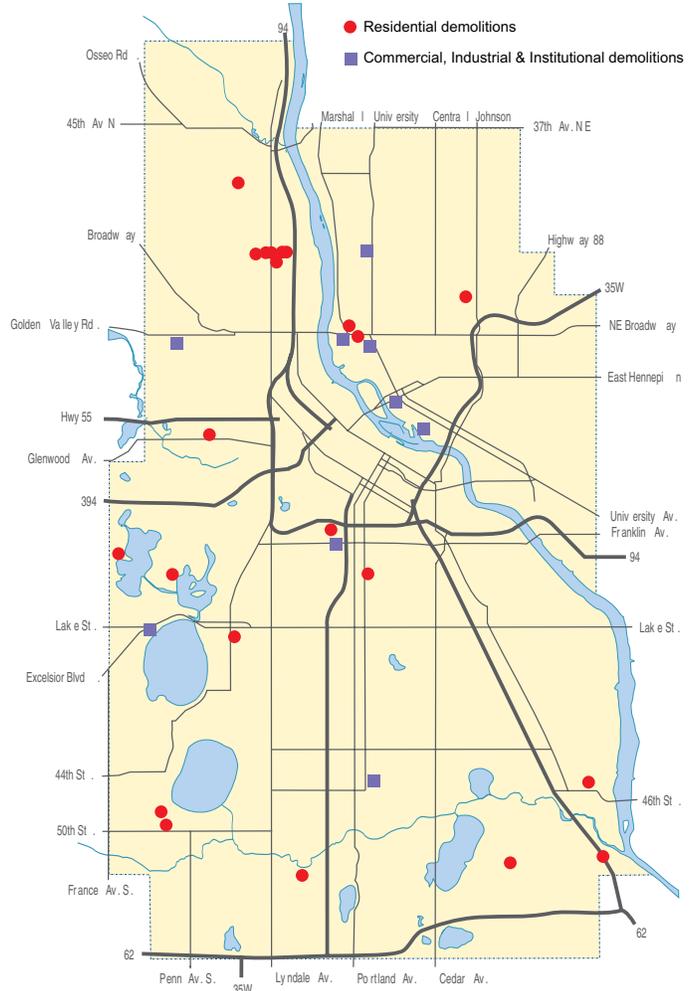
Building permits for demolition

A total of 34 residential and non-residential buildings were affected by demolitions in the fourth quarter.

Demolitions were scattered around the city, outside of the downtown area. A concentration of residential demolitions occurred along Lowry Avenue North and along Broadway Avenue Northeast. Demolitions along Lowry Avenue are related to roadway reconstruction beginning in 2006 and the revitalization of the Lowry Avenue corridor. Non-residential building demolitions were also prevalent in other parts of Northeast.

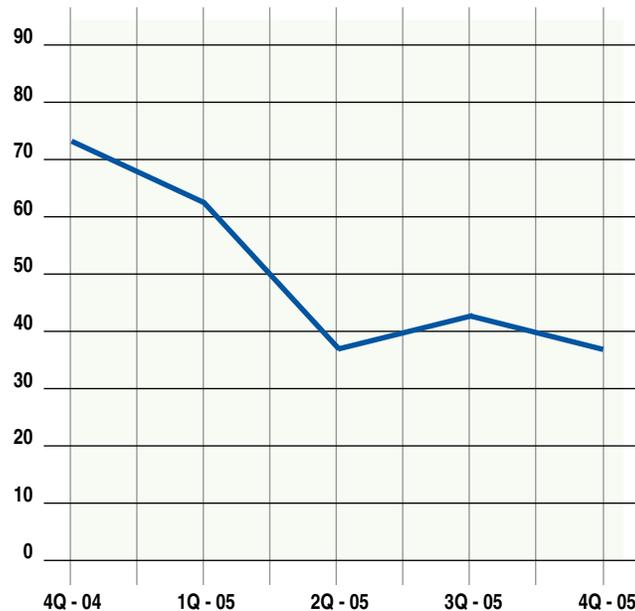
Residential demolitions decreased in the fourth quarter of 2005 to reach the same level as the second quarter. There were 37 housing units demolished during the fourth quarter, compared to a high of 73 in the same period in 2004 and 43 the previous quarter.

Map 4: PERMITS FOR DEMOLITIONS – fourth quarter 2005



Source: CPED with data from Regulatory Services

Figure 10: PERMITTED RESIDENTIAL DEMOLITIONS in units



Source: CPED with data from Regulatory Services

MAJOR CONSTRUCTION PROJECTS

Following is a list of major projects (valued at \$1 million or more) permitted in Minneapolis in the fourth quarter of 2005. The highest cost project is the construction of a new 249-unit condominium at 929 Portland Ave.

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

ADDRESS	DESCRIPTION	VALUE	ZIP CODE
929 Portland Ave.	Skyscape, a new 249-unit condominium building with three town homes	\$ 53,678,274	55404
45 University Ave. S.	The Cobalt Condominiums, a new 98-unit building with retail and garage	42,000,000	55414
720 Washington Ave. S.	St. Anthony Mills Apts.: a new 93-unit apartment building with commercial space	11,540,398	55401
901 Hennepin Ave.	Chambers Hotel buildout	10,715,548	55402
1101 Main St, NE	Crescent Trace: New 56-unit condominium building with commercial space	9,429,931	55413
619 8th St, SE	Mill Trace: a new 50-unit condominium building	9,013,372	55414
2740 Minnehaha Ave.	Hiawatha Commons: a new 80-unit apartment building with commercial space	8,877,078	55406
2900 11th Ave. S.	The Greenway at Mid-Town: a new 57-unit condominium building	8,711,678	55407
4750 53rd St. E.	Olin Crossing: New 48-unit condominium building	7,090,000	55417
2000 Portland Ave.	Jourdain Apts.: a new 41-unit building with commercial space and parking	6,095,602	55404
4500 Chicago Ave.	Steele Flats: a new 31-unit condominium building	3,902,040	55407
2801 Pacific St. *	Alteration to existing building (IMF Manufacturing) for future metal fabrication	3,082,800	55411
2727 Lake St. E.	Remodel and addition to East Lake Community Library	2,792,000	55406
1315 Lowry Ave. N.	Remodel of North Regional Library	2,720,000	55411
405 8th St. S.	Normandy Inn Hotel remodeling	2,675,727	55404
111 22nd Ave. N.	New superstructure for recycling building	1,912,000	55411
250 Marquette Ave.*	Office remodeling at the Old Federal Reserve Bank	1,807,300	55401
1800 Chicago Ave.	Renovation of existing building (Catholic Healthcare Partners)	1,425,000	55404
414 Nicollet Mall	Office remodeling at Northern States Power Co.	1,325,000	55401
343 13th Ave NE	Ritz Theater remodeling	1,176,882	55413

Source: CPED with data from Regulatory Services

* More than one permit is involved

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

Tables four and five 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 and its Inspections Division. Numbers from the U.S. Census Bureau and City Inspections 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 the City Inspections Division.

Building permits for residential remodeling, additions and conversions: Table six and maps two and three are based on data from City of Minneapolis Regulatory Services Inspections Division. 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 Inspections Division and include all partially or totally demolished buildings. The multifamily building category includes condominiums.

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 fourth quarter of 2005, dollars have been converted with an index of 1.032100109 reflecting CPI December 2005 (189.7) and CPI for December 2004 (183.8). For housing the corresponding index is 1.031007752, calculated with a CPI 180.6 for December 2004 and a CPI 186.2 for December 2005.

HOUSING STOCK AND THE REAL ESTATE MARKET

- Average apartment vacancy rates in Minneapolis went up to 4.8%, reaching the same level as the fourth quarter 2004, and average rent also increased in real value since the same quarter of 2004 (Table 8).
- Sale of housing units dropped in Minneapolis by 40 percent from the previous quarter (Figure 17).
- Office space vacancies declined in both the Minneapolis central business district (CBD) and the metropolitan area. In the city CBD the average vacancy rate was at its lowest level since the fourth quarter of 2003. While the average price asked per square foot slightly dropped in the city, occupied space continued to grow but at a lower pace (Figures 18, 19, 20).
- The average retail vacancy rate fell in the Minneapolis CBD throughout the year, and it was much lower in the fourth quarter of 2005 than the fourth quarter of the previous year. The rate in the metropolitan area, although lower than in the city, was at the same level as the same period in 2004 (Figure 23).
- The industrial vacancy rate in Minneapolis fell in the last quarter of the year and was lower than in the same period the previous year. The average asking lease price per square foot increased a little, and occupied industrial space rose at a slower pace than it did the previous quarter (Figure 24, 25).

APARTMENTS: VACANCY & RENTAL RATES

The Minneapolis vacancy rate for multi-family rental units was 4.8 percent, up 0.5 percent from the third quarter. The rate is the same as the fourth quarter of 2004.

The average rent was \$826, up \$6 since the previous quarter, and up \$4 (down \$21 in constant dollars*) from the same period of 2004.

In the metropolitan area, the average vacancy rate was 6.1 percent, down from 7.3 percent in the same period of 2004. Average rent increased by \$2 but decreased by \$24 in constant dollars*.

* For conversion index see page 30

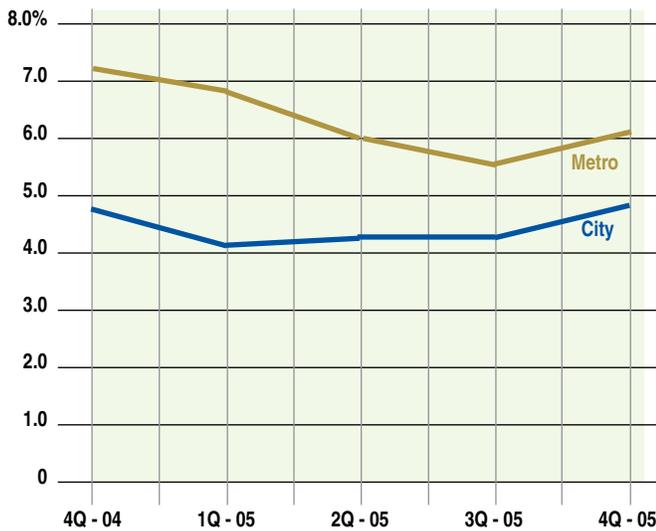
Table 8: VACANCY RATE & AVERAGE RENT

	2004		2005		
	4Q-04	1Q-05	2Q-05	3Q-05	4Q-05
MINNEAPOLIS					
Units surveyed	15,686	15,683	15,052	15,364	15,021
Vacant units	748	661	647	659	722
Average rent	\$ 822	\$ 824	\$ 808	\$ 820	\$ 826
Vacancy rate	4.8%	4.2%	4.3%	4.3%	4.8%
METRO AREA					
Units surveyed	121,641	119,728	117,709	116,699	114,455
Vacant units	8,905	8,262	7,033	6,564	6,979
Average rent	\$ 849	\$ 850	\$ 848	\$ 848	\$ 851
Vacancy rate	7.3%	6.9%	6.0%	5.6%	6.1%

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

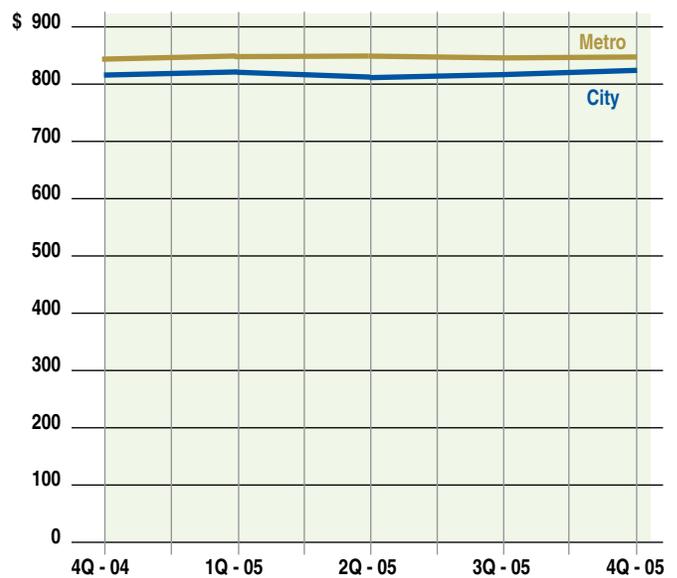
Figure 11: RENTAL VACANCY RATE
Minneapolis & Metro area



Source: CPED with data from GVA Marquette Advisors

Recorded data for the last month of the quarter

Figure 12: AVERAGE APARTMENT RENT
in current dollars



Source: CPED with data from GVA Marquette Advisors

Recorded data for the last month of the quarter

Numbers in table are not adjusted for inflation

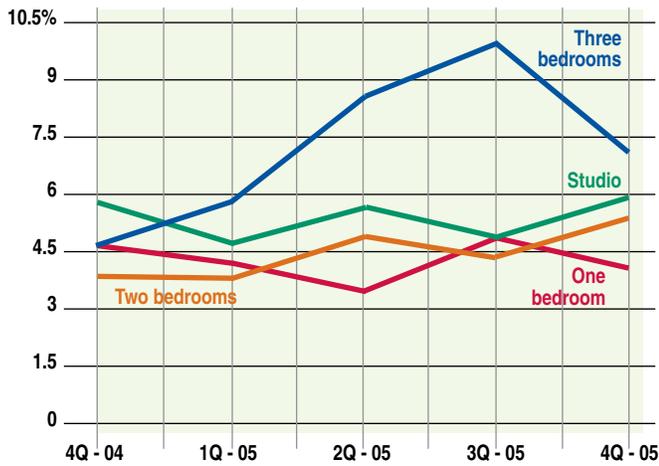
APARTMENTS: VACANCY & RENTAL RATES

Vacancy rates in Minneapolis for studio and one-bedroom apartments were lower than they were in the same period of 2004. Vacancy rates for three-bedroom units increased to 7.1 percent from 4.8 percent the previous year, while the rate for two-bedroom units increased to 5.4 percent from 4 percent in the same period.

In the metropolitan area, vacancy rates for all sizes of apartments decreased in the fourth quarter of 2005 from highs reached during the same period the previous year. For studios and two-bedroom units the vacancy rate decreased the most, dropping by 1.4 percent from 6.7 percent and 8.2 percent respectively.

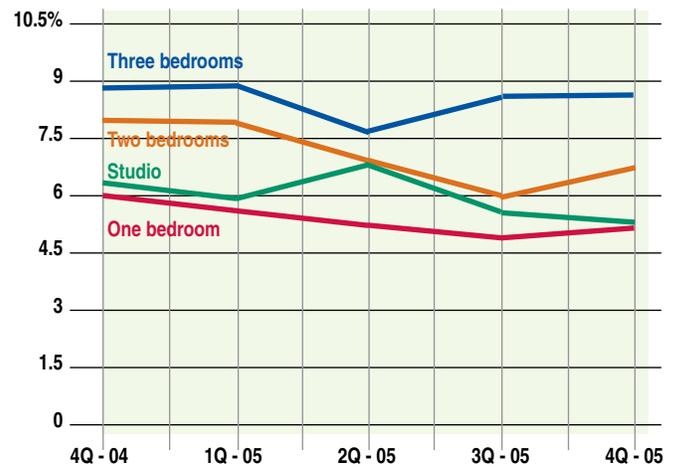
* For conversion index see page 30

Figure 13: **RENTAL VACANCY RATE – Minneapolis**
by apartment type



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 14: **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

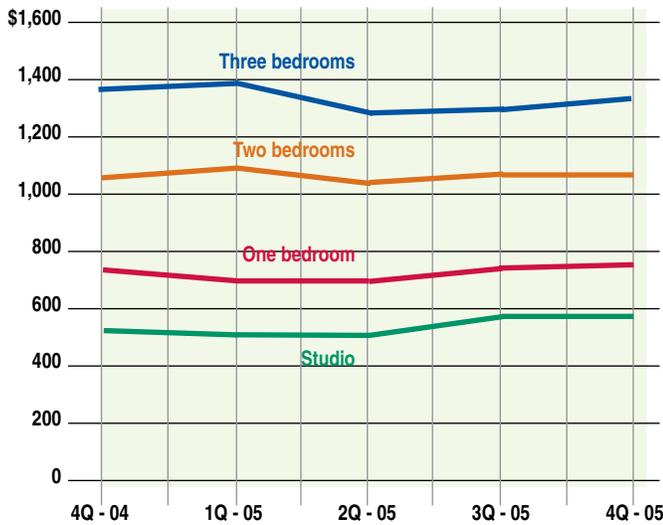
APARTMENTS: VACANCY & RENTAL RATES

Average rent for studios and one-bedroom apartments in Minneapolis went up by \$21 and \$15 respectively in the fourth quarter of 2005 from the rent in the same period of 2004. In constant dollars, however, average rent for studios increased by only \$4 and decreased for one-bedroom apartments by \$8. For large apartments (three bedrooms), rent decreased \$54 (\$97 in constant dollars*) from the fourth quarter of 2004. For two-bedroom apartments the decrease was \$18 (\$52 in constant dollars*).

Average rent for all sizes of apartments except large apartments (three-bedroom units) increased throughout the Twin Cities metropolitan area. However, rents decreased in constant dollars for all sizes of apartments. Average rent for large units decreased from \$1,268 in constant dollars in the fourth quarter of 2004 to \$1,224, a decrease of 3.5 percent.

* For conversion index see page 30

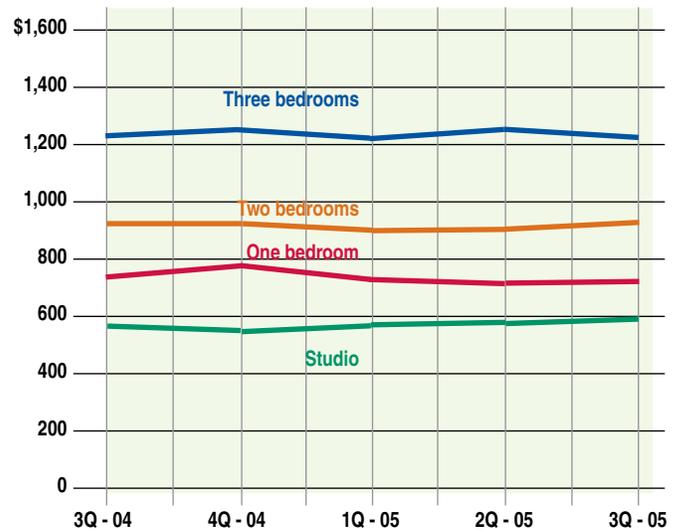
Figure 15: **AVERAGE RENT**– Minneapolis



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 16: **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

HOUSING SALES VALUES

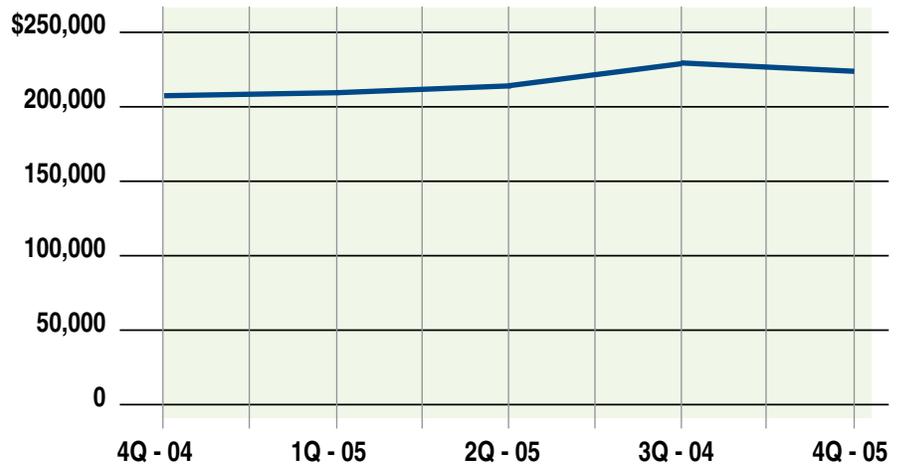
The total number of housing units sold dropped by 40 percent from the third quarter, but median sale prices in current dollars did not change.

Compared to the fourth quarter of 2004, single-family houses gained \$20,000 in value (\$13,600 in constant dollars*), while condominiums dropped in value by \$3,700 (\$10,900 in constant dollars*).

Median sale prices (in December 2005 dollars) for housing were about 4 percent higher than in the same period last year.

* For conversion index see page 30

Figure 17: **MEDIAN HOUSING SALE PRICES**
in December 2005 dollars



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

Residential housing includes single-family housing, duplexes, triplexes, condominiums and townhouses. It does not include apartments.

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

Table 9: **RESIDENTIAL UNITS SOLD AND MEDIAN SALE VALUES**¹ – Minneapolis

	4Q-2004		1Q-2005		2Q-2005		3Q-2005		4Q-2005	
	# UNITS	MED. SALE	# UNITS	MED. SALE						
Single-Family	1,341	\$ 200,000	852	\$ 199,450	1,144	\$ 215,000	1,102	\$ 222,000	728	\$ 220,000
Duplex/Triplex	246	245,000	151	250,000	169	266,000	163	275,000	86	257,000
Condominium/ Townhouse	565	222,000	292	242,500	241	248,500	234	197,750	87	218,270
TOTAL	2,152	\$ 209,900	1,295	\$ 214,000	1,554	\$ 225,000	1,499	\$ 225,000	901	\$ 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

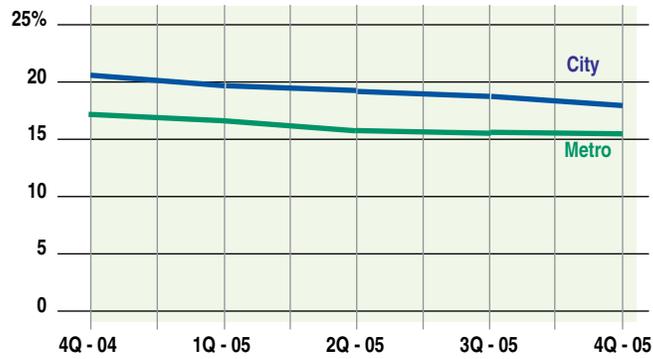
The average vacancy rate for office space in both the Minneapolis central business district (CBD) and the metropolitan area continued a downward trend in the fourth quarter of 2005. In Minneapolis, vacancies went down from 18.1 percent last quarter and from 20.5 percent the previous year to 17.6 percent. In the CBD, the vacancy rate reached its lowest level since the fourth quarter of 2003, when it stood at 16.5 percent. In the metro area, the office space vacancy rate went from 15.8 percent last quarter and from 17.6 percent a year earlier to 15.7 percent.

Average asking lease rates in Minneapolis decreased slightly from \$9.59 per square foot in the third quarter of 2005 to \$9.56 in the fourth quarter. In the fourth quarter of 2004, the average was \$9.78, which is 2.2 percent higher than the current lease rate. In constant dollars, the fourth quarter 2004 rate, at \$10.09 per square foot, was 5.2 percent higher than the current lease rate. In the metro area, prices declined from \$10.46 (\$10.80 in constant dollars) a year ago to \$10.34 this quarter*.

* For conversion index see page 30

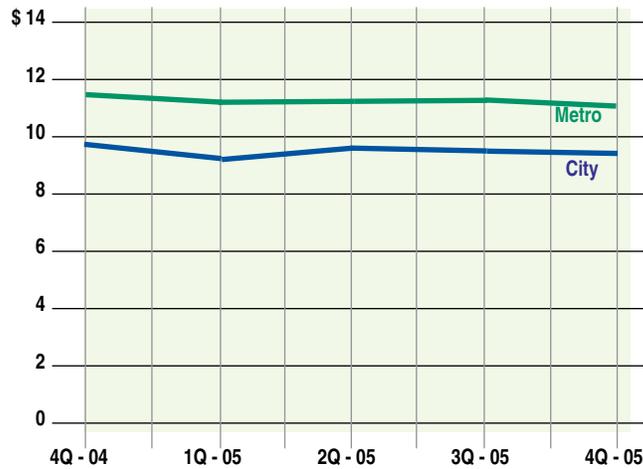
Office space continues to fill in the city central business district (CBD) but at a slower pace than in the third quarter. In the metropolitan area, growth was stabilized at the same rate as last quarter. The growth rate of occupied office space was the same as the same period last year in the Minneapolis CBD.

Figure 18: OFFICE VACANCY RATE



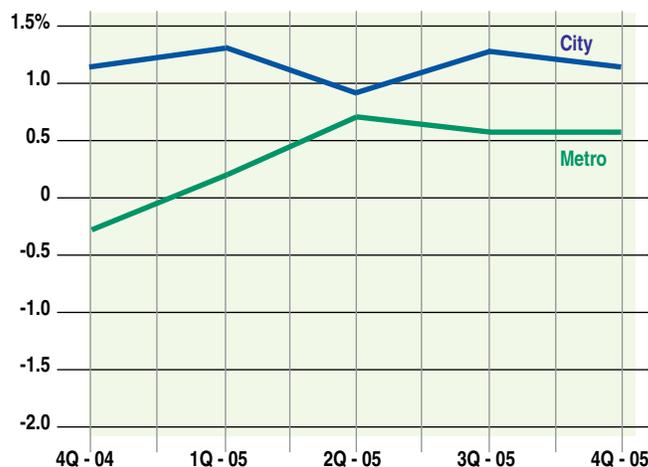
Source: CPED with data from CB Richard Ellis
Class A, B and C office buildings 10,000 square feet and larger

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

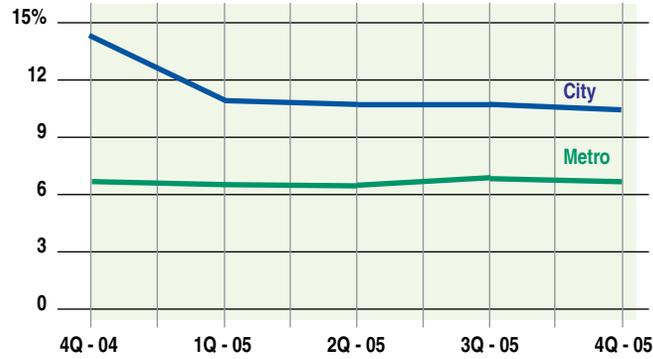


Source: CPED with data from CB Richard Ellis
Class A, B and C office buildings 10,000 square feet and larger

REAL ESTATE TRENDS: RETAIL SPACE

The retail vacancy rate in the Minneapolis central business district fell to its lowest point in the year, and it is 3.5 percent lower than the same period last year. The vacancy rate in the metropolitan area reached the same level as last year, after falling 1 percent from last quarter.

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 fell sharply from third quarter prices; they fell 38 percent to a low \$16 per square foot from \$25.80 (\$26.60 in constant dollars) in the same period last year. In the metropolitan area, prices were slightly down from the third quarter, but they increased by 24 percent since the same quarter last year. In constant dollars*, that was an increase of 20 percent from \$16.80.

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

* For conversion index see page 30

The city's rate of growth in occupied retail space partially recovered from losses in the fourth quarter of 2004. In Minneapolis' central business district, growth went down since the second quarter this year and increased slightly in the fourth quarter. The metropolitan area also rebounded since 2004. Occupied space increased in the third and fourth quarters of 2005 in the metropolitan area after a slowdown in the second quarter.

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



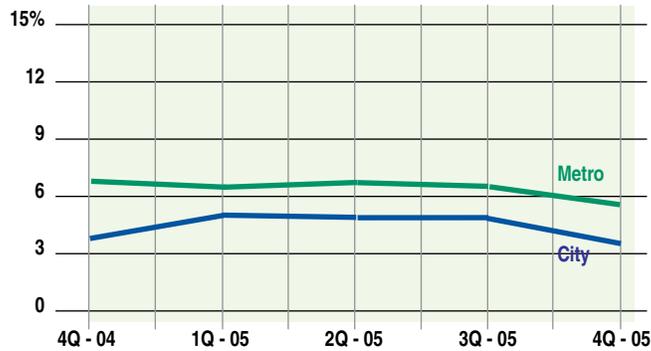
Source: CPED with data from CB Richard Ellis

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 decreased sharply since last quarter by 1.2 percent, and decreased slightly since the same period last year. The vacancy rate also decreased in the metropolitan area and was lower than last year's, but it was higher than Minneapolis'.

Figure 24: **INDUSTRIAL VACANCY RATE**

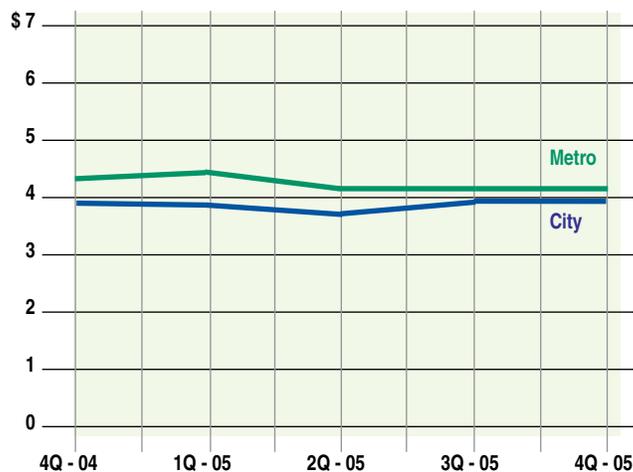


Source: CPED with data from CB Richard Ellis

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

In the fourth quarter of 2005, the average asking lease rate for industrial space was about 1 percent higher – but 2 percent lower in constant dollars – than it was a year ago. In the metropolitan area, prices were lower by 2.6 percent, but in constant dollars*, prices were 5.6 percent lower than last year

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



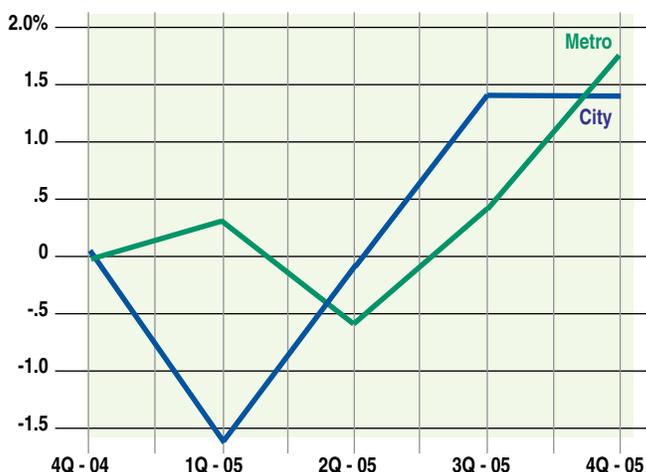
Source: CPED with data from CB Richard Ellis

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 were occupied this quarter than in the fourth quarter of last year, when absorption was very low. This quarter, occupied industrial space in the city decreased slightly from the third quarter, after increasing steadily for the first three quarters of the year. The metropolitan area has been adding occupied industrial space continuously since the second quarter; the metropolitan area absorption rate exceeded the city's rate for the first time since the second quarter.

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.

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.

Average 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 fourth quarter of 2005, dollars have been converted with an index of 1.032100, reflecting the CPI for December 2005 (189.7) and the CPI for December 2004 (183.8).

To convert housing values, a CPI for housing in Midwest urban areas is used. To compare the 2005 fourth quarter with the 2004 fourth quarter, the index is 1.03100775, the result of the relation between the CPI for December 2005 (186.2) and the CPI for December 2004 (180



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