

Muenchow Appraisals, Inc.
Real Estate Valuation & Consultation

2012

**Market Value Appraisal,
Summary Appraisal Report**

**1.51-Acre Industrial Site
2600 Minnehaha Avenue
Minneapolis, Minnesota 55406**



Muenchow Appraisals, Inc.

Real Estate Valuation & Consultation

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February 8, 2012

Darrell Washington
Manager of Real Estate Development Services
Minneapolis Community Planning & Economic Development
Crown Roller Mill, 105 Fifth Avenue South, Suite 200
Minneapolis, Minnesota 55401

RE: Market Value Appraisal -
1.51-Acre Industrial Site
2600 Minnehaha Avenue
Minneapolis, Minnesota 55406

Dear Mr. Washington:

As requested, a market value appraisal has been completed on the above-referenced property. All pertinent factors relating to the subject property and current market forces are considered. The attached report contains pertinent data, a summary of the analyses completed, and commentary and value conclusions pertaining to this real estate.

The subject represents an irregular-shaped, 65,734 square foot (or 1.51-acre) industrial zoned site. It has a good location at the southwest corner of Minnehaha Avenue and East 26th Street. Industrial properties surround the subject site.

The subject is owned by the City of Minneapolis and represents the last undeveloped property in the 61-acre Seward Place Industrial Business Park. Between 1930 and the mid-1980s, this area was the Southtown Yards of the Milwaukee Road Railroad. The railroad yards were purchased by Minneapolis in 1988 for industrial redevelopment. Since that time the city has constructed new streets and utilities, and coordinated the phased pollution investigation and remediation, sale of development sites, and industrial redevelopment of the business park.

Based upon my observations and investigation, it is my opinion the prospective market value of the subject property, as of October 1, 2012, will be:

<p style="text-align: center;"><u>Prospective Market Value Conclusion</u> Three Hundred Thirty Thousand Dollars (\$330,000)</p>
--

The above-referenced market value conclusion is predicated on a marketing time and an exposure period of nine to 12 months.

This appraisal required the use of one extraordinary assumption and one hypothetical condition. An extraordinary assumption is an assumption which, if found to be false, could alter the appraiser's opinions or conclusions. This appraisal is based upon the following extraordinary assumption.

- The City of Minneapolis requires that the subject's purchaser enter into a Redevelopment Agreement, with the sale of the property contingent upon construction of a manufacturing building that is in compliance with the City's development objectives. The City objectives for redevelopment are to construct a new high quality private development that is compatible with the surrounding land uses and business park character, achieves building coverage of approximately 40%, and increases tax base and industrial employment.

A hypothetical condition is something that is contrary to what exists, but is assumed to exist for the purpose of the analysis. This appraisal is based upon the following hypothetical condition.

- As a result of former railroad use, the property currently suffers from environmental contamination. Between 2005 and 2010, Minneapolis conducted extensive environmental investigation and testing, located a 995-foot deep well on the property, prepared a clean-up plan, and entered the site into the Minnesota Pollution Control Agency (MPCA) Voluntary Investigation and Cleanup (VIC) Program. The City properly abandoned and recorded the well closure and completed the first phase of petroleum remediation on the property in 2011. The City is currently preparing specifications to complete the remaining second phase of environmental clean-up during the summer of 2012. Thus this appraisal specifically assumes that the site will be "shovel ready" with the contamination properly remediated on October 1, 2012, and the subject property is appraised as of that date. It is also assumed that the City will work with the purchaser and redeveloper of the property to secure proper written assurances from the Minnesota Pollution Control Agency that eliminate environmental liability to the future owner of the subject property.

Darrell Washington
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To the best of my knowledge and belief, the data contained in the attached report is believed to be reliable. Neither my employment to make this appraisal nor the compensation received is contingent upon the conclusions or values reported herein. The appraisal is subject to certain limiting conditions and extraordinary assumptions contained in the accompanying report (please review these before any of the values or conclusions are relied upon).

This appraisal has been made in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP), and the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute. This appraisal conforms to the appraisal standards required by Title XI of FIRREA (Federal Financial Institutions Reform, Recovery and Enforcement Act of 1989), the OCC (Office of the Comptroller of the Currency), and the OTS (Office of Thrift Supervision).

It has been a pleasure to serve you in this manner. Feel free to contact me if you have any questions or concerns.

Respectfully submitted,

MUENCHOW APPRAISALS, INC.



Scott F. Muenchow, MAI
Minnesota Certified General
Real Property Appraiser #4000872

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INTRODUCTION, IDENTIFICATION OF SUBJECT, AND SUMMARY OF IMPORTANT FACTS & CONCLUSIONS

Subject Property:	1.51-Acre Industrial Site 2600 Minnehaha Avenue Minneapolis, Minnesota 55406
Client:	Darrell Washington Manager of Real Estate Development Services Minneapolis Community Planning & Economic Development Crown Roller Mill, 105 Fifth Avenue South, Suite 200 Minneapolis, Minnesota 55401
Type of appraisal engagement:	Market value appraisal presented in a summary report.
Fee owner of record and taxpayer:	The subject property is owned by the City of Minneapolis.
Property Description:	<p>The subject represents an irregular-shaped, 65,734 square foot (or 1.51-acre) industrial zoned site. It has a good location at the southwest corner of Minnehaha Avenue and East 26th Street. Industrial properties surround the subject site.</p> <p>The subject is owned by the City of Minneapolis and represents the last undeveloped property in the 61-acre Seward Place Industrial Business Park. Between 1930 and the mid-1980s, this area was the Southtown Yards of the Milwaukee Road Railroad. The railroad yards were purchased by Minneapolis in 1988 for industrial redevelopment. Since that time the city has constructed new streets and utilities, and coordinated the phased pollution investigation and remediation, sale of development sites, and industrial redevelopment of the business park.</p>
Property rights appraised:	Fee simple estate interest
Zoning:	I1, Light Industrial District
County PID number:	36-029-24-31-0025
Highest and Best Use –	The construction of a manufacturing building that will be in compliance with the City’s development objectives.
Date of appraisal:	October 1, 2012
Date of inspection:	January 31, 2012
Date of report:	February 8, 2012

INTRODUCTION, IDENTIFICATION OF SUBJECT, AND SUMMARY OF IMPORTANT FACTS & CONCLUSIONS (CONTINUED)

Appraiser:	Scott F. Muenchow, MAI MN Certified General Real Property Appraiser #4000872
Prospective Market Value Conclusion:	\$330,000
Marketing time and exposure period:	Six to 12 months, including pre-marketing preparation time, market exposure time, and necessary due diligence time.

Extraordinary Assumptions and Hypothetical Conditions

This appraisal required the use of one extraordinary assumption and one hypothetical condition. An extraordinary assumption is an assumption which, if found to be false, could alter the appraiser's opinions or conclusions. This appraisal is based upon the following extraordinary assumption.

- The City of Minneapolis requires that the subject's purchaser enter into a Redevelopment Agreement, with the sale of the property contingent upon construction of a manufacturing building that is in compliance with the City's development objectives. The City objectives for redevelopment are to construct a new high quality private development that is compatible with the surrounding land uses and business park character, achieves building coverage of approximately 40%, and increases tax base and industrial employment.

A hypothetical condition is something that is contrary to what exists, but is assumed to exist for the purpose of the analysis. This appraisal is based upon the following hypothetical condition.

- As a result of former railroad use, the property currently suffers from environmental contamination. Between 2005 and 2010, Minneapolis conducted extensive environmental investigation and testing, located a 995-foot deep well on the property, prepared a clean-up plan, and entered the site into the Minnesota Pollution Control Agency (MPCA) Voluntary Investigation and Cleanup (VIC) Program. The City properly abandoned and recorded the well closure and completed the first phase of petroleum remediation on the property in 2011. The City is currently preparing specifications to complete the remaining second phase of environmental clean-up during the summer of 2012. Thus this appraisal specifically assumes that the site will be "shovel ready" with the contamination properly remediated on October 1, 2012, and the subject property is appraised as of that date. It is also assumed that the City will work with the purchaser and redeveloper of the property to secure proper written assurances from the Minnesota Pollution Control Agency that eliminate environmental liability to the future owner of the subject property.

CERTIFICATION OF APPRAISER

I certify that to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. Neither my engagement to make this appraisal (or any future appraisals for this client), nor any compensation therefore, are contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP).
9. I have made a personal inspection of the property that is the subject of this report.
10. No one provided significant real property appraisal assistance to the person signing this report.
11. The reported analyses, opinions and conclusions were developed, and this report has been prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, Scott F. Muenchow has completed the requirements of the continuing education program of the Appraisal Institute.
14. Scott F. Muenchow previously appraised the subject property on August 31, 2009. The appraiser as not completed any other services (either as an appraiser or in any other capacity) pertaining to the subject property within the last three years.
15. I certify that I have adequate knowledge, experience, education and resources to competently complete this appraisal assignment.



Scott F. Muenchow, MAI
MN Certified General Real Property
Appraiser #4000872
Expiration Date: 8/31/2012

ASSUMPTIONS AND LIMITING CONDITIONS

1. The appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the appraiser render any opinion as to the title, which is assumed to be good and marketable. The property is appraised free and clear of all indebtedness, and under responsible ownership and good management.
2. The furnished legal description is assumed to be correct.
3. Any plat, site plan or sketch in the report may show approximate dimensions and is included to assist the reader in visualizing the property. The appraiser has made no survey of the property. It is assumed unless otherwise noted that no survey has been viewed and that all improvements are located within the legally described property.
4. The appraiser is not required to give further consultation, testimony, or appear in court because of having made the appraisal with reference to the property in question, unless arrangements have been previously made therefore.
5. The distribution of the total valuation in this report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.
6. The appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The appraiser assumes no responsibility for such conditions, or for engineering, which might be required to discover such factors. Stable soils are assumed.
7. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as petroleum products, asbestos, urea-formaldehyde foam insulation, radon gas, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated. It is assumed that the utilization of the subject is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in within the report.
9. Information, estimates, and opinions furnished to the appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished to the appraiser can be assumed by the appraiser.

ASSUMPTIONS AND LIMITING CONDITIONS (CONTINUED)

10. This appraisal does not affix or set the price of the property but offers only a supportable opinion as to the present worth of anticipated benefits subject to investment risk, measured mainly by the market data available at the valuation date. Therefore, the appraiser assumes no liability for changes in market conditions or for the inability of the owner to locate a purchaser at the appraised value.
11. No environmental impact study has been ordered or made. Full compliance with applicable federal, state, and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, state, or national government or private entity organization either have been or can be obtained or renewed for any use which the reports covers.
12. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of the Appraisal Institute. No part of the contents of this report, or copy thereof (including conclusions as to the property value, the identity of the appraiser, professional designations, reference to any professional appraisal organizations, or the firm with which the appraiser is connected), shall be disseminated to the public through advertising, public relations, news, sales, or any other public means of communications without the prior written consent and approval of the appraiser.
13. Information in the appraisal report relating to the comparable market data is more fully documented in the confidential files in the office of the appraiser.
14. Possession of this report or a copy thereof does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with properly written qualification and only in its entirety.

EXTRAORDINARY ASSUMPTIONS AND HYPOTHETICAL CONDITIONS

An extraordinary assumption is an assumption which, if found to be false, could alter the appraiser's opinions or conclusions. This appraisal is based upon the following extraordinary assumption.

- The City of Minneapolis requires that the subject's purchaser enter into a Redevelopment Agreement, with the sale of the property contingent upon construction of a manufacturing building that is in compliance with the City's development objectives. The City objectives for redevelopment are to construct a new high quality private development that is compatible with the surrounding land uses and business park character, achieves building coverage of approximately 40%, and increases tax base and industrial employment.

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IDENTIFICATION OF CLIENT, OTHER INTENDED USERS, AND INTENDED USE OF APPRAISAL

Client:	Darrell Washington Manager of Real Estate Development Services Minneapolis Community Planning & Economic Development Crown Roller Mill, 105 Fifth Avenue South, Suite 200 Minneapolis, Minnesota 55401
Appraisal Engagement:	The appraiser was engaged by Lee D. Peterson CPED Real Estate Appraiser. Note, the Minneapolis Community Planning & Economic Development no longer employs Mr. Peterson.
Intended Users:	The City of Minneapolis.
Intended Use of Appraisal:	The intended use or function of the appraisal is for the determination of the subject's market value to be utilized for a potential sale.
Restriction on Use of Appraisal:	This appraisal was requested by the named client and the listed intended user(s) and other intended users for their sole use. No other party may use or rely upon any part of this report without the prior written authorization of both the named client and the appraiser. Any unauthorized third party relying upon any portion of this report does so at its own risk and liability.

PHOTOGRAPHS OF SUBJECT PROPERTY



View Looking Southwest



View Looking Southwest

PHOTOGRAPHS OF SUBJECT PROPERTY (CONTINUED)



PHOTOGRAPHS OF SUBJECT PROPERTY (CONTINUED)



View Looking Southwest



View Looking Southeast

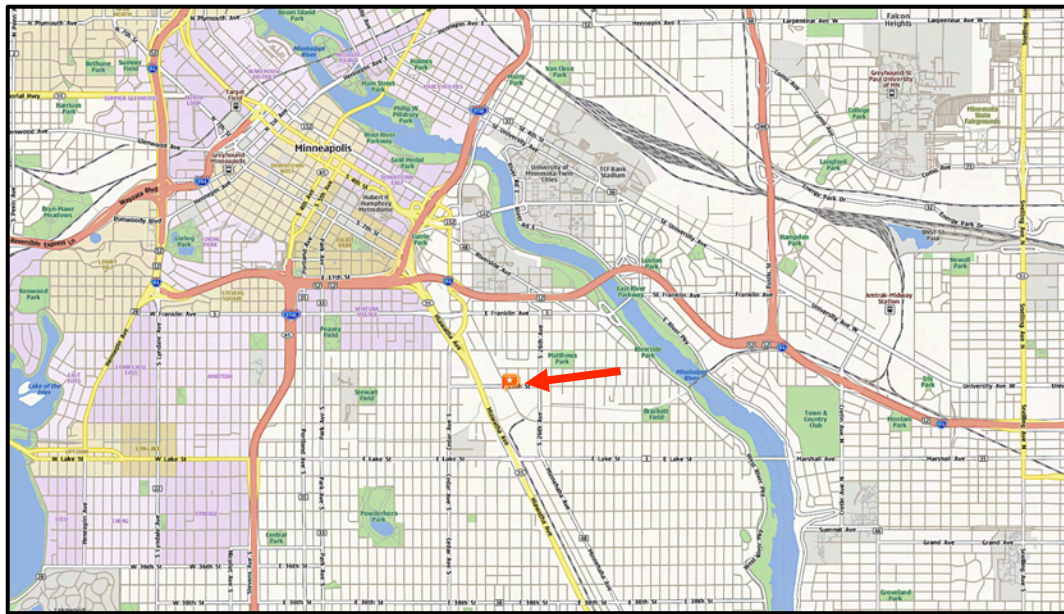
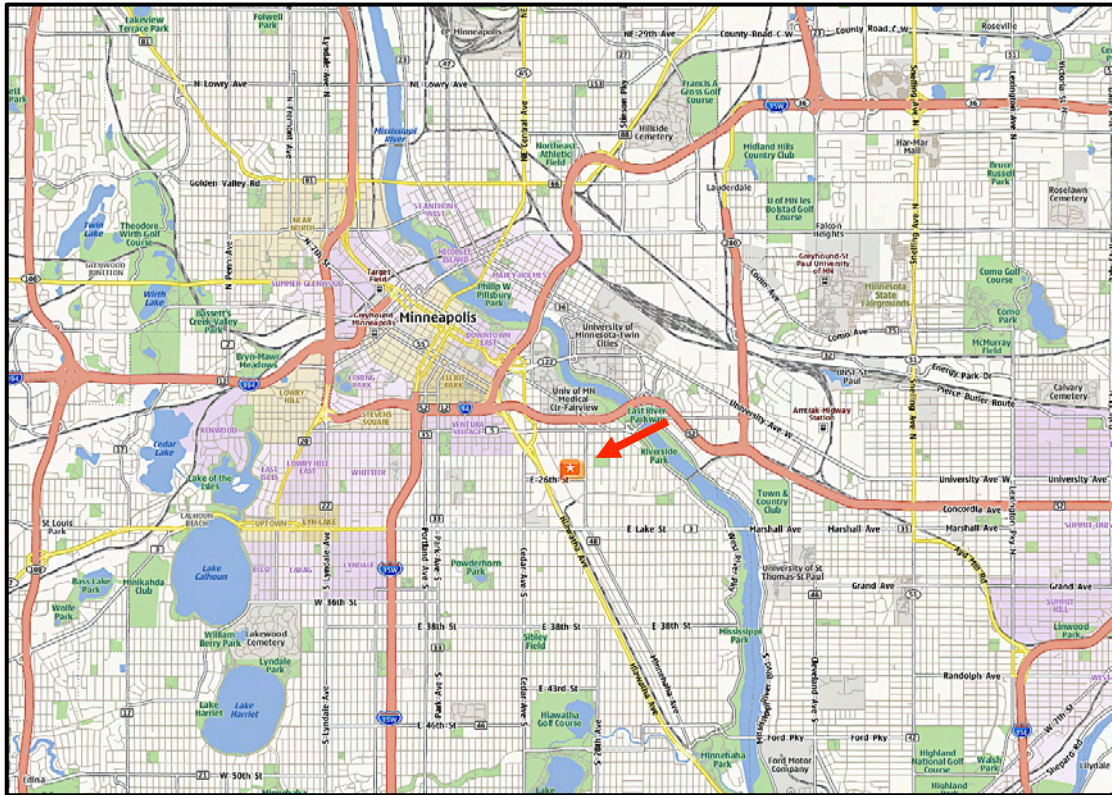
PHOTOGRAPHS OF SUBJECT PROPERTY (CONTINUED)



PHOTOGRAPHS OF SUBJECT PROPERTY (CONTINUED)



MAPS OF AREA



MAPS OF AREA (CONTINUED)



PURPOSE OF THE APPRAISAL

The purpose of the appraisal is to estimate the subject's prospective market value as of the anticipated date the property has been properly remediated, which reportedly will be October 1, 2012. The definition of "Market Value" as utilized in this report per the Office of the Comptroller of Currency is as follows:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1. Buyer and seller are typically motivated*
- 2. Both parties are well informed or well advised, and each acting in what they consider their own best interest;*
- 3. A reasonable time is allowed for exposure in the open market;*
- 4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- 5. The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Market value is purely an economic concept. It differs from:

- Intrinsic value
- Value in use--value based upon a specific use
- Investment value--value to a specific investor
- Going concern value--value of a proven property operation which can include personal property and business enterprise
- Insurable value
- Assessed value--used for taxation purposes and based upon mass appraisal techniques
- Public interest value (e.g., conservation and preservation issues)
- Cost

Value is created by utility, scarcity, desire, and effective purchasing power.

PROPERTY RIGHTS APPRAISED

The appraiser has estimated the market value of the fee simple estate interest in the subject property. The Dictionary of Real Estate Appraisal, Fourth Edition published in 2002 by the Appraisal Institute defines fee simple estate as follows:

“Absolute ownership interest unencumbered by any other interest or estate, subject only to the limitations of eminent domain, police power and taxation.”

The property is appraised subject to normal easements for drainage, public streets and utilities, if any. The effect of any existing mortgages, deferred taxes, delinquent taxes, outstanding special assessments, unpaid utility charges, payable association dues, or any other levies/liens on the subject property are not considered in this appraisal.

DATE OF APPRAISAL

The subject property was inspected on January 31, 2012. The subject is appraised as of the anticipated date the property has been properly remediated, which reportedly will be October 1, 2012. This date can be compared with the date this report was completed, which was February 8, 2012.

LEGAL DESCRIPTION

Per its survey, the subject property is legally described as follows:

Lot 1, Block 1, MINNEHAHA INDUSTRIAL PARK 4TH ADDITION,
according to the recorded plat thereof, Hennepin County, Minnesota

SCOPE OF WORK USED TO DEVELOP APPRAISAL

Scope of Work is defined by USPAP as “the type and extent of research and analysis in an assignment.” The Scope of Work rule requires the appraiser to:

1. Identify the problem to be solved
2. Determine and perform the scope of work necessary to develop credible assignment results; it must be sufficient to produce a credible result
3. Disclose the scope of work in the appraisal report.

Scope of Work includes:

1. The extent to which the property is identified
2. The extent to which tangible property is inspected
3. The type and extent of data researched
4. The type and extent of analysis applied to arrive at opinions and conclusions.

While the appraiser has broad flexibility, there is significant responsibility in determining and developing an appropriate Scope of Work to produce credible conclusions in the context of the intended use of the appraisal.

SCOPE OF WORK USED TO DEVELOP APPRAISAL (CONTINUED)

Scope of Work acceptability includes the expectation of the intended users for similar assignments, and what an appraiser's peers' actions would be in performing the same or a similar assignment. An appraiser may not allow assignment conditions (e.g. limitations on inspection or information gathering, extraordinary assumptions, withholding of needed financial data, etc.) to such an extent that the results are not credible or are biased.

The appraisal problem has been adequately disclosed in other sections of this report. The Scope of Work is summarized below and is also summarized within various sections of the report.

The valuation assignment is presented in a "*summary*" report format. Scott F. Muenchow, MAI inspected the subject property on January 31, 2012. To obtain the history of the property, the appraiser interviewed Lee D. Peterson and Mark Garner with the Minneapolis Department of Community Planning and Economic Development Department. Note, the appraiser previously appraised the subject property on August 31, 2009.

The appraisal analysis includes a highest and best use study, an examination of comparable land sales (as well as current listings) and consideration of other pertinent market data. The data used was obtained from sources considered credible, yet its accuracy is not guaranteed.

The Sales Comparison Approach is applied in this appraisal. The appraiser viewed all of the comparable land sales that are utilized in this appraisal.

The following was available to the appraiser, most of which are presented as exhibits in this appraisal:

- Survey
- Plat map
- Zoning map
- FEMA flood hazard map
- Aerial maps
- Environmental site assessment reports

The following data was not available to the appraiser:

- Special assessment search
- Title work

COMPETENCY RULE

The Competency Rule of USPAP states, "Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently."

Scott F. Muenchow is certified by the State of Minnesota for appraising all types of real estate. He has been appraising real estate since 1987, and in 1993 obtained the MAI designation from the Appraisal Institute. The appraiser has appraised many industrial sites throughout Minneapolis and the Twin Cities. Thus, the appraiser is familiar with the nuances as well as the supply and demand forces of this particular property type. As a result, the appraiser complies with the Competency Rule. Please refer to the Qualifications of Appraiser section of this report for additional reference.

SUBJECT HISTORY

The subject owned by the City of Minneapolis and represents the last undeveloped property in the 61-acre Seward Place Industrial Business Park. Between 1930 and the mid-1980s, this area was the Southtown Yards of the Milwaukee Road Railroad. The railroad yards were purchased by Minneapolis in 1988 for industrial redevelopment. Since that time the city has constructed new streets and utilities, and coordinated the phased pollution investigation and remediation, sale of development sites, and industrial redevelopment of the business park.

As summarized in the prior extraordinary assumption and hypothetical condition, the subject will be required to be developed in accordance with the anticipated, city-imposed redevelopment agreement. In addition, the subject site is appraised as of October 1, 2012, which is the City's anticipated date in which all of the subject's remediation has been completed. Thus, this appraisal specifically assumes the subject will be "shovel-ready", with all of its contamination already properly remediated. The final site remediation reportedly will commence this spring.

The subject currently does not have an asking price. During 2009, when the appraiser first appraised the subject site, the City of Minneapolis had established an asking price of \$493,400, or approximately \$7.50 per square foot for the subject site. This asking price was based on a value opinion completed by a CPED Staff Appraiser (on April 27, 2009).

The subject currently is listed for sale on the local Commercial Multiple Listing Service (MNCAR). This listing states the subject's asking price is negotiable and that development of the site is subject to the City of Minneapolis' policies regarding specific development.

The appraiser interviewed Andrew Carlson and Mark Garner, with Minneapolis Community Planning & Economic Development Department. They report the subject site has generated a great deal of interest. Due to the site's remediation costs, the City of Minneapolis requires the subject's purchaser to enter into a redevelopment agreement. A redevelopment agreement will be drafted in accordance with Minneapolis' Brownfield Program, as summarized beginning on the following page.

The city's objectives of a redevelopment agreement for the subject are to increase employment, increase tax base, and to enhance the immediate neighborhood. Given the site's zoning and the city's objectives, the only acceptable use of the site is for the development of a manufacturing building that provides a sufficient number of jobs. Further, the city desires for the manufacturing building to have some architectural significance (with some street level windows). The city views the subject site as the gateway site for the Seward South Industrial Park.

Mr. Carlson and Mr. Garner report most of the subject's interest has been generated by potential buyers that would not comply with the City's objectives and requirements of the City's Brownfield Program. Unacceptable potential users have included gas stations, parking lot, charter school, and other commercial uses. Mr. Carlson and Mr. Garner also reported the subject site had generated interest from "true" manufacturing companies that may have been able to develop the subject site in compliance with the city's objectives. However, these potential buyers elected to not develop the subject site due to the greater time required associated with obtaining all approvals and remediating the subject site. The City of Minneapolis' remediation process will be completed as of the appraisal date, and a buyer will purchase a "shovel ready" site that can be immediately developed.

SUBJECT HISTORY (CONTINUED)

During 2009, Peter Kelsey with The New French Bakery, Inc. expressed an interest in purchasing the subject property. He had proposed constructing a one- and part two-story, approximate 50,000 square foot office/manufacturing building on the subject site. The City of Minneapolis reportedly had tentatively approved Mr. Kelsey's proposed development. The proposed building would be in compliance with the city's development objectives for the subject site. Within the Site Summary section of this report is a Site Plan that illustrates the proposed development. Due to the 2009 economic slow down, Mr. Kelsey elected to terminate his effort to purchase and develop the subject site. The City of Minneapolis desires the subject site to be developed with a manufacturing building that is similar in size and density as what had tentatively been approved for The New French Bakery.

MINNEAPOLIS' BROWNFIELD PROGRAM

The subject must be redeveloped in accordance with the Brownfield Program that is implemented by the City of Minneapolis. Redevelopment sites must be improved with properties that meet the employment objectives of the city. Per the City of Minneapolis, this program is summarized below.

Brownfields Program

Twice a year, grant applications for environmental remediation projects are solicited by Minnesota's Department of Employment and Economic Development (DEED), the Metropolitan Council, and Hennepin County. The City's Department of Community Planning and Economic Development (CPED) works with potential applicants to review proposed projects and submit to the grantors the applications that reflect the best combination of development potential, consistency with City and neighborhood plans, job and/or affordable housing creation, and sustainable construction practices.

The grantors' final application deadline for the fall 2011 grant cycle is November 1, 2011. However, for any application involving a property or project located in the City of Minneapolis, a "pre-application" must be prepared and submitted to City staff by September 15, 2011 to allow sufficient time for staff review and City Council action prior to the grantors' final application deadline. (See below for links to the forms that should be used to submit a pre-application to the City.)

General Background Information

The Environmental Protection Agency defines brownfields as "abandoned, idled or underused industrial and commercial facilities where expansion or redevelopment is complicated by real or perceived environmental contamination." The additional costs, time and uncertainty associated with redevelopment often make businesses and developers hesitant to consider these sites without public involvement. Minneapolis is a recognized leader in working with county, regional and state funding and regulatory agencies to address these concerns and successfully return brownfields to productive uses.

Examples of brownfields the city has prepared for productive use include properties in North Washington Jobs Park, former railroad yards in the Seward South Industrial Park, a site in northeast Minneapolis that is now the Quarry Shopping Center, and former rail yards in the Mill Quarter and the Minneapolis Riverfront District that are being redeveloped for riverfront housing and other uses. City staff members have also assisted with the cleanup of scattered sites throughout the City.

Program Goals

MINNEAPOLIS' BROWNFIELD PROGRAM (CONTINUED)

Program Goals

- *Providing sites for living-wage jobs to Minneapolis residents*
- *Providing sites for new housing options*
- *Increasing the tax base*
- *Improving environmental conditions*
- *Solidifying and strengthening intergovernmental cooperation, and increasing efficiency in delivery of community services*
- *Recycling city sites to maximize use of existing infrastructure*

Completed Projects

Since 1994 the City has successfully initiated the clean-up of hundreds of sites, resulting in private investment in excess of \$1 billion. Many of the sites were located in former rail yards. Others are former gas stations or converted industrial buildings.

As the City's brownfield efforts move forward, scattered sites will continue to be included in the program. However, major focus will be placed on the remediation, redevelopment and reuse of the sites with significant employment potential in the following major target areas: Franklin-Seward Area, Humboldt Industrial Park, North Washington Industrial Park, Shoreham Yards, University Research Park-Southeast Minneapolis Industrial (URP-SEMI), and Bassett Creek Valley/Van White Memorial Boulevard.

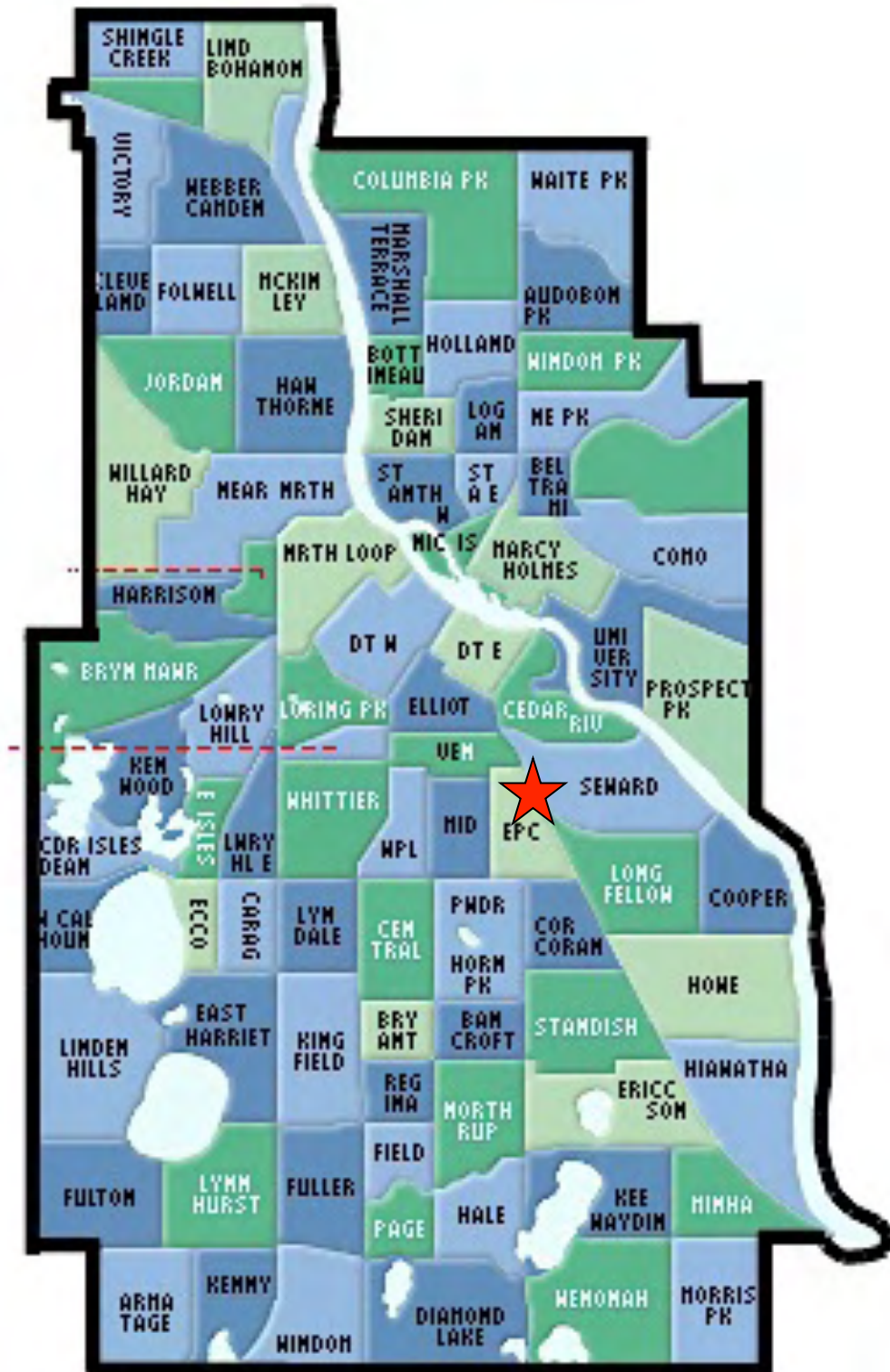
How the program works

Over the decade the program has been working, there has been a change from City-led redevelopment of a few large sites to City-facilitated redevelopment of a greater number of smaller sites. The City is currently reviewing and rating twenty to thirty sites per year, with private developers seeking City support for remediation grants based on their perception of the redevelopment potential.

The majority of the remediated sites in the early program years were redeveloped for light industrial use, as it is typically less expensive to clean sites to industrial standards. However, increasing numbers of brownfield sites are being redeveloped for mixed-use or residential development after remediation. Doing so is relatively expensive, which makes the availability of grant funds even more critical to a project's success.

CITY SUMMARY

The subject property is located in the City of Minneapolis. Minneapolis is segregated into 13 communities each comprised of individual neighborhoods, as shown below. The subject is situated in the Longfellow community.



CITY SUMMARY (CONTINUED)

Below are current U.S. Census Data that summarizes Minneapolis and the State of Minnesota.

<u>2010 U.S. Census Data</u>		
	<u>Minneapolis</u>	<u>Minnesota</u>
<u>People QuickFacts</u>		
Population, 2010	382,578	5,303,925
Population, percent change, 2000 to 2010	0.0%	7.8%
Population, 2000	382,618	4,919,479
Persons under 5 years, percent, 2010	6.9%	6.7%
Persons under 18 years, percent, 2010	20.2%	24.2%
Persons 65 years and over, percent, 2010	8.0%	12.9%
Female persons, percent, 2010	49.7%	50.4%
Living in same house 1 year & over, 2005-2009	74.4%	85.3%
High school graduates, percent of persons age 25+, 2005-2009	87.7%	91.1%
Bachelor's degree or higher, pct of persons age 25+, 2005-2009	43.3%	31.2%
Mean travel time to work (minutes), workers age 16+, 2005-2009	21.8	22.2
Housing units, 2010	178,287	2,347,201
Homeownership rate, 2005-2009	52.0%	74.9%
Housing units in multi-unit structures, percent, 2005-2009	50.1%	21.2%
Median value of owner-occupied housing units, 2005-2009	\$229,700	\$207,000
Households, 2005-2009	165,253	2,061,882
Persons per household, 2005-2009	2.19	2.45
Per capita money income in past 12 months (2009 dollars) 2005-2009	\$29,249	\$29,431
Median household income 2005-2009	\$45,625	\$57,007
People of all ages in poverty - percent, 2005-2009	21.5%	10.0%
<u>Business QuickFacts</u>		
Total number of firms, 2007	39,273	496,657
Retail sales, 2007 (\$1000)	3,867,032	71,384,103
Retail sales per capita, 2007	\$10,207	\$13,751
Accommodation and food services sales, 2007 (\$1000)	1,333,466	10,423,660
<u>Geography QuickFacts</u>		
Land area in square miles, 2010	53.97	79,626.74
Persons per square mile, 2010	7,088.3	66.6

Presented in the Addenda of this report is a Minneapolis Community Profile that provides many statistical exhibits that were prepared by the Metropolitan Council. Typical of core cities throughout the country, Minneapolis has been growing at a slower pace compared to the metropolitan region as a whole. To the right is a summary of Minneapolis' more significant attributes:

Area	57.4 sq miles 36,726 Acres
Parks, Recreation & Preserves (in 2005)	3,256 Acres
Population (2010)	382,578
Households (2010)	163,540
Employment (2009)	281,521

CITY SUMMARY (CONTINUED)

Following are the largest employers in Minneapolis.

Major Employers		
<i>Employer</i>	<i>NAICS Products/Services</i>	<i>Employee Count</i>
University of Minnesota	6113 Colleges, Universities, & Professional Schools	30,000
Target Corporation	4529 Other General Merchandise Stores	25,734
Allina Health System	621498 All Other Outpatient Care Centers	22,105
Wells Fargo Bank MN	522110 Comm. Banking	20,175
Fairview Health Services	621498 All Other Outpatient Care Centers	18,500
Hennepin County	921190 Other General Government Suppt.	12,171
U.S. Bankcorp	522110 Comm. Banking	9,500
Ameriprise Financial Inc.	523999 Misc. Financial Investment Activ.	6,000
United Parcel Service	4911 Postal Service	5,400
Xcel Energy Inc.	2211 Electric Power Generation, Transmission & Dist.	5,057
Honeywell ACS	541330 Engineering Svcs.	5,000
Qwest	237130 Power & Comm. Line & Related Structures Const.	4,390
Children's Hospitals and Clinics	622110 General Medical & Surgical Hospitals	4,233
City of Minneapolis	921190 Other General Government Suppt.	3,945

Minneapolis is widely known for its open space and recreational amenities. Minneapolis is often referred to as the “City of Lakes”, given the multiple lakes that dot its landscape. The most prominent is the chain of lakes that include Cedar, Lake of the Isles, Calhoun and Harriet. Minneapolis has considerable parkland with an extensive trail system. Traversing Minneapolis is the Mississippi River.

Minneapolis has a relatively dynamic central business district (CBD). Minneapolis is referred to as 24-7, reflecting its dynamics (particularly in the CBD) for 24 hours a day and seven days a week living. A significant amount of new housing has been developed in and around the CBD over the last 15 years, including the development of apartments, townhouses, and condominiums, many of which are along or near the riverbank.

Like the vast majority of the Twin Cities, house sale prices in Minneapolis have drastically declined during the last four years. The sharp decline in prices throughout the metropolitan area is due to a higher percentage of foreclosures and lender-mediated sales. Below are the December 2011 monthly and the year to date statistics for Minneapolis Longfellow Neighborhood, the City of Minneapolis, and the Twin Cities as a whole.

CITY SUMMARY (CONTINUED)

Minneapolis - Longfellow

- 32.4% **+ 71.4%** **- 14.0%**

Change in
New Listings

Change in
Closed Sales

Change in
Median Sales Price

	December			Year to Date		
	2010	2011	+ / -	2010	2011	+ / -
New Listings	37	25	- 32.4%	572	443	- 22.6%
Closed Sales	14	24	+ 71.4%	273	295	+ 8.1%
Median Sales Price*	\$143,575	\$123,500	- 14.0%	\$170,500	\$148,500	- 12.9%
Average Sales Price*	\$169,988	\$127,433	- 25.0%	\$175,883	\$158,684	- 9.8%
Price Per Square Foot*	\$120	\$100	- 17.2%	\$135	\$110	- 18.6%
Percent of Original List Price Received*	94.1%	88.0%	- 6.5%	95.2%	91.0%	- 4.4%
Days on Market Until Sale	81	109	+ 35.4%	73	112	+ 51.9%
Inventory of Homes for Sale	115	61	- 47.0%	--	--	--
Months Supply of Inventory	5.1	2.4	- 52.5%	--	--	--

* Does not account for seller concessions. | Activity for one month can sometimes look extreme due to small sample size.

Minneapolis

- 15.4% **+ 20.5%** **+ 3.8%**

Change in
New Listings

Change in
Closed Sales

Change in
Median Sales Price

	December			Year to Date		
	2010	2011	+ / -	2010	2011	+ / -
New Listings	429	363	- 15.4%	9,860	7,472	- 24.2%
Closed Sales	268	323	+ 20.5%	4,388	4,377	- 0.3%
Median Sales Price*	\$136,000	\$141,154	+ 3.8%	\$160,000	\$140,000	- 12.5%
Average Sales Price*	\$179,822	\$197,115	+ 9.6%	\$202,283	\$186,596	- 7.8%
Price Per Square Foot*	\$110	\$115	+ 4.2%	\$124	\$113	- 9.0%
Percent of Original List Price Received*	89.3%	89.4%	+ 0.1%	93.3%	90.2%	- 3.4%
Days on Market Until Sale	130	128	- 1.4%	114	141	+ 24.0%
Inventory of Homes for Sale	2,365	1,538	- 35.0%	--	--	--
Months Supply of Inventory	6.5	4.1	- 36.1%	--	--	--

* Does not account for seller concessions. | Activity for one month can sometimes look extreme due to small sample size.

CITY SUMMARY (CONTINUED)

**Twin Cities
Region**

- 14.9% **+ 13.5%** **- 6.5%**

Change in
New Listings

Change in
Closed Sales

Change in
Median Sales Price

December

Year to Date



	2010	2011	+ / -	2010	2011	+ / -
New Listings	3,963	3,374	- 14.9%	81,846	68,874	- 15.8%
Closed Sales	2,872	3,259	+ 13.5%	38,283	41,431	+ 8.2%
Median Sales Price*	\$155,000	\$145,000	- 6.5%	\$169,900	\$150,000	- 11.7%
Average Sales Price*	\$200,124	\$186,670	- 6.7%	\$211,350	\$193,450	- 8.5%
Price Per Square Foot*	\$94	\$91	- 3.5%	\$104	\$93	- 10.2%
Percent of Original List Price Received*	89.1%	90.6%	+ 1.7%	92.3%	90.6%	- 1.9%
Days on Market Until Sale	144	140	- 2.4%	133	148	+ 10.6%
Inventory of Homes for Sale	22,723	16,191	- 28.7%	--	--	--
Months Supply of Inventory	7.1	4.6	- 35.7%	--	--	--

* Does not account for seller concessions. | Activity for one month can sometimes look extreme due to small sample size.



Per www.city-data.com, following are additional statistics relating to Minneapolis.

Population in July 2009: 385,542.

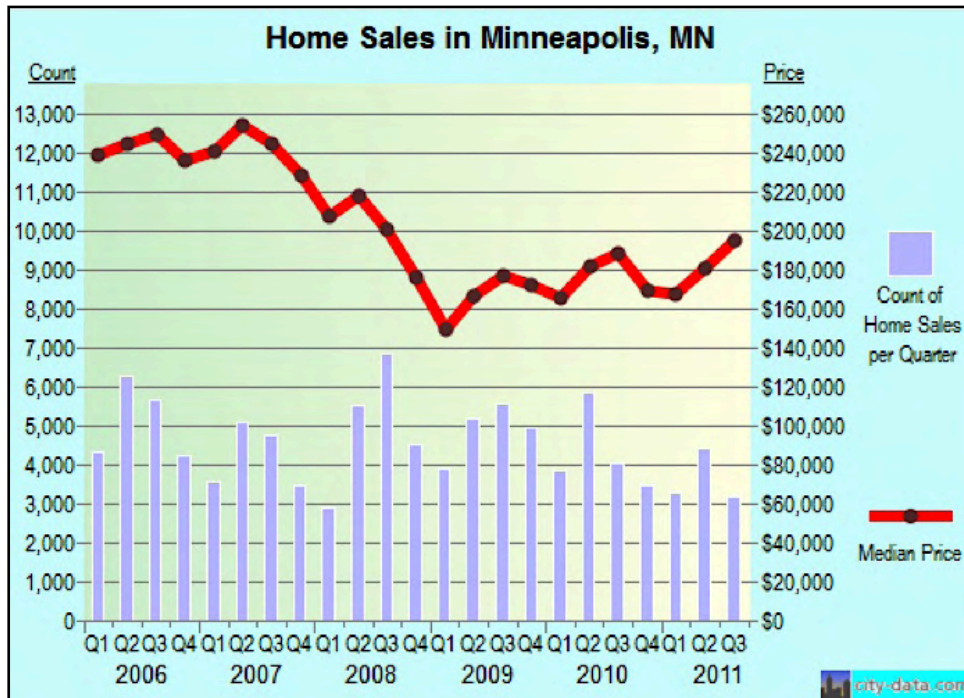
Population change since 2000: +0.8%

Estimated median household income in 2009: **\$45,538** (it was \$37,974 in 2000)
 Minneapolis:  **\$45,538**
 Minnesota:  **\$55,616**

Estimated per capita income in 2009: **\$28,131**

Estimated median house or condo value in 2009: **\$220,900** (it was \$113,700 in 2000)
 Minneapolis:  **\$220,900**
 Minnesota:  **\$200,400**

CITY SUMMARY (CONTINUED)



Minneapolis remains popular for new housing development. Most of the development is a result of the demolition of older houses or industrial properties. Per www.city-data.com, following are the number of new houses constructed in Minneapolis since 1996.

Single-family new house construction building permits:

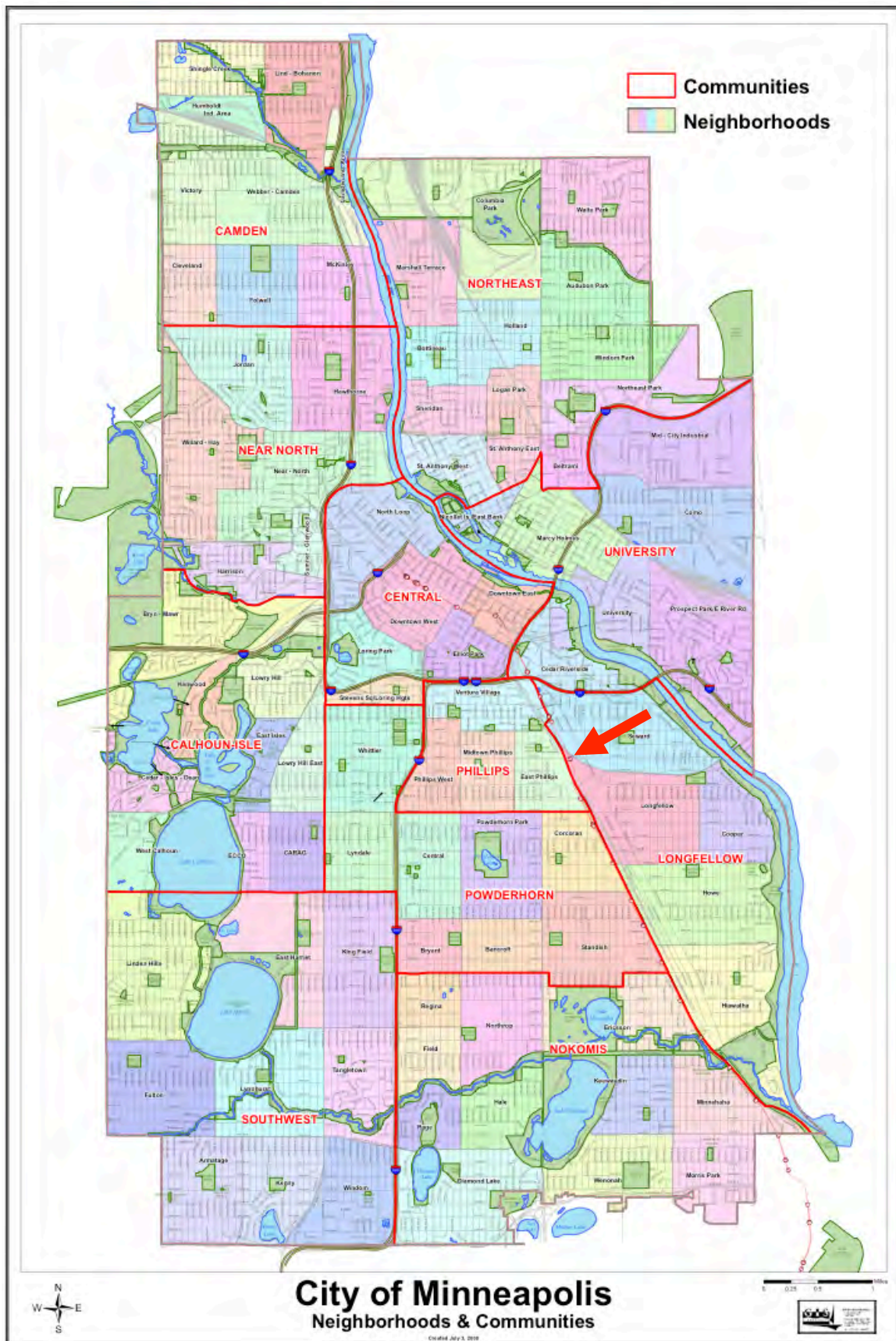
- 1996: 79 buildings, average cost: \$142,100
- 1997: 109 buildings, average cost: \$116,400
- 1998: 110 buildings, average cost: \$139,400
- 1999: 144 buildings, average cost: \$178,400
- 2000: 95 buildings, average cost: \$168,100
- 2001: 226 buildings, average cost: \$153,200
- 2002: 237 buildings, average cost: \$134,100
- 2003: 331 buildings, average cost: \$166,200
- 2004: 250 buildings, average cost: \$189,900
- 2005: 198 buildings, average cost: \$189,300
- 2006: 218 buildings, average cost: \$212,500
- 2007: 115 buildings, average cost: \$309,700
- 2008: 45 buildings, average cost: \$451,300
- 2009: 28 buildings, average cost: \$379,000
- 2010: 41 buildings, average cost: \$322,100

CITY SUMMARY (CONTINUED)

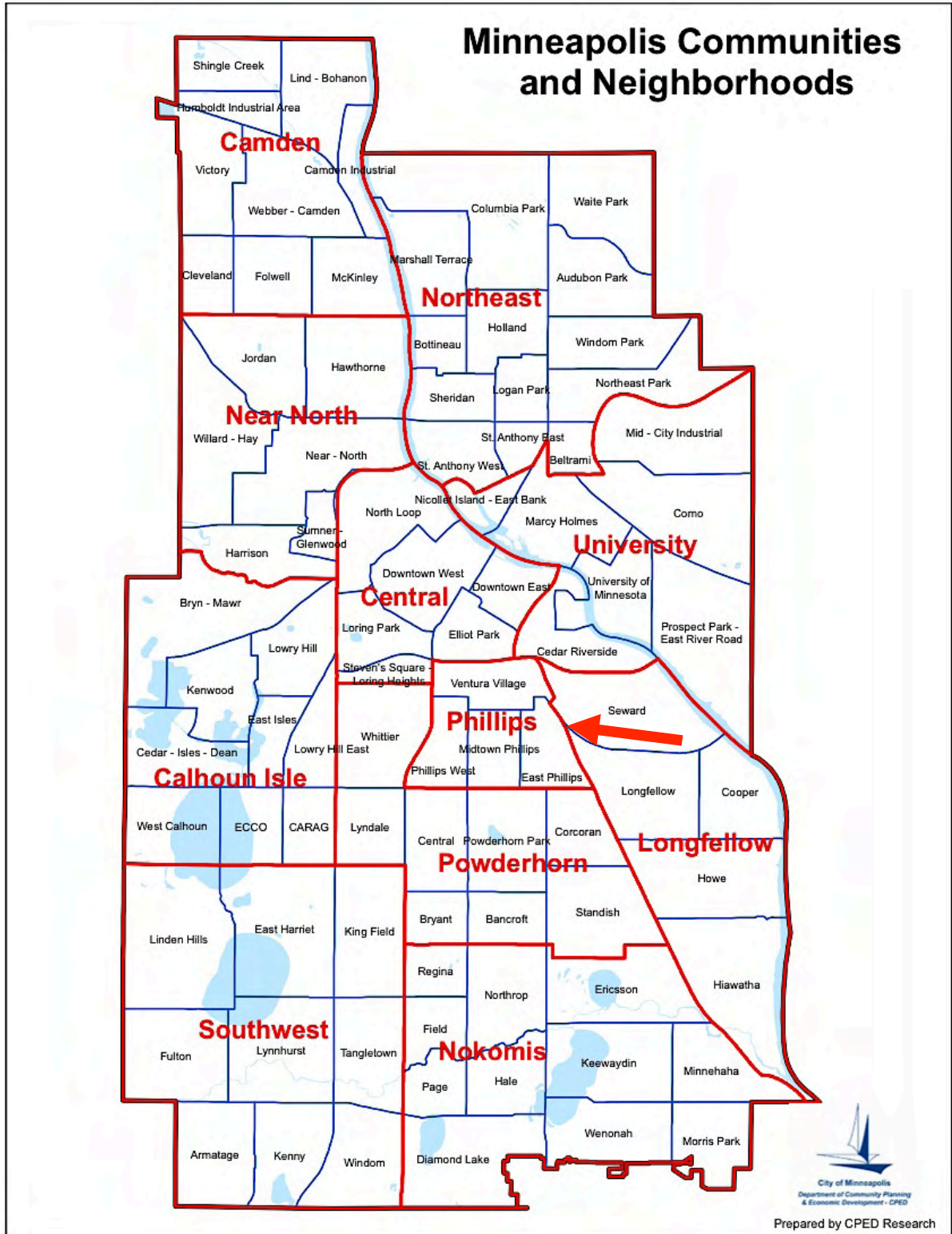
Additional information, trends, and observations concerning Minneapolis are as follows.

- Minneapolis is the largest city in a major regional hub in the Upper Midwest
- Crime rates have declined considerably during the last 15 years.
- Urban living is increasing in popularity, as indicated by population growth. Urban living is becoming more popular due to increased traffic congestion and changing demographics (as more empty nesters decide to leave suburban areas).
- Significant residential development has occurred in and around the Central Business District, indicating the strong trend to live in and around downtown and along the Mississippi River
- The city, and the area in general, has a relatively high rate of home ownership
- The CBD is home to three professional sports teams, the Timberwolves, Vikings and Twins. A new baseball stadium (Target Field) opened in Spring 2010.
- The city has a convenient and centralized location within the metropolitan area
- Significant environmental clean-up (brownfield reclamation) has occurred throughout the city
- The city offers large amounts of open space, including a renowned park system with multiple lakes
- The city is fully developed, with minimal and scattered vacant sites; redevelopment is generally required for land assemblage
- Among the largest employers are the University of Minnesota, Target, Allina, and Wells Fargo
- The city is nationally known for its many cultural attractions with venues including Orchestra Hall, Walker Art Center, Guthrie Theatre, Minneapolis Institute of Arts, Orpheum Theatre, and the State Theatre

CITY SUMMARY (CONTINUED)

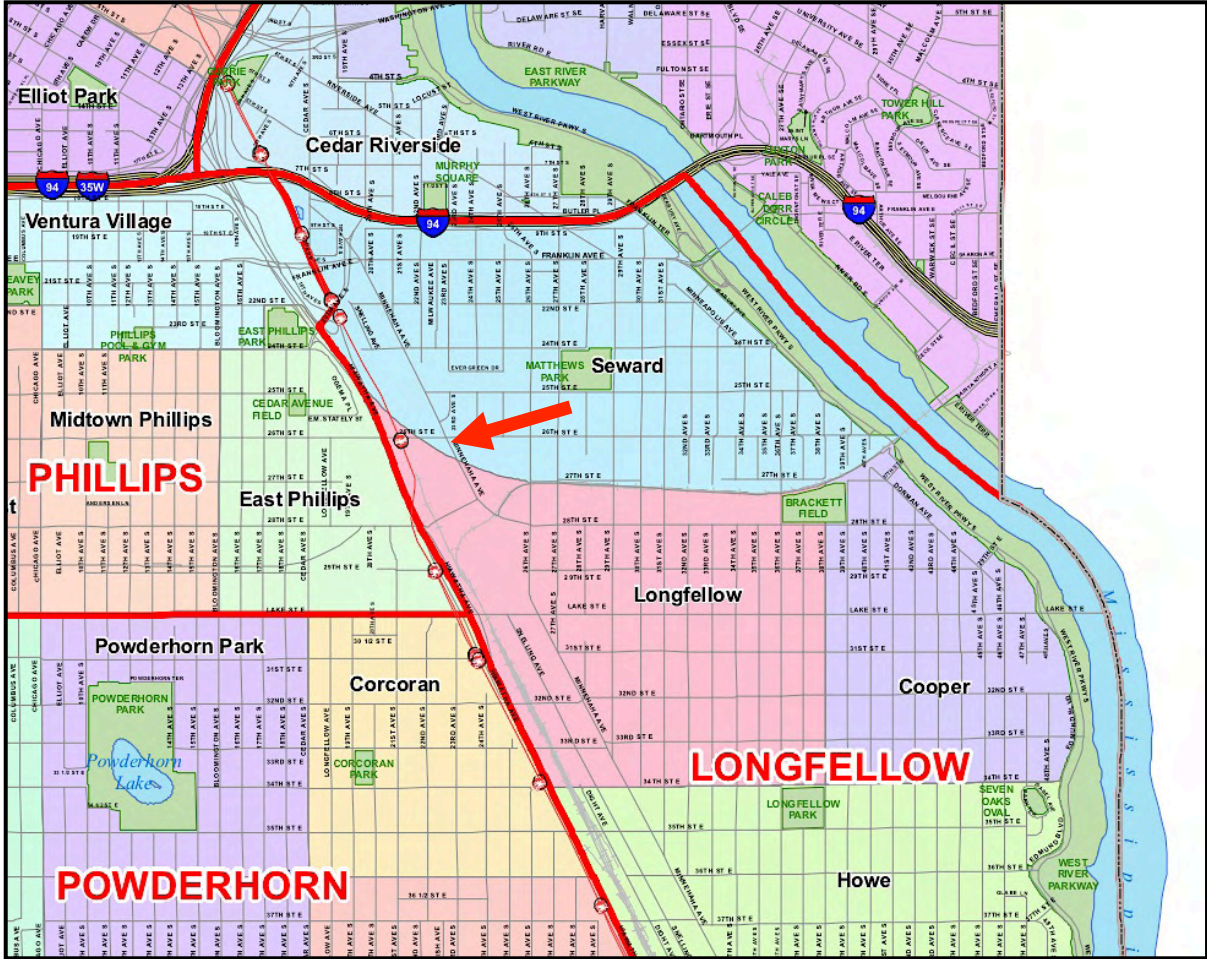


CITY SUMMARY (CONTINUED)



NEIGHBORHOOD SUMMARY

The subject is situated in Minneapolis' Longfellow Community and specifically within the Seward and Longfellow Neighborhoods (as shown below).



Following is information concerning the Longfellow neighborhood that was provided by www.city-data.com:

Area: 1.198 square miles
 Population: 4,986

Median household income 2009:
 Longfellow: \$39,936
 Minneapolis: \$45,538

NEIGHBORHOOD SUMMARY (CONTINUED)

The subject property is located in the southeast section of the Seward Neighborhood. The Seward Neighborhood is situated in the north portion of the Longfellow Community. The Seward Neighborhood is delineated by Interstate 94 to the north, the Mississippi River to the east, the Midtown Greenway (former Soo Line Railway) to the south, and Hiawatha Avenue to the west.

Seward is an older, yet attractive mixed-use neighborhood in south Minneapolis, and is immediately west of the Mississippi River. Desirable parkland is located along the Mississippi River. The subject neighborhood benefits from its proximity to a large labor force, primary and secondary thoroughfares, and housing of various prices.

The Seward Neighborhood is characterized as being a progressive community with very involved residents. The neighborhood has a higher than normal percentage of professors and employees of the nearby University of Minnesota. The neighborhood also has smaller than typical household sizes.



NEIGHBORHOOD SUMMARY (CONTINUED)

Per the City of Minneapolis, the Seward neighborhood is described as follows:

Location and general characteristics

Seward, a neighborhood on the western bank of the Mississippi River, is bound on the north by Interstate 94, on the east by the Mississippi River, on the south by 27th Street East and on the west by Hiawatha Avenue. The neighborhood is named for William Seward, secretary of state under Abraham Lincoln. Of the neighborhood's 390 acres, 54 percent are residential and almost 20 percent are industrial. The industrial uses are located along Minnehaha and Snelling avenues and 27th Street East in the southwestern portion of the neighborhood. Parks line the river and Seabury Avenue. A group of rail workers' houses on Milwaukee Avenue built at the end of the 19th century and restored in the late 1970s has National Historic Preservation status and gives character to this neighborhood. Seward is connected to downtown, the airport and the Mall of America through the newly opened light-rail line.

Per www.about.com, the Seward Neighborhood is described as follows:

Seward's Location:

Seward neighborhood is part of the Longfellow community in southeast Minneapolis.

Seward is a parallelogram shape. The Seward neighborhood is bordered by Hiawatha Avenue to the west, the Midtown Greenway (between East 27th Street and East 28th Street) to the south, the Mississippi River to the east, and Interstate 94 to the north.

Most of the neighborhood is residential, with an industrial area along Hiawatha Avenue and 27th Street in the southwestern part of the neighborhood.

Franklin Avenue is the major commercial corridor in Seward neighborhood.

Seward's Housing:

Seward is mostly smaller single-family houses built in the first half of the last century. A large percentage of residents have made Seward their home for many years, and there are plenty of well-cared for homes with well-tended gardens.

Seward's Residents:

The average income for Seward residents is lower than the average in Minneapolis. The percentage of the population living in poverty is comparable to the average for Minneapolis.

Seward is one of Minneapolis' most liberal neighborhoods, voting overwhelmingly for Democratic candidates in local elections.

NEIGHBORHOOD SUMMARY (CONTINUED)

Seward's Parks and Recreation:

The Mississippi River is the eastern boundary of the Seward neighborhood. The Grand Rounds Scenic Byway runs along the river with a cycle and walking trail, which connects to other trails in the city.

The Midtown Greenway forms Seward's southern border, a cycle and walking trail that connects to Midtown and Uptown Minneapolis.

Matthews Park and Recreation Center is ten acres of open space in Seward. Matthews Park contains something rare in Minneapolis: A hill. The hill is man-made, constructed to block the view of the nearby industrial area. It's popular for rolling down in the summer, and sledding in the winter.

Seward's Transportation:

Seward is very centrally located in the Twin Cities. The neighborhood is about a mile from Downtown Minneapolis, and St. Paul is just across the Mississippi River. Interstate 94 runs along the northern border of the neighborhood, and Interstate 35W runs by the northwest corner of the neighborhood.

The Midtown Greenway cycle and walking path forms the southern border of the neighborhood, providing cyclists with a route along Lake Street to Midtown and Uptown Minneapolis.

Seward's Businesses:

Many businesses operate on Franklin Avenue. Restaurants in Seward include the Birchwood Cafe, the co-operatively run Seward Cafe, the Second Moon coffee shop, Pizza Luce, and the Blue Nile Ethiopian restaurant.

Another co-op is the Seward Co-op, a favorite place to shop for groceries and produce.

Memory Lanes, offers retro bowling and a cocktail lounge.

Seward's Schools:

One well-regarded public school is located in the neighborhood, the Seward Montessori School.

Seward's Arts:

The Playwrights' Center on Franklin Avenue, supports new and emerging playwrights and stages new plays in their theater in a restored church.

The Northern Clay Center, also on Franklin Avenue, holds exhibitions of ceramic arts, and provides studio space and classes for artists and aspiring artists.

NEIGHBORHOOD SUMMARY (CONTINUED)

The west approximate 50% of the subject is situated in the Longfellow neighborhood. Per the City of Minneapolis, the Longfellow neighborhood is described as follows:

Location and general characteristics

Longfellow neighborhood is located in southeast Minneapolis. The neighborhood is named after Henry Wadsworth Longfellow, the famous poet born in 1807. Longfellow neighborhood extends west to Hiawatha Avenue and east to 38th Avenue. The northern and southern boundaries are 27th Street and 34th Street, respectively. The neighborhood is served by the first light-rail transit corridor in Minneapolis; it runs along Hiawatha Avenue. There is a large concentration of multi-family rental housing in Longfellow, and an industrial area stretches along Hiawatha Avenue.

The subject is located in small industrial neighborhood. The subject's immediate neighborhood is delineated by 24th Street to the north, 27th Avenue to the east, 28th Street to the south, and Minnehaha Avenue to the west. Most of the properties within the neighborhood are one-story, masonry constructed, industrial buildings. Many of the buildings have been constructed during the last 15 years. Most of the buildings are in average or good condition. Located along Minnehaha Avenue are various commercial, industrial, and housing properties.

The neighborhood benefits from its central metropolitan location. The subject neighborhood is highly sought after due to its excellent proximity to downtown Minneapolis, the freeway system, and the Minneapolis-St. Paul International Airport.

Minnehaha Avenue is located one block to the west and provides convenient north/south access. A complete Interstate 94 interchange is located approximately one mile northwest of the subject property. The subject neighborhood also has good access to the Minneapolis-St. Paul International Airport. Access is also enhanced with Minnesota's first light rail system, along Hiawatha Avenue. The subject is situated six blocks from a light rail stop.

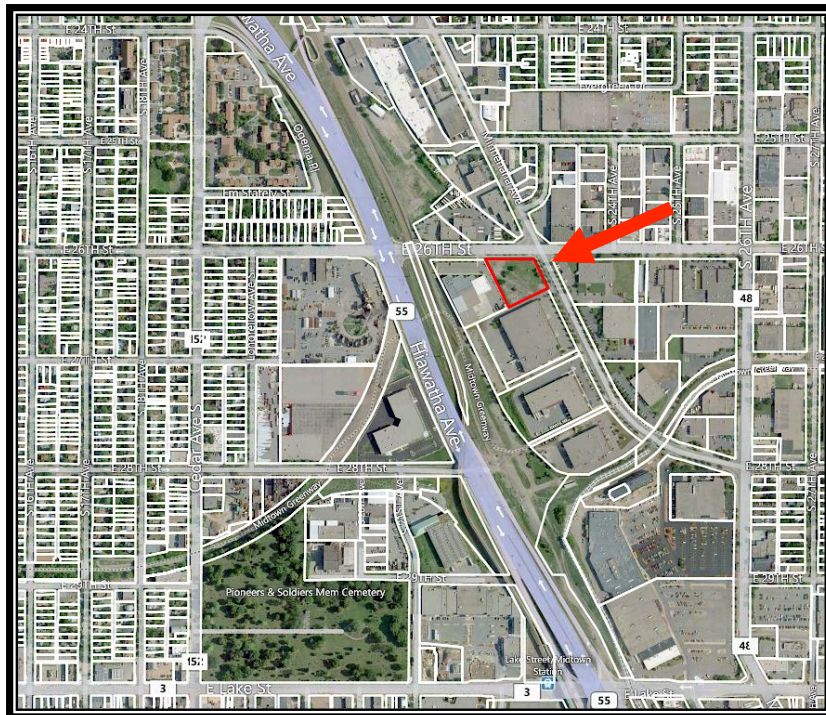
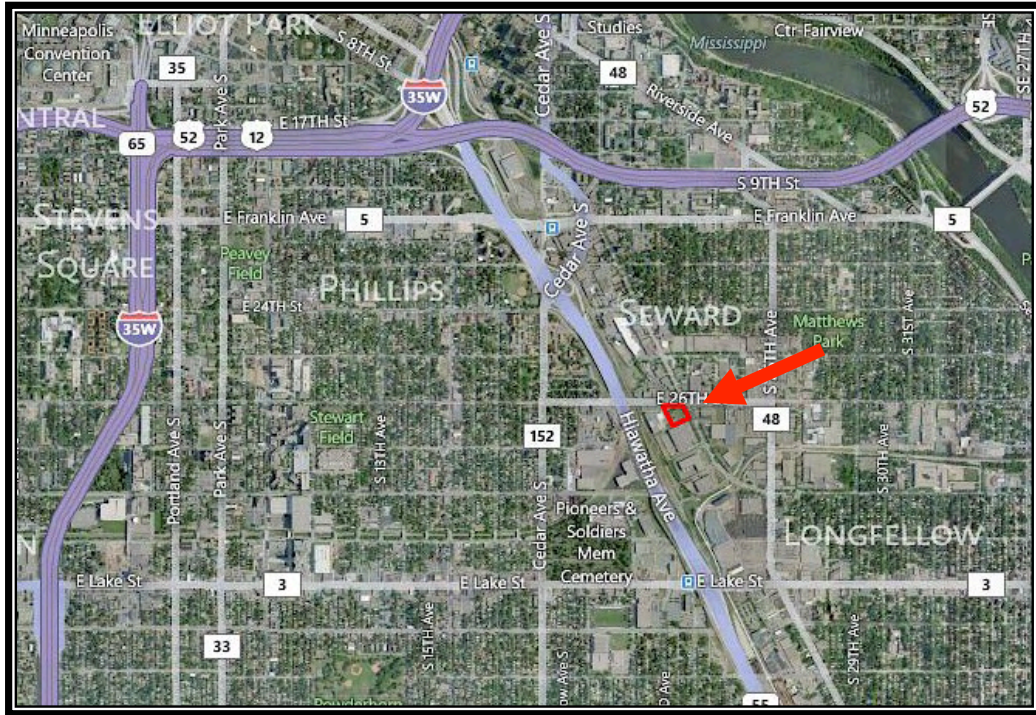
More specifically, the subject property is located at the southwest corner of East 26th Street and Minnehaha Avenue. This is a stoplight-controlled intersection. The subject property is surrounded by existing industrial uses. Modern industrial properties are immediately south, east, and west of the subject property. Multiple tenants occupy the buildings to the immediate south and east. A modern industrial building occupied by Jefferson Lines is immediately northwest of the subject property. The old, one and part two story industrial building occupied by Smyth Companies is immediately northeast of the subject property.

The closest retail/commercial development exists two blocks south along Minnehaha Avenue. A community-shopping district is situated near the intersection of Minnehaha Avenue and Lake Street, and is improved with a modern Cub Foods, Rainbow Foods, and Target.

In summary, the subject property has a convenient location in a sought-after industrial neighborhood in Minneapolis. The neighborhood has excellent proximity to primary and secondary thoroughfares in Minneapolis and the core area of the Twin Cities. The subject's market value is anticipated to be stable the foreseeable future.

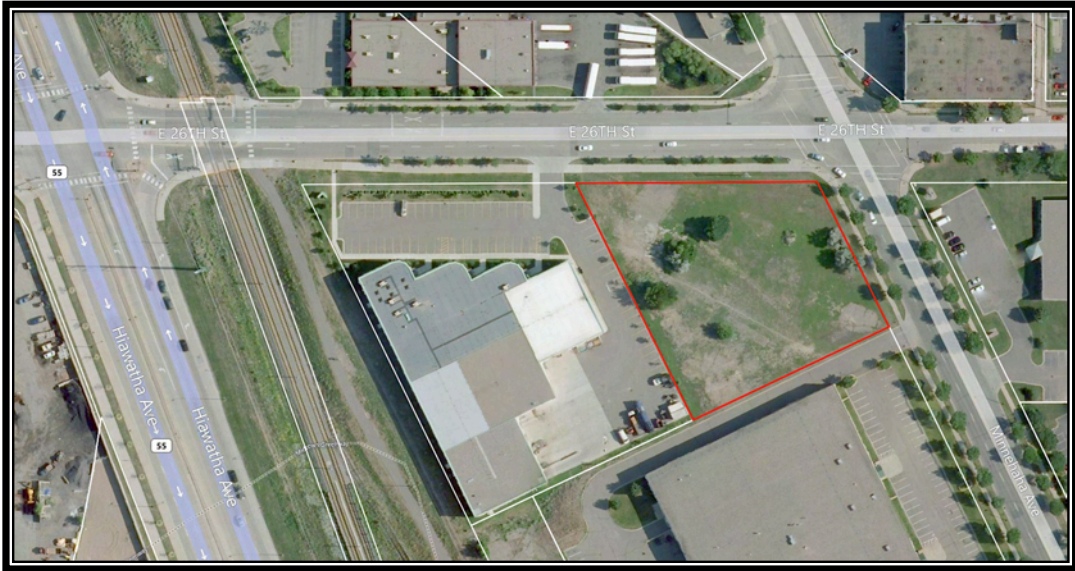
NEIGHBORHOOD SUMMARY (CONTINUED)

Aerial Photographs



NEIGHBORHOOD SUMMARY (CONTINUED)

Aerial Photographs



NEIGHBORHOOD SUMMARY (CONTINUED)

Aerial Photographs



ZONING

The subject property is zoned I1, Light Industrial District. Per the city's zoning code, following is the purpose of the I1, Light Industrial District.

The I1 Light Industrial District is established to provide clean, attractive locations for low impact and technology-based light industrial uses, research and development, and similar uses which produce little or no noise, odor, vibration, glare or other objectionable influences, and have little or no adverse effect on surrounding properties.

Following are some of the requirements within the Industrial Districts.

550.150. Lot dimension and building bulk requirements. (a) *Maximum floor area ratio.* The maximum floor area ratio for all structures located in the industrial districts shall be two and seven-tenths (2.7). The maximum floor area ratio (F.A.R.) may not be attainable without obtaining conditional use permit approval for increasing maximum height.

(b) *Minimum lot dimension requirements.* There shall be no minimum lot dimension requirements for uses located in the industrial districts except as specified in Table 550-2, Lot Dimension Requirements in the Industrial Districts.

Table 550-2 Lot Dimension Requirements in the Industrial Districts

TABLE INSET:

Use	Minimum Lot Area (Square Feet)	Minimum Lot Width (Feet)
INDUSTRIAL USES		
Planned Industrial Development	2 acres	None
COMMERCIAL USES		
Retail Sales and Services		
With drive-through facility	12,000	100
Automobile Services		
With car wash or fuel pump	12,000	100
Automobile sales	12,000	100
Food and Beverages		
With drive-through facility	12,000	100
Transportation	12,000	100
PARKING FACILITIES	5,000	40
RESIDENTIAL USES		
Community correctional facility	5,000 or 750 sq. ft. per rooming unit, whichever is greater	40
PUBLIC SERVICES AND UTILITIES	As approved by C.U.P	As approved by C.U.P

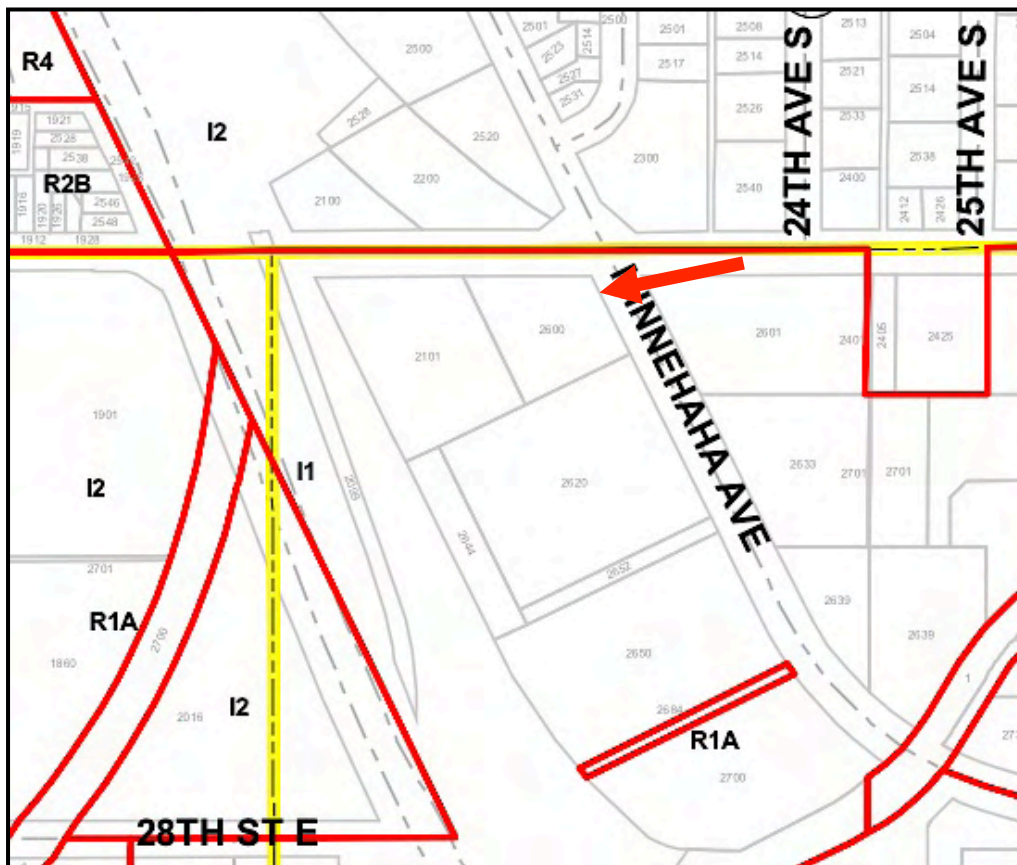
ZONING (CONTINUED)

The subject's zoning district establishes no building and parking lot setback requirements. The maximum allowable building area is four stories or 56 feet. The maximum floor area ratio is 2.7. Reported the previously proposed building for The New French Bakery had tentatively been approved by the City of Minneapolis.

Note, the subject property is not located within an Overlay District.

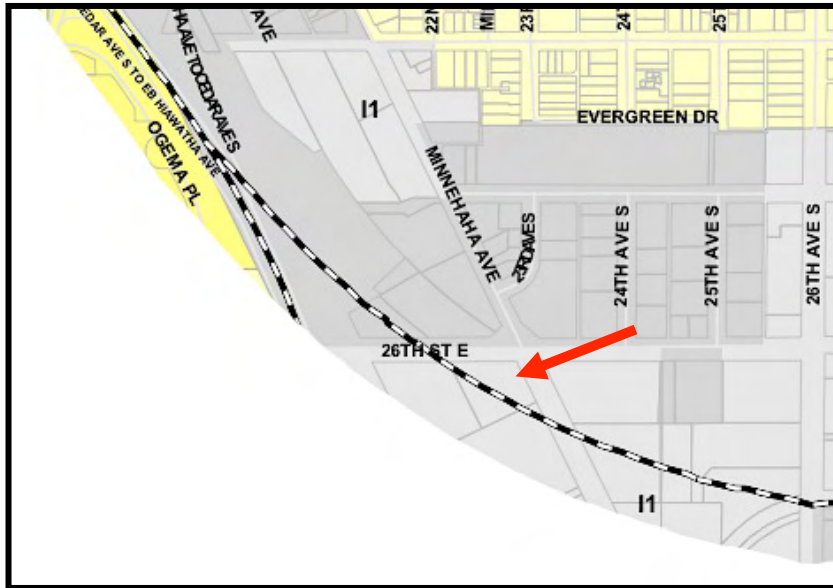
Presented below are zoning maps of the subject's immediate neighborhood.

Zoning Map



ZONING (CONTINUED)

Zoning Map



Zoning Legend (see glossary)			
R1 to R2B		I1	
R3 to R6		I2	
OR1 to OR3		I3	
C1		B4	
C2 to C3S		B4S	
C4		B4C	

REAL ESTATE TAXES

This appraisal is based upon any deferred/delinquent taxes or other levied taxes (or special assessments) being paid in full. The subject property is owned by the City of Minneapolis and is tax exempt. Thus, the subject property does not have a current assessed market value and does not have current or pending real estate taxes.

SITE SUMMARY

The subject represents an irregular-shaped, 65,734 square foot (or 1.51-acre) industrial zoned site. The subject's land area is reported by its current property survey (as shown later in this Site Summary). The subject has a good location at the southwest corner of Minnehaha Avenue and East 26th Street.

The subject has suitable configuration for development. The subject site is relatively flat but slopes down slightly to the east. A few trees are situated on the site.

This appraisal specifically assumes the subject's soil and groundwater contamination have been properly remediated. The subject is specifically assumed to have proper written assurances from the Minnesota Pollution Control Agency to eliminate all environmental liability to future owners of the subject property.

The subject property presently does not have any curb cuts. This appraisal specifically assumes the subject is allowed to have two curb cuts (one along each of its fronting streets).

All normal urban utilities are available to the site, including natural gas, water, sanitary and storm sewer, electricity and telephone services.

Land features are summarized as follows:

Accessibility:	Good
Visibility:	Excellent
Land Boundaries:	
North:	288.77 feet (of frontage along the south side of East 26 th Street)
East:	190.00 feet (of frontage along the west side of Minnehaha Avenue)
South:	260.00 feet
West:	315.65 feet
Street Surface:	Both fronting streets are bituminous-paved.
No. of Lanes Each Direction:	Both fronting streets have two lanes in each direction.
Sidewalk:	Both fronting streets have concrete sidewalks (along both sides).
Water:	Municipal service
Sanitary Sewer:	Municipal service
Storm Sewer:	Municipal service
Shape:	Irregular

SITE SUMMARY (CONTINUED)

Floodplain: With respect to the flood zone, the subject property is located within the Class "X" flood zone as designated per the FIA hazard area map. This flood zone classification indicates the hazard of flooding is virtually non-existent.

Apparent Easements or Restrictions: The subject has typical utility easements.

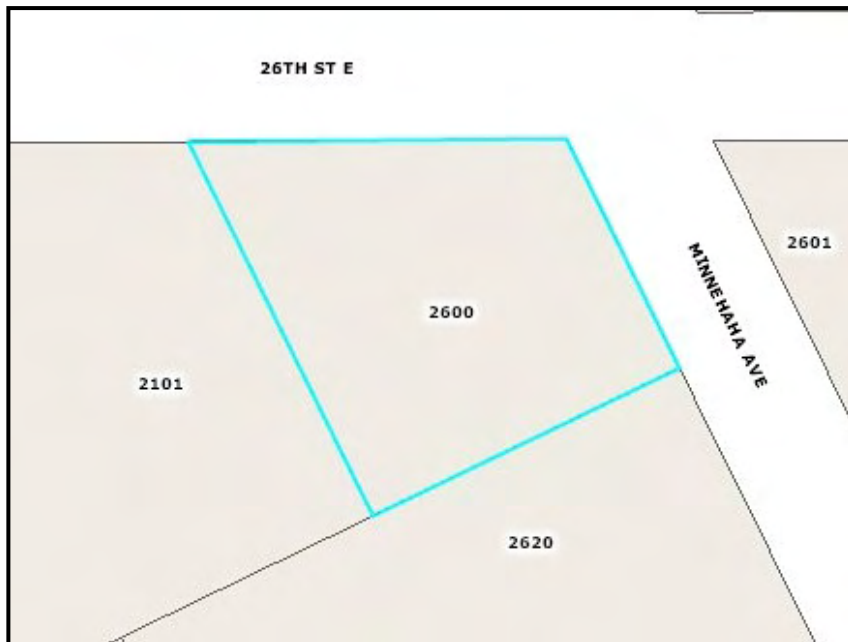
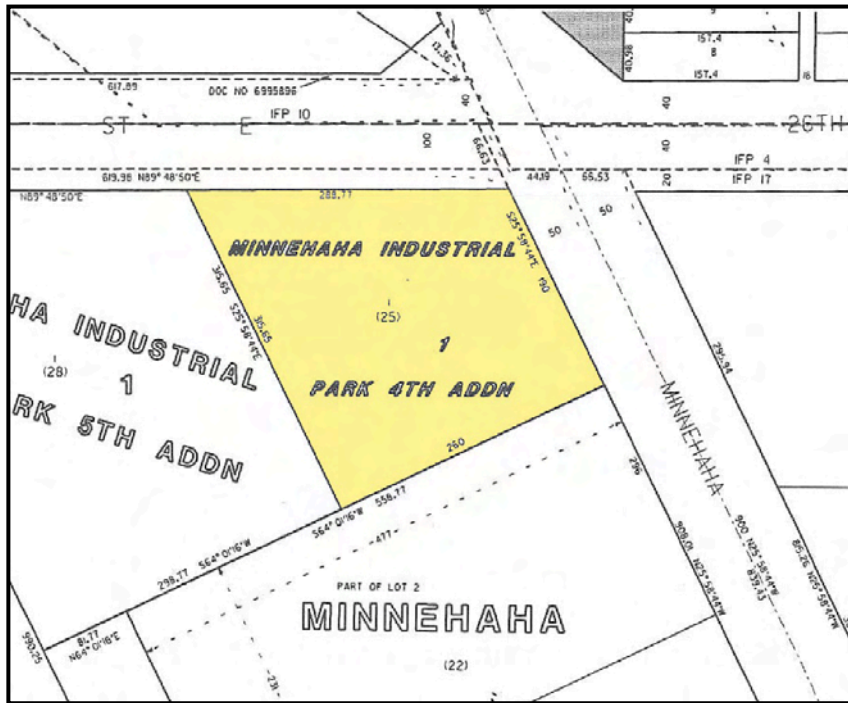
Below is an additional aerial photograph that delineates the two neighborhoods in which the subject is situated. Presented on the following pages are the plat map and other exhibits of the subject site.

Aerial Photograph

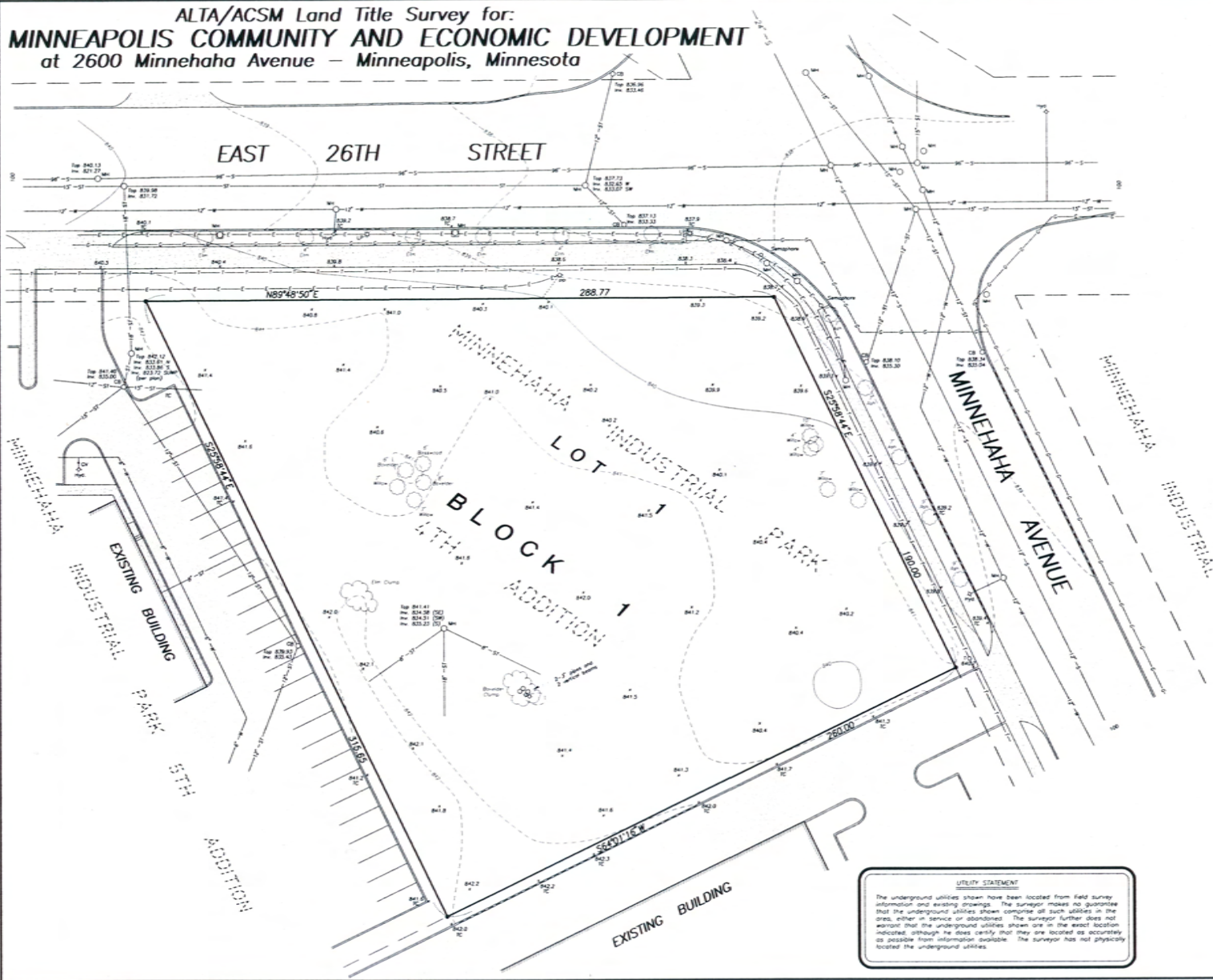


SITE SUMMARY (CONTINUED)

Plat Map



ALTA/ACSM Land Title Survey for:
MINNEAPOLIS COMMUNITY AND ECONOMIC DEVELOPMENT
 at 2600 Minnehaha Avenue - Minneapolis, Minnesota



Vicinity Map
 Section 36, Township 29, Range 24
 No Scale

NOTES

- Bearings shown are based on the plot of MINNEHAHA INDUSTRIAL PARK 4TH ADDITION.
- Utilities shown are from information furnished by the City of Minneapolis, Rice Energy, Dwyer and Minnesota in response to Gopher State One Call Ticket No. 30400312 and are verified where possible. Other information taken from design drawings.
- Contact Gopher State One for utility locations before any construction shall begin. Phone 551-454-0002.
- Bench Mark: Top of Hydrant at the northeast corner of Minnehaha Avenue and East 26th Street. Elevation = 841.23 feet.
- Area = 65,734 square feet (1.51 acres).
- Zoning = I-1 (Light Industrial)
- Building setbacks = 0.
- Parking setbacks = 0.
- Maximum building height = 4 stories or 56 feet.
- Floor area ratio = 2.7.
- This property is located in Flood Zone X (area outside 2% annual chance flood plain) per Flood Zone Map No. 27053C0379E dated September 2, 2006.
- Building setbacks and zoning information obtained from the City of Minneapolis Web Site.

LEGEND

- Iron Monument Found
- S— Sanitary Sewer
- SS— Storm Sewer
- W— Watermain
- Het O Hydrant
- CV Gate Valve
- W/C Manhole
- CB Catch Basin
- Inv Invert Elevation
- PP Power Pole
- LPD Light Pole
- T/D Telephone Pedestal
- Concrete Surface
- Bituminous Surface
- C Buried Gas
- E Buried Electric
- IC Top of Curb Elevation

PROPERTY DESCRIPTION

Lot 1, Block 1, MINNEHAHA INDUSTRIAL PARK 4TH ADDITION, according to the recorded plat thereof, Hennepin County, Minnesota.

CERTIFICATION

To: Minneapolis Community Development Agency and Old Republic National Title Insurance Company.
 This is to certify that this map or plat and the survey on which it is based were made (1) in accordance with "Minimum Standards/Detail Requirements for ALTA/ACSM Land Title Surveys," jointly established and adopted by ALTA, ACSM and NPSI in 1999, and includes items 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11(a) of Table A thereof, and (2) pursuant to the Accuracy Standards (as adopted by ALTA and ACSM and in effect on the date of this certification) of an Urban Survey.
 Dated this 12th day of August, 2009.
 RENDER & ASSOCIATES, INC.

UTILITY STATEMENT

The underground utilities shown have been located from field survey information and existing drawings. The surveyor makes no guarantee that the underground utilities shown comprise all such utilities in the area, either in service or abandoned. The surveyor further does not warrant that the underground utilities shown are in the exact location indicated, although he does certify that they are located as accurately as possible from information available. The surveyor has not physically located the underground utilities.

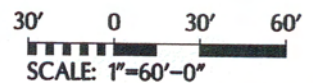
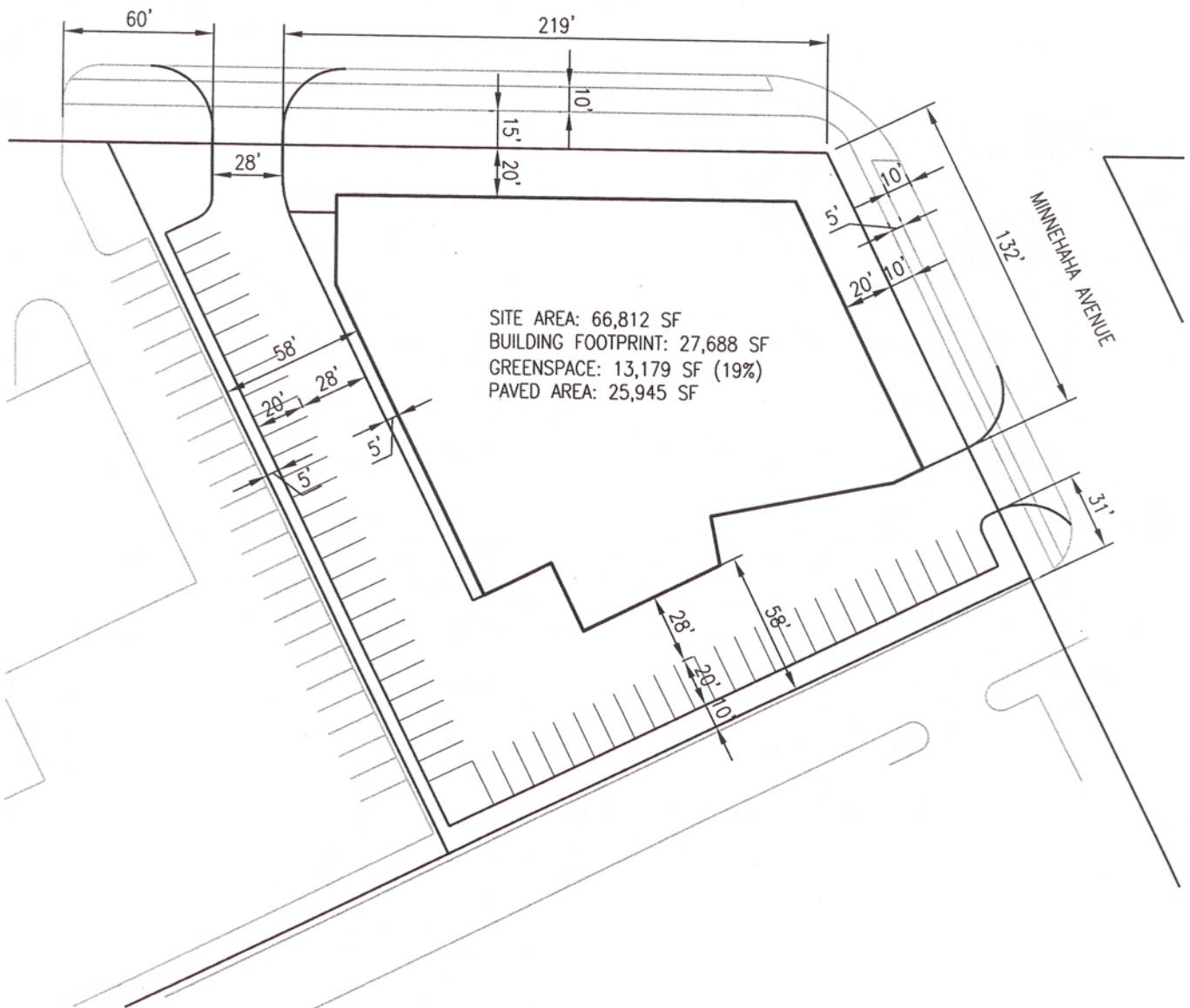
Thomas J. Adam, Land Surveyor
 Minnesota License No. 43414

NOTICE OF RELEASE: 001
 CONTRACT NUMBER: C-25967

Rehder and Associates, Inc.
 CIVIL ENGINEERS AND LAND SURVEYORS
 2440 Federal Drive • Suite 110 • Eden, Minnesota • Phone (953) 432-3057

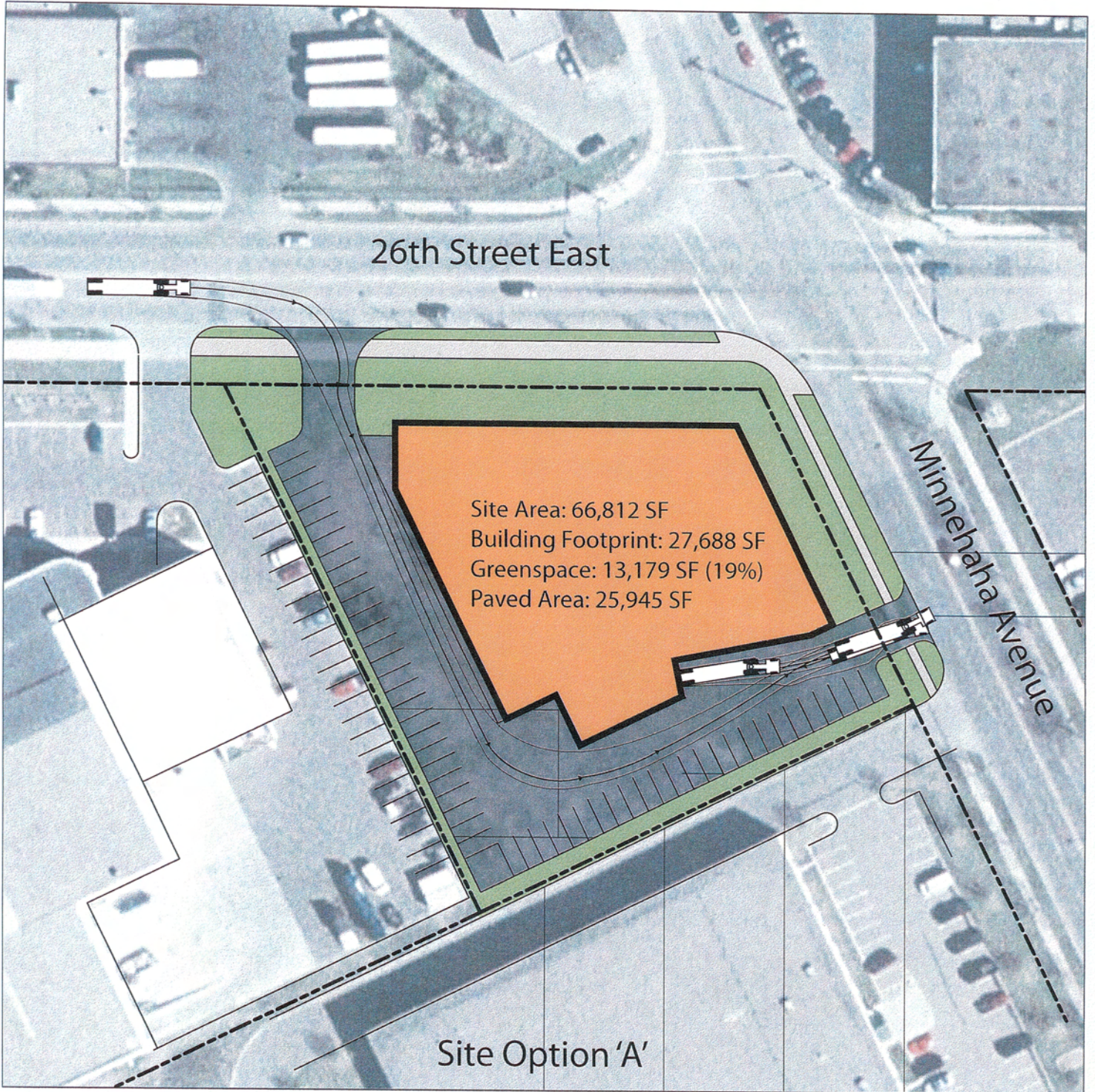
JOB: 094-0367.098

26TH STREET EAST



J:\CLIENTS\MARKET-00\M & D\New French Bakery\Drawings\New French Bakery-A.dwg July 28, 2009 - 11:39am mmjohnson

NEW FRENCH BAKERY	MINNEAPOLIS, MINNESOTA	LEO A DALY	022-10120-000 July 28, 2009 SITE OPTION 'A'
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Proposed New French Bakery

LEO A DALY

SITE SUMMARY (CONTINUED)

Flood Map



© 1999-2009 SourceProse and/or FloodSource Corporations. All rights reserved. Patents 6,631,328 and 6,678,615. Other patents pending. For Info: info@floodsource.com.

HIGHEST AND BEST USE

Highest and best use as defined in The Appraisal of Real Estate, 13th Edition, by the Appraisal Institute, 2008 is:

“Highest and best use is the reasonably probable and legal use of vacant land or an improved property that is legally permissible, physically possible, appropriately supported, financially feasible, and that results in the highest value”

Implied in this definition is that the determination of highest and best use takes into account the contribution of a specific use to the community and community development goals. The four criteria used in determining highest and best use are:

- Legally permissible (e.g., zoning requirements or the potential for re-zoning)
- Physically possible (e.g., site adequacy in terms of size, terrain, soil conditions, utilities and access)
- Financially feasible (e.g., surrounding similar or compatible uses, is there an established market for such a property? do current rents & sale prices justify the costs of construction? is there sufficient demand to produce an acceptable occupancy level?)
- Maximally productive (determine which use of the feasible uses is the most profitable use)

Highest and Best Use As Vacant

To conclude at the highest and best use of the subject site, as vacant, consideration is given to its zoning (which is I1, Light Industrial District), its size, its immediate and general accessibility, and its location.

Due to the site's extensive remediation costs, the City of Minneapolis requires the subject's purchaser to enter into a redevelopment agreement. A redevelopment agreement will be drafted in accordance with Minneapolis' Brownfield Program. The primary objectives of a redevelopment agreement will be to increase employment, increase tax base, and enhance the immediate neighborhood. Thus, the only acceptable use of the site is for the construction of a manufacturing building that will be in compliance with the City's development objectives.

MINNESOTA ECONOMIC OVERVIEW

Below is a summary of current economic highlights as reported by Minnesota's Department of Employment and Economic Development (DEED).

For Immediate Release
January 19, 2012

Contact: Steve Hine, 651-259-7396
Steve.Hine@state.mn.us

Unemployment Rate Drops to 5.7 Percent

~State gains 7,900 jobs in December~

ST. PAUL – The Minnesota unemployment rate fell 0.2 percent in December to a seasonally adjusted 5.7 percent, according to figures released today by the Minnesota Department of Employment and Economic Development (DEED).

The state unemployment rate has fallen 1.5 percent since August, the biggest decrease over a four-month span on record in Minnesota, dating back to 1976. The U.S. unemployment rate in December was 8.5 percent.

Minnesota gained 7,900 jobs in December and 25,300 jobs for the full year. Over the past year, total jobs in the state have grown 1 percent, compared with a U.S. growth rate of 1.3 percent in 2011.

"The Minnesota unemployment rate continues to move in the right direction, reaching its lowest level since September 2008," said DEED Commissioner Mark Phillips. "The labor market is recovering at a slow but steady pace."

Professional and business services led all sectors in December with 3,200 new jobs, followed by government (up 2,700), education and health care (up 1,900), manufacturing (up 1,700), trade, transportation and utilities (up 1,200), financial activities (up 400) and information (up 100).

Job losses occurred in construction (down 1,700), leisure and hospitality (down 1,100), other services (down 400), and logging and mining (down 100).

Year-over-year job gains occurred in education and health services (up 11,000), professional and business services (up 10,000), leisure and hospitality (up 3,600), manufacturing (up 3,600), financial activities (up 1,900), trade, transportation and utilities (up 1,900), other services (up 400) and construction (up 200).

Sectors that lost jobs over the past 12 months were government (down 6,100), information (down 1,100), and logging and mining (down 100).

In the state Metropolitan Statistical Areas, job gains occurred in the past year in the Mankato MSA (up 2.3 percent), Rochester MSA (up 1.4 percent) and Minneapolis-St. Paul MSA (up 1.2 percent). Job losses occurred in the Duluth-Superior MSA (down 0.8 percent) and St. Cloud MSA (down 0.2 percent).

MINNESOTA ECONOMIC OVERVIEW (CONTINUED)

	Seasonally adjusted		Not seasonally adjusted	
	December 2011	November 2011	December 2011	December 2010
Unemployment Rate				
Minnesota	5.7	5.9	5.7	6.8
U.S.	8.5	8.7	8.3	9.1
Employment	December 2011	November 2011	Dec. '10 - Dec. '11 Level Change	Dec. '10 - Dec. '11 % Change
Minnesota	2,666,900	2,659,000	25,300	1.0
U.S.	131,900,000	131,700,000	1,671,000	1.3

Over The Year Employment Growth By Industry Sector (NSA)			
	OTY Job Change	OTY Growth Rate (%)	U.S. OTY Growth Rate (%)
Total Non-Farm Employment	25,300	1.0	1.3
Logging and Mining	-100	-1.7	12.4
Construction	200	0.3	0.9
Manufacturing	3,600	1.2	1.9
Trade, Trans. and Utilities	1,900	0.4	1.7
Information	-1,100	-2.0	-1.3
Financial Activities	1,900	1.1	0.1
Prof. and Bus. Services	10,000	3.2	2.6
Ed. and Health Services	11,000	2.4	2.1
Leisure and Hospitality	3,600	1.6	2.0
Other Services	400	0.4	0.9
Government	-6,100	-1.4	-1.2

MINNESOTA ECONOMIC OVERVIEW (CONTINUED)

Metropolitan Statistical Area	OTY Employment Change (#, NSA)	OTY Employment Change (%, NSA)
Minneapolis-St. Paul MN-WI MSA	19,900	1.2
Duluth-Superior MN-WI MSA	-1,000	-0.8
Rochester MSA	1,400	1.4
St. Cloud MSA	-200	-0.2
Mankato MSA	1,200	2.3

• All labor force data are subject to revision.
• The unemployment rate is the percentage of people actively seeking work compared with those in the labor force (employed plus unemployed).

INDUSTRIAL MARKET OVERVIEW

The appraiser has reviewed current economic conditions and published reports of the land market as well as the industrial market. Several local brokerage companies provide overviews of the Twin Cities. Presented in the Addenda of this report are the following reports that were presented in NorthMarq's Compass Report (in January 2012).

- Quick Facts
- Executive Summary
- Land Summary
- Industrial Summary
- Southeast Industrial Summary

VALUATION PROCESS

The appraisal process is a systematic procedure in which data germane to the property and the appraisal problem is researched, presented, and analyzed to arrive at conclusions concerning the utility and market value of the subject property.

The estimation of value requires the sufficient research and analysis of all of the factors that affect the property. These include off-site factors relating to the regional economy, the city or submarket in which the real estate is located, and the surrounding neighborhood. Upon analyzing and reporting the highest and best use of the property, the appraiser in this case has employed the applicable and necessary “valuation approaches” to estimate the market value of the subject property.

The Sales Comparison Approach is utilized to estimate the market value of the subject property. This approach is a reliable indicator of value when sales of properties similar to the subject in form and utility. In most cases, a unit of comparison is found that is directly related to the sale price of the comparable sales.

SALES COMPARISON APPROACH

The Sales Comparison Approach is based on the principle of substitution, which implies a prudent purchaser would not pay more for a property than the cost to purchase a comparable substitute of similar utility and desirability.

In the Sales Comparison Approach, a market value estimate is determined by analyzing comparable property sales and adjusting them to the subject property. This analysis replicates the actions of informed market participants. The reliability of this valuation method depends on the availability and accuracy of comparable sales, and the number and magnitude of the adjustments required to reflect the different attributes between the comparable sale properties and the subject. The selected sales data is discussed with parties privy to the details of the transaction, and all selected sale comparables have been viewed.

The sale properties are adjusted to the subject based on the appropriate unit of measurement, which is the one most commonly used by market participants. Examples include price per square foot, price per acre, price room, price per unit, etc. In the case of the subject property, the applicable unit of comparison is price per square foot of gross building area.

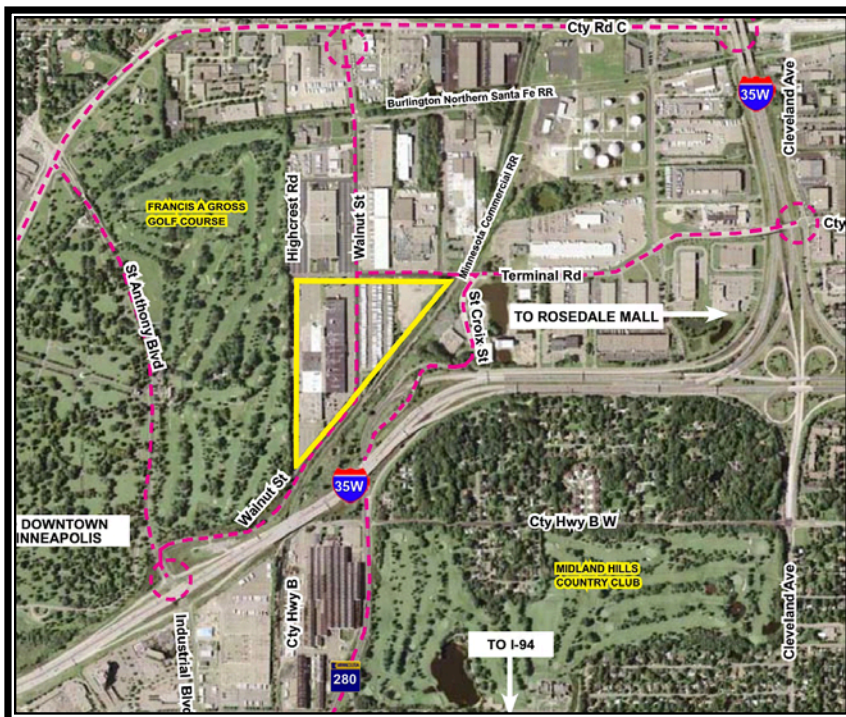
The steps in the Sales Comparison Approach begin with an identification of the pertinent property features used in the selection of the sales. Research is then undertaken to locate recent sales of comparable properties. These sales are then analyzed, with adjustments made for market-influencing items of difference. The adjusted prices of the sales are then reconciled, resulting in an estimated market value of the subject property by the Sales Comparison Approach.

Summarized below are the most applicable land sales for the valuation of the subject. Note, due to changes in market conditions, the appraiser cites only land sales that have taken place since January 2010. Due to the lack of industrial land sales, the appraiser applies sales that are situated outside of Minneapolis.

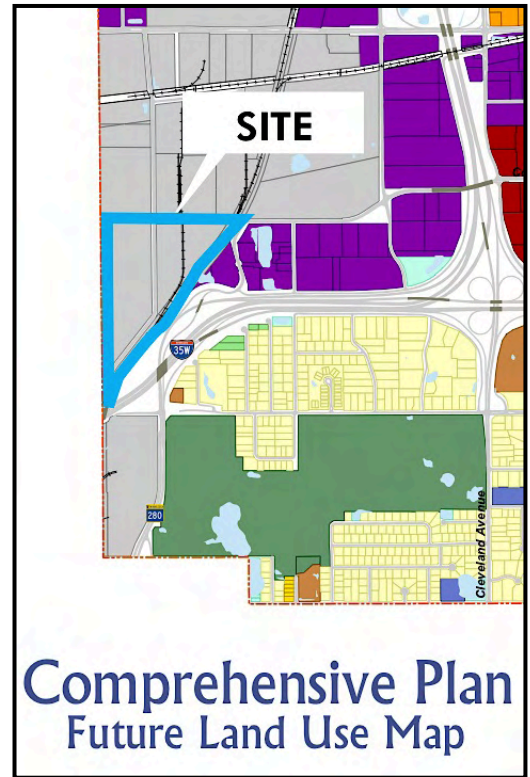
Summary of Comparable Land Sales

No.	Address	Land Area (Sq. Ft.)	Land Area (Acres)	Intended Use	Zoning	Sale Price	Price Per Sq. Ft.	Date of Sale
1	West Side of Walnut Street, One Block South of Terminal Road Roseville, MN	355,450	8.16	Industrial Building	I, Industrial District	\$2,200,000	\$6.19	Oct-11
2	Southeast Corner of Walnut St. and Terminal Avenue Roseville, MN	280,091	6.43	Industrial Building	I, Industrial District	\$1,299,000	\$4.64	Oct-11
3	2400 Terminal Road Roseville, MN	257,439	5.91	Industrial Building	I, Industrial District	\$1,030,803	\$4.00	Jun-11
4	12945 Eagle Creek Parkway Savage, MN	182,952	4.20	Industrial Building	BP, Business Park	\$732,152	\$4.00	Jul-10
	Averages	268,983	6.18	Industrial	Industrial	\$1,315,489	\$4.71	May-11
	Subject Property 2600 Minnehaha Avenue Minneapolis, MN	65,734	1.51	Industrial	I1, Light Industrial District	---	---	---

COMPARABLES 1, 2, AND 3



COMPARABLES 1, 2, AND 3 (CONTINUED)



COMPARABLE 3



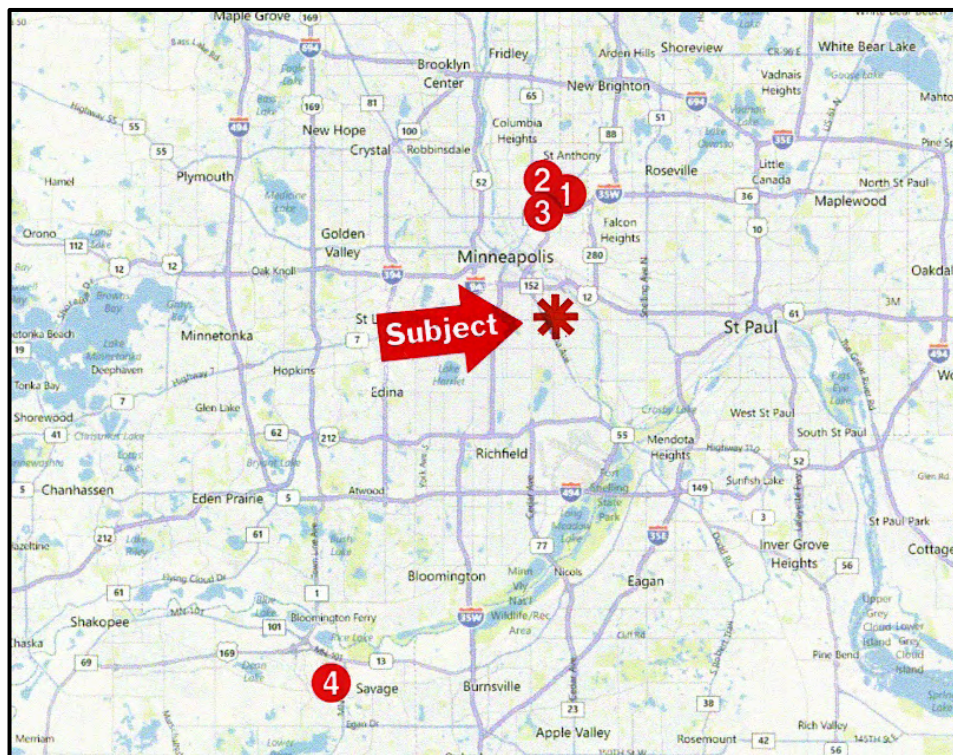
COMPARABLE 4



COMPARABLE 4 (CONTINUED)



Comparable Land Sales Location Map



Comparable Land Sales Remarks

Comparables 1, 2, and 3

These three sales involve sites within the Highcrest Park Business Park. Highcrest Park represents a 42.7-acre development-ready business park. The property was formerly improved with older industrial buildings that were razed at the time the property was marketed for sale as vacant land. The seller for all three of these transactions was Meritex Enterprises, Inc. This business park is located in Roseville, near Interstate 35W and State Highways 36 and 280. Highcrest Park has good proximity to both downtown Minneapolis and St. Paul

Comparable 1

The buyer was FedEx. This user is developing an approximate 130,000 square foot FedEx distribution center on the site. This site had no special assessments, according to the seller's broker.

Comparable 2

The buyer was BMFO Holding Company. The buyer will be an owner / user and is developing an approximate 60,000 square foot auto parts distribution building. This site is "Pie-Shaped", which reduces its efficiency for development (compared to a rectangular-shaped site). This site had no special assessments, according to the seller's broker.

Comparable 3

This site was purchased by Airgos-North Central, Inc. The buyer plans to construct and owner-occupied industrial building on this site. This site is "Pie-Shaped", which reduces its efficiency for development (compared to a rectangular-shaped site). This site had no special assessments, according to the seller's broker.

Comparable 4

This site was not listed for sale, but rather sold by way of contact with a broker. The site was purchased to a developer for development of a build-to-suit office warehouse property for Bimbo Bakeries. Per the broker, the sale price was negotiated. The buyer thought it was a market rate and a good arm's-length sale with no unusual circumstances.

The site required approximately \$60,000 in site work due to soil conditions. This amount has been added to the sales price of \$672,152 to indicate an adjusted price of \$732,152. The property had previously sold in August 2006 for \$503,355 or \$3.61 per square foot of useable area.

The site is zoned BP, Business Park District zoning classification permits outdoor storage with a conditional use permit. This site is level and, according to the buyer, 100% usable. This site represents an interior lot within an industrial development. Rear of the site is adjacent to Eagle Creek Parkway.

Adjustment Analysis

The next steps in the land valuation involve analyzing the comparable sale properties, determining a unit of comparison, and identifying and comparing material differences between the sales and the subject. The unit of comparison used in this analysis is the sale price per square foot. If a characteristic is not adjusted, a factor of 1.00 is applied. If a comparable is inferior to the subject, the comparable is adjusted upward by a factor greater than 1.00. If a comparable is superior to the subject, the comparable is adjusted downward by a factor less than 1.00. All of the individual factors are multiplied together to form a total adjustment factor. This is multiplied by the time-adjusted price per square foot to indicate a final adjusted price per square foot for each of the comparable sales.

The adjustments made to the comparable sales are summarized below. After this discussion, an adjustment grid is presented which summarizes the various adjustments and results in adjusted market value indications for the subject.

The adjustment factors are summarized below.

1. **Property Rights Conveyed** adjustments may be applicable when the property interest of the sale transaction differs from the property interest appraised. This involves a comparison of the fee simple estate and leased fee interest as to any perceived, marketable value difference. None of the sales require an adjustment in this regard.
2. **Conditions of Sale:** A conditions of sale adjustment may be necessary if the buyer and/or seller had unusual motivations. None of the comparable sales warrant a conditions of sale adjustment.

3. **Financing Terms** adjustments are considered when the sale transaction involves financing which is different than that commonly available at the time of sale. An example of an atypical situation is a low down payment or an interest rate below market. When financing terms differ from the market and price is affected, a cash equivalency analysis is applied, resulting in an adjustment. None of the sales require an adjustment in this regard.
4. **Market Condition (Time Adjustment):** Market conditions, or time adjustments, are considered to reflect changes in prices of industrial land since July 2010 (which is the closing date of the oldest comparable land sale). During the last 15 months, the economy and local industrial market has been experiencing a slow recovery. No market conditions, or time, adjustments are considered warranted since well-located industrial land values have been relatively stable during the last 15 months. In addition, the appraiser forecasts a market conditions adjustment is not warranted for the remainder of 2012. In summary, industrial land prices are estimated to have been flat (with no appreciation or depreciation) from July 2010 until October 1, 2012.
5. **Location** adjustments reflect the general density of land use in the immediate area, the general convenience of the location in terms of the overall area, the types of nearby land uses, land use trends in a particular location, accessibility, etc. The appraiser personally viewed all of the comparable land sales. Comparable 4 is adjusted upward to reflect its inferior location in relation to the subject site. The remaining comparable land sales are adjusted downward since they have slightly superior locations compared to the subject.
6. **Size** adjustments are considered for market-influencing differences in size between the sales and the subject. Larger sites tend to sell for less on a per square foot basis, and vice versa, all factors being similar. However, offsetting this is plottage value (which can occur for larger sites within build-up neighborhoods). Plottage value relates to higher unit prices being paid for larger sites (since they allow for a larger development). Note, the subject's smaller size limits its development for some potential users. As a result, none of the comparable land sales require a size adjustment.
7. **Zoning** adjustments reflect differences in potential use between the sales and the subject. The subject is zoned I1, Light Industrial District. None of the comparable sales require a zoning adjustment.
8. **Configuration** adjustments are considered for differences in shape that influence the utility and potential development efficiency of a site. The subject is irregular-shaped but has a good configuration to allow for efficient development. Comparables 2 and 3 are "Pie-Shaped" and are adjusted upward to reflect their inferior configurations and efficiency for development. Comparables 1 and 4 are not adjusted since they have good configurations that will be efficient for development.
9. **Topography/Elevation** adjustments take into consideration the lay of the land and consider the amount of earthwork required to improve the site. None of the comparable sales require a topography / elevation adjustment.

10. Other adjustments reflect other relevant factors that have not yet been accounted for. The City of Minneapolis requires the subject site be developed in compliance with guidelines that dictate the site must be improved with a **manufacturing** building. The subject site cannot be used as a storage yard and cannot be improved with an office / warehouse building. The City of Minneapolis also requires the building to have a higher than normal land-to-building ratio and for the building to be oriented to the street (with parking in the south and west portions of the site). A goal of the city is for the site to provide an adequate number of jobs.

All of the comparable land sales are rated superior, and are adjusted downward, since they are not required to comply extraordinary development restrictions.

Following is the land sales adjustment grid.

<u>Comparable Land Sale Adjustment Grid</u>				
Comparable #:	1	2	3	4
Price / Sq. Ft.	\$6.19	\$4.64	\$4.00	\$4.00
Conditions of Sale Adj.	1.00	1.00	1.00	1.00
Market Conditions Adj.	1.00	1.00	1.00	1.00
Time Adjusted Price/Sq. Ft.	\$6.19	\$4.64	\$4.00	\$4.00
Location Adj.	0.95	0.95	0.95	1.35
Size Adj.	1.00	1.00	1.00	1.00
Zoning Adj.	1.00	1.00	1.00	1.00
Configuration Adj.	1.00	1.30	1.30	1.00
Topography / Elevation Adj.	1.00	1.00	1.00	1.00
Other Adj.	0.90	0.90	0.90	0.90
Total Adj. Factor	0.8550	1.1115	1.1115	1.2150
Adj. Price Per Sq. Ft.	\$5.29	\$5.16	\$4.45	\$4.86
Average Adjusted Price Per Sq. Ft.:				\$4.94

The final steps in the land valuation involves reconciling the above-adjusted prices per square foot and applying the resulting unit value to estimate the subject's land value. Before making any adjustments, the sales indicate a range in sales prices from \$4.00 to \$6.19 per square foot.

After making various adjustments, the comparable sales indicate a range in adjusted prices from \$4.45 to \$5.29 per square foot. The indicated average adjusted sale price is \$4.94 per square foot.

Given the least weight Comparable 4, which requires the largest location adjustment and total adjustment. In addition, Comparable 4 is situated farthest away from the subject.

The remaining comparable land sales indicate an average adjusted price of \$4.97 per square foot. All of these sales are given similar weight.

Based on an analysis of the foregoing sales, the unit value of the subject property is estimated to be \$5.00 per square foot. This results in the following market value conclusion for the subject site.

65,734 sq. ft.	x	\$5.00 per square foot	\$328,670
		Rounded to	\$330,000

In summary, based upon my observations and investigation, it is my opinion the prospective market value of the subject property, as of October 1, 2012, is:

<p style="text-align: center;"><u>Prospective Market Value Conclusion</u> Three Hundred Thirty Thousand Dollars (\$330,000)</p>
--

The foregoing market value conclusion is premised on the previously stated "Assumptions and Limiting Conditions" as well as the previously stated "Extraordinary Assumptions and Hypothetical Conditions."

The above market value conclusion is predicated on a marketing time and an exposure period of six to 12 months.

ADDENDA

**1.51-Acre Industrial Site
2600 Minnehaha Avenue
Minneapolis, Minnesota 55406**

Qualifications -

Scott F. Muenchow, MAI



Scott F. Muenchow has been appraising various types of real estate during the last 25 years. Assignments include appraisals of many office, retail, commercial, multiple family, hotel, industrial, and special purpose properties. The specific purposes of these assignments have included mortgage financing, condemnation, litigation, highest and best use, tax abatement proceedings, investment counseling, potential sale or purchase, leasehold and rental analyses, charitable donations, internal management decisions, and insurance indemnification. Court experience includes testifying at Real Estate Commissioner hearings in the Twin Cities metropolitan area.

EDUCATION

University of Wisconsin – Madison, Wisconsin

Bachelor of Business Administration (1986) – Double Major:

- Real Estate and Urban Land Economics
- Finance, Investment, and Banking

Member of Phi Eta Sigma National Honor Society

APPRAISAL EDUCATION

THE APPRAISAL INSTITUTE

Real Estate Appraisal Principles
Capitalization Theory & Techniques-A
Case Studies in R.E. Valuation
Report Writing & Valuation Analysis

Basic Valuation Procedures
Capitalization Theory & Techniques-B
Standards of Professional Practice-A, B, & C

U.W. - MADISON

The Real Estate Process
Urban Economics
Commercial Property Development
Valuation of Real Estate
Corporate Finance
R.E. Finance & Housing Policies
Intro. to Investment Theory

Theory of Business Finance
Money and Banking - Economics
Business Statistics
Financial Policy
Bank Management
Corporate Finance

PROFESSIONAL EXPERIENCE

- Muenchow Appraisals, Inc., Minnetonka - President from July 1995 to March 2002 and from January 2009 to present
- The Valuation Group, Inc., Plymouth - Principal from since March 2002 to December 2008
- Mardell Amundson Johnson & Lierness, Inc., Mpls. - Assist. Vice President from August 1993 to July 1995
- Towle Real Estate Company, Minneapolis-Senior Staff Appraiser from April 1991 to August 1993
- Arthur Andersen & Co., Minneapolis-Experienced Senior Appraiser from September 1989 to April 1991
- Holcer and Company, Inc., Chicago-Commercial Appraiser from January 1987 to September 1989

Qualifications (Continued)

Scott F. Muenchow, MAI

LICENSES, MEMBERSHIPS, AND PROFESSIONAL INVOLVEMENT

- Appraisal Institute – Member (MAI) since 1993. The Appraisal Institute conducts a voluntary program of continuing education for its designated members. MAI's and RM's who meet the minimum requirements of this program are awarded periodic education certification. I am currently certified under the Appraisal Institute voluntary education program.
- Certified General Appraiser in the State of Minnesota, License No. 4000872. Currently certified through August 31, 2012
- Real Estate Broker in the State of Minnesota, License No. 11001506. Currently certified through June 30, 2012
- NAR – National Association of Realtors
- Member of University of Wisconsin Alumni Association
- Lakeville High School Athletic Hall of Fame, Inducted in 2010

REPRESENTATIVE CLIENT LIST

American Family Insurance	New York Life
Associated Bank	Private Bank
Bank of America	State Farm Insurance
Bank One	TCF Bank
Business Bank	University of Minnesota
Faegre & Benson	U.S. Bank
Healthpartners	U.S. Postal Service
Hennepin County	Walker Art Center
Marshall & Ilsely Bank	Wells Fargo Bank
MN Department of Transportation	Winthrop & Weinstine

**Minnesota Appraiser License -
Scott F. Muenchow, MAI**

STATE OF MINNESOTA



Department of Commerce

MUENCHOW, SCOTT FLOYD
1508 FAIRFIELD ROAD SOUTH
MINNETONKA, MN 55305

**The Undersigned COMMISSIONER OF COMMERCE for the State of Minnesota hereby certifies that
SCOTT FLOYD MUENCHOW**

1508 FAIRFIELD ROAD SOUTH
MINNETONKA, MN 55305

has complied with the laws of the State of Minnesota and is hereby licensed to transact the business of

Resident Appraiser : Certified General

License Number: 4000872

unless this authority is suspended, revoked, or otherwise legally terminated. This license shall be in effect until August 31, 2012.

IN TESTIMONY WHEREOF, I have hereunto set my hand this September 15, 2010.

A handwritten signature in cursive script, appearing to read "Glenn Wilson".

COMMISSIONER OF COMMERCE

Minnesota Department of Commerce

Licensing Division

85 7th Place East, Suite 500

St. Paul, MN 55101-3165

Telephone: (651) 296-6319

Email: licensing.commerce@state.mn.us

Website: commerce.state.mn.us

Continuing Education:

<u>CE Requirement Type</u>	<u>CE Required Hours</u>
Total - Appraiser	30
USPAP	7

Notes:

- **Continuing Education:** 15 hours is required in the first renewal period, which includes a 7 hour USPAP course. 30 hours is required for each subsequent renewal period, which includes a 7 hour USPAP course.
- **Appraisers:** You must hold a licensed Residential, Certified Residential, or Certified General qualification in order to perform appraisals for federally-related transactions. **Trainees do not qualify.** For further details, please visit our website at commerce.state.mn.us.

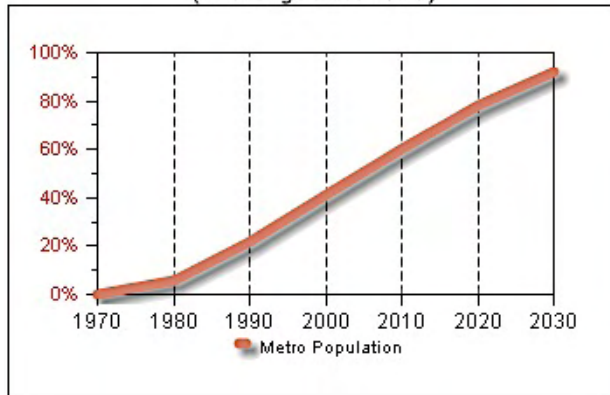
REGIONAL OVERVIEW

The subject is located in the 13-county Twin Cities Metropolitan Area (TCMA), which is situated in the southern half and eastern side of Minnesota along the Mississippi River. The TCMA is comprised of the Cities of Minneapolis, St. Paul and surrounding suburbs. The metropolitan area is the cultural/financial/economic hub for the Upper Midwest. This multi-state region includes eastern Montana, North and South Dakota, northern Iowa, western Wisconsin, upper Michigan, and Minnesota. Within this region there are no other similar size urban centers.

As of the 2000 census, nearly 2.6 million or 54% of Minnesota's residents live within the original seven-county area. When including the additional six counties that are reflected in the 13-county metropolitan statistical area (MSA), the population increases to 2.9 million. The Metropolitan Council states an increase in population in the seven county Twin Cities metropolitan area from 2000 to 2005 of 104,931. The number of households increased by 68,830. This is comparable to the growth that was observed in 1990 to 2000, indicating a recent increase in the rate of growth. In general, the metropolitan population is following national trends in terms of aging, smaller household sizes within the core counties, and the spreading gap in income.

Below are exhibits prepared by the Metropolitan Council.

Metro Area Population Change
(% change since 1970)



Population, Households & Employment for Metro Area

Year	Population	Households	Employment
1970	1,874,612	573,634	779,000
1980	1,985,873	721,357	1,040,000
1990	2,288,729	875,504	1,272,773
2000	2,642,062	1,021,456	1,606,263
2001	2,674,927	1,036,074	1,610,051
2002	2,708,916	1,053,853	1,572,598
2003	2,740,985	1,067,453	1,572,527
2004	2,771,030	1,081,023	1,584,094
2005	2,810,179	1,099,871	1,598,835
2006	2,821,779	1,109,836	1,626,483
2007	2,849,003	1,121,535	1,632,017
2008	2,870,250	1,129,966	1,622,743
2010	3,005,000	1,198,000	1,816,000
2020	3,334,000	1,362,000	1,990,000
2030	3,608,000	1,492,000	2,126,000

Much of the development in the central cities occurred near the turn of the century, with continued growth in the 1920's and 1940's. The first ring of suburban development occurred in the 1950's and 1960's. Second tier suburban growth was concentrated in the 1970's and 1980's. Cities currently experiencing extensive development include Woodbury, Plymouth, Maple Grove, Blaine, Oakdale, Cottage Grove, Eden Prairie, Shakopee, Savage, and Lakeville.

REGIONAL OVERVIEW (CONTINUED)

According to MetroStats (Population Growth on the Developing Edge: the Metro Area in 2009), published by the Metropolitan Council in July 2010:

The Twin Cities metro area's population grew to 2.88 million in 2009 – up 240,000 (or 9 percent) since 2000. The region's growth has been driven primarily by retention of young adults, longer life expectancies, and natural growth – that is, more births than deaths.

Population growth has been accompanied by an echo boom gain in new household formations. The region had 1.14 million households in 2009, up 117,000 (or 11 percent) since 2000. During this decade, the first waves of Generation Y – the generation born 1980 to 2000 – have begun entering the housing and labor markets, spinning off from their parents' households, and starting their own families.

The region's demo-graphic expansion is reflected in the location of new housing supply. The 15 communities with the most growth are all developing-edge suburbs. New housing in these communities has tended to attract younger, larger family households.

Migration has been a negligible driver of recent growth, according to Census and Metropolitan Council analysts: New arrivals (in-migration) to the Twin Cities region have been largely offset by those leaving (out-migration).

Until recently, Generation Y – the generation born 1980 to 2000 – drove the growth of school enrollments in the Twin Cities. Since 2000, the first waves of Generation Y have begun forming new households and generating new housing demand in the region. Still, as Gen Yers spin off from their parents, this dynamic, combined with long-term health advances and life expectancies, is also generating an unprecedented and long-term empty-nest trend.

Members of the Baby Boom generation – now 46 to 64 years old – occupy and consume much of the housing and new construction in the region. Their emergence as empty nesters has driven down average household sizes. Census data show that average household sizes diminish steadily after age 45.

The overall population-to-households ratio for the Twin Cities metro area is estimated at 2.48 in 2009 – down from the 2.53 average found by Census 2000. Even as new housing goes up, demographic dynamics are dampening the population gains: smaller households are the trend. Metropolitan Council researchers expect that average household size declines will continue until 2025, before stabilizing.

Population Growth Leaders, 2000-2009		
	Population April 1, 2009	Population Added 2000-09
Shakopee	34,691	+14,123
Blaine	58,020	13,006
Woodbury	59,338	12,875
Lakeville	55,772	12,644
Maple Grove	62,660	12,295
Brooklyn Park	75,306	7,918
Eden Prairie	62,536	7,635
Prior Lake	23,335	7,418
Rosemount	21,521	6,902
Hugo	13,140	6,777
Farmington	18,959	6,594
Chaska	24,177	6,574
Savage	27,567	6,452
Plymouth	71,930	6,036
Ramsey	23,272	4,762
15 Cities Subtotal	632,224	+132,011
Metro Area Total	2,881,812	+239,750

REGIONAL OVERVIEW (CONTINUED)

The 15 cities experiencing the most growth between 2000 and 2009 are developing suburbs that have added thousands of housing units. Shakopee has added 14,100 residents since 2000. Blaine, Woodbury, Lakeville, and Maple Grove have also grown quickly, each adding 12,000 to 13,000 residents. These communities have available land, and room to grow, as well as the planning and services that accommodate new growth.

Generally, new single-family construction in developing suburbs attracts younger families, yielding larger household sizes. According to the American Community Survey (2006-2008), the average size of households headed by adults under 45 is 2.81 persons per household.

The housing and demographic life-cycle trends have been a challenge for fully-developed communities with post-World War II housing stock – and middle-aged and older residents. As Generation Y leaves the nest, households headed by adults aged 45 to 64 average 2.43 persons per household.

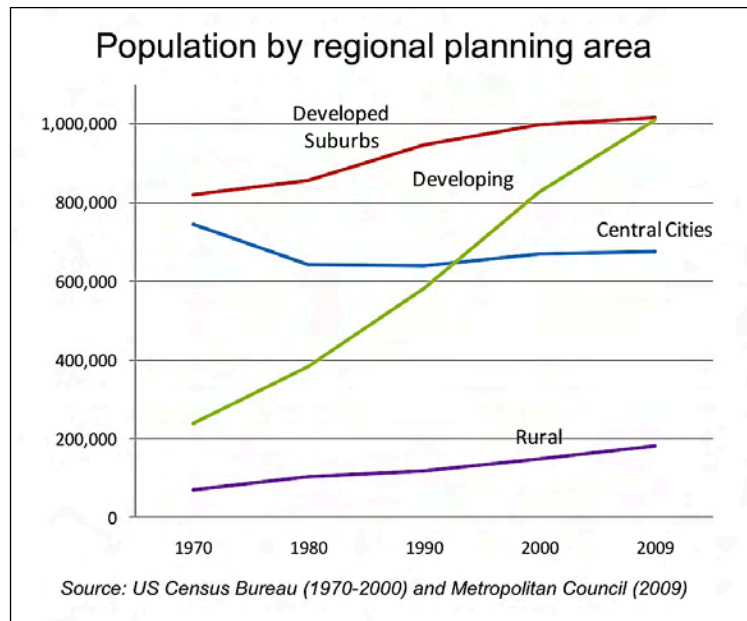
Along with generational diversity, the local mix of housing products also influences population outcomes. New single-family construction in developing suburbs attracts younger and larger families than older re-sales. Condominiums and apartments yield still smaller household sizes.

The region's largest city, Minneapolis, has led new housing production in recent years. Most of the additions are attached and multi-family developments. During 2000 to 2009, Minneapolis has gained 7,400 households. The population gain has been much smaller – an additional 3,900 people. The Metropolitan Council estimates that St. Paul has gained 3,300 households and 700 people since 2000.

Lacking significant new housing development, turnover, and generational diversity, some of the older first-ring suburbs are losing population. Notable population declines are estimated in Fridley, Crystal, Robbinsdale, Richfield, West St. Paul and North St. Paul.

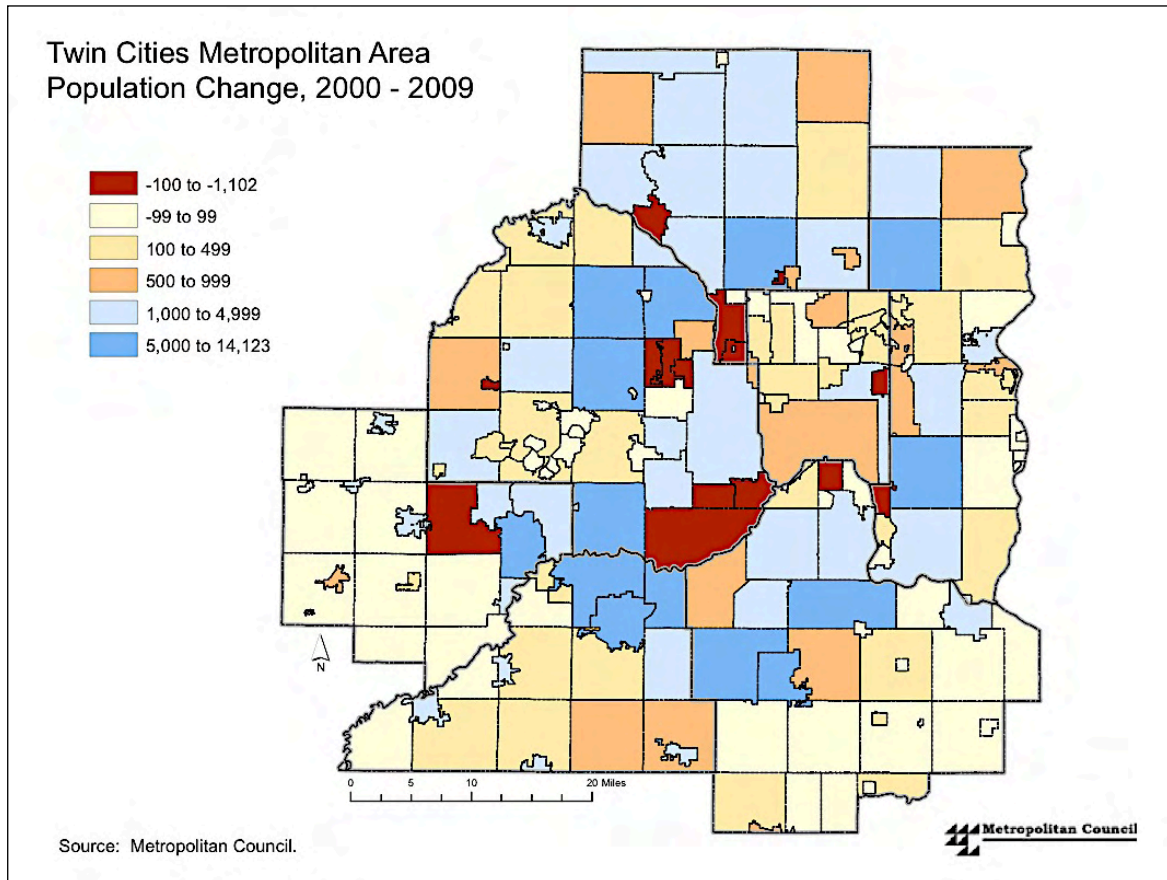
Local results can vary, however; the trend is not one-size-fits-all. Brooklyn Center is a fully-developed suburb that, despite losing households, has added 600 in population. A growing influx of foreign-born residents has contributed to Brooklyn Center's gain. On average, immigrant households are younger in composition than US-born natives, and have more family members, with an average of 3.28 persons per household.

Metropolitan Council's 2009 estimates are model-based estimates informed by Census 2000 data, current, local data sources, and demographic analysis. Historically, estimates prepared by the Council have been reasonably accurate when compared against later decennial Census counts.



REGIONAL OVERVIEW (CONTINUED)

The US Census Bureau conducted a decennial Census in 2010. New Census 2010 population counts for cities and towns will be available in March 2011. Metropolitan Council's 2011 estimates and subsequent estimates will be benchmarked to measure housing growth and demographic changes since 2010.



Note: Some city and township boundaries shifted since 2000. A few townships lost population due to municipal annexations.

The Metropolitan Council reports the following economic indicators for the Twin Cities Region for 2011:

- **Gross Metro Product** - Gross Metro Product totaled \$190 billion in 2009. Twin Cities has the nation's 14th largest metropolitan economy. (Source: Bureau of Economic Analysis, Regional Economic Accounts)
- **Population Growth** - The Twin Cities region grew by 208,000 people and 96,000 households from 2000 to 2010. Total estimated population: 2.85 million. (Source: U.S. Census)
- **Well-educated** - Bachelor's degree-holders as a share of adults: 38 percent in 2009. Twin Cities tied with Denver for 4th most educated among the 25 largest metropolitan statistical areas, or MSAs. (Source: Census Bureau, American Community Survey)
- **In the job market** - Labor force participation among working age adults (16-64): 82.4 percent in 2009. Employment of working age adults: 75.3 percent. Twin Cities ranks highest in both measures among the 25 largest MSAs. (Source: Census Bureau, American Community Survey)

REGIONAL OVERVIEW (CONTINUED)

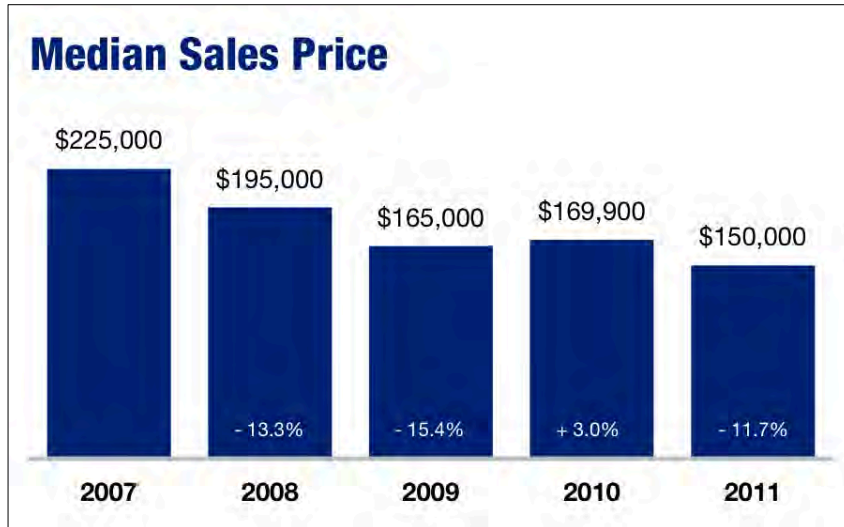
- **Unemployment rate** - Unemployment rate for the seven-county: 6.3 percent in December 2010. National unemployment rate averaged 9.6 percent for 2010. Twin Cities' ranking is 2nd lowest among the 25 largest MSAs over the 12 months ending in December 2010. (Source: *Local Area Unemployment Statistics, Bureau of Labor Statistics*)
- **Net employment change** - The 2010 annual average employment was down 3.4 percent from 2000 (58,962 jobs lost in the 13- county MSA). Twin Cities ranked 17th highest in employment change from 2000 to 2010 among the 25 largest MSAs. (Source: *Current Employment Statistics, Minnesota Department of Employment and Economic Development*)
- **Journey to work** - Average commute time of employed metro residents; 24.3 minutes in 2009. Twin Cities has the 3rd shortest average commute time among the 25 largest MSAs. (Source: *Census Bureau, American Community Survey*)
- **Per capita income** - Income per resident: \$45,750 in 2009 (preliminary). Twin Cities ranks 8th highest among the 25 largest MSAs. (Source: *Bureau of Economic Analysis, Regional Economic Accounts*)
- **Growing per capita income** - Average growth in per capita income: 2.3 percent per year, from 2000 to 2009 (preliminary). Twin Cities ranks 18th in average income growth among the 25 largest MSAs. (Source: *Bureau of Economic Analysis, Regional Economic Accounts*)
- **Middle-class centered** - Households that are middle income (\$40,000- \$99,999): 43.3 percent in 2009. Twin Cities ranks 1st among the 25 largest MSAs. (Source: *Census Bureau, American Community Survey*)
- **Fortune 500 companies** - 20 listed companies are headquartered in the Twin Cities: United Health Group, Target, Best Buy, Supervalu, CHS, 3M, U.S. Bancorp, General Mills, Medtronic, Land O'Lakes, Mosaic, Xcel Energy, Ameriprise Financial, C.H. Robinson Worldwide, Thrivent Financial for Lutherans, Ecolab, Nash- Finch, St. Jude Medical, Alliant Techsystems, and PepsiAmericas. (Source: *Fortune magazine*)
- **Vacant office space** - Office vacancy rate: 20.2 percent in 4th quarter 2010. National average was 16.4 during the same period. (Source: *CB Richard Ellis, Office Vacancy Index*)
- **Housing production** - Building permits activity in the Twin Cities region: Based on preliminary data from the U.S. Census Bureau, the Metropolitan Council estimates 5,448 permitted units in 2010 – up 26 percent from the 4,328 permitted in 2009. (Source: *Metropolitan Council estimates based on data from the U.S. Census Bureau*)
- **Widespread home ownership** - Ownership rates among households: 72.4 percent in 2009. Twin Cities ranks 1st among the 25 largest MSAs. (Source: *Census Bureau, American Community Survey*)
- **Housing affordability** - Share of homes for sale that are affordable to a median-income family: 85.2% in 4th quarter 2010. The Twin Cities was 3rd most affordable among the 25 largest MSAs. (Source: *NAHB-Wells Fargo, Housing Opportunity Index*)
- **Household budget stress** - Share of households that are cost-burdened in their present housing: 48.2 percent of renters and 34.7 percent of owners with mortgages. Twin Cities ranks 6th least housing-cost-burdened among the 25 largest MSAs. (Source: *Census Bureau, American Community Survey*)

Following are residential sales statistics for the 13-county Twin Cities area from 2006 to 2010. This statistics indicate median house prices in the 13-county Twin Cities area have declined by 33.3% (median) and 29.9% (average) from 2007 to 2011.

REGIONAL OVERVIEW (CONTINUED)

2011 Annual Report on the Twin Cities Housing Market

Quick Facts



Note, metropolitan house prices peaked in 2006 at \$230,000 (median) and \$278,463 (median). 2011 house prices declined by 34.8% (median) and 30.5% (average)

In summary, positive factors impacting real estate include:

- High quality of life
- Growth generally has been along transportation corridors such as rivers and major roadways
- Population growth creates demand for various types of real estate by users and opportunities for new construction for developers
- Nonagricultural employment is concentrated in the Minneapolis-St. Paul MSA
- Due to there not being dependence on just a few industries, the area has experienced stability and has avoided the wide swings in economic activity

REGIONAL OVERVIEW (CONTINUED)

- Employment centers are both in the central cities and in office and industrial parks throughout the metropolitan area
- The labor force is well educated and exceeds the national averages
- Due to factors such as a high labor force participation rate, income for the region is above average and poverty rates are low
- The unemployment rate for the region historically has been below the national average
- The TCMA is a good distribution center for the Midwest
- The state's political climate historically has been generous to low income households, and government services have been good
- The area has numerous natural lakes, recreation parks and many trees
Popular attractions include northern Minnesota resorts and the metropolitan area Mall of America

Negative factors impacting real estate include:

- Density of development is somewhat low due to the desire for open spaces, creating higher land costs associated with a larger site
- With the population spread out, public transit services are somewhat limited
- The region has a low share of production workers, machine operators, laborers and agricultural workers
- Availability of raw materials is not ideal (except for agricultural products), yet semi-finished materials are reasonably convenient
- Commercial/industrial property tax rates are very high in comparison to surrounding states. While some tax relief legislation has recently been achieved, taxes remain a concern. When factoring in other business taxes such as workmen's compensation, many describe Minnesota as having an anti-business climate
- Due to subsidy, assistance programs, and general public services, area taxes have traditionally been high
- High labor costs
- Rush hour congestion and commuting times are becoming more of a concern. Future roadway problems will likely increase due to population gains, the limited density of the region's development, the low percentage that use public transportation, and the lack of significant new roadway plans within the foreseeable future
- Extreme climatic conditions--cold, dry winters and hot, humid summers.
- The Twin Cities and the state economies have had very little growth since summer 2007. Construction employment has declined considerably.
- Like most metropolitan areas within the U.S., the Twin Cities is experiencing record high foreclosure rates. The highest percentages of foreclosures have been with buyers that obtained subprime mortgages. Foreclosure rates appear to be highest in the central cities (of Minneapolis and St. Paul) as well as in outlying, commuter suburban communities. Local newspapers and business magazines have provided detailed descriptions of fraudulent development and fraudulent lending that occurred during the "housing boom", including within outlying communities. Minneapolis, St. Paul, and several outlying suburbs are attempting to resolve issues and problems

“MINNESOTA COMPASS” DATA

Minnesota Compass is a social indicators project that measures progress in our state, its seven regions, 87 counties and larger cities. Compass tracks trends in topic areas such as education, economy and workforce, health, housing, public safety, and a host of others. It inspires people to take action to improve our economic vitality and quality of life.

Compass gives everyone in our state – policymakers, business and community leaders, and concerned individuals who live and work here – a common foundation to identify, understand, and act on community issues that affect our communities.

Overview of Economy & Workforce

Goal: A strong economy that encourages business investment and provides employment opportunities for workers at all skill levels.

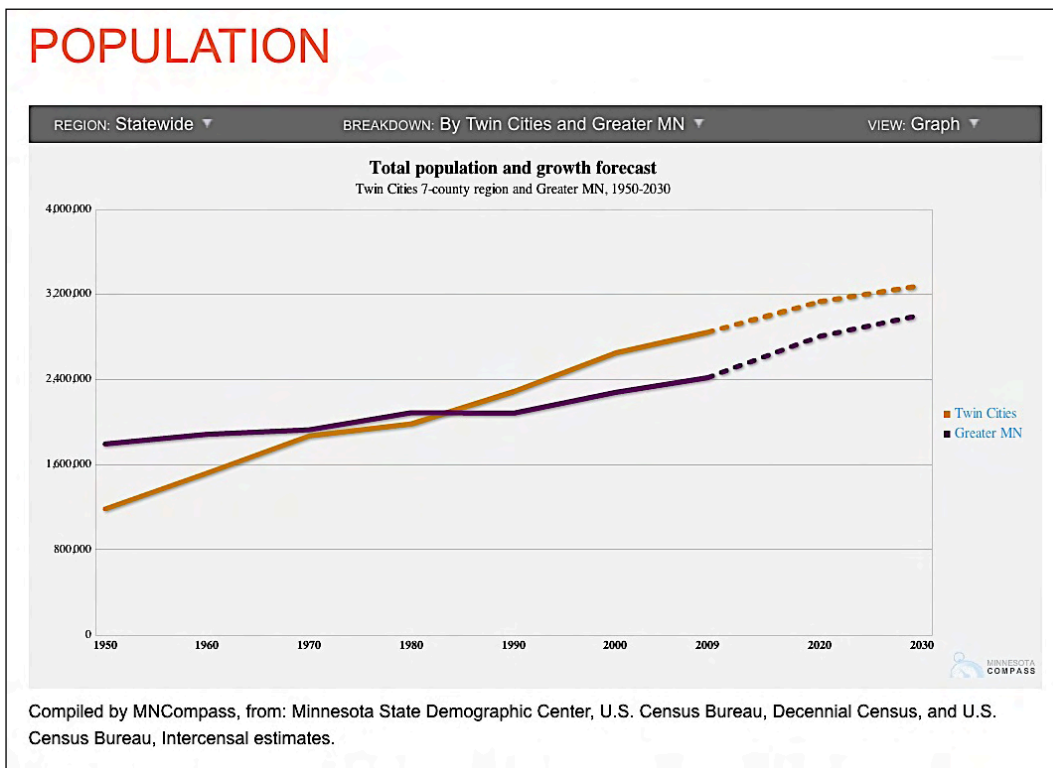
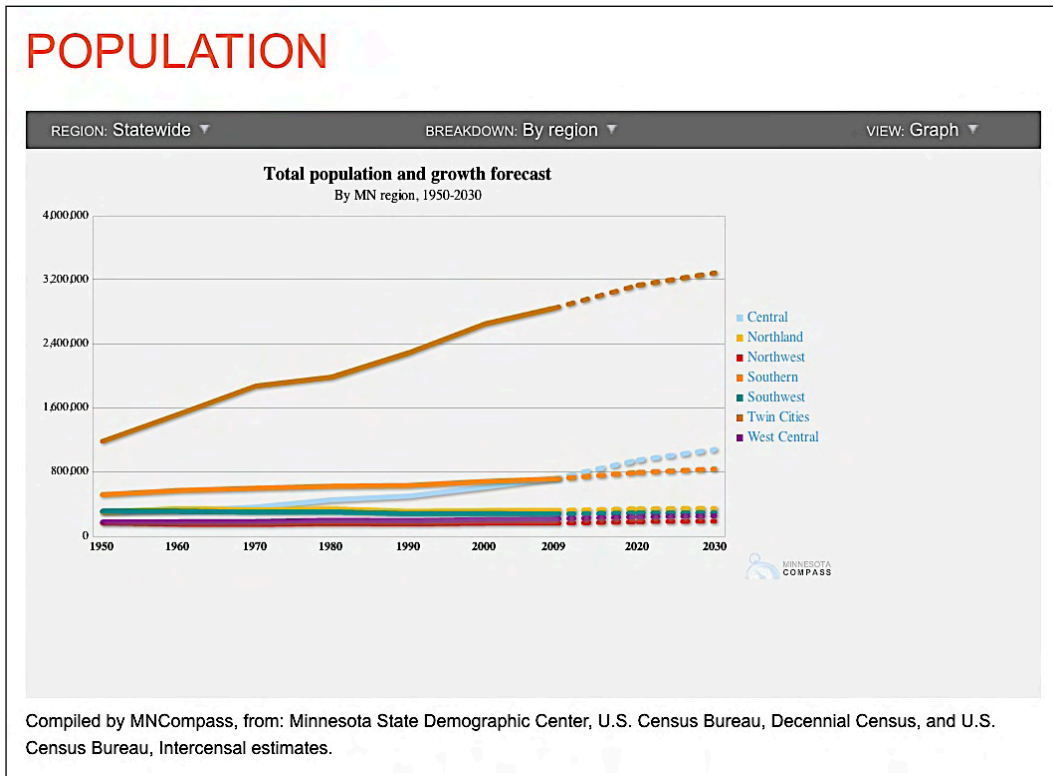
Minnesota has historically enjoyed a robust economy, characterized by diverse industry, the attraction and retention of a skilled workforce, a tradition of entrepreneurial spirit and an eye toward innovation. Maintaining our high quality of life in any area--from housing to health to education--depends on a strong economy. And, in turn, the vitality of our economy hinges on our continued success in those areas as well.

What’s Happening

Like much of the country, Minnesota is experiencing mixed results as it seeks to emerge from the economic downturn. Overall economic growth has returned, although job growth is still lackluster and median household income has yet to halt its downward slide.

- In 2010, Minnesota’s economy grew by 3.2 percent, outpacing the nation and 39 other states in GDP, on the heels of the prior year’s economic contraction. However, Minnesota’s growth rate ranks 28th among states over the decade.*
- Between September 2010 and September 2011, Minnesota added about 28,000 jobs (net), although the most recent month saw net losses of 15,000. Minnesota had 134,000 fewer jobs (nonfarm payroll positions) available in 2010 than it did in 2007, just before the recession began.*
- Real household incomes are down more than \$6,000 over the past decade, falling almost to income levels not seen in Minnesota since 1989. White households in the state enjoy a median income that is \$20,000 higher than households of Color.*

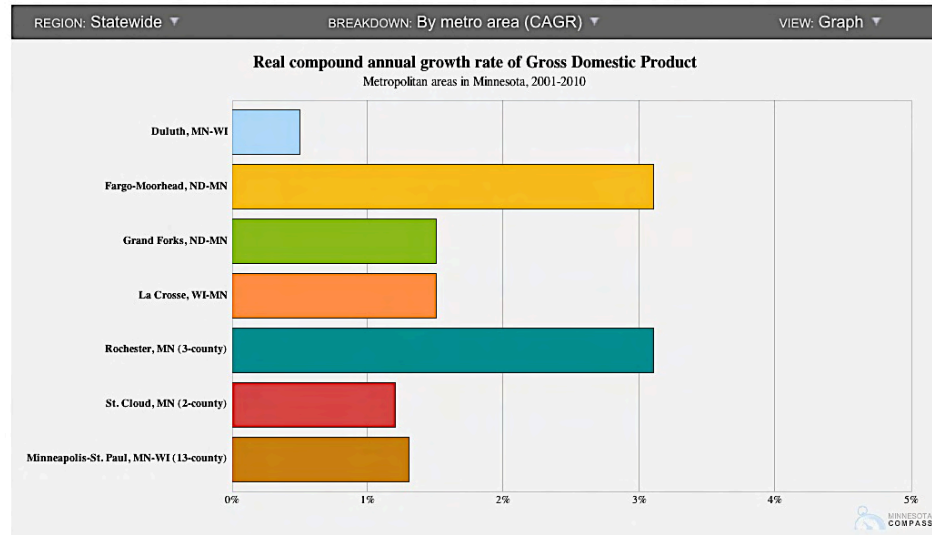
“MINNESOTA COMPASS” DATA (CONTINUED)



“MINNESOTA COMPASS” DATA (CONTINUED)

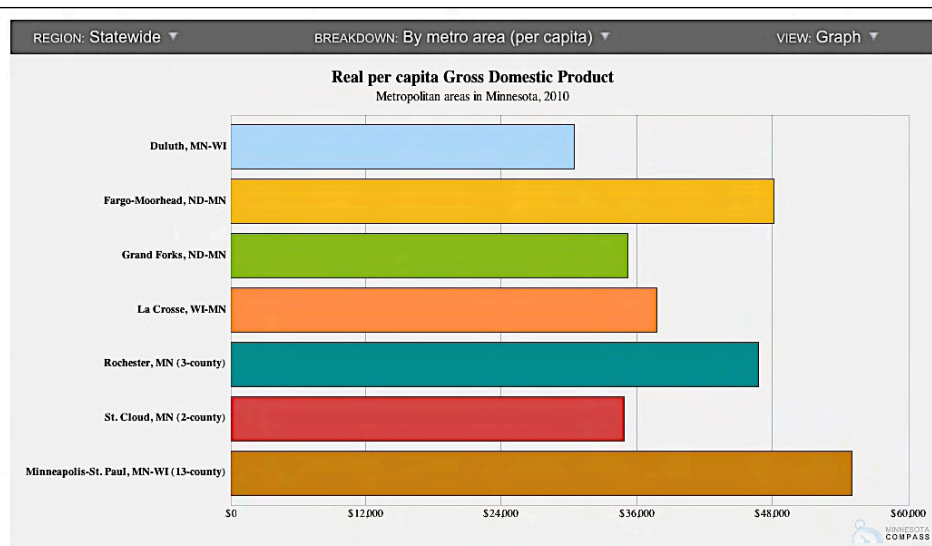
ECONOMIC OUTPUT (GDP)

The Gross Domestic Product is the estimated market value of all the goods and services produced. Increases in the inflation-adjusted Gross Domestic Product indicate economic growth, while decreases indicate economic decline. This measure is calculated at the state- and metropolitan-levels, and metropolitan areas contained within each region are shown.



Note: Data from 2010 are preliminary.

Compiled by MNCompass, from: U.S. Bureau of Economic Analysis, Regional Economic Accounts.

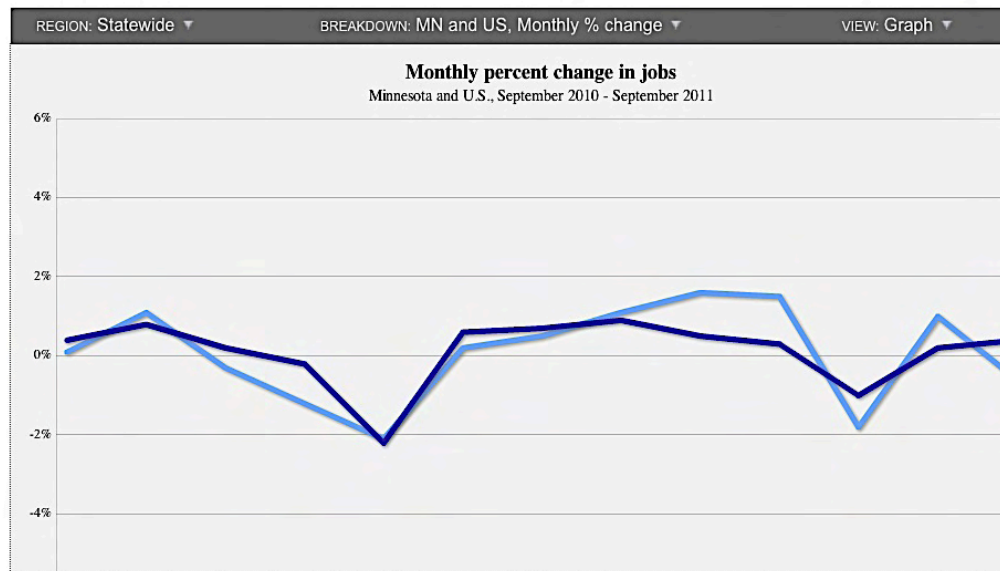


Note: Shown in chained 2005 dollars. The 2010 data are preliminary.

Compiled by MNCompass, from: U.S. Bureau of Economic Analysis, Regional Economic Accounts.

JOBS

Securing a job is a prerequisite to participating in the economy and sharing in its benefits. At the community and state level, a shortage of jobs increases unemployment, reduces tax revenues, and curtails economic growth. Those without a job, especially residents without assets or a second worker in the household, may experience hardships such as high debt, health consequences, hunger, foreclosure, and even homelessness. Even those workers holding jobs may experience limited mobility and depressed wages and salaries when jobs are in short supply.



Note: Not seasonally adjusted. Relates to nonfarm payroll positions only.

Compiled by MNCompass, from: Minnesota Department of Employment and Economic Development, Current Employment Statistics.

NORTHMARQ – JANUARY 2012 COMPASS REPORT – QUICK FACTS

LOCATION

The “Twin Cities” of Minneapolis and St. Paul form the core of a metropolitan region encompassing 6,046 square miles and consisting of 13 counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington, Isanti, Chisago, Sherburne and Wright in Minnesota, as well as Pierce and St. Croix counties in Wisconsin.

Forbes magazine identified the Minneapolis–St. Paul metro area as one of its “Best Places for Business and Careers” in the U.S., ranking it 34th among the nation’s largest metros. (Forbes, 2011)

POPULATION

According to Environmental Research Systems, Inc. 2010 population estimates, the Minneapolis-St. Paul MSA (Metropolitan Statistical Area) ranks 16th in population in the United States with a population of 3,328,053.

INCOME

According to 2010 ESRI estimates, the Twin Cities’ median household income of \$72,379 is ranked ninth among the top 50 most populous MSAs.

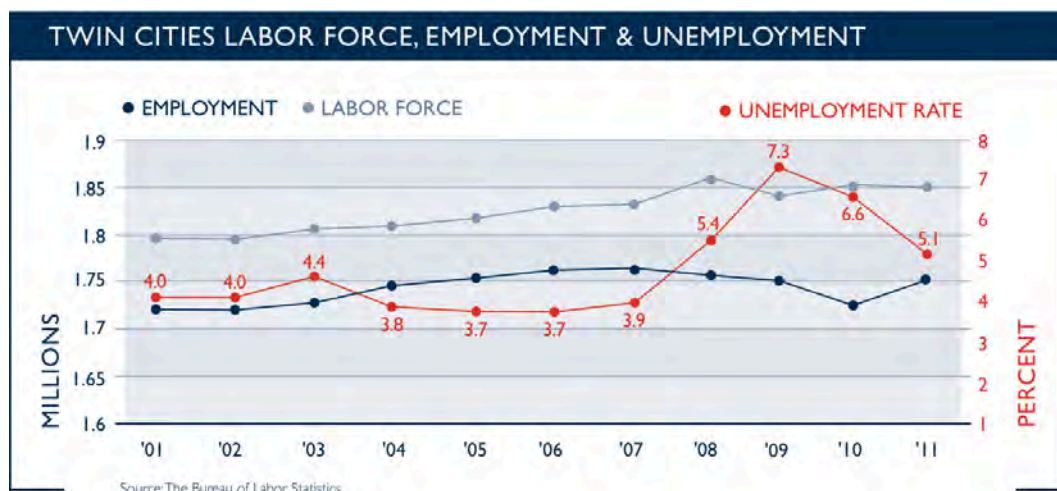
HOUSING PRICES

According to the National Association of Realtors, the Twin Cities median single-family home price (as of third-quarter 2011) is \$160,300 compared with \$171,400 in third-quarter 2010.

BUSINESS STRENGTHS

Major business strengths include a highly educated workforce, excellent transportation services, a diverse economic base and available capital. The metro area is home to 20 Fortune 500 companies representing a broad spectrum of industries. The employment base does not rely on any single industry, which allows it to weather recessions and economic downturns in specific industries.

The metro has one of the top-performing economies in the United States. The Brookings Institution ranked the area sixth nationally in a post-recession comparison of 150 global metro areas in 2010.



Twin Cities Commercial Real Estate Market Begins to Show Signs of Recovery

The Twin Cities commercial real estate market showed signs of recovery in 2011, with vacancy declining across most property types amid some signs of an improving economy. Market-wide, vacancy declined to 15.2% for direct space (17.6% overall across all property types) — reversing a three-year slide that saw direct space vacancy go from 11.5% in 2007 to 15.9% in 2010. The market recorded 1.6 million square feet of positive absorption, breaking a two-year skid that brought the market deep into negative territory.

BULK INDUSTRIAL DRAWS INVESTOR INTEREST

Large national investors showed significant interest in Twin Cities industrial properties in 2011, particularly newer bulk/warehouse product. The number of investment sales in bulk industrial properties was the highest seen in the Twin Cities in more than a decade, including at least 10 high-profile deals. Institutional investors are again looking closer at investment opportunities in the Twin Cities, including well-positioned grocery-anchored retail centers and multi-family properties

DEAL-MAKERS DELIGHT IN OFFICE MARKET

Large office space users were active in the Southwest submarket, which posted 456,000 sf of positive absorption for the year, its highest number in more than decade. The overall Twin Cities market experienced 484,000 sf of absorption. Class A property owners were the main beneficiaries, and increased demand for class A space was also evident in the West and Minneapolis Central Business District (CBD) submarkets. Investment activity continued to rebound in the office sector in 2011, resulting in more than \$800 million worth of sales volume. Several significant transactions closed in the second half, and the pipeline of potential deals is relatively robust going into 2012.

MULTI-FAMILY CONSTRUCTION BOOM UNDERWAY

Resurgent demand for rental housing is fueling a boom in new multi-family apartment construction in the Twin Cities. Developers added approximately 900 new market-rate units in 2011 and another 1,300 units are slated for completion in 2012. Rental rates are rising in the face of rapidly declining vacancy rates, giving developers reason to invest in new construction. Much of the apartment development is taking place in urban areas such as the Minneapolis CBD and the Uptown area in south Minneapolis.

RETAIL PROPERTIES BENEFIT FROM MEDICAL SPACE USER DEMAND

Healthcare providers have been locating patient-friendly primary care and specialty practice clinics in high-profile retail sites, taking both existing second-generation retail space and also building new locations on land adjacent to existing centers. Retail center owners are more open to accommodating medical space users given existing market conditions.

Vacancy among all retail property types is 8.4% for direct space, down from 9.8% at year-end 2010. Major retailers are expanding in the Twin Cities area, fueling an uptick in construction activity. Regional mall space is at a premium, as evidenced by an overall vacancy rate of 1.3% among the area's eight such properties.

OUTLOOK

Construction projects will be more numerous in 2012. Retail alone will see about 1 msf of new construction in 2012, led by big-box retailers. More multi-family projects are in the works as demand for rental units is expected to continue to grow. The market will likely also see more construction of large, single-user bulk/warehouse distribution facilities to meet the needs of users who cannot find the space they need in the current inventory.

The office and industrial leasing markets are expected to experience solid growth in demand in 2012, mostly in the second half of the year. Investors may broaden their search for more Twin Cities opportunities in 2012, while the supply of lender-owned office properties put back on the market for sale will also likely increase. Well-positioned retail centers can anticipate improvement in demand, including from some medical space users.

Buyer Demand Picking Up for Industrial, Multi-Family Land; Sellers Stepping Up to Meet the Market

OVERVIEW

Buyers and sellers have moved closer together on pricing for land, which is spurring more transaction activity. Most of the movement has been by sellers, who are giving in to market realities and pricing their properties according to current market conditions, which remain soft. Demand for commercial real estate land is selectively higher within various property types.

INDUSTRIAL LAND MARKET HEATS UP

Virtually all activity in industrial land sales is driven by a handful of space users looking to construct large, modern warehouse distribution centers to meet their specific corporate needs.

These are projects ranging in size from 200,000 square feet up to 1 msf. For example, Milwaukee-based Uline Inc., a distributor of packaging equipment and supplies, is building a 640,000-sf distribution center in Hudson, WI, to consolidate its Twin Cities operations.

Chicago-based medical supplier Medline Industries is building a 300,000-sf warehouse and distribution center on a 20-acre site in Rogers in the Northwest submarket on land it purchased from Malvern, PA-based Liberty Property Trust.

Other large distribution center space users such as Issaquah, WA-based San- Mar Corp. are also exploring the Twin Cities market for suitable sites.

MULTI- AND SINGLE-FAMILY RESIDENTIAL LAND IN DEMAND

A rising tide of multi-family apartment development is lifting the market for residential land. Developers are seeking to add as many as 10,000 new apartment units to the market in response to a surge in demand that has reduced the market-wide apartment vacancy rate to 2.3%. Demand is strong for both market-rate and affordable multi-family product.

The single-family residential market is also seeing signs of renewed activity. Home builders have absorbed much of the region's supply of better-positioned surplus lots left finished but unsold in the wake of the housing downturn. Large national home builders are working more closely with local partners, who are taking on more of the land entitlement, planning and site development activity for new housing developments.

MEDICAL USERS ENTERING MORE RETAIL AREAS

Healthcare providers are also making a strong play to increase their presence in traditional retail settings. Existing market conditions are forcing more owners of retail land to entertain new development proposals from healthcare organizations as demand from more traditional retail users remains tepid.

AGRICULTURAL LAND PRICES REMAIN HIGH

Many area farmers experienced a bumper year with their crops, and some are eager to put their surplus cash to work by expanding their operations. The result is steady upward pressure on agricultural land prices. Minnesota farmland prices jumped 28% from September 2010 to September 2011 according to the Federal Reserve Bank of Minneapolis. Similar increases were seen in other Midwest states. Farmland prices are near record levels. Rising prices are making it more difficult for national investors to achieve their desired return on investment.

OUTLOOK

The market will likely be livelier in 2012, including an increased pace of growth in the single-family residential market. Look for more greenfield residential land activity in the year ahead, as the market has now worked through much of the excess capacity of bank-owned land from the post-peak collapse stage. Market dynamics will likely continue to favor buyers, who can anticipate increased discounting by sellers motivated to close transactions. Strong retail companies with confidence in the Twin Cities market will continue to find abundant opportunities to purchase good sites at discounted prices.

Higher prices are anticipated for agricultural land, as fundamental growth factors remain in place for commodity pricing and demand.

Twin Cities Multi-Tenant Industrial Market Remains in Recovery Mode

OVERVIEW

The Twin Cities multi-tenant industrial market continued its slow and sometimes rocky road to recovery. Deals with some traction were offset by companies downsizing, consolidating, relocating into single-user buildings, or leaving the market. Many users simply traded spaces looking to gain efficiency.

Leasing activity was modest with 71,667 square feet of positive absorption, down from 541,582 sf in the first half. The vacancy rate is 17%, one of the highest vacancy rates in a decade. The good news is that 2011 ended the year with 613,249 sf of positive absorption - the first positive absorption reported since 2008.

The Northwest submarket was tightest with a 14.4% vacancy rate. The Southwest, at 17%, dragged the market down with 220,000 sf of negative absorption, primarily the result of losing two large tenants (Digital River and Swartz). The Southeast posted the highest vacancy rate at 19.2%, and the North-east boasted the most positive absorption with 141,940 sf following a number of smaller "bread-and-butter" deals. The Northeast's vacancy rate is 17.8%.

BULK IN DEMAND

Bulk/warehouse properties continued to be the tightest product, reporting a 14.5% vacancy rate and 196,093 sf of negative absorption due to several space givebacks, including Swartz vacating 250,000 sf in the Southwest and Medtronic pulling out of 120,000 sf in the Northeast. Few large blocks of quality bulk space are available. The Northwest boasted the tightest bulk/warehouse market at 9.6%. Tight market conditions prompted Medline Industries to develop a 300,000-sf bulk build-to-suit in Rogers.

RATES FLAT, CONCESSIONS DIMINISHING IN TIGHTER POCKETS

Rates are flat at \$4.37 and \$7.98. There are still some very aggressive lease deals as well as some concessions on the table, particularly for bigger deals as landlords compete for tenants. It remains a very competitive market. Some landlords, however, are backing off on concessions. In the Northwest, for example, if a tenant was receiving five months of free net rent on a five-year lease, today the tenant might receive four months of free rent. Gross free rent is less prevalent. Across all submarkets, landlords are able to push rents on newer, well-located, functional, 24-foot-clear office/warehouse properties. Older struggling properties, however, continue offering hefty discounts.

USER-BUILDING SALES GAIN TRACTION

User-building sales activity picked up across all submarkets. There are several reasons, including low interest rates, availability of SBA loans, reduced building costs, and many companies want to own their own buildings. At least seven sales closed in the Northwest where pricing dropped 25-35% from 2007 as the "expectation gap" between buyers and sellers closed. In the Northeast, where a handful of sales closed, there is a consistent, definitive price discount of 30-40% off the listed prices. Not much quality product is for sale in the Southeast, but several sales closed. In the Southwest, at least five properties sold.

**NORTHMARQ – JANUARY 2012 COMPASS REPORT – INDUSTRIAL SUMMARY
CONTINUED)**

INVESTMENT SALES ARE HOT

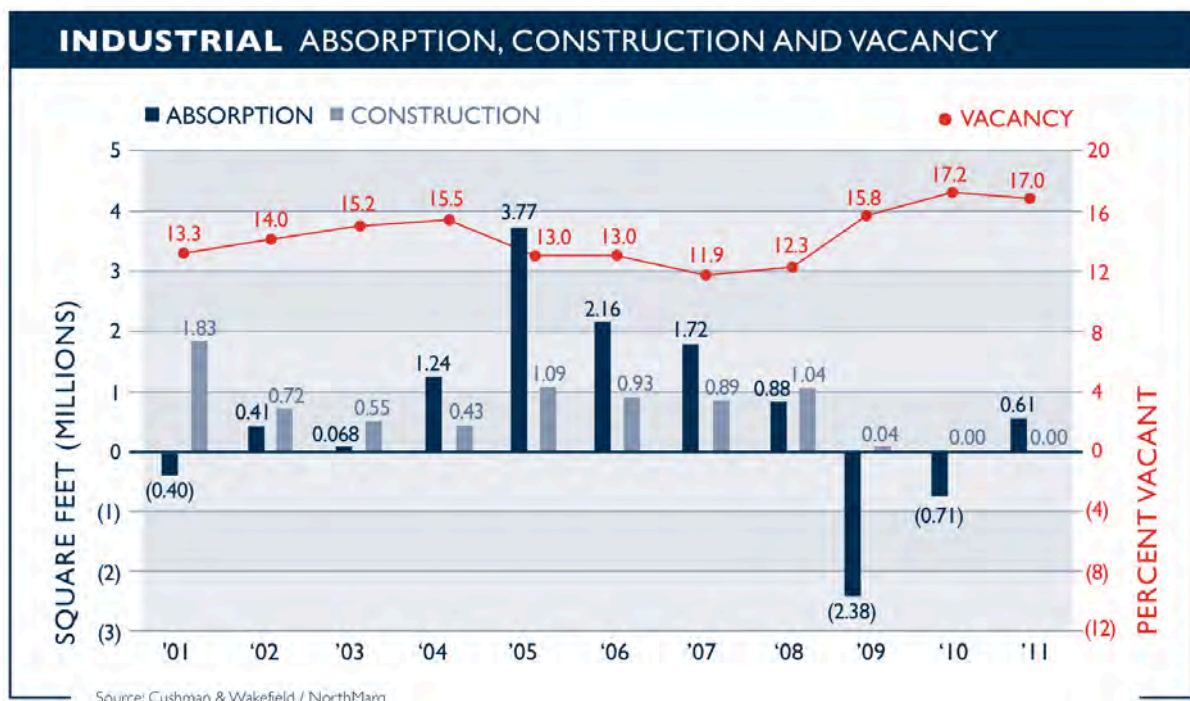
Strong investor demand exists, especially for core bulk properties (low finish and high ceilings). Institutional capital is pursuing industrial properties in the Midwest where cap rates are more attractive than the coasts. Liberty Property Trust acquired three assets totaling 450,000 sf for roughly \$25 million. The Travelers Cos. acquired 11 properties in Roseville and Shoreview, UBS Realty Advisors purchased Diamond Lake I and II in Rogers, and Interstate Partners sold several buildings to Welsh Cos. This is the most sales activity in five years.

OUTLOOK

The market could see 225,000 sf of positive absorption in the next six months and as much as 665,000 sf by year-end 2012. The good news is several large users are seeking space. However, it will remain a slow, labored recovery because the market is still negatively impacted by older, less functional product and tenants continue vacating and trading spaces. All submarkets expect large blocks of space to come back on the market, which will cause more volatility.

Rates should start to stabilize and concessions diminish as the market tightens. Landlords have some pricing power on newer office/warehouse and bulk/distribution, 24-foot-clear quality buildings. However, concessions and reduced rates will likely remain relatively widespread for less-functional buildings as landlords compete to fill space.

User-building sales will continue as the pricing gap between buyers and sellers has narrowed. Build-to-suit activity will continue with another seven or eight likely announced in 2012.



**NORTHMARQ – JANUARY 2012 COMPASS REPORT – INDUSTRIAL SUMMARY
(CONTINUED)**

INDUSTRIAL VACANCY AND ABSORPTION									
	SUBMARKET	TOTAL # OF BUILDINGS	NRA	VACANT SPACE	PERCENT VACANT	PERCENT VACANT W/ SUBLEASE	1ST HALF 2011 ABSORPTION	2ND HALF 2011 ABSORPTION	2011 ABSORPTION
NORTHEAST	Bulk Warehouse	50	11,978,139	2,024,377	16.9%	20.8%	157,990	(63,946)	94,044
	Office Showroom	71	4,555,951	841,782	18.5%	21.1%	(12,742)	15,597	2,855
	Office Warehouse	259	18,433,814	3,365,177	18.3%	23.3%	(194,799)	190,289	(4,510)
	TOTAL	380	34,967,904	6,231,336	17.8%	22.2%	(49,551)	141,940	92,389
NORTHWEST	Bulk Warehouse	83	11,427,999	1,094,186	9.6%	16.0%	197,297	(290)	197,007
	Office Showroom	82	5,297,104	834,042	15.7%	18.3%	(19,598)	53,001	33,403
	Office Warehouse	134	9,257,805	1,819,110	19.6%	21.6%	(43,459)	79,591	36,132
	TOTAL	299	25,982,908	3,747,338	14.4%	18.5%	134,240	132,302	266,542
SOUTHEAST	Bulk Warehouse	36	5,562,299	957,207	17.2%	20.3%	118,067	1,487	119,554
	Office Showroom	52	3,147,422	682,830	21.7%	24.2%	10,920	46,590	57,510
	Office Warehouse	120	8,217,831	1,608,005	19.6%	24.1%	38,115	(30,284)	7,831
	TOTAL	208	16,927,552	3,248,042	19.2%	22.9%	167,102	17,793	184,895
SOUTHWEST	Bulk Warehouse	27	4,716,392	806,211	17.1%	18.4%	207,568	(133,344)	74,224
	Office Showroom	101	7,256,993	1,425,297	19.6%	22.2%	90,296	(8,019)	82,277
	Office Warehouse	162	11,713,511	1,785,638	15.2%	18.2%	(8,073)	(79,005)	(87,078)
	TOTAL	290	23,686,896	4,017,146	17.0%	19.5%	289,791	(220,368)	69,423
TOTAL MARKET	Bulk Warehouse	196	33,684,829	4,881,981	14.5%	18.8%	680,922	(196,093)	484,829
	Office Showroom	306	20,257,470	3,783,951	18.7%	21.2%	68,876	107,169	176,045
	Office Warehouse	675	47,622,961	8,577,930	18.0%	21.9%	(208,216)	160,591	(47,625)
	TOTAL	1,177	101,565,260	17,243,862	17.0%	20.7%	541,582	71,667	613,249

Source: Cushman & Wakefield / NorthMarq

NORTHMARQ – JANUARY 2012 COMPASS REPORT – SOUTHEAST INDUSTRIAL SUMMARY

The subject is situated in the Southeast Market as defined by Northmarq's Compass Report. Following are current market conditions for this submarket.

Industrial - Southeast

Vacancy –	Dropped one point
Absorption –	Very modest
Rental Rates –	Flat

Highlights

“Grinding the gears” may best describe the slightly upward movement of the Southeast multi-tenant industrial market, totaling 16.9 msf. There was a lot of hard work on the deals floating around but not a lot getting done. The submarket reported a modest 17,793 sf of positive absorption and a vacancy rate of 19.2% (22.9% with sublease space), the highest of all submarkets. This means that nearly 3.25 msf of space is vacant.

Some of the deals had lateral impact as tenants simply traded spaces or there was a drawback to the apparently positive activity. For example, federal contactor Computer Science Corp (CSC) signed a deal for 163,000 sf in First Park Lakeville after being awarded a distribution contract for the U.S. Postal Service. However, the previous contractor will vacate 162,000 sf of 32-foot-clear space at Minnesota Valley Distribution Center I in Shakopee.

Brown College leased 55,263 sf of office/showroom space at Mendota Tech Center in Mendota Heights, in space previously occupied by Cray Research. However, it vacated a 100,000-sf, single-tenant office building in Mendota Heights, which recently traded for \$10 psf on Auction.com.

Webb Cos. leased 50,000 sf at Aldrin I in Eagan but downsized from its 129,000-sf building in Rosemount Business Park. Webb's building was since purchased by Proto Labs Inc., who will backfill the space and begin operations in January.

AmeriDisc vacated 77,000 sf at Pilot Knob Distribution Center in Eagan and consolidated some of its operations to North Carolina.

Several tenants left the market, including Work Flow One, which filed bankruptcy and vacated 65,000 sf at the Pilot Knob Distribution Center in Eagan.

The submarket did report some entirely positive transaction activity. RT Dygert, a tenant new to the market, signed a seven-year, 39,300-sf lease at Nicollet Business Campus VII in Burnsville. It consolidated operations from Chicago to the Twin Cities.

Also, Kaman Industrial Technologies signed a lease for 29,801 sf of office/warehouse space at Lexington Corporate Center in Eagan. It is a relocation/ expansion for the company.

Hockenbergs Equipment and Supply signed a 44,000-sf lease at Silver Bell Commons in Eagan and will vacate space in the Northeast submarket. Also, Valmont signed a 30,000-sf expansion at Pilot Knob Distribution Center in Eagan. It is relocating from the Eagan Industrial Center.

NORTHMARQ – JANUARY 2012 COMPASS REPORT – SOUTHEAST INDUSTRIAL SUMMARY CONTINUED)

Significant activity is occurring in Rosemount. Continental Nitrogen Resources sold three parcels of a 110-acre site, located at highways 52 and 55, near Flint Hills Resources' Pine Bend Refinery. Hawkins Inc. in Minneapolis, which makes and distributes chemicals, is developing a 63,000-sf manufacturing plant on 25 acres. Feed Products purchased a fertilizer warehouse and distribution business on 25 acres. And Rosemount Resources, owned by Stillwater-based Yocum Oil, acquired 50 acres and is transforming an abandoned chemical storage site into a new biofuels business.

In user-buildings sales, a limited number of quality, functional buildings are for sale. The functional properties are selling quickly. Bothum Leasing Co. purchased a 24,623-sf building at 14925 Energy Way in Apple Valley. Cross Country Courier purchased a cross-dock facility on Lexington Avenue in Eagan from ABF Systems. The transaction included the 29,340-sf facility and 7.75 acres. It sold for \$2.3 million or \$76 psf. The company came out of 33,000 sf in Eagan. Harvey Vogel Manufacturing bought the 71,000-sf former Factory Motorparts building in Eagan.

Ironwood Electronics purchased a 22,600-sf building at 1335 Eagandale Court in Eagan from Pro-Fit International. Also, the Jim Pattison Group acquired the former 210,000-sf Berry Plastics building in Lakeville, and Navy Island Plywood acquired a 56,000-sf building in West St. Paul and vacated 41,000 sf in the Riverview Industrial Center St. Paul.

In development, Interstate Partners plans to break ground on a 126,111-sf office/warehouse building in the BridgePoint Business Park in South St. Paul. The developer has a lead tenant—BW Systems Inc., a St. Paul-based manufacturer of electrical systems - which has committed to lease 32,000 sf. The rest of the space is speculative. The building will be ready for occupancy by August 2012.

Outlook

Toro Distribution Center will vacate 230,000 sf of 32-foot-clear space at Highway 50 and Cedar Avenue in Lakeville in summer 2012. This will taint next year's absorption prediction. Therefore, the submarket could likely post 125,000 sf of negative absorption in the next six to 12 months. The submarket will slowly catch up as space gets backfilled.

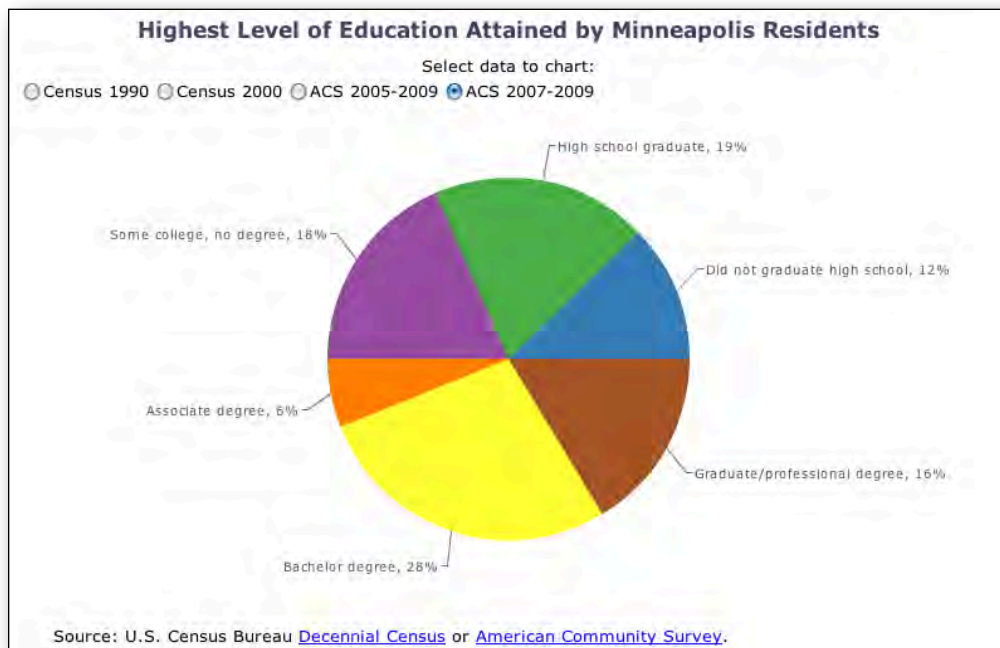
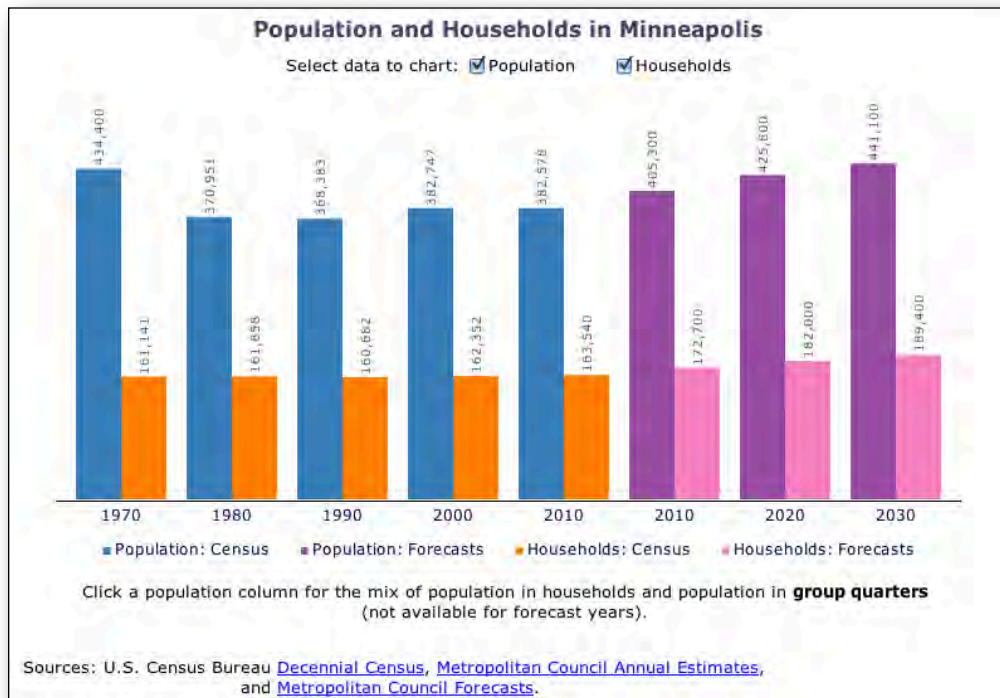
Also, Uline Inc. will vacate approximately 300,000 sf in two Eagan buildings - the Highway 55 Distribution Center and 985 Aldrin, which the company owns - in 2013. The company is relocating to Hudson, Wis., where it will build between 500,000 and 1 million sf of distribution space.

Rental rates will continue to depend on the product. Office/showroom rates are still dropping since its respective vacancy rate of 21.7% is the highest of all product types in all submarkets. However, functional, 24-foot-clear office/warehouse rates are tightening. For older, less functional product, rates will continue to see deep concessions.

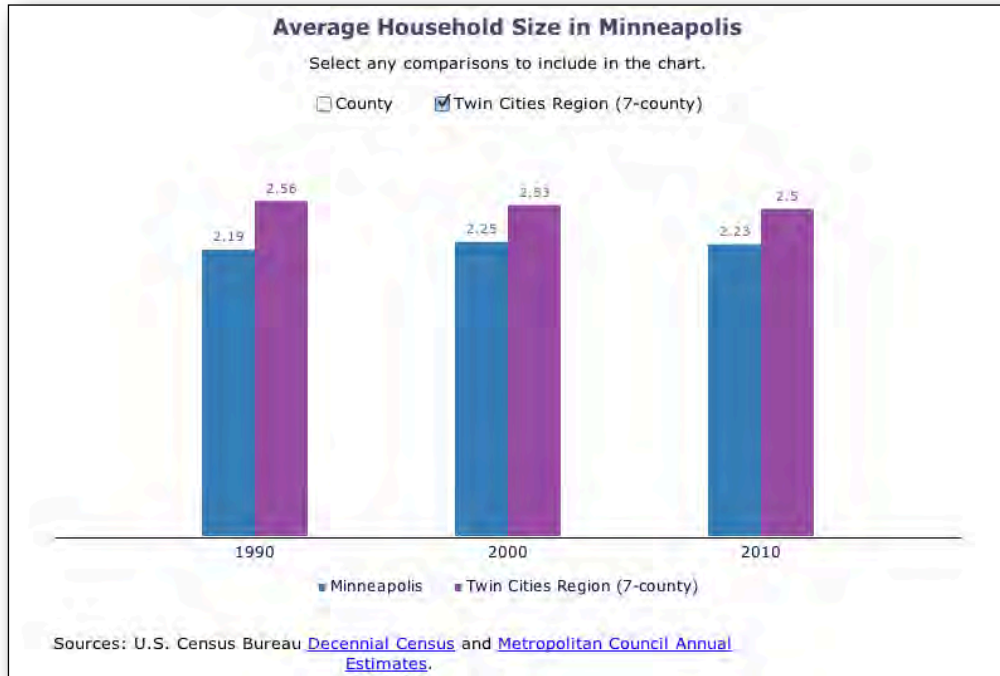
In build-to-suit development, Five9s Digital LLC, based in Charlotte, N.C., has plans for a 138,000-sf data center in Eagan in 2012. The site is on Yankee Doodle Road, west of Pilot Knob Road. Five9s Digital plans to break ground in March.

The submarket may see a few more user-building sales; however, good quality product is limited.

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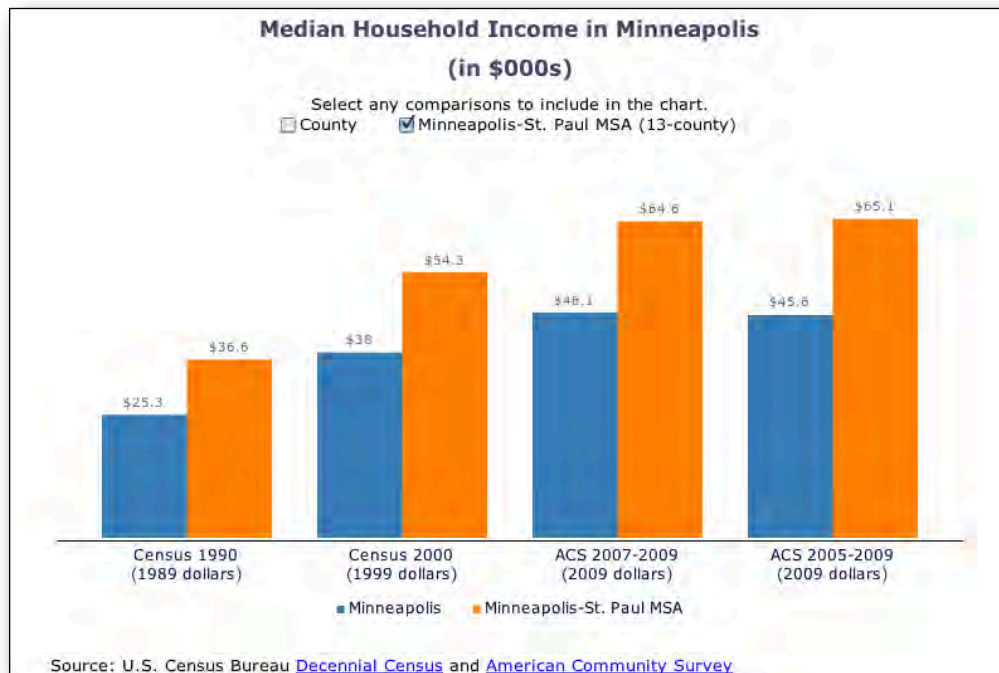
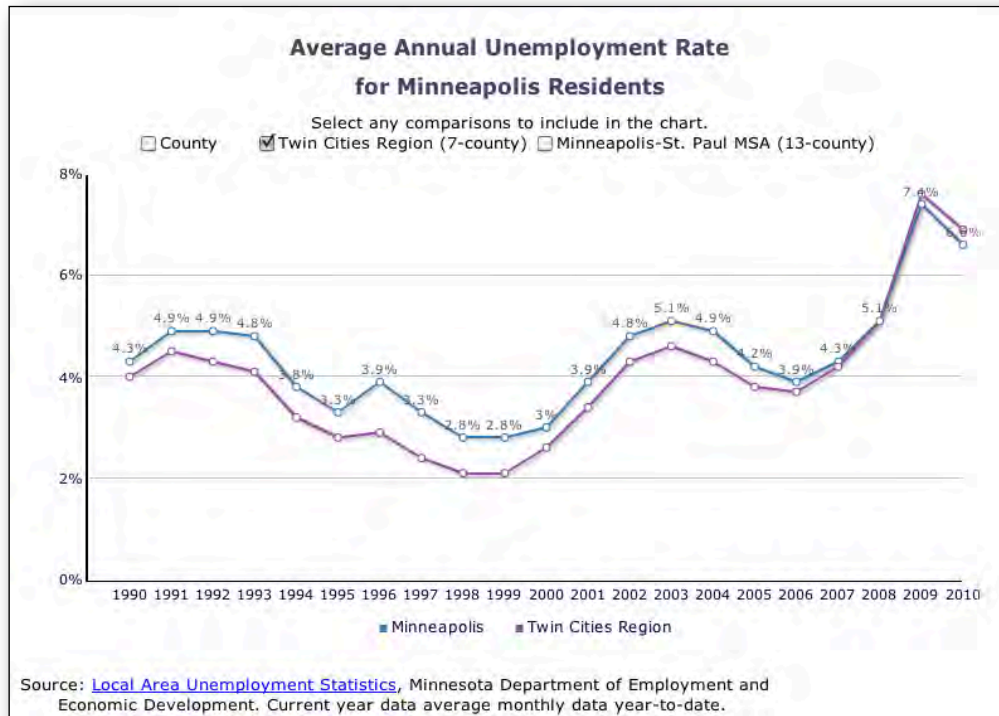
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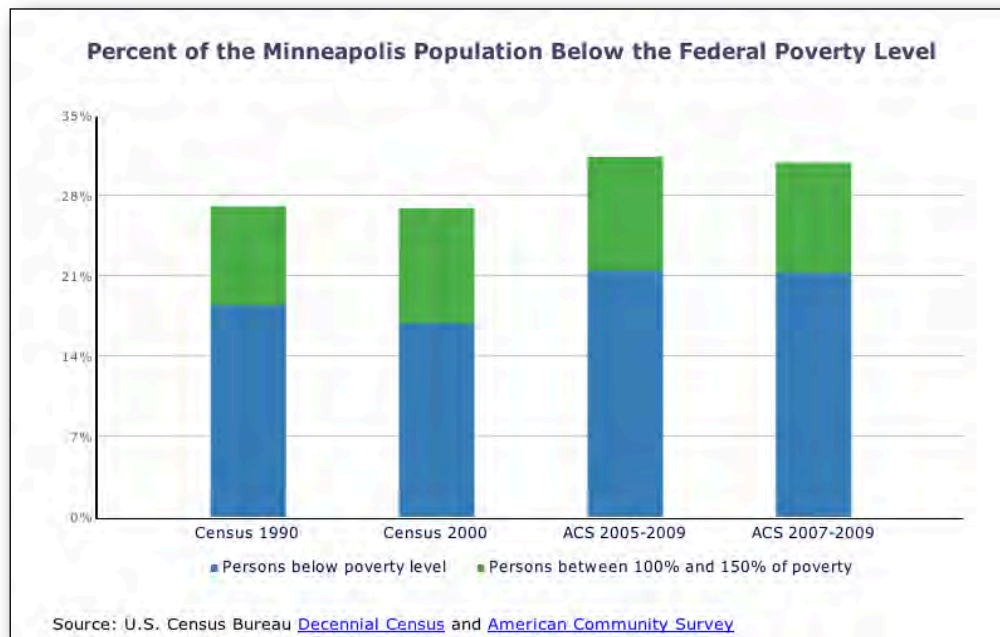
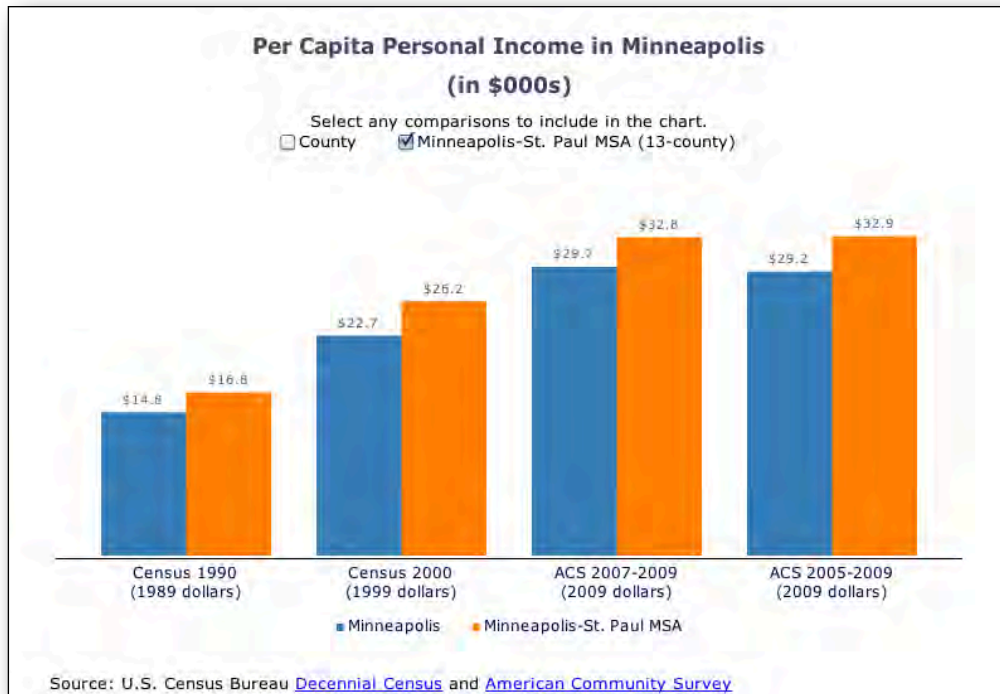
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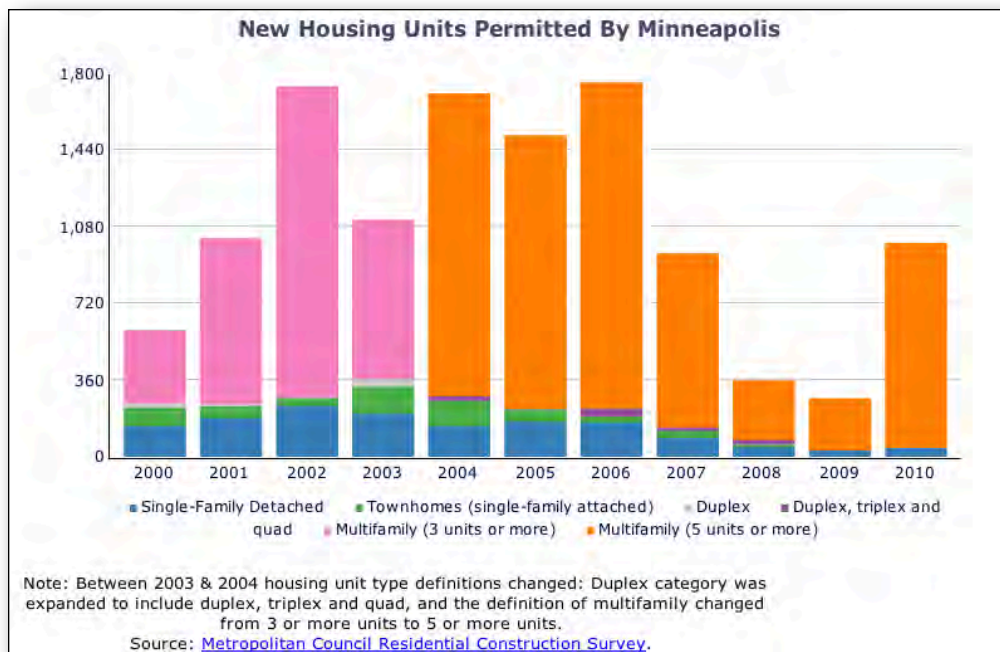
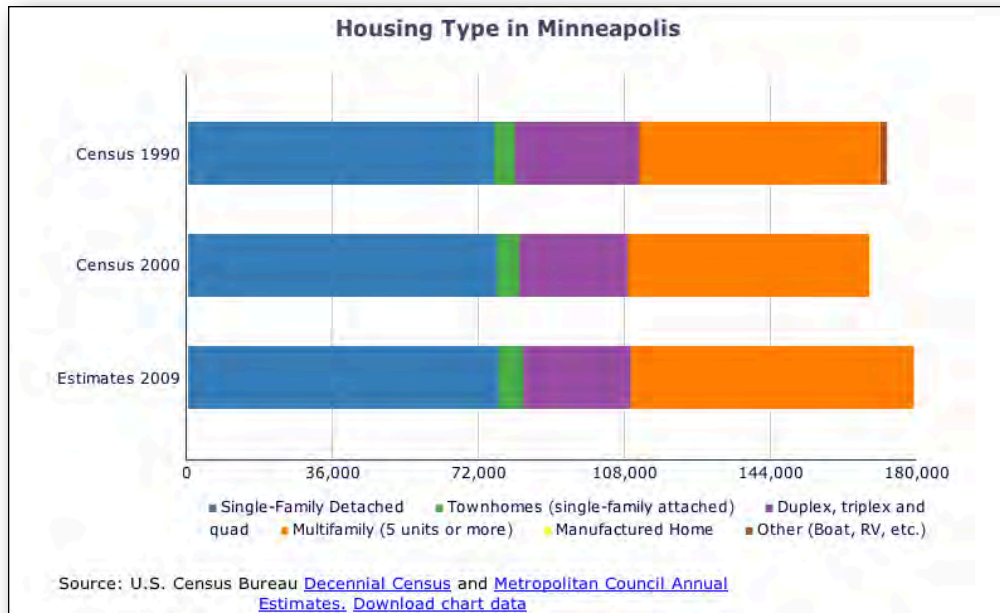
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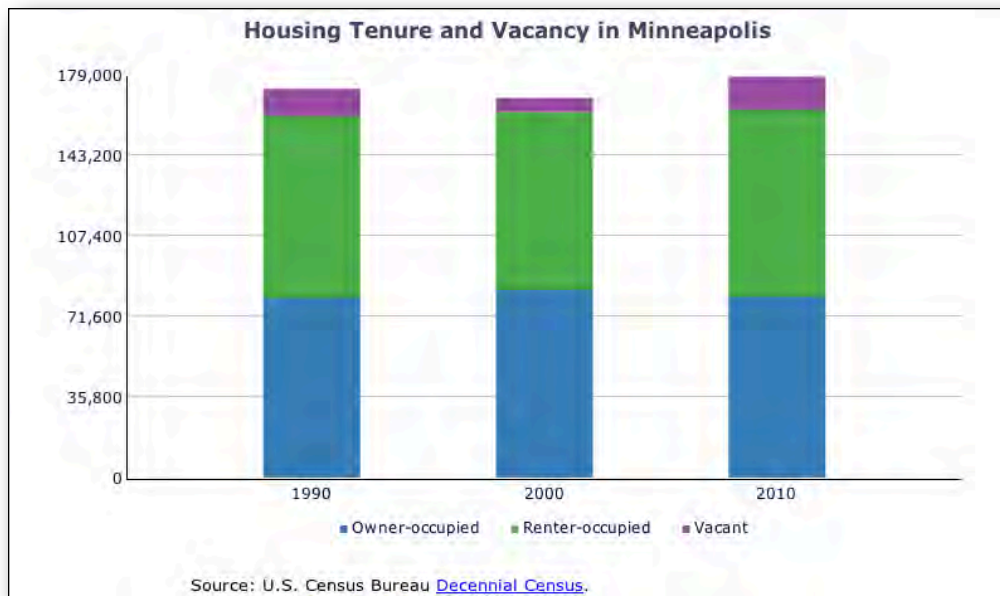
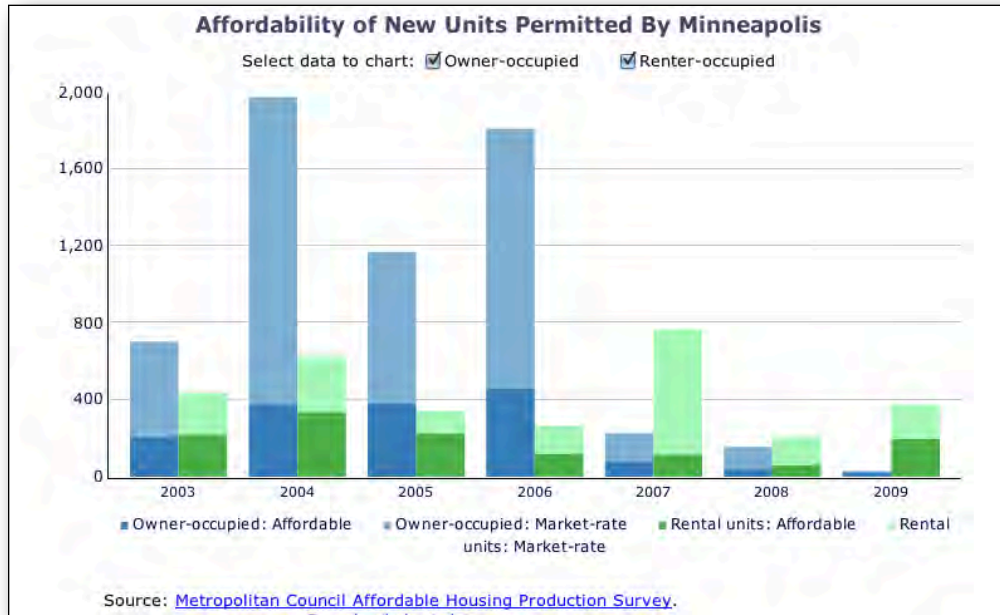
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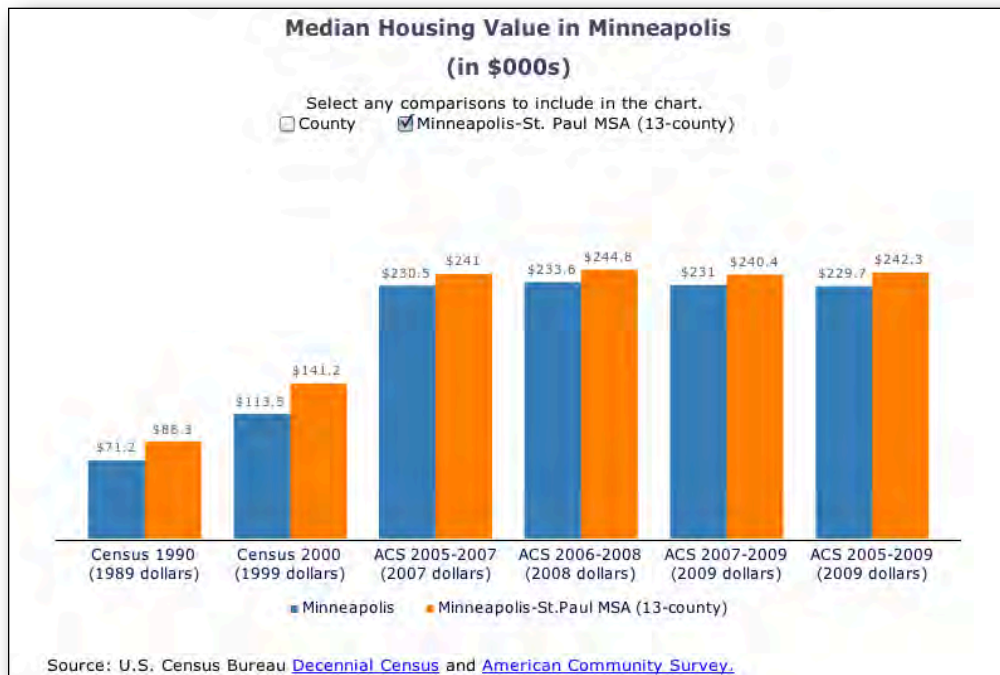
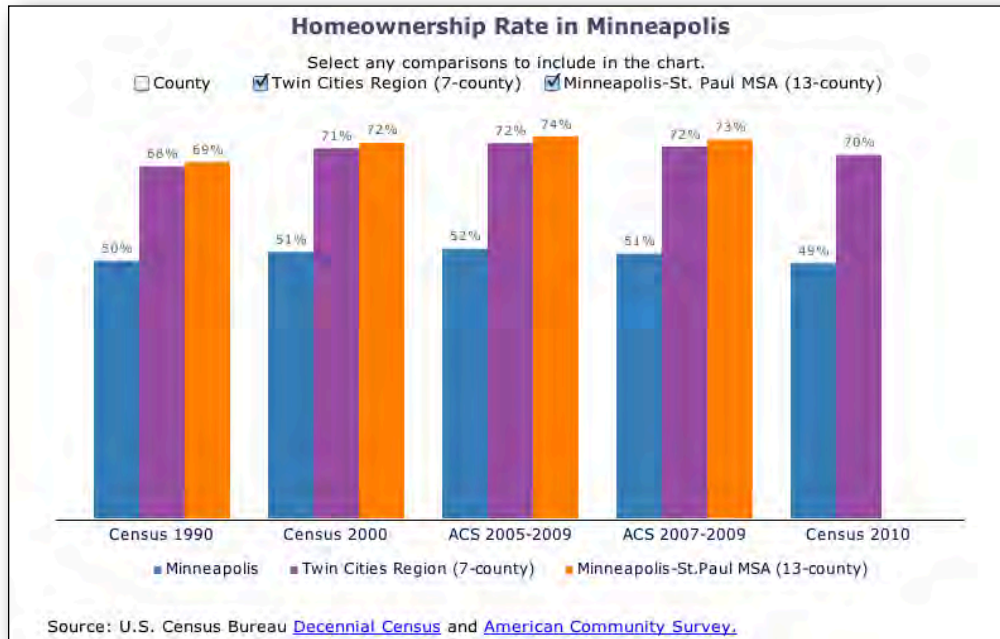
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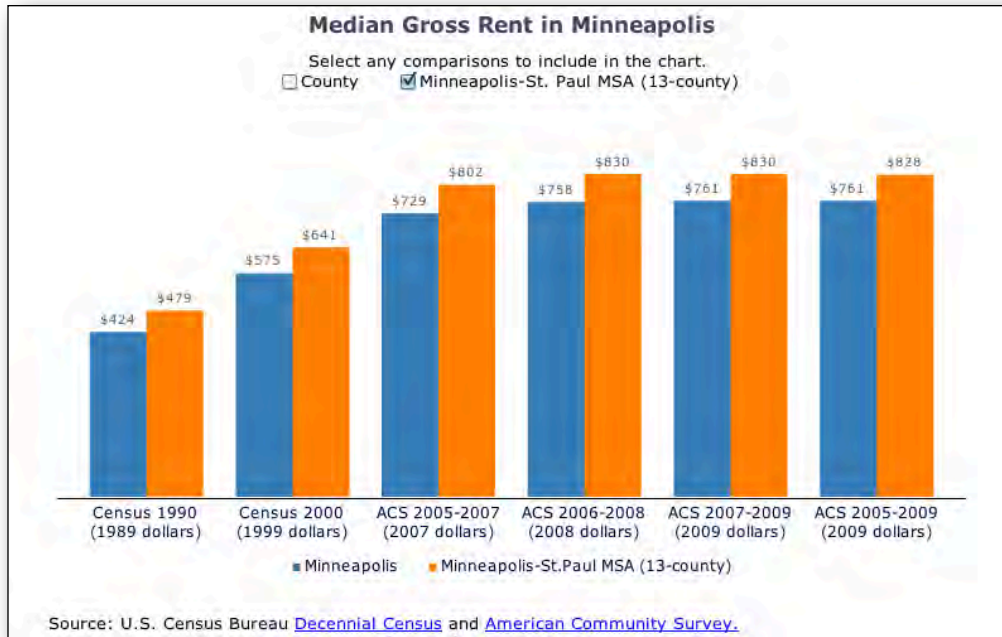
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Commuting Patterns for Minneapolis

Select data to chart:

2004 2008

Top ten workplaces of people who live in Minneapolis

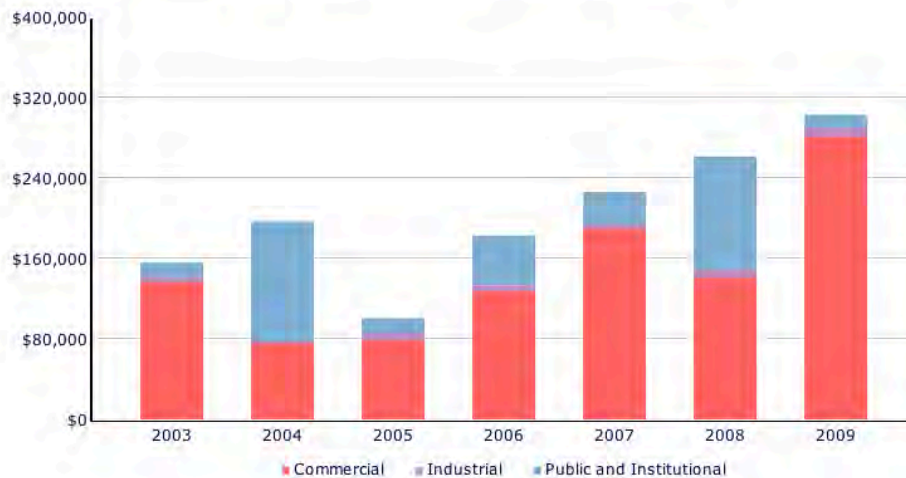
Workplaces	Workers
Minneapolis	72,438
St. Paul	14,426
Bloomington	9,206
Edina	6,501
St. Louis Park	4,545
Minnetonka	4,522
Eden Prairie	3,818
Golden Valley	3,400
Plymouth	3,329
Eagan	3,009
Other	30,658

Top ten residences of people who work in Minneapolis

Residences	Workers
Minneapolis	72,438
St. Paul	22,814
Brooklyn Park	7,668
Bloomington	7,154
St. Louis Park	6,763
Plymouth	6,650
Eagan	5,714
Blaine	5,448
Coon Rapids	5,386
Edina	5,045
Other	113,944

Note: Workplaces and residences outside the seven-county area are counted in "Other".
 Source: U.S. Census Bureau [Local Employment-Household Dynamics](#).

Commercial, Industrial, and Public and Institutional Construction Projects: Total Permit Value in Minneapolis (in \$000s)



Note: Cities and townships do not consistently report information on both square footage and permit value on commercial, industrial, and public and institutional building permits. View "Download Tabular Data" for more details.
 Source: [Metropolitan Council Commercial, Industrial, and Public and Institutional Building Permits Survey](#)

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