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NAI Sioux Falls

Year End Market Report / 2011

About NAI Global

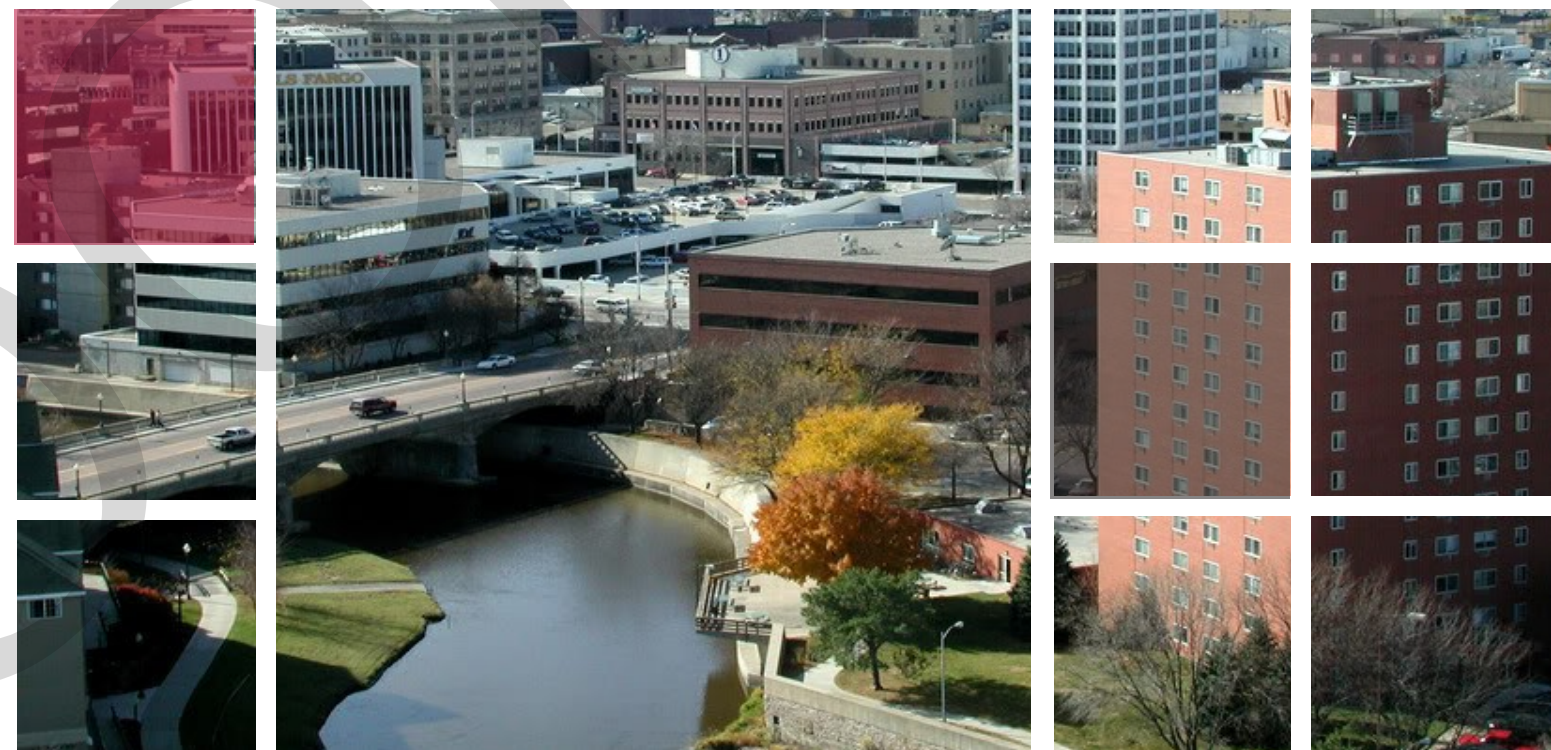
NAI Global is the world's premier network of commercial real estate firms and one of the largest real estate service providers worldwide. Our unique "managed" network structure combines local experts in over 350 offices around the world with regional management, global infrastructure, best practices and technology to provide our clients with consistent, quality results.



Global Reach



Local Knowledge



NAI Sioux Falls

Introduction



We are pleased to present NAI Sioux Falls' Year End 2011 Market Report. Our goal in preparing this document is to provide you with a detailed analysis of and perspective on the area's vibrant commercial real estate market.

As one of the region's largest and most active commercial real estate firms, NAI Sioux Falls serves as the area representative for NAI Global, the industry's largest managed network of global real estate service providers, comprising over 5,000 professionals in 55 countries.

Construction of the comprehensive database detailed within this report began in June, 1999 when Dennis Breske founded Sioux Falls Commercial, Inc. Since that time, we have compiled information on 738 industrial properties, 655 office buildings, 1,036 retail buildings and 1,006 multi-family properties.

We continue to gather information on properties in the surrounding communities of Tea, Brandon, Harrisburg, Dell Rapids, Crooks, and Baltic.

This report is being sent to about 3,500 Sioux Falls area property owners and business leaders. We selected you to receive this report because of your active involvement in the Sioux Falls commercial real estate market.

Our agents maintain a constant watch on the local market ensuring the most current, comprehensive knowledge for our clients. Give us the opportunity to earn your trust. We will deliver results.

Sincerely,

Dennis Breske, CCIM, SIOR, MBA
President and Owner

NAI Sioux Falls

Agricultural Land Report / 2011 Overview

Presented by:
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Overview

Farmers and ranchers in the Upper Midwest have enjoyed unprecedented success for the past three or four years.

Commodity prices remained at very profitable levels during 2011 and seem to be surging as we head into the 2012 growing season. Soybeans remain steady at the \$12/bu. level while both the corn and wheat markets are currently soaring to the \$7/bu. mark.

Even the livestock markets have rebounded nicely. Cattlemen across the state are smiling at the rock solid \$1.25/lb. market with feeders bringing nearly \$1.50/lb. After a dip in prices during the Fall 2011, the hog market is bouncing back in early 2012. Factor in very friendly lending rates at most financial institutions, and one can understand why the clamor for South Dakota agriculture land has reached record high levels.

Despite a resurgence in the cattle market, the sales of pasture ground hasn't gained the momentum of the powerful farm land sales. To the contrary, numerous pastures and hayfields in South Dakota are being broken up and planted to corn, soybeans or small grains. Grassland properties near the Minnesota border are exceeding \$2000/acre with those parcels closer to the Missouri River in the \$1,000/acre range.



Notable Land Sale Transactions

Location	County	Acres	Price	Price per Acre
Miller	Hand	712	\$2,570,320	\$3,610
Manchester	Beadle	160	\$880,000	\$5,500
Fedora	Miner	160	\$848,000	\$5,300
Elkton	Brookings	310.59	\$2,841,899	\$9,015
Dell Rapids	Minnehaha	120.07	\$1,037,074	\$8,600
Tulare	Spink	80	\$440,000	\$5,500
Brandon	Minnehaha	78.05	\$721,963	\$9,250
Volin	Yankton	64.39	\$452,340	\$7,025



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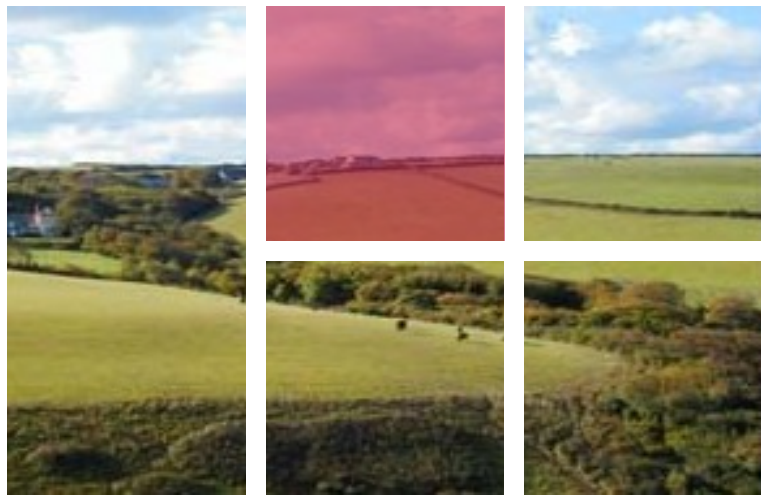
Land Report / 2011 Overview

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NAI Sioux Falls

Our Team



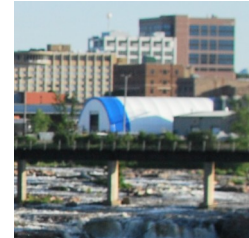
Overview

Commercial land sales in Sioux Falls experienced a slight increase in 2011.

Commercial land sales totaled \$10.78 million, an increase of \$1.94 million in 2010. Construction permits were also higher with a 22% increase in the number of multi-family units and an increase of over 30% for commercial construction permits. Single family permits were down 4.32% from 2010.

We expect land sales to improve along with the positive trend in the construction permits. Lower vacancy rates in apartments should continue to increase the number of multi-family project permits. Continued low interest rates coupled with the general positive attitude for the Sioux Falls economy should also lead to an increase in commercial and industrial land sales.

Early indications show very strong numbers for single family construction in 2012 (44 single family permits were taken in the first 2 months of 2012 compared to 21 single family permits for the same period in 2011).



Dennis Breske founded NAI Sioux Falls on June 7, 1999. NAI Sioux Falls has completed transactions encompassing over 185,000,000 square feet of land and building area, and over \$330 million in transaction value.

Currently, seventeen professionals are active in the firm's office, retail, industrial, land and investment divisions. These agents collectively provide over 100 years of experience for NAI Sioux Falls clients. As a full service brokerage operation, the firm represents buyers, sellers, tenants and landlords with their real estate requirements.



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CCIM, SIOR, MBA
President/Owner



Craig Hagen
Broker Associate
Vice President/COO



Troy Fawcett
CCIM, SIOR
Broker Associate
Industrial/Investment



Ryan Ammann
Broker Associate
Retail



Kathleen Hovland
Broker Associate
Office/Retail

Notable Sale Transactions

Seller	Buyer	Address	Size	Price	Price PSF
Williams Pipeline	Grange Land Venture, LLC	3700 S. Grange Avenue	1,147,762	\$2,100,000	\$1.83
Pyramid Properties, LLC	I-90 Fuel Services, Inc.	6509 S. Louise Avenue	114,136	\$1,198,428	\$10.50
Great Western Bank	Avera McKennan	6215 S. Cliff Avenue	174,131	\$1,044,786	\$6.00
Comm. Serv. For Deaf	Casey's Retail Company	1931 E. 10th Street	67,512	\$770,109	\$11.41
Ronning Enterprises	Casey's Retail Company	3236 S. Sycamore Avenue	80,325	\$763,087	\$9.50
Tatanka Development	Insurance Auto Auctions Corp.	3320 N. Van Eps Avenue	464,204	\$696,306	\$1.50
SF Develop. Foundation	Worthing Tractor Parts, Inc.	5300 N. Annika Avenue	261,364	\$548,864	\$2.10
Thoms Family Trust	JPK TR Sioux Falls, Inc.	2725 S. Carolyn Avenue	66,500	\$545,000	\$8.20
H&L Enterprises	Eastern Properties, LLC	4200 S. Sycamore Avenue	296,344	\$544,841	\$1.84
Linda & Darrold Dean*	Cliff Ave. Properties, LP	1701 W. 54th Street N.	465,220	\$535,000	\$1.15
RMB Properties, LLC	Hyvee, Inc.	1203 E. 57th Street	14,463	\$531,712	\$36.76
Dawley Farm	Carlson Technical Properties	1100 S. Highline Place	34,869	\$400,993	\$11.50
Dawley Farm	Sioux Falls Senior Apartments	5760 E. Red Oak Drive	125,084	\$345,000	\$2.76
Cliff Ave Properties, LP*	Parks Ltd.	3900 N. 8th Avenue	174,257	\$335,000	\$1.92
SF Develop. Foundation	Ice on Amidon, LLC	2708 N. 1st Avenue	150,631	\$323,103	\$2.14
Marvin & Marilyn Tripp	John Morrell & Co.	2000 N. Wabash Avenue	146,766	\$235,569	\$1.61
Site 2, Inc.	Craig Lawrence	6225 S. Pinnacle Place	49,648	\$172,000	\$3.46

*Indicates Transaction Represented by NAI Sioux Falls



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Office/Retail



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Definitions / Sub Market Quadrant Map



Absorption (Net)

The change in occupied space in a given time period.

Available Square Footage

Net rentable area considered available for lease; excludes sublease space.

Average Asking Rental Rate

Rental rate as quoted from each building's owner/management company is typically on a Triple Net (NNN) basis.

Triple Net Lease

Rental rate as quoted from each building's owner/management company is typically on a Triple Net (NNN) basis.

Building Class

Class A Product is space considered above average finishes and construction. Class B product is space considered average quality and Class C product is below average in finishes and construction.

Vacancy

Space currently available for lease directly with the landlord or building owner.

Market Size

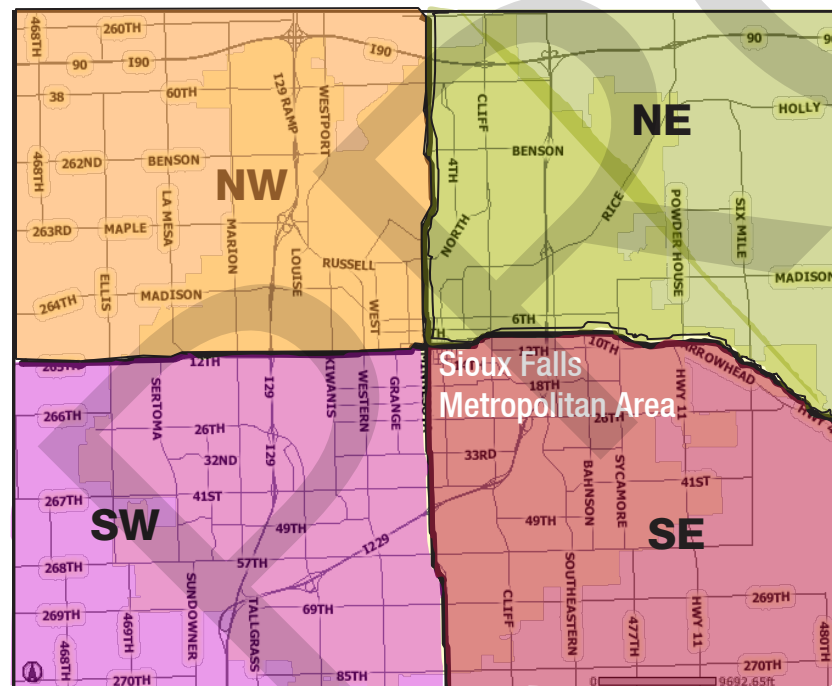
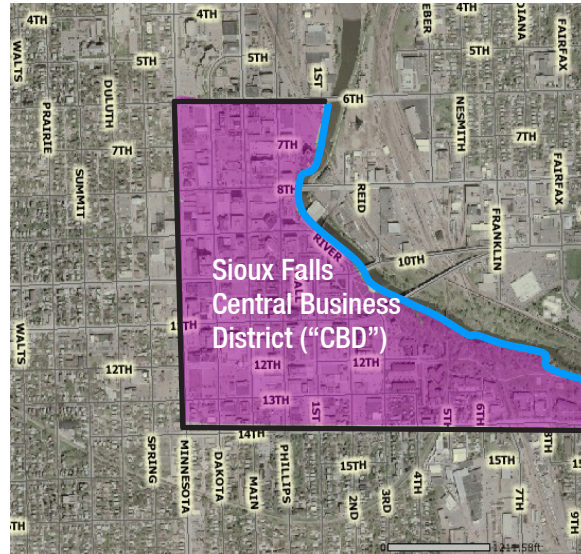
Includes all existing buildings (office, office condos, office loft, office medical, retail and industrial, all classes and all sizes, both multi-tenant and single-tenant, including owner-occupied buildings) within each market.

Overall Vacancy

All currently vacant space.

SF/PSF

Square foot/per square foot, used as a unit of measurement.



NAI Sioux Falls

Multi-Family Report / 2011 Overview

Top Multi-Family Projects Initiated in 2011

Property	Address	Estimated Cost	# of Units	Contractor
Pettigrew Heights Apartments	301 S. Spring Avenue	\$5,820,000	69	Costello
Prescott Apartments	810-822 E. Brian Street	\$5,470,000	48	Costello
Sunrise Apartments	4520 E. 53rd Street	\$4,410,000	48	G & D Harr
Northridge Apartments	2701 N. Career Avenue	\$3,450,000	54	Jans Corp.
Red Oak Apartments	5760 E. Red Oak Drive	\$3,210,000	50	Integrity

Capitalization Rates

Capitalization (Cap) rates in the multi-family sector are currently in the 7 to 9 percent range (depending on the size of the property, location, age, deferred maintenance, etc.) and should stay stable into 2012.

Financing Key Rates*

	February 2012	February 2011
Federal Reserve Target Rate	.25%	.25%
Prime Rate	3.25%	3.25%
U.S. Unemployment Rate	8.30%	9.10%
Mortgage—30-Year Fixed	3.89%	5.06%
Mortgage—15-Year Fixed	3.21%	4.31%
Dow Jones Industrial Average	12,801.23	12,229.29

*Statistics as of February 10, 2012
Source: Bloomberg



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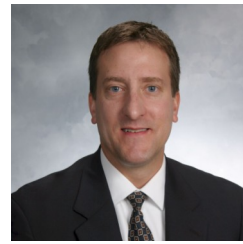
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Multi-Family Report / 2011 Overview

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2011 Building Permit Statistics



Overview

2011 proved to be a very solid year for the multi-family property sector. Favorable interest rates, cooperative lenders, cash rich investors, and the on-going stability of residential rental properties as an income producing asset, fueled a steady flow of inquiries from investors. A favorable combination of limited supply and on-going strong demand should insure the momentum will carry over into 2012.

Multi-family vacancies should remain low in spite of historically low single family mortgage rates. Apartment dwellers interested in purchasing their first single family home still face the hurdle of accumulating the required equity to purchase a home, an obstacle that is difficult to overcome in a economy that still features job uncertainty, regardless of the interest rate.

Construction of new multi-family units were at 310 units for 2011, up from 232 units in 2010. We are expecting to see another increase in 2012 as several sizeable projects are on the drawing board and likely to be built this year.

Vacancy Rates

The apartment vacancy rate in Sioux Falls was 5.56% in January 2012, according to statistics from the South Dakota Multi-Housing Association (SDMHA). The vacancy rate in July 2011 was 4.58%. The SDMHA does a vacancy survey twice a year. The January vacancy survey included 9,625 units.

City of Sioux Falls Building Permit Data January through December

	2009	2010	2011
No. of Permits Issued	6,334	7,674	7,823
Total Construction Value	\$297,908,169	\$282,923,680	\$291,163,392*
(\$Millions)			
New Residential	\$121.3	\$102.6	\$100.7
Res. Add. & Remodel	35.5	42.2	38.3
New Non-Residential	62.8	31.6	41.6
Non-Res. Add. & Remodel	78.3	106.3	106.2
Total	\$297.9	\$282.9	\$286.8
New Non-Residential			
Manufacturing	\$8.7	\$4.5	\$11.3
Commercial	3.8	8.8	10.5
Office, Institutional	44.9	16.5	14.8
Other	5.4	1.8	5.0
Total	\$62.8	\$31.6	\$41.6
New Residential			
Single Family Units	513	362	347
Townhome Units	169	160	170
Multi-Family Units	636	232	310
Total	1,318	754	827
Manufactured New Housing Placements			
	7	30	50

*Construction Value includes \$4,288,000 in Federal and State Projects.
SOURCE: Planning Division.

Overview

There were 33 building permits issued for new commercial buildings, with a total valuation of \$41,952,772 in 2011, which compares to 27 new commercial building permits with a total valuation of \$22,813,946 in 2010. The number of building permits for new stand-alone commercial buildings was relatively equivalent, but the construction valuation increased 84% in 2011 compared to 2010 for new stand-alone commercial structures.

With reference to commercial remodels, renovations, repairs and additions, in 2011 there were 916 building permits issued with a construction valuation of \$110,563,703. Said construction valuation includes \$4,288,000 which consists of various State building projects and renovations to the Federal Courthouse which is not permitted but represents construction valuation occurring within the City of Sioux Falls. Commercial remodel and renovation permits, and construction valuations were similar to that of 2010 with an 11% increase in the number of building permits issued and a 4% increase in construction valuations.

There were 74 separate commercial and residential multifamily apartments projects submitted with a construction valuation of \$500,000 or more. Of those, 42 projects exceeded \$1,000,000 in construction valuation.

Notable Sale Transactions

Property	Sale Date	Sale Price	# of Units	Price/Unit
Roosevelt Estates Apartments	June 2011	\$4,010,500	65	\$61,700
Golden Valley Apartments	September 2011	\$2,768,000	53	\$52,226
Cottage West Twin Homes*	October 2011	\$4,730,000	50	\$94,600
Sycamore Court Apartments*	August 2011	\$2,100,000	48	\$43,750
Sandlot Apartments*	February 2011	\$2,388,000	44	\$53,136
Carriage House Apartments	November 2011	\$1,644,500	30	\$54,817
The Gables Townhomes*	October 2011	\$2,270,000	24	\$94,583



Top Building Permits Issued Through Dec 31, 2011

Project Construction Value	(\$Millions)
C N A Surety	\$13.1
Howard Wood	6.7
Raven Industries	5.5
Immigration & Customs Office	5.2
IMA	4.6
Sunrise Apartments	4.4
Pettigrew Heights Apartments	4.4
Northridge Apartments	3.5
Red Oak Seniors Apartments	3.2
Water Reclamation	3.1
Southeast Vo-Tech	3.0

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*Indicates Transaction Represented by NAI Sioux Falls

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Office Report / 2011 Overview

Presented by:
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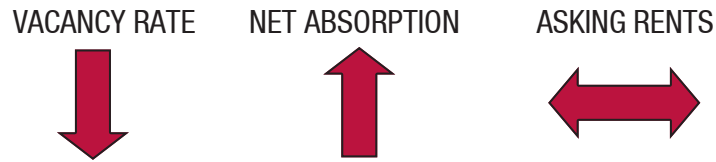


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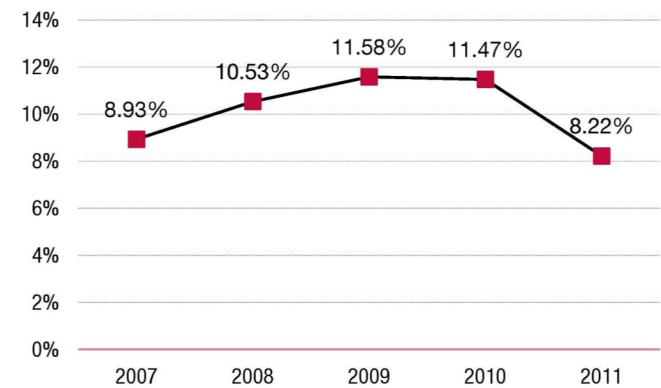
Industrial Report / 2011 Overview



Trends



Overall Office Market Vacancy



Overview

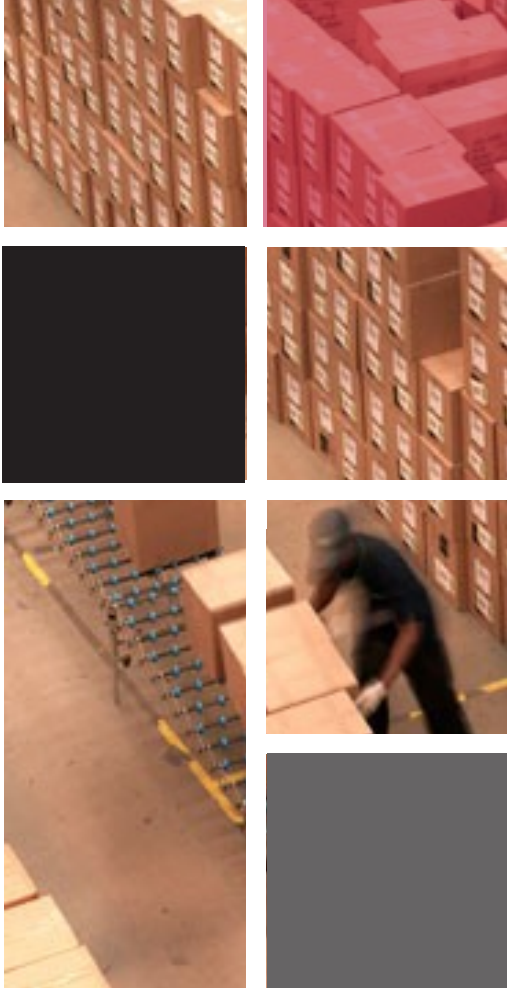
The vacancy rate in the office properties sector decreased in 2011 from 11.37% to 8.22%, a drop of 3.15%. Over 480,000 square feet of office space were absorbed during 2011. Two transactions, Capital One's assumption of the HSBC vacancy and TCF Bank's purchase of the Former Metavante building, accounted for over 143,000 square feet of the overall absorption.

The rental rate environment displayed a mixed set of signals. In several cases, tenants were able to negotiate rental rates that were 10 to 15% lower than previous levels. However, rental rates in an equal number of transactions remained close to asking rate, especially for newer, high quality properties.

We hope to have another year of positive absorption in 2012. If the current rate of absorption continues, we should see some new construction of speculative office space towards the end of 2012.

In general, we are optimistic about the office market and expect slow and steady growth to continue based on the strength of the overall positive business climate in Sioux Falls.

Quadrant Total Square Feet	Vacant Square Feet	% Vacant	Quoted NNN Rental Rates per square foot
Overall Sioux Falls			
14,589,408	682,317	4.68	\$3.00—\$5.00
Southwest			
584,278	46,500	7.96	\$3.00—\$5.50
Southeast			
546,710	33,824	6.19	\$3.00—\$5.50
Northwest			
5,389,023	352,807	6.55	\$3.00—\$5.50
Northeast			
8,069,397	249,186	3.09	\$4.50—\$5.50



Notable Sale Transactions

Property Name	Address	Total SF	Sale Price	Price/PSF
Former Metavante Building*	4101 W. 38th Street	43,021	\$3,600,000	\$83.68
Former First Bank & Trust	133 S. Main Avenue	19,351	\$1,690,000	\$87.33
Former First National Bank of SD	100 S. Dakota Avenue	11,223	\$675,000	\$60.14
Evergreen Condo Building Two*	4300-4304 S. Technology Drive	8,700	400,000	\$45.98
South Dakota Corn Growers	4712 S. Technopolis Drive	6,912	\$575,000	\$83.19



Notable Lease Transactions

Tenant	Building	Total SF	Submarket
Capital One	HSBC Building*	100,000	Northwest
NCB Management Services	HSBC Building*	20,000	Northeast
Social Security	Social Security Building (New Construction)	13,126	Southwest
National Recoveries*	DM&E Building	6,650	CBD
Stronghold Counseling Services	The Professional Center on Louise*	4,032	Southwest



*Indicates Transaction Represented by NAI Sioux Falls

NAI Sioux Falls

Industrial Report / 2011 Overview

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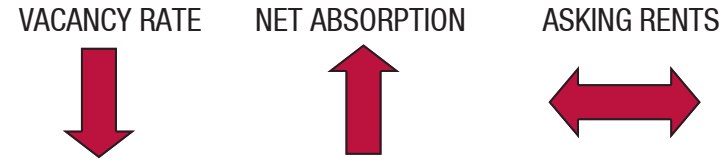


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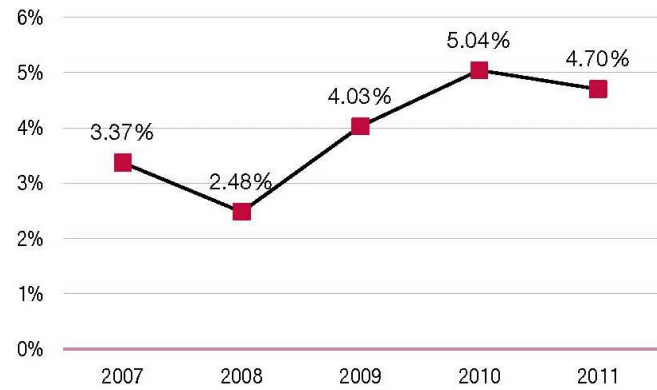
Office Report / 2011 Overview



Trends



Overall Industrial Market Vacancy



Overview

The Sioux Falls industrial real estate market remains strong. Our vacancy rate dropped to 4.7% in 2011 compared to a rate of 5.2% in 2010.

This relatively low vacancy rate, along with a show of interest from out-of-state companies that might wish to relocate to the area, should spur demand for new development and build-to-suit opportunities for industrial space in 2012.

Leasing activity remains steady, and rental rates remain relatively firm compared to larger cities in the Midwest. Sales in industrial properties remain slow; most notable sales involve investors of fully-leased properties.

As the economy continues to recover and the area continues to see interest in companies from small independents to larger corporations relocating to Sioux Falls, we predict that the industrial market in Sioux Falls will continue to grow in 2012.

Notable Sale Transactions

Building	Address	Total SF	Sale Price	Price PSF
Marmone Keystone Building*	300 N. Ebenezer Avenue	60,000	\$3,880,000	\$64.67
Crescent Electric Building*	700 N. Main Avenue	34,000	\$775,000	\$22.80
Former Lowenberg Technologies	1000 E. Benson Road	16,800	\$464,000	\$27.62
Former Willer's Truck Shop*	1400 N. Cliff Avenue	14,000	\$650,000	\$46.43



Notable Lease Transactions

Tenant	Building	Total SF
Bell, Inc.*	Flintwood Partners	60,000
PODS*	2704 Sletten Building	27,897
All American Towing	Hy Technology	8,430



Building Class	Quadrant Total Square Feet	Vacant Square Feet	% Vacant	Quoted NNN Rental Rates per square foot
Overall Sioux Falls				
A	4,484,547	334,949	7.47	\$12-\$20
B	5,563,183	498,682	8.96	\$10-\$13
C	269,681	14,647	5.43	\$8-\$10
Totals:	10,375,438	845,578	8.22	
CBD				
A	613,518	49,482	8.07	\$12-\$18
B	1,877,855	212,711	11.33	\$9-\$12
C	116,870	11,107	9.50	\$6-\$9
Totals:	2,608,243	273,300	10.48	
Southwest				
A	2,148,048	204,128	9.50	\$12-\$15
B	1,127,493	164,062	14.55	\$10-\$13
C	35,860	840	2.34	\$6.5-\$8
Totals:	3,311,401	369,030	11.14	
Southeast				
A	360,908	37,563	10.41	\$12-\$14
B	609,990	41,147	6.75	\$8-\$10
C	47,924	0	0	\$7-\$9
Totals:	1,018,822	78,710	7.73	
Northwest				
A	326,064	4,758	1.46	\$10-\$14.50
B	874,678	58,342	6.67	\$8-\$10
C	51,690	2,700	5.22	\$6-\$9
Totals:	1,252,432	65,800	5.25	
Northeast				
A	1,036,009	39,018	3.77	\$10-\$14
B	1,073,167	22,420	2.09	\$8-\$11
C	17,337	0	0	\$6-\$8
Totals:	2,126,513	61,438	2.89	

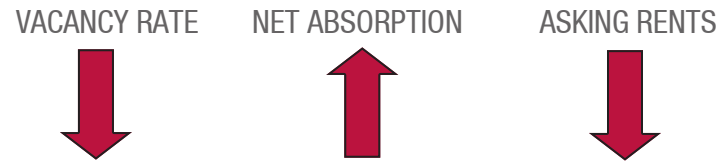


*Indicates Transaction Represented by NAI Sioux Falls

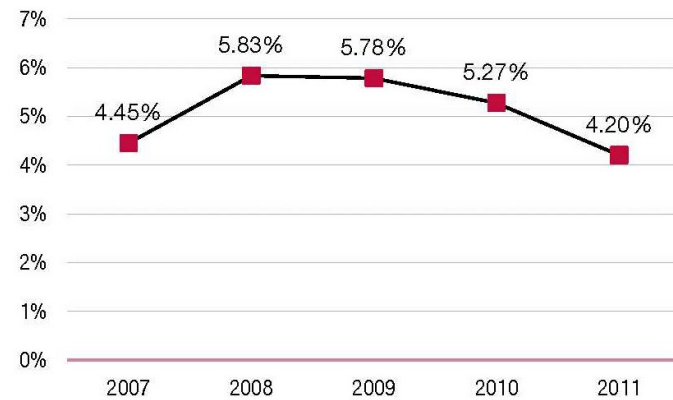
NAI Sioux Falls

Retail Report / 2011 Overview

Trends



Overall Retail Market Vacancy



Notable Sale Transactions

Building	Address	Total SF	Sale Price	Price PSF
Sunshine Foods*	3809 E. 10th Street	40,200	\$2,475,000	\$61.57
Buffalo Wild Wings*	909 N. West Avenue	7,820	\$1,550,000	\$198.21
Boston's Restaurant	3202 E. 10th Street	6,188	\$1,100,000	\$177.76
Johnson Appliance	4005 E. 10th Street	7,500	\$500,000	\$66.67



Notable Lease Transactions

Tenant	Building	Total SF	Submarket
RCC Western Wear	Plaza 41	14,000	Southwest
Applebee's	Empire Mall	+10,000	Southwest
Northern Tool	HOM Furniture Building	10,800	Southwest
Dollar Tree	Dawley Farm Village	9,800	Southeast
Famous Footwear	Dawley Farm Village	6,500	Southeast



Overview

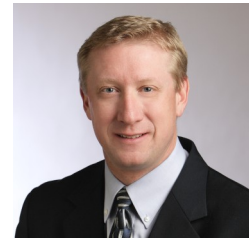
Growth in the Sioux Falls retail market comes from a healthy combination of absorption of existing space and controlled development.

Newly developed properties are comprised of fully occupied spaces, many of which are occupied by retailers in second locations rather than those new to the market.

Backfilling of existing square footage was also key to the lower vacancy rate. However, the number of vacancies remained largely unchanged as retailers often swapped one space for another in efforts to reduce rent or improve their location.

More so than previous years, landlords have adjusted to the downward pressure and have been negotiating lower rental rates on new leases. They are being extremely flexible to retain current tenants in their properties.

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NAI Sioux Falls

Retail Report / 2011 Overview

Building Class	Quadrant Total Square Feet	Vacant Square Feet	% Vacant	Quoted NNN Rental Rates per square foot
Overall Sioux Falls				
A	3,249,369	152,326	4.69	\$13.00—\$15.00
B	7,864,665	286,100	3.64	\$9.00—\$11.00
C	479,596	48,431	10.10	\$7.00—\$9.00
Totals:	11,593,630	486,857	4.20	
CBD				
A	22,517	1,493	6.63	\$12.00—\$13.00
B	583,942	14,715	2.52	\$9.00—\$10.00
C	40,607	15,920	39.21	\$7.00—\$8.00
Totals:	647,066	32,128	4.97	
Southwest				
A	2,061,181	82,034	3.98	\$18.00—\$22.00
B	4,451,810	174,054	3.91	\$10.00—\$11.00
C	59,169	3,120	5.27	\$7.50—\$9.00
Totals:	6,572,160	259,208	3.94	
Southeast				
A	477,398	27,225	5.70	\$14.00—\$16.00
B	1,061,068	19,345	1.82	\$10.00—\$12.00
C	108,358	4,360	4.02	\$7.00—\$9.00
Totals:	1,646,824	50,930	3.09	
Northwest				
A	182,033	18,042	9.91	\$14.00
B	889,514	37,729	4.24	\$10.00
C	168,809	5,138	3.04	\$7.00—\$8.00
Totals:	1,240,356	60,909	4.91	
Northeast				
A	506,240	23,532	4.65	\$12.00—\$14.00
B	878,331	40,257	4.58	\$10.00
C	102,653	19,893	19.38	\$7.00—\$9.00
Totals:	1,487,224	83,682	5.63	



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*Indicates Transaction Represented by NAI Sioux Falls