



Market Overview: Minneapolis Vertical Construction

2015



Advancing the Business of Engineering

Macro Trends

US Market at-Large



2015 Trends in the Construction Industry (1 of 2)



- Availability of labor at all levels is a major concern
- Megaproject proliferation and the trend toward joint ventures
- Technology advances (too) quickly become table stakes
- The strategic significance of risk management
- Mergers and acquisitions: remaining strong in many sectors

2015 Trends in the Construction Industry (2 of 2)



- **Abundant low-cost natural gas is creating tailwinds**
- **Succession issues threaten the continuity of many firms**
- **Commercial building segment continues to be a buyers' market**
- **Business intelligence is all about knowledge**
- **Organizational effectiveness**

2015 U.S. Highlights

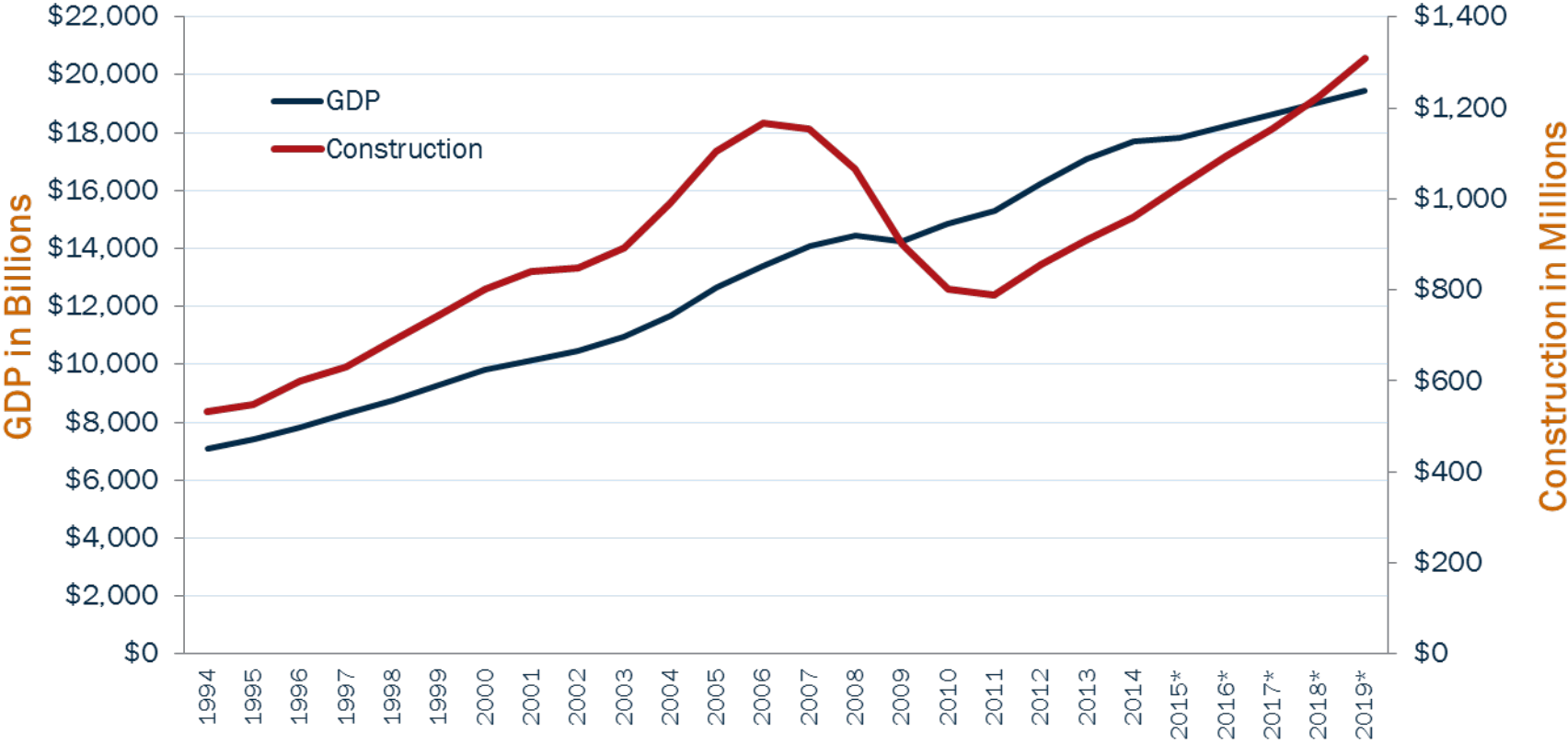
Total Put in Place

Year	%
2013	7
2014	5
2015	6

- **High-volume nonresidential segments in 2015**
 - Power (\$93.5 billion)
 - Highway and Street (\$86.4 billion)
 - Educational (\$82.3 billion)
- **Strongest percentage gainers in 2015**
 - Manufacturing (18.0%)
 - Lodging (15.0%)
 - Office (14.0%)
- **Weakest segments in 2015**
 - Public Safety (-3.0%)
 - Religious (0.0%)
 - Educational (3.0%)

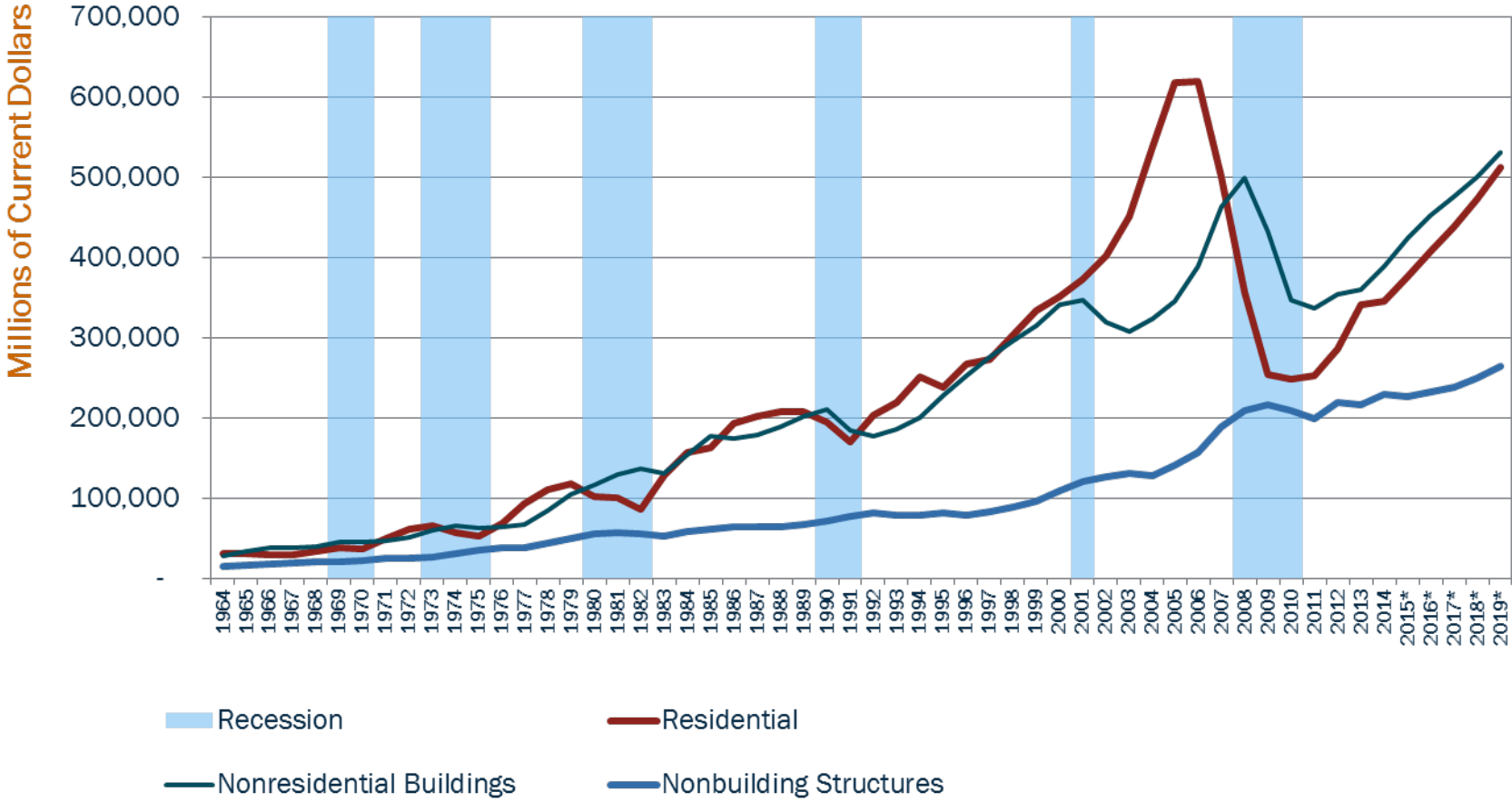
Construction Spending and Nominal GDP

Construction Put in Place and GDP



Construction Spending

Construction Put in Place

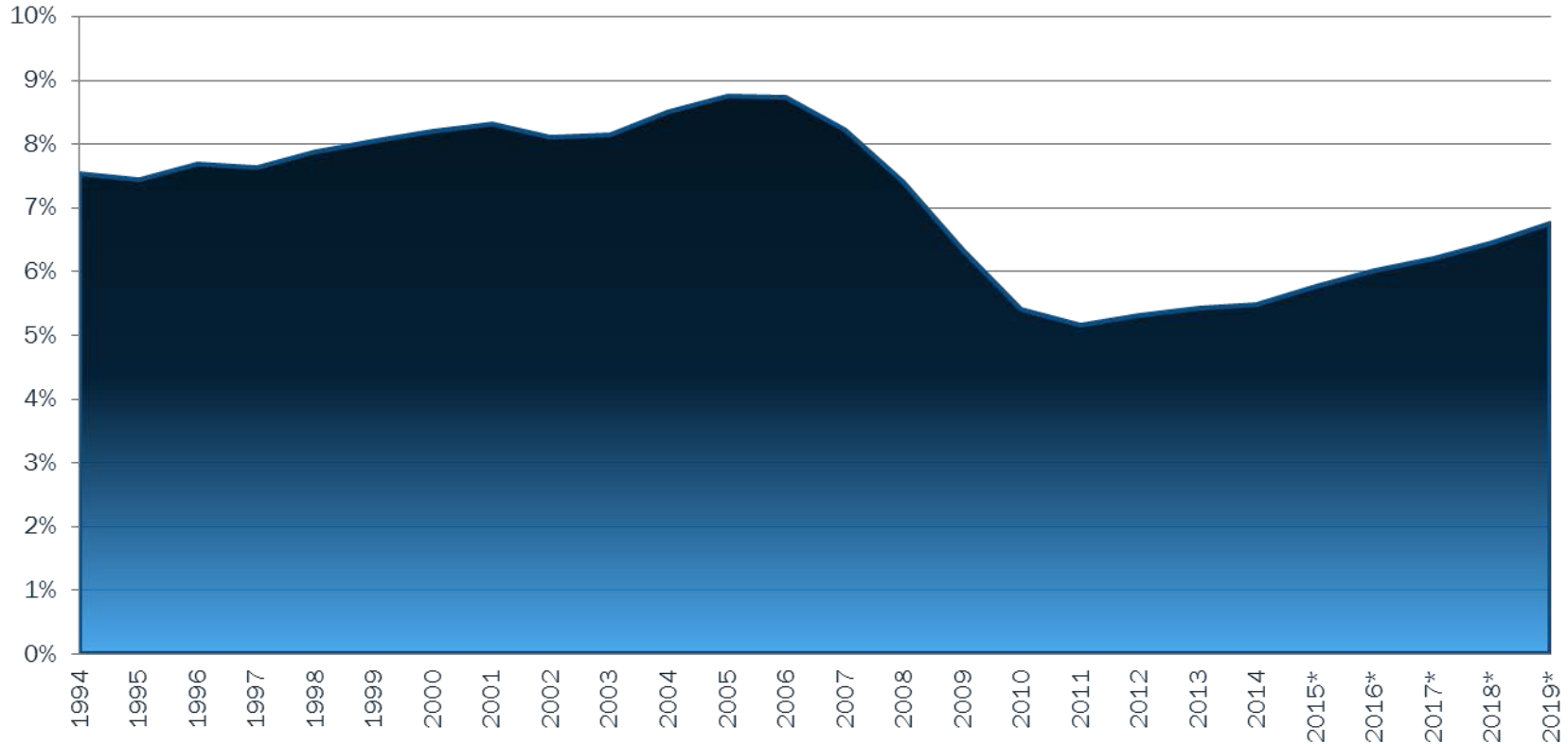


* FMI Forecast



Construction as a Percentage of GDP

Construction Put in Place and GDP

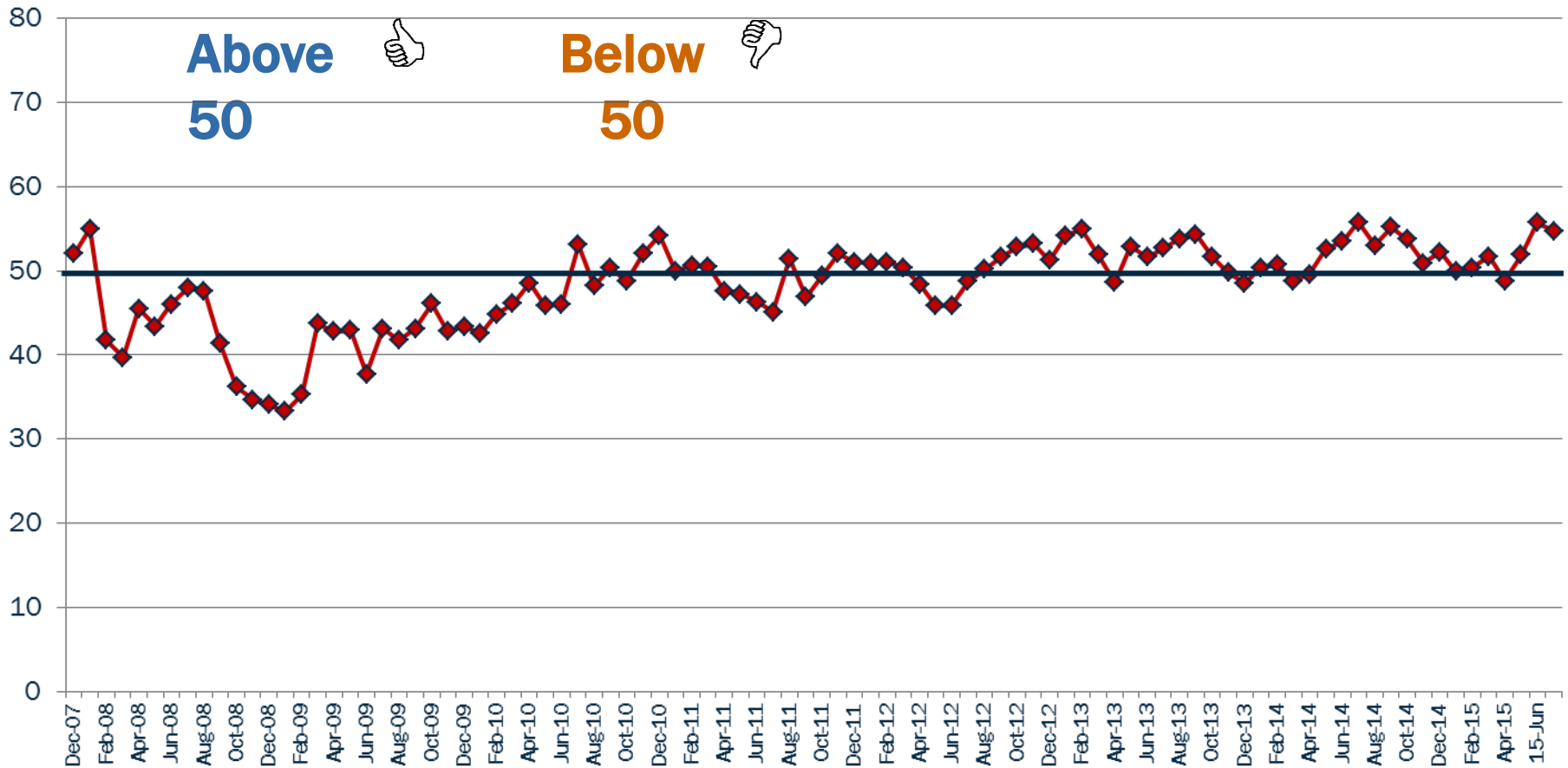


* FMI Forecast



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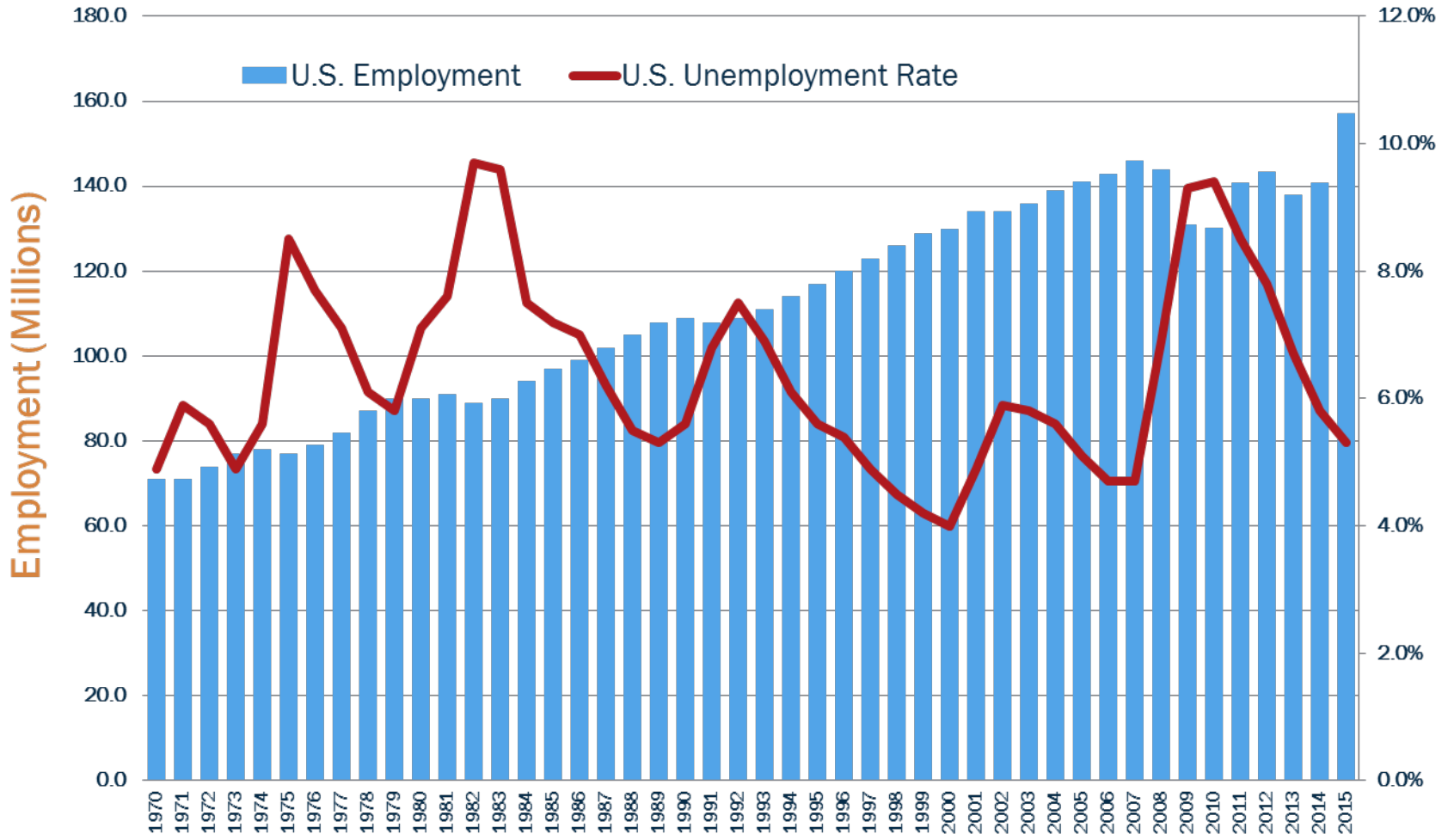
Architecture Billing Index (ABI)



Source: AIA

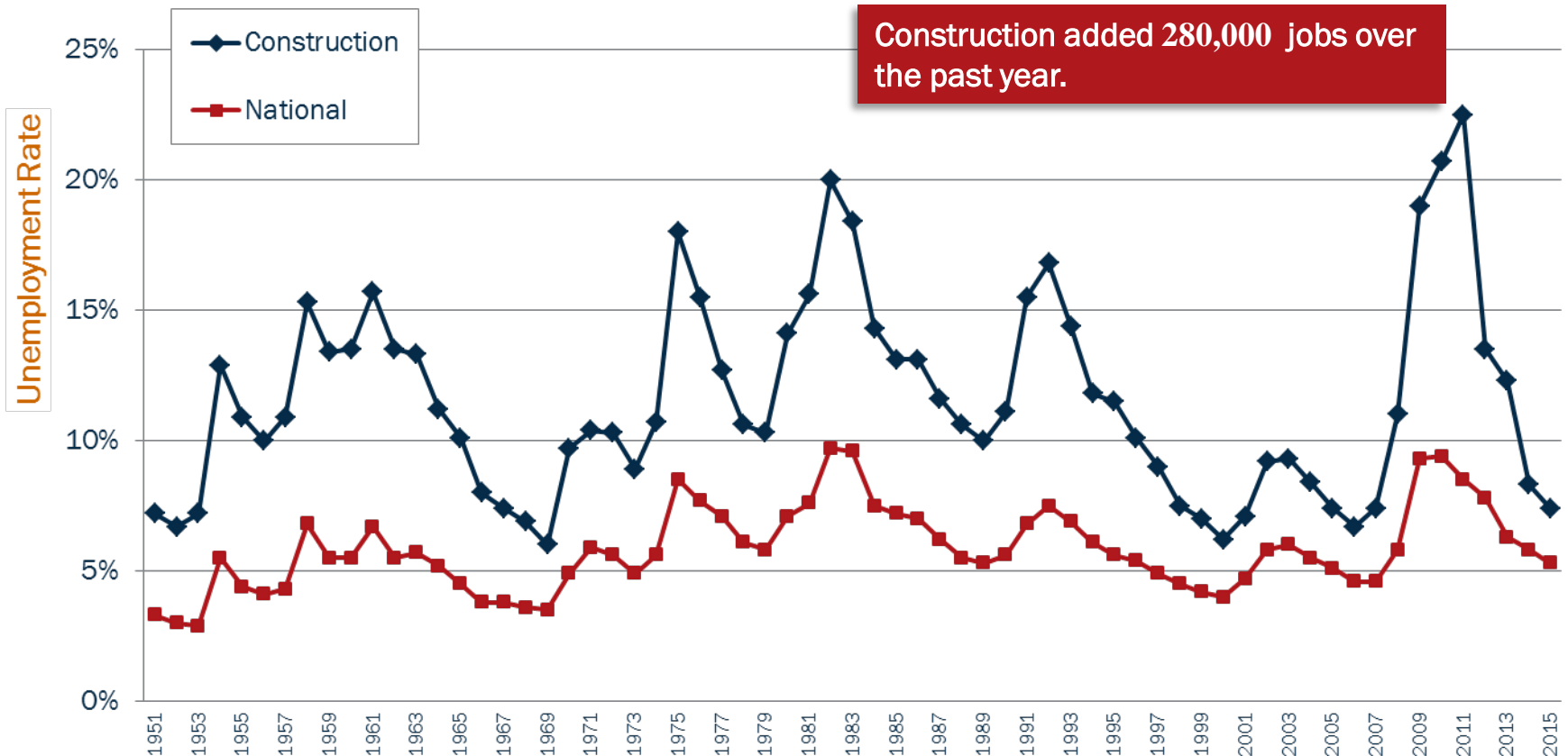
Jobs and Unemployment

Employment and Unemployment Rates | 1970- 2015



Jobs and Unemployment

Construction Unemployment vs. National Unemployment

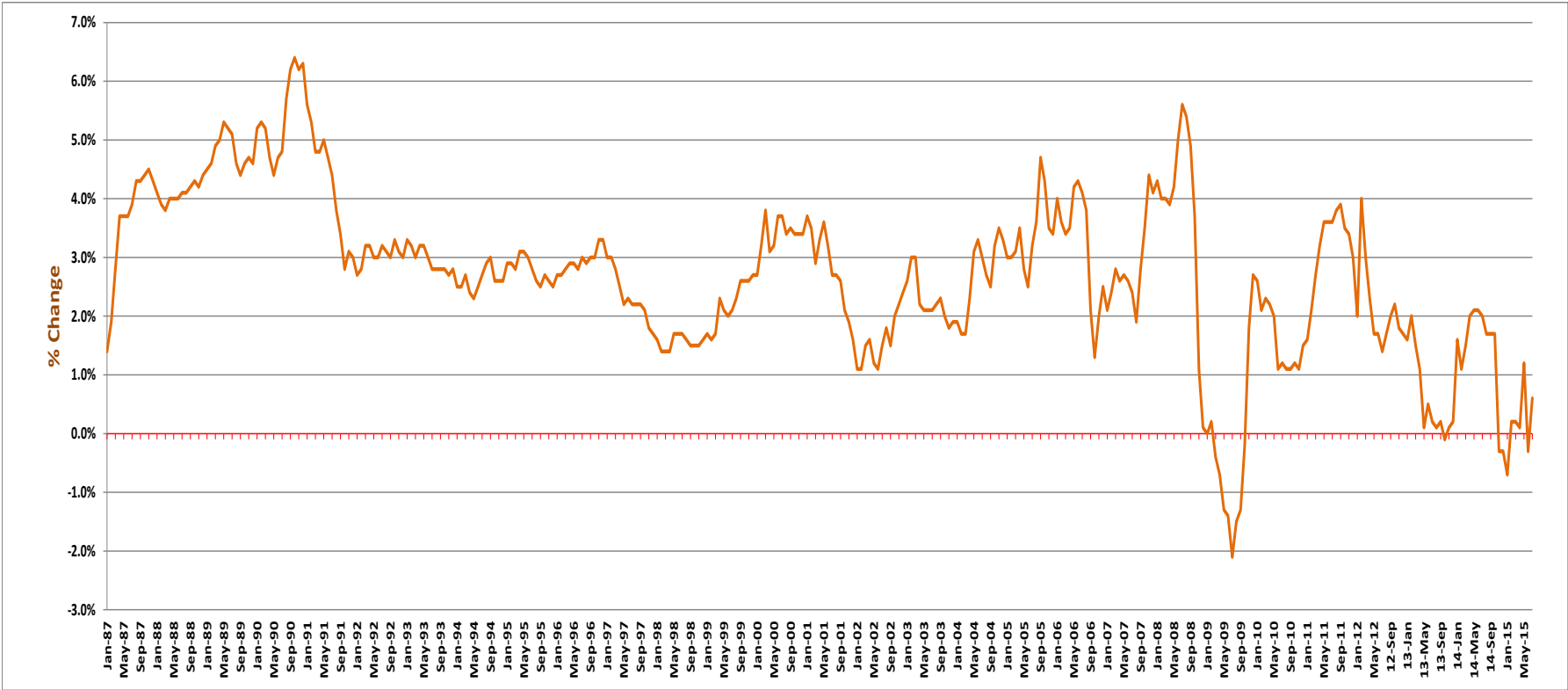


Source: U.S. Department of Labor, AGC of America



Consumer Price Index

Inflation Remains Under Control — CPI

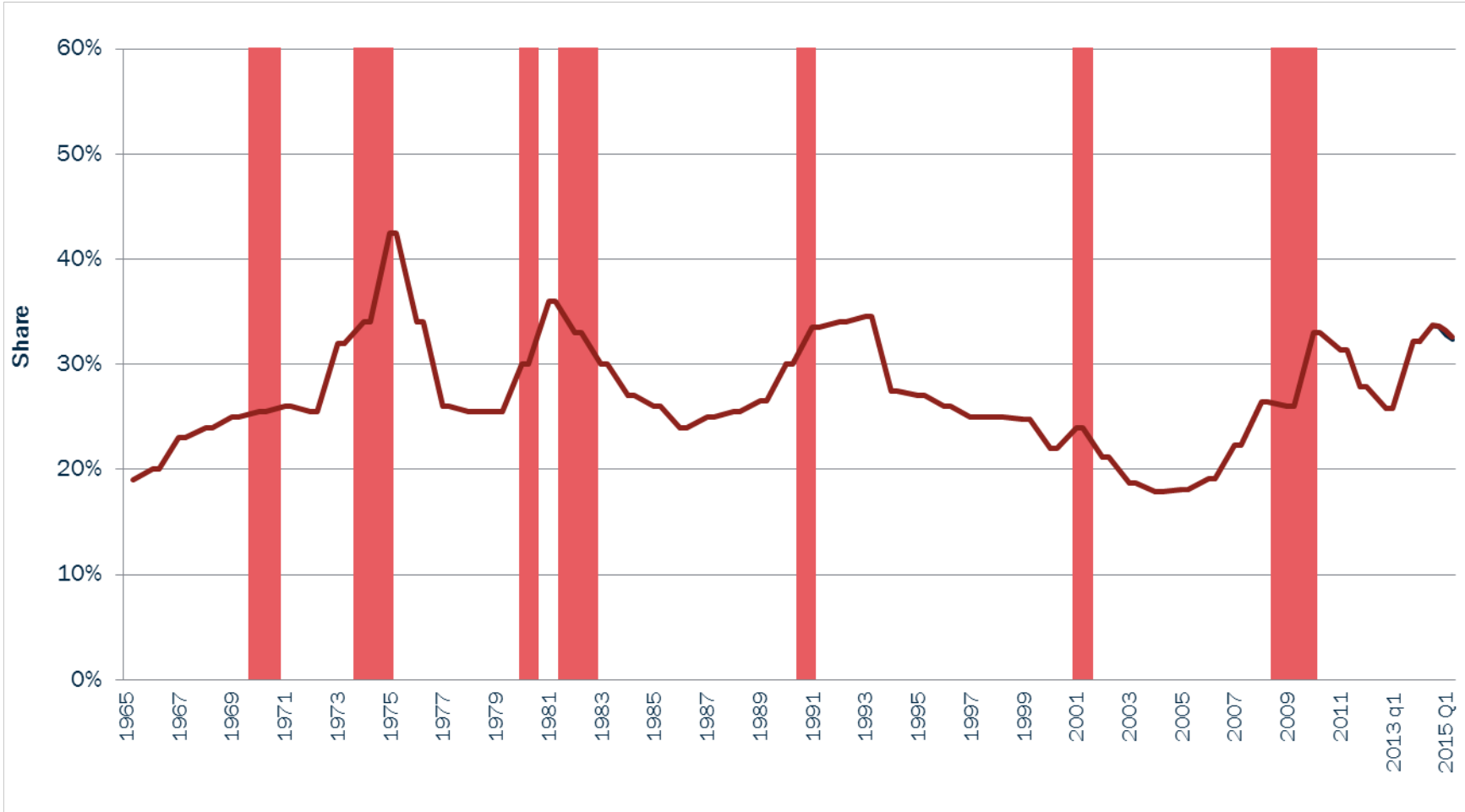


Source: U.S. Department of Labor



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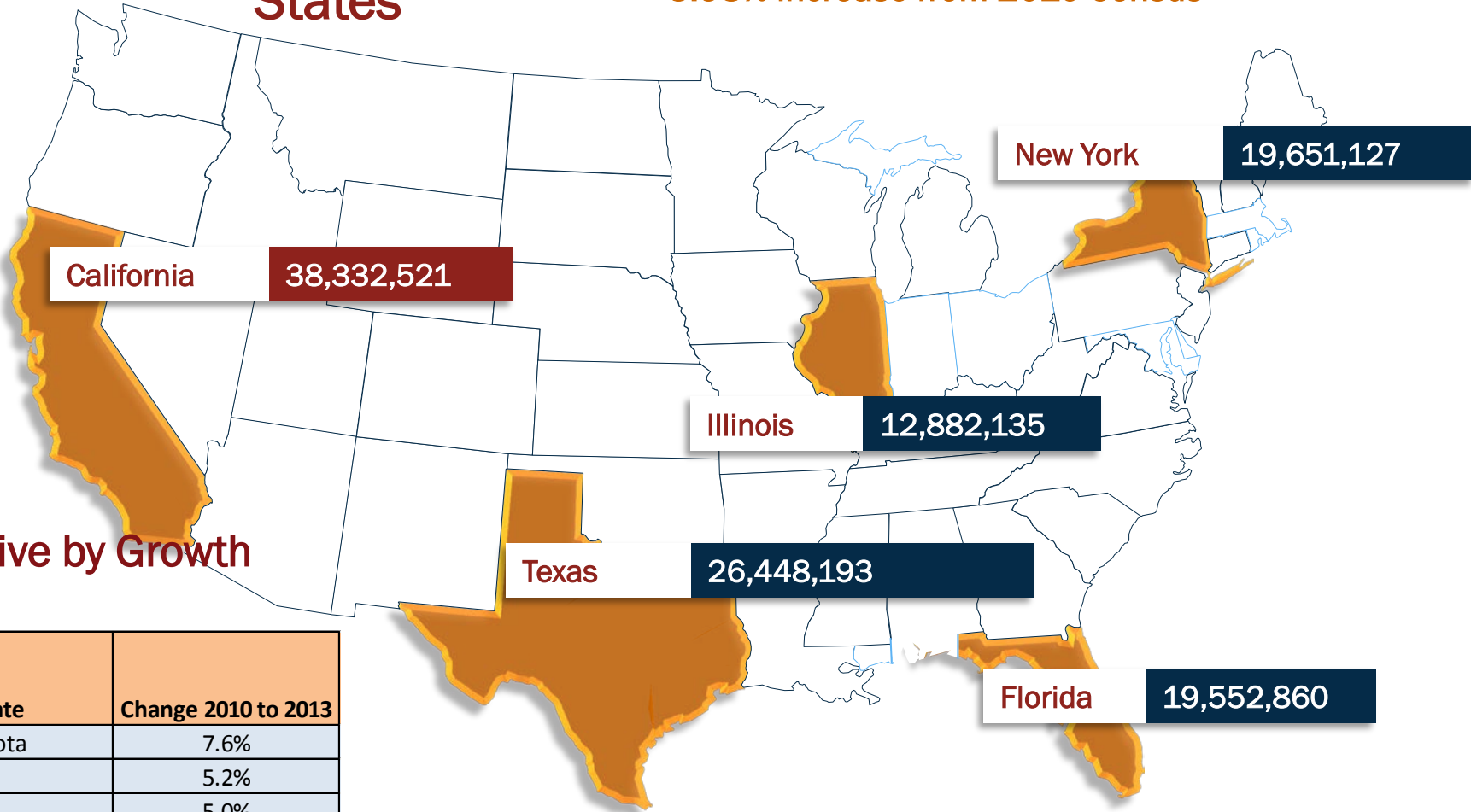
ENR 400 Share of Total Construction Put in Place



Population Growth

Top-Five States

National Population: 321,043,478 (June 2015)
3.98% increase from 2010 Census



Top Five by Growth Rate

State	Change 2010 to 2013
North Dakota	7.6%
Texas	5.2%
Utah	5.0%
Colorado	4.8%
Florida	4.0%

Source: U.S. Census Bureau

Population Growth

Baby boomers are currently the largest segment of the U.S. population. There are between 72 million and 79 million baby boomers (approximately 28% of the U.S. population).

Did you know?

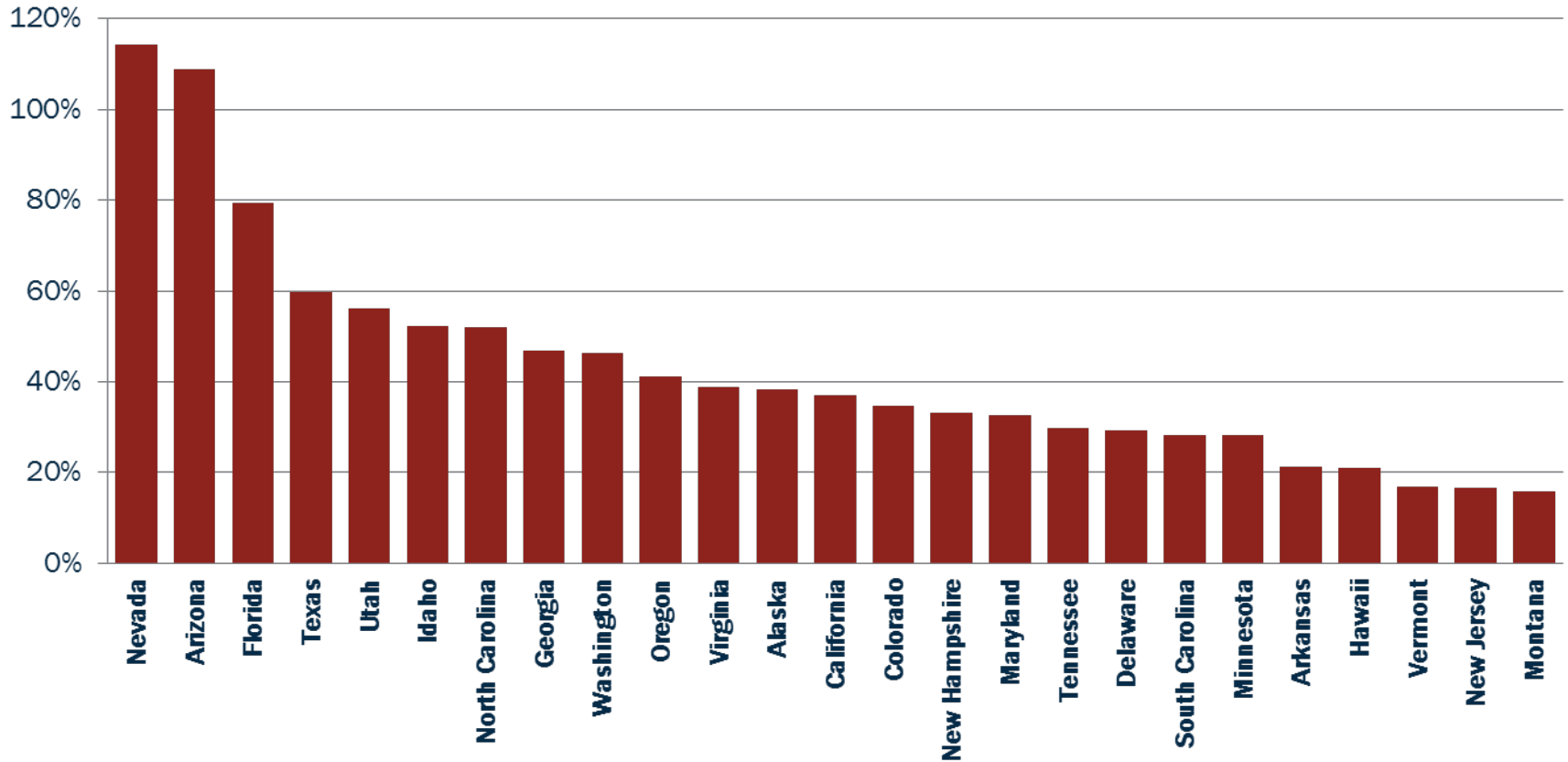
- Since January 1, 2011, more than 10,000 baby boomers have turned 65 every day.
- More than 30% of U.S. investors currently in their 60s have more than 80% of their 401(k) invested in equities.
- Approximately 3 out of 4 Americans start claiming Social Security benefits from the moment they turn 62.
- According to a recent AARP survey of baby boomers, 40% of them plan to work “until they drop.”



Source: U.S. Census Bureau

Population Growth by State (1 of 2)

States Ranked by Percent Change in Population | 2000 - 2030



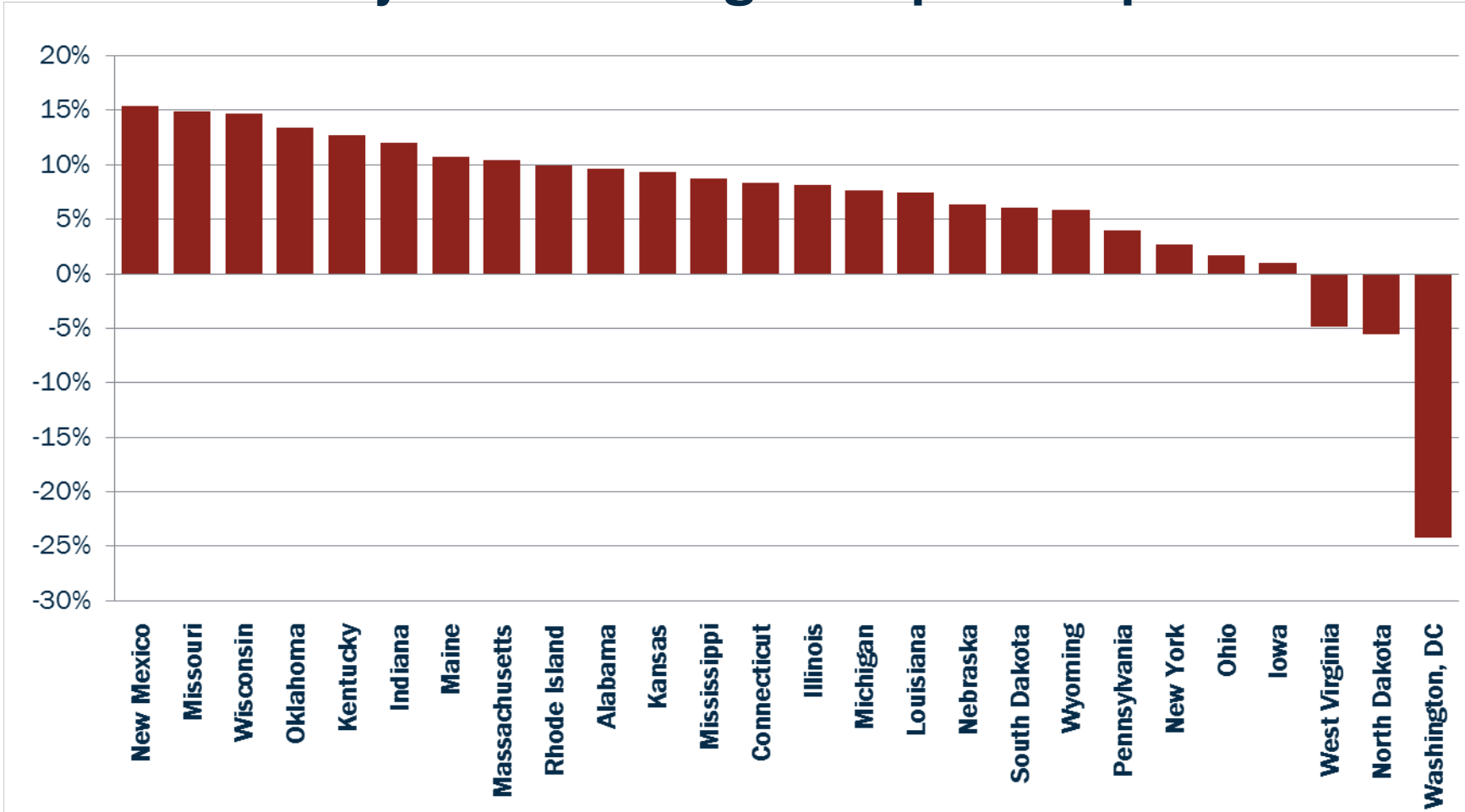
Source: U.S. Department of Labor



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Population Growth by State (2 of 2)

States Ranked by Percent Change in Population | 2000 - 2030



Source: U.S. Department of Labor



Population Growth

- Nontraditional and single-person households will increase. This trend has been exacerbated by the recent recession.
- The elderly is the fastest-growing segment over the next few years, outpacing growth of the working-aged.
- Increased net immigration.
- 88% of the U.S. population growth will occur in the South and West between 2000 and 2030.
- Five states that will experience the largest net population increase: Florida, California, Texas, Arizona and North Carolina.
 - Florida, California and Texas will account for 46% of total U.S. population growth.

Decade	Non-Family Households
1980	26.2%
1990	29.2%
2000	31.2%
2010	32.7%

Forecast Population Growth 2010-2015

<5	4.6%	45-64	3.6%
5-13	5.1%	≥65	16.4%
14-17	0.2%	≥85	9.4%
18-24	0.6%	≥100	32.1%
25-44	3.3%	Total	4.9%

Source: U.S. Census Bureau

ACEC of Minnesota | Trends Presentation
Vertical Markets | October 27, 2015

U.S. Construction Put in Place

Millions of Current Dollars

3rd Quarter 2015 Forecast (based on Q2 2015 Actuals)

	2015	2016	2017	2018	2019
RESIDENTIAL BUILDINGS					
Single Family	209,415	229,917	249,885	274,366	299,167
Multifamily	56,151	63,136	68,108	72,596	79,413
Improvements*	110,125	115,485	119,937	125,609	133,529
Total Residential	375,691	408,538	437,931	472,571	512,109
NONRESIDENTIAL BUILDINGS					
Lodging	18,539	20,762	22,521	23,476	24,916
Office	52,579	56,306	57,660	61,229	66,691
Commercial	67,659	74,414	79,134	80,770	84,696
Health Care	40,416	41,898	44,277	47,454	50,129
Educational	82,277	85,810	88,956	93,825	99,362
Religious	3,237	3,317	3,394	3,488	3,610
Public Safety	9,079	9,284	9,695	10,041	10,516
Amusement and Recreation	18,499	19,972	20,662	21,650	22,760
Transportation	45,655	49,917	54,086	57,278	60,842
Communication	17,742	18,716	19,237	19,971	20,792
Manufacturing	68,282	71,850	75,920	81,427	86,970
Total Nonresidential Buildings	423,964	452,247	475,542	500,609	531,285
NONBUILDING STRUCTURES					
Power	93,540	96,715	99,238	108,749	118,521
Highway and Street	86,350	87,855	89,683	90,317	91,934
Sewage and Waste Disposal	24,808	25,731	26,729	27,481	28,381
Water Supply	13,842	14,260	14,485	14,851	15,507
Conservation and Development	7,747	8,144	8,562	9,177	9,820
Total Nonbuilding Structures	226,286	232,705	238,697	250,575	264,162
Total Put in Place	1,025,941	1,093,490	1,152,170	1,223,755	1,307,555

*Improvements include additions, alterations and major replacements. They do not include maintenance and repairs. *

Source: Building permits, Construction Put in Place and trade sources. This report is based on multiple sources, prepared and believed accurate by FMI, but accuracy is not guaranteed by FMI nor by its employees.

U.S. Construction Put in Place

3rd Quarter 2015 Forecast (based on Q2 2015 Actuals)

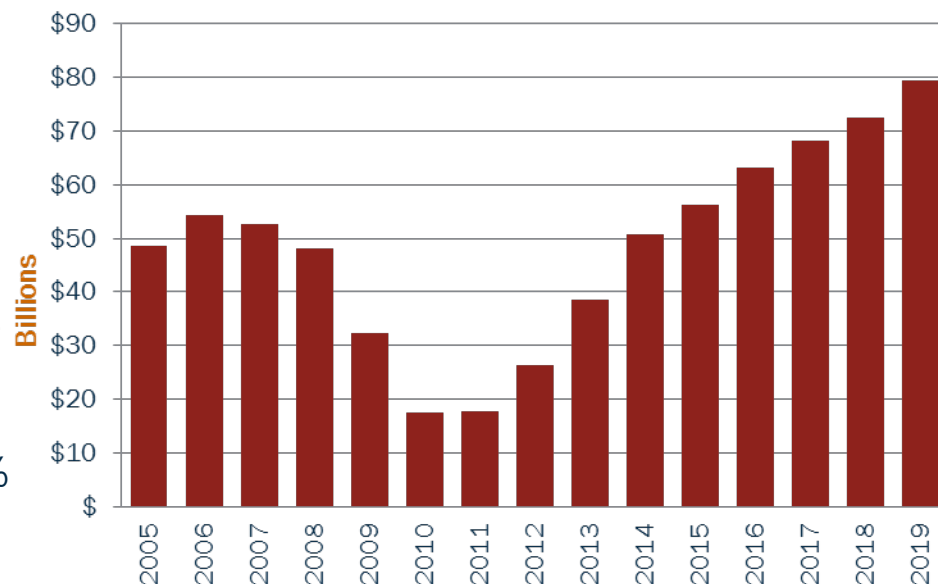
	2015	2016	2017	2018	2019
RESIDENTIAL BUILDINGS					
Single Family	9%	10%	9%	10%	9%
Multifamily	11%	12%	8%	7%	9%
Improvements*	6%	5%	4%	5%	6%
Total Residential	<u>9%</u>	<u>9%</u>	<u>7%</u>	<u>8%</u>	<u>8%</u>
NONRESIDENTIAL BUILDINGS					
Lodging	15%	12%	8%	4%	6%
Office	14%	7%	2%	6%	9%
Commercial	8%	10%	6%	2%	5%
Health Care	5%	4%	6%	7%	6%
Educational	3%	4%	4%	5%	6%
Religious	0%	2%	2%	3%	3%
Public Safety	-3%	2%	4%	4%	5%
Amusement and Recreation	11%	8%	3%	5%	5%
Transportation	9%	9%	8%	6%	6%
Communication	4%	5%	3%	4%	4%
Manufacturing	18%	5%	6%	7%	7%
Total Nonresidential Buildings	<u>9%</u>	<u>7%</u>	<u>5%</u>	<u>5%</u>	<u>6%</u>
NONBUILDING STRUCTURES					
Power	-8%	3%	3%	10%	9%
Highway and Street	3%	2%	2%	1%	2%
Sewage and Waste Disposal	6%	4%	4%	3%	3%
Water Supply	4%	3%	2%	3%	4%
Conservation and Development	6%	5%	5%	7%	7%
Total Nonbuilding Structures	<u>-1%</u>	<u>3%</u>	<u>3%</u>	<u>5%</u>	<u>5%</u>
Total Put in Place	<u>6%</u>	<u>7%</u>	<u>5%</u>	<u>6%</u>	<u>7%</u>

Improvements include additions, alterations and major replacements. They do not include maintenance and repairs.

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U.S. Multifamily Housing Construction

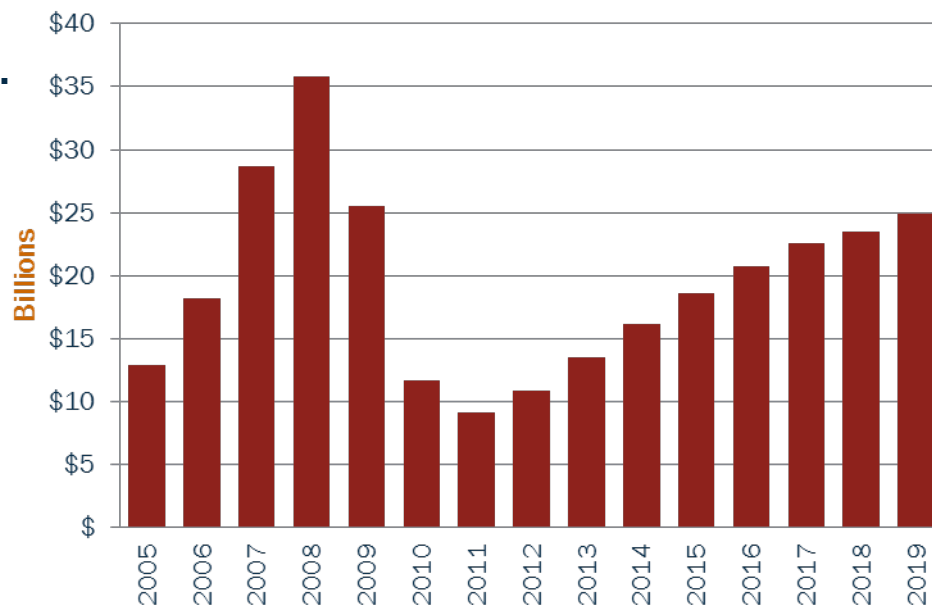
- Construction put in place rose 31.5% in 2014 and will rise another 10.8% in 2015 to \$56.2 billion.
- Rents rising as population shifts to the city and forgoes homeownership for now.
- Market drivers:
 - Children of baby boomers forming fewer households
 - Immigration
 - Foreclosure rates down
 - Potential homebuyers deferring purchasing decisions
 - Hard to get credit even for highly creditworthy borrowers
 - Vacancies remain around 4.5% with most new capacity being absorbed.



Source: FMI Third Quarter Outlook 2015

U.S. Lodging Construction

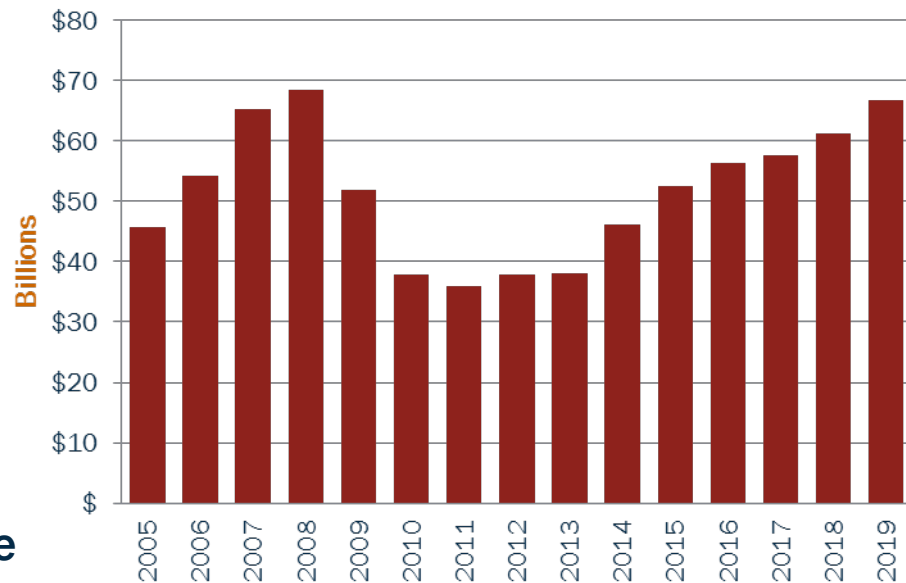
- Our latest forecast expects growth to slow to just **15%**, after reaching **20%** in **2014**.
 - Baby boomers are the largest group of nonbusiness travelers.
 - Room starts are increasing.
 - Occupancy rates and RevPar are up.
 - According to Lodging Econometrics, the pipeline “has shown seven consecutive quarters of growth.”
- Most hotels in the planning phase are upscale and large luxury properties.



Source: FMI Third Quarter Outlook 2015

U.S. Office Construction

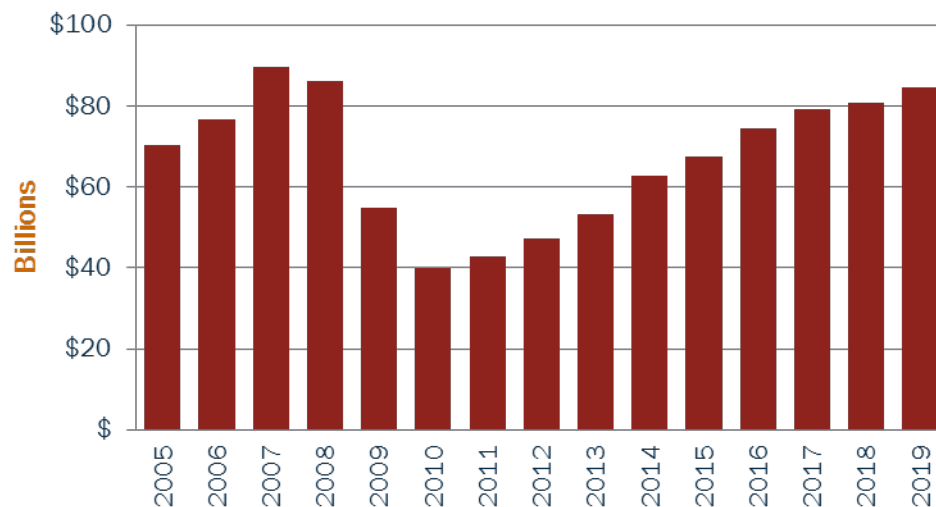
- Office construction has slowed since reaching 21% in 2014, but the current rate of 15% growth for 2015 continues to show that there is still steam in the office construction recovery.
- According to the National Association of Realtors, “Office construction has slowed since reaching 21% in 2014, but the current rate of 15% growth for 2015 continues to show that there is still steam in the office construction recovery. ”
- New office space is being absorbed at a faster rate than existing office space with rent increases falling back somewhat.
- CBRE reports, “The national gross asking lease rate for office space increased by 1.9% to \$28.65 in the first quarter of 2015.”



Source: FMI Third Quarter Outlook 2015

U.S. Commercial Construction

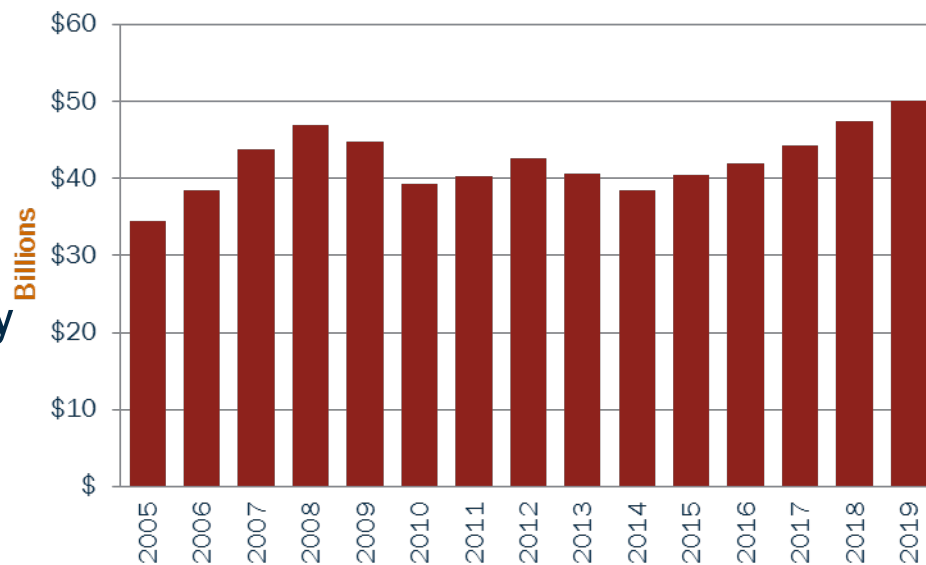
- Commercial construction will grow 8% in 2015 to \$67,5 billion and grow another 10% in 2016.
- Consumer confidence rose 10.5 points in August 2015 to 101.5. (The Conference Board)
- Vacant big-box stores renovated and repurposed.
- Upscale urban power centers with name-brand anchor stores show continued strength.
- Grocery-anchored malls become competitive.
- Continued growth in residential construction will help retail stores.
- Closings of well-known chain stores like Sears, JCPenney and RadioShack signal a change in consumer shopping habits as well as an example of traditional brands' inability to move with the trends.



Source: FMI Third Quarter Outlook 2015

U.S. Health Care Construction

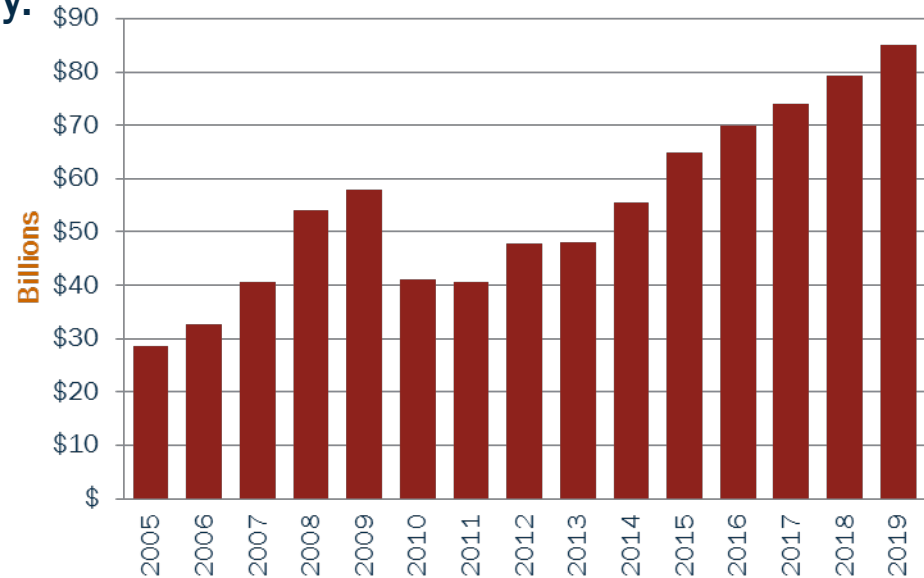
- Health care construction is returning to a more historical growth rate for 2015 through our forecast horizon of 2019.
- Health care construction will use more modern construction techniques, such as prefabrication, BIM and IPD (integrated project delivery).
- VA hospitals rocked by poor management and patient care, old facilities and huge construction cost overruns.
- Trending toward more ambulatory care centers.
- Trend toward rebuilding existing facilities to use modern hospital design and allow for greater use of technology.



Source: FMI Third Quarter Outlook 2015

Manufacturing Construction

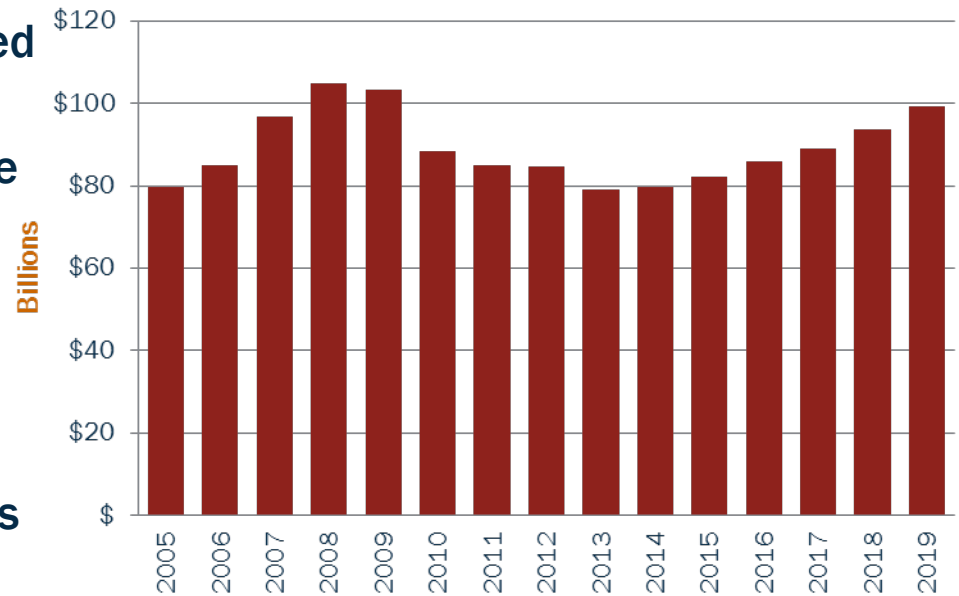
- Manufacturing is currently the fastest-growing construction sector at 18% for 2015. However, we expect that rate to slow in 2016 to just 5%.
- The strong dollar may delay more manufacturers from relocating to the U.S. for now.
- Capacity utilization for manufacturing rose to 77.7% in July. (Federal Reserve)
- Production for utilities has seen gains, especially for natural gas.
- Lower natural gas prices will help manufacturing energy inputs.
- The Manufacturing ISM[®] Report On Business[®] reports the ISM index slipped to 51.1 in August.



Source: FMI Third Quarter Outlook 2015

Education Construction

- Our forecast for education construction has changed little in recent reports. The good news remains that this sector is growing again, although at a continued low rate of 3% for 2015 and an expected 4% for 2016.
- New trends include increased green building practices, an emphasis on security considerations and increased federal funding.
- New designs for schools will be more flexible for changing classrooms and greater use of natural light. Expect more use of modular building designs.
- Distance learning and online courses are on the rise.



Source: FMI Third Quarter Outlook 2015

State Forecast:

Minnesota



Minnesota Residential Forecast

Construction Put in Place

Millions of Current Dollars

Minnesota 3rd Quarter 2015 Forecast, Based on 2nd Quarter 2015 Actuals

	2014	2015	2016	2017	2018	2019
RESIDENTIAL BUILDINGS						
Single Family	2,772	3,063	3,425	3,669	3,872	4,171
Multi Family	548	614	703	747	823	898
Improvements*	1,986	2,075	2,113	2,163	2,234	2,300
Total Residential	5,306	5,752	6,240	6,579	6,930	7,369

Construction Put in Place

Change From Prior Year - Current Dollar Basis

Minnesota 3rd Quarter 2015 Forecast, Based on 2nd Quarter 2015 Actuals

	2014	2015	2016	2017	2018	2019
RESIDENTIAL BUILDINGS						
Single Family	8%	10%	12%	7%	6%	8%
Multi Family	16%	12%	15%	6%	10%	9%
Improvements*	-7%	5%	2%	2%	3%	3%
Total Residential	3%	8%	8%	5%	5%	6%

Minnesota Nonresidential Forecast

Construction Put in Place						
Millions of Current Dollars						
Minnesota 3rd Quarter 2015 Forecast, Based on 2nd Quarter 2015 Actuals						
	2014	2015	2016	2017	2018	2019
NONRESIDENTIAL BUILDINGS						
Lodging	330	381	429	473	433	443
Office	864	939	1,029	1,104	1,152	1,257
Commercial	1,283	1,390	1,522	1,678	1,716	1,630
Health Care	819	866	936	1,045	1,226	1,346
Educational	1,441	1,465	1,535	1,590	1,680	1,782
Religious	66	67	68	70	72	75
Public Safety	192	190	196	204	212	222
Amusement and Recreation	366	428	451	373	384	404
Transportation	855	904	947	988	1,048	1,115
Communication	350	365	379	389	405	422
Manufacturing	1,181	1,273	1,346	1,461	1,584	1,695
Total Nonresidential Buildings	7,746	8,267	8,838	9,375	9,912	10,390

Minnesota Nonresidential Forecast

Construction Put in Place						
Change From Prior Year - Current Dollar Basis						
Minnesota 3rd Quarter 2015 Forecast, Based on 2nd Quarter 2015 Actuals						
	2014	2015	2016	2017	2018	2019
NONRESIDENTIAL BUILDINGS						
Lodging	19%	15%	12%	10%	-8%	2%
Office	10%	9%	10%	7%	4%	9%
Commercial	17%	8%	9%	10%	2%	-5%
Health Care	-2%	6%	8%	12%	17%	10%
Educational	0%	2%	5%	4%	6%	6%
Religious	-10%	0%	3%	2%	3%	4%
Public Safety	-2%	-1%	3%	4%	4%	5%
Amusement and Recreation	13%	17%	5%	-17%	3%	5%
Transportation	5%	6%	5%	4%	6%	6%
Communication	-5%	4%	4%	3%	4%	4%
Manufacturing	13%	8%	6%	9%	8%	7%
Total Nonresidential Buildings	7%	7%	7%	6%	6%	5%

Local Trends by Market Sector

Metro: Minneapolis



Economic Outlook

- **Leading Indicators:**
 - Moody's Economy.com forecast is extremely optimistic for metro Minneapolis-St. Paul.
 - Population growth is expected to average nearly 40,000 per year (1.1%) from 2015-2019.
 - Jobs are forecast by an average of 42,500 (2.2%) per year from 2015 from 2017.
 - Job growth is slowing, but it isn't due to a shortage of openings, but rather by a shortage of workers.
 - By 2017, there may not be enough unemployed workers left.

- **Permitting**

- On September 23, 2015, the department of Community Planning and Economic Development announced that Minneapolis exceeded \$1 Billion in new construction permits issued. This marked the fourth consecutive year reaching this mark.
- Total permits issued in 2014 surpassed \$2 Billion. The decrease in 2015 is expected, as the new U.S. Bank Stadium, Wells Fargo & Co. office towers, and surrounding developments acquired most of their permits in 2014.

- **Permitting**

- The top five 2015 construction projects in Minneapolis by building permit valuation were as follows:

- Downtown East: \$79,896,867
- Embassy Suites Hotel: \$50,868,521
- Xcel Energy Headquarters: \$44,363,000
- Portland Towers: \$38,746,656
- Greystar Apartments: \$35,966,000

“City officials anticipate that several large projects in the approval pipeline will be permitted in the coming weeks.”

Multifamily Residential Market

- **Rents**

- During the 2nd Quarter of 2015, the average asking rent in metro Minneapolis was \$1,118. This represented the fastest growth in the Midwest, and twelfth most rapid in the nation
- Rents have increased every quarter since Q2 2010
- Average rents in 2015 are expected to finish at \$1,139.

- **Vacancy**

- Vacancy drifted upwards by 30 basis points (Q2) to 3.2%
- This is the highest level since year-end 2010
- 2015 is expected to finish at 3.7%

Source: REIS Observer. Metro Minneapolis. October 2, 2015.

Multifamily Residential Market

- **Supply and Demand**
 - As of July 1,884 new apartments had completed construction in 2015, outpacing the 1,367 units of net absorption.
 - Another 1,137 apartments were completed in August and September, leaving 4,130 units under construction.
 - These units have been spread widely around the metro area, with only 687 units under construction in central Minneapolis.

- **Economic Factors**

- “After posting modest numbers for two consecutive quarters, the MSP Retail Market is being prepped for what could be an explosion of new retail space in the near future.”
- Vacancy rate is expected to keep falling to 11.3% at year-end 2015, and 9.3% at year-end 2019.
- Rent gains of 1.0% this year are expected to increase to between 2% and 3% in the coming years.

- **Construction**

- Through July, 177,300 SF of new neighborhood center space was delivered in 2015.
- The 90,000 SF Hy-Vee project completed in September, leaving 340,000 SF of neighborhood space under construction.
- 2.7 Million SF of new space is planned in the power center markets (including Ridgedale Center and Mall of America).

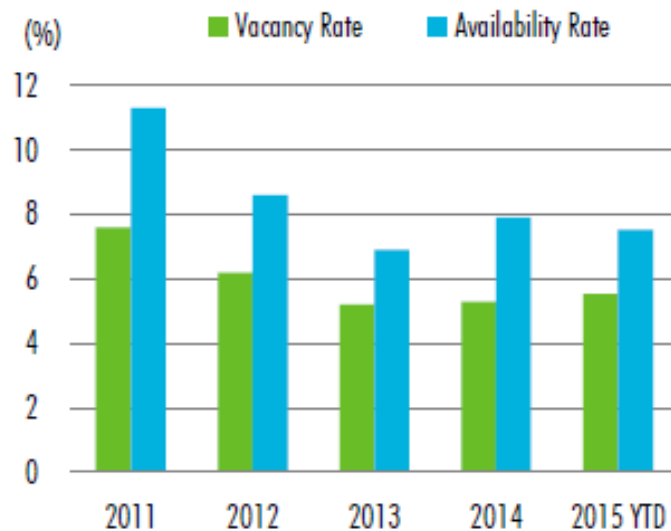
Source: CBRE Retail Market Overview, Q2, 2015.

Industrial Market

- **Economic Factors**

- Q3 2015 marked the 21st consecutive quarter of positive absorption for the Minneapolis/St. Paul industrial market.
- According to CBRE Research, there is roughly 12.2 million sq. ft. of planned/scheduled construction being considered across the metro.
- The largest deal of the quarter was the 185,500- sq.-ft. renewal of Data Recognition Corporation in 7300 Northland Drive in Brooklyn Park.

Figure 2: Availability and Vacancy Rates



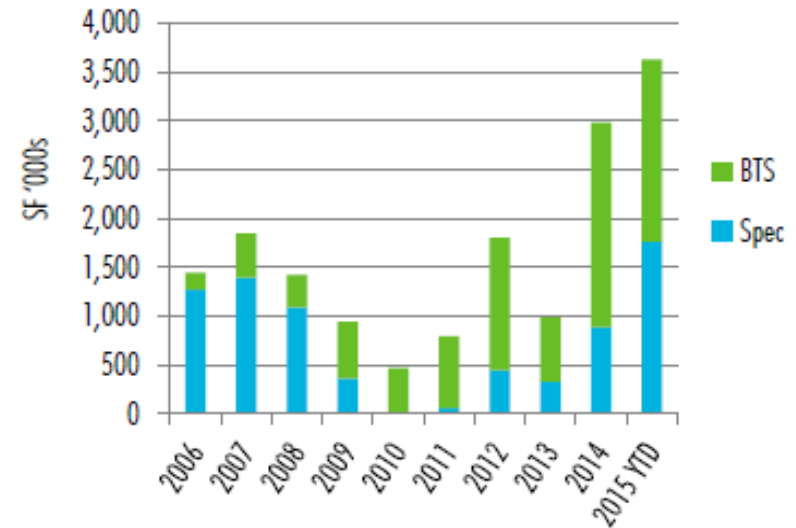
Source: CBRE Research, Q3 2015.

Industrial Market

- **Construction**

- At total of eight projects comprised the 1.2 Million SF delivered in Q3 2015, of which 77% was located in the Northwest submarket.
- Since the beginning of 2014, the market has had approximately 2.7 Million SF of product delivered, roughly 70% of which is still available.
- Developers are now starting to pull back, with just 425,000 SF of industrial space currently under construction.

Figure 5: Spec vs. Built-to-Suit



Source: CBRE Research, Q3 2015.

- **Economics**

- Rent gains have been weak as of late, rising only 1% in 2015.
- However, gains are anticipated to be strong in the coming years, with effective rent rising around 4.0% in 2017, and 5% in 2019.
- The vacancy rate is forecast to end next year at 15.5% and 2019 at just 13.0%.

Office Market

- **Construction**

- Multi-tenant development has been picking up as of late, with 1.68 Million SF of space under construction.
- Reis predicts an active year for 2016, with nearly 1.6 Million SF of new supply, and 1.7 Million SF of net absorption.



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