THE HAMILTON REPORT

The Rochester Marketplace 2007

Rochester is by far the strongest economy in Minnesota. With the largest private payroll in the state of Minnesota the Mayo Clinic no longer flies under the radar as our state's strongest consistent job growth engine. During 2006 Minnesota added 13,500 jobs, many of which were entry level service jobs, while Mayo added 1,050 good jobs right here in Rochester. For the 12 months ending in October 2007 the state added 2,166 jobs[1], while Rochester added 1,656 (or 76.5% of all new jobs). With the opening of the Shoppes on Maine, our new University Center and construction underway on the Biobusiness Center supplementing Mayo's growth, Rochester's future looks bright indeed.

Continued growth will be necessary for us to absorb our overbuilt residential inventory. While in considerably better shape than our residential market, our office market continues to struggle with unwelcome vacancy. The bright spots in our market over the last year have come in retail, multi-family and in our industrial market.

At the time of this report one year ago, 10 year T-bills were at 4.7%. About six months ago they had risen to 5.2±% and now they have dropped to around 4.20±%. During this same time frame spreads on loans placed nationally have increased from 100-120 basis points to 200-250 basis points before leveling off to about 170-190± basis points currently. This activity indicates lenders have recognized commercial real estate is inherently riskier than a 1.0% premium over 10 year treasuries, but since driven by lease revenues, stronger than the "panic" that hit the credit markets with the onset of the "sub prime" syndrome.

It is the opinion of this analysis that this same rationale will return to investors who will recognize real estate risk demands spreads of 300 to 350 basis points over T-bill rates raising cap rates nationally to 7+% during 2008. Rochester is not recognized nationally as a significant market and historically does not have either the upward or downward volatility of the national markets. While an individual well located strong credit property with a longer term lease may still command a 7 cap locally, particularly if it is of a large enough scale to attract national interest, we believe local cap rates will adjust to about 8.0 for attractive well leased real estate and higher if location, age and/or condition problems exist. As they are inversely related, higher cap rates will cause proportionate downward adjustments in real estate prices.

[1]U.S. Bureau of Labor Statistics

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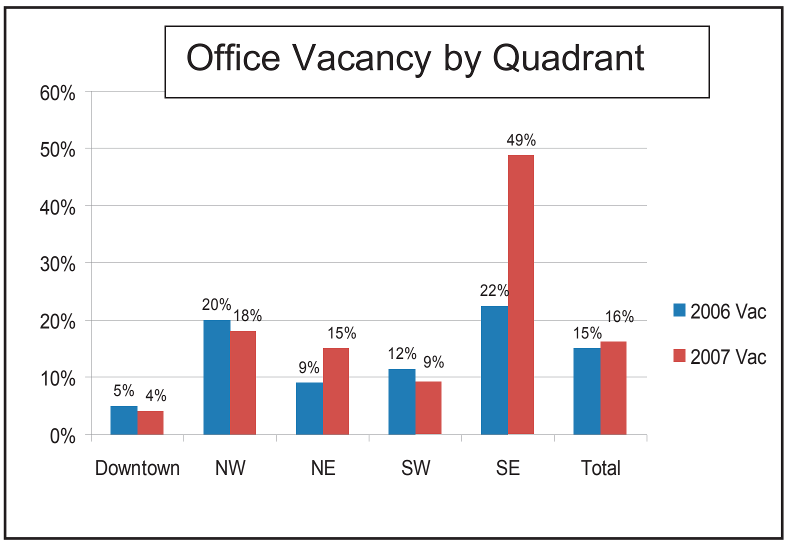
Office Market

The Rochester "For Lease" office market grew slightly in 2007 to approximately 2,253,000 square feet. Only a few new "For Lease" buildings such as Periodontal Specialists and Bonestroo were constructed, but the "For Lease" market grew by another 30,000± square feet when Benchmark acquired Pemstar freeing up some no longer necessary administrative space.

In a market that had become overbuilt during the past several years, the relative lack of new construction was welcomed with absorption of 20,000 square feet, but overall vacancy rate rose to 16.0%. In addition, while a significant amount of "shadow space" remains available for sublease, some of this was absorbed during 2007, reducing the negative impact this space will have on future markets.

The office condominium market, other than the sale of multiple units southeast to Zumbro Valley Mental Health, was stagnant with only one sale in the Highlands, Badger Village and sienna. This market appears to be saturated, although a new 14 unit office/ industrial development along the west frontage of Highway 14 is nearing completion.



Downtown

The office market in downtown Rochester actually shrunk by 10,000 square feet to 510,000 square feet with Affiliated's sale and relocation northwest to prepare for demolition, and with the demolition of the former Hamilton Professional Building making way for the new Biobusiness Center. The new University of Minnesota campus was not included this year as it opened after our study's annual completion. The best of what little space had been available last year was absorbed reducing vacancy slightly below 4.0%. While the overall Rochester office market remains a tenant's market, it is clear opportunity exists for additional new space downtown. We believe demand will exceed the Biobusiness Center alone, prompting additional downtown development in 2008.

Northwest

Rochester's largest concentration of "For Lease" office space is in northwest Rochester with just over 1,130,000 square feet. 360,000 square feet of this, or almost one-third, has been built since 2000, primarily along the West Circle Drive corridor. Modest absorption in this quadrant has reduced vacancy to 18.0%.

Northeast

Our survey included slightly more than 162,000 square feet, of which 36,000 or 22.0% has been added since 2000. Vacancy currently is 15.0% northeast which reflects an increase from 8.84% last year with unoccupied construction near Century High School.

Southwest

The second largest suburban quadrant with 288,000 square feet is also Rochester's second fastest growing with 112,000 square feet, or 39% built since 2000. The majority of this growth has occurred along 2nd Street SW, although the Airport Industrial Park and Greenview Drive areas have shown growth also. Leasing activity in this area has been relatively strong with vacancy declining to 9.1% from 11.5% a year earlier.

Southeast

Vacancy in southeast Rochester shot up with the vacation of MnDot from the Rochester Transport building leaving that entire 60,000 square feet vacant. The only additions to leased office space in this quadrant since 2000 are Eastwood Bank and an addition to Yaggy Colby. Despite lower rental rates than market, overall vacancy southeast is 48.7%.

In summary our market has 360,000 square feet of vacant office space, enough to absorb several years of growth. The sole market where obvious expansion is necessary is downtown.

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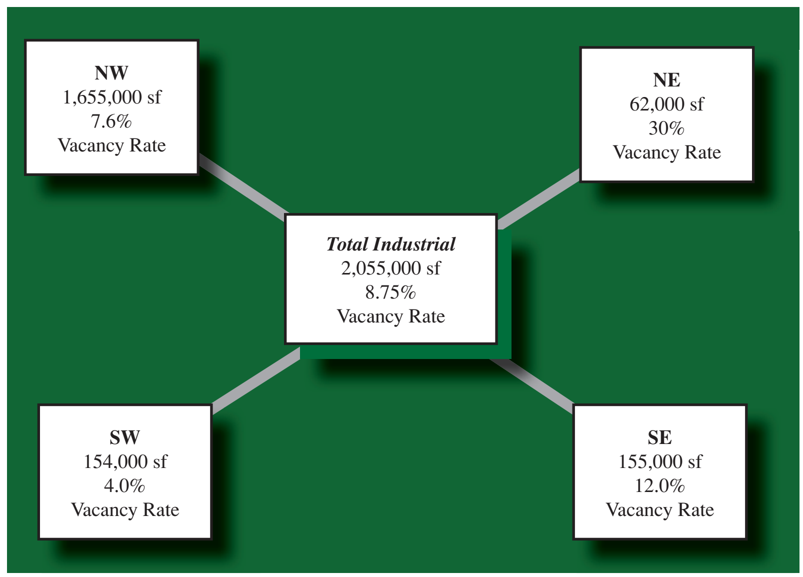
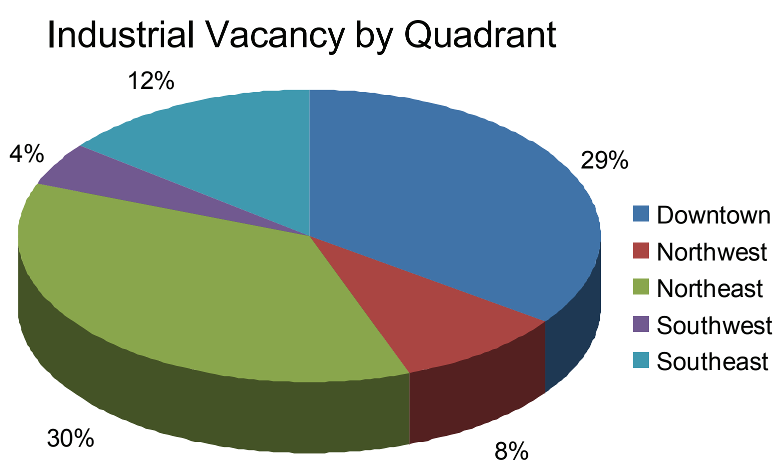
Industrial Market

As mentioned in the introduction, the industrial market in Rochester has performed well over the last year. Almost 100,000 square feet of absorption has occurred since our last report, reducing vacancy to 8.75% in our overall market from a reported 13.92% in the 2006 Hamilton Report. Almost all of this absorption was in the northwest quadrant of Rochester with more than half coming from one lease of 57,000 square feet to the Mayo Clinic. In addition the JDS Uniphase property of 40,500 square feet was removed from the study as Mayo purchased the property for its own use.

Our "For Lease" industrial marketplace is comprised of slightly more than 2,000,000 rentable square feet. Overall vacancy is currently 8.75%. By far the majority of space is northwest with 1,655,000 square feet of which 1,530,000 is occupied resulting in 7.6% vacancy. Northeast the vacancy is 30%, but of only 62,000 square feet. Southwest has 154,000 square feet with only a 4.0% vacancy and southeast boasts 155,000 square feet of leased space with a 12% vacancy



Our shrinking vacancy suggests that continued market demand will permit landlords to commence seeking rent increases for existing supply. With competition for building materials including gasoline increasing internationally, construction costs have increased substantially since 2003 meaning that as new supply is brought on to meet future demand, rates will need to be higher to justify new construction. Higher rates for new construction invariably pull rates for existing buildings somewhat higher also.



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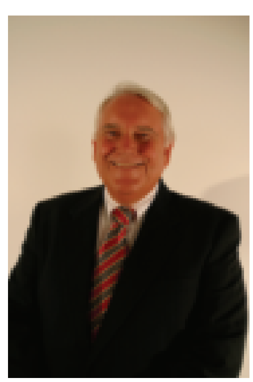

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