SHENEHON
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Valuation Viewpoint

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MARKETVIEW 2017 in Review

The economy of the United States continued to expand through 2017 at a modest to moderate pace, according to the Federal Reserve's Beige Books, which update the state of the national and regional economy throughout the year. Throughout 2017, the labor market tightened in most major markets in the nation, with the biggest challenges in finding, hiring, and retaining skilled workers. The pace of employment growth was quickest through the first half of the year, with the September edition of the Beige Book mentioning a slowing of the growth rate, and the October issue mentioning the scarcity of labor available throughout the United States. The tightening of the labor market worked to push wages upward throughout the year, with the biggest growth seen in the skilled labor force. A particularly active hurricane season was led by Hurricane Harvey, which struck the Houston area at the end of August and caused roughly $180 billion in damages and slowed economic growth across the nation in the third quarter of the year. Still, the national economy was widely viewed as strong and growing stronger, with the Federal Reserve raising interest rates by a quarter of a point three separate times throughout the year.

National employment grew throughout the year, with each month posting year-over-year gains in total nonfarm employment, though job growth slowed near the end of the year. At the same time, prices grew, with the larg-

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Market Trends and Indicators

Office Buildings–Downtown	→	0.0%
Office Buildings–Suburban	→	0.0%
Retail Centers	→	2.0%
Industrial Buildings	→	2.0%
Apartments	→	2.0%
New Housing Starts–Midwest*	↑	2.7%
Productivity***	↑	3.0%
US Unemployment**	↓	3.9%
Consumer Confidence Index**	↑	129.5

Statistics reflect year-over-year change from 4Q 2016 through 4Q 2017
*YoY Thru October 2017 **November 2017 ***YoY 3Q 2017

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> ***"As an overall barometer, the non-seasonally adjusted unemployment rate fell throughout the year, with the October 2017 rate just 2.8%, the lowest since December 1999."***

est growth rates seen in prices related to transportation, construction, and single-family homes across the nation. Overall, most districts indicated a modest to moderate pace of economic growth, and the overall economic outlook for the United States economy through the remainder 2017 remains positive.

In 2017, the Federal Reserve-identified Ninth District (covering Minnesota, Montana, North Dakota, South Dakota, portions of northwestern Wisconsin, and Michigan's Upper Peninsula) saw steady economic growth, with job growth recorded in the first half of the year increasingly restricted by a labor shortage. Manufacturing in the district rose throughout the year, though again labor shortages hindered growth to a certain degree. In the Agricultural sector, drought conditions in the western portion of the district (Montana, South Dakota, North Dakota) overshadowed a productive year in Minnesota and northwest Wisconsin.

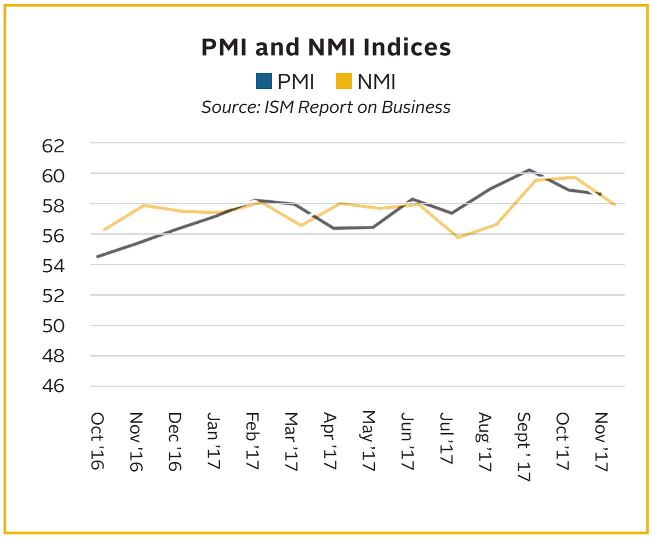
Within the Minneapolis-St. Paul-Bloomington, MN-WI MSA, the Bureau of Labor Statistics-defined 16-county area that makes up the Twin Cities region, the economy remained very strong throughout 2017. As an overall barometer, the non-seasonally adjusted unemployment rate fell throughout the year, with the October 2017 rate just 2.8%, the lowest since December 1999.

While the State of Minnesota and the Minneapolis-St. Paul metropolitan area generally have diverse, broad-based economies, improvement in several sectors gave a boost to the overall economy in the metro area and the state. The manufacturing sector saw growth throughout the year, with employment in the sector reaching a post-recession high in October of 2017. In early 2017, the spot price of iron ore rose to a three-year high, spurring economic growth in Minnesota's Iron Range region. However, the iron ore price fell throughout the year and by the end of 2017 was below where it had started the year.

> ***"On a more local scale, the Minneapolis-St. Paul region's broad-based economy and employment growth continue to facilitate healthy demand within both the local for-sale residential and apartment markets."***

Over the past year (October 2016 through November 2017), the national manufacturing sector gradually rose, buoyed by strong sales activity throughout the second half of the year. According to the ISM Report on Business®, the PMI® (Purchasing Managers' Index) was recorded at 58.2% in November 2017, with survey respondents saying that the strong overall economy has led to a strong backlog of orders continuing into the fourth quarter of the year.

Economic activity in the non-manufacturing sectors (NMI®) was 57.4% in November of 2017, posting year-over-year gains for the 95th consecutive month. The following graph presents the PMI® and NMI® index readings from the previous year, spanning October 2016 through November 2017.



Data from the Bureau of Labor Statistics show that non-farm employment at the national level showed a year-over-year increase in every month between October 2016 and October 2017. The greatest year-over-year gains of the past year were made in January, when nonfarm jobs in the United States increased by roughly 1.71%. Since that point, year-over-year gains in employment have lessened, with increases in September 2017 and October 2017 falling to 1.29% and 1.38%, respectively.

On a more local scale, the Minneapolis-St. Paul region's broad-based economy and employment growth continue to facilitate healthy demand within both the local for-sale residential and apartment markets. Non-farm employment in the Twin Cities metropolitan area increased by 2.41% over the year ended in October 2017 on the net addition of about 47,800 jobs. Relative growth in the Twin Cities market was strongest within the Mining, Logging, and Construction sector, which registered year-over-year growth rates of 5.3%, followed by the Education and Health sector, which posted year over year growth of 3.9%. Just two major employment sectors in the Minneapolis-St. Paul MSA recorded losses from October 2016 through October 2017, the Financial Activities sector and the Information sector, which contracted by 1.1% and 1.0%, respectively. The following graph presents overall non-farm employment growth in the Twin Cities metropolitan area. The following graph presents year-over-year national non-farm employment growth in the United States from October 2016 through October 2017.

"In the Minneapolis-St. Paul MSA, the year-over-year unemployment rate fell 100 basis points, from 3.3% in October 2016 to 2.3% in October 2017."

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Market Trends and Indicators

New Housing Starts

	2009	2010	2011	2012	2013	2014	2015	2016	YTD 2017
New Housing Starts—Midwest Yearly Totals	97,100	97,900	100,900	127,900	149,600	165,200	152,600	182,300	154,900

Source: United States Census Bureau

P/E Ratios in Select Industries

Industry (by year)	2010	2011	2012	2013	2014	2015	2016	2017*
Basic Materials	15.0	16.0	10.7	10.4	11.87	**	**	**
Construction	5.3	5.8	6.5	7.1	6.0	5.2	3.7	5.5
Manufacturing	8.5	10.4	10.2	9.4	9.8	16.4	7.1	5.11
Wholesale Trade	6.6	8.3	7.4	9.6	8.5	7.1	6.1	7.32
Retail Trade	5.1	4.9	5.1	6.2	6.3	5.0	4.0	6.88
Transportation & Warehousing	6.7	5.9	5.6	5.6	5.8	5.2	3.4	3.05
Information	10.2	11.5	11.3	6.8	15.2	6.1	7.1	18.12
Finance & Insurance	9.3	7.2	6.4	7.1	8.1	5.2	16.5	7.73
Professional Services	7.8	10.2	7.3	7.9	9.9	5.9	5.2	16.87
Healthcare	5.8	9.3	5.2	6.9	6.6	7.1	6.9	6.2

*As of December, 2017 **Insufficient data

Economic Indicators

Indicator	2005	2010	2011	2012	2013	2014	2015	2016	2017
Inflation	3.4%	1.6%	3.1%	2.1%	1.5%	1.6%	1.4%	1.3%	2.0%**
Productivity	2.1%	3.3%	0.1%	0.9%	0.3%	1.0%	1.3%	-0.1%	3.0%*
GDP	3.1%	3.0%	1.7%	2.2%	1.9%	2.4%	2.4%	1.6%*	3.3%*
Consumer Confidence	107.2	62.0	70.8	72.2	72.2	92.6	115.3	113.7	129.5***

*YoY 3Q 2017 **YoY October 2017 ***November 2017

Unemployment

	2000	2005	2010	2011	2012	2013	2014	2015	2016	OCT 2017
US	**4.0%**	**5.1%**	**9.6%**	**8.9%**	**8.1%**	**7.4%**	**6.2%**	**5.3%**	**4.9%**	**3.9%**
Northeast	3.8%	4.8%	8.7%	8.2%	8.1%	7.5%	6.2%	5.3%	4.8%	4.2%
Midwest	3.6%	5.4%	9.5%	8.4%	7.4%	7.2%	5.8%	4.8%	4.7%	3.6%
South	3.9%	5.0%	9.3%	8.8%	7.7%	7.0%	6.0%	5.3%	4.9%	3.8%
West	4.6%	5.2%	11.0%	10.3%	9.2%	8.0%	6.7%	4.7%	5.1%	4.1%
Minnesota	**3.2%**	**4.1%**	**7.4%**	**6.5%**	**5.6%**	**5.0%**	**4.2%**	**3.7%**	**3.9%**	**2.4%**

Rates of Return and Risk Hierarchy

Investment	
30 Year Treasury	2.83%
Aaa Bond	3.60%
Bbb Bond	3.58%
Commercial Mortgage	4.25-5.25%
Institutional Real Estate	5.75–7.0%
Non-Institutional Real Estate	8.0–10.0%

Investment	
S & P Equity (Duff & Phelps)	9.25%
Equipment Finance Rates	10.0–12.0%
Speculative Real Estate	11.0–16.0%
NYSE/OTC Equity (Duff & Phelps)	12.63%
Land Development	12.0–25.0%
NYSE Sm Cap. Equity (Duff & Phelps)	24.13%

Sources: Appraisal Institute, Business Week, Value Line, U.S. Chamber of Commerce, Standard & Poors, Investment Dealers Digest, U.S. Government Census, Bureau of Labor Statistics, Duff & Phelps, PwC Real Estate Investor Survey, The Conference Board, Pratt's Stats®. Shenehon Company makes every effort to ensure the accuracy of the information published in Valuation Viewpoint. Shenehon Company uses only those sources it determines are accurate and reliable, but makes no guarantee with regard to the information presented.

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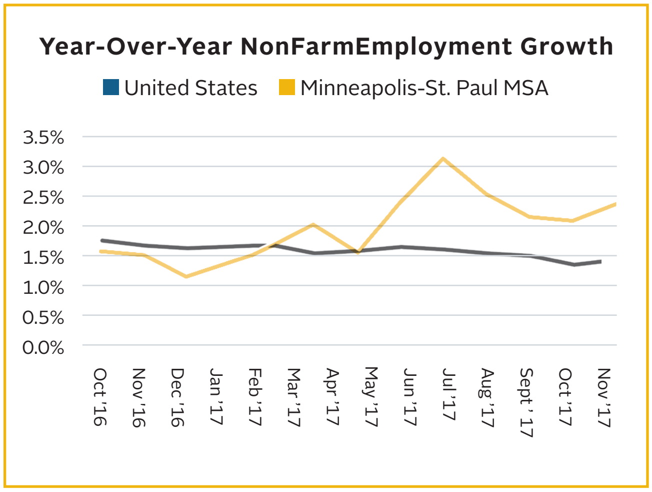
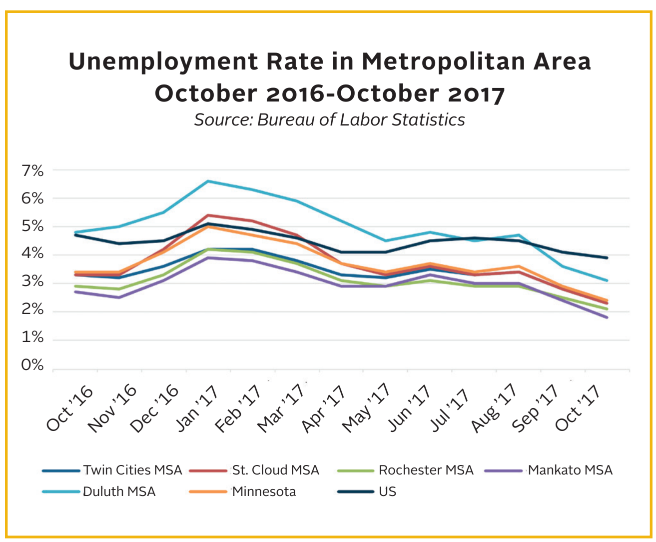


Employment gains noted across nearly all major sectors continue to put downward pressure on national, statewide, and local unemployment rates. Nationally, the non-seasonally adjusted unemployment rate decreased to 3.9% in October 2017, down 80 basis points from the 4.9% rate recorded 12 months prior. The non-seasonally adjusted unemployment rate in the State of Minnesota stood at 2.4% in October 2017, down 100 basis points from the 3.4% rate recorded in October 2016.

"Median home sales prices have continued to respond to raised demand and tightened supply, with every month over the past year recording a year-to-date, year-over-year price increase of no less than 4.65%, as shown in the chart below. In October 2017, year-to-date prices increased by 6.6% from October 2016.

Within the state, non-seasonally adjusted unemployment rates fell in every major metropolitan area from October 2016 to October 2017. After the normal seasonal unemployment rate uptick was observed in January, a steady decline ensued across all areas studied. In the Minneapolis-St. Paul MSA, the year-over-year unemployment rate fell 100 basis points, from 3.3% in October 2016 to 2.3% in October 2017. Smaller metropolitan areas also saw unemployment rates fall throughout the year, led by the Duluth MSA, which saw unemployment fall from 4.8% to 3.1% over the course of the year. The smallest decrease in unemployment rate in Minnesota's metropolitan areas occurred in the Rochester MSA, where unemployment fell from 2.7% in October 2016 to 1.8% in October 2017. It should be noted that, in addition to being below the national unemployment level, all of Minnesota's metropolitan areas are currently posting unemployment rates well below what is considered "full employment". The following graph presents non-seasonally adjusted unemployment rates at the national, state, and local levels.



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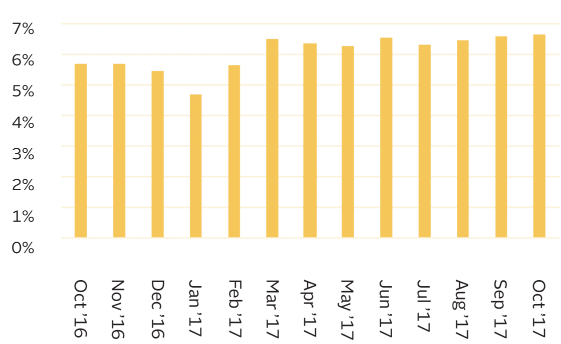
At the same time, transaction volume in the real estate markets continues to drive further growth and underlying market fundamentals are generally encouraging. At the national level, the median existing home sale price in October 2017 increased to $248,300, up 5.4% from $235,000 reported in October 2016. Over the same period, all four regions of the United States saw median existing home prices increase, with the strongest growth recorded in the Midwest.

According to local data released by the Minneapolis Area Association of Realtors, conditions in the residential real estate market continued to be favorable to sellers throughout the past year, with price per square foot and percent of original list price received rising, while days on market fell and new listings fell. Median home sales prices have continued to respond to raised demand and tightened supply, with every month over the past year recording a year-to-date, year-over-year price increase of no less than 4.65%, as shown in the chart below. In October 2017, year-to-date prices increased by 6.6% from October 2016.

Year-Over-Year Change in Year -to-Date Median Home Sales Prices
Minneapolis-St. Paul Metropolitan Area
Source: Minneapolis Area Association of Realtors



The continued tightness of the single-family home market, combined with the expansion of the local employment market and the popularity of renting in several large demographics, kept the Twin Cities apartment market strong throughout the year, with underlying fundamentals among the strongest in the nation. While new construction activity in the Twin Cities market remains above historical norms, demand continues to exceed the pace of new additions to the existing apartment inventory, keeping vacancy rates well-below the market equilibrium of 5.0% and putting upward pressure on rental rates.

> ***"According to median projections made by the Federal Reserve Board and Federal Reserve Bank Presidents done in December 2017, Real GDP is anticipated to see year-over-year growth at 2.5% in this year and 2018, then see growth slow in 2019 and 2020.***

LOOKING AHEAD

National Projections

Nationally, there is optimism that the gradual recovery from the most recent financial crisis will continue through 2018. The recently-passed tax overhaul is projected by some experts to provide an additional boost to growth over the next several years, with Federal Reserve Chairperson Janet Yellen commenting that the tax plan should provide a "modest lift" to economic growth in the next several years, but voicing concern about possible ramifications to the national debt. After raising the federal interest rate three times in 2017, the Federal Reserve is anticipated to raise the rate another three times in 2018.

According to median projections made by the Federal Reserve Board and Federal Reserve Bank Presidents done in December 2017, Real GDP is anticipated to see year-over-year growth at 2.5% in this year and 2018, then see growth slow in 2019 and 2020. In the longer run projection (which represents each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy), GDP growth is anticipated at 1.8%. The unemployment rate, which has fallen in recent years, is projected to continue to fall through 2018, remain flat in 2019, and rise slightly to 4.0% in 2020. The longer run unemployment rate is projected at 4.6%.

"Total year-over-year nonfarm payroll employment growth in Minnesota is projected to peak in 2017 at 1.8%, then fall from 2018 through 2021, ending at 0.8%. If this projection holds, employment growth in 2021 would be the lowest observed in the state during the period studied, which stretches from 2014 through 2021.

Inflation in Personal Consumption Expenditures (PCE) is expected to rise in 2017, 2018, and 2019 and level out in 2020. This anticipated growth would outpace growth observed in the nation from 2012 through 2016. Data for these projections are shown below.

Median Economic Projections of Federal Reserve Board and Federal Reserve Bank Presidents, December 2017

Source: Federal Reserve Board and Federal Reserve Bank Presidents

	2017	2018	2019	2020	Longer Run
Change in Real GDP	2.5%	2.5%	2.1%	2.0%	1.8%
Unemployment Rate	4.1%	3.9%	3.9%	4.0%	4.6%
PCE* Inflation	1.5%	1.9%	2.1%	2.0%	–

PCE* represents Personal Consumption Expenditures.
All percentages measured at 4Q.

Minnesota Projections

According to the Minnesota Office of Management and Budget, non-wage personal income growth saw growth bottom out in 2016 at 2.0%, then rise to 2.5% in 2017. Positive gains in growth are projected to continue through 2020, when year-over-year growth is anticipated to reach 5.0%. Personal income projections in the state follow a similar pattern, falling to a 2.4% year-over-year growth rate in 2016, and rising to a 4.6% growth projection for 2021.

Wage and salary disbursements saw their lowest year-over-year growth in 2016, accelerated in 2017, and is projected to remain at or above 4.4% through 2021. Total year-over-year nonfarm payroll employment growth in Minnesota is projected to peak in 2017 at 1.8%,

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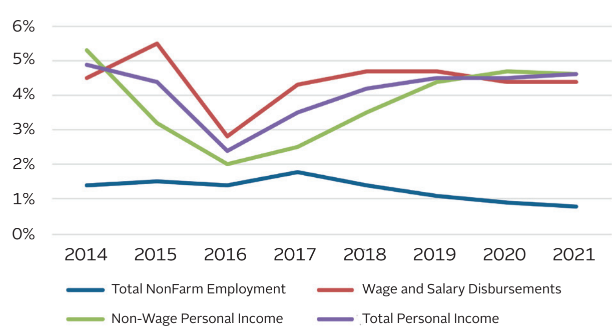
then fall from 2018 through 2021, ending at 0.8%. If this projection holds, employment growth in 2021 would be the lowest observed in the state during the period studied, which stretches from 2014 through 2021. As previously mentioned, it is anticipated that the slowdown in job growth will stem from the continued tightening of the labor market, as there will simply not be enough population growth to sustain employment growth numbers, as the unemployment rates across Minnesota remain extremely low. This slowdown in overall employment growth coincides with increased growth in both wages and total personal income.

Minnesota Economic Project

Source: Minnesota Office of Management and Budget



Overall, it is anticipated that economic growth across the nation and state will begin to slow in 2018. This is not necessarily an indictment on the strength of the economy, but more of an acknowledgement that the economic growth that has occurred over the past nine years is not sustainable forever. However, the biggest reason for a projected slowdown is the uncertainty surrounding the federal government. Concerns about a government shutdown contribute to a projected slowdown in growth, as do possible changes to trade and immigration policies and the unknown effects of the recently-passed tax reform. VV

"Overall, it is anticipated that economic growth across the nation and state will begin to slow in 2018. This is not necessarily an indictment on the strength of the economy, but more of an acknowledgement that the economic growth that has occurred over the past nine years is not sustainable forever."

Data referenced in this report was current as of December 2017, and includes preliminary figures, which are subject to revision.

Market Transactions: Top of 2017

Every year, a few local transactions stand out among the rest, whether it be for the size of the development or business, the price paid, the location, or the timing. Below are several transactions throughout the year that we feel are worth taking a second (or first, in some cases) look.

601W Companies Purchases Former Macy's Building in Downtown Minneapolis

In March, the former Macy's building, located between 7th Street and 8th Street along the Nicollet Mall, was sold to 601W Companies. The sale was for $59 million, or $59.43 per square foot, for the nearly million square foot building included in the deal. It has since been announced that 601W companies will transform the space into a multiuse facility with office and retail space on the upper floors, and restaurant space with a food hall that opens to the Nicollet Mall in the lower levels. As noted in a previous edition of Valuation Viewpoint, the parking garage for the building was not included in the sale.

Oxbō Apartments Sold to ITET for $61.5 million

In May, just one week after the building's grand opening party, Oxbō Apartments (202 7th St. West in St. Paul) were sold by the developer Opus Group to North Dakota-based IRET for $61.5 million, or $321,990 per unit. According to Finance and Commerce, this marks the highest price per unit paid in St. Paul since at least 2011, when they began tracking apartment sales. The apartment building was built for just $30.9 million, and includes a pool deck, fitness room, and a ground floor retail space that houses a New Bohemia and the Seventh Street Truckyard, an indoor food hall with permanent food trucks serving patrons. Oxbō is located roughly one block from the main entrance of Xcel Energy Center.

Central Park Commons Sold in December

Central Park Commons was sold in December. The shopping center is located on roughly 50 acres in Eagan that was occupied by a Lockheed manufacturing plant that closed in 2010. Central Park Commons currently consists of roughly 1.6 million square feet of retail space, and was sold for $126.25 million ($78.90 per square foot). The sale was between the developer and seller, CSM, and American Realty Advisors, the buyer. The shopping center is anchored by a Hy-Vee grocery store, a brand

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Market Transactions: Top of 2017 *continued from page 9*

that has undergone recent expansion in the Minneapolis-St. Paul market, going from no stores in the metropolitan area in 2015 to a planned thirteen stores in the coming years.

Mayo Clinic Square Sold for $98 million

In April, Mayo Clinic Square, a 222,000-square foot complex, was sold by Camelot LLC for $98 million ($441.44 per square foot). The building, built as Block E in 2001 and billed as an entertainment venue, struggled to find footing in the market until it was renovated in 2014 through a joint venture with the Minnesota Timberwolves, Minnesota Lynx, and Mayo Clinic. The building now houses team offices and practice facilities, as well as the Mayo Sports Medicine Clinic. It should be noted that the structure includes a 255-room luxury hotel, bought in 2014 for $65 million and rebranded as the Loews Minneapolis Hotel. The 2014 transaction involving the hotel and the 2017 transaction involving Mayo Clinic Square were conducted completely separately from one another.

USB Plaza in St. Paul Sold in May

One of the two towers that make up St. Paul's Town Center Block, the 25-story UBS Plaza, which is comprised of 229,652 square feet, sold in May of 2017 to CIG-UBS, an Atlanta-based company. The sale price was $14 million, or $60.96 per square foot. The seller was RAIT Financial out of Philadelphia, who purchased the building in 2012 for an undisclosed amount.

Vintage on Selby

In September, the Vintage on Selby apartment building (1555 Selby Avenue, St. Paul) was sold by The Vintage on Selby, LLC (related to Ryan and Excelsior Group) to Zurich North America. The sale was for $87 million, and included the 210 apartment units, plus the 39,506-square foot Whole Foods grocery store located on the ground floor. VV

Business Transactions: Top of 2017

Buffalo Wild Wings Purchased by Arby's

In November, it was announced Buffalo Wild Wings, a national restaurant chain based in Golden Valley with $2.0 billion in annual revenue, will be purchased by Arby's Restaurant Group, Incorporated. The purchase price is roughly $2.9 billion, and the chain currently operates over 1,200 locations. Arby's Restaurant Group, Incorporated is headquartered in Atlanta, Georgia.

Caribou Coffee Purchases Several Restaurants in 2017

In August, Caribou Coffee, based in Brooklyn Center purchased the Dallas, Texas based Bruegger's Bagels restaurant chain for an undisclosed amount. Bruegger's Bagels operates around 270 stores around the nation with revenues of approximately $200 million. In April of 2017, the owners of Caribou (JAB Holding Company) purchased Panera Bread, which operates roughly 2,000 restaurants, for $7.5 billion.

OneBeacon Insurance Group Ltd. Sold to Intact Financial Corporation

In May, Minnetonka-based insurer OneBeacon Insurance Group was purchased by Canadian insurer Intact Financial Corporation for $1.7 billion. OneBeacon is the 30th-largest private company in Minnesota, and wrote $1.1 billion in premiums in 2016.

EnteroMedics Incorporated Purchases ReShape Medical Incorporated

In October, the sale of California-based Reshape Medical Incorporated, a company that makes internal weight loss balloons, to EnteroMedics of Roseville was reported. Shortly after the $38 million sale was announced, it was revealed that EnteroMedics will move its corporate headquarters to California as part of the deal.

H.B Fuller Purchases Royal Adhesives

In September, St. Paul-based adhesives manufacturer H.B. Fuller purchased South Bend, Indiana-based Royal Adhesives & Sealants for $1.6 billion. This marked the largest deal in H.B. Fuller's history and is anticipated to increase revenues by $650 million, along with raising profit margins by lowering redundant supply chain costs and increasing business opportunities. VV

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