

**Addenda
Minnetonka City Council
Meeting of Mar. 2, 2020**

ITEM #14A – 2020 Assessment Report

The percent value change by submarket and assessment year for office, industrial and retail for assessment year 2020 (far right column) was corrected on the chart on page 11 of the 2020 Assessment Report. Corrected page attached.

Changes in gross market values for these real estate sectors vary due to several factors. The various sectors within commercial real estate can move at different rates depending on demand within the sector. Also, the quality and location of the buildings can play an important role in changes in value. Commercial real estate can be more sensitive to socio-economic trends as the general outlook of real estate investors is based on the anticipation of relatively short-term gains. The office market has had steady growth of around three to four percent per year for the last four years. The 2017 industrial market saw a spike in the growth for the first time in many years and has averaged over 6 percent growth for the past three years. The retail market growth was just under 4 percent, which is the most substantial growth in the past seven years for retail.

COMMERCIAL MARKET VALUE CHANGE BY SUBMARKET AND ASSESSMENT YEAR							
	2014	2015	2016	2017	2018	2019	2020
Office	4.90%	9.60%	-2.20%	4.40%	3.20%	2.90%	5.73%
Industrial	3.40%	0.40%	1.50%	9.60%	3.00%	9.50%	7.10%
Retail	3.00%	1.70%	2.10%	1.50%	0.50%	2.00%	3.79%

Office Market

Continuing the trend from last year, companies are decreasing their overall physical footprints. This reduction is not always reflective of decreasing employee counts, but rather it involves the effort to reduce their real estate occupancy levels and costs, create more collaborative spaces, and respond to changing work styles. Instead of considering the cost per square foot of real estate, businesses are often looking at the cost per employee, as the change in office space design is proving to have more efficient floor plans than the traditional spaces.

This space efficiency bias has contributed to continued demand for multi-tenant Class A (the highest quality) office space while reducing the demand for the Class A single-tenant space. A prime example of this is the United Health Group space at 12700 Whitewater Drive, where they added additional parking to the existing ramp to accommodate the increased numbers of employees in their building.

For AY 2020, the increase illustrated in the following chart is due to continued growth in the multi-tenant buildings. Most of the growth in the office sector was driven by the Class B and Class C offices that are well located and continue to be renovated to compete with higher-quality properties.