

Economic Overview

Market Outlook 2008

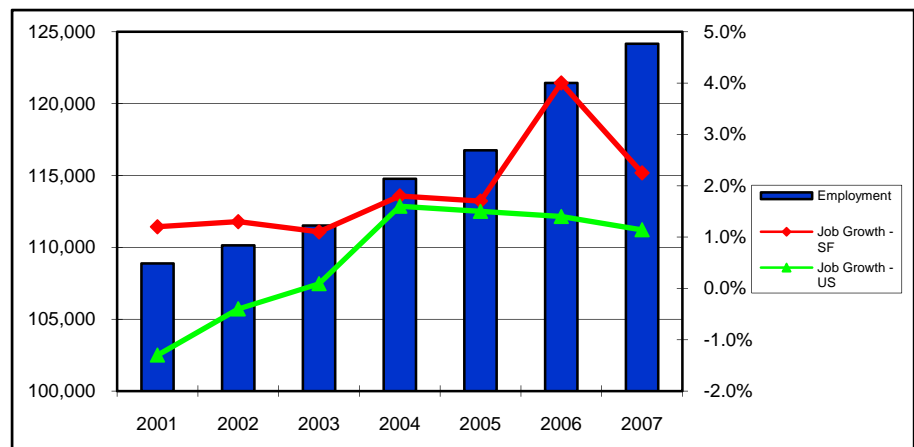
Presented by: Michael Bender

In Late 2007 and early 2008, the national economists had been reporting that the national economy is in or near entering a recession. There are several factors that can determine whether this is true and if that is consistent with the Sioux Falls market. The first factor is inflation. The inflation rate at the end of December 2007 was 4.1%. Some of the influencing factors of the inflation rate include the rising costs of food (dairy increased 13.4%), housing utility costs, and gasoline. The price of gasoline increased by 29.6% in 2007. Another factor that considerably affects the Sioux Falls market is the rising costs of building materials. For instance, the price of copper increased by 6.7% while steel increased by 6.2%.

Labor Statistics

Sioux Falls has a very low unemployment rate, 2.7% as of December 2007. This is considerable lower than the national average (5.0%). It is one of the lowest rates in the nation.

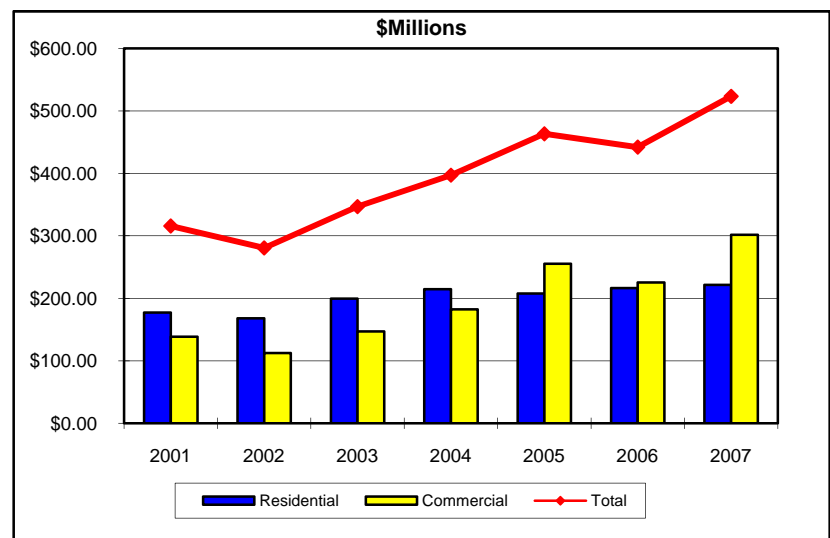
One of the more important factors to consider is a market's labor growth. The Sioux Falls



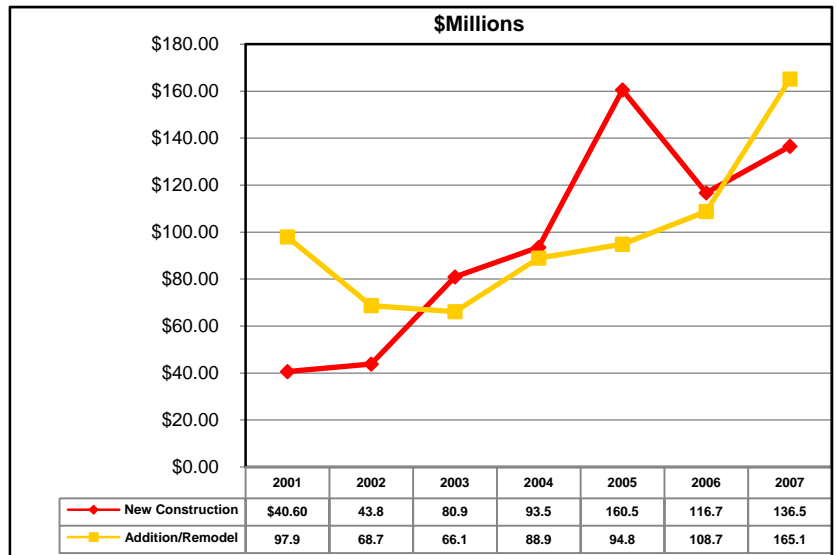
MSA labor market continues to be strong with the addition of 2,731 jobs added in 2007. This was a 2.25% increase. The last time that the United States was in an official recession was in 2001/2002 and while the U.S. market lost jobs, the Sioux Falls market continued to increase. Job growth will continue to be strong in 2008 and 2009, but leveling out to a moderate 1.7 – 1.9% increase.

Construction Statistics

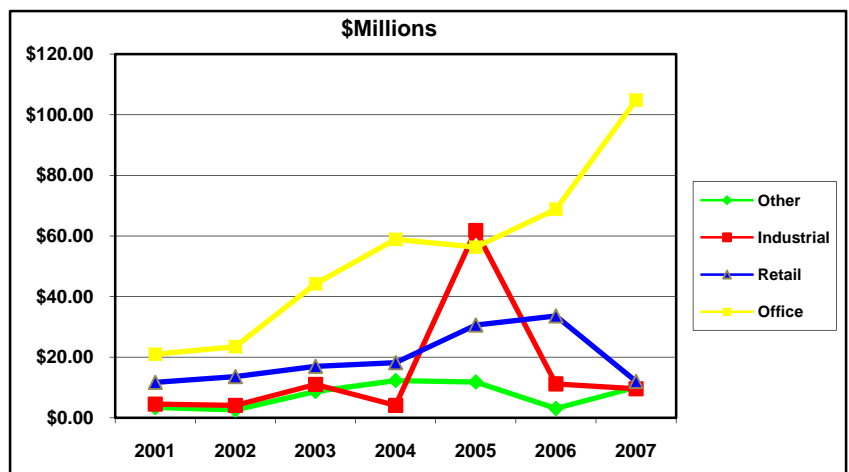
Job growth drives not only residential construction, but also commercial construction. In 2007, the Sioux Falls Planning Department reported over \$523 million in construction in the City of Sioux Falls, a record high for the city. For the third consecutive year, commercial construction outpaced residential construction. There was \$301.6 million in commercial construction as compared to the \$221.5 million in residential. Sioux Falls produced a record year in construction in both categories.



Commercial Construction. Of the \$301.6 million spent in 2007, over 54% was spent in remodeling or adding on to existing commercial properties. This was the first time since 2003 that addition/remodel construction outpaced new construction. This may be due in part to the uncertainty of a recessionary economy. Examples of addition/remodel projects in Sioux Falls include the Sanford Cancer Center.



Specifically looking at new construction, the City of Sioux Falls separates commercial construction into four categories: office/institutional, commercial (retail), manufacturing (industrial) and other (churches and other non-traditional commercial buildings). 2007 witnessed an increase in both the other and office/institutional categories. The office/institutional category historically contributes the majority of new construction. Over \$104.8 million was spent in this category equating to approximately 76.7% of new construction in 2007. Examples of new construction in this category include the \$35 million Sanford Children’s Hospital and the new Journey Elementary School on South Grange Avenue. The industrial and retail markets showed a decrease from 2006. One reason for the decline in new construction in the retail category is the abundance of vacant space currently on the market. Once this space begins to be absorbed, the market will again see speculative construction.



Economic Predictions

As one of the nation’s strongest markets, Sioux Falls will see another prosperous years. Some predictions that Bender Commercial expects to see in 2008 are:

- Sioux Falls will continue to see a strong labor market with an expected 1.7 to 1.9% growth.
- Construction will also experience a unwavering year with commercial construction continuing to outpace residential construction.
- Addition/remodel projects will continue to outpace new commercial construction.
- New office/institution construction will continue to comprise 50-60% of the total new commercial construction.
- New retail construction will see only a modest increase.