



THE **REAL** VACANCY RATES

As discussed within the previous Ted Report, vacancy rates throughout the south metro industrial market are declining; accordingly net rental rates are creeping up, and Tenant incentives are winding down. To take a thorough snapshot of the market, I decided to determine what the actual vacancy rate is for industrial space in Eagan.

Eagan has just over 18 million square feet of total industrial space. The largest vacancy within the market is 358,000 square feet at the Twin Cities Distribution Center, which has a short-term Tenant occupying 50,000 square feet. The next two largest vacancies are both advertised at 100,000 square feet; however, both vacancies are owned by Landlords who also operate a public warehousing business. So technically, those 100,000 square foot vacancies are not "real" vacancies. The next largest vacancy can be found at Armstrong Business Center II, where two adjacent suites can be combined to accommodate up to 51,000 square feet. Again, both of these suites are occupied by short-term Tenants, removing the 51,000 square feet from the vacancy calculation. So we are left with the question: What is the real vacancy rate?

By eliminating space that is:

- 1) used for public warehousing
- 2) occupied by short term tenants
- 3) marketed as vacant while Landlords are working on renewing their Tenants

I calculated the "real" vacancy rate for Eagan at approximately 5%. This 5% figure is for space that is currently vacant or available within the next 30 days, and is actively marketed for lease. The southern Twin Cities has absorbed nearly 500,000 square feet of space over the past nine months, and a large portion of this absorption has occurred within Eagan. Eagan offers excellent access to I-494 and I-35E, is close to the airport, and is home to Thomson West,

Northwest Airlines, Ecolab, Lockheed Martin, BCBS, and other large employers. The employee base is also large, skilled, and diverse. Eagan will continue to thrive as an excellent place to own industrial real estate.

The office market has also strengthened over the past nine months. The following large transactions have resulted in a dramatic decline in office space availability:

Prime Therapeutics - 90,000 SF lease - Eagan
State Farm - 80,000 SF lease - Mendota Heights

An office tenant searching for 50,000 square feet of contiguous class A or B office space in Eagan or Mendota Heights has very limited options; I expect to see speculative multi-story office development within the next six months. On the other hand, single story office space demands continue to be average to soft. There are a handful of options ranging from 15,000 - 25,000 square feet within office/showroom properties. Look for absorption in this product type throughout 2006; however, until the current vacancies are filled, I do not expect any speculative development in 2006.

On a different note, the office condo market seems to be saturated. There are currently three projects underway within one mile of each other, and a fourth that is already completed. I question the demand for office condo space - I just do not see many 2,000 - 6,000 square foot tenants in the marketplace who are willing to make the plunge into ownership and pay in excess of \$175 psf. Smaller companies generally have fluctuating space requirements, and ownership limits their ability to easily change size. However, I hope to be proven wrong. Many of the office condo developers are betting on interest rates remaining low, and the "American Dream" of ownership to make these projects sell. 2006 will be a telling year for the office condo market.

QUOTES

wedding bells

My brother Tim is getting married in February 2006. In case he ever gets cold feet, these quotes should provide inspiration for him before the big day:

- **A psychiatrist asks a lot of expensive questions that your wife asks for nothing. – Joey Adams, comedian**
- **It's a funny thing that when a man hasn't anything on earth to worry about, he goes off and gets married. – Robert Frost, poet (1874 - 1963)**

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ARTSY RESTAURANT

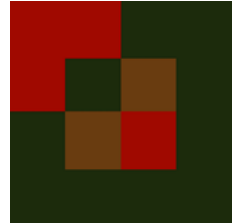
For a happy ending to your day, visit **20.21**, Wolfgang Puck's restaurant at the Walker Art Center, and pay just \$5 for selected appetizers, cocktails, and wines, Tuesday-Saturday, 5:30-6:30 pm. While there, be sure to see the new exhibit – **ANDY WARHOL/SUPERNOVA: Stars, Deaths, and Disasters, 1962-1964**. Gallery admission is \$8.00 and well worth it to see the works of one of the most influential artists of the 20th century.

"The secret of a happy marriage remains a secret. "

— Henny Youngman, comedian (1906 - 1998)



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HIGHLIGHTED PROPERTIES



Armstrong Business Center I & II - For Lease *Eagan, MN*

- Two buildings totaling 308,017 SF
- 16' & 20' clear height, dock and drive-in loading
- Up to 51,000 SF contiguous available, divisible to 7,000 SF
- Visibility to Lone Oak Road, low operating expenses



Carmen Distribution Center - For Lease *Inver Grove Heights, MN*

- 174,180 SF total
- 38' clear height
- Up to 106,972 SF total contiguous is available
- Extremely low operating expenses
- Dock and drive-in loading



PENALTY BOX AWARD

A Chilly Ending *Stuart, Florida*

Very rarely do suspects welcome their arresting officers with open arms. But Ari Rayvon Stanberry was not only glad to see the police when he was arrested, he couldn't wait to get into the squad car. Why? The Florida man had just spent a bone-chilling twenty minutes inside a sub-zero deep freezer. An officer was investigating an unrelated shoplifting incident in a grocery store when he spotted Stanberry, a recognized criminal in the area. Stanberry, however, eluded the officer, who requested backup to conduct a thorough search of the store. Twenty minutes later, officers decided to search the store's trailer-size deep freezer and found the frozen suspect. Apparently, he didn't realize the freezer would lock when he closed it. Stanberry, who Jacobson has nicknamed "the Perpsicle," surrendered willingly; he also asked to be taken into a warm squad car. He is thawing out in the Martin County Jail without bond.



Animals on Alert!

Midwest Hunting Tour 2005

The 2005 hunting season is off to an excellent start. In mid-September I arrowed a 4 x 3 bull elk in Colorado. I was able to get within seven yards of the bull which made for a very exciting hunt. Late September found me in a tree stand in Inver Grove Heights, where I connected with a 9-point whitetail buck, again at a distance of about seven yards. It was my first buck with a bow. October was for the ducks with two successful trips to North Dakota. The duck hunting was record setting. On a calm Thursday morning, I had five friends with me, and we set a new record by harvesting 33 ducks in 35 minutes, 29 of which were drake mallards. I returned to the tree stand in early November near Balsam Lake, Wisconsin, and I arrowed an 11-point buck at a distance of 17 yards. The remainder of the hunting season will find me back in North Dakota chasing ducks, out to Ohio for a deer hunt, and in South Dakota chasing rooster pheasants. If you ever have a craving for wild game, please let me know and I will be happy to provide the meat!

