



TENANT IMPROVEMENTS

How do you space plan?

What does it cost to remodel office space?

MARKET UPDATE

Current Conditions

There seems to be a consensus among the commercial real estate community that the market is beginning to pick up. Tenants throughout the metro area are shopping for space for the following reasons:

- The equity markets have been relatively stable over the past six months in comparison to the previous three years.
- Tenants want to take advantage of the down market before it evaporates.
- Springtime has arrived.
- The war in Iraq was quickly resolved.

The next six months will foretell if this increase in activity is a real indicator that the economy is starting to recover, or if it is the result of "tire kicking" by tenants. With overall vacancy in the southeast Twin Cities industrial market at nearly 15%, this new activity is the first good news for landlords in nearly three years.



process is for the tenant to meet with an architect to layout the space. The architect will design the space based upon the tenant's input, and incorporate:

- Private offices
- Breakrooms
- Training / conference rooms
- Open cubicle area
- Production line flow
- Warehousing / distribution flow
- Special tenant needs such as: clean room, data center, extra power, upgraded lighting

Once a space plan has been completed and approved by the tenant, the landlord will bid the space plan to determine the TI costs of constructing the space. The next step is an important phase of deal negotiation; who pays for the TI's?

When negotiating with a landlord, the tenant will attempt to have the landlord pick up a large share of the TI costs, or provide a TI allowance. Any TI costs in excess of the allowance can be handled one of three ways:

- The tenant pays for the excess of the TI allowance out-of-pocket, which is often the case when the TI's are extraordinarily high or tenant specific.
- The landlord will pay for the entire TI package, but amortize the excess TI's beyond the landlord allowance at 8 - 12 % and have the tenant pay the excess costs through increased rent.
- The landlord will pay for the entire TI package, but will require a Letter of Credit, a personal guaranty, or enhanced security deposit to cover a large portion of the TI's.

If there are extra TI costs, the tenant will need to decide if they want to use the landlord as a "bank" for their

TI's, or if they would be better off paying for the excess out-of-pocket. The tenant could obtain a loan that would most likely have a lower interest rate than what the landlord would charge.

The cost to replace carpet and repaint a space is approximately \$4.00 - \$6.00 per square foot. New office construction below the deck is from \$25.00 - \$35.00 per square foot, depending on the level of the office finish. Any other type of TI cost estimation is guesswork without a completed space plan and bid because of the many variables that influence the final cost of building out a space. Remember that tenants are always responsible for their own phone / data wiring and security systems. The process of finding a suitable space for your business, space planning, and negotiating a lease is complicated. As always, consider using a commercial real estate broker to save time and money.

www.tedcarlson.com

With the help of the prodigy brother (Tony) and my wonderful marketing expert at Welsh Companies (Theresa), look for a completely redesigned web site before the end of summer. The new and modern look of the web site will make it easier to find information about my listings while providing the ultimate online experience ("ultimate" as far as commercial real estate can be).



In honor of the Minnesota Wild and their fantastic season, this quarter's quote is something that the Colorado Avalanche and Vancouver Canucks should have recognized when playing the Wild:

"It's not the size of the dog in the fight, it's the size of the fight in the dog." - Mark Twain (1835-1910)



Ted Carlson
 Welsh Companies
 7807 Creekridge Circle
 Minneapolis, MN 55439



HIGHLIGHTED PROPERTIES

I-35 Industrial Center Burnsville, MN

- 413,239 SF building for sale or lease
- 34 docks, 3 drive-ins
- Newer roof, 21' clear height
- Direct access to Highway 13 and I-35W
- Outside storage and rail service



Sowles Warehouse Center Eagan, MN

- 36,250 SF for lease
- Exterior dock loading, many drive-ins
- 14'6" - 17' clear height
- Immediate access to Highways 13 and 77
- Outside storage



PENALTY BOX AWARD

Talk about a Brain Freeze

Burlington, Iowa – Police officers entered a house on a tip to search for a man suspected of possession and intent to deliver crack cocaine. At first the search turned up no suspects, but after listening carefully, the police approached the kitchen with guns drawn and an idea that something was awry. Soon afterwards, they discovered Jerome Dobbey hiding inside the refrigerator with the door shut. Items had been stacked in front of the refrigerator. Police arrested Dobbey, and charged the homeowner as an accessory to hiding the suspect. This makes me wonder, was Dobbey high when he entered the fridge or were his parents high when he was conceived? Either way, this guy's brain is frozen!



I am a big fan of the Minnesota Twins. My family has been fortunate to attend nearly every home opener over the past 26 years. The years that I missed were a result of simply being too young to attend a ball game, or as I grew older, being engrossed in college exams. The picture is of my brothers, mother and me at this year's home opener. Unfortunately the Twins lost to Toronto 7-2, but we enjoyed the game and are looking forward to continuing the tradition in 2004. I would like to give a special thank you to my dad, and to Nick Welter of Welter Heating Co. for providing us with the tickets all of these years!

