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what are the trends?

MARKET UPDATE

Current Conditions

The most popular commercial real estate question of 2004: *Are we out of the woods yet?* **The answer: No, but we are getting closer.** Tenants and landlords want to know when the real estate recovery will really begin, but the recovery is market and product type specific. The Presidential race has begun, interest rates are on the rise, and the economy seems to be strengthening. With all of the uncertainty that companies are facing, it is difficult to predict how strongly the real estate market will recover in 2004.

Listed below are a few nationwide industrial statistics according to ProLogis (NYSE: PLD), a provider of distribution facilities and services. For a complete copy of the report, visit: <http://ir.prologis.com>.

- ◆ Six of the 30 markets reported volumes of new starts for 2003 of more than double what they had been in 2002: Charlotte, Columbus, Indianapolis, Louisville, Northern New Jersey, and Phoenix.
- ◆ Four of the 30 markets reported no new starts at all during 2003: Austin, San Francisco Bay, St. Louis, and Tampa.

The general market trends outlined above compare with the Twin Cities – to an extent. Without a doubt, leasing activity has increased over the past 3 months. There are new companies looking to expand – but in the Twin Cities the expansion trends are towards office and office/showroom properties. For example, Ecolab purchased the former Cray Research/Wam!Net facility in Eagan to grow their R&D department. The 481,000 square foot acquisition was a great indication to property owners that the market is becoming healthier (and as the selling broker, it made for an excellent first quarter...). A large secondary education company is in the process of finalizing a 70,000 square foot build-to-suit in Mendota Heights. Numerous medical/pharmaceutical/biotech companies have expanded over the past 24 months, including Medtronic, Guidant, and Upsher-Smith. And the ultimate sign that the office and office/showroom market is strong: office/showroom spec development is occurring in selective areas.

What does this tell us? That the Twin Cities economy - a community known as a hotbed of medical technology with a greater proportion of white-collar jobs in comparison to the rest of the United States – is growing as office users expand. The nationwide increase in distribution development is not a part of the Twin Cities real estate recovery. Distribution users have long realized that Minnesota is a difficult place to do

business because of the high taxes and worker's compensation and labor costs. General Motors and Ford selected Wisconsin for their 400,000+ square foot build-to-suit distribution centers. HPI moved out of 312,000 square feet in Eagan to relocate their manufacturing operations to Mexico. This trend is a reaffirmation of what developers in Minnesota have known all along: Minnesota is not a distribution market, and it will be at least another 12-24 months before metro-wide speculative development is seen within the office/warehouse and bulk warehouse sectors.

Therefore, industrial landlords should continue to aggressively chase deals, and tenants should act while the market is still favorable. Office/showroom landlords are in a better position, but the market is still not on solid ground. All of the uncertainties surrounding the economy, combined with a Presidential election in November will make for an interesting 2004. Stay tuned – it's going to be an interesting race!

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Iam doomed. My life is about to change drastically (no, I'm not engaged).



I have decided to join the cake-eater ranks by purchasing a home in Edina. Yes, I grew up battling the hated Hornets with their fluffy dogs and shiny sedans. After several months of searching, I was able to find a walkout home on a pond. That way, Deuce can stay cool in the summer and I have somewhere for him to run in the winter. If you are ever in the mood for a cold one – give me a holler. The house is off Valley View Road and Highway 62.

what are the trends?

- ◆ Newly started bulk distribution and warehouse projects increased in 2003 after bottoming out in 2002. New starts in the nation's top 30 markets totaled 70 million square feet last year, up 17% from the year before.
- ◆ Despite the increase from 2002, total new starts were nearly 40% below the cyclical peak reached in 2000.
- ◆ Last year's increase in new starts was tilted toward "spec" projects, which accounted for 59% of total starts during 2003, compared to 45% during the previous year.
- ◆ With deliveries usually lagging behind starts by 6 to 12 months, it comes as no surprise those deliveries continued to trend downward during 2003. Newly delivered bulk warehouses and distribution centers amounted to 63 million square feet in 2003, compared to 77 million square feet during the previous year.

This could be the greatest real estate quote of all time. J.R. Triplett, a trucker from Richmond, VA who won a \$239 million lottery jackpot, said that he has no big plans for the jackpot but that he wants to put his money in real estate, "because they don't make no more dirt, you know."



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HIGHLIGHTED PROPERTIES



Twin City Mirror Building
 For Sale or Lease
 Burnsville, MN

- 38,444 total sf, 25,364 sf leased for 6+ years
- 13,080 sf vacant
- Great user/investment opportunity
- 22' clear height
- 3 docks, 2 drive-ins
- Built in 1994, expanded in 2000
- Available now



Armstrong Business Center I & II
 For Lease
 Eagan, MN

- Excellent location, easy access to I-35E & I-494
- Good visibility to Lone Oak Road
- Vacancies from 7,000 – 30,000 square feet
- 16' & 20' clear height
- Dock and drive-in loading
- Aggressive ownership & low operating expenses



PENALTY BOX AWARD

This is a sure sign that the Apocalypse is near...



ake Isabella, CA. Last summer some folks new to boating were having a problem. They couldn't get their brand new 22-foot long boat going. It was very sluggish in almost every maneuver, no matter how much power was applied. After about an hour of trying to make it go, they putted to a nearby marina, thinking someone there could tell them what was wrong. A thorough topside check revealed everything was in perfect working condition. So one of the marina guys jumped in the water to check underneath. He came up choking on water he was laughing so hard. Under the boat, still strapped securely in place, was the trailer! **WARNING FOR ALL OF YOU CABIN GOERS** – *If you do not unhook your boat from the trailer before launch, it may affect your boat's performance.*



FIVE MINUTES FOR FIGHTING

In this great land of below zero wind chills and snow, it's only appropriate that I grew up playing hockey, eh (that's my attempt at speaking Canadian, the "eh" part). As a kid, I was lucky to live on a lake in Apple Valley and so we played a lot of hockey! My parents carted me across the tundra to play in even colder arenas. And in my 27th year of existence, I am officially a *Men's Leaguer*. To fully grasp what this means, visit the St. Louis Park ice arena on a Sunday evening. You will see some of the least-talented, out-of-breath, uncoordinated hockey players in the metro-area. I promise to amuse you by fanning on a shot or tripping over the invisible blueline!



The Fighting Saints