



# HOT! HOT! HOT!

## MARKET UPDATE

### Current Conditions

**T**he 2004 NAIOP Industrial Update delivered in June contrasts what I suspect is happening within the marketplace. The NAIOP report suggests that for 2003:

- Industrial vacancy increased in the southeast Twin Cities from 14.0% to 16.2%
- The current universe of properties decreased by 2.8 million SF, to a total of 17.3 million SF
- Absorption was a negative 621,000 SF

These statistics suggest that the market is weakening, when in fact the industrial market is rebounding.

One of the major reasons for the negativity within the NAIOP report is that the timeframe of the report is January - December 2003; the report is not delivered until June 2004. Accordingly, during the timeframe from when the data was compiled until the report was delivered, Duke Realty completed nearly 150,000 sf + of NEW deals in April 2004 in Eagan. These transactions are not included within the data for the 2004 report.

Further influencing the increased vacancy rate is the decrease in the universe of properties. When there are fewer properties included within the statistics but the vacant square footage remains nearly constant, overall vacancy will increase.

The negative absorption reported by NAIOP is also easily explained. For 2004, the report accounted for vacancies that were formerly excluded from the report. For example, Roseville Properties is now marketing 100,000+ square feet of 28' clear warehouse space in Eagan for lease, when in the past this space was utilized by their warehousing business. The 2004 report also includes Dart Transit warehousing space within available vacancies, when in fact these spaces are not true vacancies because Dart and Roseville Properties are utilizing the space for their warehousing operations.

In addition to the factors mentioned above, I can feel the market changing. There are more users in the marketplace, the economy is picking up, and demand for space is rising. I predict that vacancy rates will return to 11-12% across all industrial product types by the end of 2005. This is good news for all involved. Landlords will see increased rental rates and fewer lease concessions; tenant business will expand, and both will see revenues increase.

### HOT! HOT! HOT!

My streak of selling buildings continues to be **HOT!** In late June, we set a record (I am not sure what record, but it's gotta be some sort of record) with the sale of a 3,520 sf building (600 office / 2,920 sf warehouse) for \$127.84 per square foot, and the buyer got a great building at a reasonable price. Yes, I think that \$127 psf is reasonable. Why? Because there are *no* good options for companies looking to purchase anything under 25,000 sf in the southeast metro area. Here are a few comps that I have sold within the past 6 months:

- Shelter Supply, Lakeville, MN, 9,640 sf, \$80.18 psf
- USPS Facility, Eagan, MN, 20,367 sf, \$34.86 psf (the buyer will spend an additional \$25 psf on major renovation)
- J.B. Pallets, Newport, MN, 13,840 sf, \$72.25 psf
- Bisco Building, Eagan, MN, 3,520 sf, \$127.84 psf

We are also under contract on all of the 28,800 sf Mendota Heights Condo's. The list price was \$84 - \$88 psf, and we had multiple offers.

Interest rates continue to be ridiculously low, and the shortage of good product has raised the price of real estate. Buyers want to invest in real estate, and a great way to do that is to purchase a building and have their company pay rent to an LLC that the Buyer created. There are good tax

benefits, and it is an excellent way for the company owner to create long-term wealth.

On the flip side, large buildings are selling for discounted prices. Multiple 300,000 sf + properties in the south metro that are in good condition and well located are on the market for \$25 - \$35 psf. The weak pricing is due to a surplus of opportunities and lack of demand for large blocks of space. However, activity on large buildings has increased as the market shows signs of life. Novartis, a large Swiss pharmaceutical company, had started its search for 500,000 sf. Ecolab purchased the Waters Corporate Campus, a 481,000 sf, four building office complex on 90 acres in Eagan, for \$36.38 psf. There are 2-3 more large users (250,000 sf +) in the marketplace looking for 2005 occupancy that are searching on a confidential basis. How these large users proceed will have a huge impact on market health for 2004 and provide good insight into what's in store for 2005.



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### QUOTES:

I am already sick of election talk and the never-ending bantering between the parties. Accordingly, here are some appropriate quotes...

*"Politics is supposed to be the second-oldest profession. I have come to realize that it bears a very close resemblance to the first."*  
— Ronald Reagan, (1911 - 2004)

*Politicians are like diapers. They should both be changed frequently and for the same reason.* — Anonymous

**"Politics gives guys so much power that they tend to behave badly around women. And I hope I never get into that." — Bill Clinton**



## HIGHLIGHTED PROPERTIES



### *Oakview Business Center I & II – For Lease* Eagan, MN

- Up to 30,119 sf available, divisible to 5,619 sf
- Clean, functional office/warehouse property
- Dock and drive-in loading, 17' clear height
- Good glass line and curb appeal
- Available now



### *Eagandale Business Campus I-IV – For Lease* Eagan, MN

- Excellent location, easy access to I-35E & I-494
- 14' clear height, office/showroom property
- Vacancies from 3,200 – 27,000 sf
- Dock and drive-in loading
- Low operating expenses, available now



## PENALTY BOX AWARD

### *Back to Least Competent Criminals...*

**F**ort Smith, Arkansas. Police arrested James Newsome, 37, in 1999 and charged him with taking money at gunpoint from the Gas Well convenience store. The robber's face was easily identified from the surveillance tape, and the coat worn by the robber was found in Newsome's car. Also, Newsome's wife said the family car had a radiator leak, and a puddle of anti-freeze was found beside the store where the robber had parked. But what was the clincher in helping police solve this case? The robber wore a hard hat with the name "James Newsome" on the front.

### *A Follow-up to the Full Moon in the previous Ted Report....*

Late one night in June 1995, two male teenagers outside the Tasty Pizza in Columbia Heights turned their backs to the front window, dropped their pants, and mooned the patrons. Upset that they were not being noticed, they began to jump up and down. One of the two lost his balance, fell into the window, breaking it, cutting his buttocks and several fingers. How do you explain this one to mom and dad? If my kids ever do this, I don't know if I'd be able to act mad and discipline them, because on the inside I would be laughing my own "moon" off!

### **Paint Fumes & Sheetrock Dust** **Home Remodeling**

I never believed all of the complaining that I heard from family and friends about how time consuming and costly remodeling your home can be. I am finding out first hand how right they were - I am out of patience and money! I started with gutting most of the basement (the 1950's décor was depressing). I have added 28 recessed lights throughout the house, and I would like to extend a big thank you to Jim and Irv at Kendrick Electric.



Deuce's kennel is nearly ready; I just need to build his new doghouse. With a new garage door in place, the truck fits in the garage. Now if I could just get Steph (my girlfriend) to finish up the painting that she promised to do, I would be finished with the summer projects! Steph, when you read this – dust off your paint brush!