



S·P·A·C·E shortage?

Who knows...



What is going on with the industrial market in the Southeast Twin Cities? It seems as if there is a lack of 24' clear height or higher of distribution space in excess of 100,000 square feet available for lease. However, bread and butter 16' – 20' clear spaces from 15,000 – 30,000 square feet are readily available, and tenants have multiple choices. Let me explain why there is a discrepancy.

Big Boys – Large Space Users

Retail consumption continues to grow at a record pace (I don't have any facts to list here, but you can find data supporting this on every street corner where there is a shopping center, strip mall, etc...) as we spend more money at Best Buy, Supervalu, Target, Cabela's and Wal-Mart. Accordingly, these companies have large appetites for real estate and have been leasing large chunks of industrial space. The logistics of feeding the retail supply chain have led to strong growth for the 3PL (Third Party Logistics) providers that service these companies; between the retailers leasing space directly and the 3PL's, the Twin Cities industrial market as a whole has experienced 1 million square feet of absorption since the beginning of the year. This strength has re-energized industrial developers – most developers are hot on the market for 2006 and have re-focused their energy on locating land parcels that have the potential to accommodate this demand. In the meantime large (100,000 SF +) spaces will continue to experience solid leasing activity.

Middle Ground – Regional Companies

The Eagan industrial market has six lease opportunities for companies searching for approximately 15,000 – 30,000 square feet of 16' – 20' clear, bread & butter office / warehouse space. There are three reasons for the surplus of space on the market.

- 1 A significant portion of the universe of industrial buildings is set up to accommodate 15,000 – 30,000 square foot users – the supply is greater
- 2 Companies using this space size have not yet experienced the growth of the Big Boys as the economy has recovered
- 3 Companies of this size tend to execute longer term leases, leading to fewer companies that have the ability to move even if they need more space

As the Big Boys continue to expand, their growth will have a trickle down effect on the Middle Ground companies, and I expect that at this time next year there will be only three lease opportunities from 15,000 – 30,000 square feet.

Little Fish in the Big Pond – Niche Companies

The southeast Twin Cities market has always been short on space under 5,000 square feet (except for Burnsville, which has a greater supply of spaces < 5,000 SF) available for lease. Most of the space is geared to the larger users, and the smaller spaces generally stay full. This is still true, but within the niche companies that occupy less than 10,000 square feet, demand is increasing. I have received a record number of calls from smaller companies that are experiencing growth and need more space. The problem is that the growth may only require 1,000 – 2,000 square feet. Small spaces under 2,000 square feet are very difficult to find, and the pricing can be high on a per square foot basis.

What Does it Mean?

What this means is that free rent, large tenant improvement packages, and low net rental rates are as done as The Donald (as in Trump). The market is improving, and the crazy concessions of the past three years are going to be old news fairly soon. For tenants, I recommend forecasting your space

needs and acting on those needs as quickly as possible. The combination of the retail thirst by consumers and a land shortage (as discussed in the last report) has started the industrial market down the path to recovery. Executing long term leases to take advantage of today's pricing will ensure that your rent costs stay below market for years to come.

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I was fortunate to attend a Wrigley Field outing with a crew of Rosemount High School graduates, along with a few Gopher Rubes (including the assistant AD at Gopherville). It was an excellent experience. We sat in the bleachers for a Friday afternoon game and enjoyed the rooftop for a Saturday afternoon game. As you can imagine, my liver was on the 15-day DL afterwards. I highly recommend outdoor baseball Cubs style!

QUOTES

The Twins' bats are cold as ice, so maybe a couple of quotes from the best hitter that ever lived will thaw the bats out.

If I was being paid thirty-thousand dollars a year, the very least I could do was hit .400.

- Ted Williams (1918 - 2002), the last player to hit over .400 in the Major Leagues

Baseball is the only field of endeavor where a man can succeed three times out of ten and be considered a good performer.

- Ted Williams (1918 – 2002)

"I've found that you don't need to wear a necktie if you can hit."

- Ted Williams (1918 - 2002)



HIGHLIGHTED PROPERTIES



Rivertown Commercial Condos – For Sale or Lease
Woodbury, MN

- 53,880 square feet total, dock and drive-in loading
- Suites as small as 3,669 square feet
- 18' clear height
- 120' deep bays
- Fabcon construction
- Excellent location, easy access to I-94



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Dorn Warehouse – For Lease
Shakopee, MN

- Drive-in loading
- Flammable waste traps & trench drains
- 2,400 – 5,400 square feet available
- 16' clear height, block & brick construction
- Outside storage available for \$1.00 psf



NAI WELSH

PENALTY BOX AWARD



**Renting Out Someone Else's Apartment –
Real Estate Crime 101
Oslo, Norway**

An enterprising Norwegian found a way to turn a tidy profit in Oslo real estate by renting out a nice apartment in a popular part of town. What the renters didn't know was that the 29-year-old man renting the apartment had broken into someone else's apartment and rented it out to 11 different people. Oslo police said that the man admitted to breaking into the apartment and posting photographs of it on an internet site. He then allegedly asked for 5,000 kroner (\$780) per month in rent, when apartments of this type usually rent for nearly \$1,000 per month. The 11 people each paid a deposit of \$2,340 which was found in the swindler's bank account. The real renter was traveling at the time of the showings and has now changed the locks. I dream of the day when the commercial real estate market is so hot that this may work at a local office/warehouse building. Unreal.

AIRPLANE JUMPING

**Skydiving in
Baldwin, WI**

I grew up wanting to fly fighter jets and shoot down Russians, so I attended the United States Air Force Academy in 1995. While at the Academy I decided that I wanted to jump out of airplanes to chase bad guys



instead, and I became interested in the Combat Control program. However, six months after I entered USAFA, I was medically discharged. But the thought of jumping out of airplanes still excited me, so on a beautiful Saturday morning in June I did just that with my pal Jake. I can honestly say that I was not scared, but more excited that I was going to finally experience the sensation of a free-fall. We plummeted towards the ground at 120 mph for nearly 60 seconds, and then floated down for another 7 minutes. We jumped at 13,000 feet and pulled the chute at 4,000 feet. Skydiving is a thrill! Check out www.skydivetwincities.com!