



## MARKET UPDATE

### Current Conditions

**T**he commercial real estate market has started to recover from the stagnant conditions we faced over the past 36 months. Leasing activity has increased – our brokerage team completed a record number of leases in January. Companies are looking to grow as the economic recovery continues. Tenants are making real estate decisions as quickly as possible to take advantage of the concessions still available within the market. By no means is the market healthy, but free rent and Tenant Improvement allowances have decreased from the highs of mid-2003. I expect that the economy will continue to improve throughout 2004, and by mid-2005 vacancy rates should return to historical levels. Currently, the southeast Twin Cities industrial market is 16-18% vacant across all product types. Look for a 2-3% reduction in vacancy rates over the next 12-18 months.



### INVESTING IN REAL ESTATE: "OWNERITIS" & NET-LEASED PROPERTY



**T**he sales market for user buildings was very strong throughout 2003 and should continue for 2004. There is a very contagious case of "owneritis" spreading throughout the business community – most small businesses are looking to own property. The small business owner wants to own property for the following reasons:

- Ownership in a building will create personal net worth. The

owner of the company owns the real estate and though his company pays rent, eventually the debt on the property is paid down, thus creating equity and building value will appreciate over time.

- The SBA offers a 504 lending program that enables small businesses to purchase property with as little as 10% down, with favorable terms usually amortized over a 20-year period.
- Interest rates are near historical lows.
- The mindset of many after the financial debacle within the equity markets has led to a desire to own "bricks & mortar" investments.
- There is a distinct shortage of land within first and second-tier suburbs, limiting the ability of companies to build new.

Because of these things, a well-located, functional property will attract a significant amount of sales activity in a short period of time. Even if a property sells at a traditionally high price per square foot, when the cost-benefit analysis of owning vs. leasing is completed, most small businesses are further ahead by owning their real estate.

In contrast to the small businesses, large companies are beginning to consider sale-leasebacks as a way to generate cash for their company. A sale-leaseback is a transaction where the company enters into a long-term lease (generally 5 years or greater, most often a 10-year lease) and sells the leased real estate to an investor. The company receives cash from the sale of the property and the investor gains a stable income stream for the duration of the lease. The rate of return to the investor will depend on the credit worthiness of the Tenant,

(the better the credit the less the return). For example, a sale-leaseback with IBM may generate a 7-8% return for an investor, whereas a sale-leaseback with a regional manufacturing firm may yield a 12-14% return. Typically the leases are triple net, meaning the Tenant is responsible for building maintenance, taxes and insurance. The Tenant retains the use of the property and acts as the owner by paying for the costs associated with ownership, while the investor collects a monthly rent check. Look for sale-leaseback transactions to increase in 2004 as investors continue to pursue real estate and companies look for ways to generate cash and improve their bottom line.



[www.tedcarlson.com](http://www.tedcarlson.com)



**W**hen trying to determine the value of your property, a good place to start is the Web site for the county where your property is

located. For Dakota County, try [www.co.dakota.mn.us](http://www.co.dakota.mn.us). The site will provide detailed information such as assessed value, taxes payable, year built, and square footage. By researching properties in the surrounding area, you may be able to develop a case for a tax reduction if the surrounding properties are assessed at a lower value than yours.



*In honor of my favorite date, April 15<sup>th</sup>.... "The hardest thing in the world to understand is the income tax." Albert Einstein (1879-1955), developer of the theories of special and general relativity and won the Nobel Peace Prize in Physics in 1921.*



Ted Carlson  
Welsh Companies  
7807 Creekridge Circle  
Minneapolis, MN 55439



## HIGHLIGHTED PROPERTIES



### *Mendota Heights Industrial Condo's* *Mendota Heights, MN*

- Own for less than leasing!
- 6,400 – 29,200 sf available
- Excellent corner location on Pilot Knob Road, just north of I-494
- High performance glass, decorative pre-cast panels
- Dock and drive-in loading



WELSH  
COMPANIES



### *The Shelter Supply Building* *Lakeville, MN*

- 4,100 sf office / 5,540 sf warehouse / 9,640 sf total
- Built in 1996
- Excellent location at the southeast corner of County Road 50 and I-35
- In-floor heat, high-efficiency lighting = low utility costs
- Expandable by approximately 3,000 sf

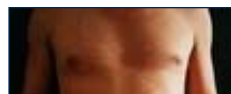


WELSH  
COMPANIES

## PENALTY BOX AWARD

### The Streak Stops – When your car is stolen!

According to police in Spokane, Washington, two young men on a lark decided to stop their car at a Denny's on a cold January 14th morning at 5 o'clock, take off their clothes, and give the customers and staff a thrill by cavorting through the restaurant. However, one customer had the last laugh. He left, got into the streakers' idling car (which contained their clothes) and drove off. The car turned up five days later, minus CDs and the clothes. Remarkably, the streakers and a third pal, who remained clothed, have not yet been identified by local media.



## Europe Part Deux New Year's Czech Style

Last year I spent seven days in Garmisch, Germany visiting my friend Dan Bjornlie, who is a professional hockey player. This year, I returned to Europe with my good friend Jake Soper for 10 days. We spent 4 days in Cologne, Germany where Dan now plays, traveled to Prague, Czech Republic for 4 days to celebrate New Year's, (with 3,000 others in a 5-story rocking nightclub!) and also stayed in Amsterdam and Munich. We had a great time wherever we went; the transportation and cleanliness of the cities we visited was incredible. Prague has been proclaimed the "crown jewel" of central Europe, and although the weather was very cold (like it is any warmer here), I highly recommend it.



Charles Bridge, Prague