



THE TED REPORT THE TED REPORT THE TED REPORT THE TED REPORT THE TED REPORT THE TED REPORT THE TED REPORT THE TED REPORT

INDUSTRIAL... not sexy but safe!

We all know that the office brokers make the big dough – they wear their Prada loafers (like the Pope), drive a Mercedes-Benz and usually manage to play 50+ rounds of golf per summer. Accordingly, the office brokerage gig is thought to be the “sexy” job, leasing space in downtown skyscrapers with rents in excess of \$30 gross psf. Meanwhile, industrial brokers focus on achieving gross rents that hover around \$8 gross psf, are stuck touring former steel mills, playing golf only when someone else is paying, and wearing rubber soled shoes so that they avoid wiping out on a warehouse floor. Why should we even discuss industrial real estate? Because industrial is “hot” across the nation, and rents are expected to grow significantly throughout the current real estate cycle.

other located 1/2 mile and one stop-light from the interstate highway. A distribution company may choose to locate to a building that is 1/2 mile from a major interstate, but where the rent is \$0.25 psf more expensive, simply because the travel time and distance for trucks is much less. Thus, the company saves more money on fuel and driver pay when compared to increased rent cost. The labor market also is important; companies want easy access to a large labor pool and minimal labor costs. Functionality and labor costs will continue to play an increased role in tenant needs; look for buildings that maximize benefits in these areas to achieve the greatest leasing success.

Developers are climbing over each other to acquire well-located sites that support industrial developments. The NIMBY’s (Not In My Back Yard) are usually very opposed to semi traffic and 24-hour loading operations – making industrial development challenging in most communities. Close-in sites are usually very pricey, and in most cases today’s market rents will not support new construction – unless the site offers great functionality that can offset the increased rent costs. Add in the difficulty of dealing with property owners who have dollar signs \$\$\$ in their eyes, and industrial development is a monumental task.

Where to Next?

The industrial market is set to experience rent increases as demand for space grows. The rent increase will start to support new development costs, and in the next 6 – 12 months I expect developers to begin speculative industrial development in earnest. Industrial development in the southeast will be focused on office/warehouse, and away from the office/showroom that has dominated industrial development in the southeast Twin Cities over the past five years.



Industrial properties are attracting attention from buyers, tenants and developers.

Nationwide, in 2005 the average price of a warehouse rose 11% to \$62 per square foot (the average price to buy downtown office space is \$237). Capitalization rates for industrial properties are in the 7-8% range, which is 200 – 300 basis points lower than it was as recently as 2003. Nationwide vacancy dropped to 7.9% last year, a decrease of 150 basis points. The international port city of Los Angeles has a vacancy rate of only 2.7% - vacancy that represents obsolete space or vacancies that are present because of tenant rollover. In 2005, developers built 92 million square feet of industrial space and are poised to complete 97 million square feet in 2006.

Tenants are more sophisticated than ever, and that leads tenants to focus on functionality and location more than rent. For example, consider two nearly identical buildings, one located 2 miles and 3 stoplights from the nearest interstate highway, the



www.tedcarlson.com



★ *There are two date spots that I recommend in case you dropped the ball on Valentine’s Day. Rossi’s in downtown Minneapolis is an excellent place to eat, but the real kicker is the live music that will help you serenade your sweetheart (it worked pretty well on Steph). For the more trendy option, Masa on Nicollet Mall serves very good South American food. Either place will be a good choice to help you get out of jail with the significant other.*

My brother Tim will be married on February 25th. The previous quotes about marriage were a hit so I am going to drop a few more before his big day. These quotes were found on the boreme.com Web site; the questions were asked of kids about relationships:

HOW DO YOU DECIDE WHO TO MARRY?

“You got to find somebody who likes the same stuff. Like if you like sports, she should like it that you like sports, and she should keep the chips and dip coming.”
Alan, age 10



“No person really decides before they grow up who they’re going to marry. God decides it all way before, and you get to find out later who you’re stuck with.”
Kirsten, age 10

HOW CAN A STRANGER TELL IF TWO PEOPLE ARE MARRIED?

“You might have to guess, based on whether they seem to be yelling at the same kids.”
Derrick, age 8

“Married people usually look happy to talk to other people.”
Eddie, age 6



HIGHLIGHTED PROPERTIES



For Lease
Burnsville Showroom
 Burnsville, MN

- One building – 26,258 total square feet
- Different suites available, ranging from 812 – 4,165 SF
- Reasonable operating expenses
- Drive-in loading
- Easy access to Cliff Road and Highway 13




For Lease
Northland Drive Business Center
 Mendota Heights, MN

- 48,059 square foot building
- Up to 7,116 SF available, suites as small as 3,558 SF
- Extremely low operating expenses
- Dock loading
- One block from I-494 off Pilot Knob Road



PENALTY BOX AWARD

Krispy "Kremed"
 Fruitport Township, Michigan

This has to be one of the most comic arrests that I have ever heard. Can you imagine witnessing the following scene?

Louis Jasick, 34, and a friend involved in a scavenger hunt, knocked on the back door of the police station in Fruitport Township, Michigan. They asked if officers would please help with the next item on their list and pose for a photograph of a cop eating a doughnut. The officers obliged, but one of them recognized Jasick from a recent felony warrant and arrested him. (*Detroit Free Press, 11-9-05*) Clearly, in exchange for having large kahunas, Mr. Jasick was left with an incredibly small brain.



MUCHAS GRACIAS, DANKE SCHÖN

Thank you!

2005 WAS A RECORD YEAR

Usually this section is devoted to some sort of adventure or hunting trip that I have been fortunate to experience. Instead, I would like to offer a sincere **THANK YOU** to my clients, associates, and friends who made 2005 a record setting year. As a result of your loyalty, I am able to embark on the adventures that provide me with the motivation to work hard. 2006 is off to an excellent start – look for an adventure update in the Spring Issue!

NAI WELSH