

Land



AT A GLANCE:

- Industrial land is increasing in value and demand
- Retail land is moving slowly because retail follows residential, and home-building is at a standstill
- Land-hungry speculators are buying attractive parcels at big discounts

Industrial Land Boasts Strongest Demand of All Product Types

Local farmers were selling entire farms to aggressive homebuilders during the past few years. With the current housing slump, however, landowners today are looking to industrial developers to purchase their properties.

The industrial land market is thriving as developers continue taking land positions. Industrial space is particularly tight for large users, prompting developers to move forward with speculative development. In 2007, 1.1 million square feet of new industrial space was delivered to the market; 1,082,410 sq. ft. is under construction market-wide. Another 918,810 sq. ft. is planned.

Skyrocketing construction and land costs were deterring developers from starting new projects. However, the bleak housing market has helped bring construction costs down, as industrial developers are no longer competing with homebuilders for materials and labor. Also, industrial rental rates increased enough to help offset new construction costs. Developers are banking on tenants' acceptance of these higher rates. Rates increased on average 8%-10% during the past two years. Average new construction asking rates are \$10 for office space and \$5 for warehouse space. Some higher-finish properties are asking \$12 and \$6. This is significantly higher than the often-quoted \$9 and \$4.50 for existing space.

INDUSTRIAL SALE PRICES RISING

In some cases, industrial land prices have surpassed residential land prices and continue to increase due to the acceptance of this new rate structure, the scarcity of

available industrial-zoned land, and a lack of options in some product types. For example, large blocks of office showroom space are limited market-wide.

DEVELOPERS DELVE INTO 'MICRO-MARKETS'

Industrial developers are exploring submarkets and uncovering "micro-markets" with limited competing product. They recognize that such strategic sites will put them at a competitive advantage. They are looking at parts of Maple Grove, Chanhassen, Chaska, Lakeville, Burnsville, Blaine and Apple Valley, for example.

NO DEMAND FOR RESIDENTIAL LAND

Twin Cities-area Realtor associations reported that closed and pending sales dropped 20% in November from one year ago, and home prices posted their deepest year-over-year decline of 2007.¹ The supply of new homes on the market also is dropping. In December, the Builders Association of the Twin Cities reported a 30% decline in total new units so far in 2007. This excess supply of homes and lots has forced residential land values to drop 30-50% from their peak of two years ago.

SPECULATORS JUMP IN

Speculators are still active. Some believe 2008 will be the time to buy to capitalize on current market conditions. Aggressive speculators are buying attractive land positions at heavily reduced prices in anticipation of a recovery. Land positions are being taken metro-wide, including St. Michael, Rogers, Otsego, Maple Grove, Medina, Corcoran and Columbus.

Landowners are getting a more realistic idea of land values in today's market

Speculators are very selective and are buying land at prices much lower than those seen in recent years. As a result, landowners are getting a more realistic idea of land values in today's market. Some speculators are even waiting until they believe the housing market reaches bottom 12-18 months from now.

RETAIL LAND MOVES SLOWLY

The housing slowdown creates more challenges for retail. A housing crisis often means reduced consumer spending, and there's less of an appetite for new development. Retail land values have dropped, and sellers are giving developers more time to

complete deals. As a result, developers are phasing and "right-sizing" developments.

Some landowners are accepting lower prices because retail users/developers still pay significantly more than industrial or residential. Most new development is for big-box retailers; everything else is on hold. Fewer developers are scouting sites. Many are trying to fill half-vacant shops and pads. Some landlords are considering rent reductions and concessions.

Cities are also broadening their retail requirements and imposing fewer design restrictions on new development in an

effort to spur retail growth in their communities.

MULTI-FAMILY IS LUKE WARM

While multi-family fundamentals continue improving, rental rates don't yet support metro-wide new construction. Some developers are taking land positions, but not much is being built.

OFFICE LAND PRICES STABLE

Not much activity is occurring in office development. Recent development has led to vacant space, so fewer developers are seeking land positions for office projects. Land prices are not necessarily going to decline, but they are not increasing. Some sites had to run their course as retail or residential sites—in which developers paid more—and once they were deemed not feasible for those uses, they became office sites.

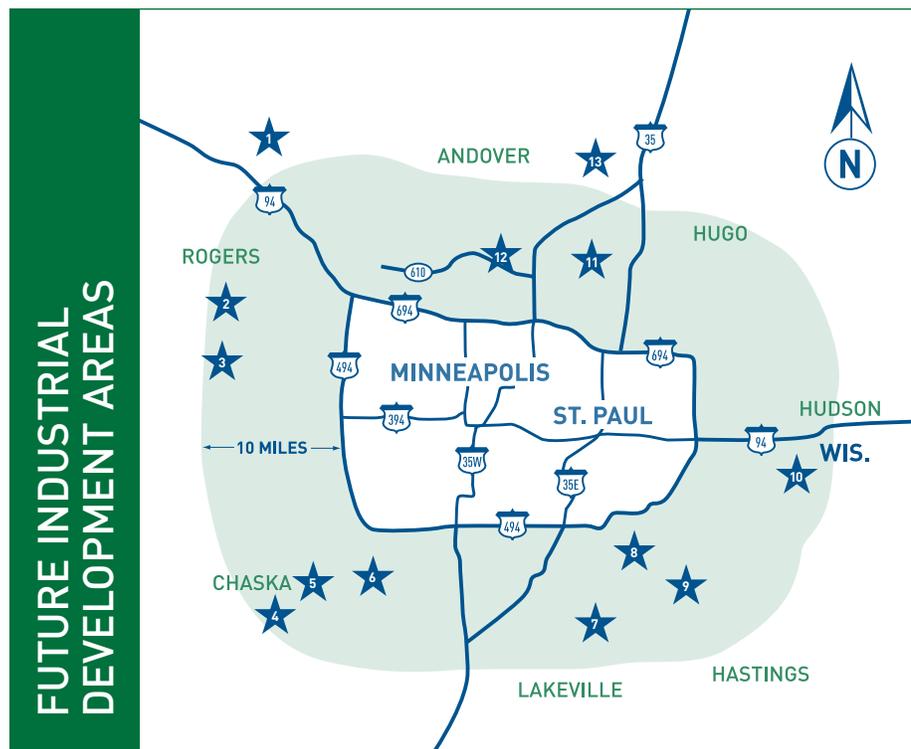
The Outlook

Prices for retail and residential land farther from the metro's core will continue to decline. Industrial land will be in strongest demand. Prices will likely be stable and could increase.

The housing market will likely get worse before it gets better. The anticipated slow recovery will be a function of the economy, people's optimism and lending criteria. The recovery will begin with small, well-located developments in first- and second-tier suburbs.

Speculators will continue to impact the land market. There's opportunity for people with cash willing to take speculative positions.

Retail developers will look for flexibility and phasing options. Projects will typically be well-located in-fill sites or redevelopment opportunities. ■



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|-------------|------------------------|------------------|--------------|
| 1. Otsego | 5. Chaska | 9. Cottage Grove | 13. Columbus |
| 2. Corcoran | 6. Shakopee | 10. Afton | |
| 3. Medina | 7. Rosemount | 11. Lino Lakes | |
| 4. Carver | 8. Inver Grove Heights | 12. Blaine | |