- Speculative landowners undone by the economy, housing market slowdown
- Some cities adapting with more flexible land use policies
- Negative job growth weighing on developers' plans
- Still some demand for in-fill property for industrial, senior housing and office use
- Fear of further market decline or inability to continue holding properties may spur sellers to accept market realities in 2009

# Less Development, More Discounting Seen as Twin Cities Land Prices Tumble

Land values in the Twin Cities continued to decline in the second half of 2008 as the economy buckled under the weight of the financial crisis.

Speculative land values for all product types have declined by as much as two-thirds from the recent peak. Discounts are steepest in areas that buyers anticipated were next in line for new residential and retail expansion because of the highly inflated values. Some of the areas most directly affected include cities like Lakeville, Farmington, Blaine, Buffalo and Otsego.

The harvest in land prices is over for metro-area farmland owners as well. Pricing has declined in line with other speculative land values on farmland near the metro fringes.

## CREDIT CRISIS HITS FARMLAND

Some farmland owners are being forced to sell because of the credit crisis, which has cut off their access to capital for both debt refinancing and general operating costs. Others will continue working their land for agricultural purposes as they wait for values to rebound.

1031 exchange buyers—key drivers in the speculative land run-up that extended southward far past the core Twin Cities metro area (almost to the Iowa border)—have all but disappeared from the scene.

On a positive note, many municipalities are showing more flexibility in their land use policies. As more new development projects are postponed or cancelled, some cities are adjusting their land use expectations to allow for more flexible development, particularly for industrial uses.

## RETAIL STRATEGIES CHANGING

Expectations for retail uses are also being adjusted, as cities scramble to fill empty spaces (and bolster their faltering tax bases, which are being impacted by lower housing values). Retail land strategies are changing in response.

New retail development is on hold for the most part, although some national and regional retailers are still looking for select sites on which to expand or reposition existing stores. With the pool of viable developers shrinking, some retailers are taking the lead role in lining up sites and then seeking out developers to handle the entitlement and construction process for them. In-fill sites within the I-494/I-694 loop are still in demand.

Some shopping center owners are also becoming more open to selling peripheral land to retailers—if that will spur development—rather than insisting on a ground lease. Ceding control of some portion of their land is something that many mall owners would not have seriously considered even six months ago. It's not just the owners of the regional malls either: entrepreneurial owners of smaller shopping centers are also more willing to deal on property rights.

Sellers are reading the paper and know that in order to make deals, they need to meet or beat the current market norm, which means buyers are looking for seller financing, deferred interest, or installment payments. That is a market-wide trend, not just confined to the retail area.

## ECONOMY CUTTING DEEPER INTO INDUSTRIAL PRICES

Industrial land prices have held their value best, but the downturn is beginning to take a larger toll in this sector as well. Projections of a significant rise in unemployment for the metro area are not helping matters.

Build-to-suits were the one area of the market that had held up fairly well through the first half of the year, but new build-to-suit activity faded in the second half due to companies' uncertainty about the economy and difficulty getting financing.

Some of the build-to-suit candidates circling the market during the past 12-24 months landed instead in recently-constructed speculative buildings. Companies are seeing cost savings of 20% by occupying surplus space in newer speculative buildings rather than teeing up a new build-to-suit project. Financing a build-to-suit became increasingly difficult after the financial crisis seen in October and November.

Rising unemployment will fetter the market for industrial land in 2009, putting increased downward pressure on industrial land rates because this will increase the hold time until a property is put into production.

## ON THE HORIZON

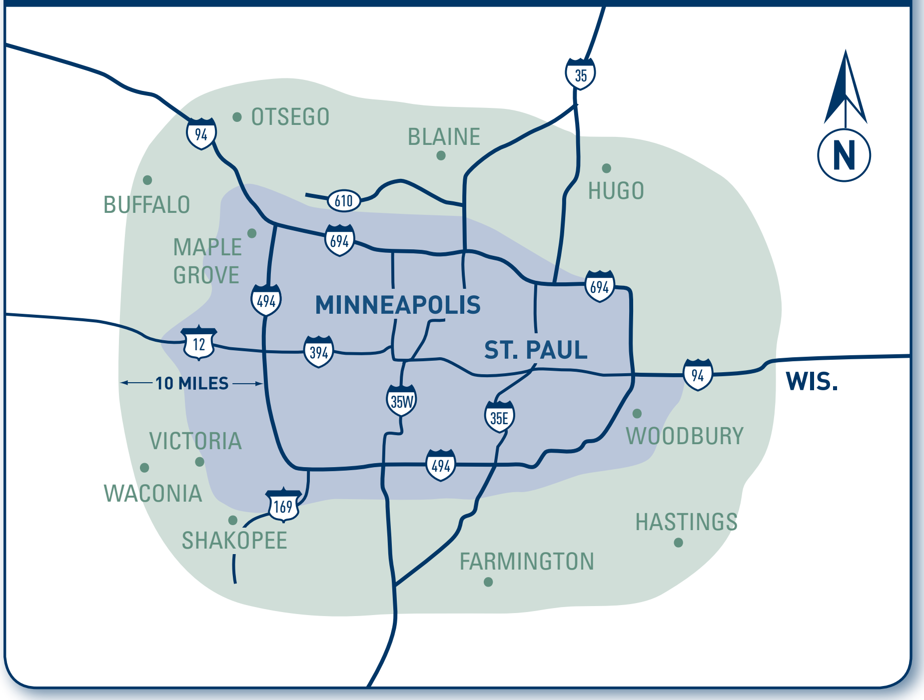
Jobs, in a nutshell, are the requisite ingredient for land values to recover on an overall basis.

Job growth is critical not just for the housing industry, which would see a boost in new home sales as more people gain access to mortgage-based credit again. It's also vital for the office and industrial markets, which need to see a reversal of the upward pressure on vacancy rates before new development will return.

Demand for new retail locations will follow once the housing, industrial and office markets regain stride. Until then, the best that can be hoped for is a confirmed bottom in the economy. As muted as retail activity is, there are still some national and regional retailers looking to expand in the Twin Cities.

As soon as the economy is back on steadier ground, pricing will likely firm up relatively quickly. Unfortunately, the latest projections from the State of Minnesota are for unemployment to grow throughout the state for much of 2009. ■

## CURRENT METRO LAND DE-VALUATION




In-fill sites - less discounted land values

Areas with the steepest discounts in land values

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- *Capital Ready to Go*
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