

No Relief for Leveraged Landowners: Twin Cities Land Prices Continue Downward

Land prices remained under significant downward pressure in the second half, with only the vaguest hint of a revival in the making. With the disappearance of speculative development, new activity is user-driven.

Equity-based buyers are making some moves, including an increasing number of metro-area municipalities with cash reserves to tap. Buyers who need to access the credit markets are still sidelined for the most part, especially for any kind of speculative land deal.

Bank take-backs were not as prevalent for commercial land as they were for residential land. Lenders are still trying to work with distressed commercial landowners as much as possible, although it seems all but inevitable that there will be more foreclosures on commercial land in 2010.

Many landowners have seen the value of their holdings fall in price by 75-80% from the peaks of 2006-2007, including a 10-15% decline over the past six months. That's especially true in the speculative land market, on both the commercial and residential

sides. It will likely be several years before the new development market kicks into even a moderately high gear again, based on current trends.

The days of developers lining up to bid on various land sites are over. To survive, some landowners have granted developers exclusive long-term, low-cost options on their land in exchange for the developer's commitment to market the land aggressively.

IN-FILL IS IN FOR ALL PRODUCT TYPES

In-fill sites are in favor in the industrial and retail land markets. These are development-ready sites for the most part. Industrial users are looking for sites where they can consolidate operations and operate more efficiently. Retail users are looking to fill gaps in their coverage throughout the Twin Cities market. Drugstore and fast food/fast casual restaurant chains are among the most active drivers of demand for retail in-fill locations.

CITIES EXERCISE BUYING POWER

Municipalities emerged as some of the more active land buyers in the metro



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area. Cities with cash reserves are taking advantage of the weak market to buy land within their municipal boundaries. Motivations for land purchases vary from city to city, but the common thread is that land is cheap relative to where it was priced a few years ago.

On the other hand, some municipalities are selling city-owned land. The City of Cannon Falls sold a property including both land and an existing distribution center to a company that will relocate and consolidate operations at the site. The City of Blaine sold 25 acres to Infinite Learning for a campus location.

ON THE HORIZON

More near-term distress is likely for financially stressed landowners, resulting in increased bank foreclosure activity in the commercial land market. Based on what many of the major lenders and retail space users are saying, recovery may begin in 2012-2013. Overall velocity of transactions is likely to be flat in the coming year. In-fill activity across all product types will likely generate the lion's share of the activity. ■

RECENT LAND PURCHASES BY MUNICIPALITIES

CITY	# OF ACRES	SELLER
Otsego	6.5	US Home Corporation
Woodbury	40	Private party
Plymouth	9.8	Private party
Maple Grove	7	Ryan Companies
Blaine	80	Private party

Source: NorthMarq