NorthMarQ

Land Purchases Continue to be User-Specific; Opportunistic Retailers, Industrial Build-to-Suit Users Driving Sales

Demand for commercial land is being driven by users such as expansion-minded retailers and industrial users with specific build-to-suit needs in mind. Speculative land prices appear to be near the bottom, after declining by as much as 80% from their 2006-2007 peaks. On that note, the new pricing floor for land can be readily gauged by looking at prices for farmland adjacent to the Twin Cities.

SALE ACTIVITY STILL SOFT BUT ON THE UPSWING
Despite continuing softness in land prices overall, land sales are relatively light and sporadic, particularly for raw speculative land. Owners who bought land on speculation during the peak have seen the value of their investments drop below their original purchase prices. Many were forced to sell or lost control of their land to the lender. The survivors are clinging to their properties in anticipation of a rising tide of new development that will lift land values back to pre-collapse levels. Unless they have a specific motivation to sell, they're more likely to hold rather than take a loss.

BUILD-TO-SUITS BOUNCE BACK AS INDUSTRIAL USERS LOOK FOR SPECIALIZED SPACE
New development is virtually all user-driven at this point in the recovery cycle. With vacancy still in the mid-teens, most new industrial land development is on hold. There are a few exceptions, however. In Rogers, for example, Liberty Property Trust has announced plans to purchase a 55-acre tract of industrial land as a

potential site for a significant speculative development—a large bulk warehouse property that would be uniquely positioned to meet the needs of larger space users in the Northwest submarket.

Industrial build-to-suit activity is also on the upswing. Companies with specialized space needs are looking at this as a good time to build.

DISCOUNTED LAND VALUES ATTRACT RETAILER INTEREST
Big-box retailers such as Menards and Walmart are taking advantage of low land prices in various submarkets to both trade up and expand. Walmart recently announced plans for a new store in Blaine and also purchased the troubled Four Seasons Mall, a well-located, multi-tenant retail center in Plymouth with redevelopment potential. In the Southwest submarket, home improvement retailer Menards is expanding its store on 60 acres of land in Eden Prairie. This development is notable in that the company is taking on some developer responsibilities since the site is large enough to accommodate a variety of other, non-Menards related retail outlets.

ON THE HORIZON
New development will remain user-driven. Select retailers will continue to aggressively seek new opportunities for expansion and repositioning, hoping to strike while pricing is still low. Much of this will be redevelopment-focused.

Greenfield development will lag, although there will be continuing

interest from users looking for build-to-suit sites for specialized space in the office, industrial and medical office markets.

On the residential side, there will likely be an increasing number of opportunities for buyers to purchase well-located in-fill sites in a variety of communities. These are sites that come to market due to life-cycle changes such as an individual estate sale, cash requirements or retirement.

There will likely be an active market for agricultural land in the outlying suburbs. Assuming that the farm economy remains strong, farmers will be motivated to increase their output by adding more land for production. Additional interest will be forthcoming from investors who want to accumulate land at relatively low prices now, before the next cycle of development kicks into gear.

One of the key question marks for 2011 is whether lenders will more aggressively market land they now control, either directly or indirectly. ∎