THE COMPASS

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Land Market Driven by Demand for Raw Residential Tracts, Multi-Family Urban In-Fill, Industrial Build-to-Suits and Select User-Driven Retail

OVERVIEW

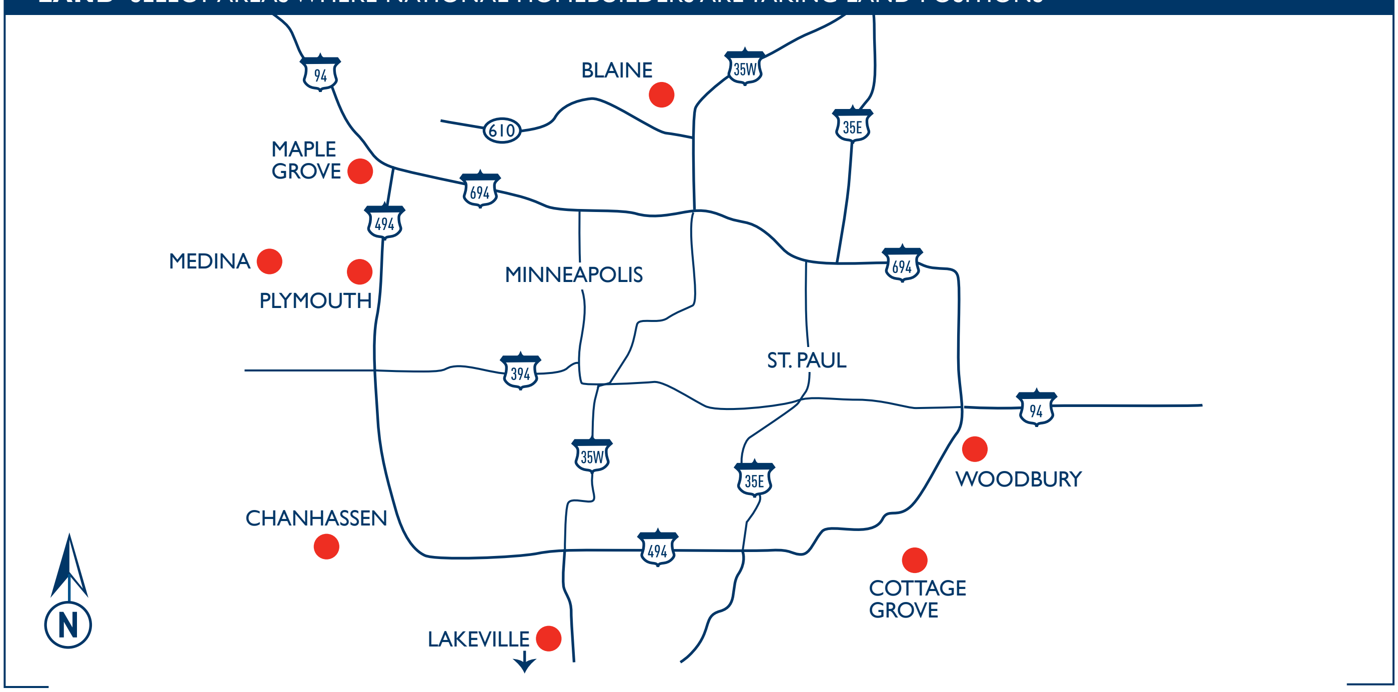
The Twin Cities land market is picking up momentum as its recovery continues. Developers are taking strong land positions, and in many cases, taking advantage of continued pricing discounts. However, the most highly sought-after in-fill sites for single-family, multi-family and retail development have pricing power.

Spurred by record-low apartment vacancy rates, multi-family housing developers are snapping up sites in core, urban markets but also are expanding their "bull's-eye" to include first-tier suburban markets. National homebuilders are aggressively acquiring raw land in favorable communities with strong school districts. Industrial land activity is focused on build-to-suits for corporate users. Retail activity remains user-driven, with developers targeting prime, urban in-fill locations. Farmland continues selling for a premium as high crop prices drive land values to new highs.

SINGLE-FAMILY LAND IN DEMAND

The majority of the prime excess supply of entitled, bank-owned lots left from the housing crash has been absorbed, so national homebuilders are actively buying raw land again and taking it through the entitlement process. They are acquiring land in Plymouth, Woodbury, Chanhassen, Lakeville, Maple Grove, Blaine, Medina and Cottage Grove. Sellers are receiving multiple offers for land in favorable communities. Homebuilders are also expanding outside of their "sweet spot" into the next-closest communities. Ideally, homebuilders want to acquire land in less-risky, 20-acre parcels. However, the residential land market has tightened

LAND SELECT AREAS WHERE NATIONAL HOMEBUILDERS ARE TAKING LAND POSITIONS



to the point that the negotiation leverage is shifting to sellers in areas with services ready to be developed. In some cases, sellers are pushing the developers' take-down schedules. Pricing remains far from the peak in 2007, but it is more aggressively rebounding.

MULTI-FAMILY MARKET REMAINS HOT

Record-low apartment vacancy rates continue driving land acquisitions. Urban in-fill sites near mass transit are in highest demand. The class A apartment market is "red hot" in downtown Minneapolis (including the North Loop neighborhood), Uptown Minneapolis and around the University of Minnesota. Developers are paying a premium for prime sites in cream-of-the-crop locations.

The other big news is developers are expanding out from the core into first-tier suburban markets like Richfield and Bloomington. Rents are now high enough in these markets to justify new construction. Affordable-housing development continues gaining moment and is driven by low vacancy rates and the availability of tax credits. Senior housing is active; most developments are less-risky projects with fewer units on small sites. The pace of senior-housing development could accelerate as the housing market improves and those considering senior housing options are able sell their existing homes.

AGRICULTURAL LAND PRICES SOARING

Farmland continues selling at a huge surplus over previous rates. Because farmers have enjoyed good years for their crops, many are using surplus cash to acquire land to expand operations and are bidding up prices to new highs. Economists worry that farmland prices could be the next real estate "bubble." However, no current signs of a slowdown exist.

INDUSTRIAL LAND SALES FUELED BY BUILD-TO-SUITS

Most industrial land sales are targeted for build-to-suits, primarily for corporate users seeking large, modern or specialized space that currently does not exist. Build-to-suits are underway for SanMar, Trystar, Imagine Print Solutions and Decimet Sales. International Paper and FedEx are also considering big build-to-suit projects. Land prices for build-to-suit sites are increasing but still lag pre-recession levels. Speculative development is returning in select markets and primarily consists of large, functional bulk and office/warehouse, which is in high demand but difficult to find.

IN-FILL REDEVELOPMENT IS KEY FOR RETAIL

Retail land sales remain demand-driven. Developers are seeking smaller, in-fill redevelopment sites in prime locations. For example, the well-located Southdale Sinclair gas station in Edina has been redeveloped into retail/office. Developers are also seeking opportunities to build retail on pad sites at existing big-box stores like Walmart and Target. These outlot developments offer smaller retailers the opportunity to enter a market where limited space for new development exists. For example, a retail building was built in Target's parking lot in West St. Paul and includes a Panera Bread and Panda Express. Smaller retailers looking for in-fill sites include banks, drugstores and cell phone stores. Meanwhile, Walmart, Whole Foods, Fresh Market and Trader Joe's are aggressively seeking sites.

OUTLOOK

The single-family homebuilding market should continue to be active in 2013. National homebuilders will place more sites under contract and focus on building to the "gaps" existing in each submarket. These gaps could include the need for the "dual-living" concept or larger homes for growing families wanting to stay in the same school district. Residential land pricing should continue increasing.

Industrial vacancy rates will likely continue dropping for larger, modern distribution space, driving the demand for more build-to-suits. Select speculative development is expected to occur in 2013 with more projects expected to break ground in 2014-15. Crop production should be robust again in 2013, but a bubble is looming for farmland that could burst in 2014-15. Retail development will likely remain sporadic and user-driven.

MORE ONLINE

- Transaction information
- Highlights for industrial, residential, agricultural, retail and other land uses

CUSHMAN & WAKEFIELD | NORTHMARQ
3500 American Blvd W, Suite 200
Minneapolis, MN 55431
952.831.1000
info@cushwakenm.com
www.cushwakenm.com

The Compass report includes information for multi-tenant office, industrial and retail projects greater than 20,000 sq. ft. and multi-family for-rent properties. Not included are owner-occupied, government or single-tenant buildings. Not all information and insights we've collected can be published in any given volume.