

Twin Cities Industrial Market Update

by Katie Kieffer, United Properties LLC

On June 13, NAIOP's Minnesota Chapter hosted its annual Industrial Market Update. Panelists included Chris Garcia of United Properties, Jeff Przytarski of CB Richard Ellis, Josh Huempfner of Colliers Turley Martin Tucker and Tom Bennett of CB Richard Ellis. Todd Hanson of United Properties served as moderator.

Hanson began by challenging the commercial real estate community to "adapt or be left behind." The theme for this year's update was the idea that change is necessary for progress. Accordingly, NAIOP introduced a new format for the 2006 update, modifying its sub-market boundaries for the first time to match the market defini-

tions used by MNCAR's Exchange property tracking database. In recent years MNCAR has been the source for the market data used for NAIOP's annual industrial and office market reports.

Additionally, the length of each speech was shortened significantly—allowing time for a question and answer session at the end—making the update more interactive than in prior years. Finally, the presentation was held in the afternoon and followed by a poolside cocktail hour where members could have more time to network with each other.

Huempfner introduced the Northeast and East markets by reminding the audience that the Northeast market now includes

the Midway area, making it the largest submarket by 33 million sq. ft. A major tenant vacated River Road Industrial Center, and this move alone caused the overall vacancy rate in the Northeast to increase by 1.5%. Removing this abnormality, the vacancy rate would be virtually unchanged in the Northeast, sitting at 10%. This is "a healthy and competitive rate," according to Huempfner.

Absorption rates appear to be low in this submarket, but the rates are deceiving, explained Huempfner, because, "large, quality warehouse space is becoming very scarce." He accounted for the deceptive rates by noting that several large construction projects were added to the market recently, many very

large leasing deals were completed this year and five large bulk distribution buildings were vacated.

The East market has been "slow and uneventful" this year, Huempfner remarked. The exceptions are the redevelopment opportunity in the Gillette Building—which recently hit the market in St. Paul—and strong activity in planned construction.

Overall, Huempfner noted that although rising construction costs and land prices have forced developers to increase costs by 30% and move forward with new projects less aggressively, there is an increasingly real need for "new, quality, 24-foot clear office product." He predicted that vacancy rates will approach 10.5%, there will be 10-15% increases in rents and absorption will increase by 500,000 sq.ft.

Przytarski, representing the South market, noted that performance in the area was greatly enhanced through the completion of three major bulk warehouse deals that accounted for 85% of the market's absorption. Office/warehouse vacancy sits at 7.2% and has not varied from last year. There are also five construction projects planned in the South, two of which will be ready for occupancy by year-end.

Przytarski forecasted that bulk warehouse will continue to be a market leader, that new development will begin moving out to Lakeville, Cottage Grove and Inver Grove Heights and that we will see many new office/warehouse properties commence construction.

The Southwest market—described as a rollercoaster by Bennett—has been "up and down over the past five years and is currently in

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Emerging Opportunities in Healthcare Real Estate



by Jessica Folkens, United Properties

On May 16th, United Properties' Larry Pobuda led a panel discussion on medical real estate and development. Three experts in the field shared their insight:

- Ray Piirainen, director of real estate, Fairview Health Services, which owns 4.8 million sq.ft. and leases an additional 1.1 million sq.ft.
- Michael Sharpe, corporate vice president, real estate management, Allina Hospitals & Clinics, which owns 9 million sq.ft.

and leases another 1.7 million sq. ft.

- Duane Spiegle, vice president, real estate and support services, Park Nicollet Health Services, which owns 2.1 million sq.ft. of the 2.54 million sq.ft. it occupies

With annual healthcare spending exceeding \$2 trillion and forecasts that one in five new U.S. jobs will be in healthcare, the challenge for healthcare real estate is to stay on top of the trends. In real estate terms, these trends translate into 14 REITS dedicated to healthcare

and CAP rates of 7 to 8 percent. Furthermore, as approximately 70 percent of all surgeries are now out-patient, medical office buildings and professional centers are becoming more and more common.

This stable tenant base comes with a strong demand to understand the occupants' healthcare practices and needs. When working with outside organizations like real estate developers, the panelists agreed that healthcare experience is essential. They concurred that developers must understand the complexity of healthcare facilities to be successful in the medical development market. ■

MORE ON THE WEB

The presentation slides from this program are available for download at www.naiopmn.org under "News and Announcements"



Chris Garcia shares his insight on the Northwest submarket. Panelists L-R: Todd Hanson, Josh Huempfner, Jeff Przytarski, Tom Bennett.

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a moderate downturn period.” This downturn is due to several factors including a stagnant bulk market, users purchasing single-tenant buildings and tighter landlord concessions due to rising construction costs. Conagra, for instance, shocked the market when it vacated its 360,000 sq.ft. warehouse space in Savage.

Bennett predicted that the Southwest rollercoaster will slowly but surely move back up to “regain its top spot in the Twin Cities industrial market.” He forecasted that users will begin to gain confidence, large blocks of space will fill, net absorption will rise to 400,000 sq.ft. and fewer tenants will purchase buildings.

Unlike the Southwest, Garcia introduced the Northwest as the “hottest submarket in the Twin Cities.” The Northwest submarket accounts for 55% of the total absorption in the Metropolitan area and boasts vacancy rates below 10%.

Garcia attributed the Northwest’s high performance to a range of causes: it is anchored by stable product-type users, includes the fast-growing city of Plymouth, has a robust residential market, boasts three current construction projects totaling 250,000 sq.ft. and has been home to significant land acquisitions.

Garcia predicted that vacancy rates will stay below 10%, land and construction costs will continue to rise and in turn impact landlord concessions, and new development will occur in Rogers, Brooklyn Park, Otsego, Corcoran and Maple Grove.

Overall, the panelists offered an optimistic review of the 2006 industrial market. Vacancy levels have decreased to 12.2%, the U.S. economy continues to grow at a very strong pace, first quarter 2006 GDP is 5.3%, and 31,000 non-farm jobs have been added in Minnesota. The net absorption rate of 2.1 million sq.ft. exceeds the five-year average and user demand is steady. Although land and construction prices are up—creating challenges for speculative development—there are still many new construction projects in play and deals being completed across the Twin Cities. ■



A moment of levity during the program.

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