



Land Market Driven by Industrial Users as Residential Cools

Throughout 2014, residential and industrial uses were the primary drivers of activity in the Twin Cities land market. Specialty users, like hotels and automotive, are also actively purchasing well-located sites as the strengthening economy translates into increased tourism and car sales. Other land uses, such as office and agriculture, have gone quiet. Overall, though, it was a very productive year.

INDUSTRIAL

The market saw a sharp increase in speculative land purchases by developers. The Northwest market is driving activity due to its connection to the interstate and high concentration of potential employees for industrial businesses. Most of the premier sites have already been taken, mainly for

bulk distribution facilities. Developers are now being forced to expand geographically in their search for potential sites, including cities like Shakopee, Lakeville, Rosemount, and Lake Elmo to name a few.

Knowing how strong demand is, cities have eased their requirements. Some cities now requiring a lower percentage of office finish, especially in cities like Maple Grove, Arden Hills and Brooklyn Park. The demand is pushing buyers to put hard money into deals.

Some notable industrial land sale transactions in second-half 2014 included the following:

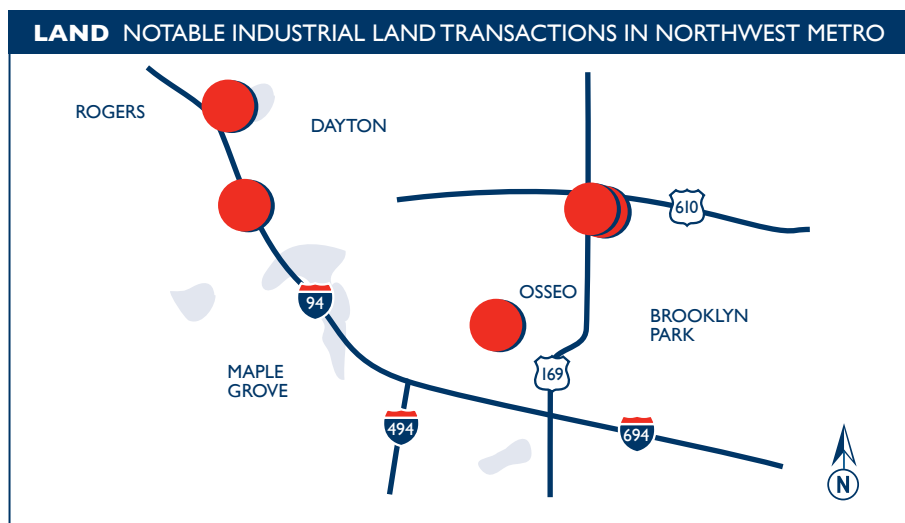
- Roberts Management Group purchased 27 acres of land in Arden Hills for a planned business park.

- United Properties purchased 22 acres of land in Maple Grove for a planned 320,000-sf building.
- Wurth Adams purchased 15 acres of land in Brooklyn Park for a planned 165,000-sf building.
- United Properties purchased 36 acres of land in Brooklyn Park for a planned redevelopment.
- Scannell Properties purchased 76 acres of land in Rogers for a new industrial park.
- Liberty Property Trust purchased 24 acres of land in Dayton for a 240,000-sf distribution building, currently under construction, and an additional 80,000-sf building.

Several large space users are looking for 500,000 to 2,000,000 sf of industrial space. A requirement of this size is expected to drive more activity in the land market since few options of that size are available in the current inventory. It is anticipated that at least half of these users could successfully acquire sites, which would drive up industrial land prices across the metro.

RESIDENTIAL

Residential land sales were strong in the second half, but the end of increasing residential values is near. Single-family developers have slowed their plans significantly. Some are trying to renegotiate pricing for deals that they put under contract 6-12



months ago by almost 30%. Land values have come down as things have slowed. With the significant increase in construction costs but lack of home price increases, developers are cautious. While development in the "A" markets is expected to continue, the majority of single-family land is expected to be stagnant until spring.

In comparison, the multi-family market has been at full throttle with approximately 5,000 units delivered in 2014—the highest concentration of which have been in the North Loop and Uptown areas of Minneapolis and the West End area in St. Louis Park. Rents are good and leasing is strong, but build costs and deal costs are high for developers. Most believe there is still more room for growth in stronger suburban communities like Woodbury, Maple Grove, Eden Prairie and Plymouth.

Overall, the residential land sector is forecast to recalibrate in 2015, but select deals in well-located markets will continue as planned.

AGRICULTURAL

The market saw few land sales for agriculture use in second-half 2014. With the limited sales, most buyers were neighbors of adjacent farms. Values continue to decline—by 5-10% in the past year. The price for agricultural land is tied to commodity prices, which declined significantly in 2014. As a result, land values have trended down.

AUTOMOTIVE

Building on the momentum from first-half 2014, land sales for automotive use continue to be active in the Twin Cities market. Auto dealerships are

paying a premium for the "A" areas in the Twin Cities market. Some of these areas include Robert Street in Inver Grove Heights, Brooklyn Boulevard Brooklyn Center, along I-394 in Minnetonka and St. Louis Park, and along I-494 in Bloomington. For example, Kia will open a new 26,000-sf dealership in St. Louis Park along I-394 next summer. If dealerships are not pursuing new sites, they are expanding on their existing sites. This is the case with Richfield Bloomington Honda, where construction is underway on a 160,000-sf expansion at its location on 77th Street between Nicollet and Penn avenues.

HOTEL

In the "A" areas, hotel chains and investors are aggressively pursuing sites. Occupancy levels and average daily rates are up across the metro. One example that demonstrates the strength of the Twin Cities market is the entrance of Value Place, the largest economy extended-stay hotel chain in the United States. The Wichita, Kansas-based chain is pursuing a few sites in the Twin Cities metro.

MEDICAL OFFICE

The land market for medical office properties has been active in pockets throughout the metro. Parcels sold in several communities, including Maple Grove, Lakeville, Woodbury, Plymouth and the Minneapolis CBD as the major healthcare providers and other private practices position to open sites closer to their patients. One example is Park Nicollet closing on a site in The Grove, Ryan Companies' mixed-use development off I-94 and Maple Grove Parkway in Maple Grove, across from the Maple Grove Hospital.

OUTLOOK

In 2015, land sales for industrial users are expected to remain strong. More speculative industrial projects are anticipated, and land sales activity will likely accelerate outside of the Northwest market. In comparison, developers are more cautious on the residential side. Values for both multi-family and single-family land have plateaued, and many developers will wait until the Parade of Homes in the spring to see what demand there is.



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