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In This Issue:

Momentum in the
North Metro Industrial
Market

Colliers Earns
Leasing Assignment
for Skyscape Retail
Development

Colliers Facilitates
Sale of 2 Million sq. ft.
Industrial Property

Momentum in the North Metro Industrial Market

Tenants beware – Landlord's market ahead

By Duane Poppe, CCIM, and Josh Huempfer.

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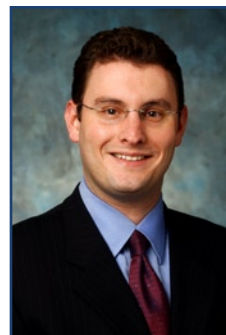
In the summer of 2000, the U.S. manufacturing industry and industrial real estate market went into a tailspin. Over the course of the next three years, the manufacturing sector lost three million jobs, and the trade deficit continued to increase. Some jobs were lost to foreign countries like China, Taiwan, India, Mexico, and other developing nations that offered cheap labor and long-term operating cost savings. Many jobs were lost simply because factories were closing the doors. The impact was felt in many ways here in the U.S.—from higher unemployment rates to lower prices for consumer products to a glut of empty manufacturing space that left vacancy rates rising.

After several years of increasing vacancy rates and virtually no new construction, the industrial market is finally gaining momentum. In 2004, the vacancy rate began to decrease, and companies started to expand again. As a result of that expansion, companies needed affordable space fast. In the northwest metro alone in the past 24 months, there have been numerous transactions that have absorbed more than two million square feet of industrial space. Archway, Boston Scientific, Dane Industries, Data Recognition, Modern Machine, Nparallel, Nonin Medical, Room and Board, Stein Industries, Thorpe Distributing, and Zomax are all examples of companies that have expanded to more than 50,000 square feet or who have built new.

It's all a matter of supply and demand; cause and effect. In recent years, new construction was non-existent because vacancy rates were high (more than 20 percent)—there simply wasn't a need for new construction. However; with the absorption rate rising fast, existing quality space is becoming scarce, and companies no longer have the options that were

available two years ago. Now there is a need for new product, so, for the first time in four years, speculative construction is underway. The construction boom in Asia, and higher fuel, petroleum, concrete and steel prices continue to push the cost of construction higher here at home, forcing developers to increase net rental rates. As construction costs continue to rise, vacancy rates continue to fall, and companies continue to absorb large blocks of space, rental rates will continue to increase.

What's the bottom line? Existing quality, affordable industrial space will be absorbed first in the coming year. Tenants will be left with cheaper, less functional facilities or newer, more expensive buildings to choose from. If you're a tenant, the time to strike a deal is now. If you're a developer, start building.



Josh Huempfer



Duane Poppe, CCIM

Duane Poppe, CCIM, and Josh Huempfer are real estate brokers focusing on the north metro industrial market with Colliers, a world-wide leader of commercial real estate services.

Colliers Earns Leasing Assignment for Skyscape Retail Development

Colliers Plans to Add Convenience-Based Retailers to Neighborhood

Colliers' Minneapolis/St. Paul office has been retained by Tandem Developers, a Chicago-based company, to manage the leasing of 11,000 sq. ft. of ground-level retail space in their new Skyscape property located at 10th Street and Portland Ave. S., on the edge of downtown Minneapolis, Minnesota. The development, which is expected to be complete by spring 2007, will also consist of 252 condo units spread throughout 27 floors.

Andrea Christenson, CLS, second vice president, and Molly Townsend, associate, are leading Colliers leasing efforts for this property. Christenson said, "With so many people choosing to not only work in the downtown area, but live downtown as well, this retail development will be a great resource." Townsend added, "We are looking for service-based retailers to fill the space. A coffee shop, full-service restaurant, deli or breakfast spot, along with a convenience store and a dry cleaner would be good amenities to the neighborhood."



Andrea Christenson, CLS



Molly Townsend



Skyscape development

Colliers Facilitates Sale of 2 Million sq. ft. Industrial Property

Colliers' Minneapolis/St. Paul office facilitated the sale of a 2,000,000 sq. ft. industrial property owned by BAE Systems, a national defense contractor, to ELTransfer (ELT), an affiliate of a St. Louis-based investor, Commercial Development Company, Inc. In addition to representing the seller, Colliers has been retained to manage the facility, located at 4800 East River Road in Fridley, MN, as well as lease 800,000 sq. ft. of vacant space remaining in the building.

Colliers' Jeff Patterson, CRE, MCR, Christopher Pendroy, CCIM, Mark Kolsrud, CPM, Scott Hettinger, CCIM, and Tom Vierling secured the space for the buyer, and also coordinated the sale-leaseback of approximately 1.1 million sq. ft. to BAE Systems.

Patterson said, "With two million sq. ft. located on 135 acres, this is the largest industrial building under one roof in Minnesota. There is a lot of great space for qualified tenants." Kolsrud added, "We have launched a marketing campaign to lease the remaining 800,000 sq. ft. of rentable space to one or more tenants." Pendroy said, "This property is unique as there are virtually no other vacant buildings in the greater Minneapolis area offering heavy crane served space in such a broad range of available sites."



BAE Building

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