

Twin Cities Commercial Real Estate Market Attempting to 'Find Its Footing' at the Bottom of this Economic Cycle

Harsh economic conditions weighed heavily on Twin Cities commercial real estate during the second half, raising vacancy levels to heights not seen in almost 20 years.

Overall vacancy among the office, retail and industrial property sectors reached 15.2%—17.4% including available sublease space—as user demand shriveled. Even rental rate discounts of as much as 30-40% off the recent peaks failed to stir up much demand.

The pace of decline slowed, although the market still racked up negative 700,000 sq. ft. of absorption in the second half. The year's overall total was negative 4.3 million square feet of absorption—1.8 million square feet of it accounted for by the office market.

In the capital markets, financing was essentially available only for the

highest-performing assets and the most credit-worthy borrowers in each property type. Distress selling was muted in 2009, but more opportunities will be available in 2010 as stressed property owners exhaust their financial options.

RETAIL PROPERTIES HARDEST HIT

Hardest hit in the multi-tenant universe was retail, where overall vacancy topped the 10% mark. More than 80 retail spaces larger than 10,000 sq. ft. are vacant in the Twin Cities.

Industrial space demand continued to decline in 2009, pushing vacancy in the sector to an all-time high of 15.8%. However, negative absorption slowed significantly during the second half. Multi-tenant office market conditions were equally unsettled, with overall vacancy climbing to 19.6%. Medical office is the healthiest of the product types, with an overall vacancy rate 10.8%.

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- Projections for the next 6-12 months

Speculative land prices remained locked into the downward trajectory that has erased as much as 80% of the value of some speculative land. Demand was seen picking up for in-fill sites, and some municipalities were purchasing land at low prices for future uses.

MARKET SMARTER TO SURVIVE IN 2010

Leasing activity may pick up, but it will likely be more of the same “shell game” that took over in the second half of 2009 as tenants—especially in the office and industrial markets—swap one building for another as their leases expire.

“Market intelligence,” even more than cash, will be king in 2010 for landlords and other players in the Twin Cities commercial real estate market. Rental rates are likely to continue to slide, but landlords—and tenants—need to look at the unique value proposition of each of their properties and adjust their marketing approach accordingly. ■

