NorthMarq

For Serious Land Investors, Twin Cities Starting to Look Like Land of Opportunity Again

At first glance, not much seems to have changed in terms of commercial and residential land prices in the Twin Cities during the first six months of 2011. Transaction volumes were muted, a few large deals were announced, and pricing remained under downward pressure, especially on speculative land.

Still, there were hints of a warming trend. For example, Liberty Property Trust, one of the nation's largest real estate investment trusts (REIT), purchased a 55-acre industrial land site in Rogers. It was one of the Malvern, PA-based company's largest speculative land purchases in the past decade.

The south metro area saw its first speculative industrial land sale take place in a long time—maybe as far back as 2008—when a developer purchased a 27-acre site in Apple Valley.

ACTIVITY LEVELS UP

Activity levels were also up, evidenced by the substantial increase in the number of buyers out looking for new investment opportunities. There were also signs that buyers and sellers were closing the fairly substantial gap in pricing expectations that emerged over the past few years of steadily declining prices.

There have been a few significant land sales in the market in the past six to 12 months, albeit mostly at steeply discounted prices from the 2007 peak. But what's important for both buyers and sellers is that they now have some actual market pricing data in hand. Without such hard data, both buyers and sellers have been effectively shooting in the dark when it comes to negotiating deals—not a comfortable situation and not one conducive to stimulating sales activity.

SELLERS STANDING ON FIRMER GROUND

Sellers are meeting buyer expectations by lowering pricing. The new pricing environment is far different from that of 2007, especially for speculative land. One recent transaction bears this out: land in a northern suburb valued at as much as $80,000-$110,000 an acre in 2007 sold recently for $20,000 an acre to a user planning to build an education campus. It's an extreme example of what's taken place in the market—so extreme that some observers might say it's a true indicator of the market hitting rock bottom on pricing, with nowhere to go but up.

ON THE HORIZON

Demand recovery for new commercial property development is likely to be uneven and concentrated on a select few sub-sectors within the retail, industrial and multi-family residential markets during the next few years.

Look for commercial and residential land prices to further stabilize in the next six months, especially at the upper and lower ends of the markets. Higher-end, well-located land of every type will continue to see renewed interest from developers eager to participate in a recovery in demand for new housing and commercial space. Land at the opposite end of the spectrum—all those acres of unfinished housing subdivisions and mixed-use meccas—will likely start to receive closer scrutiny from home builders and buyers with eyes alert for diamonds in the rough.

Given that the lingering effects of the recession will adversely affect new high-finish office and office warehouse development over the next few years, some other cities within the metropolitan core may begin to rethink their zoning postures vis-a-vis bulk warehouse industrial development, especially since the industrial market will be at the forefront with significant new development potential for the foreseeable future.

Other types of new development with near-term growth potential include more specialized uses such as churches, charter schools and for-profit educational institutions, and medical office projects. Churches and schools are still in growth mode and looking for more Twin Cities locations. High exposure and good transportation accessibility are key factors in their site selection processes. ■

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