

Demand for Twin Cities' Multi-Tenant Industrial Space Continues to Slip

You don't have to look far to see that the recession's effects are pinching the Twin Cities' multi-tenant industrial market. Vacancy rates rose, rental rates and prices fell, and absorption remained negative. Downsizings, consolidations and closings continued.

The good news is that the pace of negative absorption slowed. While companies continued vacating more space than they leased—creating 308,684 sq. ft. of negative absorption—this was a significant improvement over first-half's record-breaking negative 2 million square feet of absorption. The vacancy rate increased slightly to 15.8% (18.1% with sublease space), meaning 16 million square feet is vacant and another 2.44 million square feet is available for sublease.

Bulk warehouse properties saw improvement with 150,090 sq. ft. of

positive absorption. Office showroom didn't perform as well, posting 283,997 sq. ft. of negative absorption. Typically, the showroom market falters when the office market is weak because industrial users consider upgrading to traditional office space as office rates fall due to less demand. Office warehouse properties also struggled. In the Northwest, for example, more than 40 options exist for users needing 10,000-20,000 sq. ft. Rental rates were flat at \$4.36 for warehouse and \$8.23 for office.

SIGNS OF WEAKENING MARKET FUNDAMENTALS CONTINUE

Landlords have all but conceded a very difficult market continuing through 2010. Lease deals are reflecting this aggressive attitude with plentiful concessions, including reduced rents and substantial net and gross free rent. Competition for users who are active in the market is intense.



MORE ONLINE

- Deals around the market
- Build-to-suit projects underway
- Landlords vying for tenants' attention, being more flexible with lease terms
- Tenants open to changing submarkets in search of best rates

SOME USERS OPPORTUNISTIC, OTHERS MORE COMFORTABLE RENEWING

Some companies are taking advantage of market conditions to find a better location, consolidate or upgrade. Numerous large lease requirements are floating around the market. While some may land, there will be some "trading of spaces" rather than significant new growth. "Treadmilling" is occurring, meaning there's tenant movement, but not significant forward progress.

ON THE HORIZON

The fragile business climate will continue to be a threat. We have not seen the end of businesses closing, downsizing or consolidating. While the pace of space given back slowed dramatically, it's not so much an improvement in market conditions as it is a slowing of the decline.

Overall absorption in the next six months could be in the range of negative 150,000 to 250,000 sq. ft. In the Northwest alone, 1 million square feet could be brought back to the market. ■

INDUSTRIAL ABSORPTION, CONSTRUCTION AND VACANCY

