

# PARAMOUNT REAL ESTATE CORP/TCN WORLDWIDE NEWSLETTER

JULY 2014

## TENUOUS TIMES

BY BOB JOHNSTON

### Current Economic Conditions

First time monthly unemployment claims in June dropped to 304,000, with the four week rolling average dropping as well. All this suggests that the market is slowly improving. However, numbers can be deceiving. This figure does not take into account those who are underemployed or those who have

given up looking for work. Those in the know suggest that the actual unemployment rate still hovers around 20%. New jobs are being created, but

the new numbers reflect many jobs that are only part-time. In addition, worker productivity across the nation is declining because many businesses have reduced their capital spending.

The Minneapolis-St. Paul metro market is a different story, however. The unemployment rate for the Metro area was about 4.5%, down

from 5.2% a year ago and significantly lower than the national average. At the end of the fourth quarter, 2013, there were over 60,000 job vacancies in the market, the highest number in nearly a decade. The low metro rate and available job opportunities portend well for the future.

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significant increase over the April figures. Non-revolving loans, such as car loans, grew over 9%. Credit card debt, however, increased 2.5%.

Consumers seem willing to take on more debt, ostensibly due to job market gains and the increased employment opportunities available. However, declining full-time jobs and slowing capital investment means that real wages are stagnant. As a result, borrowing becomes more difficult because home equity has not improved substantially from

## REAL ESTATE TIP OF THE MONTH

If you are relocating to another facility and have to build out new space or remodel existing space, make sure that you establish a preliminary budget based on a general scope of work prior to signing the lease. An architect and competent real estate broker and contractor can provide you a preliminary estimate of what the potential costs may be, and that number can be compared to what the Landlord is prepared to provide. If you are attempting to minimize out-of-pocket costs, you can determine a reasonable estimate of the proposed work so that you can negotiate more effectively with the Landlord. If nothing else, you will get an idea of what the delta is between the Landlord's allowance and the estimated cost. Doing so will save significant time and money down the road. There's nothing worse than having to start over

seven years ago and bank underwriting covenants are strict. If we don't take steps to reduce personal and national debt, the economy's future remains very much in doubt. Student debt, for example, estimated to be over \$1 trillion, is putting a tremendous strain on first-time buyer home sales and consumer purchases.

### Local Market Real Estate

Development across all real estate sectors is happening, but costs for new development are increasing, putting even more stress on developers and builders. Land costs and material and construction cost increases, sometimes as much as 6% - 8% annually, are forcing developers to re-evaluate projects. To make the projects work, developers are looking at every item, even increasing the density (which neighborhood groups and many community councils reject). In-fill projects, particularly in the inner ring suburbs, utilizing the "highest and best use" concept, are becoming more common since access to major freeways and transportation routes are critical elements to a project's success and to the younger generation demographic. Combining all this with current labor shortages and the lengthy entitlement process typically required, extends many developers to the limit. Those with small

contingency budgets are often forced to move to the sidelines.

The local industrial market's overall vacancy rate remains just under 10%. Almost 2 million square feet of new industrial space is under construction. Many prominent local developers are jumping into the market and building new space on a speculative basis. At the moment, the hot property is the bulk warehouse with clear ceiling heights of 32 feet and above. The brutal winter we endured, and now the wet summer, as well as the political uncertainty over the proposed warehouse and storage tax, have laid a blanket of caution over the market. However, market activity is good, and well-conceived and well-located projects are leasing up well. For example, Room & Board just leased nearly a half-million square feet in the Northwest Quadrant for its distribution activities.

On the other hand, the office market is holding steady, although downsizing (or many like to refer to it as "rightsizing") by many firms continues to throw more vacant space on the market. Just in the downtown market, for example, over 1.5 million square feet of office space will be dumped back into the market this year and into 2015. In the suburbs, UnitedHealth is building a new campus at Crosstown 62/Shady Oak Road totaling more than 1.5 million square

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after receiving sticker price shock over the design an architect completed and you approved.

feet. We celebrate this new product coming into the market, but we often forget that UnitedHealth will vacate a significant amount of space to fill its new development. Younger employees are driving changes in the office environment as well, rejecting private offices and work station environments for more open, collaborative spaces with higher ceilings.

### Decision Time?

Are you thinking about relocating or "rightsizing" and renewing an existing lease? Perhaps you're contemplating a new facility to accommodate what will be significant future growth. It's always prudent to know the alternatives available in the marketplace and fully understand the financial implications involved. I'm happy to schedule a time with you to discuss your concerns. Sometimes just talking it through with a knowledgeable and experienced source can be helpful. I focus on right solutions to client issues and bring no agenda other than determining what is best for you.

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**Paramount's Value Proposition**

To provide each client with exceptional real estate services, delivered with the highest level of honesty, integrity and professionalism, in a manner that promotes our client's best interests.

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