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The Minneapolis/St. Paul metropolitan area also includes Bloomington and is comprised of eleven counties in Minnesota and two in Wisconsin. It is the 16th largest metro area in the U.S. with a population of 3,317,308 in the 2010 census. The region has one of the highest concentrations of Fortune 500 Companies (we have over 100 publicly traded companies.), given the overall population, with eighteen Fortune 500 companies headquartered in the Twin Cities.

The local unemployment is 5.1%, according to Bureau of Labor statistics, and is much lower than the U.S. average (7.9%); as a result Minnesota, like many states in the central part of the country, does not experience the same level of market highs-and-lows as the coastal states do. Employment is expected to grow this year with some forecasts calling for 35,000 new jobs in Minneapolis-St. Paul in 2013.

The overall metro area office vacancy is a little more than 14% according to Integra Realty Resources. However Class A office space continues to see most robust activity with the Minneapolis CBD vacancy of just 10.1% compared to downtown Class B and Class C office space of 25.1% and 17.8% respectively.

The overall industrial multi-tenant vacancy is approximately 11.5%. While the Twin Cities industrial market has experienced 10 straight quarters of positive absorption, vacancy rates are still over 15% in office showroom product and we have seen little new development but for a handful of large distribution build-to-suit transactions.

The positive employment figures and trends have mostly benefitted the apartment sector. Minneapolis-St. Paul has one of the lowest multifamily vacancy rates in the country at 1.6% and rent growth increased an average of 3.7% in 2012, according to sources at the Minnesota Real Estate Journal's Apartment Summit held earlier this year. Local experts at the Summit suggested that vacancy rates will remain at historic lows while apartment rents should increase from 4%-4.5% in 2013.

Turning our attention to distressed real estate sales trends, we can say that the recession negatively impacted all types of Minneapolis/St. Paul banks (local, regional, national) and all commercial real estate product types. A wide range of real-estate-owned (REO) assets have sold in recent years, including single and multi-tenant office buildings, industrial buildings, convenience stores, office condos, residential condos in bulk blocks, raw land, a campground, a historic warehouse, hotels – just about everything.

While most of the insurance companies exited the Minneapolis market years ago, one of the national insurance companies did repossess a large Class A office project last year and sold it to a local investment group for a dollar more than the loan – which was \$110 million. The group that lost the property paid \$186 million for the asset in 2007. In other words the new owner acquired it for 59% of its earlier trading price – which is consistent with our estimate that properties on average are trading for 60% of values before the downturn.

The greatest amount of commercial REO sales since the recession has occurred in the suburbs. While many properties sold for a fraction of their replacement value early in the sales cycle (which began in earnest in 2011 – not 2009 or 2010), banks are no longer wasting time on low-ball offers by bottom feeders. As banks have stabilized their cash positions and cleared their books of some of their troubled

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assets, they have less pressure and motivation to sell at deep discounts. Some banks are more aggressive than others in moving non-performing assets off their books and it is highly situational.

'Value-add' buyers are in the market but they want to understand the market strategy before they act, particularly the entire cost structure of a deal including the actual property, carry cost, improvement costs, tenant considerations and commission structure.

Institutional investors, particularly REIT's, have also emerged as potential buyers of REO properties, in part because their initial returns potentially could be 150 basis points greater than core markets near the coasts and major urban centers.

Conventional financing is readily available, if the buyer is willing to 75%-80% terms on a loan-to-value basis. Even so, we've had experience with lenders lowering the down payment to less than 20% of total purchase price, once they toured the property and had a better understanding of the underlying asset and qualifications of the buyer/borrower. The banks, however, are maintaining rigorous standards for borrowers to have more liquid assets in the bank -- after the point-of-purchase. There have been some up-front all-cash purchases, most of which later put mortgages on the properties.

After warming up in 2011, 2012 was the most active period for REO sales in the Minneapolis metro market. We anticipate the market for distressed sales will slow down the rest of this year and into 2014 -- simply because many of the sales that occurred were assets formerly held by failed banks and managed by special servicing agencies. These properties were then more easily liquidated by the institutions that acquired the assets and liabilities of the failed banks.

The bottom line for REO sales in Minneapolis going forward is that the banks with under-performing commercial real estate assets will move with less urgency to sell these assets. The exception may be in the more challenging and less-desirable properties -- properties that 'failed' to function for a reason, whether it was location, misplaced product type or because the property is not easy to reposition. There still may be some deals in the REO market but they will be fewer and farther between.