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Market Notes

Volume 4

Representation on Lease Renewals Can Produce Big Dividends for Tenants

The recent level of uncertainty throughout our economy has led to a higher percentage of Tenants renewing leases. Having experienced representation throughout the negotiation of a renewal can pay big dividends to Tenants in today's market.

By retaining an experienced agent who focuses on Tenant Representation, your Landlord not only recognizes your access to current market rates and terms, but also competitive alternatives eager to land your business. By hiring TaTonka Real Estate Advisors, which specializes in Tenant and Buyer representation, you also eliminate potential conflicts. TaTonka will negotiate the best possible transaction where your interests are not compromised by an agent or brokerage firm representing both Landlords and Tenants.

If your lease is expiring in the next 12 to 24 months, and whether you are considering a renewal or relocation, proper planning and timely market data and the assistance of an experienced TaTonka Real Estate Advisors professional will ensure your lease transaction accurately reflects market conditions.

TaTonka



TaTonka is a Dakota Indian term for the mighty American Buffalo. It is a symbol of strength, health and vitality. It is respected for its energy and spirit and thrives under adversity. It was chosen for our firm's name and incorporated into our logo to symbolize the values of our organization.

Do Market Conditions Favor Owners or Users of Space In Times of Uncertainty

With rising unemployment, an economic slowdown and a Presidential election facing us in the 4th quarter of 2008, the commercial real estate markets are full of uncertainty. Absorption has slowed throughout most market segments and sublease space has risen. New construction has also increased inventories to the point where vacancies are now on the rise. This has traditionally signaled a shift in the balance of power in negotiations from Landlord to Tenant, as well as Seller to Buyer. Does this mean Tenants and Buyers have gained the edge? Are Tenants able to demand more rental concessions and higher improvement allowances? Are Buyers demanding higher cap rates?

The answer to these questions depends on the individual transaction, the position of the asset and the motivation of the parties. Size is also a relevant factor in today's market. If you are a Tenant and are looking to lease a large block of space your options may be very limited. On the other hand, if your space requirement is less than 20,000 square feet, your options may be numerous. Landlords with occupancy levels of 90% or more, despite higher vacancies elsewhere, may not be as aggressive as a competing owner. As a Buyer, rising interest rates and strict underwriting standards have put added pressure on cap rates and decreased the overall level of sales activity.

One thing that is for certain is that sales activity and Tenant relocations have decreased in 2008. Transaction lead times have increased and uncertainty within the market has resulted in higher demand for flexibility. Expansion, contraction, sublease/assignment and renewal rights have become increasingly important to users. Landlords, on the other hand, have placed a stronger emphasis on mitigating risk through the use of security deposits, letters of credit, and in the case of newer or less proven entities, personal guarantees.

Although we have seen an increase in new development, the higher costs of land and construction have resulted in rental rates that in many cases exceed the net rates of existing inventory by as much as 20%. These premiums have been difficult for most users to digest with the exception of large users facing limited options. As a result, after landing a lead or anchor Tenant, many newer projects are lagging behind leasing proformas. These lead or anchor Tenants ultimately have vacated space as well, which has resulted in a spike in vacancy rates, particularly in the southwest and western suburban markets.

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If you wish to discuss any requirement confidentially or have a market related question, please feel free to contact us at 612.466.7300. You may also visit our website at www.TATONKAre.com.

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Do Market Conditions Favor Owners or Users of Space In Times of Uncertainty?

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Job growth, confidence and clarity are all necessary factors for the office, industrial, medical, retail, land and investment markets to improve. We see 2008 and 2009 as transition years. During this period Tenants should carefully analyze their alternatives to provide maximum leverage in either a new lease or lease renewal. Landlord's should strive to renew existing Tenants as it is always more economical to retain them than to replace them with a new Tenant.

Sellers and Buyers will have to form realistic expectations on values if transactions are to close. 1031 Deferred Tax Exchanges may also decline in the short term as paying a 15% (capital gain) tax today may appear appealing should new tax increases take affect.

We believe market uncertainty has provided additional leverage in favor of Tenants and Buyers. It has slowed the absorption of space, reduced sales activity, and provided opportunities for those in the market to make decisions.

Sample of Recent Transactions

Office

Wells Fargo Bank
Lease
Roseville, MN
Messerli & Kramer, P.A.
Lease
Minneapolis, MN
Terry & Slane, P.L.L.C.
Lease
Bloomington, MN
Morgan Stanley
Lease
Minneapolis, MN
American Cancer Society
Expansion
Mendota Heights, MN

Industrial

800 McKinley
Sale
Anoka, MN
CHF Solutions
Lease
Brooklyn Center, MN
Enteromedics
Lease
Roseville, MN

Education

Globe University
Lease
Minneapolis, MN

Land

Wells Fargo Bank
Purchase
Apple Valley, MN

Medical

Minneapolis Heart Institute Foundation
Lease
Minneapolis, MN
Valley Creek Family Dentistry
Lease
Woodbury, MN

National

Ameriprise Financial
Lease
Detroit, MI
Morgan Stanley
Lease
West Des Moines,, IA

Investment

Arby's Investor
Purchase
Rogers, MN

Services

- Advisory and Consulting Services
- Asset Disposition
- Build-to-Suit Client Representation
- Buyer Representation
- Lease Renewals
- National and International Network Connections
- Site Search and Selection
- Sublease Assignments
- Tenant Representation

Areas of Specialization

- Office
- Industrial
- Medical
- Retail
- Land
- Investment



Market Notes Newsletter is published to highlight market trends and transactions, and to communicate helpful information to our clients and users of commercial space.



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