

Fargo, North Dakota: Industrial Survey

| Market Data | | | Current Trends | | Outlook | |
|--|---------------------|-----------------|----------------------------------|------------|------------------------------|------------|
| <u>Inventory (sf)</u> | <u>Central City</u> | <u>Suburban</u> | Composition of Absorption | | Sales Price | |
| Total | 282,249 | 16,230,284 | Warehouse/Distribution | 57% | Warehouse/Distribution | Down 1-5% |
| Vacant | N/S | 551,762 | Manufacturing | 40% | Manufacturing | Down 1-5% |
| Vacancy Rates | N/S | 3.40% | High Tech/R&D | 3% | High Tech/R&D | Level |
| Under Construction | N/S | 106,985 | Composition of Inventory | | Lease Rates | |
| Net Absorption | N/S | -161,549 | Warehouse/Distribution | 74% | Warehouse/Distribution | Down 1-5% |
| <u>Site Prices (\$/sf)</u> | <u>Central City</u> | <u>Suburban</u> | Manufacturing | 25% | Manufacturing | Down 1-5% |
| <u>Improved Sites</u> | | | High Tech/R&D | 1% | High Tech/R&D | Level |
| Less than 2 acres | N/S | \$3.00 | Rate of Construction | | Site Prices | |
| 2 to 5 acres | N/S | \$2.10 | Warehouse/Distribution | Down 5-10% | Level | |
| 5 to 10 acres | N/S | \$1.50 | Manufacturing | Down 5-10% | Absorption | |
| More than 10 acres | N/S | \$1.25 | High Tech/R&D | Level | Warehouse/Distribution | Down 5-10% |
| <u>Unimproved sites</u> | | | Dollar Volume - Sales | | Manufacturing | Down 5-10% |
| Less than 10 acres | N/S | \$0.75 | Warehouse/Distribution | Down 1-5% | High Tech/R&D | Level |
| 10 to 100 acres | N/S | \$0.35 | Manufacturing | Down 1-5% | Construction | |
| More than 100 acres | N/S | \$0.15 | High Tech/R&D | Level | Warehouse/Distribution | Down 1-5% |
| Prime source of Financing: Commercial Banks | | | Dollar Volume-Leases | | Manufacturing | Down 1-5% |
| | | | Warehouse/Distribution | Down 1-5% | Dollar Volume - Lease | |
| | | | Manufacturing | Down 1-5% | Down 5-10% | |
| | | | High Tech/R&D | Level | Down 5-10% | |

Mortgage Money Supply: Balanced

| 2008 Suburban | Sales Prices (\$/sf) | | Net Lease Rates (S/sf) NOI | | Construction No Land (\$/sf) | Vacancy Indicators |
|----------------------|----------------------|---------|----------------------------|----------|------------------------------|--------------------|
| | Low | High | Rent Range- | Suburban | | |
| Less than 5,000 sf | \$38.00 | \$58.00 | \$3.60 | \$6.50 | \$55.00 | Balanced Market |
| 5,000-19,999 sf | \$30.00 | \$57.00 | \$2.85 | \$5.40 | \$49.00 | Balanced Market |
| 20,000-39,999 sf | \$28.00 | \$45.00 | \$2.65 | \$4.30 | \$46.00 | Moderate Shortage |
| 40,000-59,999 sf | \$20.00 | \$40.00 | \$1.90 | \$3.80 | \$45.00 | Moderate Shortage |
| 60,000-99,999 sf | - | - | - | - | - | Moderate Shortage |
| 100,000-250,000 sf | - | - | - | - | - | Balanced Market |
| More than 250,000 sf | - | \$35.00 | - | - | - | Balanced Market |
| High Tech/R&D | - | - | - | - | - | Balanced Market |

| | Warehouse and Factories | | Research and Development | |
|---------------------------------|-------------------------|---------------|--------------------------|----------|
| | Central City | Suburban | Central City | Suburban |
| Real Estate Taxes | N/S | \$1.00-\$1.40 | N/S | N/S |
| Insurance (Fire and Liability) | N/S | \$.12-\$0.25 | N/S | N/S |
| Structural and Roof Maintenance | N/S | \$.20-\$0.33 | N/S | N/S |
| Common Area Maintenance | N/S | \$.30-\$0.45 | N/S | N/S |

2008 Review

After last year's record absorption of industrial space - reality caught up to the market. Absorption this year was a negative 161,549 s.f. compared to last year's 17 year historic high of 781,553 s.f. The historic average absorption is 374,564 square feet per year. The historical average vacancy rate of this survey is 2.28%. The historic high vacancy rate was 4.02% in 2003. Despite national economic problems, our vacancy rate rose slightly to 3.4%.

2009 Forecast

Falling demand as a result of the world financial crisis will further stifle demand for manufacturing, distribution and construction -- the primary drivers in our industrial real estate market. We see a rebound beginning in 2010. A bright spot (for some) is the collapse of energy costs and to a certain degree raw material costs. As a result of global manufacturers entering our market over the years, our industrial market is increasingly leveraged to the global economy -- for better or worse.

N/S - indicates no survey taken

Survey is based upon available inventory on December 31, 2008.



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Industrial/Manufacturing Definitions:

Use, not building design, determines category.

Central City/Suburban Areas -

Central Business District space located near the historical urban core commonly associated with the traditional government and financial district. Renaissance Zone spurred conversion of many of these buildings into office and living units. We no longer follow this market segment.

High Technology - R&D - Refers to highly improved space with 50 percent or more office potential and higher-than-normal parking. Must have some industrial function to qualify; cannot be pure office.

Total Inventory - Total square footage of rentable industrial space (including R&D space), vacant and occupied, including owner occupied space, ready for tenant finish.

Vacant Inventory - Total square footage of vacant rentable industrial space, including sublease.

Net Absorption - Net absorption is the net year over year change in occupied space.

Construction - Ground must be broken. Projects that are still in the planning stage are not included.

Prime Industrial Building - Buildings in the top 25 percent of overall desirability of the existing inventory; such buildings are considered to be for general purpose uses such as industrial, research, warehouse and/or manufacturing.

Net Lease - Generally, a lease where the tenant bears the responsibility for real estate taxes, insurance and utilities and operating expense.

Gross Lease - A lease in which the Landlord pays real estate taxes operating costs, fire and extended coverage insurance, as well as maintenance of the roof structure and outside walls.

Improved Sites -

Such sites are in a "ready-to-build" condition and are essentially level, graded and serviced with all necessary utilities.

Unimproved Sites -

Sites are zoned for industrial use. Streets and utilities may not yet be installed but are reasonably close and available.

Construction Costs -Should reflect construction including costs such as general contractor, overhead, and profit but architectural and engineering fees, and financing. Does not include land.