

Fargo, North Dakota: Office Survey

Inventory (sf)	Class A		Class B		Total
	CBD	Outside CBD	CBD	Outside CBD	
Total	393,739	1,522,788	712,669	2,932,691	5,561,887
Vacant	39,354	5,037	122,100	308,480	474,971
Vacant Sublease	0	0	0	0	0
Under Construction	0	175,000	2,200	122,435	299,635
Substantial Rehab	13,375	34,804	0	0	48,179
Net Absorption	-4,195	81,677	86,297	-39	163,740
Vacancy Rate	9.99%	0.33%	17.13%	10.52%	8.54%

Gross Rental Rates (\$/sf not including janitorial)

Lowest	\$15.00	\$18.00	\$11.00	\$12.00
Highest	\$18.00	\$24.00	\$14.50	\$16.50
Weighted Average	\$16.00	\$21.00	\$13.00	\$14.50

Sales Prices (\$/sf)

Lowest	\$90.00	\$125.00	\$40.00	\$80.00
Highest	\$105.00	\$175.00	\$90.00	\$125.00
Weighted Average	\$100.00	\$135.00	\$75.00	\$110.00

Operating Expenses (\$/sf not including janitorial)

Lowest	\$4.80	\$5.50	\$3.45	\$4.10
Highest	\$6.85	\$7.90	\$4.70	\$5.00
Weighted Average	\$5.60	\$6.80	\$4.30	\$4.80

Tax Expenses \$/sf

Lowest	\$1.20	\$1.33	\$0.56	\$1.14
Highest	\$3.00	\$4.01	\$1.62	\$2.56
Weighted Average	\$1.70	\$2.70	\$1.30	\$1.65

Utility Rates: CBD \$1.70 per sf
Outside CBD \$1.70 per sf
Separately Metered

Parking Ratio:
CBD - 1 per 1000 sf
Outside CBD - 1 per 300 sf

Standard Work Letter: \$45.00 per sf

Operating Cost Escalation: Increases Over Base Year

Rate of Return: Cap Rate: 8.0 to 10.00%

Mortgage Money Supply: Low

Cumulative Discount Rate: 5%

Prime Source of Financing:
Local and Regional Commercial Banks

Landlord Concessions:
Parking, Additional Tenant Improvements

Outlook

Leasing Activity Profile

Major Activity - Government, Engineering
Architecture, Construction

Minor Activity- Legal/Accounting,
Finance/Banking

Absorption	Down 1-5%
Construction	Down 1-5%
Vacancies	Up 1-5%
Rental Rates	Down 1-5%
Landlord Concession	Up 1-5%
Sale Prices	
Class A CBD	Down 1-5%
Outside CBD	Down 1-5%
Class B CBD	Down 1-5%
Outside CBD	Down 1-5%

2008 Review

Overall vacancy in Class "A" office space declined in 2008, not so for Class "B" space in the CBD which nearly doubled. Class "B" space vacancy rate, outside the CBD went from 7.57% in 2007 to 10.52% in 2008. 2009 starts with a 2.5 - 3.0 year supply of office space based upon our survey's 17 year historical absorption rate. Class "A" construction in this survey is comprised entirely of the ongoing construction at Microsoft's Fargo Campus.

2009 Forecast

The constant barrage of negative national events reminds us of the market in the late 70's when the real estate market was frozen in fear. For now, Fargo seems to be an "island in the storm". Even in Fargo, the abundance of low cost financing available for commercial property transactions has come to a near halt. Interest by "out of market" lenders peaked in early 2008. These lenders were more relaxed in their underwriting. They often included non-recourse financing - removing significant risk for the borrower. Competition for loans is nearly non-existent. Most new loans will be originated by local banking stalwarts. Expect rate spreads and underwriting hurdles to increase on the deals banks "want" to fund. You would do well to plan in advance if you want to refinance or have a balloon payment due.



Reporter(s) and Staff

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Survey is based upon available inventory on December 31, 2008

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Office Definitions

CBD - Central Business Districts space located near the historical urban core commonly associated with the traditional government and financial district.

Outside CBD - Includes both suburban areas and "urban clusters" with area of high office space concentrations which often rival nearby CBD's.

Class A - Excellent location, high-quality tenants, high-quality finish, well maintained, professionally managed and usually new, or older buildings that are competitive with new buildings.

Class B - Good location professionally managed, fairly high-quality construction and tenancy. Class B buildings generally show very little functional obsolescence and deterioration. In the Fargo market these buildings typically have residential style construction and mechanical systems.

Total Inventory - Total square footage of rentable space, vacant and occupied, ready for tenant finish, in our market area. Includes all owner-occupied space, except hospitals, government, and schools.

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

Sublease Inventory - Total square footage of vacant sublease space.

Under Construction - Total square footage of office space under construction. Ground must be broken; does not include projects that are still in the planning stage.

Substantial Rehabilitation - Repair/replacement of building interior finish and/or systems requiring temporary displacement of tenants.

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

Lowest Rental Rate - Minimum quoted rental rate for competitive office space in each class.

Highest Rental Rate - Maximum quoted rental rate for competitive office space in each class.

Weighted Average Rental Rate - Estimate of the weighted average rental rate.

Rate of Return - The property's net operating income divided by the sales price. Does not include mortgage debt.

Rent Rates Per S.F. - Gross rental rate includes cost of operating expense but excludes janitorial expense for the tenants premises.

Operating Expenses/S.F. - Operating costs including real estate taxes but not janitorial expense within tenants premises.