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Commercial Real Estate Matters



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Overall activity in the Ninth District economy appears to have slowed slightly since the last report. Decreased activity was noted in residential construction and real estate, and consumer spending was soft. Mixed activity was noted in manufacturing and commercial real estate, while commercial construction and energy were steady. Growth was noted in services, tourism, mining and agriculture. Overall, employment markets softened somewhat since the last report, while wage increases were moderate. Significant price increases were noted for food, fuel and steel.

Overall consumer spending was soft. A major Minneapolis-based retailer reported same-store sales in February were up 0.5 percent (essentially unchanged) compared with a year earlier. Recent traffic and sales at a Minneapolis area mall were consistent with last year. Some retailers reported plans to close stores. A chain of dollar stores recently announced plans to close locations in Minnesota and South Dakota; profit margins were squeezed due to increases in the cost of food and fuel. A buffet restaurant chain based in Minnesota announced plans to close 51 restaurants, while a leather goods retailer also based in Minnesota announced plans to close more

than half of its mall stores. In contrast, a North Dakota mall manager noted that first quarter sales were strong. February traffic at a Montana mall was up 7 percent, and sales were on par with a year ago.

A representative of an auto dealers association noted that sales levels were favorable in many parts of South Dakota. A Minnesota auto dealer reported solid sales of imports during March compared with last year and said domestic sales were holding their own; however, sales of SUVs and trucks were down. A domestic auto dealer in Minnesota reported that recent sales were slow.

Tourism activity increased. Convention business in the Minneapolis-St. Paul area was up from a year ago, while recent hotel occupancy was flat; officials noted an increase in Canadian and other foreign visitors due in part to favorable exchange rates. Buoyed by an early Easter holiday, a Minnesota ski resort reported strong ski activity and lodging levels during March compared with a year ago.

Reports from the professional business services sector were generally positive. Several accountants reported a slight uptick in business compared with last year. Contacts from the information technology area reported a weak February but a pickup in March. Several marketing firms reported

flat activity in March. Firms supporting manufacturers said activity was level. However, firms servicing the financial sector reported a slowdown.

Commercial construction continued at a steady pace. A commercial builder in Minnesota and Wisconsin said retail and office construction was steady, but light industrial and infrastructure construction was slow. An executive of a commercial builders association in South Dakota said construction activity there was still strong. A St. Paul suburb recently approved plans for a 575,000-square-foot corporate campus. Bidding began on a \$28 million National Guard training center in Devils Lake, N.D. Meanwhile, residential construction was slow. March new home permits were down more than 40 percent in value in Sioux Falls, S.D., from the previous year. February year-to-date residential permits were down in Fargo, N.D., and Rochester, Minn. Commercial real estate was mixed.

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A commercial real estate firm in Minneapolis-St. Paul reported higher office vacancy and lower absorption in the first quarter of 2008; the same report showed vacancy was higher for industrial properties and flat for retail, while absorption for both fell. A number of office properties in downtown Minneapolis have recently been placed on the market, including one package totaling more than 2 million square feet. A commercial real estate developer in Fargo characterized the market there as growing steadily. Residential real estate was weak. Pending sales in the Minneapolis-St. Paul area were down 15 percent at the end of March from year-earlier levels; prices were down significantly. A Realtor in Sioux Falls said sales there were down slightly in the early part of the year, but he expects a healthy selling season.

Overall manufacturing activity was mixed since the last report. A March survey of purchasing managers by Creighton University (Omaha, Neb.) indicated decreased activity in Minnesota and increased manufacturing activity in the Dakotas. A representative of a wood products company with plants in western Wisconsin and the Upper Peninsula of Michigan reported very poor demand. A wind turbine maker plans to build a

facility in Montana.

Activity in the energy sector remained at solid levels since the last report, while mining increased. Robust oil and gas exploration and production continued in the District. Wind power continued to expand. However, biofuel output decreased as a plant shut down because of higher soybean costs. Expansion of the mining industry is under way as exploration and permitting activity continued across the District.

Agricultural conditions were favorable across most of the District. Primarily due to increased relative prices and input costs, farmers plan to plant more soybeans and wheat and less corn this year. Ample moisture conditions were evident in the eastern part of the District, while dry conditions prevailed in the west. Meanwhile, cattle, dairy and poultry producers were concerned about rising feed costs.

Employment markets softened somewhat since the last report. In Minnesota a thermoplastic products facility will close, affecting 350 jobs, and a newspaper recently announced plans to cut more than 10 percent of its positions. A telecommunications company plans to reduce payroll in the District due to decreases in demand for local phone service. The number of active unemployment insurance claims in Minnesota was up 8 percent in mid-

March compared with a year ago. In contrast, a software services company plans to move to South Dakota this spring, which could eventually create 200 jobs. A new research facility recently began staffing up to 100 positions in Montana. Overall wage increases were moderate. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 37 percent expect employee compensation to increase over the next six months, down from 46 percent in last year's survey. A county board in Minnesota recently agreed to raise most workers' pay 3 percent annually over the next three years.

Significant price increases were noted for food, fuel and steel. A bakery in the Minneapolis-St. Paul area recently raised prices 10 percent on many products in part due to increases in the costs of flour and eggs. Gasoline prices in Minnesota were 60 cents per gallon higher in late March than a year earlier. Recent price increases were reported for steel and copper products.

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