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**FEATURE**

by [Eric Tuck](#), McGladrey LLP



**2012 TAX PLANNING UPDATE**

At the end of 2011, taxpayers were fortunate to have a year until the extended Bush tax cuts would expire. While there was uncertainty as to what would happen in 2013, taxpayers at least had the peace of mind that we knew what the year would bring in 2012. Unfortunately, the end of this year leaves us with uncertainty again.

While the results of the recent election provide a better educated guess as to what tax rates and law will do, there are still some important things to be aware of when considering tax planning for 2013.

Year-end tax strategies for 2012 will demand more urgent attention from higher income taxpayers as a result of President Obama's re-election.

**Tax Rates**

The Bush tax cuts included a decreased income tax rate for all taxpayers. These rates are set to expire at the end of the year. For taxpayers in some tax brackets, this could mean a decrease to their take home pay.

The following table compares the current tax rates as if they were extended, and as if they expire for married taxpayers filing jointly.

AGI	Current Tax Rates Extended	Current Tax Rates Expire
\$0-\$17,400	10%	15%
\$17,400-\$59,000	15%	15%
\$59,000-\$70,700	15%	28%
\$70,700-\$142,700	25%	28%
\$142,700-\$217,450	28%	31%
\$217,450-\$388,750	33%	36%
Over \$388,350	35%	39.6%

There is speculation that the tax rates for those with lower adjusted gross incomes will be extended, while joint taxpayers with an adjusted gross income over \$250,000 (\$200,000 for single filers) per year will see increased rates.

Individual income tax rates are not the only rate changes that taxpayers can expect if the Bush tax cuts are not extended again. Capital gains tax rates are set to increase



from 15% to 20%. In addition, qualified dividends will increase to be taxed at the same rate as ordinary income.

Higher-income taxpayers must decide if they think tax rates will be extended or decide to secure the benefits of current rates for the remainder of 2012. They can accomplish this by accelerating income, deferring deductions, harvesting capital gains, closing sales and initiating family gifting strategies all before December 31.

**Phase-Out of Itemized Deductions and Personal Exemptions**

Taxpayers should consider the timing of their itemized deductions during their year-end planning. In 2012, taxpayers are not limited to the amount of itemized deductions they can take. If the current tax provisions expire, higher income taxpayers can expect to lose all or part of their itemized deductions and exemptions.

**New Medicare Tax**

The new Medicare tax will impact higher income taxpayers and those with net investment income. This tax was included when the Patient Protection and Affordable Care Act were passed and is likely to be rolled out as scheduled based on President Obama's re-election.

*continued on next page* →

## 2012 Tax Planning Update - continued

In 2013, individuals will see a new 3.8% tax on the lesser of net investment income or the amount that their modified adjusted gross income (MAGI) is over \$200,000 for single filers, \$250,000 for joint filers, and \$125,000 for married filing separate filers.

Net investment income includes income derived from interest, dividends, royalties, annuities, rents, passive activities, trading financial instruments and commodities, and net capital gains from the disposition of property not held in a trade or business.

Sources of income not included in net investment income include active trade or business income, gain on sale of an active interest in a partnership or S corporation, distribution from IRAs or qualified retirement plans, income from tax exempt municipal bonds, tax deferred non-qualified annuities, and self-employment income.

Our current understanding is that a qualified real estate professional's rental income is not included in net investment income. Therefore, in 2013 it may well be advantageous to be a real estate professional, if the criteria are met, in order to not be subject to this Medicare tax.

### The following is an example:

A couple with \$80,000 of gains and \$290,000 of AGI will owe an extra \$1,520 in tax—3.8% of the \$40,000 excess over \$250,000. A single filer with AGI of \$400,000 and \$50,000 of gains owes \$1,900 more in tax—3.8% of \$50,000.

There will also be an additional .9% surtax on high income households. This tax applies to wages and self-employment income. The surtax will be imposed on single filers with wages and self-employment income over \$200,000, and married filers over \$250,000.

In 2013, higher income taxpayers will face both the 3.8% Medicare tax and a top 39.6% tax rate on net investment income.

It is anticipated that many taxpayers will consider rebalancing a portion of their investment portfolio to increase their exposure in municipal bonds. Income from municipal bonds is not considered net investment income nor is it considered a component of taxable income.

### Estate and Gift Tax

Currently, the lifetime estate and gift tax exemption is set at \$5.12 million, with a top tax rate of 35%.

President Obama has proposed extending the federal estate and gift tax under

parameters in effect for calendar year 2009 for estates of decedents dying after December 31, 2012. That level would set the estate tax exclusion at \$3.5 million with a 45 percent rate and the gift tax lifetime exclusion of \$1 million.

Without congressional action the exemption and rates will revert back to 2001 levels of \$1 million and 55%.

If you are planning on making a gift, and expect that the exemption and rates will go back to 2001 levels, it is highly recommended to do that in 2012.

### Bonus Depreciation

Qualified assets that are placed in service before December 31, 2012 will be eligible for 50% bonus depreciation. This is set to expire in 2013, and it is unclear if President Obama will support an extension of the bonus depreciation.

If you are planning on purchasing assets, it may be good to consider purchasing them and placing them into service before December 31.

The end of 2012 leaves quite a bit of tax uncertainty. As of November 13th, no congressional action had been taken on any of the previously mentioned issues. With the limited time frame that congress has to act on the various tax matters, it is possible that some of issues have been resolved by the time you read this article.

Be sure to pay attention to any congressional action involving tax law, especially tax rates, phase out exemptions, estate and gift tax, and bonus depreciation so that you have the flexibility to take some action before year end.

Other tax issues that affect real estate professionals, including the 15 year recovery for qualified leasehold improvements, the New Markets Tax Credits, and the Alternative Minimum Tax (AMT) should also be closely followed in order to determine the potential impact on your tax situation in 2012 and 2013.

Written by Eric Tuck, Tax Partner and Kelly Henneberry, Tax Senior Associate, members of McGladrey LLP's Real Estate and Construction Team.

*Disclaimer: The information contained herein is general in nature and based on authorities that are subject to change. This analysis is not tax advice and is not intended or written to be used, and cannot be used, for purposes of avoiding tax penalties that may be imposed on any taxpayer. This article represents the views of the author or authors only, and does not necessarily represent the views or professional advice of McGladrey.*

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For more information, visit [MSCA Committees](#).

# PET HOTELS, SPAS AND RESORTS

Pet ownership has been on the rise among American households. According to the 2011 National Pet Owners Survey, over the past two decades, the number of US households that own a pet has risen significantly, up to 72.9 million. Rising pet ownership has similarly increased the demand for grooming, boarding, training and other services provided by the industry. Additionally, demand for these services has proved to be recession-proof, with industry revenue rising each consecutive year over the last decade.

Many kennels nowadays also offer grooming and training services in addition to boarding, with the idea being that the kennel can be the owner's "one-stop shop" for all three services. Facilities typically have a professional groomer on staff who specializes in maintaining pets' appearance. As a part of their job, groomers discuss grooming needs with owners and collect information on pets. They often notice medical problems that need veterinary care.



Most pet owners feel more comfortable with their pets under professional, full-time, dependable care, than they do entrusting them to friends, family or neighbors. Some pet owners see the opportunity for pets to interact with other pets (just as young children do in play groups) as a valid use of a facility and, hence, use boarding facilities' "doggie day care" services while they work or are out of town.

A medium size boarding facility is about 20,000 sf and contains 50 to 99 "runs." The industry trend is favoring "pet resorts" that offer additional services such as shampoos,

grooming, hydro-therapy, obedience training, exercise and play time.

In the Minneapolis/St. Paul market, there have been about a dozen facilities added all over the metro area. These include:

Wagging Tails-Eagan

[www.waggingtailspetresort.com](http://www.waggingtailspetresort.com)

Stone Mountain Pet Lodge-Blaine

[www.stonemountainpetlodge.com](http://www.stonemountainpetlodge.com)

Woof Central-Richfield

[www.woofcentraldogs.com](http://www.woofcentraldogs.com)

Metro Dogs-Minneapolis

[www.metrodogsmn.com/services](http://www.metrodogsmn.com/services)

Pampered Pooch-St. Louis Park

[www.pamperedpoochplayground.com](http://www.pamperedpoochplayground.com)

Rio Gran Kennels-Hastings

[www.riogran.com/accomodations.com](http://www.riogran.com/accomodations.com)

City Dogs-Minneapolis

[www.funcitydogs.com](http://www.funcitydogs.com)

Camp Bow Wow-Burnsville & Plymouth

[www.campbowwow.com](http://www.campbowwow.com)

Hound Dog Hotel-Eden Prairie

[www.m.hounddogpethotel.com](http://www.m.hounddogpethotel.com)

Adogo Pet Hotel-Minnetonka

[www.adogopethotels.com](http://www.adogopethotels.com)

Now Boarding Pet Hotel-Minneapolis

[www.nowboardingpets.com](http://www.nowboardingpets.com)

When you take your pet to the kennel, be prepared to pay an average of \$35 to \$45 per day for the basic boarding. A king size, luxury suite can go for \$75 per day. The extra services at the "spa/resort" cost about \$30 for bath, nails and coat grooming, plus add \$10 per day for Fido's exercise walks.

The most overwhelming trend, which will continue indefinitely, is the population's emphasis on pets as members of the family. A survey conducted by the American Kennel Club shows that despite a tough economy, pet owners are willing to sacrifice many daily luxuries to provide for the needs of their canine companions. For this reason, we will see the kennel industry continue to expand in our market. You can be assured that Fido will find a doggie treat under the tree this Christmas.

## EVENTS

- Jan 9 Trends
- Jan 17 Third Thursdays
- Feb 6 Development/  
Redevelopment
- Feb 21 Third Thursdays
- Mar 6 Monthly Program
- Mar 21 Third Thursdays

To view MSCA program presentations, [click here](#).

## 2012 LEADERSHIP

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## MN MARKETPLACE

Press releases are printed based upon availability of space and relevance to the local market.

compiled by [Jeremy Striffler](#), Cushman & Wakefield/NorthMarq



- **LA Fitness** signed a lease for 38,000 sf and **Sprint** signed a lease for 1,500 sf in Brooklyn Center at the new Walmart-anchored Shingle Creek Crossing.
- **Pro-Cuts** continues to expand in the Twin Cities. They recently signed a lease for 1,242 sf at Rosedale Square in Roseville and 1,125 sf at Midway Corners in St. Paul.
- **V Spa Nails** signed a lease for 1,210 sf in Richfield.
- **Persis Indian Grill** signed a lease for 2,648 sf at Eagan Town Centre in Eagan.
- **Koko Fit Club** signed a lease for 1,823 sf at Tonka Village Shopping Center in Tonka Bay.
- **Big Lots** opened its newest 21,800-sf store to the public with a ribbon-cutting ceremony on November 16 at the Valley West Shopping Center in Bloomington.
- Sausage and craft beer restaurant **New Bohemia Wurst+BierHaus** is now open in the former home of Panera Bread at 233 E. Hennepin in Minneapolis. The restaurant features 18 different sausages, Belgian fries, German potato salad, cole slaw and a selection of dipping sauces. It also features 32 craft beers on tap and 60 bottled beers, including local, regional and national craft beers and several from Germany and Belgium.
- **Steele Fitness** has opened its newest location above Lunds Wine and Spirits in downtown Minneapolis. The 8,000-sf fitness center features a retail area with athletic wear and active fashion clothing, group and one-on-one training areas and spa-quality locker rooms.
- **Social House** is expanding. After the tanning salon next door closed, Social House (2919 Hennepin) opted to expand into the space. Construction is currently underway but the original space is still open.
- The apparel retailer **Uptown Girl** closed at its location in Lyn-Lake at 615 W. Lake Street.
- **Regla de Oro**, the fair trade art gallery and gift shop, is moving from 3007 Lyndale Avenue to 2743 Lyndale. The new space will be designed by Vivo Architecture and will include space for hosting community-focused events aside from its retail functions. The store will be located in the recently-completed Greenleaf Building.
- **Francesca's Collections** is opening in Calhoun Square. It is moving into the space formerly occupied by Aura.
- Masu Sushi & Robata is opening another new retail concept called **One Two Three Sushi** at the IDS Center in downtown Minneapolis. The new, 737-sf store on the Skyway level of IDS was previously occupied by Godiva Chocolatier, which closed this summer. The space is sandwiched between Yogurt Lab and Starbucks.
- **John Fluevog** opened in Uptown within the Uptown Theatre building at the corner of Hennepin & Lagoon, and is decked out with art-deco inspired furniture with teak panels — in the same color schemes as the original Uptown Theatre.

continued on next page →

## LEGISLATIVE UPDATE

by **Leah Maurer, Cushman & Wakefield/NorthMarq**

Minnesota's legislative landscape has changed yet again. After two years of a Republican majority in the House and Senate, Democrats will have a 39-28 majority in the Senate and a 73-61 majority in the House for the 2013-14 biennium. In the coming weeks, the Senate and the House will meet to elect new leadership and set-up committee structure.

Governor Dayton's goal for the 2013 legislative session is to completely overhaul the tax system. Minnesota Revenue Commissioner, Myron Frans, has been traveling the state for months holding Town Hall meetings to ask the public questions regarding taxes and to receive feedback from Minnesotans. The three "legs" of the tax system are property taxes, sales taxes and income taxes. Of the three, Governor Dayton is more focused on personal income taxes, however, that does not mean we can assume property taxes, clothing sales tax or other revenue generators directly tied into the retail industry will not be on the table.

It will be an active session for MSCA's legislative committee as they will have to work diligently on educating legislators and the Governor of the potential impacts of their decisions on the private sector whether it is taxes, government spending or new regulations.

- **Union**, the new restaurant from Crave parent company Kaskaid Hospitality and executive chef Jim Christiansen, opened at 8th & Hennepin. The restaurant features a signature retractable glass enclosure over the rooftop dining area, allowing it to be used year-round.
- **King & I Thai Restaurant and Lounge**, located in the Loring Park neighborhood of Minneapolis, is closing after 32 years of business. Employees at the restaurant at 1346 Lasalle Avenue South confirmed that the eatery would close in December.
- The owner of **Broders' Pasta Bar** will move into the south Minneapolis space vacated by the recently closed Pierre's Bistro at 50th & Penn. The plans include a casual food and wine menu.
- South Minneapolis-based garden center **Mother Earth Gardens** is opening a second location in Northeast on two parcels at the corner of Lowry Avenue & Stinson Parkway. The garden center focuses on sustainable and organic plant materials and gifts from local artists.
- **Solomon's Bakery** is expanding from the Mill City Market to a new location at 2827 Hennepin Avenue. Owner Veronica Anczarski said she plans to open as soon as she gets a green light from the city, selling pastries, bread and coffee at the former Infinita Tea House.
- **Goorin Brothers** opened their first Minnesota store at 2906 - 1/2 Hennepin Avenue in the Uptown Theatre building. It is their 26th store and now have shops in 17 metropolitan areas in 12 states and Canada.



**Happy Holidays**  
from the MSCA staff  
*Karla & Stacey*

## ELECTION OUTCOME by **Maureen Shaver, MPR's Midday**



At our September program, Maureen Shaver of MPR's Midday show, along with Todd Rapp with Himle Rappe & Company and Rich Forschler of Faegre Baker & Daniels, spoke to MSCA membership, giving us updates on the current MN legislative agendas along with their predictions on the November election. Post November 6th, we asked Maureen to give us her thoughts on some of the surprising results that happened here in Minnesota.

"The sweeping changes to the DFL with such a large margin were a surprise to even the Democrats. President Obama carried the day with voter turnout, along with an invigorated DFL base with the 'Vote No' campaign on the marriage amendment. The DFL was effective in framing their message early, focusing on the gridlock, promising that an effective and well-funded government would be part of the solution – not the problem. The GOP's message of managing the state budget effectively was drowned out by the DFL's messaging of shutdown, gridlock and higher property taxes."

What's next? Shaver says that for the first time in a generation, the DFL has control of not only the Governor's office and the House and Senate. She believes that with challenging budgets for over a decade, there is a lot of pent up demand by advocates for K-12 and higher education funding, public employees, the elderly and disabled local governments seeking expanded local government aid, just to name a few.

MSCA members will hear more from Rich Forschler, along with members of our Legislative committee, throughout 2013. Stay tuned for ways MSCA members can be effective in helping frame the discussion with our elected officials on issues important to our industry.

## MEMBER PROFILES

### Chris Hussman

Aspen Waste Systems, Inc.



**What is your primary career focus?** Giving our customers great service.  
**What is your secret talent?** I train hunting dogs.  
**What is the one word that describes you?** One word is too much and a dictionary is not enough.  
**What was the first car you owned?** A 1965 4 door Chevy Belair. It was Beige (a real gal getter).  
**What would you rather do than go to work on Monday morning?** I'd like to get 18 holes in before noon.  
**When you were a kid, what did you want to be when you grew up?** Older than my sister. Now I wish I was younger than my nephew.  
**What was your very first job?** Other than taking out the trash and doing dishes, I had a snow shoveling route in my neighborhood when I was 10.  
**Who are/were your mentors?** No doubt, my parents.  
**What is your favorite cereal and why?** Corn Flakes with Cheerios—the perfect mix of carbs for breakfast!  
**If you were an animal, what would you be and why?** I think foxes are kinda cool...  
**What are your favorite place(s) that you have travelled to?** Gettysburg, PA—it's one of those "special places."  
**How long have you been an MSCA member?** 14 years? It was so long ago...

### Sara Stafford

Arthouse



**What is your primary career focus?** Sales and business development for custom branded products.  
**What is your secret talent?** Rollerskating, being able to whip up any kind of meal with very few ingredients, and my latest one—deer hunting!  
**What is the one word that describes you?** Creative  
**What was the first car you owned?** 1976 Silver Buick Century  
**What would you rather do than go to work on Monday morning?** I don't have to go to work on Monday mornings!  
**When you were a kid, what did you want to be when you grew up?** I wanted to own a bakery so I could eat long johns.  
**What was your very first job?** Waitress at Bridgeman's on 38th & Central.  
**Who are/were your mentors?** My mother—truly the strongest and most positive individual I have ever met.  
**What is your favorite cereal and why?** My homemade granola—it rocks.  
**If you were an animal, what would you be and why?** Most any kind of bird so I could float and fly through the air.  
**What are your favorite place(s) that you have travelled to?** One of my favorite places to visit is my hometown of Onalaska, Wisconsin.  
**How long have you been an MSCA member?** Since March 1, 1998

## NEW MEMBERS

**Scott Thompson**  
Welsh Construction

**Jean Samayoa**  
CSM Properties

**Nicholas Ostman**  
Diversified Real Estate  
Services, Inc.

## MSCA SUPPORTS CENSUS BUREAU'S AMERICAN COMMUNITY SURVEY (ACS)

Retail real estate is essential to economic growth across the country. Retailers, developers and public officials throughout the nation depend on census data to make educated community planning decisions. However, this critical information is unnecessarily threatened by proposed funding cuts. Should the ACS be eliminated, there will be significant ramifications for our industry. MSCA, along with many other industry organizations and businesses, is asking Congress to continue funding the Census Bureau's American Community Survey beyond March 2013. Join MSCA with a sign-on letter to Minnesota's U.S. Senators and Representatives in support of the American Community Survey. It's good business for Minnesota.

Contact [jnaymark@gmail.com](mailto:jnaymark@gmail.com) by **January 15, 2013**.





# 2012 STATE OF RETAIL – MSCA RETAIL TOURNAMENT OF CHAMPIONS

On Wednesday, November 7, MSCA's Doubletree Park Place ballroom was filled to capacity with members ready for a timely industry overview and the chance to demonstrate their own expertise during the race for first place in the Retail Tournament of Champions.

MSCA Research Committee Chair Michael Broich of Target Corporation kicked off the event and recognized hard-working committee members who verified the data and designed the tournament questions. A big THANK YOU to our team of researchers!

The State of Retail overview was presented by the Business Journal's John Vomhof Jr. and Cushman & Wakefield/NorthMarq's Leah Maurer and Tom Martin.

John Vomhof Jr. highlighted retail-driven developments that include urban infill (Shingle Creek Crossing in Brooklyn Center) and grocery-anchored projects (222 Hennepin, the Associated Bank site at Selby & Snelling, and Penfield).

Also noted were regional mall renovation (Southdale Center of Edina and Maplewood Mall), and upcoming activity planned at Ridgedale Center in Minnetonka and Knollwood Center in St. Louis Park. Vomhof Jr. also mentioned repurposing has been popular, as evidenced at MOA Bloomingdale's space, Block E, and Gaviidae Common. Several prime vacancies in top trade areas have been filling, with more spaces opening up due to the Ultimate Electronics bankruptcy and Best Buy downsizing.

Specific retailer investments of late have included Target's Pfresh conversions and SuperTarget remodels, along with Menards rebuilds. Also of interest are the international expansions into Canada of Target and Buffalo Wild Wings.

Leah Maurer presented a three-pronged look at the economy, bricks and mortar, and investors. Economic uncertainty continues due to slow overall growth, high unemployment, and ongoing deleveraging. Things are looking up in terms

continued on next page →

## NOVEMBER 2012 PROFESSIONAL SHOWCASE



Chuck & Don's Pet Food Outlet - we're making paw prints everywhere. Our newest store is in Savage. And, we're not done yet! Our plans call for more store openings within the next year!

### STATE OF RETAIL – RESEARCH COMMITTEE

**Jennifer A. Abbott**, Jones Lang LaSalle  
**Eric Bjelland**, Cushman & Wakefield/NorthMarq  
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### MSCA RENEWALS

Watch for MSCA membership renewals coming soon. The blast email will contain simple directions for members to renew online. Make sure all of your online profile information is accurate as that will be displayed in the annual directory.



November program speakers l to r:  
**Leah Maurer**, Cushman & Wakefield/NorthMarq  
**John Vomhof Jr.**, Minneapolis/St. Paul Business Journal  
**Michael Broich**, Target Corporation  
**Tom Martin**, Cushman & Wakefield/NorthMarq  
**Peter Berrie**, Faegre Baker Daniels LLP

## Program Recap - continued from page 7

of consumer savings, positive housing indicators, a strengthening manufacturing sector and solid 10-year treasury. Still of concern is unemployment, consumer spending/income, and global political issues.

Brick and mortar trends include absorption, low levels of new construction, and ongoing repositioning. Activity in these arenas includes Southdale Center, 7-Hi Outlot building, and Lunds in Downtown Minneapolis. Noted brick and mortar activity includes CherryBerry, Whole Foods Market, Blars Blow Dry Bar, Firehouse Subs, Parmida, and Jonathan Adler. Bottom line, e-commerce combined with bricks and mortar creates the best long-term scenario.

Investors have been active in Silver Lake Village, Woodbury Commons, Arbor Pointe, Phalen Cub, Lunds at Cobalt, Oakdale Village, and Southdale Square.

At this time, retail fundamentals are key and debt markets are steady.

Tom Martin shared that retail has been busy "right-sizing," (Sears, Cub Foods - Fridley, Office Depot - St. Cloud) and creating new, smaller prototypes (Walmart and LA Fitness in Brooklyn Center).

Creative retail development has included pad creation (Cub Foods - Apple Valley and Minnetonka), re-use (Kmart -

Richfield, Blockbuster Retros), and mixed-use with retail and housing (Sydney Hall, Stadium Village Flats). Store-within-a-store is also an interesting trend (30 brands within JCPenney and Pinkberry now housed inside Macy's at MOA).

Retailers in motion include food (Moe's Southwest Grill, Caribou and Starbucks, Panda Express, Five Guys, and a host of yogurt franchises), value (Goodwill, Dollar General, Value Village), fitness (Corepower Yoga, Snap Fitness, Anytime Fitness), mattress/furniture (HOM, Slumberland, Select Comfort), grocery (Coborn's, Lakewinds, ALDI Foods, Whole Foods Market) and boxes (TJ Maxx, Costco, DXL, Gordman's). Major challenges include site selections and city issues/costs (SAC and WAC charges, existing restrictive covenants, size/design flexibility).

The Retail Tournament of Champions took place between the 2012 State of Retail updates, with rounds designed to measure both speed and knowledge. Table 2 led the pack at the end of Round 1, with Tables 3, 6, and 8 close behind. Table 10 took Round 2, and with a lead that shifted back and forth throughout, it was ultimately Table 10 that took the grand prize in the final round. A special thank you goes out to Peter Berrie of Faegre Baker Daniels LLP for a tremendous job emceeding the competition.



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