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MSCA news

VOLUME 21, NUMBER 2

FEBRUARY 2007

DISTINCTIVE FRANCHISE CONCEPTS

Feature

by Andy McDermott, Shea, Inc.

In last month's MSCA newsletter, Eric Beazley wrote a column for our new Hot Spots/Cold Snaps section where he pointed out that franchising has become an incredibly hot trend as a successful business growth strategy. In 2006, several distinctive concepts emerged as the ones to watch for 2007 and beyond. This article looks at some of these concepts, including unique co-branded concepts that are exploring unconventional pairings in order to stay a step ahead, and a number of international players that are really trying to push the envelope to compete here in the U.S.

Uncommon Pairing

By now, we are all familiar with co-branding, where two concepts share customers and retail space. Beyond the common Pizza Hut/Taco Bell

scenarios, we are seeing a new trend of unique pairings that are designed to take advantage of customers' increasingly limited time.

Subway - In Dallas, Subway and Starbucks are testing a store that combines the two ubiquitous chains. The site is at the corner of what some say is the city's busiest intersection and both chains are looking to cash in on the traffic. At the 1,200 sf location, Subway's business gets a boost during morning coffee rushes when people can grab a quick lunch for later in their day. In the evening, Starbucks beverages become signature accompaniments to the meals of evening diners at Subway.

Subway actually shares space with many entities. Of their 19,000 locations, 6,000 are

Franchise Concepts on page 2

THE CORNERSTONE

Snapshot

Location: Southwest corner of County Road 19 and State Highway 241 in St. Michael

Month/Year Opened: August 2006

Owner: Loretto Bay One, LLC

Managing Agent/Center Manager:
Shingobee Real Estate Services

Leasing Agent: Michelle LaGue, Northstar Partners, (952) 465-3326,
mlague@northstarpartners.net

Architect: RSP Architects

Construction Contractor: Shingobee Builders, Inc.

GLA: 15,000 sf Retail/Office, 11,000 sf Pharmacy

Anchor Tenants: Thrifty White Drug

Market Area Served: Northwest Metro – Rogers, St. Michael, Albertville



Additional Facts/Narrative: The Cornerstone is a mixed-use redevelopment including a 15,000 sf two-story multi-tenant retail and office building and a 11,000 sf Thrifty White Drug retail pharmacy building. The Cornerstone is prominently located at the corner of "Main & Main" in downtown St. Michael adjacent to professional buildings, restaurants, schools and established businesses. Retail and office suites with flexible sf and competitive lease rates are currently available.

FRANCHISE CONCEPTS *continued*

co-branded with arrangements that include Wal-Mart stores, hospitals, churches and even a Harley-Davidson dealership.

Batter Up – This children’s cooking school has had one location in Austin, Texas for fifteen years and the demand for more from this fine-tuned organization helped to launch their franchising division in 2006. The school offers cooking and nutrition classes and arranges parties and field trips for children ages two through 15. In addition to the school, this concept incorporates retail, taking advantage of the captive audience—the parents of the students—thrusting them into a world of products and gifts including a “Batter Up Kids” line of children’s culinary products and cookbooks.

The Grape - With more than 25 locations nationwide, The Grape contains two separate but complementary businesses running side-by-side: a Wine Bar and a Retail Seller. The wines in the shop are organized according to a color-coded (and copyrighted) 10-part classification system that helps both experts and novices choose the perfect wine based on descriptions for entire sections such as “light body white wines with a just-picked fruity flavor.” The non-intimidating and pleasurable atmosphere extends to the bar, where they practice their motto, “Your taste is all that counts.” The store’s 120-150 varieties are available at the bar by the bottle, glass or flight and a full menu of small-plate gourmet fare designed to complement the wine list is available.

KnowFat! - A front-runner in the new ‘healthy fast-casual’ category, KnowFat! offers healthier versions of fast foods by offering better-for-you menu items like chicken meatball wraps, honey mustard turkey tips, lean cheeseburgers with low-fat cheese and “AirFries™” where the fries are baked to a golden brown and then blasted with hot air in a German oven. In addition to this, KnowFat! has a convenience-style retail store that carries health-oriented nutrition products like vitamins and supplements. The combination of concepts works well: the restaurant does more volume, while the store’s products provide better margins. Minnesota has one location in Oakdale and the franchisee has rights to develop three more over the next three years.

Coming to America

According to Marcel Portmann, vice president of international development at the International Franchise Association, about 80 foreign franchises exist in the U.S. and another 50 have plans to come this way. The challenge for foreign concepts is that they really need a good hook in order to be successful here. This point of difference is actually helping some companies to pioneer new markets in the U.S. and it is helping these rising international concepts stand out stateside:

Vapiano – German-based Vapiano is cashing in on the healthy fast-food niche. It began in Hamburg in 2002 as a fast-casual Italian food restaurant. Customers use an electronic chip card at their table to order drinks from the bar and customized dishes from the individual pizza, pasta or salad stations. After ordering, customers can interact with their own ‘personal chef’ at one of the stations. Once they are ready to leave, guests present their card to the host who scans it into the register, revealing their total. Units are 5,000 to 8,000 sf, seat 150 guests and have a check average of about \$13.50 per guest.

Beard Papa – Beard Papa opened their first bakery carrying the “World’s Best Cream Puffs” in Osaka, Japan in 1999. Their cream puffs are fresh-baked pastry puffs filled with whipped cream custard at the time of order and topped off with a sprinkle of powdered sugar. The concept has grown throughout Asia and Australia with over 250 cafes. The sweet treats are catching on quickly here in the U.S. In 2006, they went from 16 to 22 U.S. units, mostly on the coasts, with Seattle and Chicago stores to be added soon.

Aussie Pet Mobile – This Australian based company is a mobile pet grooming operation that offers a 15-step grooming treatment including shampoo and blow dry, massage and a specialized FURminator™ “de-shedding” process for your dog or cat. The climate-controlled, custom designed Mercedes Sprinter van travels to the home of the customer offering convenience for the pet owner and comfortable, familiar surroundings for the pet. The company has rolled out units in 13 countries and currently has over 300 units in the U.S.

Showcolate – Set up as 100 sf kiosks, this concept offers 20 different menu items such as fruit skewers drizzled in milk, dark

or white chocolate. This Brazilian fruit and chocolate fondue concept currently has more than 100 international locations in shopping malls. In the U.S., Texas has two locations with eight more in development. Showcolate president of operations Ricardo Marques has plans to open 34 additional U.S. sites this year.

Buzz Worthy?

In my research, I came across some one-of-a-kind and offbeat franchise concepts that are apparently creating a buzz in some parts of the country. You decide if this market is ready for any of the following:

Remote Control Hobbies: A retailer and event organizer serving remote-control vehicle racing fans. They also hold racing events and organize clubs.

Freedom Boat Club: Membership allows you to use any of its large variety of boats on a reservation basis and they take care of all the prep-work, cleanup and maintenance of the hobby.

Caring Transitions: This company helps clear homes of their contents in certain cases like loss of loved ones or divorce. Clients include families, attorneys, realtors and funeral directors and this business helps sell items, ship them to family members or donate to charity.

Ovenu Oven Detailing Service: This company will come to your house and clean your oven and other kitchen appliances. Their motto: “We’ll finish what your ‘self-clean’ doesn’t.”

Positive Changes Hypnosis Centers: This drop-in center offers hypnosis programs for those looking to lose weight, quit smoking, reduce stress, improve athletic abilities and more.

Sources: Entrepreneur.com, Franchise Times, Nov/Dec 2006, Franchise Times, Jan 2007, Retail Traffic, December 2006, and Web sites of each concept. ■

FEBRUARY IS NATIONAL SPECIALTY COFFEE MONTH

Coffee consumed away from home is unequivocally dominating consumers’ spending on coffee in the U.S. Five years ago it accounted for 58% of the coffee sales, and in 2005 it reached nearly 68%. The U.S. coffee market reached a value of \$26.2 billion in 2005, and is forecasted to grow over 20% to \$34.4 billion in 2010.

BE ICED

Rising Star

by Rachel Rose, Suntide Commercial Realty, Inc.

"The world just doesn't need another [typical] jewelry store."

—Duane Wermerskirchen, President, Be Iced

In honor of Valentine's Day, I began a search for a new or improved jewelry store concept in the metro area to feature in this month's newsletter. It didn't take long to come up with Be Iced.

Be Iced is the brainchild of its president, Duane Wermerskirchen, a 25-year veteran of the jewelry business with Real Gem Jewelers, another well-known store in Shakopee. Duane's venture-partner, Dave Pomije, is best known for his work as owner of Second Swing, a golf-equipment retail store, and the Minnesota-made "Funculand" used games enterprise, which was sold in 2000 to Barnes & Noble for approximately \$162 million.

The first Be Iced store opened in October, 2005 out of the Yorkdale Shoppes complex in Edina. This upscale store features both new and completely refurbished jewelry for sale seven days a week. The twist? Clients can also bring in their own outdated/antique/under-sized jewelry to trade or simply cash in on. The ability to trade in your yellow gold jewelry for a nice platinum or white gold piece has been a recent craze.

Be Iced plans on adding two or three stores in the Twin Cities metro in 2007, potentially followed by the Wisconsin market. They are most interested in 1,500 sf class A properties in Woodbury, Maple Grove, Roseville, Minnetonka and areas south of the river. Please contact Dick Crandall at (612) 759-9154 with your potential site information, and Happy Valentine's Day!



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THE NEW 212 CORRIDOR:

Program Recap

by Christopher Naumann, KKE Architects, Inc.

Who: Kate Aanenson; City of Chanhassen
Kevin Ringwald; City of Chaska
Jim McComb, McComb Group, Ltd.

What: Discussion of the new 212 highway expansion and how it will impact the Southwestern Metro real estate market.

When: Wednesday, January 3

Where: Sheraton Bloomington Hotel

Synopsis: The program, moderated by Ben Krsnak of Hempel Properties, presented the scope of the new 212-highway expansion through the Southwest corner of the Twin Cities metro. The highway, projected to open in the spring and summer of 2007, will open a door to the communities southwest of Eden Prairie and the Minnesota River who have had no direct access in the past. The communities of Chanhassen and Chaska will be most affected by the new highway.

According to Kate Aanenson, Director of Community Development for Chanhassen, the region that 212 will be servicing had previously been choked off by access problems due to Lake Minnetonka and the Minnesota River to the North and Highway 169 corridor to the



January presenters: Left to right

Ben Krsnak, *Hempel Properties, Inc.*, Kevin Ringwald, *City of Chaska*, Kate Aanenson, *City of Chanhassen*, Jim McCombs, *McComb Group, Ltd.*

Southeast. Most development has focused on the 169 corridor or the area north in Eden Prairie, near the beltline. Aanenson commented that there will be two major interchanges along 212 in Chanhassen, and both will be rapidly developed. Although retail is definitely included in the master planning, a large portion of the property in question will be mixed-use in nature with a commercial base. A major transit hub by Southwest Metro will service retail, residential property, and park 800 vehicles in a park and ride bus service along 212. There is also speculation for a regional mall in the form of a lifestyle center, which is being studied in the Chanhassen area as well.

Program Recap on page 4

MINNESOTA

Marketplace

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

- **Cyrus**, currently located at the Galleria will be relocating to the freestanding building that fronts Highway 494. The building is adjacent to Southgate Office Tower with Billabong's. Shea, Inc. provided design and architecture for the renovation. Look for the retailer to open by February 15th.
- **Gabberts** expects to complete its nearly \$5 million store remodeling by mid-February, bringing several changes to the downsized, high-end furnishings retailer. Design work was handled by RSP Architects.
- **Café di Napoli** will be opening soon in its new location at 6th Street and Marquette at 6 Quebec building.
- **Peter's Grill** recently reopened in downtown Minneapolis.

HOLIDAY RECAP

Deals on high definition televisions appeared too good to pass up as the consumer electronics market helped boost holiday sales by 4.4%. A last minute burst of online shopping in the final run-up to Christmas helped lift holiday retail sales to a record \$24.7 billion, up 26% from \$19.6 billion a year ago. Much of the increase occurred in the final two weeks before Christmas, as retailers went out of their way to accommodate procrastinating shoppers by guaranteeing prompt deliveries and pickup service. Shoppers also had a final two-day end of a season push. And, some retailers resorted to Black Friday tactics such as early-bird specials, longer hours and giveaways to push sales further. ICSC estimated that four out of five households shopped later this year.

Consumer spending between Thanksgiving and Christmas rose a modest 3%, after adjusting for the extra shopping day. Unseasonably warm weather, a slumping housing market, and the lack of hot toys had a clear impact on consumer spending. Retailers priced their inventory aggressively to move it and shoppers saw favorable prices in January.

Holiday purchases of high-end electronics such as video games systems and plasma televisions helped December sales at electronics and appliance stores rise an impressive 13.7% unadjusted from December 2005. Internet sales accounted for 7% of the total holiday spending, but Target and Best Buy posted 50% gains over their online numbers from 2005.

If you didn't know what to get that special person in your life, chances are you probably purchased a plastic card this holiday season. Consumers were expected to spend more than \$72 billion on gift cards in 2006, up from \$51 billion just two years earlier. But 12% or \$8.7 billion of the total value of cards purchased last year will probably go unused.

WELCOME

New Members

- Megan Ballard**, CBL & Associates Properties, Inc.
- James Elwood Larson**, Madison Marquette
- Tony Grooms**, ACI Asphalt Contractors, Inc.
- Gene Tierney**, Grubb & Ellis/Northco
- Alan Duff**, RLK Incorporated
- Brandon Abrahamson**, United Properties
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- Tiffany Thomas**, Platinum Properties Group, Inc.
- Andrew Marchant**, Village Green Landscapes, Inc.
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- Mike Tobias**, EastBank

PROGRAM RECAP *continued*

Kevin Ringwald, Director of Planning and Development for Chaska, reiterated Aenenson's comments on the significance that 212 would have on his community as well. The 212 corridor would, in essence, create a shorter commuting distance to the core metro than what currently exists in other communities south of the Minnesota River. The increased convenience and access that 212 will provide will open the door to development in Chaska. According to Ringwald, an economic development effort focusing on the biosciences will open over 380 acres to development for the biomedical field. This economic development effort will bring a flood of new residential and commercial development opportunities along with it.

Jim McComb of the McComb Group, Ltd. then presented current and projected market data to show current demographics along with the expected impacts of 212 on the Southwest metro. According to McComb, the current number of households that earn at least \$100,000 are spread out in such a way that three separate trade areas might be supported in that region. Add to that the projected growth patterns that focus much attention on the second tiers of the metro, and the strong potential for commercial development is apparent for the area around the 212 expansion. ■

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

Sevenich Receives Promotion

Kraus-Anderson Realty Company has promoted Paul R. Sevenich, CCIM to vice president of leasing and marketing. Sevenich had served as the company's director of leasing and marketing.

Moran Joins Muir Doran

Muir Doran Construction, Inc., has hired Tom Moran for Business Development.

Rome Joins MOA

Holly Rome joined the Mall of America in the leasing department.

Shea, Inc.

Interior Design magazine named Shea, Inc. as a 2006 Hospitality Design Giant. Shea came in 61st in the magazine's survey of the nation's largest interior design firms ranked by hospitality design fees. Shea also made DDI magazine's annual list for the Top 100 Design Firms. The list ranks national interior design firms according to reported design fee revenues.

Jones Lang LaSalle

Jones Lang LaSalle has recently been named on *Fortune Magazine's* 100 Best Companies to Work For list for 2007 as well as the *Forbes* Platinum 400 Best Big Companies list.

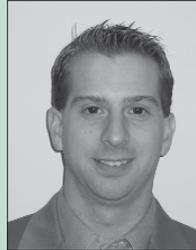
Burnsville Chamber Honors Linvill

Margaret D. (Maggie) Linvill was honored as the 2006 Business Person of the Year by the Burnsville Chamber of Commerce at the Chamber's annual Holiday Gala, Thursday, Dec. 14.

RLK Incorporated provides professional consulting services for the development or redevelopment of land, including land development, land surveying, civil engineering, landscape architecture and traffic engineering. With five offices located throughout Minnesota, RLK offers expertise in working with developers, property owners and communities for commercial, industrial, mixed-use, retail and residential development throughout the United States. RLK - working with clients to create extraordinary communities.



SCOTT EMMACK



Company: Kraus-Anderson Companies

Primary Career Focus: Leasing Office/Retail

Family: Wife - Stacy, Children - Isabella (8 years), and Alex (18 months)

Very First Job: Groundskeeper at Woodhill Country Club

Dream Job: Caddie on the PGA Tour

Secret Talent: Ping pong and air hockey

JEN HELM



Company: United Properties

Primary Career Focus: Retail Brokerage, representing both landlords and tenants in the market

Hobbies: Does shopping count as a hobby?

Dream Job: A lounge singer - which would be pretty difficult since I can't sing

Secret Talent: I was a make-up artist for a few years doing a few print ads and TV commercials and I also went to school in California to learn the special effects side of the business such as bullet holes, burns and scars like you see in the movies.

MSCA Involvement: Co-Chair of Research/Retail Report Committee

Our monthly program meeting date is the first Wednesday of every month. All meetings will be held at 8:00 a.m. (registration at 7:30 a.m.) at the Sheraton Bloomington Hotel unless otherwise noted or publicized before the program. Program topics and location are subject to change.

Wednesday, February 7 – Trends, *Doubletree Hotel Minneapolis Park Place*

Wednesday, March 7 – Shopping Center/Mall Focus

Wednesday, March 14 – Business Day at the Capitol, *Crown Plaza Hotel*

Wednesday, April 4 – Development, *Doubletree Hotel Minneapolis Park Place*

Wednesday, May 2 – Retailer Focus

by Jay Scott, Solomon Real Estate Group Inc.

We all know that MSCA is a wonderful organization that provides great programs, educational opportunities and important networking contacts. This past year MSCA surpassed the 700-member mark with the addition of 159 new members. The average attendance at the monthly programs increased to 265. We also continued to cross-market with other industry-affiliated associations by co-sponsoring successful joint programs with the Minnesota Real Estate Journal and the International Council of Shopping Centers (ICSC). As we enter 2007, the challenge to continue to expand MSCA into new and exciting territory has been laid down by the leaders that have gone on before us.

As you could probably guess, a successful organization such as MSCA doesn't simply run on autopilot. It takes many volunteers

and their focused commitment of time and energy to make MSCA the quality organization it is today. The effort to lead this organization begins with the strong leadership of Karla Keller Torp, Executive Director of MSCA, and Stacey Bonine, Associate Director of MSCA. Their watchful eyes and careful attention to detail is what makes our organization run so smoothly - so much so that we can enjoy the many benefits without questioning or concerning ourselves about the sizable effort it takes behind the scenes.

Each year MSCA also elects a number of Officers and Directors from its membership body to lead the organization (the Board). The Board is the responsible party for making all major decisions on behalf of MSCA. The 2007 Officers are as follows: President, Jay Scott; 1st Vice President, Bruce Carlson; 2nd Vice

President, Cindy MacDonald; Secretary, Brett Christofferson; and Treasurer, Ken Vinje. The 2007 Directors include: Sara Stafford, Missy Schmidt, Deb Carlson, Tom Madsen, Tony Pasko, Peter Berrie, Bill McCrum and Stefanie Meyer.

If you haven't had the opportunity to serve MSCA in the past, or haven't served recently, I encourage you to get involved. You won't be disappointed. In addition to serving on the Board, there are eleven committees to serve on covering a wide variety of events and tasks. Over the course of this year, the "Committee Chat" column will provide you an opportunity to get to know each of these committees and their missions in serving this organization as a different committee will be featured each month. The MSCA Board looks forward to serving you in 2007.

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VALENTINE'S SPENDING

The average consumer will spend \$100.89 on Valentine's Day, up from \$97.27 last year, according to the National Retail Federation's 2006 Valentine's Day Consumer Intentions and Actions Survey, conducted by BIGresearch. Almost 61% of consumers plan to celebrate the holiday, and the NRF is forecasting total 2006 Valentine's Day retail sales to reach \$13.70 billion, up from \$13.19 billion last year.

Valentine's Gift Giving Facts:

- The average male plans to spend \$135.67.
- The average female plans to spend \$68.64.
- 62% of consumers plan to purchase at least one greeting card.
- 47.1% of consumers plan to buy candy.
- 42.1% plan to spend on an evening out.
- 10.9% of consumers plan to give gift cards or gift certificates.
- 52.3% of men and 14.9% of women plan to buy flowers this Valentine's Day.
- 22.4% of men and 7.3% of women plan to purchase jewelry.

by **Jake Schwamb**, Commercial Equity Partners

What are lifestyle centers and what seems to be driving their rapid growth? Lifestyle centers are typically boutique-type shopping hubs with a “Main Street” feel that are usually located near affluent residential communities. Most often they feature upscale stores and restaurants. In contrast to indoor shopping malls, lifestyle centers are open-air venues that allow shoppers the convenience of driving right up to their desired store.

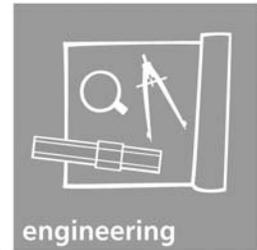
Fueling the growth of lifestyle centers is consumers’ demand for convenience and the slowdown in traditional mall construction. Not only are major retailers adapting to lifestyle centers, they’re also noticing higher sales and less operating costs than in traditional enclosed malls. A trend that was originally limited to warmer climates has spread to cold-weather cities and does not seem to be losing momentum.

Another emerging trend that has evolved from the traditional mixed-use development and lifestyle center is the “Business Lifestyle Campus™”. A Business Lifestyle Campus is an open-air, pedestrian-friendly campus that positions a combination of larger anchor stores, restaurants, and a variety of office, retail and service businesses in a “Main Street” setting offering ample parking. They are similar to their precursor, the lifestyle center, with one key point of differentiation: a Business Lifestyle Campus provides a traditional business setting on a campus that also offers retail and other amenities such as a first-class hotel.

In Minnesota, Tamarack Hills in Woodbury will be the first of this new “Business Lifestyle Campus™” and is being developed by Commercial Equity Partners. Physically, Tamarack Hills will have a traditional “Main Street, USA,” streetscape, featuring old-world brick

buildings surrounded by walking paths, fountains and green spaces resting on 80 acres just off the I-494/94 exchange in the heart of Woodbury. Tamarack Hills is comprised of 12 class A office buildings and eight retail service buildings offering a total of 280,000 sf of office, 150,000 sf of retail, and a 150-room first-class Sheraton hotel in a highly attractive, highly visible and easily accessible campus setting. The first phase of construction is well underway and approximately 80% pre-sold.

It’s all about ambience and convenience as the lifestyle centers’ success has demonstrated to us. The “Business Lifestyle Campus™” will blend convenience for the retailer and the professional as well as the residential consumer market. Look for more of these types of developments in years to come as they provide a destination designed for the way people want to work, shop and live. ■



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