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FEATURE by Andy McDermott, Shea, Inc.

THE GREENING OF RETAIL

The green movement continues to charge ahead, and eco-friendliness and sustainability practices are rapidly becoming normal ways of life. Consumers and businesses have long realized the need to protect our resources, but lately they desire to be in the forefront of the movement, because it is not only good for the planet and good for our future, but it's good for the soul. Consumers are purchasing more green products and services—from clothing to cars to food—and are even indicating that they will pay a little more for these because it makes them feel good. Businesses, which are always driven by the bottom line, are enticed by the potential cost savings of going green, and the same "good for the soul" feeling creates some unique marketing opportunities.

With the proliferation of eco-consumers that are eager to spend with companies that have sustainable strategies, it is interesting that the retail industry is so slow to jump on the eco-bandwagon. Surveys continue to show—and it is becoming abundantly clear—that consumers like, and are willing to pay more for, eco-friendly products. A survey

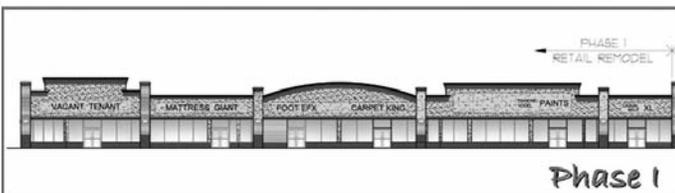
sponsored by DuPont and Mohawk Industries showed that 65% of U.S. consumers are willing to pay more for products made with renewable resources, and a report by the National Restaurant Association (NRA) claims that 64% of adults 35-44 say they would pay more for food grown in an "environmentally friendly way." But retailers are not able to rapidly respond to these attitudes because they have few models to follow and do not have the same resources and guidance as other industries, such as office real estate.

Follow The LEED-er

In office building design and construction, the LEED point system, specifically designed to entice builders and drive the market in a green direction, has been overwhelmingly embraced in the last few years. LEED certification from the United States Green Building Council (USGBC) provides independent, third-party verification that a building project is environmentally responsible, sustainable and provides a healthy place to live and work. LEED certification is an immediately recognizable and respected stamp of approval.

SNAPSHOT

MAPLEWOOD TOWN CENTER



Location: Maplewood
Month/Year Opened: 1987 (original). 2008 (remodeling)
Owner: Maplewood 2007, LLC / H.J. Development, Inc.
Managing Agent: Jeff Cariveau
Center Manager: Angie Jasperson
Leasing Agent: H.J. Development, Inc. Chris Moe (952) 476-9400 x114 & Joe Mahoney (952) 476-9400 x120
Architect: Remodel – Pope Architects
Construction Contractor: Remodel – Fendler Patterson
GLA: 110,608 sf. **Current Occupancy:** 60% Occupied
of Stores: 10. **Anchor Tenants:** Best Buy
Market Area Served: Northeast Metro
Construction Style: Steel/Masonry
Additional Facts/Narrative: Maplewood Town Center is located across the street from the Maplewood Regional Mall, and offers excellent visibility/access to I-694. In the upcoming remodeling, the existing façade will be refaced, the parking lot refinished, landscaping added, and new monument signs erected on the north & south sides of the property. Current leasing opportunities range from 1,000 – 40,000 sf; call for information or to schedule a tour!

The Greening of Retail - continued

According to the Department of Energy, buildings account for 71% of America's electricity use and 38% of all greenhouse gas emissions, and LEED-certified buildings cut those numbers by an average of 25-30%. More than 6,500 projects have registered for LEED certification since 2000, and 42,000 people have passed exams to become "LEED-accredited professionals." Two federal agencies, 22 states and 75 localities have instituted policies to require or encourage LEED.

Many LEED-certified new construction office developments have realized immediate cost savings from new technologies and sustainable practices. Developers are also retrofitting older office buildings to realize cost savings over time, but they are immediately reaping the marketing benefits of being associated with a green building. The office industry has blazed the trail for greening retail buildings, but there are many distinct challenges in the retail sector.

More Guidance Needed

Uncertainty about return on investment seems to be the main reason retailers remain on the sidelines, and so far, there is not a lot of guidance for retailers or retail property owners on how to make their operations greener while remaining profitable. Office projects have been successful because LEED standards are in place, but the guidelines are geared more specifically to those types of properties. With few guidelines and few clear financial incentives, retailers are not entirely sure how to respond.

The USGBC is currently creating a LEED program for retail projects. They are testing guidelines through a pilot program that will have two rating systems—New Construction and Commercial Interiors. Standards for retail certification will include reduced water use and carbon emissions, less waste and electricity consumption, with extra points given for indoor air-quality management plans, construction waste recycling, reflective roofing, water harvesting, energy performance testing, incorporation of regional transportation routes and preferred parking for hybrid vehicles.

The USGBC is challenged with creating different types of LEED certifications for different types of retailers. Grocery stores, big boxes and restaurants, for example, are more energy-heavy than smaller specialty retailers and, as such, should be treated differently.

Getting on Board

Individual specialty retailers often do not have the capital to make green changes, but even

small changes make immediate positive differences in their operations. Estimates have been made that spending an additional 5% on energy efficient equipment such as heat exchangers and tankless water heaters in a new build could take two to five years to pay for itself, which is often too long for smaller retailers. But once installed, such equipment could immediately trim operating costs by 10%. Steps that are within reach for most retailers include cutting holes in ceilings to allow daylight, placing lights on timers, and turning off equipment that is not in use.

Some companies, however, believe making dedicated efforts toward sustainable practices just makes good business sense—regardless of the initial cost. Simply put, it makes them feel good and it makes them look good when consumers recognize their efforts. Another part of the business case is that if you are not starting to look at sustainability, your competitors are. Some large companies, like REI and Whole Foods, have been using green practices for years, while others like Wal-Mart have recently adopted LEED-style policies.

Wal-Mart has begun implementing sustainability from the bottom up and across the entire company. The company is saving more than \$1 million annually thanks to a store associate that questioned the necessity of having vending machine lights in break rooms glowing 24 hours a day.

A few progressive retailers have begun testing green prototypes. L.L. Bean opened three eco-friendly stores in 2007, with capital costs that were approximately 5% to 7% higher. These stores are running into the double digits over projections. Safeway unveiled its first 55,000 sf solar powered grocery store in California with its own wind powered gas station.

Regardless of cost, the greening of retail and restaurants will continue. Scot Case, a VP at TerraChoice, an environmental marketing consultancy, was quoted in *Chain Leader* as saying that every industry he has looked at in the last 15 years has followed a similar cycle and that retail is at the beginning of the cycle. "A few small, innovative, almost irrelevant companies do something green and get noticed. That captures the attention of larger players who first deny what the smaller players are doing is relevant and later that it's important but too expensive. Then one of them does it for publicity reasons and figures out there is money to be made. They have a competitive edge for 3-5 years. Then the rest catch up."

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Sources: www.PlainVanillaShell.com / www.ddi.com / www.environmentalleader.com / Phoenix Business Journal / Washington Business Journal / Twin Cities Business Journal / Retail Traffic magazine, October 2007; December 2007; April 2008 / Chain Leader magazine, February 2008; March 2008 / Chain Store Age magazine, February 2008 / Fast Company magazine, October, 2007

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To partner with like-minded clients in creating long lasting and rewarding relationships.

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Landform is committed to the development of long-lasting client relationships, the design of quality exterior environments, and the resolution of challenging site situations through technical excellence and professional ingenuity.

Let There Be Lights!

Our vision is to grow personally and professionally, with integrity, in order to make the light of Christ known through the installation and servicing of both traditional incandescent and new energy saving LED Christmas lighting.

HOT SPOTS / COLD SNAPS by Natina James, KKE Architects, Inc.

SILVER LININGS OR END OF FAMILY VACATIONS

You've heard rumors that Americans will drastically reduce travel via air and road because of the economy, the rising cost of fuel, and hidden or new fees in air travel. Is it so?

Some believe that rising costs will help improve the ailing air industry. "In recent months, the insanely high price of jet fuel (\$3.22 per gallon last week), the credit crunch and the slowing economy have done

what regulators and politicians were unable to do: persuade airlines to give up valued landing slots."¹ Air carriers are also cutting out inefficiencies with US Airways eliminating 30% of overnight Las Vegas flights, and Delta and Northwest reducing overall flights by 10% & 5%, respectively.² Air carriers also use this time to retire inefficient jets.

What can the air traveler now expect? Expect to see new fees for bag weight, allowable number of bags, and changes for redeeming frequent flier miles. Some airline charges have increased from \$25 to \$50 for overweight bags; \$80 to \$100 for oversized bags and \$10 to \$180 for additional bags.³ It's suggested that you check with your carrier prior to flying to understand its current regulations and fee structures. Fees can change depending on when you're flying. You definitely want to avoid the costly mistake of having an "overweight and oversized" bag, which can run up to \$105 on most carriers. If it's your third piece of luggage, the fee can double to \$200.

As for frequent flier miles, Northwest Airlines will charge \$50 if you redeem your miles within 10 days of your departure.⁴ American Airlines is one of the worst offenders adding \$150 to \$300 surcharge when consumers upgrade a coach ticket when it was purchased for less than full fare.

A strategy sometimes used by automobile drivers and now being tried by the airlines is to slow down. Southwest Airlines is saving \$42 million in fuel this year by extending each flight by one to three minutes. "United Airlines has invested in flight planning software that helps pilots choose the best routes and speeds. United estimates the software will save it \$20 million a year."⁵

Even with these savings, the fares probably will not remain stable. "I think that the rise in fares is inevitable," said James May, president of the industry group ATA.

According to ATA, this is especially true considering that today the cost of fuel currently is 35.6% of the price of a ticket compared with 15% in 2000.⁶

As for improving day-to-day transportation, slowing down could actually keep

you going to the cabin. "In a typical family sedan, every 10 miles per hour you drive over 60 is like the price of gasoline going up about 54 cents a gallon."⁷ Automobiles utilize 40% of their energy pushing around air at highway speeds. As a vehicle goes faster, it increases the pressure in front of the vehicle and the low pressure "hole" behind the vehicle gets bigger creating drag. "The increase is actually exponential, meaning wind resistance rises much more steeply between 70 and 80 mph than it does between 50 and 60 mph."⁸ On a 400-mile trip, you can choose to drive 10 mph faster to save 50 minutes (assuming you're not ticketed) or save approximately \$6-\$10 in gas depending on your vehicle. If gas prices keep rising and pocket books keep getting pinched, driving slow could be an easy way to save.

How will the current state of affairs affect travel this summer? The expected drop in air travel from June 1 to August 31 is 1.3% compared to last year according to ATA. "International air traffic originating in the U.S. this summer will likely be slower...[but] the weak dollar and economic growth in other parts of the world makes the U.S. an attractive destination, and a good value for inbound leisure passengers," said Steve Loft, a spokesman for the International Air Transport Association.⁹

What will you and your family do?

^{1&2} Silver Linings in the Sky – Newsweek, April 11, 2008

^{3&4} <http://money.aol.com/top5/general/sneaky-travel-fees-1>

⁵ Planes Slow Down to Save Fuel – CNN.com/travel – May 6, 2008.

⁶ High Fares to Cut into Summer Air Travel – CNNMoney.com – May 13, 2008

^{7&8} Slow Down a Little, Save a lot on Gas – CNNMoney.com – March 27, 2008

⁹ Summer Travel Forecast: Fewer Fliers But... – CBSNews.com – May 14, 2008



EVENTS

- Jun 16 **MSCA Golf Tournament**
Jun 9 **Monthly Program:**
Professional Development
Aug 6 **Monthly Program:**
Transportation
Sep 9 **MSCA/ICSC Joint Program:**
Minneapolis Convention Center
Oct 1 **Monthly Program:**
Development

For program place and times and more info, please go to www.msca-online.com

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PRESS RELEASES

MN MARKETPLACE

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

- **Corona Cantina #1** is coming to the Mall of America in Bloomington this summer. The restaurant will occupy 13,000 sf on the fourth level and will feature Mexican and Tex-Mex cuisine as well as Corona-branded apparel and gear.
- **BCBG Max Azria** has opened its first freestanding store in the Midwest at Galleria in Edina. You can find them right next to the new Crate and Barrel.
- **Covered**, in Dinkytown, has opened a second store in Uptown at 1201 Lagoon Ave., Minneapolis, featuring an expanded selection of their denim fashions and accessories.
- A new maternity-wear consignment store in south Minneapolis, **Nine**, has opened at 5456 Nicollet Ave. S. in Minneapolis.
- **Tri Fitness** has opened in White Bear Lake at 2193 Fourth Street. The shop was designed for triathletes, by local triathletes.
- **Kiddywampus** has relocated from its 44th and France location to a larger store in St. Louis Park. The new shop is located at 4400 Excelsior Boulevard, one block east of Excelsior & Grand.
- The first **PureBeauty boutique** is now open at Mall of America. The new concept, by Regis, is the next evolution of Trade Secret stores.

2008 LAS VEGAS/ICSC RECON

by **Deb Carlson & Jenny Colianni**, both of **Cushman Wakefield**, and **Lisa L. Diehl**

RECon, the world's largest retail real estate convention, featured over 2 million sf of exhibit space with over 1,500 companies exhibiting at this year's ICSC convention in Las Vegas. At press time, attendance was close to last year's record level of 50,000. Although the overall feeling at the convention had still a bit of caution about the economy, the good news was that retailers are still doing deals and the slow U.S. economy is generating brisk business for some development companies. Highlights from the convention included:

- ICSC Hot Retailer Awards included: restaurants **Five Guys Burgers and Fries**, **Pinkberry**, **Pollo Campero** and **Stir Crazy**, women's fashion boutique **Apricot Lane**, Australian board-sports chain **Billabong**, convenience grocery concept **Fresh & Easy**, **L.L.Bean**, and build-your-own-toy-car retailer **Ridemakerz**.
- RECon still showcases the globalization of our industry. The rest of the world isn't going through the same heartaches as the USA in its slumped economy. We can learn from unique projects underway in Dubai, India, China.
- Real estate prices are coming down to realistic levels allowing developers to consider projects that were too costly last year. Also, strong companies are taking over developments that others have been unable to finance.
- Lenders have seen small improvements in the capital-lending markets over the past 45 to 60 days and are encouraged even though many lenders feel it could take 14 months or longer to achieve pricing equilibrium.
- Keynote speaker, JC Penney, Chairman and CEO, Myron "Mike" Ullman told attendees that innovation is the key to success because many shoppers are looking for something new. For many people, shopping is an indulgence or an escape, and they want to see something new and different, he said.
- Minnesota retailers with booths included: Anytime Fitness, Great Clips, Lifetime Fitness, SuperValu, Maurice's/Dress Barn, Regis.

MEMBER PROFILES

Jack Appert

Kraus-Anderson Companies



Primary Career Focus: Real Estate Development

Hometown: Stillwater

Education: BSBA in Real Estate & Construction Management from University of Denver

Hobbies: Hunting, Fishing, Flying, Golf

Very First Job: Shipyard at Sunnyside Marina on the St. Croix River

Dream Job: I'm doing it

Secret Talent: Weird question...none that I know of

Favorite Food: PEZ...Cherry PEZ...No question

MSCA Involvement: Golf Committee, Research Committee

Kathleen Hooley Hayden

Mall of America



Primary Career Focus: Commercial Real Estate Attorney

Hometown: Stillwater

Education: B.A University of Colorado, Boulder - J.D. Hamline Law School

Family: Husband, Terry Hayden, three fabulous children

Hobbies: Boating, skiing, reading and tennis

Very First Job: Ice cream shop

Dream Job: I have it

Secret Talent: I can make a perfect margarita

Favorite Food: Anything with sugar in it

NEW MEMBERS

Mark Anderson

McCombs Frank Roos Associates

Joe Kaltsas

Kimley-Horn

Paul Pearson

McCombs Frank Roos Associates

The Caring Tree Receives \$10,000

MSCA and The Caring Tree would like to thank **Susan Smith** from TRS Commercial Real Estate, Inc. for nominating The Caring Tree to receive \$10,000 from the Edina Federated Women's Club.

MEMBER NEWS

Clark Launches New Corporate Website. Clark Engineering has launched its new corporate website at www.clark-eng.com. The completely re-designed site aligns key information with Clark's proven and solution-oriented atmosphere.

Marquette Real Estate Holdings Acquires RJM Construction. Marquette Real Estate Holdings announced its acquisition of general contracting firm RJM Construction. RJM Construction will join the Marquette Real Estate Holdings portfolio, which includes United Properties and NorthMarq Real Estate Services. In conjunction with the acquisition, United Properties Construction Services will be integrated into RJM beginning immediately.

Shea, Inc. Takes Top International Creative Award. Shea, Inc is a bronze winner in the 2008 Summit Creative Awards® competition for its creative design work for Cambell Mithun Tower. Among thousands of submissions from 26 countries, Shea's marketing campaign design for Campbell Mithun Tower scored among the very best.

Coldwell Banker Commercial Announces Addition of Griffin Companies. Coldwell Banker Commercial Affiliates announced the addition of Griffin Companies to its national affiliated network. The firm will be known as Coldwell Banker Commercial Griffin Companies.

MSCA Moves Suites

MSCA has moved its offices to a different suite. The new address is: **8120 Penn Avenue South Suite 464** Bloomington, MN 55431

MSCA would like to extend a huge thank you to **KRAUS-ANDERSON COMPANIES** for assisting with the move.

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PROGRAM RECAP by David Stalsberg, Kraus-Anderson Companies

THE DETAIL ON RETAIL: CAPACITY, CAPITAL AND CREATIVITY

MCSA assembled a fascinating trio for its May breakfast program, each contributing market information and activity from a different perspective: Lauri Brunner of Thrivent Asset Management from an equity position, Murray Kornberg of CBRE/Melody & Company from the debt and equity side and Leah Truax of NorthMarq Investment Services from the investment angle.

Lauri began by reviewing several charts illustrating the past few years of the top 12 retailers' stocks. Next, through various case studies, Lauri presented the overwhelming and recurring trend of slow "same store growth" (defined as the percentage increase in total sales over the last year, less new store sales) and the commonality of accelerated store closings. Not surprisingly, Lauri was not bullish for the next several quarters as to major retail stocks. In fact, she recommended a 50/50 bet on the S&P 500 index fund and major retail stocks. If you missed May's program, you missed out on free stock-picking advice from an industry expert. Lauri advised favoring stocks that are slowing and focusing their growth, rather than those adding stores simply to gain market share.



May presenters: Left to right:
Peter Berrie, Faegre & Benson LLP (moderator)
Leah Truax, NorthMarq Investment Services
Lauri A. Brunner, Thrivent Asset Management
Murray Kornberg, CBRE/Melody & Company

With a thorough understanding of the retailers' current condition through an equity market perspective, Murray Kornberg introduced the radical changes in the debt markets over the past months. By 2006, the total institutional lending universe was comprised of over \$4.7

RISING STAR by Judy Lawrence, Kraus-Anderson Companies

THERE WILL BE SOUP FOR YOU!!!

Lobster Bisque, Mulligatawny or Jambalaya??? These are the choices that will rack the brains of the many customers lined up to visit Michael Barr's "The Original SoupMan" coming in June to the 225 South Sixth skyway in downtown Minneapolis.

The Original SoupMan features the soups of Al Yeganeh, who inspired the "Soup Nazi Episode" on Seinfeld that rhapsodized the delights of his distinctive soups, making us all want to live in New York City.

Barr's Original SoupMan will showcase more than 50 of Yeganeh's creations. Each soup order comes with a piece of crusty and fresh baguette, a piece of fresh fruit, and a piece of chocolate for dessert. The soups will sell for between \$4.95 and \$10.95. The menu will also include salads, sandwiches and paninis. As a special bonus, The Original SoupMan will serve Sebastian Joe's Homemade Ice Cream.

According to Barr, the most popular soup is the Lobster Bisque that contains 21% lobster...even lobster chunks! Consumer Reports magazine has rated The Original Soupman's Chicken Vegetable soup the #1 chicken soup in the country.

Although this is Barr's first venture into the restaurant world he holds the rights to additional territories. He is looking for areas with high lunch traffic and hopes to expand his company over the next couple of years.

www.originalsoupman.com



"BARR'S ORIGINAL SOUPMAN WILL SHOWCASE MORE THAN 50 OF YEGANEH'S CREATIONS."

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TECHNOLOGY TIP

For all you brokers out there, let other MCSA members know what tenants you represent through the MCSA website. In the member profile we have a specific section for client representation. Login then click on **profile** in the upper right, from the menu list on the bottom of the page click on **add or edit your client representation**. Enter the information per the directions and click on **update**.

Due to the dynamic relationships in the business we put a thirty day clock on this information, to assure the members of accurate and current information. So even if there is no change you must go through the update process or the information will be hidden for others after 30 days until you update it again.

If you have any questions please call Sean Cullen at (952) 905-3281.

The Detail on Retail - continued from page 6

trillion, with a debt to equity ratio of approximately 2 to 1 (\$3.3 trillion to \$1.7 trillion respectively). Of the \$3.3 trillion of debt, Commercial Mortgage Backed Securities (CMBS) represented nearly 25%! CMBS quickly became the benchmark for debt markets, nearly eliminating risk pricing.

Fast forward only a matter of months to 2007 and we encounter a monumental change in the CMBS market. As the market ran out of buyers, it simply ran out of steam. In 2006, over \$280 billion dollars (not a typo!) were issued by means of CMBS; in 2008, \$0.00 were issued. Investors must now look to other sources to finance developments and acquisitions, allowing larger lending institutions to cherry pick projects to lend on and charge a higher premium – increased spreads of 150 basis points and higher. As higher premiums become commonplace, Murray forecasts a slight increase of cap rates.

Leah Truax wrapped up the presentation by discussing current trends observed in the investment market. Leah concluded that the investment market has remained rather flat and unchanged. As her partner, Eric Bjelland, predicted at last year's MSCA Retail Report program, the market really has been rather stagnant. Cap rates have crept up nearly 100 basis points since Q307 and there is a prevalent flight to quality. Further, buyers need more skin in the game (i.e. more equity), are paying higher rates and are no longer able to utilize interest-only debt products. Sellers should expect rent to stay flat, shorter leases and/or extensions, and longer time to fill vacancies.

COMMITTEE CHAT by Brad Kaplan, NorthMarq

GOLF COMMITTEE

Final preparations are being made for the 17th annual MSCA golf tournament. The tournament will be held at Majestic Oaks Golf Club, on June 16, 2008. With 288 golfers, this is an excellent opportunity for MSCA members to golf with friends and clients while supporting a great cause. Once again this year, you can look forward to long drive and putting contests, as well as plenty of events hosted by our generous hole sponsors.



If you are not a golfer, please stop by for the dinnertime festivities. It's an excellent opportunity to eat some great food, do some networking and even walk away with one of the excellent silent auction or grand prize items.

Last year's record-setting event raised over \$53,000 for The Caring Tree. We hope 2008 will have similar results to ensure that Minnesota's K-12 students in-need have the appropriate school supplies. For questions, please contact Bradley Kaplan at (952) 893-8830 or Paul Sevenich (952) 948-9410.

Have your cake and eat it too!

Birds Eye Reporting is finally here after more than a year delay.

Budgets! Would you like to complete your property budgets in less time?

Documentation! Would you like to be able to show your building owners and asset managers the maintenance needs of a building without them leaving their desks?

Service Calls! Would you like to be able to order and track service requests from anywhere and at anytime?

Preventative Maintenance! Would you like to have the most comprehensive preventative maintenance program for your building? (We've done our research and know it's the best).

If you have answered YES to one or more of these questions contact us to learn about these and the many more useful tools that this system has to make your job easier and more efficient!

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