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news

Volume 20, Number 3

March 2006

Feature 2006 Minnesota Legislative Session Preview

by **Sonnie Elliott, Faegre & Benson LLP**

As the 2006 Minnesota Legislative Session opens this month, the date on the calendar may say March 1. But everyone in state politics will have their eyes focused on a different month: November.

All of the members of the Minnesota House and Senate, and all of the state's constitutional officers (including the Governor), will be on the ballot this fall. The election calculus would ripple through the Legislative Session in any year where politicians have to face the voters, but this year the maneuvering by both sides will be particularly intense. House Republicans

took a drubbing in the 2004 election, nearly losing their majority, and Minnesota DFLers have been further emboldened by Republican missteps at the national level. The Republicans have also lost several special elections since 2004 in what had been considered safe seats.

Session Prospects

This is traditionally a "short" session year, in which major budget issues are off the table. The Legislature opens on March 1 and must finish its work by the constitutionally mandated deadline of May 22. Legislative

Legislative Preview on page 2

Snapshot The Quarry at Golden Spike

Location: Sauk Rapids – Golden Spike Road & Minnesota Highway 10

Month/Year Opened: New construction – February 2006

Owner: Acacia Real Estate Partners, LLC & DMH Partners North, LLC

Developer: Acacia Real Estate Partners, LLC

Managing Agent: Acacia Real Estate Partners, LLC

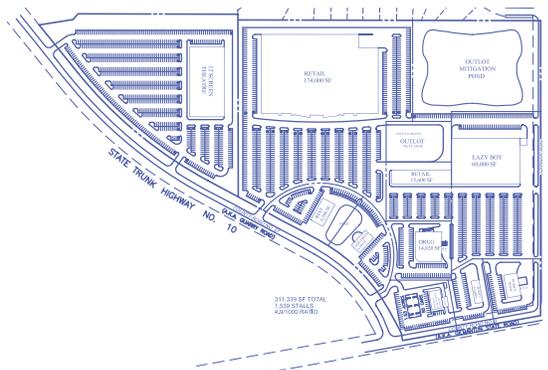
Center Manager: Acacia Real Estate Partners, LLC

Leasing Agents: John C. Marceau and Jeff S. Draxten (952) 475-2255

Architect: The Design Partnership, Ltd., Daryl Anderson

GLA: 35 acres – 300,000 sf

Market Area Served: Sauk Rapids, St. Cloud, Sartell



Additional Facts/Narrative: Available retail includes Box Sites, Pad Sites and Retail Space. The Box tenants total over 240,000 sf, six single tenant pad sites ranging from 3,000 – 15,000 sf, retail strip totaling 16,000 sf, in addition to a proposed 12-plex theater on the adjacent parcel. The Quarry development has great access and visibility to Minnesota Highway 10, which displays over 30,000 cars per day.

LEGISLATIVE PREVIEW *continued*

leaders have expressed their desire to be out by May 1, but history suggests those predictions are optimistic – and the state has endured numerous, sometimes lengthy special sessions in recent years. On the other hand, sitting legislators will be anxious to get out of St. Paul and back to their districts to launch the fall campaigns.

While there will be sharp, even nasty political debate, particularly on “wedge” social issues that target the voting base for both parties, the Legislature is likely to get done what they come to town to do this year – pass a bonding bill. The “do nothing” session of 2004, and the political payback that voters handed out to House Republicans, are still fresh in legislators’ minds.

Let’s look at the issues that are likely to dominate the session:

Bonding Bill

This year, a bonding bill loaded with goodies for nearly every district in the state is a virtual certainty. Based on current budget forecasts, the maximum size of the bonding bill is approximately \$963 million. (The maximum is calculated based on the state’s policy of not spending more than three percent of its general fund on debt service.) If the next budget forecast is even rosier, the maximum could swell to more than a billion dollars. Legislators are likely to use most or all of the bonding authority at their disposal.

As usual, the focus will be on transportation projects and building programs for state government and the state’s colleges and universities. The Governor has proposed fully funding \$60 million on the Northstar rail project. While the Governor recommended only a token amount for the central corridor light rail line between Minneapolis and St. Paul, that amount is likely to increase substantially in the final bill. Also, while the Governor failed to recommend any major cultural or arts projects in the bonding bill, legislators are likely to spearhead a number of important arts-related building programs, including the renovation of the Ordway, the MacPhail Center for the Arts and the Shubert.

Budget

The budget technically isn’t on the table this year, and there are likely to be few major budget battles. Most of the projected

surplus in the budget forecast is already spoken for.

If the budget forecast is rosier, giving legislators a bigger projected surplus to spend, expect an attempt to provide property tax relief for homeowners. Businesses should be particularly alert to developments on the property tax front, because legislators may be tempted to offset residential property taxes with higher taxes on commercial properties.

There is one fly in the budget ointment. The “health impact fee” on cigarettes that was a crucial feature of the 2005 budget deal is in legal jeopardy, following a lawsuit by cigarette makers arguing that the fee violated the tobacco settlement that the state negotiated several years earlier. If the fee does get struck down by the MN Supreme Court, it would open up a \$400 million hole in the budget that would either need to be filled or would substantially limit the state’s spending options.

Transportation

While there is not likely to be a major transportation bill up for debate during the session, a transportation-related constitutional amendment is already headed for the November ballot. The so-called MVST amendment would shift revenues raised by motor vehicle excise sales taxes from the state’s general fund to transit and transportation projects; phased over several years.

The amendment was slated for the ballot as a result of a transportation bill passed by the House and Senate in 2005. Although the Governor vetoed the bill, he has no authority to veto constitutional amendment items – so the MVST amendment survived and will go to voters in the fall. The business community is solidly behind the amendment.

The only possible derailer: Some rural legislators are concerned about the wording of the amendment, fearing that transit monies in the Metro area could crowd out monies for road and bridge projects in the rest of the state. If the Legislature tries to open up the issue by re-wording the amendment, there is always the risk that the amendment itself could wind up voted off the ballot.

Stadiums

Stadiums for the Gophers, Twins, and Vikings are likely to make their perennial appearance on the legislative calendar.

The Gophers may have the best chance for a stadium bill this session, but even this vote can be considered a close call, particularly given the eight million dollar annual price tag from the general fund required for debt service on the project.

The principal sticking point on a Twins stadium is the issue of whether to put the sales tax increase in the proposal to a vote in Hennepin County. The Governor has indicated that he prefers going forward with a referendum – but may not veto a bill that comes to him without one. That may not provide enough political cover for legislators to risk bypassing voters in the state’s most populous county.

The Vikings may choose to amend their proposal for a stadium in Blaine by eliminating the roof, which would eliminate the need for a state subsidy and make the proposal comparable to the one put forward by the Twins.

Other Key Issues

Eminent Domain. Following the United States Supreme Court’s ruling in the *Kelo* case, legislators are likely to pass a bill that would restrict to some extent the ability of local communities to use eminent domain for economic development and tighten the definition of blight.

Identity Theft. Attorney General Hatch, who is running for Governor, has packaged a number of proposals that would limit how businesses use and distribute personal information.

Energy. The Legislature is likely to re-visit a proposal from last year to raise the goal for the state’s use of renewable energy sources to 20% and make this goal a mandate by the year 2020. This may launch a debate on transmission capacity within the state and on how to meet electric energy demand over the next decade.

Clean Water. Thanks to an unfunded federal mandate, the state faces a requirement from Washington to plan for and fund efforts to clean up polluted rivers and streams. Legislators may find funding for this program, either through a special fee on property owners or through the general fund.

This session will be all about one thing – gaining political advantage. The outlook for the 2007 session could look very different, depending on the results in November. ■

Program Recap

Downtown Minneapolis Retail

by **Natina James**, AIA, KKE Architects, Inc.

Who: Lee Sheehy of CPED and Liz Picking of Brookfield Properties (US) LLC

What: Downtown Minneapolis Retail

When: Wednesday, February 1

Where: Sheraton Bloomington Hotel

Synopsis: On Wednesday, February 1, Lee Sheehy of CPED and Liz Picking of Brookfield Properties gave a development update for the city of Minneapolis. Recently, the downtown Minneapolis residential population has swelled to 30,300, exceeding 30,000 for the first time since 1955. One of the key indicators of community strength is the addition of 3 new grocery stores, with Lunds planning to open two store locations on both ends of Hennepin Avenue and Whole Foods proposing to build at Washington and Hennepin. Since 2000, downtown has seen \$1.3 billion in commercial and residential construction; 2,200 residential units have been built totaling \$500 million. If Minneapolis sustains its current growth rate, it will achieve its 2030 projected growth as early as 2010 or 2015.

Visitors also play an important role in the health and vitality of the downtown community with 90,000 visitors arriving each day. Minneapolis is also home to more theatre seats per capita than any other city except New York and cutting edge architecture with the new Guthrie Theatre by Jean Nouvel, the Central Library by Cesar Pelli, the Walker Art Museum, and the renovated and expanded Minneapolis Art Institute.

In order to understand downtown retail you must understand the customers. The retail customer breaks down into three categories – downtown worker (165,000), resident (30,000) and visitor (11 million annually). Each category has different needs: the worker is focused on convenience during mornings, lunch and evenings; the resident, on ease and variety during evenings and weekends; and the visitor on indulgence, simplicity and safety during evenings and weekends. Downtown retail anchors include Marshall Field's, Saks Off Fifth, Target and Marshalls with both the Marshall Field's and Target have their best performing stores located downtown. Their success is linked to pedestrian traffic, which has increased 44% since 2004. The CBD has

2.2 million sf of retail – more than any regional mall in the area. According to ICSC, the sales/sf of downtown Minneapolis outperforms the national sales per square foot average.



Speakers – Left to Right: Russ Nelson – Nelson Tietz & Hoye; Liz Picking – Brookfield Properties (US) LLC; Lee Sheehy – Community Planning & Economic Development

Sheehy and Picking provided these published accounts of Minneapolis' recent success:

Minneapolis was named **1 of 5 up-and-coming destinations** in 2006 by *Travel + Leisure* magazine

Men's Health magazine rated Minneapolis the **10th best city for men** to live in (2006)

Minneapolis Theatre de la Jeune Lune received a 2005 Regional Theatre **Tony Award**

Minneapolis is the **top city for technology**, as rated in 2005 by *Popular Science* magazine

The Environmental Protection Agency named downtown Minneapolis 1 of 17 business districts in the nation as the **"Best Workplaces for Commuters"** in 2005

Minneapolis is one of **"7 Cool Cities"** according to *Kiplinger's* magazine, 2005

February Professional Showcase

BLI Lighting Specialists, are the fastest growing lighting maintenance provider in the Minneapolis/St. Paul area and with the recent acquisition of a sign fabrication company they are now a full service light and sign supplier.



Ron Dillman and David Mitchell



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Member Profiles

Karla Keller Torp



Title: Executive Director, Minnesota Shopping Center Association and The Caring Tree

Committees: Research/Retail Report, STARRSM Awards, Program, Legislative and Technology Committees

Education: Bachelor of Arts in International Management, Hamline University

Time with MSCA and The Caring Tree: MSCA member from 1993 - 1999, Executive Director since 2000

Stacey Bonine



Title: Associate Director, Minnesota Shopping Center Association and The Caring Tree

Committees: Newsletter, Membership, Marketing and Communications, Sponsorship, Golf and Community Enhancement Committees

Education: Bachelor of Arts with a concentration in Marketing Management, University of St. Thomas

Time with MSCA and The Caring Tree: Associate Director since February 2005

Since self-management in 2000, MSCA and The Caring Tree have run solely on the staff of two. Karla and Stacey are responsible for the association as a whole including everything from leadership and strategic planning to the organizing and implementation of any and all programs, events and committees. In addition, they manage The Caring Tree, founded by MSCA as a community outreach project. Karla and Stacey work with a separate board and implement the annual Caring Tree program as well as year round fundraisers. In 2005, The Caring Tree assisted over 16,000 children in-need with new school supplies. As they represent MSCA and The Caring Tree, they are here to assist all members in any way possible and look forward to continuing to serve both organizations in 2006!

The Newsletter Committee would like to recognize a long-term contribution to this publication, and announce a new column.

The Tidbits column has long been a regular item in the newsletter with veteran committee member/contributor, Tim Hilger, compiling countless pieces of national industry news. Tim's contributions have been highly appreciated by leadership and membership alike.

Premiering in this issue is Minnesota Marketplace, a column similar to Tidbits, but with a greater focus on retail industry information most relevant to the Minnesota market. The Newsletter Committee's goal is to provide a consistent platform for local industry announcements and resource for our members to share customer, tenant and landlord news, new retail developments and listings, or stores opening/closing in the marketplace.

Marketplace Minnesota

- Itasca Funding Group, Inc. has arranged non-recourse permanent financing of \$33.2 million (10-year term, 30-year amortization) on Riverdale Crossing Shopping Center in Coon Rapids.
- Master has been selected to handle leasing of the four-story, 68,000 sf mixed-use Coliseum building on Lake Street in Uptown. This property has approximately 20,000 sf of vacancy, including a unique 6,383 sf space once occupied by the Coliseum Ballroom.
- RLK Incorporated is expanding its consulting business with a new branch office in Oakdale.
- Stahl Construction Company recently completed construction of a 220,000 sf Menard's store in Buffalo. A contract has been awarded for the build-out of a new Massage Envy located in Plymouth; a new Hooters Restaurant in Block E in downtown Minneapolis; and the renovation of a new Buffalo Wild Wings Innovation Center in St. Louis Park.
- Hoyt Properties has assigned its IRET leasing & property management contracts to United Properties, adding 826,000 sf to UP's portfolio.
- Westwood Professional Services, Inc. is pleased to announce their recent merger with Peterson Environmental Consulting, Inc. (PEC), of Mendota Heights.

March Member News

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

Frykman

Nancy Frykman has joined Colliers as the Second Vice President Retail Real Estate Services.

Riley

Richard Riley has joined Collateral Mortgage Capital, LLC as Vice President.

Darji

Sachin Darji has joined Hinshaw & Culbertson LLP as a Partner.

Meland

CBRE | Melody is proud to announce the promotion of Bruce Meland from Vice President to Director.

Please send all member changes, promotions, retail announcements or press releases to Stacey Bonine at sbonine@msca-online.com at the MSCA office by the 10th of each month for consideration in upcoming newsletters. We will attempt to print as much as space allows.

New Members

MSCA would like to welcome our new members:

Tom Carrico, Target Corporation

Chad Meyhoff, Kraus-Anderson Construction

Jeff Bajek, Peoples Bank of Commerce

Steve Schahn, ADB Construction Co., Inc.

Erin Thrush, Kraus-Anderson Companies

Christopher Biehle, Bullis Insurance

Skip Nienhaus, City of Burnsville

Connie Wasley, Ryan Companies US, Inc.

Mary Schuette, Caribou Coffee Company, Inc.

Ron Vantine, United Properties

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Ted Zwiag, Brookfield Properties Corp.

Bill Jundt, United Properties

Amy Kloss, General Growth Properties, Inc.

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Chuck Freiberg, RSP Architects

Janet Olson, Welsh Companies, LLC

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Sponsorship Committee Profile

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Ned Rukavina, *United Properties*
Bill McCrum, *Cunningham Group Architecture, P.A.*

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Shelly Muelken, *Marketplace Commercial*
Janele Taveggia, *Landform*
Steve Eggert, *Target Corporation*
Natina James, *KKE Architects, Inc.*
Margaret Jordan, *Great Clips, Inc.*

The Sponsorship Committee, chaired by Ned Rukavina and Bill McCrum, is responsible for soliciting corporate sponsors in order to raise funds that are crucial to MSCA's annual operating budget. Every year, from October to March, this committee will seek sponsorship renewals and identify new potential sponsoring companies. Benefits of sponsorship include one general

membership, public acknowledgement and pride for contributing to the growth and stability of MSCA's organization. This year, the committee increased corporate sponsorship from 57 to 63 sponsors collecting \$110,050 of which \$9,450 was donated to The Caring Tree. A special thank you to all of our 2006 Corporate Sponsors!

Rising Star H&M "Fashion Expansion"

by Ross Dahlin, Itasca Funding Group, Inc.

With 1,200 stores in 22 countries, it would seem unusual that Swedish apparel retailer H&M is in our rising star category for this month. Surprisingly, however, H&M has entered the U.S. market only within the past five years and is in the midst of a major continent-wide expansion. It has been opening stores at the rate of one a week. In Minnesota, H&M will open its second store at Woodbury Lakes this spring to complement its Mall of America store.

H&M, formally known as Hennes & Mauritz, was founded in 1947 in Stockholm, Sweden. In 1968 the women's retailer, then known as "Hennes", bought a men's hunting equipment store called "Mauritz Widfors". The company merged the names and retained Mauritz's apparel line. Today the retailer has evolved from its more traditional beginnings to be considered one of the most fashionable yet inexpensive retailers in the world.

H&M opened a flagship store on the west side of the Mall of America in September 2005. The store sells men's, women's, and children's apparel and accessories as well

as women's lingerie. Cotton tank tops sell for as little as \$7.90 and women's jackets for \$24.90.

At 10,500 sf, The Woodbury Lakes Store will be less than half the size of H&M's Mall of America store. It will also sell apparel and accessories exclusively for women. This is consistent with its expansion strategy – H&M will open a flagship store in a market and then surround it with several smaller specialty stores. The company is seeking other Twin Cities locations and we should expect more announcements soon once Woodbury Lakes opens.

Fax Bill Enacted

A new law, backed by the National Association of Realtors (NAR), will enable businesses to continue faxing to existing customers without prior written consent. A federal Communications Commission rule had been pending that would have required businesses to seek consent beginning January 1, 2006. The Junk Fax Prevention Act, signed by President Bush in July, includes other provisions practitioners need to be aware of. For example, it requires that faxes include an opt-out on the first page.

Market Update

Southdale Center



by Peter J. Berrie, Faegre & Benson LLP

Southdale Center, located in Edina at 66th Street and France Avenue between Crosstown and 494, is arguably the most historically important shopping center in the nation. When it opened on October 8, 1956 at the cost of \$20 million, it was the first totally enclosed, climate-controlled shopping center in the country. At the time, it contained 800,000 sf with 72 stores including two department store anchors, and quickly became the model for shopping malls all over the country. Today Southdale Center is one of the largest Minnesota shopping centers with 1.3 million sf, featuring 140 stores anchored by Marshall Field's, JCPenney and Marshalls.

With the arrival of the Mall of America in the early 1990s, Southdale Center faced a major challenge to maintain interest and customer traffic. To meet this challenge, in 2002 Southdale Center added an entertainment district (*The District on France*), featuring a 16-theatre movie complex, The Cheesecake Factory, Maggiano's Little Italy, P.F. Chang's China Bistro and David Fhima's super-chic Louis XIII.

Mills Corporation acquired Southdale Center, along with a Milwaukee shopping center, for \$452 million in the summer of 2005. Mills is dedicated to the redevelopment and success of Southdale. Presently, its biggest unfulfilled opportunity is the re-tenanting or redevelopment of the former Mervyn's store (the fourth anchor location). Mills plans a grand celebration of Southdale's 50th anniversary this October to showcase its past and promote its future.

Across the street from Southdale is the more upscale Galleria located at 69th Street and France Avenue. The Galleria contains 65 shops, featuring anchors Barnes & Noble and Gabberts Furniture, unique local shops, spa services, national retailers such as Bang & Olufsen, Creative Kidstuff, Tiffany & Co., Restoration Hardware, and several restaurants, including the new Kozy's Steaks and Seafood. Its most recent addition is the nation's first flagship store for Kuhlman's.

Other nearby shopping centers include Yorktown and Centennial Lakes Plaza, both located further south of Galleria. Centennial Lakes Plaza, with more than 30 retailers and restaurants, is part of a much larger mixed-use project including a 25-acre community park, office complex and condominiums.

The Southdale area retail market benefits from strong Edina demographics. These same demographics are spurring major residential redevelopment projects, which in turn should further improve the demographics from a retailer's perspective. Presently, two significant luxury condominium projects, one at Centennial Lakes and the other at Galleria, are in the planning stages. Gabbert & Beck is working with Ryan Companies to develop an 18-story tower just east of Galleria that will feature a 4-star 225-room Westin hotel and 82 luxury condominiums. Cypress Equities, the development arm of Houston-based The Staubach Co., plans to build an 18-story condo tower as part of a mixed-use development on the site of the former Centennial Lakes movie theaters. Happily, although belatedly, these housing proposals fit well with the original dream of Southdale's famous designer, Victor Gruen—the dream that Southdale would be the center of a 453-acre mixed-use, dense, planned development featuring apartments, houses, schools, a park, a medical center and a lake.

In 2004, Edina began a study for the future of the Greater Southdale area so that it becomes a "premier shopping, business and health care center." The study addresses land use and transportation issues to accommodate anticipated growth and increased density while minimizing traffic congestion. Major components of the study include a system of internal transit to facilitate travel without cars in the area, as well as an inter-connected

system of trails, sidewalks and street crossings to make it more pedestrian-friendly. The most interesting feature is a potential central "spine" street, referred to as the Edina Promenade, running from the southern part of Southdale Center almost to 494. The Promenade would run behind the Target store and along the greenway section of Centennial Lakes, and would be intended to provide a stronger link between Southdale Center and Centennial Lakes. Zoning code changes relating to density, height, setbacks and maximum floor area ratios are also recommended to accommodate the desired redevelopment. The study can be found at www.CityofEdina.com/SouthdaleStudy. The Edina City Council met on February 21, 2006 to consider accepting the study and amending the zoning code but the results were not available when this issue was printed.

For an interesting take on the history of the shopping mall, and what makes a shopping mall successful, check out Malcolm Gladwell's New Yorker article "The Terrazzo Jungle" at www.newyorker.com/fact/content/?040315fa_fact1 which features a discussion of Southdale Center and Victor Gruen. ■

Tax Drop

As a percentage of state and local revenues, property taxes have dropped an average of almost 14% since the early 1970's. But the tax still represents about three out of four dollars collected by local governments.

Source: Realtor Magazine



The Wright County Partnership Bridging the Gap in Development Seminars features the following events:

- Transportation Plans for Wright County in 2006: March 8th from 11:30 a.m. until 1:00 pm. at the Silver Springs Golf Course
- Industrial Park Development with Whitney Peyton & the CBRE realtors presenting April 12th at Russell's (*of course*) in St. Michael.

Contact the Partnership To register and for more information: Noel LaBine 763-477-3086, or www.wrightpartnership.org

Thank You!

Featured Corporate Sponsors Company Visions

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To provide our clients with high quality legal services at reasonable rates, while building strong relationships and confidence as we've done since 1938.

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Create and operate in-town projects that are positive additions to the existing urban environment.

Gray Plant Mooty

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Jones Lang LaSalle

To deliver exceptional strategic, fully integrated services and solutions for real estate owners, occupiers and investors worldwide.

Morcon Construction, Inc.

To give our customers the best construction experience they will ever have!

Reliance Development Company, LLP

To build a portfolio of quality retail real estate income producing assets through development and acquisition.

Target Corporation

To give Target guests the best products at the best value in a way that delights them, and to give generously to the communities where Target does business.

2006 Event Schedule

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.

Thursday, April 6 –
Legislative/Business Day
at the Capitol, *Bandana Square*

Wednesday, May 3 (afternoon) –
Retailer Focus

Wednesday, June 7 – Development

Wednesday, July 12 – Professional
Development

Wednesday, August 2 – Shopping
Center Focus

Tuesday, September 19 – MSCA/
ICSC Program, *Minneapolis Marriott,
Southwest*

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