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Minnesota Shopping Center Association
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In this Issue

MSCA℠ Connection

Feature

by **Sara Martin, NAI Welsh**

Northwest Market Housing Slump Having Ripple Effect on Retail

Third-tier suburbs in general have been slowing in both residential and retail growth over the past year. The areas hardest hit are the northwest suburbs consisting of Elk River, Rogers, Otsego, Monticello, Albertville and St. Michael. These suburbs hit their peak growth in the early 2000's and continued growing rapidly until late 2006. With the residential growth came retail development, first in the cities with the most population, Elk River and Monticello, and then chasing the roof tops that were promised in Albertville, Rogers and Otsego. In the early 2000's homes were springing up in 60-day periods, and entire subdivisions were being built faster than MapQuest could plot driving directions. This rapid residential growth put the northwest area on the map for the retail industry. Today a floundering housing market is having an equally dramatic effect.

When looking for validation of the housing slow-down, the numbers say it all. In 2004, the housing starts in the northwest cities were more than double the numbers of today, and inventory was not nearly as plentiful. Elk River had 550 housing starts in 2004, compared with 116 in 2007. While Otsego led the area with 289 new housing starts in 2007, the rest of the cities combined barely met that same level. Housing foreclosures and a slowing economy have compounded the effects of the residential slowdown, bringing development in the area to a screeching halt.

Back in 2004, retailers looked at the housing starts, coupled with the projections, and made the northwest suburbs a priority. Now that the housing numbers have dropped

Snapshot

Oak Park Commons

Location: Hwy 36 & Nova Scotia Ave, Oak Park Heights
Year Opened: 2007
Owner: CSM Corporation
Center Manager: Angie Hewitt, CSM Corporation
Leasing Agent: Chris Simmons, (952) 897-7760 and Kris Schisel (952) 897-7715, NAI Welsh
Architect: CSM Corporation
Construction Contractor: RJ Ryan Construction
GLA: 205,000 sf
Anchor Tenants: Lowe's, Buffalo Wild Wings, Bremer Bank
Market Area Served: Stillwater & Oak Park Heights
Construction Style: Brick & EIFS
Additional Facts/Narrative: Oak Park Commons is anchored by Lowe's and features leading retailers including Bremer Bank, Buffalo Wild Wings, FedEx Kinko's, Nick & Willy's and Massage Envy. Inline and endcap opportunities are available as well as prime pad sites for sale, BTS or lease. Located directly on Hwy 36 in the established and affluent Stillwater/Oak Park Heights trade area.

Northwest Housing Slump - continued

dramatically, they are holding back, much to the dismay of landlords who built speculatively and did not anticipate the sharp decline.

The shining star is big box retail, which appears to be strong in the northwest despite the slump. The Elk River Target is closing its doors in October to make way for a new super-center being constructed across the river in Otsego. The usual anchors - Target, Wal-Mart, Lowes, and Cub Foods - appear to be holding their sales. The small shops and strip centers that sprung up in the area seemingly over night have not fared as well. On the stretch of I-94 from Rogers to School Street and Hwy 169 in Elk River, there is an approximate vacancy rate of 20%. Entire buildings that were built speculatively during the boom sit nearly vacant, giving the tenants who are shopping for space in the market a significant upper hand.

The consensus among local building owners is that it will take from 12-24 months for demand to catch up with supply in the northwest area. Most retailers appear to be opting for more dense suburbs where there is less risk and more of a stable population. The retailers who are considering sites are looking for aggressive rates and some landlords are willing to give incentives with free rent or additional tenant improvement allowances to attract them to their properties. The result is stiff negotiation for landlords and skinny proformas. For instance, in Rogers, you can find rents in similar properties that vary from $14.00 to $24.00 psf.

Otsego's City Administrator, Mike Robertson, is optimistic that the completion of construction on Hwy 101 between Rogers and Elk River will reinvigorate the market. This construction project is scheduled to be finished in the fall of 2008 in conjunction with the opening of the new Otsego SuperTarget. Robertson is confident that once the construction is finished and SuperTarget is open, retailers will follow. However, there is plenty of space still to be filled with 40,000 sf available adjacent to the SuperTarget development with Ryan, and 250,000 sf of office planned at LandCor's Otsego Waterfront Project.

A similar highway expansion project in St. Michael on Hwy 241 (from I-94) may also attract new businesses. The $22 million project was completed early this year and has expanded the road to four lanes. Hopefully it will attract an influx of residents and traffic to the area.

Currently, the northwest has more than 540,000 sf of available property, factoring in both existing space and space that is being preleased. This available space accounts for 33% of the total square footage in the area with the largest pockets of vacancy found in Rogers, Otsego, and Albertville, followed closely by Elk River. Looking back at the expansion of the region over the last ten years, history suggests that too much has already been built too quickly, and time may be what the market really needs to recuperate.

Sources:
www.erstarnews.com
www.sherburnecounty.com
www.demography.state.mn.us
www.ci.elk-river.mn.us

Bookmark

In a time of financial uncertainty, when global markets are tenuous, inflation is looming, and energy costs are increasing steadily, many people will be focusing their reading list on financial advice. Two readings for your summer that may help you re-evaluate your personal finances:

Living Rich by Spending Smart: How to Get More of What You Really Want; Gregory Karp; FT Press; February 2008. In his book, Karp explores some of basic financial management and spending strategies that can stretch your dollar's value. For instance, cutting waste and buying based on needs rather than wants seems like a simple strategy, but many people don't seriously evaluate what their needs actually are; therefore missing an opportunity to save significant money without altering their lifestyle.

You're So Money: Live Rich, Even When You're Not; Farnoosh Torabi; Three Rivers Press; April 2008. This book is a financial read geared towards a younger audience who may not appreciate what it means to be financially disciplined. In her work, Torabi relates financial strategies to everyday life in a way that makes it compelling for many younger readers who may otherwise not pay attention to financial goals.

Contact Christopher Naumann at cnaumann@kke.com or Judy Lawrence at jlawrence@karealty.com with your reading recommendation.

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RISING STAR by **Peter Berrie, Faegre & Benson LLP**

Galleria Growing

Reading the newspaper would leave most believing the retail world is all doom and gloom: the subprime mortgage crisis has left capital for all industries scarce, consumer confidence is down, and some national retailers are filing for bankruptcy while others are seeing significant same-store sales decline. But like a Joshua tree in the desert, somehow the Galleria mall in Edina is managing to prosper despite this harsh economic environment.

In mid-March, Crate & Barrel opened a new store—now Minnesota's only—at the Galleria. The store has 34,000 sf on two-levels that "pop-out" from the remainder of the mall.[1]

Another new Galleria tenant is BCBG Max Azria, a California-based fashion boutique, that sells "dresses, separates, accessories, handbags and footwear."[2] This store, with approximately 4,700 sf, will open late May.

Much of Galleria's success derives from the perseverance of Warren Beck, President of Gabbert & Beck, the mall's owner and manager. Beck and his team spend years pursuing tenants—for example, the team "spent six years wooing Williams Sonoma, and four or five years talking with Tiffany's" before landing each.[3] Galleria also seems blessed with a bit of good luck. In 2007, Galleria decided not to renew Sharper Image's lease—months before Sharper Image declared bankruptcy. Instead, that space is now home to Tumi (luxury luggage), Expecting Uber Baby, and an expanded Twill by Scott Dayton.[4]

> "But like a Joshua tree in the desert ... Galleria ... is managing to prosper."

The most visible addition is not actually a part of the Galleria, although it will be connected by tunnel. In September, an 18-story mixed-use project featuring a 225-room Westin hotel, 82 condominium units, and a 8,000 sf McCormick and Schmick's Seafood restaurant will open next to the mall.[5] Hotel guests and condo residents of this luxury project should increase Galleria traffic *and* bolster its image as a high-end retail destination that apparently is immune to economic downturns. **www.galleriaedina.com**

1 "A Tale of Two Malls" Star Tribune, March 9, 2008.
2 "Galleria Rare Site of Growth" Pioneer Press, February 15, 2008.
3 "A Tale of Two Malls."
4 Ibid.
5 "New Edina Hotel/condo Complex Continues on Schedule" Edina Sun Current, March 5, 2008.

Property Tax Pitfall: The 60-Day Rule

Guest Author: **Nick Furia, Fredrikson & Byron, P.A.**

If you contested the property tax assessment of the property you own or manage in the Minnesota Tax Court this year, beware. Each year, numerous taxpayers lose a chance at their day in court because of the pitfall created by a Minnesota statute known as the "60-Day Rule." Under the 60-Day Rule, if the property you appealed produces income or is even partially leased, you have 60 days from the April 30, 2008 tax petition filing deadline to turn over a potentially limitless set of documents to the county assessor. If you fail to guess correctly at what those documents are, your case may be automatically dismissed, and you will not get a second chance to reduce this year's taxes.

In order to protect its members from that outcome in future years, MSCA is supporting a bill introduced at the Legislature this year on behalf of the Minnesota State Bar Association that amends the 60-Day Rule by (1) clearly defining exactly what information taxpayers must produce; and (2) changing the penalty for failure to produce the information to something less severe than automatic dismissal. The bill amending the 60-Day Rule has made its way through the Senate Tax Committee and is included in the Senate's Omnibus Tax Bill. MSCA will update its members regarding the bill's status once this year's legislative session is complete.

If you have any questions about the 60-Day Rule or the bill amending it, please contact Karla Keller Torp of MSCA at (952) 888-3490 or Nick Furia at (612) 492-7335.

Events

Jun 4	**Monthly Program:** Trends
Jun 16	**MSCA Golf Tournament**
Jul 9	**Monthly Program:** Professional Development
Aug 6	**Monthly Program:** Transportation
Sep 9	**MSCA/ICSC Joint Program:** Minneapolis Convention Center

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.

- Garden and gift accessory store, **Sticks and Bricks Co.** will open by Mother's Day in Medina across from the Clydesdale Marketplace.
- **Kindee Thai Restaurant** located across the street from the Guthrie Theater is looking to open by the end of April.
- **Aronas Restaurant** recently opened in the former Vino 610 space on Lake Street.
- **Kobe Japanese Restaurant** opened its doors this month in Plymouth on Highway 55 adjacent to the Cub Foods on Vicksburg Lane. There's also a new quick-service restaurant inside, CurryUp Foods.
- **Laredo's Tex-West Grill & Cantina** has opened in the former Brix location in St. Louis Park.
- Coming Soon: **Himalayan Restaurant** serving Nepalese cuisine on Franklin Avenue in Minneapolis.
- Recently opened is **Indio** restaurant located on Lake Street. The owners, Hector Ruis and wife, Erin Ungerman also own Café Ena and El Meson.
- New on Nicollet is **Lay Chaya Bistro**. Juan Juarez Garcia, a former KFC co-owner, takes his cooking cues from his native Mexico as well as his Italian training, emphasizing organically raised ingredients.
- **Spasso**, a café concept of Chris Eriksson and Ryan Sadowski (owners of the Wine Shop in the Lakewinds Natural Foods strip center) recently opened in the former Lakewinds space in Minnetonka.
- **Trader Joe's** received approval from the St. Paul City Council recently for a location at Randolph and Lexington in Highland Park.
- Snyders has closed their stores in West St. Paul and Apple Valley. They are relocating to a smaller end cap at the Ancient Traders Market on Franklin in Minneapolis. **Dollar Tree** has signed a lease for their former space.
- **The Original Soup Man** ("No Soup For You") is opening up their first restaurant in Minnesota on the skyway level of the newly named Capella Tower (formerly 225 South Sixth). Construction has begun; opening date not yet set.

Member News

Sporer Promoted. Landform is proud to announce that Benjamin Sporer, RLA, has been promoted to Studio Designer in the Planning & Urban Design Studio.

Cullen Joins Re-Cor. Sean Cullen has joined Re-Cor, LLC as Project Director. Sean will be responsible for site feasibility analysis of new property acquisitions, site planning, construction budgeting, entitlements, and managing design and construction contracts.

Member Profiles

Scott R. Anderson

Doran Companies

Primary Career Focus: Development
Hometown: Burnsville
Education: Bachelor of Science, Real Estate Studies, University of St. Thomas
Hobbies: Golf, Softball, Boating, Snowmobiling, Skiing
Very First Job: Golf Caddy (A Looper)
Dream Job: Twins GM
Secret Talent: Cooking
Favorite Food: Anything off a grill

Wendy Madsen

Ryan Companies US, Inc.

Primary Career Focus: Property Management/Asset Management
Family: Two daughters (24 and 28), one granddaughter (2 years old)
Hobbies: Gardening, camping, canoeing, anything outdoors!
Very First Job: Telephone solicitor
Dream Job: Volunteer with the Peace Corps
Secret Talent: Facilitator in Creativity
Favorite Food: Italian
MSCA Involvement: Community Enhancement Committee

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Committee Chat

by **Jim Mayland, Colliers Turley Martin Tucker**

Technology

The Technology Committee has continued to work to bring new and improved enhancements to the MSCA website. Our goal is to provide the membership with the most complete and reliable information as it relates to the shopping center industry. One of our major highlights for last year was the rollout of the new website that coincided with the new look of MSCA in December.

There are many features available to you as a member of the website:

- Direct download of MSCA meetings to Microsoft Outlook
- Post retail, redevelopment or renovation projects
- List the clients you represent if you are a broker
- Extensive MSCA membership directory
- Member-direct e-mail capabilities
- Newsletter searchable archives
- Job opportunities and posting capabilities

We continue to provide monthly technology tips in each newsletter to help you better navigate the site. We are in the process of creating some tutorials to help you navigate the MSCA site easier and maximize your usage. One way that you can further enhance your image on the website is to update your biography in your member profile. You can include a current photo, contact information, and biography.

We will continue to enhance the website throughout the year. Be sure to check out the site regularly at **www.msca-online.com**.

If you have any ideas or suggestions, or would like to get involved with the technology committee, please feel free to contact Sean (952) 905-3281 or Jim (612) 347-9311.

Program Recap by **Natina James, KKE Architects, Inc.**

The West End Redevelopment

An Urban Renewal Case Study

April presenters: *left to right*
Barry Brottlund, InSite Commercial Real Estate, Inc. *(moderator)*
Darryle Henry, Duke Realty Corporation
Pat Mascia, Duke Realty Corporation
Mark F. Fallon, Jeffrey R. Anderson Real Estate, Inc.

Duke Realty Corporation purchased the West End Redevelopment site at the SW corner of Highway 100 and I-394 in St. Louis Park in 1997. The site consists of the 5219 Building and the 1945/1950 Novartis Warehouse buildings. The site has numerous hardships, including being located in two cities (Golden Valley and St. Louis Park) along with soil contamination, requiring 27' of soil correction. Even with these challenges, the location of this uniquely urban location kept Duke moving forward. There are strong demographics – over 388,000 people in a five-mile radius with average household incomes greater than those around Galleria and Ridgedale. Another significant benefit to the area is that it is mature. Unlike the typical suburban area, this area is landlocked and can only grow by becoming denser.

Duke began the initial planning in July 2004 and presented its proposal to the city in 2005. It took an additional two years to marry the goals of the city and the developer for the site. The developer was able to procure $21 million in tax increment financing after creating a vision for the project that met the cities' goals. According to Duke, the project provided a "surprise-a-day for 3 ½ years!"

The targeted customer is female, age 25-55 and controlling 75% of her family's purchasing power. The site is planned to be pedestrian friendly and offices will be interconnected for both pedestrians and vehicles. The project will be connected to the neighborhoods to the west and east. The project will contain 1.1 million sf of office, a 144-room Hyatt Place Hotel, 380,000 sf of lifestyle retail center, a 14-screen Kerasotes Theatre, a 57,000 sf Roundy's upscale grocery store, an 8,000 sf, two-level common space and 550 underground parking stalls. The goal is to provide a shopping opportunity not available elsewhere in the area. It will combine proven customer favorites such as Talbots, Victoria's Secret, and Chico's with several "first-of" retailers to this market. Several new restaurant concepts have signed on already including Stir Crazy, The Pub, RA Sushi, Chuck & Harold's and Stanford's.

The West End Redevelopment is scheduled to begin construction May 2008 and have a retail grand opening in September 2009.

Hot Spots / Cold Snaps by **Ross Dahlin, Itasca Funding Group, Inc.**

Reasons For The CMBS Shutdown

Anyone who has pursued long-term financing in recent months has awakened to a new reality. The standards we could count on from conduit lenders in recent years, including 80% loan to value ratios, 1.15 x debt service coverage ratios, interest-only payments, etc., are history. With conduits sitting on the sidelines, the field of lenders has thinned out drastically. Current players include life insurance companies, local banks, and a handful of portfolio lenders. For these remaining permanent options, the underwriting standards are generally more conservative than what we have been accustomed to and higher leverage non-recourse money has been especially difficult to procure. Borrowers are wondering what has happened to **Commercial Mortgage Backed Securities (CMBS)**. Why has this market shut down? What will it take for this important lending source to return?

Until last year, investors viewed CMBS very favorably. Lenders could not produce securities fast enough and competing

April Professional Showcase

Dalbec Roofing

Dalbec Roofing is a full-service commercial roofing company that emphasizes the value and importance of preventative roof maintenance. The company is one of the leading providers of roof management services that include full, on-line access to roof reports and service history.

Technology Tip

Do you have an opinion on the recent MSCA presentation?

In an effort to monitor and improve the services we provide to our members we encourage your feedback. In addition to the random program evaluations that are sent out via email, we welcome unsolicited comments through the website. From the home page, click on meetings, then program comments. If you have any questions please contact Sean Cullen at (952) 905-3281.

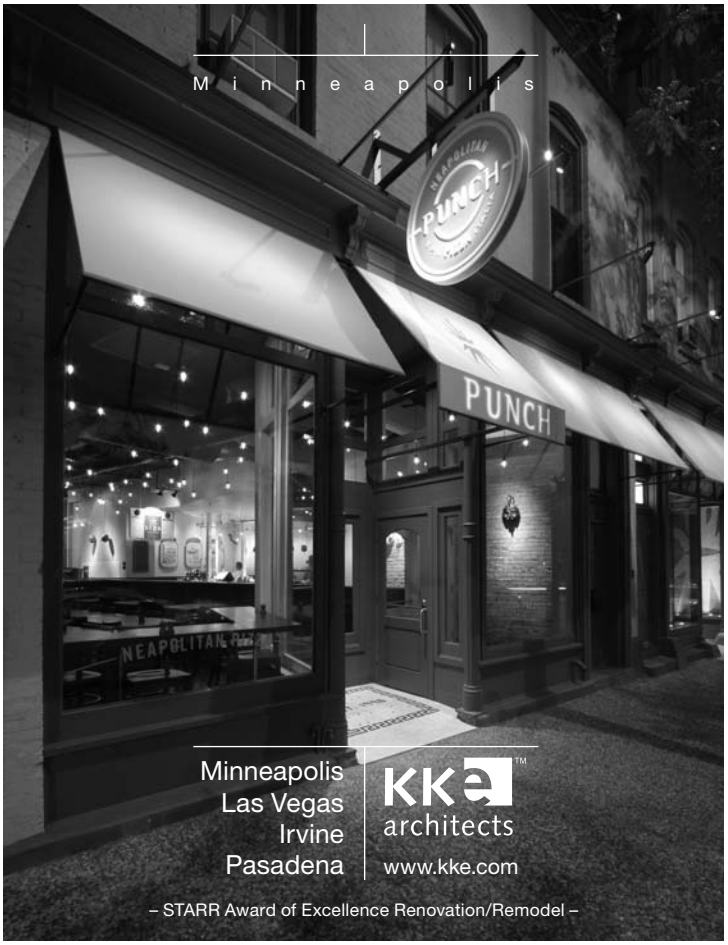
CMBS Shutdown - continued from page 6

sources of conduit financing were entering the market monthly. In order to satisfy ever-increasing production goals, something had to give. Unfortunately (or fortunately, for some), what was sacrificed for the sake of production was prudent underwriting. Leverage increased and debt service coverage declined. And amortization all but disappeared. The market was overheated.

And then came the residential mortgage fallout and fear suddenly took hold of the mortgage-backed securities market. Investors lost faith in the rating agencies for not predicting, or protecting against, the crash. Those same rating agencies placed their stamps of approval on the CMBS deals in the market as well. And so the fear contagion, and the lack of trust in the rating, quickly carried over to the commercial side. Despite the record low default rate on commercial properties, investors demanded higher spreads and tighter underwriting standards. Last summer, conduit lenders responded, and for a time, the market functioned in this new lending climate.

Early in February 2008, the CMBS market shut down. The increasing dire economic news has caused investors to pause and assess the underlying health of the commercial real estate market. Even with fundamentals strong today, the fear is that this could change quickly. This fear, rather than increasing loan defaults or decaying commercial real estate fundamentals, is the main cause for the market shutdown. Uncertainty dominates today's markets. Perhaps the Fed's increasing involvement in the credit crises will bring stability to the financial markets. Once that happens and the fear is gone, CMBS lending will return. In the meantime, investors should get used to the new reality.

A few conduit lenders have set up a portfolio lending program while the CMBS market is down. According to sources at Wells Fargo Bank, they will lend up to 75% of value on a non-recourse basis on class A properties. With five-year rates below 6% (10 yr. ±6.5%), this program is an attractive option in today's conservative lending environment.



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