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MSCA news

VOLUME 21, NUMBER 5

MAY 2007

CAPITAL MARKETS – RETAIL PROPERTY

Feature

Guest Author: Bob Pounds, Welsh Companies, LLC

According to Real Capital Analytics (RCA), the investment market for retail properties is continuing at a vibrant pace, at least on a national level. RCA reported there were more than \$3.3 billion dollars of new property introduced to the investment market in February 2007 alone, the largest such influx in the past six months. The demand for high-quality retail investments continues to be strong throughout the country. However, on a local level, the supply has been waning for the past six months. Whenever this imbalance occurs, the conventional wisdom is that pricing will remain very sharp. Many are of the opinion, however, that pricing will slide somewhat from the recent levels, as investors are concerned with consumer spending trends and slowly rising interest rates. Although retail fundamentals are still very good, the prospect

of flat or diminished retail sales is usually all it takes to cool the investor market.

Real Capital Analytics has an interesting take on real estate investment. RCA reported that the perception that real estate is a long-term investment is no longer a reality. In the retail sector, 40% of properties that were sold in 2006 had been held for less than six years. Changes in both buyer composition and investment strategies provide some insight into the trend. New buyer groups such as private equity funds and syndicators (private REITS & TICs) target much shorter holding periods than traditional investors. They are often compensated for exceeding return rate hurdles, which is often achieved by selling as soon as practical, then rolling the investor's capital into a subsequent fund.

Capital Markets on page 2

WILLOW CREEK MARKET

Snapshot

Location: SW Quad – Hwy 63 and 48th St. in Rochester

Month/Year Opened: Summer 2007

Owner: Willow Creek Investors, LLC

Managing Agent/Center Manager: Steiner Development, Inc.

Leasing Agent: Todd Johnson, Dan Mossey, SDI, Inc. (952) 473-5650

Architect: Architectural Consortium LLC

Construction Contractor: Steiner Construction Services LLC

GLA: 53,500 sf

Current Occupancy: Under Construction

Market Area Served: Southern Minnesota, Northern Iowa



Additional Facts/Narrative: Join all of the action in the newest retail destination in the Rochester market area. The Hwy 63 and 48th Street interchange has over 1,000,000 sf of retail under construction now, including SuperTarget, Mills Fleet Farm, Lowe's, Wehrenberg Theaters, and many more. Willow Creek Market enjoys hard-corner presence with unparalleled visibility.

CAPITAL MARKETS *continued*

The level of activity occurring in the Minneapolis/St. Paul marketplace is largely driven by portfolio acquisitions. As an example, Centro Watt purchased the assets of Heritage Real Estate Investment Trust, which included 15 properties in Minnesota. Of those 15 properties, Centro Watt immediately flipped two, HarMar Mall in Roseville and Fashion Place in St. Cloud, to a private New York based group, Emmes Asset Management. The Minnesota properties were part of the privatization of Heritage Real Estate Investment Trust. Centro Watt reportedly paid a 7.3% cap rate for the entire portfolio. Continuing in this vein, everyone has now seen the press release whereby Centro Watt is in contract to purchase the assets of New Plan. In the past four years, Centro Watt has gone from owning zero properties in the United States to owning approximately 800 shopping centers, upon closing of New Plan, in effect making them one of the top five owners of strip retail in the United States. And, finally, Developers Diversified Realty purchased the assets of Inland Retail (their Eastern REIT only), involving no Minnesota properties. Inland is still very much involved in the ownership of retail properties and is diversifying their portfolio by making large acquisitions of office properties as well.

Some recent notable transactions include the sale of Oakdale Village by Kelly Doran and Robert Muir to Centro Watt for \$37,000,000, or \$195 per sf. This acquisition included a partially improved pad, ready for additional construction. Oakdale Village is located right off I-94 in Oakdale and features Best Buy, HomeGoods, Sports Authority, Guitar Center and many other fine stores. Additionally, Centennial Lakes was sold to TA Associates, a Boston based pension fund advisor by Gabbert & Beck for approximately \$48,655,000, or \$212 per sf. Centennial Lakes benefits from a prime location on France Avenue, one of the metro area's most desirable addresses. Finally, KIMCO purchased The Fountains at Arbor Lakes from OPUS for \$95,024,711, or approximately \$192 per sf. With this purchase, KIMCO increases their ownership of retail properties in Maple Grove to just under 1,000,000 sf. Recently, Southdale changed hands again. The Mills Corporation sold their assets to

Simon Property Group. It will be very interesting to read the announcement of Simon's plans for this underperforming property. Many in the industry are speculating whether Southdale will be home to the second Nordstrom or whether Neiman Marcus will join the Center. With all the improvements occurring at The Galleria and Edina's interest in positioning the Southdale corridor as a more resident friendly area, observers are hopeful that the announced plans, whenever they occur, will be in keeping with this property's potential.

As we all know, pricing for retail property has been increasingly sharp over the past few years. The reasons are many. Investment in real estate, in general, has been rabid due to low interest rates, the opinion that real estate is a mainstream

investment vehicle and that the stock market was considered to be unstable. Investors seemed willing to desire predictable returns and real estate fulfilled that goal. Locally, the retail real estate universe has enjoyed very good fundamentals. Rents are rising, land prices are soaring and overall vacancy is low, and has been for some time. The result is it is a very good time to be a seller!

To my point, recent pricing suggests a cap rate range between 5.9% for high-quality, well-located and leased grocery-anchored strip centers to 7.5% for older, not as well located, but well occupied centers. There is *no* reason to believe that pricing will *not* cool off from its present level but it probably will *not* be as dramatic as the market pessimists lead us to believe. ■

TECHNOLOGY COMMITTEE



The Technology Committee has been working behind the scenes to enhance the MSCA website and create a resourceful means of locating reliable information related to the shopping center industry.

Please visit the website at www.msca-online.com and look at some of the new features.

Do you or your company have a retail, redevelopment or renovation project that you would like to showcase, or have you been looking for a space to lease? Be one of the first to list your project on the MSCA website!

Go to the MSCA home page under "retail projects", click on "add a listing", complete the short form and click on save. This is a free 90-day listing for MSCA members with the option of 1 renewal for another 90-days at no charge. Non-members can post a listing for \$100 with the option of 1 renewal for another 90-days at an additional \$100.

We have also added a link that will open the public side of the MNCAR database listing search page. This is provided as a convenience to you through cooperation between MNCAR and MSCA. Go to the MSCA home page under "retail projects", click on "MNCAR listings".

Look for the monthly Technology Tip in upcoming MSCA newsletters that will contain updates on additional website enhancements.

For questions, please contact Cindy MacDonald at (952) 948-9408.

MOTHER'S DAY

This Mother's Day (May 13), consumers plan to spend \$15.73 billion as they shower the women in their lives with jewelry, flowers, clothing and even trips to the spa. According to the National Retail Federation's 2007 Mother's Day Consumer Intentions and Actions survey, conducted by BIGresearch, consumers are expected to spend an average of \$139.14 on the holiday compared to last year's \$122.16.

Popular gifts for the holiday include greeting cards (86.8%), gift certificates (39.3%), books or CDs (29.3%), housewares or gardening tools (18.5%) and consumer electronics or computer related accessories (11.3%).

Not surprisingly, men plan to spend the most this Mother's Day, with the average male shopper planning to spend \$172.91, compared to women's estimated \$107.18.

SAVVI FORMALWEAR

Rising Star

by Peter Berrie, Faegre & Benson LLP

Savvi Formalwear specializes in men's tuxedos and other formalwear, with designer styles featuring Joseph Abboud, Ralph Lauren, Perry Ellis, Ecko and Calvin Klein. There are nine Minnesota Savvi Formalwear locations, including stores at Ridgedale Center, Maplewood Mall, Rosedale Center, Southdale Center, Burnsville Center, Woodbury Village, Northtown Mall, Shoppes at Arbor Lakes and the Eagan Promenade.

Savvi Formalwear is a cooperative of independent formalwear specialists with over 400 stores in North America. The national cooperative, which was just recently formed, is managed by CCA Global Partners, which was founded in 1996. All cooperative stores are family-owned and operated by cooperative members living in the communities they serve. All stores are also supported by local production facilities.

The nine Minnesota locations have been owned by the same family since the first opening in 1972. Prior to 2004, these stores were operated under the Gingiss franchise (as were other formalwear stores across the nation). In 2003, the owners of the Gingiss trademark, who were based in Chicago, filed for bankruptcy after reorganizing and experiencing financial problems. In connection with the bankruptcy, the Gingiss franchise operations were dissolved. At that time, St. Louis-based May Companies bought Gingiss's company-owned stores and the right to use the Gingiss

trademark. The local owners then changed the name to Savvi Formalwear.

As independent stores, the Minnesota Savvi Formalwear locations are able to buy regionally to suit local tastes and styles. As the local stores' website says, being part of a national cooperative allows the local stores to realize large company benefits such as buying power, resource pooling, and national branding, while providing customer service by locally-owned entrepreneurs. Compared to a franchise, the cooperative format gives the local members more control over the national brand, and also leaves the members less vulnerable to a dissolution of the national franchisee.

Gentlemen readers, remember that formalwear is not only for proms and weddings. Let's show the ladies that we can at least look classy by donning a tux at this year's MSCA STARRSM Awards!



2007 LEADERSHIP OFFICERS

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Web Sites

Visit these websites to find landscaping ideas this spring:

■ www.landscapeusa.com

■ www.landscapingideasonline.com

Native Landscaping:

■ www.epa.gov/greenacres

■ www.native-landscaping.com

FEATURED CORPORATE SPONSORS COMPANY VISIONS

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Cunningham Group Architecture, P.A.

Cunningham Group Architecture, P.A. seeks to create memorable architecture that enriches our clients and communities. We do this by collaborating with clients to realize their visions through the design of the built environment.

Dougherty Funding LLC

Do good, have fun and make money.

General Growth Properties, Inc.

People creating special places and experiences.

J.L. Sullivan Construction, Inc.

To provide outstanding commercial construction expertise and service which exceeds our customer's needs and expectations.

Larkin Hoffman Daly & Lindgren Ltd.

Larkin Hoffman Daly & Lindgren Ltd. is a full-service law firm solving problems and creating opportunities for businesses and individuals since 1958.

Thank You

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

- **Sur La Table** will have their first MN location late summer early fall, as the anchor to the 5000 France redevelopment. Also scheduled to open is **Cos Bar**.
- Look for **OfficeMax** to open in The Fountains in Eden Prairie next to Michael's on Flying Cloud Drive.
- **Punch Neapolitan Pizza, Chipotle** and **Sotheby's** have filled up the retail building located at 1313 Wayzata Boulevard in Wayzata.
- **Gold's Gym** will be taking temporary space at Great River Centre of Otsego adjacent to Coldstone Creamery in Otsego until their building of 48,000 sf is completed during the spring of 2008. The gym will be two stories with a mezzanine.
- **Blue Sky Creamery** has just added an assortment of quick-serve meals with a focus on fresh foods made daily onsite. Their menu now includes soups, salads, sandwiches, burgers, fries and more.
- **Restaurant Miami**, located at 913 W. Lake Street near Bryant Lake Bowl has opened with a 1980's Miami themed bar/restaurant to serve the Uptown area.
- **North Face** anticipates building a new building in Uptown where the UPS store and Tibet's Corner had been previously. The UPS store will open at 28th and Hennepin in the former Saint Sabrina space. Saint Sabrina's has moved to 27th and Hennepin.
- **Architectural Consortium LLC** has recently completed design, city approvals, and C.D.s for Springbrook Plaza. Located at Hwy 97 and Everton Ave. in Forest Lake, the 20,000 sf neighborhood center plus Kwik Trip gas station and potential bank site is proceeding with spring construction for owner/developer Bruggeman Homes.
- **Griffin Companies** represented Massage Retreat in leasing retail space at Rockridge Center. The center is located at Rockford Road and Highway 169 in Plymouth. The 2,663 sf space will be the first of several locations in major twin city markets.
- On April 19th, the Twin Cities' first "churrascaria" **Fogo de Chao** - a brazilian steakhouse - opened at Minneapolis City Center. Brookfield Properties also announced the opening of **Brooks Brothers** at Minneapolis City Center and **Len Druskin Man** at Gaviidae Common, both in the fall of 2007.
- **J.L. Sullivan Construction, Inc.** has recently completed construction of a new Fantastic Sams location in Plymouth, renovation of the Stadium Village Mall building in Minneapolis and a TCF Bank Cub Food Store branch in Rogers.
- **Best Buy** has signed a lease for a build-to-suit project at Southbridge Crossing in Shakopee. Construction will begin this spring on the approximately 30,000 sf store.

BABY BOOMER VALUES GIVE INSIGHT INTO BUYING DECISIONS

Guest Author: Shelley Klaessy, CMD,
Brooks Mall Properties

The first wave of nearly 77 million Baby Boomers (those born between 1946 and 1964) is beginning to experience the reality of moving into their next life stage. The Boomers born between 1946 and 1955, numbering nearly 37 million, are now between 52 and 61 years of age. They are currently experiencing changes in family priorities, changes in health, and changes in how they experience the world around them.

Boomers have a worldview vastly different from other generations. They also control much of the country's wealth. These traits, demographic shifts, and changes in consumer needs, along with the sheer numbers and buying power of this generation, will likely cause major changes in retail spending patterns in coming years.

Why Values?

Marketers realize it is a difficult challenge to predict the buying behavior of any group, especially one as large as the Boomer generation. Insight can be gained, however, by looking at motivations, attitudes and preferences and identifying the values that drive a belief system. In other words, values reflect beliefs that ultimately shape one's attitude toward life. Author Tim Athey writes, "All generations possess unique values and experiences that the people in those age groups use to define themselves and to create meaning for their lives." For marketers, values are instrumental in understanding what motivates people to buy.

The social upheaval during the 1960s caused many Boomers to question the relevance of institutions, morals and intellectual conclusions of the day. As a result, core generational values for Baby Boomers revolve around their focus on self and individuality. Author Gary Collins identifies other common Boomer values, including: relevance, questioning, instant remedies, participation, acceptance, informality, flexibility, lack of commitment, and enthusiasm for causes. He also believes Boomers have high expectations, value autonomy, are non-traditional, driven and nostalgic.

The Next Step

The expression of values can impact brand loyalty, the acceptance of advertising messages and overall reasons for buying goods and services. By understanding what 'drives' this generation, marketers can better understand and predict what variables may trigger future purchasing decisions.

There are many things to consider when assimilating values with buying behavior. For example, knowing that Boomers have high expectations, are self-focused and like instant remedies, should encourage marketers to rethink what 'customer service' *really* means to this group. Or, how does their lack of commitment, questioning nature and dislike of institutions impact brand perception? These are just a few of the many scenarios that must be looked at when targeting the Baby Boom generation, which, if done strategically, may result in huge financial rewards. ■

WELCOME

New Members

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Joe Mahoney, H.J.
Development, Inc.

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Todd Anderson, Dicks
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MAY

Member News

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

Edwards and Kelcey Acquisition

Edwards and Kelcey has been acquired by Jacobs Engineering Group Inc. (NYSE:JEC), a firm with over 45,000 employees and revenues approaching \$8 billion. Headquartered in Pasadena, California, Jacobs provides technical, professional and construction services globally.

Kaplan Joins United Properties

Bradley Kaplan joins United Properties as an Associate in their Retail Brokerage Group doing Leasing and Sales.

KKE is Ranked

In the January 2007 issue of Building Design's annual survey of the world's largest architectural practices, *2007 World Architecture 100*, KKE is ranked 74 out of the largest architecture and multi-disciplinary design firms in the world. This is up from 86 the previous year and is based upon the number of fee-earning architects employed at each firm. In addition, KKE is ranked number 10 in the world in the "top 10 architectural firms in the retail market sector" based upon fee income.

Chuck & Don's Gets Honored

Chuck & Don's Pet Food Outlet has been honored with a U.S. Chamber of Commerce Blue Ribbon Small Business Award. The award was given in recognition of the company's dedication to excellence in several categories.

MSCA

Member Profiles

TRENT MAYBERRY



Company: TOLD Development
Company

Primary Career Focus: Commercial
Real Estate Development

Education: BSB Finance University of
Minnesota

Family: Jane/wife, Catherine and
Chloe/daughters

Hobbies: Traveling, snowboarding, golf, croquet, racquetball

Dream Job: Winning the World Cup for Scotland

Secret Talent: Skateboarding

KIM MEYER



Company: Robert Muir Company

Primary Career Focus: Retail Leasing

Family: Husband, Brian and 4-year-old
son, Mason

Dream Job: Captain of an A380 for
Virgin Atlantic

Secret Talent: Certified Flight Instructor

Favorite Food: Cosmo and sea bass at Café Lurcat

MSCA Involvement: STARRSM Awards Committee,
ICSC/MSCA Fall Program Committee

2007

Events 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.

Wednesday, June 6 – Retail Entertainment

Monday, June 18 – Annual MSCA Golf Tournament, *Majestic Oaks Golf Club*

Wednesday, July 11 – Professional Development

Wednesday, August 1 – Development

Tuesday, September 11 – MSCA/ICSC Program,
Minneapolis Convention Center

by Albi Albinson, Architectural Alliance

Who: Janet Jeremiah, Community Development Director, City of Eden Prairie
 Jay Scott, Principal, Solomon Real Estate Group
 Moderator: John Breiting, Vice President/General Manager Retail Investments, United Properties

What: Current status of Town Center Developments in the Twin Cities Metro Area and preview of the new Windsor Plaza project in Eden Prairie

When: Wednesday, April 4

Where: Doubletree Hotel Minneapolis Park Place

Synopsis: The merits, successes and challenges of developing a new town center mixed-use project were discussed. Janet Jeremiah identified some of her local favorite places. They included: the 50th and France area, with its eclectic buildings and diverse retail and office offerings; Centennial Lakes; Excelsior and Grand, a project in which she was involved, which included the Town Green connection, public art, civic events and celebrations, and Wolfe Park; Burnsville Nicollet Commons Plaza, with its public art, fountains, and mixed-use component; and Richfield Kirchbak Gardens.

Jay Scott's favorite places include a project he worked on while with Opus, Arbor Lakes, with its walkable Main Street and diverse retail offerings; Silver Lake Village in St. Anthony, a success story incorporating big box retail; Centennial Lakes, another project in which he was involved; and Uptown's Calhoun Square, an interesting example with very active local participation providing numerous challenges.

Jeremiah commented about the importance of transit in future mixed-use projects in suburban communities. Typically there are grass roots initiatives that come into play. For example, the Southwest Transit in Eden Prairie has 900 parking spaces for commuters and is an attractive and convenient corner. By the year 2030, the seven county metro area will have over



April presenters: Left to right

John Breiting, *United Properties*, Janet Jeremiah, *City of Eden Prairie*, Jay Scott, *Solomon Real Estate Group*

one million people, so transit and parking issues just become more and more important.

Scott discussed the feasibility of mixed-use projects. The ideal desire is to diversify the assets into various types (housing, retail, office) and spread the risk. One of the attractions is that the projects are higher profile, providing attractive marketing opportunities. Vertical integration is seen as one of the keys to success.

One strong suggestion in considering a new neighborhood project is to get involved with the neighborhood groups early. If you are able to capture the neighborhood groups you will have a better chance of success. Unfortunately, the proposed redevelopment of Calhoun

Square is an example of not achieving success because of not capturing the neighborhood group approval.

The relative merits of housing being located over retail, office over retail and housing over office were all discussed. All can work if you have the right design and demographics. One key to remember is to accommodate the car. Parking, traffic flow, pedestrian flow, sidewalks – all need to be considered carefully to ensure ultimate success.

The new proposed Windsor Plaza project in Eden Prairie was highlighted. The research indicated that for this market, office over retail was the right combination. It will be a five-story project – four stories of office above one ground level of retail, with two restaurants book ending the retail stores. The location of the restaurants at each end will minimize noise and odors for the office workers. One unique aspect is the incorporating of a Bobby & Steve's Service Station in the project. Currently there is a BP station on site. Eminent domain ensured that it would stay, and Bobby and Steve brought a higher design aesthetic to the table and the result is a compatible solution, which enhances rather than detracts from the overall design. The project will begin construction in July and open in the fall of 2008. ■

APRIL

Professional Showcase



Sean McKee & Michele Krolczyk

Dalbec Roofing is a full-service commercial roofing company committed to taking the stress out of roofing by offering the most advanced technologies in preventative roof maintenance. For more information, give them a call at (952) 473-8080. Dalbec Roofing is a proud sponsor of MSCA.

YOUR TOWN'S RETAIL PULL FACTOR

Hot Spots/Cold Snaps

by Ross Dahlin, Itasca Funding Group, Inc.

How much retail can a city support? The University of Minnesota Extension service has a Web site of particular interest to our industry. It examines a community's retail "pull factor" by determining the size of a city's trade area by dividing the city's sales per capita by the state's sales per capita. A factor greater than one indicates the city is attracting shoppers. "Retail Trade Analysis" reports exist for all communities in Minnesota with populations over 5,000. The analysis reports on the health of the retail community, providing a historical report with information such as:

- A community's actual retail potential.
- Which retailers are attracting shoppers to your town.
- Your community's retail opportunities.

- Which businesses are drawing shoppers away from your town.

Your town's pull factor: what it means and why it matters.

The Web site also offers strategies for small shops competing and thriving in the shadow of big-box retailers. "Big-box retailers create an enlarged local trade area, drawing more potential customers into the community. Smart local businesses can harness and add some of that increased traffic to their own customer base, and keep more of their local customers shopping with them." To get access to the extension service and their reports, visit:

- www.extension.umn.edu/projects/community/retail

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MSCA hosts online and silent auctions in conjunction with the annual MSCA Golf Tournament. All proceeds go to The Caring Tree to help low-income students with new school supplies. If you would like to donate an auction item, please contact MSCA at (952) 888-3491.



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