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news

Volume 19, Number 11

November 2005

Feature Don't Get Mired in the MUD

by Barbara White, Target Corporation

In the “olden days,” people lived in mixed-use communities on a regular basis. Shopkeepers, their families and even extended families, lived “above the shop.” Living space and livelihood were intimately connected such as a diner on the main floor of an apartment building, or perhaps a small grocer. In older urban communities, such as New York and Philadelphia, these uses have continued to exist side by side for decades, if not centuries.

With the growth of the suburbs, and mid to late century concepts of zoning and development, the proximity of residence to retail in many communities changed. Although these neighborhoods are often beautiful in their own right (lovely lawns, landscaping, gracious trees), they fail to offer some of the convenience and community-building associated with the ability to walk to the corner store, or be on a first name basis with

Mired in the MUD on page 2

Snapshot The COMMONS of National Market Center



Location: Intersection of Hwy 65 & 105th Avenue NE, Blaine

Month/Year Opened: National Market Center opened Fall 2003

The Commons to be open Spring 2006

Owner/Manager: Continental Development Corporation

Leasing Agent: George Bestrom, Park Midwest Commercial Real Estate (763) 847-6668

Architect: KKE Architects, Inc.

Construction Contractor: Kraus-Anderson Construction Company, Midwest Division

GLA: 15,737 sf

Current Occupancy: Now leasing with retailers scheduled to open May 2006.

Number of Stores: 7-9

Market Area Served: Blaine, Coon Rapids, Ham Lake and surrounding areas

Construction Style: Masonry, decorative block, brick, EFIS

Additional Facts/Narrative: Anchor stores include Menard's and Kohl's. Other national and local tenants include Arby's, Cold Stone Creamery, McDonald's, Chipotle, Caribou Coffee, Planet Beach and Cost Cutters. It is located directly adjacent to the National Sports Center with over 3 million visitors per year and has an average daily traffic count of over 50,000 vehicles per day on Hwy 65. Several build/lease opportunities are still available (with lease spaces from 1,200 sf to 35,000 sf) within the National Market Center.

www.contdev.com ■

MIRED IN THE MUD *continued*

the local grocer. Many people value the ability to combine an evening stroll with getting a gallon of milk for breakfast. Also, for the fitness-oriented or the conservation-conscious, the opportunity to walk to work or have mass transit nearby makes practical sense. Finally, an aging population, cognizant of the limitations they may face on driving in the future, may find the ability to do their shopping and carry everything home in their market basket very appealing.

A type of development getting attention from developers and communities alike, is mixed-use developments which combine retail and residential uses, in a neighborhood scaled that once again connects living space with daily needs.

Mixed-use developments can take several forms. The simplest, for purposes of legal documentation, is a development in which the housing or residential piece is a part of the larger development, but constitutes its own separate buildings or tracts. In this style of development, the legal documentation may include very typical condominium agreements or homeowners associations for residents, office leases, and retail "operation and easement agreements." Therefore, developers (and their lawyers) familiar with these types of development will see familiar provisions in the documents. Unique legal documents may arise from a common area such as a town square or park. Who will own it? Who will govern its use? How will costs of maintenance and improvements be shared? Will the design of improvements such as picnic shelters, lighting or even landscaping be reviewed by the residents, by the business owners, or by both? Each of these issues could be addressed using a declaration placed on the common property by the developer.

Residence owners may hope for certain uses to be encouraged or prohibited in the nearby retail center. They may expect a grocer to be there, but they may not want an adult bookstore. Zoning limitations or the uses set forth in a planned unit development may set their minds at ease. Operation and easement agreement may provide similar assurances. Homeowners should remember that they will likely not have any individual right to enforce any of these limitations. However, zoning and

planned-use developments will at least give them access to solutions through local government, which a private agreement to which they are not a party of will not provide. Including the homeowner's association or condominium association as a party to the operation and easement agreements is one way for developers to give residents a voice.

More complex is the vertical mixed-use development with the residential component above the retail portion. I read of an upscale condominium development built above a burger restaurant. Residents complained about the grease and odors; ventilation was rerouted, but the dispute continued. One could question what a person who buys a home above a cheeseburger restaurant expected. However, this question highlights an important distinction between the days when the family living "above the shop" included the proprietor of the very same shop. The baker probably barely noticed the smell of yeast and the pet shop owner was accustomed to the yapping of the puppies. With many vertical developments offering high-end condominiums to homeowners paying premium prices, it is unlikely that the homeowners are the workers in the retail spaces below. The developer must consider what business operations, which, when separate, pose little concern to patrons or retail owners alike. In addition to concerns about odor (both from ventilation and from the placement of compactors or other refuse), the list could include noise, hours of operation, deliveries, lighting, pests and plumbing issues related to grease traps, among others. Legal documentation must be combined with business judgment, and, perhaps less obvious, technical and engineering solutions, to address these concerns. Careful lease drafting that clearly identifies the limitations to be imposed on retail users will provide the retail tenant with a clear understanding of the challenges they may face in that particular space. For example, will a prototypical sign package be permitted? Will they face a limitation on their store hours? It should also clearly delineate whether the landlord or the tenant will be responsible for physical or mechanical changes or corrections that need to be made once operations begin.

Parking, a perennial issue in retail developments, remains important in

mixed-use developments. Legal documentation allocating parking to various users, whether retail, office, or residential, will be dictated in part by the physical layout of the center. It will also depend upon the ownership interests of the various parties. A landlord who leases all portions of the building can allocate parking through the individual lease documents. A landlord who owns the retail portion of a building, where the residential portion will consist of individually owned units, must be certain that the rights to the commercial parking are included in its interests and that the residential units are limited or prohibited from using those spaces for personal convenience. A tenant of the retail landlord will want to make sure that its lease conveys the parking rights it needs. A case in Florida arose from a dispute between a deli tenant and the residence owners of a condominium building. Although the use of the unit as a deli was permitted, the number of parking spaces being used by the deli, and the rights of the condominium owners to reallocate the common element parking as limited common elements assigned to individual units, formed the basis of the dispute. The court also noted the lease itself did not address parking rights. The reported case was decided on a procedural matter, so no solutions can be gleaned from the case, but the risks to each party are evident in the description of the facts.¹

The advantages to both residents and retail users of mixed-use developments are many: a built-in client base for the retailers, convenience and enjoyment for the residents, opportunities for both workers and guests to get to know one another. Good business decisions, thoughtful site, and amenity design can provide the foundation for a thriving mixed-use development. Proper legal agreements can ensure each party understands its rights and its obligations. As the development progresses from a business proposition to a community, the addition of a bit of common sense and the spirit of being a good neighbor will have to do the rest.

A special thank you to Meredith Bledsoe of Target Corporation for her research assistance.

¹ *Jamlynn Inv. Corp. v. San Marco Residences of Marco Conco Assoc., Inc.*, 544 So.2d 1080 (Fla. Dist. Ct. App. 1989).

Member Profile

Matthew G. Mock



Company: Braden Construction, Inc.

Title: Director of Business Development

Hometown(s): Rapid City, SD

Education: Business and Communications from Black Hills State University in Spearfish, SD

Family: Wife, Julie, of 8 years and 4-year-old son, Parker

Hobbies: Cars, golf and whatever Parker is into (which changes almost daily)

Job History: Commercial Construction (1992-1998) Owned and operated a small commercial store fixture company (1998-2001)

Braden Construction (2002-present)

Very First Job: Worked for a commercial bookkeeper in South Dakota

Dream Job: Classic car buyer

Secret Talent: Great cook

Favorite Food: My grandma's chocolate chip cookies

MSCA Involvement: General member and Marketing and Communication Committee Co-Chair



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Around the Marketplace

Retail Tidbits

compiled by Tim Hilger, Diversified Acquisitions, Inc.

● When it comes to the real estate investor market single tenant investments remain very hot! According to a survey by Marcus & Millichap sit down restaurants constitute 49% of the single tenant properties sold. The balance of the single tenant investments acquisitions break down as follows: 26% fast food restaurants, 8% drug stores, 6% "big box," 5% supermarket, and 3% convenience stores. **Starbucks** were selling at a median price of \$455 psf and **McDonald's** sold for \$420 psf.

● Interesting **Costco Wholesale Club** factoids: it has approximately 50% market share vs. 40% for **Sam's Club**, Costco has approximately 457 stores versus Sam's 642 stores, Costco's average annual store sales are \$121 million versus Sam's \$70 million, Costco has 45 million members paying \$45 a year each or \$100 per year for a small business membership fee, Costco's CEO earned a \$350,000 base salary plus a \$200,000 bonus last year, an average store has 4,000 SKU's versus 100,000 SKU's in a **Wal-Mart**, maximum product mark-ups are 14% for name brand and 15% for private label. (Source New York Times).

● **Developers Diversified Realty Corporation** is making an acquisition run at the 137 **ShopKo** store group. ShopKo also owns the 221 **Pamida** store chain, which would be part of the

acquisition. DDR's move challenges the Minneapolis based private equity firm of **Goldner Hawn Johnson & Morrison's** bid for all the ShopKo holdings.

● The private equity firm of **Castle Harden** has formalized an agreement to purchase all the corporate **Perkin's Restaurants** for approximately \$245 million.

● **Trustreet Properties, Inc.** has closed on the sale/leaseback of 35 of the 90 unit **Nath Companies' Burger King** restaurants for \$36.5 million. Based in Minneapolis, the Nath Companies also operates **Denny Restaurants** and **Radisson Hotels**.

Holiday Theft

Retail "theft gangs" are taking a bigger bite out of retail profits each year. Most stolen items are not high priced, but routine items according to MSNBC: medicines (for conversion to meth, etc.), film, CDs/DVDs, baby formula, diapers, batteries, tools, designer clothes and electronics. If a thief gets "busted", they prefer it to happen at the cash register where they can plead ignorance. Retailers are investing more in prevention and information sharing.

Program Recap

Triumphs and Tribulations: Managing a Retail Mall

by Christopher Max Naumann, KKE Architects Inc.

Synopsis: Moderated by Nancy Litwin of General Growth Properties, panelists Paula Mueller of Glimcher Realty Trust and Rollin Hunsicker of the Jones Lang LaSalle shared with those in attendance, the trials of managing the Northtown Mall and Rosedale Center respectively. Each of the traditional regional malls has a long history and both are facing the challenges of repositioning in an increasingly competitive marketplace. Both Paula and Rollin shared their strategies in dealing with tenant turnover and management while dealing with significant renovations.

General Highlights:

Although the Midwest region traditionally experiences lower sales psf compared to the rest of the nation, new shopping centers continue to be developed here creating a more competitive and specialized market niche.

Shopping center operators must be aware of the market conditions and react quickly

with repositioning strategies when challenges do arise.

Northtown Mall Highlights:

(www.northtown-mall.com)

Northtown Mall was originally built in 1972 as a traditional regional mall.

Over time, the mall changed ownership and evolved with new tenants and anchors and became a centerpiece for the community.

In recent years, Northtown Mall has lost some of its anchors: Kohl's to a nearby free-standing store, Montgomery Ward to bankruptcy and Mervyn's in a downsizing action.

The challenge of losing the anchors was met with a \$15 million center renovation plan that included new anchors such as Burlington Coat Factory. Out-parcels have also been added for new retailers and restaurants. The food court has expanded, and new national retailing concepts are being pursued.

Rosedale Center Highlights:

(www.myrosedale.com)

Rosedale Center is a super-regional mall built in 1969.

The mall has undergone renovations in the past few years and includes the addition of a formal food court as well as Big Bowl and Macaroni Grill.

Rosedale Center recently lost its Mervyn's anchor in a downsizing action.

"The Plaza" at Rosedale Center is a \$50 million hybrid exterior style addition that will replace the Mervyn's property with exterior facing stores and a stadium-seating multi-plex movie theater.

The addition will bring more "lifestyle" and entertainment elements to Rosedale Center and will open in October 2006. ■

Market Update

Central Avenue's Retail Revival Rides on Condo Craze

by Ross Dahlin, Itasca Funding Group, Inc.

It is no longer a secret that Northeast Minneapolis is one of the metro's hottest neighborhoods. Hundreds of condo units have been completed or are currently under construction, and hundreds more are in various planning stages. Condominium development has also spread northward into Columbia Heights with the recent completion of the Grand Central Lofts at 47th Street NE and Central Avenue. Central Avenue has been a historical retail corridor with many aging strip centers and older, underutilized buildings. The new housing units will enhance the demographics of Central Avenue and ought to attract new retailers. This article will highlight retail space available and under construction along Central Avenue from the Mississippi River to I-694 in Fridley.

At Central and University, the 102 unit Cobalt condominiums will feature a Lunds

grocery store on the ground level, replacing the aging Eastgate Retail Center. The new development will also contain some small retail space, for a total of 40,000 sf. Monroe Village, a new senior rental, mixed-use development at 19th and Central, has 3,210 sf of leasable retail space to accompany the Silver Angel Thrift Store. Suntide Realty is leasing space at Monroe Village. At 26th and Central, the Eastside Food Co-op is seeking a complementary tenant to occupy an adjacent 2,600 sf space, formerly housing a Taystee Bakery. There are a few other small vacant storefronts along Central Avenue in Minneapolis, but they are quite obsolete and would require a significant investment to make them viable retail locations.

In Columbia Heights there are several developments on the retail front. A new CVS/pharmacy has recently opened on

37th and Central. The Stage Door Coffee Shop recently vacated its location at 40th and Central, adjacent to the Cast Academy of Acting & Showcase Theatre. Paster Enterprises is currently leasing eight retail spaces at Central Plaza, located at 45th and Central. Sizes range from 1,200 sf to 10,767 sf at the Snyders Drug and Harbor Freight Tools' anchored center. Advanced Auto Parts is breaking ground on a new store at 46th and Central. 10,000 sf of retail space is available on the first floor of the Grand Central Lofts, the only new multi-tenant retail space to come to Columbia Heights in several years. Another 12,000 sf of multi-tenant retail is planned for the Huset Park redevelopment project on 37th and University Avenue NE. Menards, Target, and the Medtronic campus are located along Central Avenue and I-694 in

Central Avenue Retail on page 7

Acacia Real Estate Partners LLC

Acacia Real Estate Partners LLC has partnered to develop projects, which include a 37,000 sq ft retail building in Owatonna and two retail buildings in Plymouth on Old Rockford Road and Peony Lane. In addition, Acacia's Owatonna development, a 12,200 sf shopping center, has completed construction and will be open for business in December 2005.

Rochon Corporation

Rochon Corporation is proud to announce their groundbreaking for a new 25,000 sf

Michaels retail store and two retail strip centers totaling 20,000 sf in Plymouth for CSM Corporation; two new retail buildings totaling 26,000 sf at The Shops at Wedgwood in Maple Grove for TOLD Development; and a 35,000 sf retail building at Riverdale Village in Coon Rapids for Developers Diversified Realty with tenants DSW Shoe Warehouse and Deb Shoppes.

MSCA

The MSCA office has changed suites. Our address is 8120 Penn Avenue South, Suite 114 in Bloomington, MN 55431.

Rising Star

"Make Ahead Meals Making it Big in Minnesota"

by Carol Ulstad & Rachel Rose, Suntide Commercial Realty, Inc.

Introducing the latest franchise "craze" in the Midwest market — meal preparation services.

There are several concepts that have been aggressively moving in on the Minnesota market for the past eighteen months. The names "Sociale Gourmet," "Super Suppers," "Mix it Up" and "Let's Dish" will likely ring a bell. There are other "mom & pop" stores such as Tasteful Thymes, Dinner Doctor and Home Appetit also cashing in on the action.

With so many companies entering the market at once, it will be interesting to see which concept(s) survive over the next 18-24 months. They all offer desserts, appetizers, sides and entrees from a menu, which change monthly. Busy moms or dads can now go to a neighborhood site and combine awaiting ingredients into 8-12 family-sized meals ready for freezing. Whether you want to pick it up ready made to freeze-then-bake, or make it all "yourself" in two hours or less, consumers say this service has been a long time

coming. With average entrée portion costs between \$2.50 and \$3.50 per serving, these companies offer a very cost effective, convenient and healthy alternative to home cooking or even fast food.

Nearly all of these concepts are expected to expand locally and nationally as demand has been hot. These concepts will operate in neighborhood, community, lifestyle and regional centers. They look for anywhere between 1,800 sf and 2,600 sf spaces and most of these companies are franchising.

Area Concepts/Locations:

Let's Dish: Apple Valley, Eden Prairie, Maple Grove & Woodbury

Mix It Up: White Bear Lake, Maple Grove & Mall of America

Sociale Gourmet: Eagan, Downtown Minneapolis & Southwest Minneapolis

Super Suppers: Duluth, Eden Prairie, Lakeville & Woodbury

Tasteful Thymes: Stillwater

Dinner Doctor: Hopkins

Home Appetit: Chanhassen

The Caring Tree Helps 16,000!

The Caring Tree is proud to report that the 2005 Annual Back-to-School Campaign has served 16,000 students to date. The number of students served increases daily through continued school supply drives and incoming financial donations. For more information, visit www.caringtree.org.

A special thank you to the 24 shopping centers, 17 Herberger's, 3 Younkers, Cub Foods and CVS/pharmacy stores for hosting our 2005 Caring Tree sites and to our media partners: KQRS, Radio Disney and WCCO TV.

Bookmark

Biographies of business rogues and champions:

Confessions of an Economic Hit Man by John Perkins. This author was a highly paid professional who cheated countries around the globe by millions of dollars, funneling development aid money into the coffers of huge corporations, before now becoming an impassioned advocate for the rights of oppressed people.

Let My People Go Surfing: The Education of a Reluctant Businessman by Yvon Chouinard. Patagonia's founder relates his and his company's story to one of a man who brought doing good and having grand adventures into the heart of his business model – and who enjoyed even more business success as a result.

The Tycoons: How Andrew Carnegie, John D. Rockefeller, Jay Gould & JPMorgan Invented the American Supereconomy by Charles Morris. An original and compelling portrait of how four determined men ascended to unrivaled wealth, productivity and world dominance – creating the modern American economy, as we know it.

Contact Deb Carlson at dcarlson@northstarpatterns.net with your reading recommendation.

Committee Profile

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The Program Committee, chaired by Peter Berrie and Tom Madsen, strives to plan quality monthly programs that provide value and new information to MSCA members and encourage non-members to join MSCA. Committee members jointly pick speakers that are interesting to the MSCA's diverse membership. Each month, one or two members work with the speaker to make sure the program is tailored to MSCA. After each program, the committee members meet to evaluate the program, discuss what can be improved for future programs and talk about the status of upcoming monthly programs. The committee is an excellent opportunity to get to know 10-15 MSCA members and to work with key industry players that volunteer to be our speakers. Please e-mail any suggestions or ideas for programs to Pete Berrie at pberrie@faegre.com or Tom Madsen at tmadsen@benson-orth.com.

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NOT PICTURED:

Jennifer Falconer, *Kraus-Anderson Companies*
Janna Krammer, *Evolve Systems*
Tanya Spaulding, *Shea, Inc.*

2005 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.

Tuesday, December 6 – Year End Ceremonies/STARR_{SM} Awards/
Holiday Party
Midland Hills Country Club
(afternoon program)

Wednesday, January 4 –
Development

Wednesday, February 1 –
Geographic Focus

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2005 Holiday Shopping Outlook

Consumer spending is responsible for more than two-thirds of the U.S. gross domestic product, according to the Bureau of Economic Analysis. How the 2005 holiday season will pan out for retailers is tougher to predict than in past years, due to gas and energy prices and the enormous devastation caused by Hurricane Katrina and now Wilma.

Before Hurricane Katrina devastated the Gulf Coast, the outlook for the holiday shopping season was already uncertain as consumers tried to fit higher gasoline prices into their budgets. Analysts believe fewer retailers will show decent fourth quarter earnings increases. Industry analysts believe retailers will have to absorb higher energy and transport costs for now, but consumers could end up paying higher prices on items ranging from clothing to toys next year.

Interest rates are climbing, making it less attractive to refinance homes. Consumer debt continues to increase and consumers dipped into their savings this past summer to finance their spending.

This year, online retailers are expecting a very jolly holiday, with some retailers seeing big gains. Online sales are anticipated to reach \$26.2 billion, up 21.9% over last year. This year's most popular online promotion will be free shipping. Look for online marketing to begin earlier than in past years. Gift cards should be a bigger factor than in past years. Retailers are looking for ways to promote gift cards because consumers who shop with them tend to spend more than the value of the card and don't concentrate as readily on discounted items.

The good news for shoppers is the 2005 holiday season could bring bigger bargains than in past seasons as stores try to lure shoppers.

CENTRAL AVENUE *continued*

Fridley. This area will remain a major focal point as Central Avenue redevelops.

Central Avenue was recently reconstructed curb-to-curb along several blocks, giving the corridor a fresh look. The rebuilt street along with the new housing units has the community hopeful that retailers will consider Central Avenue as a prime location for business. The Northeast Community Development Corporation (www.necdc.org) recently hosted national retail consultant Michael Berne on how to find the right retail mix for Central Avenue. Northeast's "condo craze" will translate into a "retail revival". ■

Search Me

Look to follow this year's 2005 holiday online data, market research information and analysis at

www.eMarketer.com ■

Other sites include:

www.nrf.com ■

www.ecommerce-guide.com ■

www.clickz.com ■

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