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Witcher Construction Company



# news

Volume 18, Number 10

October 2004

## Feature

# Wal-Mart: Turning Its Surplus Real Estate Into A Profit Center

by Lisa Diehl, McDonald's Corporation

For the last 15 years, the Wal-Mart Realty Company division of Wal-Mart Stores, Inc. has quietly become a major player in the retail real estate industry, both by selling off excess retail pads next to its newly developed stores and by disposing of older stores vacated when Supercenters are built. Wal-Mart, not only the largest retailer, but also one of the largest owners of real estate, has made it clear that they want to be in control of their surrounding competitors in the marketplace.

A typical Wal-Mart site for a Supercenter requires 20 acres of land, while most of their

older discount stores sit on 10 to 12 acres. Wal-Mart often buys more land than necessary and sells off the surplus pads to retailers or developers. Today, much of the excess real estate is being created due to the aggressive growth of Wal-Mart's Supercenter concept. The Bentonville, Arkansas retailer has built an aggressive, in-house real estate division that handles their excess property dispositions. And, by integrating the process, it keeps greater control of the expenses and the profits.

Currently, on the Wal-Mart website there are

*Wal-Mart continued on page 2*

## Snapshot

# Andover Clocktower Commons

**Location:** NE corner of Hanson Road and Crosstown Boulevard in Andover, Minnesota

**Opening:** Spring/Summer 2005

**Owner/Developer:** Andover Clocktower Commons LLC

**Leasing Agent:** Tedd Schuster, Madison Marquette Realty Services (952) 852-5154

**Architect:** Landform

**GLA:** 62,780 sf (39,280 sf retail/restaurant, 18,000 sf office, 5,500 sf gas/convenience)

**Number of Stores:** 9 - 13

**Anchor Tenants:** Conoco Gas/Convenience, National Fast Food Restaurant

**Construction Style:** Two types of brick, natural stone veneer, EIFS and standing seam metal roofing



**Additional Facts:** Andover Clocktower Commons will be located directly across Hanson Boulevard from the new Andover Civic Center, City Hall, YMCA Community Center, featuring an ice arena, fieldhouse, business center and aquatics park, and within one mile of the Andover High School. Traffic counts combined at Hanson Boulevard and Crosstown are 20,000+ cars per day and continues to increase significantly. Current population is estimated at 30,000 with an average household income of \$91,519 within 3 miles.

## WAL-MART *continued*

375 buildings for lease or sale and about 350 parcels of land. Last year, the division sold 240 outparcels and 70 buildings. Earlier this year, Sears, Roebuck & Company bought seven Wal-Mart stores made obsolete by nearby Supercenters.

It is not uncommon for big-box retailers to wind up with more land than needed for a new site. Retailers will self-develop, but work closely with developers and brokers. Retailers are working with a proto-type building, which may result in having excess property. Wal-Mart also purchases excess land to protect the development around the store from establishments such as bars, pawnshops or competitors. If they need 20 acres and the potential site is larger, the size does not dissuade them. Wal-Mart, with a lower cost of capital than most developers, has found this excess to be very lucrative.

By incorporating a big part of its real estate operations, Wal-Mart is able to control both its environment and costs, squeeze added profit from its deals, and carefully select their neighbors. Much of the excess property ends up in the hands of fast-food franchises, which are high-traffic generators. Outparcels do not come cheap for these buyers, and Wal-Mart has been meeting or exceeding the market rates.

Wal-Mart places a special emphasis on their website, which has helped move excess property. Once a deal is closed and the excess determined, it is listed on the web page. According to Wal-Mart, many dispositions are handled in-house, but about 70% are listed with brokers. Consistent with the way Wal-Mart handles everything, they want to do as much of the transaction as possible in-house, and pay as little as possible. Their transaction volume enables them to cap the broker fees.

Around the world, estimates show that Wal-Mart plans to add approximately 50 million square feet of retail space this year. In Minnesota currently, Wal-Mart has nine pieces of land available in Albert Lea, Marshall, Inver Grove Heights and Woodbury and six buildings throughout Minnesota. There are a total of 82 land sites available in the Midwest area.

Retailers including Target Corporation, Kmart Holding Corporation and Home Depot, Inc. all have vacated big-box locations across the country. Wal-Mart, because of its fast expansion, generally

leaves behind more space than other big-box users. Wal-Mart is very upfront about not wanting anyone in their former buildings with a competing use. They will sit with a vacant building rather than budge on letting a competitor in it, continuing to pay real estate taxes and expenses until the properties are sold. Some creative uses for former Wal-Mart facilities have included a Mercedes-Benz dealership, bingo hall, church, pharmaceutical lab, call center, office-furniture manufacturer and health service facility.

Communities are getting more aggressive about trying to discourage big box retailers from leaving older sites empty as they move to newer or larger sites. Some cities have passed ordinances that limit the size of new stores, thus making it less attractive to build a new store and abandon the old one. Certain towns prohibit building owners from closing stores before the space has attracted a new tenant or plans are in place for the structure to be demolished.

Generally, other big box retailers have not entered the excess real estate business in order to make it a profit like Wal-Mart has done. Other retailers may purchase additional land in order to enter a market, a way to get the size of property they require, or the seller requires the entire area to be purchased. For example, Target is using outside representatives from CB Richard Ellis and Staubach to handle their excess land.

From all indications, Wal-Mart's rapid growth is not going to slow, and their formula for buying larger parcels with excess property "for profit" will continue. The company will find challenges along the way with some communities trying to avoid vacant big box eyesores left behind until the real estate is sold, redeveloped or re-tenanted. With Wal-Mart's in-house aggressive real estate division, they will surely devise creative solutions to these arising challenges. Watch Wal-Mart to see how they tackle these issues. ■

[www.wal-martrealty.com](http://www.wal-martrealty.com)

### Search Me

Exercise your civic rights by registering to vote at [www.declareyourself.com](http://www.declareyourself.com) or [www.yourvotematters.org](http://www.yourvotematters.org). Both sites also let you update your address or party affiliation, get an absentee ballot and find your polling place. You can also read candidates' bios to cast an informed vote.

## Join A 2005 MSCA Committee!

The greatest benefit of MSCA membership is the opportunity to participate on a committee. All MSCA Committees are recruiting new committee members for 2005. If you have never been on a committee, or if you have not been active for the past few years, please consider joining one of the committees listed below.

As a committee member, you will meet key members of the association, expand your networking circle, you will help shape how the association affects the overall membership and the retail real estate industry as a whole.

Time commitment varies by committee, with monthly, bi-monthly or quarterly meetings. Some require year-round participation, while others are partial year obligations leading up to an annual event.

Awards, Community Enhancement, Golf, Legislative, Marketing, Membership, Newsletter, Program, Research, Sponsorship, and Technology

Call (952) 888-3491 to get involved!

## 2004 Retail Report Releases on November 6

The annual 2004 Retail Real Estate report will be released at the MSCA November 3rd afternoon program.

The 2004 report includes information on the Twin Cities retail market universe for centers greater than 30,000 square feet, which is comprised of 402 properties totaling 57,004,100 square feet.

The report covers industry opportunities and challenges, current market trends, vacancy rates, rental rates, CAM expenses and real estate taxes, as well as a thorough description of the major developments, expansions and updates that have occurred in the past year. The report is accompanied by an appendix of data from over 450 properties throughout the state of Minnesota.

# Market Update

## Duluth

by Terry R. Smith, TRS Commercial Real Estate, Inc.

Duluth, located 150 miles north of the Twin Cities, has a city population of 86,044 and serves a retail population area of more than 250,000. The northwest end of Duluth abutting Hermantown is considered the retail focal point of northern Minnesota.

Miller Hill Mall, the enclosed regional mall built in 1973 and renovated in 1987, continues to anchor a large retail area that has prospered because of strong sales. Additional retail growth has been hampered due to the area's rocky topography, a lack of undeveloped, zoned buildable land, and a congested street and highway system.

New tenants to open in the Miller Hill Mall in 2004 include Caribou Coffee, Zumiez, Twig Bakery, Motherhood Maternity and Great American Grill. Departing tenants include Fanny Farmer and KB Toys. Soon to arrive are the St. Louis County DMV Office and Qwest.

In the surrounding area, Burning Tree Shopping Center is expanding to add a David's Bridal.

According to John Johansson of Welsh Companies, LLC, a usable 4 - 5 acre vacant land parcel is working its way through Duluth's rezoning process. Located on the SE corner of Highway 194 (Central Entrance) and Highway 53 (Trinity Road), the property is planned for additional retail development adjacent to the opened, freestanding Home Depot.

Downtown Duluth continues to be the service, tourist, government, medical, entertainment and educational venue and has recently completed a revitalization of the area along the shore of Lake Superior. At the West End of Duluth the Big K retail center is adding a Dollar Tree store.

Superior, Wisconsin, located directly southeast of Duluth across Lake Superior, has Wal-Mart relocating to a Supercenter, which is under construction adjacent to the existing Wal-Mart. The Dollar Store has opened in a former OfficeMax and Mariner Mall has been temporarily negatively affected by major road construction.



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Bob Lucius, RSP Architects Ltd.  
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Cindy MacDonald, Kraus-Anderson Co.

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## October Member News

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

### Griffin Reps Beauty First

Beauty First, a unique beauty and spa products store, has selected Griffin Companies to represent them in their expansion in the Minneapolis and St. Paul metro area. Beauty First currently operates one store at Tamarack Village in Woodbury and is seeking an additional six locations in the Twin Cities over the next two years.

### Itasca Funding Finances Pine Cone

Itasca Funding Group, Inc. arranged non-recourse permanent financing in the amount of \$8.2 million for a ten-year term and a 30-year amortization on the Pine Cone Marketplace Shopping Center in Sartell, MN, a rapidly expanding community just to the north of St. Cloud, MN. Pine Cone Marketplace is an 87,000 sf retail center anchored by a 62,000 sf Coborn's grocery store.

### NAP Sells Hastings Marketplace

Hastings Marketplace in Hastings, Minnesota

was recently sold by North American Properties to Inland Hastings Marketplace, LLC.

### Kat Bramhall

Kathleen "Kat" Pemble Bramhall, one of the partners of Base Real Estate Services, Inc., passed away on September 18, 2004. Kat made a name for herself in the industry and was respected by those that worked with her. Kat's father was Clyde Pemble, a successful real estate professional.

### Hallquist Named V.P.

Witcher Construction Company has hired Harlan Hallquist as Vice President of Marketing and Business Development. Additionally, he will assist with the company's national Centers of Excellence for healthcare, residential, education, gaming and retail markets.

### Gander Mountain On The Move

Gander Mountain recently announced that it will vacate the space across from Miller Hill Mall and move to Hermantown.

# Retailer Profile

## Regis Corporation



by Anita D. Johnson, AJ Commercial Real Estate, Inc.

The original salon was named Kunin Beauty Salon and was opened in 1922 by Paul and Florence Kunin. The salon quickly expanded into a value-priced chain; in 1958 their son Myron bought the chain and changed it to Regis. As of June 30, 2004, Regis Corporation operates or franchises 10,162 salons, which can be found worldwide under the names of Regis Salons, MasterCuts, Trade Secret, Supercuts and Cost Cutters. Not once in their 82-year history has there been a same-store sales decrease.

The variety of salon concepts provides hair care for value-conscious families, upbeat salons for the cool classic looks and appeals to the younger trendier crowds with the "street chic" styles. They know how to deliver high sales per square foot and bring back loyal customers to shopping center locations.



Regis plans to continue its growth, adding approximately 1,000 salons annually and

signing leases with corporate guarantees on several hundred new real estate locations. Their success can be attributed to a solid real estate strategy, which includes choosing ideal locations, national tenant status, a reputation as a credit-worthy, dependable tenant, and a strong and predictable cash flow. They have excellent stylist education and training programs and distinct salon concepts that appeal to the large and stable middle market.

Depending on the concept, the sites are between 800 and 2,000 square feet. Regis Corporation seeks easy-access sites with high visibility and traffic, typically in neighborhood, community, and power centers, preferably with grocery or discount mass merchant anchors (i.e. Target, Wal-Mart). Lease terms are five to ten years with one or two 5-year options. ■

[www.regiscorp.com](http://www.regiscorp.com)

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### Consumers Not Easily Spooked by Economy

It's time to start looking ahead towards that ghoulish holiday celebration known as Halloween. With nearly \$7 billion in sales, Halloween is the second largest retail holiday in America. Although never easy to predict, there are some solid factors that seem to reliably determine and influence the success of the October holiday. The market for Halloween products is expanding and becoming more mainstream. Retailers such as Target and Wal-Mart make it easier for consumers to get the products they want through these standard non-specialized retailers.

One trend that seems to be spurring the growth of the Halloween market is the growing adult involvement in the holiday. Many merchants feel this primarily through a rise in demand and sales of adult sized and themed costumes, such as satiric political figures, especially since 2004 is a presidential election year.

Last year the average household was anticipated to spend about \$42.00 on Halloween candy, costumes, and decorations. This year the anticipated spending amount is \$45.00. Halloween falls on a Sunday this year, and the outlook is as bright as a jack-o-lantern's grin. ■

### Candy Consumption

Per capita consumption of candy by Americans is believed to be 24 pounds and a large portion of that is consumed by kids on and during the days immediately following Halloween.

# Program Recap

## Retail Real Estate Forum



by Elizabeth (Betty) Ewens, Kraus-Anderson Companies

The joint MSCA/ICSC Minnesota and North Central States Retail Real Estate Forum started out with a real “bang” from the shotgun start of the golf tournament! The mild temperatures, balmy breezes and oh-so green fairways added up to a great day, followed by a networking reception at Edina Country Club.

Wednesday morning we assembled to hear keynote speaker, **Dr. Sung Won Sohn**, Executive Vice President and Chief Economic Officer for Wells Fargo Bank. Dr. Sohn doesn’t disappoint, starting out with his description of a “soft patch,” a period of softening we are currently in. Jobs are critical he says, the most important variable as to whether we spend money. Also worthy of note, is the declining buying power in lower-end jobs.

On his worry list are interest rates (how rapidly they will go up?), oil prices, stock headwinds and shrinking manufacturing jobs (as they are generally higher paying). What keeps him up nights? Topics like potential dollar depreciation in other countries and the borrowing our country is doing daily. The good news? Things are likely to stay fairly stable for the next few years, considering Greenspan will not want

to retire with a major hiccup in the economy on the last years of his watch. For more information, visit [www.drsohn.com](http://www.drsohn.com).

The day continued with two sets of round-table discussion opportunities. Topics ranged from “Active Retailers and Restaurants” to “Security Emergency Preparedness,” with another twelve in between.

**John D. Griffith**, Senior Vice President of Property Development for Target Corporation, showed us how at Wal-Mart we can save money, but at Target we can save money and be cool! With their “design democracy” we can have affordable goods with good design. Their goal? 2010 stores by the year 2010.

**Mike Wright**, Retired Chairman and Chief Executive Officer of SUPERVALU, Inc., brought us through the supermarket industry’s amazing changes over the past twelve years. He explained the advent of the supercenter phenomenon and the resulting major acquisitions the grocery industry experienced in response. So far the acquisitions haven’t necessarily improved the acquiring companies positions measurably, he observed.



Speaker Mike Wright featured with 2004 MSCA President, Mike Sims

Worthy of note is the effect on many varied retail industries when supercenters expand. The initial impact on the existing retailers is to adapt or find themselves out of business. They must learn how to compete in the long run, Wright says. SUPERVALU considers itself well-positioned for present and future competition as the seventh largest grocery company in the United States and the tenth largest food retailer. Wright left us with some glimpses of the technology advances that the grocery industry plans to implement in the future.

Kudos to the event planners for the best-ever Idea Exchange, in my opinion! ■

### Strides in Snow Removal

It’s hard to believe that less than 100 years ago, snowplows were carts with a plow attached and pulled by a team of horses. It wasn’t until 1913 that operating motorized dump trucks and plows became the common practice.

Snow removal equipment has been significantly impacted by advances in technological innovation, allowing for more precise, efficient and cost-effective machinery that can be tailored to specific environments and situations. From pavement temperature sensors to Global Positioning Systems (GPS) and real-time video installations, machinery is now equipped to operate more quickly, effectively and safely. Current technology has combined on-board computer systems with vehicle hydraulic systems, making breakthroughs for the spreading of de-icing agents in recent years.

Ergonomic factors have proven especially relevant regarding the number of worker’s compensation injuries claimed within the industry each year. ■

### 2004 Shopping Center Tribute Awards for Retail Real Estate



Year End Ceremonies \* STARR<sup>SM</sup> Awards \* Holiday Party

Tuesday, December 7th from 4 – 7 p.m.

Midland Hills Country Club

Corporate Tables of 8 (limited number): \$400

Corporate Tables of 4 (limited number): \$200

Individual Tickets: \$60 in advance/\$75 at door

Watch for your invite in the mail!

# Committee Profile

## Membership Committee



CARPER



KROLCZYK



MCCRUM



REYNOLDS



SMOLLEY

### Pictured:

Royanne Carper, *Paster Enterprises*  
 Kevin Krolczyk, *Dalbec Roofing*  
 Bill McCrum, *RSP Architects*  
 Nick Reynolds, *Welsh Companies, LLC*  
 Sam Smolley, *The Business Journal*

### Not Pictured:

Bobby Jensen, *Outdoor Environments, Inc.*  
 Jay Moore, *Oppidan, Inc.*

The Membership Committee, chaired by Kevin Krolczyk and Nick Reynolds, is responsible for overseeing, promoting and expanding membership for the organization. The current membership is 630 members, reflecting an 88% retention rate. In 2004, MSCA welcomed 101 new members,

exceeding the Membership Committee's goal of 65 new members for 2004. Membership benefits include valuable networking, continuing education credits, legislative representation and access to information on what's happening in the retail industry. MSCA's 2005 membership rates will stay the same, \$295 for the first

member (General Member) and \$130 for each additional member (Affiliate Members) and \$130 for Greater Minnesota/Outstate memberships. 2005 Membership renewal forms and invoices will be mailed soon! ■

# Member Profile

## Bruce Carlson



**Occupation:**  
 Commercial Developer

**Primary Career Focus:** Grocery-Anchored Retail Development

**Company:** United Properties

**Hobbies:** Touch football, NASCAR, and campfires with friends and family

**Job History:** 1983 Associate Producer, Channel 5 KSTP *Good Company*: 1984-1999 Vice President, Real Estate for Video Update: 1999-present United Properties

**Very First Job:** Ticket taker at Metropolitan Stadium for Sims Security

**Dream Job:** NASCAR Driver

**Secret Talent:** Catching a football

**Favorite Food:** Grilled Salmon

**MSCA Involvement:** Past Co-Chair of Program and Legislative Committees, 2003 MSCA Board of Directors, Frequent Program Moderator

**Title:** Vice President, Retail Development

**Hometown(s):** Lakeville, MN

**Education:** University of Minnesota – Speech/Communication

**Family:** Wife, Mary and Daughters, Calista (14) and Makenzie (11)

### 2004 Schedule of Events

Our monthly program meeting date is the first Wednesday of the month (with the exception December). All meetings will be held at 8:00 a.m. at the Sheraton Bloomington Hotel unless otherwise noted or publicized before the program. Program topics and location are subject to change.

**November 3** (Afternoon) – Annual Retail Real Estate Report

**December 7** (Tuesday Evening) – Year End Ceremonies/STARR<sup>SM</sup> Awards/Holiday Party

### 2005 Schedule of Events

**January 5** – Finance & Investment

**February 2** – Technology

**March 2** – Legislative & Business Day at the Capitol

### Election Stats

In 1996, the percentage of eligible voters at the polls were 58%. In 2000, the percentage increased to 60%, and for 2004 the figure is expected to be just as strong. 111 million people voted in the 2000 presidential election. Latinos are projected to turn out in record numbers this year.

### Bookmark

*The Call of the Mall* by retail anthropologist Paco Underhill. A follow-up to his best-selling *Why We Buy: The Science of Shopping*. The book is an amusing and insightful portrait of contemporary mall retailing.

*Winning at Retail: Developing a Sustained Model for Retail Success* by Willard Ander and Neil Stern. The well-respected retail consultants provide candid, practical advice for retailers on how to succeed in today's competitive marketplace.

# Around the Marketplace

## Retail Tidbits



compiled by Tim Hilger, Diversified Acquisitions, Inc.

- **General Growth Properties** plans to purchase **The Rouse Co.** for \$12.6 billion. The firm expects to take over the management of the 37 regional Rouse malls, totaling over 40 million square feet, as well as mixed-use projects and community centers in its portfolio. Rouse owns some of the industry's most highly regarded centers such as Fashion Show Mall, Las Vegas; Park Meadows Mall, Denver; New York City's South Street Seaport, and Water Tower Place and Oakbrook Center, both in Chicago. Rouse's local presence in the Twin Cities includes Ridgedale Mall in Minnetonka. The sale is anticipated to close in the fourth quarter.
- It was reported that Canada's oldest company, **Hudson's Bay**, which owns **The Bay and Zeller** department stores is in negotiations to be purchased by **Target**. If Target completes the transaction, it will mark the first international expansion for the Minneapolis-based retailer.
- **IBM** announced they are closing their 154,000 square foot plant Rochester.
- **Simon Property Group** recently completed the court-ordered sale of its interest in Mall of America. Simon sold its 27.5 percent interest to the mall's developer Triple Five of Minnesota, which was in line with a September 2003 federal district court decision. Simon Property continues to manage Mall of America through its management company.
- **Frank's Nursery** filed for Chapter 11 Bankruptcy protection. They have 17 Minnesota locations.
- Canadian based **Joey's Only Seafood Restaurants** has partnered with Twin City based **Embers** to expand the chain of seafood restaurants in the U.S. The chain has approximately 100 restaurants in Canada and 12 franchised locations in the U.S., including three locations in Minnesota and opening one soon in Apple Valley.
- **GNC Corporation** recently filed to go public.
- **Smith and Hawken** has agreed to a deal that will turn the high-end garden tool retailer over to **The Scotts Co.**, the maker of consumer lawn and gardencare products. Scotts will pay approximately \$72 million for the privately held Novato, California company. The sale is expected to close October 1, 2004.
- **CNL Restaurant Properties** has reached an agreement to acquire **U.S. Restaurant Properties**, subject to shareholder and regulatory approval. The proposed merger would incorporate such brands as Arby's, Applebee's and Burger King.
- **Payless Shoes** announced they will close and/or sell 700+ of their 5,000 stores in an effort to improve profitability.
- **Kmart Holding** says it will sell 45 of its stores to **Sears, Roebuck and Co.** in a deal worth \$524 million. The sale is part of a plan announced this summer by Kmart to sell up to 54 stores to Sears for a significant expansion of its "non-mall" freestanding Sears and Sears Grand format.
- **Abercrombie & Fitch Co.** announced that they are adding a new clothing concept targeting the "30 something" male/female market. The name of the new store is **Concept Four** and they will have 4 stores open by fall. A number of teen retailers are seeking new concepts because the teen market is so saturated.
- **Polo Ralph Lauren** is launching a retail concept called Rugby that will target college students.
- **Toys "R" Us** announced it is separating **Babies "R" Us** from its other global toy operations in an effort to restructure and improve its profitability. Knowledgeable experts are speculating that Toys "R" Us may be forced to exit the toy retail business due primarily to competition with large discount stores.
- **Borders Group** signed a licensing agreement with **Seattle's Best Coffee** and will convert all of Borders' in-store café's to the Seattle's Best format starting in 2005.
- Have you heard about **iSold It?** It is a consignment store that sells the consigned goods over the Internet on eBay. They, and others like them, are in California, Michigan, New York, Texas and are looking at sites in Minnesota.
- The highly successful **Chico's** chain is now going after the "mature market segment" of **Victoria's Secret** world. Chico's new concept called **Soma by Chico's** is selling bra's, panties, camisoles and sleepwear for the 35+ age group. This age group is sometimes identified as Victoria's Secret "graduates." The Greek word "soma" means "body."
- **The Children's Place** has signed a nonbinding letter of intent to acquire the Walt Disney Company's retail division, the **Disney Store** chain.

### The Caring Tree Honored

On Saturday, September 18, 2004, Chiropractic offices worldwide participated in the tenth annual "Kids Day America/International™", an event that brings chiropractors and kids together to promote health, safety and environmental awareness. Skyline Chiropractic, the local sponsor, presented The Caring Tree with the Kids Day America/International™ Children's Empowerment Award, which recognizes organizations for their outstanding commitment and dedication to the children in their community.

The Caring Tree is also proud to report that the 2004 Annual Back-to-School Campaign has served 12,456 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](http://www.caringtree.org)



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