

MINNEAPOLIS-ST. PAUL

# RETAIL MARKET REPORT



## Retail a mixed bag: Store closing announcements offset by positive news for urban areas and activity among discounters

### MARKET INDICATORS

Q4 2011

VACANCY	↓
NET ABSORPTION	↑
RENTAL RATE	↔

### NATIONAL SPOTLIGHT

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According to ICSC, December Chain Store Sales comps increased by 3.5%, slightly less than 2010. Incessant promotional activity, led by Internet retailers, defined the selling season. Strong sales over Black Friday weekend generated optimism, but the pace slowed in the first couple of weeks in December as consumers waited on the sidelines until they were positive they'd get the best deal. Online sales continue to increase. ComScore reported that during November and December, online sales increased 15% year-over-year compared to an estimated 4% increase in bricks-and-mortar. Several factors suggest consumer spending will not turn robust during early 2012. After several frugal holidays, shoppers this year relied more heavily on credit cards, suggesting they may be forced to rein in spending come January and February as bills come due. Furthermore, the December employment data release showed that wage growth over the past 12 months is not keeping up with inflation, which further constrains spending power.

### VACANCY AND ABSORPTION TRENDS

Retail vacancy is 5.8%, down from 6.2% in the 3rd quarter with 193,560 square feet of absorption. In November, Herberger's opened at Southdale Mall, occupying 135,000 square feet in the space formerly occupied by Mervyn's. This accounted for the bulk of the absorption for the 4th quarter.

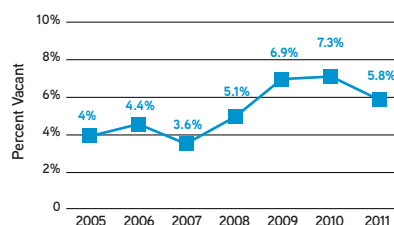
### WALMART ACTIVE

Walmart is active in the market with an aggressive expansion strategy. Their plans to expand in Chanhassen were stymied by the city and plans for a site in Plymouth at Four Seasons mall is experiencing opposition. However, Walmart currently has three stores under construction including stores in Burnsville, Brooklyn Center and Lakeville, and is planning several new stores and looking for additional sites.

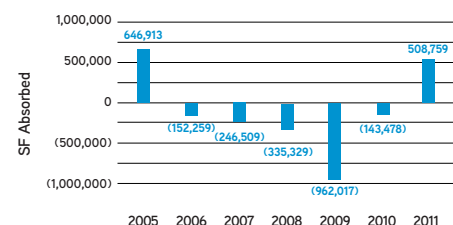
### MEDICAL USERS ATTRACTED TO RETAIL

Retail's appealing combination of accessibility and available large blocks of space has attracted medical users. Clinics have opened in vacated big box spaces including the former Borders store at Midway Marketplace, where HealthEast recently began redevelopment of the space in preparation to open a new clinic.

### VACANCY



### NET ABSORPTION





### CLOSINGS AND CONSOLIDATIONS

Sears announced it will be closing 120 stores nationwide. Two stores in the Minneapolis/St. Paul Metropolitan area will be closed: Kmart stores in New Hope and White Bear Lake. Christopher & Banks will be closing 100 stores nationally, including one store in the metro area in Roseville where it will consolidate its CJ Banks and Christopher & Banks concepts into one location. Famous Footwear announced it will be closing 145 stores nationwide, although there is no information on the status of the 26 Famous Footwear locations in the Twin Cities area.

### URBAN RETAIL

Dense populations make urban areas, including the Minneapolis CBD and the Uptown area of Minneapolis, attractive to retailers. In addition to the above-mentioned potential Trader Joe's site in the Uptown area, a new Lunds store is planned for downtown Minneapolis at the corner of 12th Street and Hennepin Avenue. In addition, over 3,000 multi-family units are planned in the Minneapolis CBD alone, and over 1,100 are planned in the Uptown area, fueling additional demand for retail in these areas.

The faltering Block E entertainment center in the Minneapolis CBD continues to lose tenants. Hard Rock Café closed this fall, and AMC will not be allowed to renew its lease there. Ownership of the center would like to construct a luxury casino on the site. A significant lobbying effort is underway at the State Legislature.

### FUTURE TRENDS

Overall, we expect negotiations to continue to favor tenants, although some landlords at well-located, prime centers will be able to hold rates and begin to push rental rate packages upward. Activity will be steady though modest.



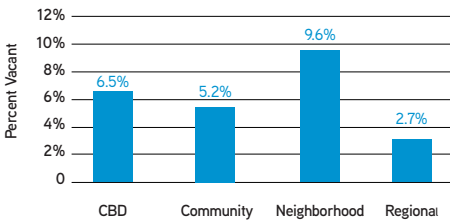
### RESTAURANT ACTIVITY

New restaurants include Rosa Mexicano at City Center in downtown Minneapolis, Pittsburgh Blue at Galleria in Edina, Valley Tap House in Apple Valley, Buffalo Wild Wings at Rosedale Commons, Rye Deli & Bar in downtown Minneapolis, MONA at Accenture Tower in downtown Minneapolis and Masu Sushi at the Mall of America. For those with a sweet tooth, new yogurt shops looking at the market include Freeziac, Tutti Frutti, Menchies and CherryBerry. New cupcake bakeries opening soon include Sweet Ducky Cupcakery in Stillwater opening in February, and a new Cupcake store, including wine and beer for sale, will be opening on Grand Avenue in St. Paul in March.

### NATIONAL RETAILERS INTERESTED IN TWIN CITIES AREA

National retailers are bullish on the future of the Twin Cities retail market. Athleta opened their first store in the Midwest in November at 50th and France in Edina. CB2 opened a store at Calhoun Square in the fall. Other retailers expanding in this market include Goodwill, who is opening new locations in Blaine and Champlin, and Trader Joe's (has current locations in St. Louis Park, Minnetonka, St. Paul, Maple Grove and Woodbury) is looking at a site in the Lyn-Lake area and recently signed a lease for a new store in Bloomington. In addition to the restaurant concepts mentioned above, other restaurant tenants looking to enter the market or expand in the region include Chick-fil-A, McDonald's, Chipotle and Hurricane Grill & Wings.

### VACANCY



## SIGNIFICANT LEASE AND SALES ACTIVITY

## LEASE ACTIVITY

TENANT	BUILDING	CITY	SIZE (SF)	SUBMARKET
Becker Furniture	Rosedale Center	Roseville	32,000	Northeast
Marshalls	Bonaventure Shopping Center	Minnetonka	26,000	Southwest
HealthEast Medical Research	1390 University Ave W	St Paul	22,721	St Paul Suburban
Old Navy (renewal)	Centennial Lakes Plaza	Edina	21,082	Southwest
Petsmart	Burnhaven	Burnsville	18,000	Southeast
Old Navy	Rosedale Commons	Roseville	14,747	Northeast
Destination XL	Bonaventure Shopping Center	Minnetonka	14,000	Southwest
Trader Joe's	Southdale 494	Bloomington	14,000	Southwest
CB2	Calhoun Square	Minneapolis	14,000	Southwest
CVS (ground lease)	6905 York Ave S	Edina	13,013	Southwest
Rosa Mexicano	City Center (former TGI Friday's)	Minneapolis	12,883	Minneapolis CBD
Pittsburgh Blue	Galleria (former Kozy's)	Edina	9,268	Southwest
Valley Tap House	Former Major's	Apple Valley	7,500	Southeast
Buffalo Wild Wings	Rosedale Commons	Roseville	6,187	Northeast
Rye Deli & Bar	1930 Hennepin Ave S (former Auriga)	Minneapolis	4,943	Southwest
MONA	Former Black Bamboo; Accenture Tower	Minneapolis	3,315	Minneapolis CBD
Masu (sushi)	Mall of America (former Soul Daddy)	Bloomington	2,486	Southeast

## SALES ACTIVITY

PROPERTY NAME	ADDRESS	CITY	SUBMARKET	SIZE (SF)	PRICE PSF	SALE PRICE	BUYER	SELLER
Fountain Place	12573-12595 Castlemoor Dr	Eden Prairie	Southwest	109,483	\$210.99	\$23,100,000	A Sun Life Assurance Co of Canada	Lasalle Investment Management
Cedar Point Shopping Center	5330 South Cedar Lake Road	St. Louis Park	West & Northwest	12,000	\$458.33	\$5,500,000	Nolan Properties	Cedar Developers, LLC (Paul Maenner and Dan Wozniak)
Auto Dealership	1701 W American Blvd & 8033 Knox Ave S	Bloomington	Southwest	20,215	\$241.52	\$4,882,352	Luther Automotive Group	Jim Lupien Oldsmobile Companies
Former Kmart	6501 S Lyndale Ave	Richfield	Southwest	100,000	\$40.00	\$4,000,000	Wellington Management	Lawrence Kadish
Former Bally's	4900 Excelsior Boulevard	St. Louis Park	West & Northwest	38,396	\$97.67	\$3,750,000	L.A. Fitness International LLC	Bally Total Fitness Corp
West 78th Marketplace	8045 Flying Cloud Drive	Eden Prairie	Southwest	7,626	\$340.94	\$2,600,000	Normand A. Rubin & Associates	Oppidan Investment Co.
Chevy's Fresh Mex	2251 Killebrew Drive	Bloomington	Southeast	6,850	\$345.99	\$2,370,000	Chevy's Cinco LLC	Cnl Funding 2000-A LP
Holiday Store	10909 Radisson Road Northeast	Blaine	West & Northwest	4,543	\$301.56	\$1,370,000	Holiday Stations Stores Inc.	Sixty 1 Stop Inc.
Former Auto Dealership	470 Water Street	Excelsior	West & Northwest	8,750	\$128.57	\$1,125,000	Oppidan Investment Company	Mason Motors
Auto Max	9200 Lyndale Avenue South	Bloomington	Southwest	4,276	\$257.25	\$1,100,000	9200 Lyndale Avenue-Bloomington MN LLC (Building to become a National Tire & Battery)	Graffunder LLC
Former Auto Dealership	3901 N Vinewood Ln	Plymouth	West & Northwest	23,015	\$43.45	\$1,000,000	Oran D. Powell	TCA Vinewood LLC
Car Wash	10925 Radisson Road Northeast	Blaine	West & Northwest	3,520	\$194.60	\$685,000	Holiday Stations Stores Inc.	Sixty 1 Stop Car Wash
Restaurant Site (Former Prima)	Highway 101 & Highway 7	Minnetonka	West & Northwest	3,950	\$136.08	\$537,500	Gary Jarrett and Eric Larson	Associated Bank N A

## Market Statistics

SUBMARKET	TOTAL SF	DIRECT VACANT SF	SUBLEASE VACANT SF	% VACANT DIRECT	% VACANT W/SUBLEASE	4TH QUARTER ABSORPTION	2011 ABSORPTION
<b>CBD OF MINNEAPOLIS</b>							
<b>Totals</b>	<b>2,489,918</b>	<b>160,883</b>	<b>2,551</b>	<b>6.5%</b>	<b>6.6%</b>	<b>(2,000)</b>	<b>(4,159)</b>
<b>NORTHEAST</b>							
Community Center	3,954,366	271,261	10,900	6.9%	7.1%	4,181	90,389
Neighborhood Center	3,305,998	345,740	40,000	10.5%	11.7%	24,946	68,040
Regional Center	2,782,758	112,756	0	4.1%	4.1%	0	14,830
<b>Totals:</b>	<b>10,043,122</b>	<b>729,757</b>	<b>50,900</b>	<b>7.3%</b>	<b>7.8%</b>	<b>29,127</b>	<b>173,259</b>
<b>NORTHWEST</b>							
Community Center	6,355,492	398,811	0	6.3%	6.3%	(15,192)	(44,818)
Neighborhood Center	6,835,437	599,927	11,434	8.8%	8.9%	37,162	104,108
Outlet Mall	430,000	0	0	0.0%	0.0%	0	0
Regional Center	4,045,213	205,761	1,840	5.1%	5.1%	(38,963)	(96,108)
<b>Totals:</b>	<b>17,666,142</b>	<b>1,204,499</b>	<b>13,274</b>	<b>6.8%</b>	<b>6.9%</b>	<b>(16,993)</b>	<b>(36,818)</b>
<b>SOUTHEAST</b>							
Community Center	4,202,594	132,736	39,672	3.2%	4.1%	10,840	4,587
Neighborhood Center	5,017,580	545,414	29,314	10.9%	11.5%	(10,458)	(10,081)
Regional Center	6,989,944	146,939	0	2.1%	2.1%	19,050	73,128
<b>Totals:</b>	<b>16,210,118</b>	<b>825,089</b>	<b>68,986</b>	<b>5.1%</b>	<b>5.5%</b>	<b>19,432</b>	<b>67,634</b>
<b>SOUTHWEST</b>							
Community Center	4,107,340	166,108	74,081	4.0%	5.8%	10,738	92,303
Neighborhood Center	4,796,694	418,354	9,672	8.7%	8.9%	(5)	68,439
Regional Center	5,951,076	63,780	0	1.1%	1.1%	153,261	148,101
<b>Totals:</b>	<b>14,855,110</b>	<b>648,242</b>	<b>83,753</b>	<b>4.4%</b>	<b>4.9%</b>	<b>163,994</b>	<b>308,843</b>
<b>TOTAL ALL MARKETS</b>							
Community Center:	18,619,792	968,916	124,653	5.2%	5.9%	10,567	142,461
Neighborhood Center:	19,955,709	1,909,435	90,420	9.6%	10.0%	51,645	230,506
Outlet Mall:	430,000	0	0	0.0%	0.0%	0	0
Regional Center:	19,768,991	529,236	1,840	2.7%	2.7%	133,348	139,951
CBD of Minneapolis:	2,489,918	160,883	2,551	6.5%	6.6%	(2,000)	(4,159)
<b>Market Totals:</b>	<b>61,264,410</b>	<b>3,568,470</b>	<b>219,464</b>	<b>5.8%</b>	<b>6.2%</b>	<b>193,560</b>	<b>508,759</b>

The above table is summarized data on multi-tenant retail centers greater than 30,000 square feet.

512 offices in  
61 countries on  
6 continents

- \$1.5 billion in annual revenue
- 979 million square feet under management
- Over 12,500 professionals

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