



Glen Stubbe, Star Tribune

A work crew from Frattalone Cos. installed utility pipes at West 78th Marketplace in Eden Prairie, a small strip shopping center developed by Oppidan Investment Co. The center will only contain 7,000 square feet, but it represents a move forward in this economy.

Retail construction has been dormant during the recession, but a couple of small green shoots have emerged.

By **JENNIFER BJORHUS**, Star Tribune

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It's just 7,000 square feet -- nearly a sneeze by retail standards. But a new strip center in Eden Prairie called West 78th Marketplace is actually under construction and has signed tenants: a Verizon, Smashburger and Sport Clips men's hair salon. These days, that's something of a coup.

With vacancies high and existing storefronts going begging, new multitenant retail construction around the Twin Cities has slowed to a near crawl. The area is still trying to absorb all the big boxes vacated by bankrupt national retailers such as Circuit City and Linens 'n Things and others just scaling back, such as Cost Plus World Market, which closed its Minnesota stores.

Of the few retail projects that have broken ground and are underway, most are for a single tenant, such as the new supersized, two-level Menards under construction in Eden Prairie, the new Walgreens underway in St. Paul's Highland Park and the SuperTarget being built in Woodbury.

"Five thousand-square-foot buildings and a Walgreens are making the paper. That's a telling sign right there," said Howard Paster, president of St. Paul-based Paster Enterprises.

Paster, a shopping center developer, is building a new Walgreens next to the Mendota Plaza Shopping Center in Mendota Heights.

Even Oppidan Investment Co. in Minnetonka, which is developing the Eden Prairie strip center, acknowledges the project is a "bit of an anomaly."

Oppidan builds nationally but is perhaps best known locally as a major developer of stores for Gander Mountain.

The property, just under an acre at 8045 Flying Cloud Drive, was formerly owned by Holiday Cos. and was a Marathon gas station and convenience store, said Oppidan's president and CEO Joe Ryan. The property needed some environmental cleanup, he said, but when it crossed company officials' desks last April, they jumped. Property records show Oppidan paid \$685,000 for it -- less than the \$927,950 Holiday paid for it in 2004.

Ryan said his company called some retail tenants and quickly filled the site. It's a sign the market is turning, he said.

"Once the word got out, we could have filled this thing three times over," Ryan said of the leasing. "The market is clearly coming around."

The center, being built by TCI Construction of La Crosse, Wis., is scheduled to open in March. Oppidan, a merchant builder, sells most of its projects and has already put the center on the market for an undisclosed price.

The location should make it an easy sell, said Deborah Vannelli, director of net-lease sales at Upland Real Estate Group in Minneapolis, who is handling the sale. Eden Prairie's high density of well-off households and all the traffic at the Eden Prairie Center, which has an additional outdoor "streetscape" of shops including a popular movie

theater, make it a desirable spot.

And it's a tighter market than most. The retail vacancy rate in the southwest suburbs was just 5.4 percent in the second quarter, compared with 7.7 percent for the metro area, according to NorthMarq.

Vannelli said she expects a local buyer, perhaps one making the investment as a so-called 1031 exchange, named for the Internal Revenue Service code that allows people selling real estate to defer taxes on the gains as long as they purchase another similar property. Vannelli said she thinks exchange buyers have just started coming back into the market in the last year.

For now, West 78th Marketplace is more the exception than the rule. Local retail professionals say it will be a slow recovery.

Tricia Pitchford, vice president of retail at NorthMarq, said that with demand down, she doesn't expect the second half of the year to look much better than the first for new multitenant retail construction. There is more demand for services, such as health care or auto repair, than for retail, she said. Pitchford said she doesn't see a turnaround until 2012.

Retail builder Steve Bachman agreed. It's "slow virtually all over," said Bachman, head of Retail Construction Services, a Lake Elmo contractor that builds stores nationally.

Kelly Doran, head of Bloomington-based Doran Cos., is building the new two-story, \$6 million Menards in

Eden Prairie. Doran said that's where the retail construction action will be for the foreseeable future -- retailers self-developing and occupying their own space.

"I have never seen the real estate industry in the state it's in, in my career," Doran said. "It's not a recession in real estate, it's a depression."

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