

2011 closes strong for local

ECONOMY

Weakness in housing sector, growth in retail sales, commercial development

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The year just past was a good one by virtually every business measure.

From job numbers to retail sales and commercial development, the Mankato area finished considerably stronger in 2011 than the year before.

While problems in the housing sector continue and unemployment remains relatively high, local leaders say they expect this year to continue on a trend of steady progress.

"I'm cautiously optimistic," said Mankato City Manager Pat Hentges about the year ahead. "In all reality the new normal will be what we've seen in economic development in the past couple years. There is a sufficient amount of economic development, but not enough to return us to what we saw early in the '90s."

In North Mankato, City Administrator

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Pat Christman

River Hills Mall General Manager Paul Wilke said it was a strong season for retailers.



Wendell Sande, North Mankato city administrator, stands outside the LJP building, one of several projects completed in the city's industrial park last year.

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ECONOMY: New tenants coming to mall

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Wendell Sande said the housing construction sector remains sluggish, but the city saw the start of several commercial projects last year.

"2011 has proved to be our best economic development year ever. We far exceeded our expectations," Sande said.

Retailers smiling

With the state and national economy driven heavily by consumer spending, the news from local retailers bodes well for south-central Minnesota.

"Mall sales have increased this year in virtually every category," said Paul Wilke, manager of River Hills Mall.

The mall's experience echoes results of a new retail study showing Mankato's sales are growing at a faster rate than anywhere else in outstate

Minnesota. The University of Minnesota study shows that in 2009, for the first time, Mankato became a so-called Level 1 retail center (there are seven levels). Mankato had retail sales of about \$900 million, and Mankato's sales have grown faster than the other regional cities of Duluth, Rochester and St. Cloud.

Among River Hills tenants, teen apparel sales were up more than 20 percent last year, the strongest of any category. "The family apparel — the teen clothiers like American Eagle, Hollister, Buckle — they've done very well," Wilke said.

Victoria's Secret has been one of the top performers in the mall, while book sales, shoes, children's, home furnishings, personal care and jewelry all saw sales increases overall at River Hills.

"I can't think of a single category that's really struggled. That's impressive."

Wilke doesn't get sales figures from all of the anchor stores attached to the mall, "But the ones we do get results from are all up."

Another good sign, said Wilke, is an uptick in leasing of spaces in and around the mall.

"We're seeing a lot of leasing activity and we have a number of deals in place to start (in 2012)," he said.

The mall's vacancy is at only about 3 percent.

The biggest new tenant was Ulta, a large cosmetics, personal care and hair salon chain that moved in near the food court.

The mall also has a yet-unnamed retail tenant moving into the former Pier One building near the entrance to the mall. They will open in March.

And a new restaurant, also so far unnamed, will build on the space between Olive Garden and the Sears Auto building.

A new store, Earthbound Trading Co., also is opening in the mall this year.

River Hills sold a parcel near Scheels for a Courtyard by Marriott that started construction in late fall. "Having a hotel tied to the mall is going to be good for us. They will have a convention center there, which makes it better."

Wilke said many of the malls owned by parent company General Growth have adjacent hotels.

Wilke said that after putting the brakes on new stores, retailers are picking up the pace.

"I go to our trade association conventions and people talk about a lot of activity.

In 2008, 2009 activity was slow and (retailers) were being very picky about where they located. We're not hearing that anymore, they're out there doing expansions."

Housing still slow

New home construction continues to be a relatively weak spot in the local economy and Hentges doesn't see any dramatic turnaround, particularly in single- family home building.

" I think we'll see about 100 single- family homes a year," he said. That would be about one- third of the annual housing starts seen in the early 2000s.

Sande said the story is the same on his side of the river.

" Residential continues to be a bit slow. We had 27 total permits, 15 singlefamily through November and we had 15 single- family in 2010, too. That's been a low point for us."

In the early 2000s, the city saw a high- point of 50-60 single- family homes being built each year.

" It's tapered down. This is very reminiscent of 1982, 1983."

Still, both men say that considering how hard many areas have been hit by housing problems, they're gratified to see even modest gains in home construction.

" Right now, I think both our cities are pretty happy with our single- family starts," Hentges said.

Hentges expects there may be an increase in new multi- unit apartment housing in the coming years.

For one thing, Minnesota State University is planning to close Gage residence hall, replacing it with smaller halls.

" There will be 500 students who will need housing and won't have it on campus," Hentges said.

Commercial a pleasant surprise

Paul Vogel, Mankato community development director, said last year was a pleasant surprise.

" We anticipated \$35 million to \$40 million of construction. (Through November) we're up to \$69 million, which is outstanding."

New commercial-industrial construction topped \$13 million, nearly three times that of 2010. A new Bremer Bank building, a Volk Transfer office and warehouse building and the start of a Courtyard by Marriott at River Hills were a big part of that construction tab.

Hentges said that while the numbers were good for commercial projects in 2011, he doesn't expect boom times in the year ahead.

"I just don't see a lot of major commercial development coming down the line. " Some of the existing glut of available industrial space is probably stifling any speculative commercial development. The Shari Candies building is empty and there are others."

Keith Robinson, a longtime commercial real estate appraiser, said property values have stayed relatively stable for commercial buildings, but are off for bare development land.

" We didn't have a big buildup of commercial properties prior to (the recession), so values weren't inflated. So we didn't have a lot of correction that needed to happen. Values have stayed relatively stable," said the owner of Robinson Appraisal.

But investors holding bare development land have taken a hit. " There's a lot of that land on the edges of cities. The values are still relatively stable, but those values did take a hit."

As in recent years, local leaders are waiting and hoping to hear from Wal-Mart that it is going to begin construction on a major distribution center. The retailer owns land for the project on the northeast edge of Mankato and has told city officials that while its plans were slowed by the recession, they still intend to build the facility, which would bring 500 or more jobs

and spur other development.

“ The big thing is when the Wal-Mart distribution center comes,” Hentges said. “I’m cautiously optimistic this year could be the year. That will certainly help our development.”

He noted Wal-Mart has started an aggressive plan to open new stores in the Twin Cities, stores that the company planned to supply from the new distribution center.

“Hopefully they can move along quick enough with those store starts to make Mankato happen.”

Sande said North Mankato’s unexpectedly strong year in commercial development was focused mostly in the city’s industrial park. “ We had six projects that were either new buildings or expansions.

The projects included new buildings for Peterbilt, Ziegler and LJP, and expansions at Lindsay Window and Door, and Kato Engineering.

The city had \$17 million in industrial- commercial building permits, most for new construction or expansion and a smaller portion for renovations. Sande said \$7 million to \$10 million per year has been typical in the past.

“ We’re looking at a good year in 2012. Our initial contacts have been positive,” Sande said. “Mostly in the industrial park, but we’re also looking at projects in the central business district.”

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Mankato City Manager Pat Hentges



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Mankato City Manager Pat Hentges outside the former HECO building which is being renovated and will be the US Bank Building.

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