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RETAIL PROPERTIES *Quarterly*

Auto retail adapts to changing consumer habits

W.E. O'Neil Construction Co.

Used car dealerships, like Sonic Automotive's new EchoPark Automotive program, enjoy more flexibility for land use and facility requirements than new car dealerships.

by Michelle Z. Askeland

Automobile retailers are facing many of the same challenges other retail industries are struggling to overcome. While new car dealerships and used car dealerships face different constraints in some regards, both are being pressed to address a supply-and-demand land imbalance, changing consumer habits and municipality hiccups. The way forward for used car dealerships looks more nimble in the face of growing land costs and an active online market, while new car dealerships are placing a larger emphasis on the retail experience to retain and attract new customers.

"Real estate has become one of the bigger challenges and, in some cases, the top challenge, dealers have in opening a new store, getting an additional franchise or moving a store to grow with volume," said Tim Jackson, Colorado Automobile Dealers Association president. The lack of available land has been an issue for the past 20 years, but it's a much more pronounced problem today, he said.

The demand for automobile real estate is more brisk than ever, said James Mitchell, vice president of CBRE's automobile properties group. This demand is largely driven by the active automotive industry, which is climbing to a maturity point well beyond the trough of 2008, and dealers are quickly finding that they need to expand current facilities to keep up, he said.

The ideal location for a dealership is paramount. "You want to be visible, you want to be accessible and, depending on your brand, you want to be surrounded by other brands that are the caliber that you're trying to promote," said Mitchell. "So if you're a Mercedes-Benz dealership, you don't want to be surrounded by a bunch of pawn shops. You want to be surrounded by other high-end brands."

Most owners are looking for acreage in new properties that can support a lot of surface parking as well as a single-story or a two-story building, said Mike Hockett, W.E. O'Neil Construction Co. vice president of business development.

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INSIDE


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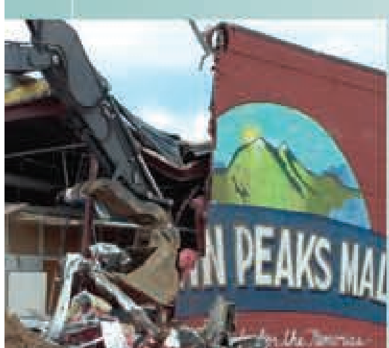

NewMark Merrill is currently using its development expertise to transform the former Twin Peaks Mall in the reimagined Village at the Peaks into a super-regional destination for shopping, dining and state-of-the-art entertainment. This $90M project opened in late 2015 and is reshaping the Longmont Community. Please see our website for more details.

Go go VillageAtThePeaks.com for leasing, tenant and community event information

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Broomfield Plaza Broomfield, CO 105,064 Sq. Feet	**Fort CollinsMarketplace** Fort Collins, CO 79,071 Sq. Feet	**Fox Creek Marketplace** Longmont, CO 80,454 Sq. Feet

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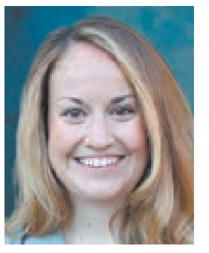
CONTENTS

Letter from the Editor

Demand for dining out

Food and beverage outlets are among the fastest-growing categories in retail centers, according to a CBRE Group national report. Several other pieces of this report about restaurant retail caught my attention as well.



Restaurants have fared better than any other retail type since the recession, according to the report. And, given that last year the government reported that restaurant sales surpassed grocery sales for the first time in the U.S., it makes sense that this industry is thriving.

Millennial dining habits support this growing demand, but it was surprising to see that older generations actually spend more money overall at restaurants than millennials. The report notes that "This implies more growth for restaurants as millennials age and earn more."

Following this logic, it also makes sense why CBRE selected Denver as one of the secondary urban markets that is best positioned for restaurant spending growth. We certainly are leading the way when it comes to fast casual. The number of quick-service restaurants in Denver increased by 67 percent in 2015 compared to the previous year, according to CBRE research.

In the report, Denver joined Minneapolis, Baltimore and Philadelphia as the best-positioned cities for restaurant spending growth, thanks to reported high job, income and population growth in each city.

I found the four up-and-coming restaurant formats identified in the report to be extremely interesting, because Denver has already embraced many of them. All four formats appeal to modern diners looking for diversity, convenience, uniqueness, relative affordability and experiential focus, the report stated. The formats include:

- Food trucks
- Food halls
- Celebrity-chef restaurants
- "Grocerants" – grocery stores that offer prepared foods and made-to-order meals.

While restaurants still are a gamble – thanks to high failure rates and substantial tenant improvement requirements – the report identified one way retail owners are taking a chance.

"One solution CBRE has seen property owners undertake is to forego immediate repayment of build out costs or to keep base rents low in exchange for an ownership stake in the restaurant," the report said. "In that approach, the property owner received a share of that restaurant's profit even after the initial investment is repaid, thus providing the property owner a return on its assumption of risk"

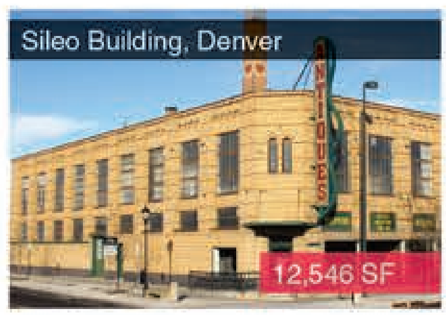
I'm curious how Denver restaurateurs, and those who rent to them, will continue to be on the forefront of dining experiences, embracing new formats while also celebrating what already works well.

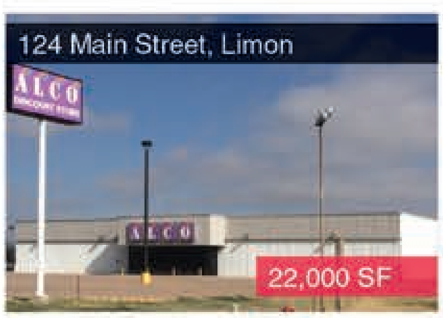
Whether you love the fast-casual environment, love to explore hip new spots or love to pick your meal from whichever truck is parked nearest you, one thing is certain – anyone living in Denver who is not exploring the restaurant scene is missing out. Happy dining!

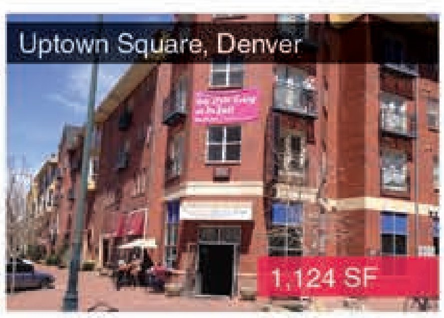
Michelle Z. Askeland
maskeland@crej.com
303-623-1148, Ext. 104

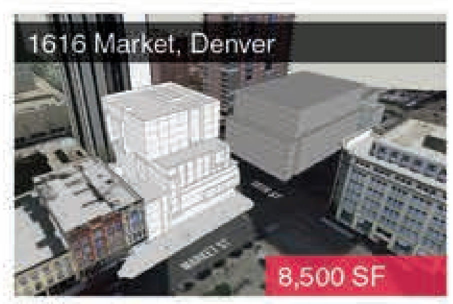
SUPPLY CHAIN TO STOREFRONT. URBAN AND SUBURBAN.

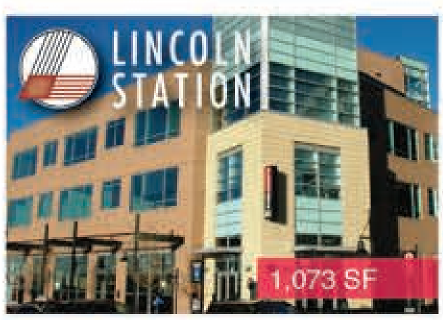
Newmark Grubb Knight Frank

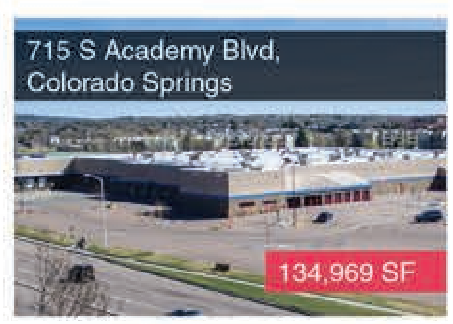


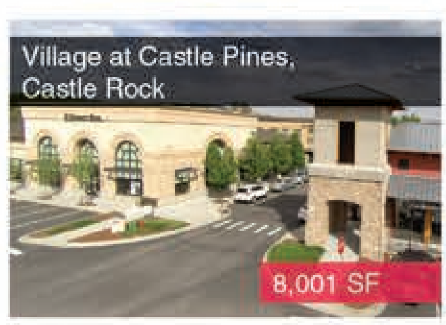












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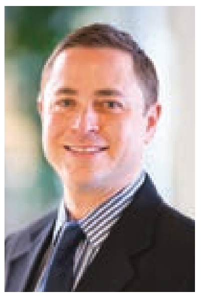
Market Update

Retail rent growth still enjoying long runway

While making my daily 5-mile commute from my house in Lower Highlands to my office in the Baker District, there are two things that I always notice: traffic and construction. It's not hard to spot cranes all over town, and Denver's population growth is evident as soon as you get in your car. It's no secret that Denver has bounced back quickly from the Great Recession, and population growth has been a huge factor in the recovery. While Denver's multifamily market has been the talk of the town, retail property investors may be excited at their prospects when evaluating the growth in multifamily.

We believe that the multifamily market may be a good leading indicator for where the retail market is headed for several reasons, but we'll focus on two here. The most important is population growth because retailers need to have customers in order to pay rent to landlords. Since a lot of people moving to Denver are initially renters, we expect the rental market to be a better indicator for growth trends than the residential sales market.

The other factor is multifamily rental rates because, to a certain extent, they are a reflection of the health of the job market since new residents need to be employed to pay rent. While Denver's multifamily rental growth has been astounding, it may be slowing down. Retailers (and retail landlords) should welcome that because, absent a market correction, retailers and retail landlords can be the beneficiaries of a slowing multifamily market.



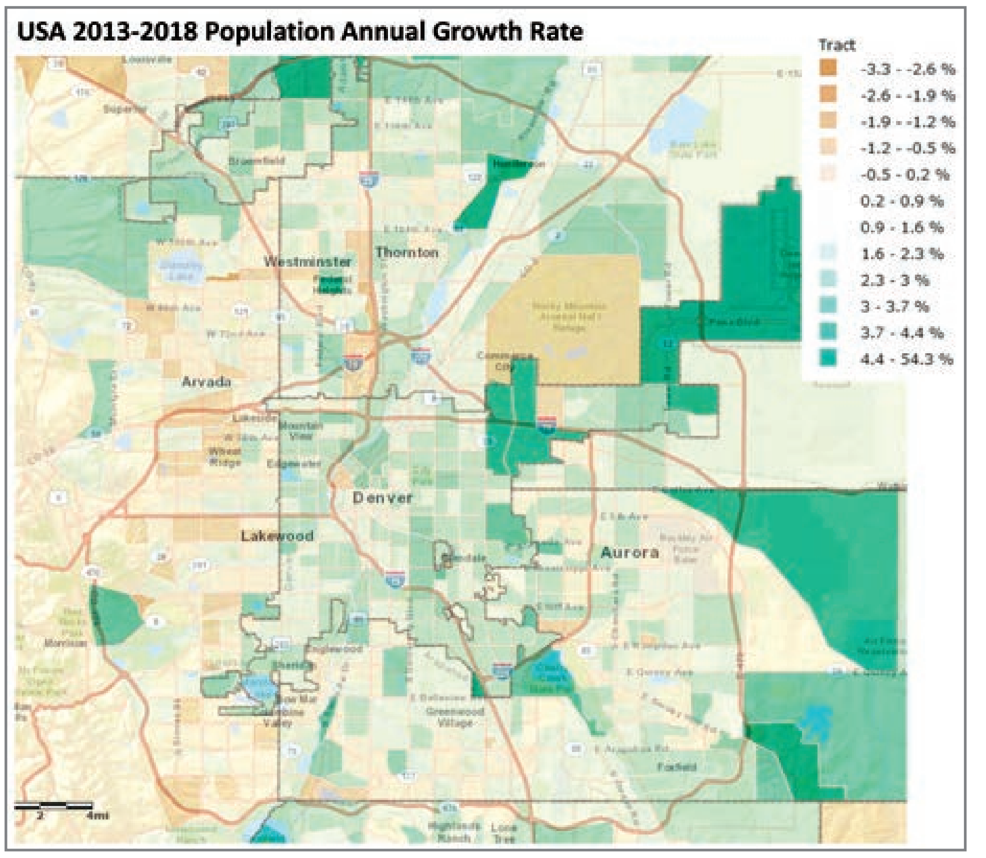
Justin Krieger
Senior adviser, Pinnacle Real Estate Advisors, Denver

Tom Ethington
Senior adviser, Pinnacle Real Estate Advisors, Denver

Consumer confidence is crucial to the health of the retail market. If multifamily renters believe that rents will only continue to go up, they will be afraid to spend money since they will want to save money to ensure that they can continue to live in Denver.

While Denver's job growth has been strong, wages have not kept up with multifamily rents, which is likely a renter's largest expense. Along the same lines, a consumer's disposable income is crucial to retailers. If a renter is committed to living in Denver at all costs, then they may forego other expenditures (e.g., dining out, retail purchases) to stay in Denver. When multifamily renters can more accurately predict their expenses, they are more likely to go out and shop without worrying if what was disposable today should have been saved for tomorrow.

Multifamily landlords have the luxury of being able to quickly adjust lease rates to the market because leases usually are 12 months or fewer and don't involve complicated tenant improvement allowances,



Pinnacle Real Estate Advisors

Denver's population annual growth rate from 2013 to 2018.

leasing commissions, lengthy marketing times and other factors that are a part of life of a retail landlord. Retail landlords, on the other hand, typically sign long-term (sometimes 20-plus years) leases with a lot of moving parts, which helps to explain some of the disparity between rental growth between retail and multifamily properties. Further, it is much harder to lease a retail property in a bad market because retailers may completely halt their expansion plans, even if rental rates plummet.

A multifamily developer is much better equipped to make a deal work in a bad market than a retail developer, particularly when rents need to be at a certain (possibly unattainable) rate for the deal to pencil and/or satisfy a lender requirement. Right before the Great Recession, a

Please see 'Krieger' Page 23

Rocky Mountain Shopping Center Association's 4th Annual Retail Real Estate Star Awards

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What's The Rocky Mountain Shopping Association All About?

The members include retail center and mall General Managers, Marketing Directors, Commercial Real Estate Brokers and Property Managers, along with vendors who serve the retail center industry in Colorado. Members come together to network and share valuable information about their industry.

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Market Update

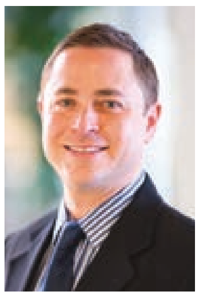
New developments propel Springs' retail

There have been some pretty impressive national rankings and headlines for Colorado Springs over the recent years. A few include being named the fifth-best place to live by U.S. News and World Report; No. 1 "Big cities to live in," according to Money; No. 5 "Best Cities to Live, Work and Play," according to MSNBC; and No. 9 on America's best bang-for-the-buck cities and No. 10 "Best Places for Business and Careers," according to Forbes.

Please refer to Chart A to summarize these findings. By the way, we also were recognized for top 10 cities for best teeth, but that's just heaping it on … but it's true.

We are a very proud city that is in the midst of one of the most exciting times since I have lived and worked here. We have put together the strongest, most cohesive unit of governing bodies and citizen efforts, which has resulted in tremendous new growth and revitalization in key areas of our community. I have been a resident of Colorado Springs since attending Colorado College in 1978. I began my commercial real estate career in 1983 and have seen the city grow from approximately 215,000 people to almost 500,000, with close to 700,000 people living in El Paso County.

We have always been a city blessed by our close proximity to Pikes Peak and the Front Range. Not too many cities can boast a drive (or bike ride) that is literally minutes to work or the mountains. But tremendous views are not enough, and more people means a little longer drive time.



John Winsor
Director, The Retail Group, Olive Real Estate Group Inc., Colorado Springs

In the past few years, we took some of our core strengths and are implementing plans to maximize them. One example of this is our long-standing association with the U.S. Olympic Committee. The committee's headquarters have been relocated to the heart of downtown with a long-term commitment and we have rebranded Colorado Springs as "Olympic City USA."

We also are close to completing the funding for a new 60,000-square-foot Olympic Museum that will be located on the southwest side of downtown and open in 2018. This state-of-the-art facility will generate other commercial redevelopment for downtown and be another significant tourism draw for Colorado Springs.

Further north, the combined efforts to redevelop North Nevada Avenue with the creation of an urban renewal district spurred the tremendous growth of the University of Colorado Colorado Springs. Since 2006, UCCS has almost tripled its enrollment and constructed numerous buildings on its 500-acre campus. While on the opposite side of Nevada Avenue, developers turned one of our city's most-degenerated areas into one of the city's most significant and successful retail developments: University Village Colorado.

On the south end of Nevada Avenue, south of downtown, another long-awaited redevelopment effort has begun. Multiple new retail, restaurant and residential developments will replace old and, in some cases, abandoned properties. This area has been very attractive to retail and restaurateurs alike but there simply haven't been properties available that would interest them.

The 2008 downturn – well OK, more like a bungee jump – definitely impacted our retail market. However, Class A retail never took a very big hit with market rents and vacancies dropping only slightly. Class B and C retail properties were hit hardest and really only started to feel the positive effects of a market recovery last year. This year, retail vacancy has dropped to 9.2 percent, the lowest in eight years, while lease rates are at the highest average since 2008, according to Turner Research.

Last year we saw a significant uptick in new commercial development. This has been fueled by record-setting home sales, consistent year-over-year city sales tax increases and significant job growth. This produced our lowest unemployment rate since 2006, currently at 3.9 percent, which is significantly better than almost 10 percent at the start of 2011.

The pace of homebuilding through the first half of 2016 is at a 10-year high. Not surprisingly, new commercial development generally follows where the new homes are being built; primarily north and east of town. Also, historically, the high-

Olive Real Estate Group

Chart A is a summary of Colorado Springs' recent rankings and headlines.

est average incomes have been in the southwest end of town, but over the last 10 years, with the growth north, the highest average income levels are now on the north and east ends of Colorado Springs.

The challenge from a retail or restaurateur's perspective is while incomes increase the further north you go, the population counts decrease. So some of the areas where new commercial properties are being developed do not have the densities retailers typically want. For those areas, it is important for businesses to go in with the capability to wait for the market to catch up, while hopefully reaping the benefits of being "first in" and establishing themselves.

The challenge from a developer's perspective is keeping the rental rates at levels that are sustainable for businesses, given the high costs for land and construction costs. Certainly helping this are the low

Please see 'Winsor' Page 23

Retail Properties Quarterly - Financing Sources Matrix

TYPE OF CAPITAL	SOURCE OF CAPITAL	EXPLANATION	RATES/SPREADS	LTV/COVERAGE	TERM	AMORTIZATION	FOCUS	TRENDS
LIFE INSURANCE COMPANY	• Insurance premiums • Annuity and GIC sales	• Non-Recourse • Longer-term fixed rate loan	175-210 bps over the comparable US Treasuries	• Up to 70% LTV • 1.25x Minimum DCR	5-30 Years	25-30 Years	• Grocery-anchored centers • Power Centers • Top tier credit tenants • Major metro areas	• Many life insurance companies are ahead of plan for commercial real estate allocations and look to become more selective in 2nd half of 2016 • Most competitive at lower to moderate leverage with strong sponsor • Flexible prepayment penalties available for small pricing premium • At right leverage (~60%) lenders can do Interest Only • Co-tenancy clauses and tenant credit worthiness are critically important
CONDUIT (CMBS)	• Sales of mortgage-backed securities through public markets	• Non-Recourse • Longer-term fixed rate loan	225-275 bps over the greater of swaps or treasuries	• Up to 75% LTV • 1.25x Minimum DCR • 8.0% Minimum Debt Yield	5, 7 & 10 Years	30 Years	• Neighborhood Centers • Strip Centers • Second tier credit tenants • Local credit tenants • Secondary/Tertiary Markets	• Spreads have narrowed 25-75 bps since 4Q 2015 • Most competitive at higher leverage in secondary and tertiary markets • 10 years interest-only under 65% LTV • 5 years interest-only under 70% LTV
BANK	• Corporate Debt • Deposits	• Recourse (some non-recourse available) • Shorter-term fixed and floating rate loans	200-300 bps over bank cost of funds	• Up to 75% LTV	Up to 7 Years Fixed	Interest Only to 25 Years	• Single-Tenant (NNN) • Freestanding Retail • Neighborhood Centers • Local credit tenants • Secondary/Tertiary Markets	• Standards are tightening for Sponsors with no deposit relationship • Most competitive for Sponsors with established banking relationships and strong borrower history that are willing to accept recourse • Establishing a deposit relationship is becoming a requirement • Primarily recourse loans, with non-recourse available to strong sponsors at low leverage • More flexible (open) prepayment terms
DEBT FUND / BRIDGE LOAN	• Private Capital • Institutional Capital	• Non-Recourse • Shorter term bridge loans for acquisition and/or repositioning	LIBOR + 300-600 bps (some w/ floors)	• Up to 85% LTC • Going-in 1.0x DCR	1 - 5 (3+1+1)	Interest Only	• Grocery-anchored centers • Power Centers • Credit tenants • Value-Add Transactions • Recapitalizations	• Pricing depends on leverage level, property quality, and Sponsor strength
MEZZANINE/ PREFERRED EQUITY	• Private Capital • Institutional Capital	• Junior financing secured by a pledge of, or participation in ownership interest	Mezzanine 8%-12%	• Up to 85% LTC • 1.10x DCR	2 - 10	Interest Only (in most cases)	• Neighborhood Centers • Strip Centers • Second tier credit tenants • Secondary/Tertiary Markets	• Preferred equity offers higher funding than mezzanine, but at a higher cost • Minimum investment is typically 5MM but can start as low as 1MM when paired with senior position

Essex Financial Group - Recent Retail Transactions

Orchards Shopping Center
Loveland, CO
$15,000,000 Permanent Loan
Life Insurance Company

Sierra Vista Plaza
Dallas, TX
$23,500,000 Permanent Loan
Life Insurance Company

Vista Ridge Marketplace
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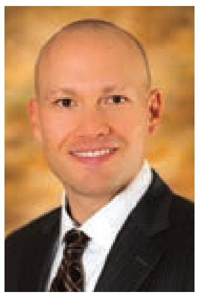
Market Update

Retail follows 3 trends in Northern Colorado

The redevelopment of two regional malls, Costco's long-awaited opening and a highly unique retailer's search for a Northern Colorado site have made for some interesting story lines over the past several years. The continued evolution of retail has been ever present in how these projects have taken shape and provides clues as to what to expect in the future.



Ryan J. Schaefer
CEO, Chrisland Real Estate Cos., Fort Collins

Before delving into the aforementioned projects, it is important to recognize three big picture trends, which have shaped post-recession brick-and-mortar retailing: the continued growth in online shopping, sluggish growth in wages and an increase in personal savings.

In her June 8, 2016 Wall Street Journal article, Laura Stevens reported on an annual survey by UPS and comScore Inc. that polled shoppers who made at least two online purchases in a three-month period (excluding groceries) about their shopping behavior. Some of the key results of this survey were:

- 2015 marked the first year that shoppers made more purchases online (51 percent) than in brick-and-mortar stores.
- Shoppers reported that only 20 percent of their purchases were made in a store the conventional way, which meant going to a store, browsing and buying there – down from 22 percent a year ago.
- 42 percent chose to search and buy entirely online.

Chrisland Real Estate Cos.
Scheels All Sports Store, at Interstate 25 and U.S. 34 in Johnstown, is a 250,000-square-foot sporting goods store that is anticipated to open in October 2017.

The continued growth of online shopping has had a dramatic impact. This major behavioral trend coupled with sluggish post-recessionary wage growth is changing the face of retail development. While job growth and unemployment have improved since the recession, wage growth, which typically is linked with the former, has not rebounded at the same rate. Average wage growth the past two years is 33 percent below the long-term average from 1983 to 2015, according to Daly, Hobijn and Pyle's March 7, 2016, Economic Letter posted by the Federal Reserve Bank of San Francisco.

The third big picture trend that is impacting retailers is the nearly 130 percent increase in the U.S. personal savings rate since 2007 – 2.5 to 5.8 percent. While few would argue that such an increase in personal savings is a bad thing, when coupled with rises in online sales and slower wage growth, rising employment and population growth have not been enough to support historic per capita retail store expansion rates, particularly in fashion and apparel.

These bigger picture trends have created many ripple effects, including:

Market Update

• Struggling department store sales,
• Limited new fashion and apparel expansions,
• More value-oriented retailers,
• Bankruptcies and/or store closings, and
• Smaller store footprint sizes.

We have shifted paradigms as far as how much brick-and-mortar retail we build and what the new brick-and-mortar shopping experiences consist of. That semi-esoteric big picture explanation sets the stage for the new retail product recently built or in progress in Northern Colorado. This new retail product is heavy on some, or all, of the following:

• "Eater-tainment" – casual dining, theaters, arenas, art, civic uses and gathering places;
• Recreation – health clubs, recreation centers, ice skating rinks, etc.;
• Value-oriented retailers;
• Daily needs – groceries, drug stores, convenience stores, fast-casual dining; and
• Alternative nonretail uses – apartments, hotels, churches, libraries, etc.

This sets the stage for some practical examples in Northern Colorado. In July 2012, Alberta Development Partners and Walton Street Capital acquired the 750,000-square-foot Foothills Mall in Fort Collins from General Growth Properties. Soon thereafter, Alberta announced plans for a hybrid mall on site – one part outparcel shops, one part entertainment district and one part enclosed mall.

Consistent with the above-described trends, the outparcel shops (including a well-received junior anchor in Nordstrom Rack) and entertainment district leased relatively quickly and at top-of-market rates. There are 11 new restaurants on site and a Cinemark Cinema. There are 400 new apartments being built on site by McWhinney and there is a youth activity center and ice rink, providing recreation and experience.

Despite a beautiful remodel of what was retained of the enclosed mall, this area has struggled to reach good occupancy. The majority of the local population, somewhat unaware of the consequences of changes in shopping habits, is left dissatisfied about the unfulfilled promise of an upscale fashion apparel shopping experience.

I hear similar sentiments from Longmont residents regarding Village at the Peaks. Residents long for new fashion and apparel options but do not fully appreciate the evolving retail landscape. Often I explain to them what a good job Newmark Merrill did in responding to market demand. There were not enough fashion apparel retailers who were willing to expand in that market to build another fashion mall. Ultimately, over 90 percent of the 480,000-sf center is leased by responding to tenant demand in the form of daily needs, value-oriented users, restaurants and entertainment.

Like Foothills, the centerpiece of Village at the Peaks is a state-of-the-art Regal Cinema – accompanied by several new dining options, such as Bad Daddy's Burger Bar, Fuzzy's Taco Shop and Parry's Pizza. Wyatt's Wet Goods is a fantastic local liquor superstore with an excellent selection and great prices (or so I've heard … wink, wink). Gold's Gym generates little to no sales tax but generates traffic from people moving in and out of there regularly. There will be co-tenancy benefits with fast-casual restaurants and daily needs retailers such as Whole Foods, which was a coup for Longmont and will generate strong daily traffic once open. And – while not Costco, as many had unrealistically hoped with two other Costco stores nearby – Newmark Merrill secured a value-focused membership club for Longmont by bringing a new Sam's Club store to the community.

Speaking of Costco, Timnath (population of approximately 2,000 and growing) continues to capture sales from nearby communities and build on its daily needs retail portfolio at Interstate 25 and Harmony Road. Pad sites near Costco and Wal-Mart, developed by Goldberg Properties and Republic Investment Group, have seen good activity due to demand from daily needs retailers and restaurants such as Les Schwab tires, Taco Bell, Starbucks and Freddy's Frozen Custard, all of which opened in 2016. Chick-fil-A is not far behind with an anticipated opening in 2017.

Eight miles south of Timnath at I-25 and U.S. 34 in Johnstown, a mammoth 250,000-sf Scheels All Sports Store is taking form on land Chrisland Real Estate Cos. sold to Scheels and Carson Development. Expected to be one of the largest retail stores in Colorado and the second-largest sporting goods store in the world, this two-story, 85-foot-tall, part department store, part sporting goods store is well under construction within Johnstown Plaza at 2534. Scheels anticipates opening prior to October 2017 and will bring an entirely new shopping experience to Colorado.

Experience abounds as shoppers approach the entrance and walk past enormous bronze sculpture from renowned Loveland-based artists the Lundeen family. Once inside, customers will walk through a 16,000-gallon saltwater aquarium and gaze upon an 85-foot atrium, complete with a 65-foot-tall working Ferris wheel. Mouthwatering aromas of fudge and lattes from Grandma Ginna's Café spill into nearby spaces. Golf simulators, basketball hoops and laser-shooting galleries entertain young and old alike. Lest you forget there is a retail store amongst these activities, rest assured, there is something for everyone to buy at Scheels.

The first floor is well merchandised with an excellent selection of fashion and apparel, including "specialty shops" for all types of shoes, casual attire, active wear, seasonal apparel and team sports merchandise. The second level essentially combines a Dick's Sporting Goods with a Bass Pro Shops for an unmatched selection of sporting goods. It is worth mentioning that Scheels is a privately held, employee-owned company, with some of the highest-paid employees in retail striving to deliver excellent customer service.

Perhaps it takes a store of this magnitude with this type of experience, diversity of product offerings and customer service to get shoppers excited about brick-and-mortar retail. If so, how will the market evolve further if other retailers begin to follow suit?

These are questions for another day. In the meantime, industry and government would be wise to plan on less brick-and-mortar retail per capita, focus on making daily needs retail as convenient and viable as possible, and create more entertaining places with a diverse and complimentary mix of uses. ▲

Examining the forces behind record sales volumes

In 2015, Colorado retail investment sales volume approached $1.3 billion, matching the historical peak volume previously set in 2006. Year to date, the Colorado Front Range has yielded approximately 120 investment-grade net-leased retail commercial transactions totaling over $640 million in value, excluding regional mall sales. While Denver and surrounding communities remain a high-priority investment target for institutional capital, higher total number of transactions and smaller average transaction size indicate that private capital investors are the primary driving force behind the retail investment transaction velocity along the Front Range.

Matthew Henrichs
First vice president, retail investment group, CBRE, Denver

As owners evaluate their capacity to take advantage of rising values (compressing cap rates) in the face of global capital markets unrest, it is critically important to understand the variable factors driving investment decisions in an uber-competitive marketplace.

• **Private capital investors are the primary driving force in the marketplace.** Private capital investment in the Colorado retail sector is expected to increase year over year for the fifth straight year, eclipsing $500 million in total investment for the second-consecutive year in 2016. The number of retail investment transactions closed by private capital investors as a measure of the total has grown from roughly 80 percent in 2013 to over 95 percent in 2016.

• **Single-tenant net-lease sales churning.** Colorado single-tenant net-leased transactions for 2016 are setting record-low cap rates while accounting for a larger share of overall transaction volume in the sector. Contributing factors include increased competition among retailers securing leases for stand-alone units; enhanced pipeline of vertical new development completions being delivered to the marketplace; competitive demand from time-sensitive 1031 exchange buyers seeking passive cash-flow investments secured by credit-backed tenants; and low yields in the bond market continuing to make commercial real estate an attractive tangible investment even at historically low cap rates.

• **IRS 1031 exchange laws encourage continued CRE investment.** Many retail commercial properties listed for sale see offers from an investor executing a 1031 like-kind property exchange. The time-sensitive nature of these investors often make them an appealing option for sellers looking for an efficient sale execution. The top-tier Denver investment brokers are importing active and aggressive 1031 buyers from around the country and, in some cases, globally to purchase assets in Colorado. Many of these buyers are first-time investors to the state and often are trading across asset classes. Timing plays a crucial role in executing with a 1031 buyer as these investors often trade in and out of the market on expedited timing intervals of 45 to 90 days.

Mike Laughlin, Vantage Point
A recently sold Centennial retail property located at 15795 E. Arapahoe Road

• **Capital outreach is key to driving value.** Since 2012 the CBRE Denver Retail Investment Group has transacted with over 90 unique investors, 70 percent of which were either first-time buyers of retail property in Colorado, based outside the state of Colorado or both. While not as skewed to outside investors as the CBRE sale portfolio, the overall market trend tracks a comparable trajectory.

• **Debt terms are a deciding factor in value for private capital investors.** Average cap rates paid for strip center and shadow-anchored retail has compressed year-over-year four years running. In 2016, cap rates for these property types are approaching 7 percent on average with best-in-class assets trading at 5.75 to 6.5 percent. At these cap rates, the market is approaching pricing in which it is not possible for many leveraged investors to achieve a positive leverage position over the initial term of ownership. Outlier all-cash investors continue to post record cap rates, however, it is no coincidence that

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Life companies shift focus for new year

Michael Salzman
Vice president, loan production, Essex Financial Group, Denver

The commercial real estate lending market has remained strong for the duration of 2016, however, this past year also presented unexpected (but not insurmountable) challenges. As the new year quickly approaches and retail owners begin developing their game plan for 2017, it's helpful to understand how dynamic the lending market was this past year and how some life companies' criteria for assessing retail properties evolved accordingly.

At the beginning of 2016, most industry experts expected both supply and demand for real estate loans would be vigorous. However, a tumultuous bond market caught commercial mortgage-backed security lenders by surprise with implications reaching beyond the securitized market. In December 2015, a lack of buyers in the bond market forced CMBS lenders to widen their pricing significantly in order to bring salable fixed-income offerings to a bond market that was demanding yield. This caused an overall increase in CMBS interest rates of approximately 0.75 to 1 percent, an increase that lasted almost the entire first half of the year – CMBS credit spreads didn't start settling down until May.

Since the CMBS market suddenly became a more expensive capital source, many borrowers responded by avoiding the CMBS market altogether and sought capital from balance-sheet lenders like life companies instead. In fact, CMBS issuance in the first half of this year dropped by over 40 percent. (According to Commercial Mortgage Alert, total U.S. CMBS issuance in the first half of 2016 was $30.7 billion compared with $54.49 billion in the first half of the prior year.)

Ultimately, the CMBS market's loss was the life company market's gain as the weak CMBS market fueled life company deal flow. Life companies already had been expecting a busy year due to the overall strength of the real estate industry, but while CMBS interest rates were high, chief investment officers at life companies seized the opportunity to invest loan dollars at relatively attractive yields. The life company market posted an incredibly successful first half and despite record-size allocations of dollars for commercial real estate lending, some life companies literally ran out of money to lend by midyear. This enabled the remaining life companies in the market to become more selective, because as the year progressed, there was less competition for each transaction. As a result, life companies seemed to grow increasingly selective across all property types, however, here are some specific topics that arose most often in discussions about retail properties.

• **Grocery anchors.** It's been no secret that many, but not all, life companies have preferred grocery-anchored retail properties for a long time. However, in 2016, life companies placed even more emphasis on assessing the creditworthiness of each grocer and the likelihood that each location will remain open for business.

They primarily focused on three criteria. First, life companies look for store-specific gross sales figures to exceed at least $400 per square foot. Furthermore, a grocer's occupancy cost – also known as a health ratio, expressed as a ratio of total rent and reimbursements over gross sales – should be less than 3 percent. Second, in an effort to reduce rollover risk, life companies strongly prefer to lend on grocery-anchored centers where the grocer's remaining lease term extends beyond the maturity of the proposed loan. The third criteria also is the most stringent and doesn't apply to all lenders, however, as loan dollars became scarcer over the course of this year, some life companies decided only to lend on grocery-anchored centers with publicly traded, investment-grade credit grocers. This was not a widespread requirement in the life company market; however, it's an example of how some life companies enjoyed strong deal flow in the first half of the year, affording them the luxury of being picky in the latter half of the year.

The impact of this criteria is significant, as many grocers commonly considered to be good operators are not necessarily rated investment grade and, in some cases, stellar sales and superior location were trumped by below-investment-grade credit.

• **In-line shop space.** There were no hugely significant changes this year in the criteria life companies used to assess in-line shop space at retail centers. Much like last year, lenders are most interested in financing properties with experiential, service-based tenant lineups, meaning tenants whose sales are less vulnerable to competition from internet commerce. Examples of attractive tenants include restaurants, coffee shops, hair and nail salons, and health clubs. One point worth noting, however, is that as life companies grew more selective as the year progressed, they became increasingly sensitive to co-tenancy clauses, as they fear an anchor tenant's departure can cause a domino effect within an otherwise healthy retail center.

Focus Shifts to 2017

Despite this year's challenges in the capital markets, the commercial lending environment remained robust and there was more good news in the market than bad. There's no doubt that as mortgage bankers, our roles became more challenging in the second half of the year as life companies became more selective. Even though I haven't sugarcoated this reality, this year, we will still place more life company volume than ever before and most of our correspondent life companies will post record-setting loan origination figures. This has been a banner year and property owners shouldn't be discouraged, but they should also be mindful that the first half of the year is generally the best

Please see 'Salzman' Page 23

Why retail property owners should use Co-PACE

Retail property owners have a new financing option available that provides an economic incentive for installing energy-efficient, renewable energy and water conservation measures. This option is available through Colorado's Property Assessed Clean Energy program and anyone looking to develop, redevelop or reposition retail property should take note.

Co-PACE permits commercial and multifamily (five or more units) to obtain long-term, off-balance-sheet financing for the installation of these measures. Co-PACE financing is provided by third-party lenders and is repaid through a special assessment as part of the property tax collection process. It is not traditional debt but rather an obligation to pay the special assessment for the Co-PACE term.

Typical property assessed clean energy qualified investments for retail properties include interior/exterior lighting upgrades, building control systems, roofs, heating, ventilating and air conditioning, water conservation fixtures, windows, escalator/elevator modernization and solar. PACE allows up to 100 percent financing of all eligible measures, including all soft and hard costs so there is zero upfront investment. Eligible measures include any energy-efficient, renewable energy and water conservation measure that produces an energy savings. Co-PACE is available for new construction for any project that complies with the 2015 IBC as well.

There are three key features to Co-PACE that are beneficial to retail property owners. First is the extended term. Co-PACE is long-term financing for up to 20 years, based upon aggregate useful life of the improvements. Next, the Co-PACE special assessment transfers with the sale of the property to a new owner, as do the benefit of the energy efficient, renewable and conservation measures. For property owners with potential disposition plans on the horizon, this makes Co-PACE particularly attractive since there is no repayment of the Co-PACE financing at closing. Lastly, in triple net leases, tenants pay the Co-PACE special assessment, which is offset by tenant's reduced utility and operation costs. This means tenants are paying to improve your property's building systems and ultimately enhance property values. The overall triple-net charges should remain the same but the amount tenants are saving in utility costs are instead used to pay the Co-PACE special assessment.

Grant Nelson
Principal, Republic Investment Group, Greenwood Village

Retail market leaders like Simon Property Group have discovered the economic benefits of PACE, recently completing over a dozen PACE projects in the U.S., with more planned. The group's success with PACE demonstrates why PACE can benefit retail property owners.

The commercial PACE market is growing across the country with 33 states and Washington, D.C., enacting PACE-enabling legislation and 16 states with active PACE programs. To date, almost 800 commercial U.S. PACE projects have been completed, for a total of approximately $300 million.

Keirstin Beck
Principal, Integro LLC, Boulder

The Co-PACE program officially launched with its first closing in August for an energy-efficient Co-PACE project in Boulder. The Co-PACE statute created the New Energy Improvement District to administer and run the Co-PACE program. For a property owner to participate, the county where the property is located must "opt-in" to the program. So far, Denver, Adams, Arapahoe, Boulder, Broomfield, Eagle, Gunnison, Jefferson and Pitkin counties have opted into Co-PACE, with other counties in discussions to do the same.

Across Colorado, jurisdictions like Boulder and Denver are adopting or planning to adopt mandatory benchmarking measures for property owners to meet stated community sustainability goals. Denver soon will adopt some form of its Energize Denver initiative and as part of that initiative all commercial properties over 25,000 square feet will have to go through an energy audit. If a property scores below a certain level then the property will be required to make energy-efficiency upgrades to score at a higher level. Property owners can use Co-PACE to make the improvements and offset some of the expense that the program will require. Any retail property owner planning a renovation or capital improvement project should consider Co-PACE as an option to facilitate positive economic returns and a more efficient property.▲

For a property owner to participate, the county where the property is located must "opt-in" to the program. So far, Denver, Adams, Arapahoe, Boulder, Broomfield, Eagle, Gunnison, Jefferson and Pitkin counties have opted into Co-PACE.

Market Drivers

Continued from Page 1

Dealerships tend to cluster near one another, offering consumers an easy route to stop by several dealerships in one trip. Many of these clusters are located outside of metro areas in unincorporated counties, such as unincorporated Weld, Adams and Arapahoe counties. The reason for this lies in tax revenue and challenges with municipalities, said Jackson.

"It's been a problem for a while, and it's getting to be a bigger problem," Jackson said. "A lot of that has to do with zoning laws, where local communities want to get other types of retail instead of automotive retail."

Some communities chase big-box stores, such as supercenters and grocers, because the city stands to reap the benefits of the sales tax revenue, he said. For auto dealerships, it's different. The tax revenue collected from auto sales is distributed back to where the vehicle owner resides or, if it's a business, where the company headquarters is located.

Fort Collins is an example of a city that is chasing other retail because the city recognizes that even if it doesn't have any dealerships, as long as its residents buy the cars, the city will still get the tax revenue. "So it creates an incentive to chase a Walgreens or a Target, but not as lucrative to chase a dealership," Jackson said.

Due to these all-too-common municipality headwinds, the price of automotive real estate that's favorably zoned goes up, Mitchell said. "The demand for automotive real estate is probably the highest I've seen since 2008," he said. "And that demand is accentuated by a lack of supply."

In the past five or six years, auto retail sales increased dramatically. Today, the auto retail market is steady, but flattening, Jackson said. However, there still are a lot more buyers for new cars than there are sellers. "The number I hear is – for every seller in the marketplace, there's 30 buyers," he said.

New vs. Used Car Facilities

In Colorado, there are at least five new car dealerships with shovels in the ground as well as a couple of yet-to-be-announced plans underway, Jackson said. These dealerships will join the almost 300 new car dealerships throughout the state. Additionally, over the last five to seven years, there was a wave of remodeling to existing sites, mainly at the behest of automakers, he said.

"I think there's a lot of pressure in the industry from dealership manufacturers pressing their dealers to upgrade their facilities to meet certain branding and sustainability concepts," said Hockett. "Present day is probably as busy as we've ever seen it. Manufacturers kind of hold inventory over the dealer's head – 'If you don't comply with what we're asking, you don't get first crack at some of the inventory,' which is very important to the dealerships."

In the face of changing consumer needs, offering an experience when purchasing a vehicle is a top priority for new car dealerships. Luxury brands are pouring more money into the showrooms to embrace the lux feel. Two new dealerships on Colorado Boulevard, selling Mercedes-Benz and BMW brands, are generating a lot of hype and, thanks to a backing from Sonic Automotive, a national, publicly traded company, can afford to invest a little more money than normal.

"There's a lot of curiosity around how well that's going to work, and once they open, will the increase in car sales based on what they've done really pay off," Hockett said.

The money is intended to enhance the customer experience. New technologies speed up the buying process while new "delivery rooms" are designed as congratulatory areas for finalizing a vehicle purchase. And once the car is purchased, dealership are investing a lot in their service departments to retain those costumers over the lifetime of the vehicle.

From a new car perspective, don't expect manufacturers to relax their thought process on how big and how glorious they want their facilities to be any time soon, said Jeff Dyke, Sonic Automotive executive vice president. "So real estate is going to play a big, big role in that just due to the expense and the location of the properties."

The used car business is three times the size of the new car business. There are 45 million or 46 million used cars sold in the U.S. each year, compared with 15 million to 17 million new cars sold, Dyke said. Sonic Automotive owns new and used car dealerships, and piloted a unique used car concept, EchoPark Automotive, in Denver this past year.

Used car dealerships are diametrically different because the owner controls the brand, as opposed to having mandates handed down from a given manufacturer, said Mitchell. While having more control over the dealership's real estate needs, these owners are finding more flexibility to address changing consumer habits.

"The list is a mile long on what consumers dislike," said Dyke. "First of all, they don't like the pressure when they go up to a dealership. They don't trust the dealership. They know the salesman is paid a commission to sell them something today. They're not 100 percent certain about the product they're going to get. They are very concerned

New car dealership snapshot

The most new car dealerships are located in:

Colorado Springs	38
Littleton	16
Denver	15
Aurora	15

The following have 10 or more new car dealerships:

Pueblo
Grand Junction
Boulder
Glenwood Springs
Fort Collins
Greeley
Centennial
Longmont

** Data from the Colorado Automobile Dealers Association's dealer directory 2016* about the trade-in process and the amount of money they end up getting for their trade in."

Consumers also dislike how long it takes to buy a car, having to haggle and having to deal with multiple staff members. "It's all just horrific," Dyke said of the process. "The industry is running as quickly as it can away from it."

In addition to trying to offer solutions for each of these complaints, EchoPark offers customers perks, such as use of car washes for free at every location. EchoPark takes its cues from specialty retail and hospitality sectors and is trying to build customer loyalty. In addition to sponsoring a local high school football stadium, the dealership offers defensive driving classes and is trying to get accredited to offer educational driving school courses.

As more buyers migrate online to buy used cars, the demand for space most likely will change. "I do believe, sooner than later, you're going to see the digital real estate world play as large or bigger a role than the physical real estate world," Dyke said.

The cars still will need to be housed somewhere, but cheaper properties in not as high-traffic location will work because the vehicles would be delivered straight to the consumer at the individual's home or place of business.

"I do see that happening," he said. "I think the manufacturer will stand in the way of that happening on the new car side for much longer than what the preowned side will be able to accomplish."

The digital marketplace will become a major pillar of the transaction process, said Mitchell. "But bricks and mortar won't go away, especially for your really niche concepts, like an EchoPark, where the delivery of the car and, quite frankly, the purchase of the car is really experience based," he said. "It's not just about the car itself, but it's about the people that you're interacting with and the environment in which the transaction is occurring."▲

W.E. O'Neil Construction Co.

New technologies enable faster, smoother and easier vehicle purchasing experiences to appeal to consumer demands.

Retail Trends

Retail helps bring an urban feel to suburbs

John Livaditis
President, Axio Commercial Real Estate, Denver

Denver is growing. All you have to do is look up anywhere in the urban areas of downtown and the construction cranes dotting the sky are inescapable. High-rise apartments have been cropping up on what seems to be every remaining piece of land downtown. This influx of new residential growth has helped fuel demand for restaurants and retail services to serve the growing population, but with this growth there are the inevitable growing pains that come with it.

The rise in dense mixed-use development has pushed land prices to historic levels and rental rates for retail spaces downtown continue to rise. There are many retail and restaurant tenants operating in Denver's downtown neighborhoods that are beginning to express concern that the real estate market and rising rental rates are outpacing their ability to increase sales.

The millennial demographic, which is driving this urban growth, is paying more of its income toward housing. And while these younger renters are looking for entertainment value and new experiences, they also are looking for ways to stretch their dollars. This has created fierce competition for restaurants and retailers, not only with regard to the number of new concepts and restaurant trends they offer, but also for ways to keep providing value, which is making it harder to grow and be profitable.

At times, lost in all the excitement of downtown Denver's growth is the growth of the suburbs. A trip through southeast Aurora, Parker, Caste Rock, Arvada, Westminster and Commerce City will tell you that construction of new homes in the suburbs is booming. The movement of young families heading out of the city and into the suburbs is not necessarily a new thing, but the attributes these suburban migrants are looking for is changing and driving the decision-making of retailers and restaurants.

The majority of households formed by young adults won't take up residence in urban areas, according to a recent study by the Urban Land Institute, "Demographic Strategies for Real Estate." Instead, they will gravitate to so-called "surban" areas. ULI's report states "surban" areas bring the best of urban living to a more affordable suburban environment. The report predicts that 79 percent of new households over the next decade will settle in these areas.

With the limited supply of good available locations, the increase in rental rates and the constant pressure from competitors, more retailers and restaurants are looking to the suburbs for future growth plans. We saw something similar from breweries a few years ago. There was rapid growth in the number of breweries opening in downtown Denver, which made for intense competition for space. In response, breweries turned their attention to the suburbs where spaces were easier to come by, competition was near nonexistent and there was a customer base who was eager to spend money closer to home.

Downtown Littleton has the advantage of already having charming older buildings, wide sidewalks and a dense concentrations of historic buildings that possess the physical characteristics of a urban setting.

Most recently, we worked with clients such as Hunter Bay, a Montana-based coffee roaster, and Cherry Hills Sushi Co. Initially both were looking for locations in Denver's urban neighborhoods, but ended up outside the city's core. Both companies found a prominent location in Olde Town Arvada at a reasonable lease rate and a demographic that was eager for their business. But, it's important to note, not all suburbs are created equal.

The trend of people, especially young families, moving from urban areas into the suburbs is nothing new. It is a trend that has persisted since the 1950s in the U.S. What is changing is what these young families and suburban migrants are looking for or, more importantly, what they are looking to bring with them from their cute little bungalows and Denver squares in Wash Park, City Park and the Highlands neighborhoods.

The traditional aspects of the suburbs that still attract people from

Please see 'Livaditis' Page 24

Retail Trends

New shopping habits force retailers to evolve

> While malls across the country are struggling to stay open, RH saw an opportunity to enter new markets and brand its stores as destinations. By creating a unique space, the company encourages buyers to step beyond the screen and into its storefront.

Denver is a hot city for millennials on the move. According to data collected by the U.S. Bureau of Statistics, Denver is one of the fastest-growing cities in America. The Mile High City is consistently listed as one of the top destinations for young professionals, due in large part to the city's healthy and growing economy.

Tom Rockstad

Account manager, Rand Construction Corp., Denver*

Millennials, aged 18 to 34 years, account for roughly 35 percent of Denver's population and will have a large influence on the future of retail in Denver, just as they are driving changes in the national retail market. Millennials are the largest cohort in U.S. history. In 2015, there were roughly 92 million people between the age of 18 and 36, compared to 61 million Generation Xers, aged 36-50, and 72 million baby boomers, aged 51 to 70. As they age, millennials will have an immense impact on the U.S. retail market and economy as a whole; by 2020, millennials will make up the majority of the American workforce.

As young professionals flow into Denver, the city's retail market is expanding in all directions. Employment in Denver is up 3.2 percent over the last year, and total retail sales are up 1.3 percent from February 2015 to February 2016. The new light rail, completed in April, has expanded Denver's retail boundaries, transforming once inaccessible locations into land ripe for development. The Retail Attraction Program, developed by the city's Office of Economic Development, is pushing to attract first-in-market retailers.

On the downside, as demand continues to grow and supply is strained, rental rates in Denver have increased 35 percent since July 2013; some Denver businesses have seen their rent increase by as much as 300 percent since they opened their doors. This is forcing retailers in Denver to downsize or relocate their storefronts, moving from high-rent districts like Cherry Creek and Capitol Hill to lower-rent areas like Englewood, South Broadway and River North.

This year, retail construction grew 24.4 percent year-over-year nationwide, with most of the growth coming from renovation of existing storefronts. Retailers have been moving quickly to keep pace with new buyer expectations.

Nationwide, large storefronts like Macy's and Bed, Bath & Beyond are suffering because they are losing their appeal with shoppers, many of whom are millennials, who are less interested in "stuff" and more interested in experiences. This shift in what motivates shoppers, who would rather buy a plane ticket than a luxury handbag, poses a major challenge for brick-and-mortar businesses. The "social generation" is challenging retailers to adapt to their new buying habits, which are influenced, in large part, by their online presence.

Dramatic visual impact of a store's space is even more important in the age of social media, where many shoppers go to learn about retailers and brands. Brand loyalty is built predominantly by social means or word-of-mouth. Forty-four percent of millennials claim to communicate about a brand by text message, while 38 percent communicate by social media. Now, more than ever, it's beneficial to have a storefront that generates buzz – where customers walk in and pull out their phones to share a photo on Facebook.

Last year, Restoration Hardware premiered its flagship store at Cherry Creek Shopping Center in Denver, renovating the four-story, 58,000-square-foot space once occupied by Saks in the style of its new "mansion concept," a renovation effort the company is using across the country. This is an example of turning lemons into lemonade. While malls across the country are struggling to stay open, RH saw an opportunity to enter new markets and brand its stores as destinations. By creating a unique space, the company encourages buyers to step beyond the screen and into its storefront.

Even if the product you're selling stays the same, changing your presentation can be a big game-changer. Ralph Lauren experienced lackluster sales in recent years, due to the overall slump in department store sales. Last month, the luxury clothing store unveiled a redesigned flagship storefront in Beverly Hills, featuring the store's first interactive, touchscreen handbag salon. This innovative feature – along with a collection of high-end finishes and products – helps to establish the Rodeo Drive Ralph Lauren as a destination shopping experience. Pictures posted on RL's Instagram of the new store, with all the Hollywood glamour of a millionaire's mansion, have generated over 35,000 likes.

As Denver's popularity continues to grow, national and international retailers are taking notice. Japanese retailer Uniqlo – popular with millennials for its affordable, trendy clothes – opened its first Denver store at 16th Street Mall in October. The Denver store is Uniqlo's second U.S. store not on the East or West coast. The retailer has the name recognition and social-media savvy to attract millennial buyers to the 16th Street Mall, which has struggled in recent years as traditional department stores left downtown Denver.

Millennials are drawn to Denver for the growing job opportunities and beautiful scenery. As the city continues to grow and attract first-in-market retailers, Denver has the potential to become a top-shopping destination.▲

Retail Highlight

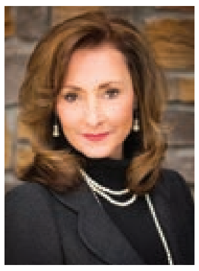
Park Meadows thrives by bucking national trends

Park Meadows

Park Meadows was designed to look and feel uniquely Colorado.

It's no secret that the American shopping mall is at a pivotal juncture. Shopping habits have changed and many malls have failed or been unable to keep up. Retail analysts this year predict that approximately one-third of American malls will close in the coming years.

Bucking the national trend is Park Meadows in Lone Tree, which turns 20 this year. Despite a national downturn in the popularity of the traditional shopping mall, Park Meadows has remained a stronghold of economic activity, growing its retailer base to 180 and attracting more than 25 million visitors each year.



Pamela J. Kelly, CSM/CMD
Senior general manager, Park Meadows, Lone Tree

In 1996, Park Meadows opened its doors one week ahead of schedule with 96 percent of its space leased. Since then, the mall has maintained a 95 percent or higher occupancy rate, which is several points higher than the national average. According to CoStar Group, a mall is considered healthy with a vacancy rate of 10 percent or less. Of the roughly 1,200 malls across the nation, only 80 percent fall within this category, down 16 percent from 2006.

So what's Park Meadows' secret? There are a number of factors – both conscious decisions mall ownership has made and benefits it's enjoyed as a byproduct of its location – that are contributing to the mall's continued success.

• **Create a retail resort.** From the beginning, Park Meadows was designed to offer a different kind of retail and community experience – one that looked and felt uniquely Colorado.

Dubbing itself a "retail resort," the mall pays tribute to the Rocky Mountain region with boulders, waterfalls, interior and exterior landscaping, timber ceilings and a 66-foot limestone and granite fireplace. This mountain lodge motif helped differentiate the center from its more generic mall counterparts and served to make it more of a destination for shoppers.

• **Offer exclusive retail experiences.** Offering 1.7 million square feet of retail and dining, Park Meadows

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Owner Spotlight

Insights into Arvada Marketplace's redevelopment

Erin Bremen
Executive vice president, asset management and due diligence, Pine Tree, Chicago

We acquired Arvada Marketplace, along with its neighboring shopping center Arvada Connection, in August 2015. The 301,331-square-foot shopping center is situated at the intersection of Wadsworth Boulevard, Interstate 70 and Interstate 76.

Our firm believed Arvada Marketplace was an excellent piece of real estate, but that it was completely underutilized, which presented an opportunity to revitalize the center in a way that brought in more foot traffic.

A 15-minute drive from downtown Denver, the Sam's Club-anchored Arvada Marketplace is one of west Denver's most convenient regional shopping centers servicing the communities of Arvada and Wheat Ridge. Located 1 mile from historic Olde Town Arvada, the marketplace rests in a retail corridor poised for significant growth, but has long suffered from dated aesthetics and an inability to keep its tenant mix in line with changing consumer habits in the age of "bricks vs. clicks" and a renewed focus on experiential retail.

Initially uninspired by the then-existing tenant mix and visual appearance of the shopping center, we came into the deal with a redevelopment plan that involved high-volume national restaurant chains that likely would draw further then just the Arvada submarket as well as a beautification plan to increase the center's long-term vitality. Originally developed in the mid-1980s, the shopping center suffered from poor sightlines from both directions along Wadsworth Boulevard, a dated and plain appearance, and a tenant mix that neglected the center's true regional status.

Before implementing any plans, the company took into account the multitude of infrastructure improvements and market changes planned for Arvada and the surrounding area. In addition to the Denver Regional Transportation District's plans to expand its electric commuter rail Gold Line to Arvada in 2016 – likely spurring future development in and around Olde Town Arvada – we sought to transform the merchandising mix to cater to the area's relatively young demographic and its anticipated growth over in the next decade. Through nearly $10 million in redevelopment and tenant repositioning, the center is well on its way to achieving that transformation.

In order to achieve these goals, the team had to get the city onboard. Working with the city of Arvada's planning, development and zoning teams, we agreed on a vision for the center's aesthetics, landscaping design, construction and signage that successfully reused as much of the existing structures as possible. As part of the company's sustainable goals, LED lights were planned for the parking lots.

Farnsworth Group

The center's largest building – resting along its western- and southern-most boundaries – will be broken into four buildings, which will open up three new sightlines into the center's interior and create pedestrian-friendly entertainment and outdoor eating spaces.

"Since the project's initial conceptualization and the resulting brainstorming sessions' 'vision book' visually laying out the teams' goals for Arvada Marketplace, we hoped to turn the shopping center into more of a destination for the community," said Pine Tree's Lee Pearson, executive vice president, design and construction. "The trick was to utilize existing buildings and structures while literally opening up the center to people not only to shop but to sit, browse and enjoy each other's company. It was a big change for the center, but with the city's help we were able to move those plans forward."

In what constituted the bulk of Arvada Marketplace's planned redevelopment, the center's largest building – resting along its west-

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Krieger

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lot of retail developers became overly aggressive and forgot the adage "retail follows rooftops" when they built large developments in areas that were sparsely populated.

Retail developers (and retailers) are a lot pickier about site selection now and are focused on infill areas that are already dense and are either stabilized or undergoing changes (e.g., gentrification). Sprouts Farmers Market is a good example. All of the store's new locations are in urban infill areas.

In addition, Denver is seeing a flood of retailers from outside of Colorado plant flags here. We believe they are attracted to our growing population and, in some cases, following loyal customers who have moved here from other states. For example, if you moved here from Texas (like many transplants), you've probably known about Torchy's Tacos for years. The daily lines out the door are a testament to its loyal customers, many of whom probably enjoyed Torchy's for years before it opened in Denver.

A lot of retail tenants took advantage of the Great Recession to negotiate concessions from which they still are benefiting. We believe that those remaining concessions will provide upside to retail landlords in the future as those leases burn off. In those situations, landlords will have the upper hand in lease negotiations and will be able to substantially increase rents, which is a situation that appears to be occurring now.

Further, new projects are commanding rents as high as $50 a square foot, which raises the bar for everyone. Just as many thought that multifamily rents couldn't get any higher in 2014 (and were wrong), we believe that there is a long runway for retail rent growth for the next three years. Investors who acquire retail properties with low rents will be in a good position to capitalize on the coming retail growth cycle.▲

Winsor

Continued from Page 8

interest rates still available.

Also, fueling some of the new developments are the high number of restaurants coming into our market. Most of these are fast-casual concepts such as Tokyo Joe's, MOD Pizza, Dickey's BBQ, Pie Five and Jersey Subs. These restaurants want highly visible, convenient locations with end caps and some with drive-through capability. This has resulted in the development of a number of smaller strip centers in areas such as Interquest Parkway and Interstate 25, Powers Boulevard and Dublin Boulevard, and Northgate Boulevard and Voyager Parkway. Most of these projects are on the north or northeast side of Colorado Springs.

We also are starting to see a few developments with more traditional design driven by grocers. Sprouts Farmers Market is opening two stores in newly developed centers at Powers Boulevard and Barnes Road, and at Northgate Boulevard and Voyager Parkway. Kroger is opening a new King Soopers Marketplace, double the size of its normal store, at Constitution Avenue and Marksheffel Road.

The future for Colorado Springs commercial real estate market looks to be very good. These developments comprise the largest amount of retail development in Colorado Springs for nearly the last decade and the next few years look to continue that trend. While there is much more to be said, I think, the best summary is to refer to chart A.▲

Henrichs

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the average market cap rate may find a ceiling that correlates roughly with a point of positive leverage assuming typical market debt terms available to the private capital investor.

• **Livin' the dream in Denver.** A best-in-class airport, interconnected multimodal mass transit, strong job growth, world-class recreational pursuits and 300-plus days of sunshine per year all contribute to Denver's popularity. The list of benefits to calling the Colorado Front Range home is having a huge impact with out-of-market investors and retail tenants alike taking note and planting their flag in Colorado. Limited new construction starts, a growing population and high tenant demand is driving tangible rent growth for properties along the Front Range. Savvy investors are seeking opportunities in well-located, underutilized and undermanaged properties that offer a path to value creation through driving net-operating-income growth.

Understanding the micro environment impacting the complex web of factors influencing commercial real estate investment in a given property sector and geographic location is critical for an investor/seller to ensure an optimal outcome when implementing a strategic disposition or recapitalization effort. An investment brokerage adviser must demonstrate real-time working knowledge of the most active and aggressive buyers in the market along with a deep understanding of the variable factors driving investment decisions.▲

Salzman

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time to present loan requests to lenders.

Since we've entered the fourth quarter, life companies have shifted their focus to 2017, and they're eager to fill fresh allocations for commercial real estate loans. Their allocations next year will be the same, if not greater, and they will continue to offer the best interest rates. Since the CMBS market has come back strong, life companies have more competition for the time being, but there's still uncertainty in the securitized market as Dodd-Frank regulations pertaining to risk retention and greater due diligence become effective this Christmas Eve.

While our outlook remains positive, based on our experience in 2016, we're encouraging investors with 2017 financing needs to seek loans during the first half of the year while competition among life companies will be fierce. Additionally, we're encouraging borrowers to explore forward commitments. In many cases, in an effort to win opportunities early, life companies already are considering 2017 loan requests, offering forward commitments up to 12 months early, which allow borrowers to lock rates now for future funding.▲

Bremen

Continued from Page 22

ern- and southern-most boundaries – was slated to be broken into four individual buildings. This would not only open up three new sightlines into the center's interior when viewed from Wadsworth Boulevard, but also would have the secondary effect of creating pedestrian-friendly entertainment and outdoor eating spaces in these newly created openings. That construction broke ground in September.

"As part of our vision for the center, we needed to open up lines of sight from the street, effectively partitioning specific buildings and effectuating the relocation of many existing tenants," said Tim Roe, executive vice president, senior director of leasing at Pine Tree. "Communicating the reason for each tenant's relocation, finding them comparable space within the center, and keeping them open and happily conducting business as normal during the transition were our top priorities."

Relocating five tenants from the soon-to-be partitioned western strip of retail now referred to as the West Shops at Arvada Marketplace, we negotiated with the national and regional restaurant users we originally envisioned occupying the space. The open spaces next to the restaurants will serve some tenants as out-

Farnsworth Group

The redevelopment will include various planned outdoor seating areas, sidewalks, new wayfinding signage, newly updated pylon signage, new canopies and efficient LED lighting.

door eating areas.

Arvada Marketplace soon will have various planned outdoor seating areas, sidewalks, new wayfinding signage, newly updated pylon signage, new canopies and efficient LED lighting. We are hopeful our redevelopment plans will serve to revive and renew the shopping center when finished next year.

At the time of the article's writing, we are in negotiations with two major national retailers to repurpose the center's existing Sports Authority box for alternative use. And in what is a commitment to the Arvada submarket and the center's planned revitalization, Sam's Club underwent a major renovation this summer.

The West Shops at Arvada are expected to open late spring 2017. ▲

Livaditis

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the city's core include larger, but more affordable homes, backyards, quieter streets, less congestion and better schools. But now there are aspects of urban living these new residents are looking to bring with them.

We are seeing competition among suburban cities to offer a downtown area that provides a walkable gathering place for residence to congregate. A place with restaurants, bars, breweries, coffee shops, yoga studios and hair salons that residents can call their own. What is old will be new again – this notion of a town square is as old as towns themselves, but there is a new importance placed on it. Potential residents are making it an important part of their decision on where to live and cities are responding by trying to create a slice of urban life in suburbia.

Over the last decade, outdated large enclosed shopping malls have become opportunities for cities to create an urban feel where no real town center previously existed. Englewood took the opportunity to transform the Cinderella City Mall into what is now the Englewood City Center. Lakewood's once-thriving Villa Italia mall is now Lakewood's Belmar development, which serves as the city's gathering place.

Places like Olde Town Arvada, Downtown Littleton, Englewood, Louisville and Longmont have the advantage of having a historic downtowns that have charming older buildings, wide sidewalks and a dense concentrations of historic buildings that already possess the physical characteristics of an urban setting.

Other cities without the advantage of a historic downtown have developed new large retail and mixed-use developments to create a downtown feel where it did not exist before. Examples include Orchard Town Center in Westminster, Southlands in southeast Aurora and Streets of SouthGlenn in Centennial.

While a few suburban cities have both a historic downtown they are redeveloping as well as a larger scale, open-air mall to create gathering spots for their community. Longmont is a great example. The city is working to revitalize its historic downtown and redevelop its Village at the Peaks mall with urban characteristics.

The future of retail is in the ability to create experiences and gathering places. There are ample opportunities for retailers and restaurants to expand their concepts into the suburbs. Cities are competing to attract the next generation of residents. The future of a suburb's success, to some degree, will depend on how each city adapts to embrace urban characteristics by creating gathering places for the community in order to attract this new generation of residents.▲

Kelly

Continued from Page 21

strikes the right balance between accessibility and exclusivity with the introduction of retailers such as Nordstrom, Crate and Barrel, Restoration Hardware, PF Chang's and Dillard's to the area.

Today, 10 percent of its tenants are exclusive to the mall, including Microsoft, Merrell and Tesla, and the mall has plans to add nearly 48,000 sf of new and newly remodeled retail spaces by the end of 2016. The retail resort attracts and retains top retailers by creating experiences that motivate people to leave the house.

The mall is divided into four distinct interior zones that highlight lifestyle, fashion and design, entertainment and family. Each area offers something different from a retail and architectural experience. Adding to the local feel, the mall features more than $1 million in commissioned art by Colorado artists and photographers.

• **Inspire growth.** Park Meadows has always benefitted from its location at the intersection of two major highways, Interstate 25 and C-470. However, when it first opened in Lone Tree there was limited development in the area.

Ten years later, the Regional Transportation District completed the southeast corridor light-rail expansion that connected the mall to the rest of metro Denver. As a result, Park Meadows and the surrounding area became an even more important hub of commercial and community activity, strengthening its place in the market. Since Park Meadows opened its doors, Douglas County has become the nation's fastest-growing county.

After the light-rail completion, the area has seen significant growth in commercial and residential developments including multifamily housing, hotels, restaurants and grocery stores. The area is now home to major corporate campuses for companies such as Charles Schwab and Arrow Electronics.

• **Embrace online retailers.** With more consumers moving to online shopping, the mall has adapted and evolved instead of fighting the online trend. The mall embraced several retailers that were previously online only, allowing shoppers to experience these retailers in a new, more personal way.

Stores such as Soft Surroundings, Athleta, Sundance and Nespresso, for example, were predominately catalog or online. They now have thriving locations within the mall. By the end of 2016, Park Meadows will house online retail giant Amazon's first kiosk in Colorado.

• **Stay nimble.** Park Meadows continues to stay relevant by changing the way it offers the retail experience. Thinking beyond the department store, Park Meadows debuted the Vistas in 2008 to cater to changing tastes.

Designed as a mountain village, the 154,000-sf outdoor expansion gave people more reasons to flock to Park Meadows with high-end dining options and boutique shopping. The Vistas offers a unique shopping and dining experiences because it is not a collection of stores placed within the landscape, but rather a landscape in which the stores are placed.

As the retail industry continues to evolve, Park Meadows and other malls will inevitably face challenges. However, if the first 20 years are any indication, the retail resort is well positioned for success.▲

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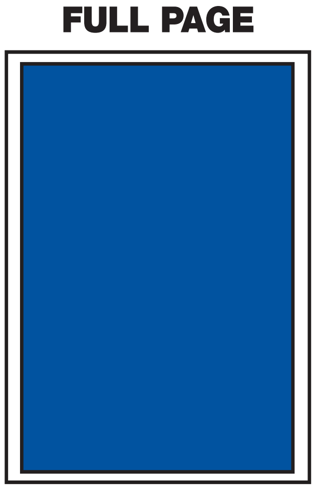

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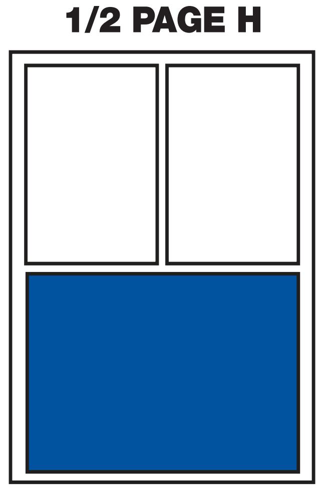

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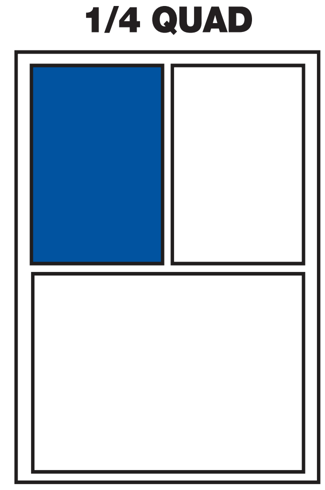

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