A Colorado Real Estate Journal Publication

February 2017

RETAIL PROPERTIES Quarterly

The beauty industry embraces a dominant role in the retail world

Sola Salon Studios

Salon suites, such as Sola Salon Studios, are becoming a popular tenant for midsized retail spaces. Sola Salon typically leases 5,000-square-foot spaces, demises the spaces into 30 private suites and rents the suites to salon practitioners.

by Michelle Z. Askeland

Beauty retailers – from traditional spas to highly specialized niches – are taking on a more dominant role in our retail landscape as landlords look for tenants that offer experiential retail and insulation from e-commerce. And these "beauty" retailers are responding and blossoming under this new demand.

"You can't go get your hair done, your nails done or get a great workout on Amazon.com, and that's why these types of tenants are helping stabilize projects that are otherwise hurting because national retail has declined so significantly," said Laura Hansen, a vice president at Legend Partners.

The beauty industry's growth is manifesting itself in several significant ways – emphasizing specialization and unique atmospheres as patrons seek opportunities to socialize and congregate in these settings, and expanding real estate needs as practitioners opt for more independence in their locations, availability and work schedule.

While some forms of beauty retail have always been a staple of shopping centers – think nail salons – many are adapting. For example, the nail salon of choice used to be driven by location and price: Where can I get this service done most efficiently for a reasonable price? Today, many consumers are in search of a salon that offers the service in a cool environment in addition to a convenient location and price, said John Livaditis, president of Axio Commercial Real Estate.

In response to this shifting consumer need, Colorado is witnessing different beauty retailers specializing, individualizing or diversifying. For example, specialized services, such as blowout bars, waxing salons and men's haircutting salons, are gaining popularity in shopping centers and malls in urban settings. As the number of specialized retailers increases, the demand for ideal locations increases as well. Most of these retailers seek smaller floor plans, between 1,000 and 2,000 square feet.

Meanwhile, the uniqueness and creativity of a salon's environment is

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INSIDE

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Letter from the Editor

Denver outspends many

The forecasts within these pages point to a promising 2017 for retail real estate with a healthy variety of development, retail expansions and competition. Colorado is expected to continue to surpass many of the national retail expectations, as it has done for several years coming out of the Great Recession. While Denver and its surrounding submarkets will continue to represent strong opportunities, other Colorado markets, notably Colorado Springs and the city of Black Hawk, are focusing on development to usher in even more retailers and investors.

However, even with strong market fundamentals, not all retailers are immune to shifting retail trends. And while many retailers reported a solid holiday bump in sales, several large retailers reassessed and declared bankruptcy or announced store closures to combat dwindling sales following the holiday season. These soon-to-be vacant spaces will give owners, managers and investors the incentive to reassess retail needs in order to find tenants that meet shifting consumer expectations.

Going hand-in-hand with sales volumes, consumer spending in Denver is up across all demographics. JPMorgan Chase & Co.'s Local Consumer Commerce Index measures monthly year-over-year growth of debit and credit card spending from more than 54 million Chase customers across 15 cities. In September, Denver residents spent 6.9 percent more than they did a year ago. Nationally, consumers spent 1.5 percent less than the previous September, the report stated, which represents the third-largest decline in year-over-year growth since the bank began tracking monthly spending growth in 2013.

Within the Denver customer sample, all ages were spending more, but those under 25 led the spending increase. Restaurant spending in Denver enjoyed a 5 percent increase from the previous year, while spending on fuel around the city decreased 7.9 percent.

The report didn't examine how much of that spending was done with online retailers. Within this publication, you'll read several articles about how retailers are resisting, embracing or succumbing to online sales. One of the most common ways to combat online retailers is to shift away from selling goods to selling services. Shopping center owners, brokers and managers are seeking tenants who offer an experience over, or in addition to, products. This change was visible for the past few decades, but it enjoyed a fairly dramatic escalation following the recession, I learned while working on this issue's cover story.

Many of these topics will be further explored during the Colorado Real Estate Journal's 2017 Retail Summit and Expo Feb. 16. We've moved conference locations to the Hyatt Regency Aurora-Denver Conference Center. Visit our website, www.crej.com, to see the agenda and purchase tickets for this afternoon event. I hope to see you there.

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NewMark Merrill MOUNTAIN STATES

ACTIVE ACQUISITION & DEVELOPMENT

NewMark Merrill is an opportunistic buyer specializing in neighborhood and community shopping centers and focused on properties with redevelopment and retenanting potential.

The updated tenant mix at Broomfield Plaza on 120th & Sheridan is well underway with Jax Outdoor Goods and Chuze Fitness recently added. More announcements coming soon!

THIRD-PARTY MANAGEMENT

NewMark Merrill Companies is a full service management and leasing company with over 80 properties totaling more than 10M sf and a value of more than $1B in 3 states. We have a selective approach in accepting properties to manage allowing us to devote our complete team of retail professionals to ensuring the implementation and achievement of very specific financial goals to maximize both the short and long term cash flow and value of the property.

COMMUNITY BUILDING

NewMark Merrill understands that the enduring success of a development is based on its community appeal and brand. In addition to its exceptional operational, leasing and development platform, NewMark Merrill focuses on creating experiences and third places that bring together municipalities, merchants and community members in creating lasting neighborhood landmarks.

Fort Collins Marketplace at College Ave. & Horsetooth will soon welcome Starbucks to the center which already includes Albertsons & Chick-fil-A.

With an exceptional response, Whole Foods Market Longmont opened at Village at the Peaks in December.

Boulder County's Newest Regional Destination

Whole Foods Market Longmont

Whole Foods Market Longmont is now open at Village at the Peaks. Not only a tremendous addition to the center, Whole Foods offers the Greater Longmont Area a 40,000 SF store focused on high-quality products and knowledgeable, passionate team members.

la Madeleine COUNTRY FRENCH CAFÉ

La Madeleine - Colorado's First

Coming to Village at the Peaks Spring 2017, Colorado's first-to-market La Madeleine. La Madeleine offers crave-worthy French fare with a focus on fresh ingredients from more than 70 bakery/café locations throughout the country.

COLORADO PROPERTIES

Arvada Marketplace
I-70 & Wadsworth Blvd.
Arvada, CO
164,611 Sq. Feet

Citadel Crossing
Academy Blvd. & Platt Rd.
Colorado Springs, CO
470,000 Sq. Feet

Village at the Peaks
Ken Pratt & Hover St.
Longmont, CO
555,602 Sq. Feet

Broomfield Plaza
120th Ave. & Sheridan Blvd.
Broomfield, CO
105,064 Sq. Feet

Fort Collins Marketplace
College Ave. & Horsetooth
Fort Collins, CO
79,071 Sq. Feet

Fox Creek Marketplace
17th Ave. & Pace St.
Longmont, CO
80,454 Sq. Feet

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Market Update

Denver's tale of two different retail markets

In the seven years since the downturn in 2009, Denver's retail market has tightened considerably from the high of nearly 10 percent vacant space. Despite an improving national economy, corporate closings have continued – notably Safeway in 2015 and Sports Authority in 2016 – adding to vacant space in the Denver market. As a result, the third quarter finished with absorption of negative 128,000 square feet, and year-to-date absorption was stable at 95,000 sf. However, the Denver retail market ended the third quarter with a healthy vacancy rate of 6.3 percent.

Typically, after the Christmas retail season, struggling retailers make hard decisions, and 2017 is no different. The Limited filed for bankruptcy and closed all locations nationally. Kmart and Sears announced upcoming closures of underperforming sites, while department stores like Macy's and Kohl's are shuttering underachieving performers following disappointing holiday sales. While the area is experiencing only moderate exposure from these closures, Denver's bifurcated retail market offers its own opportunities and challenges.

In many ways, Denver retail is a tale of two markets. Because of limited new supply, there is high demand for second-generation space in well-located, Class A retail centers, which are full and thriving. Many national retailers cannot find the prime space they require to expand in or enter the Denver market, so they have no option other than waiting for the completion

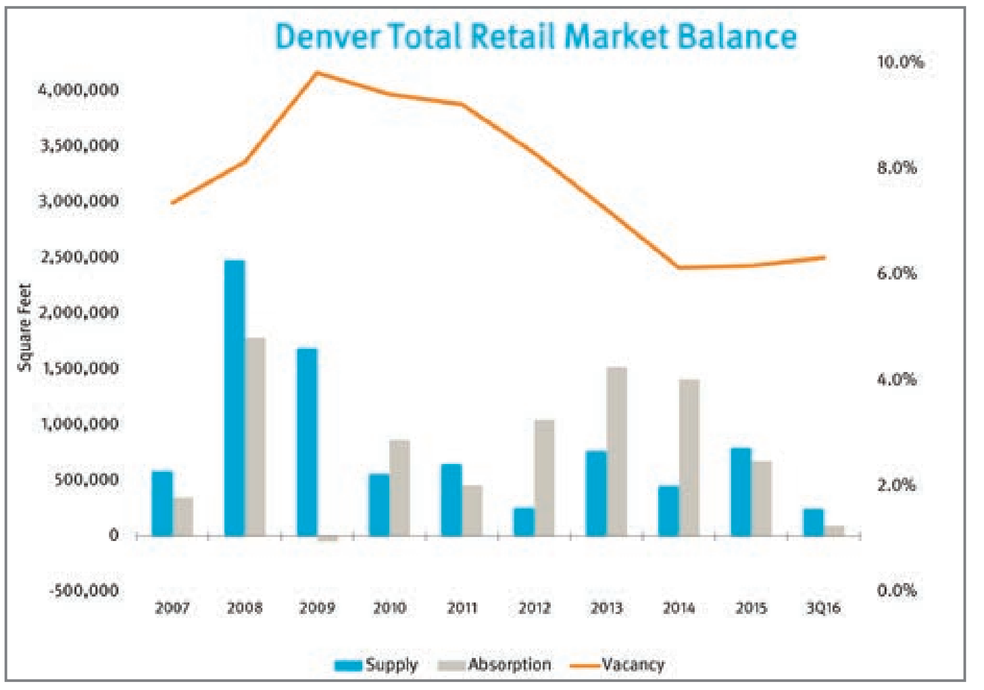
Carolyn Martinez
Associate director, Newmark Grubb Knight Frank, Denver

of new product. Despite competition for Class A space, Denver continues to attract international retailers (IKEA, Uniqlo and H&M) as well as national ones (Whole Foods' flagship store, Trader Joe's, Cabela's and Alamo Drafthouse Cinema).

Conversely, aging Class B and C centers with poor demographics, often with vacant anchor space, continue to be challenged. As the retail shopping landscape changes, unproductive locations and destinations that have lost its vibrancy will be transformed.

What is changing the face of today's retail? Startups are augmenting traditional retailers. What distinguishes a startup enterprise? Generally, these emerging companies find new ways to reduce the needed capital investment, allowing for a quicker market entry. Examples include food halls and markets, booth rentals and pop ups.

In Denver, this concept has taken off with several new food emporiums – The Source, Avanti and Denver Central Market are all making waves with collective spaces offering diverse options and social aspects. This model offers a testing ground for new concepts and menu items, and it appeals greatly to the millennial set, which craves social experiences as well as innovative food options.



NGKF Research

E-commerce continues to push retail concepts to evolve. Despite concerns that e-commerce would eliminate brick-and-mortar retailers, today's trending retail is evolving from an online-only presence to actual establishments – essentially "click to brick," and include expansion of lines, not just hard and soft goods. Examples include Fabletics, Omaha Steaks, Lumen Optical and Amazon, which perhaps is the biggest click-to-brick success story thus far with a new concept test store to open in Seattle this year. The newest evolution is grocery offerings – Blue Apron, Hello Fresh and GroceryBabu (delivered by Amazon) – that deliver fresh ingredients and recipes to your door. This concept is gaining momentum in major markets like Denver.

Conversely, Walmart's expanded online presence is an example of completing the cycle "brick to click." The megastore is working hard to offer more value to customers, providing in-store pick up and many items online only. The company also is pushing its presence in select urban markets with designated delivery lockers designed expressly

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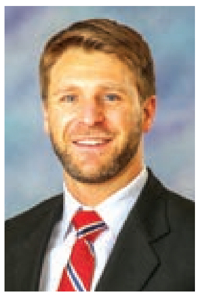
Market Update

Housing, jobs foster more retail needs in Springs

James E. Spittler, Jr., SIOR
Principal, NAI Highland LLC, Colorado Springs



Logan C. Harrison
Commercial broker, NAI Highland LLC, Colorado Springs

The momentum continues! Colorado Springs' retail has been steadily strengthening since the most recent 2012 bottom with average rents increasing from $12.34 per square foot triple net to $14.32 at end-of-year 2016. The vacancy rate dropped from 12.3 percent to 9.4 percent in the same period with anchored centers at 6.4 percent and unanchored centers at 14 percent, according to the Turner Commercial Research commercial availability fourth-quarter report.

New retail development is naturally following the new rooftops with the bulk of the growth east and north-northeast. Our first King Soopers Marketplace is nearly complete at Marksheffel Road and Constitution Avenue on the east edge of town. The Powers Boulevard retail corridor continues to be strong with the new Sprouts-anchored center at the southwest corner of Barnes Road and Powers and a multiuse project set to go on the northwest corner of Plaza at Barnes-West. Parts of the central and South Academy Boulevard corridors continue to struggle as several owners look at repurposing much of that inventory, while others are having success in re-tenanting and refurbishing centers.

Significant new retail and hospitality/entertainment development is taking place in the Flying Horse/Northgate/Interquest area following the quality residential development in that area. The previously unfinished 311-room Renaissance Hotel in Interquest opened Dec. 26 as Great Wolf Lodge, a family oriented water park resort, with the water park access available only to resort guests. It will be a great traffic generator for nearby retail businesses as it draws in regional tourists from Colorado and surrounding states. A competing 400-room Colorado Grand Hotel with an open-to-the-public water park is planned in Polaris Point, formerly Copper Ridge, 2 miles to the north near Bass Pro Shop. Nearby is the 68,000-sf, two-story Overdrive Raceway, which is a first in the U.S. electric go-cart raceway. A Sprouts/Ace Hardware-anchored center at the southeast corner of Northgate and Voyager Parkway is filling its in-line space.

Fewer centers, in size and in numbers, traded in 2016 as compared to 2015 and 2014. The more significant ones were Market Center at 180,000 sf, Fountain Valley Shopping Center at 71,000 sf and the City Market Center in Woodland Park. Numerous smaller in-line centers traded, but the overall square footage of retail buildings sold was down by 70 percent and the number of centers sold was down by 44 percent, according to the TCR report.

Craft Breweries, brewpubs, distilleries and ciderhouses are popping up in all kinds of locations and, because adult beverage connoisseurs are a discriminating group, they will find the obscure location if the quality is great. Recent additions to the scene are Cogstone Brewery, Lost Friend Brewing Co., Cerberus Brewing, Goat Patch Brewing, Iron Bird, Local Relic, Lee Spirits in Brooklyn's on Boulder, Axe and the Oak, Cockpit Craft Distillery and Colorado Common.

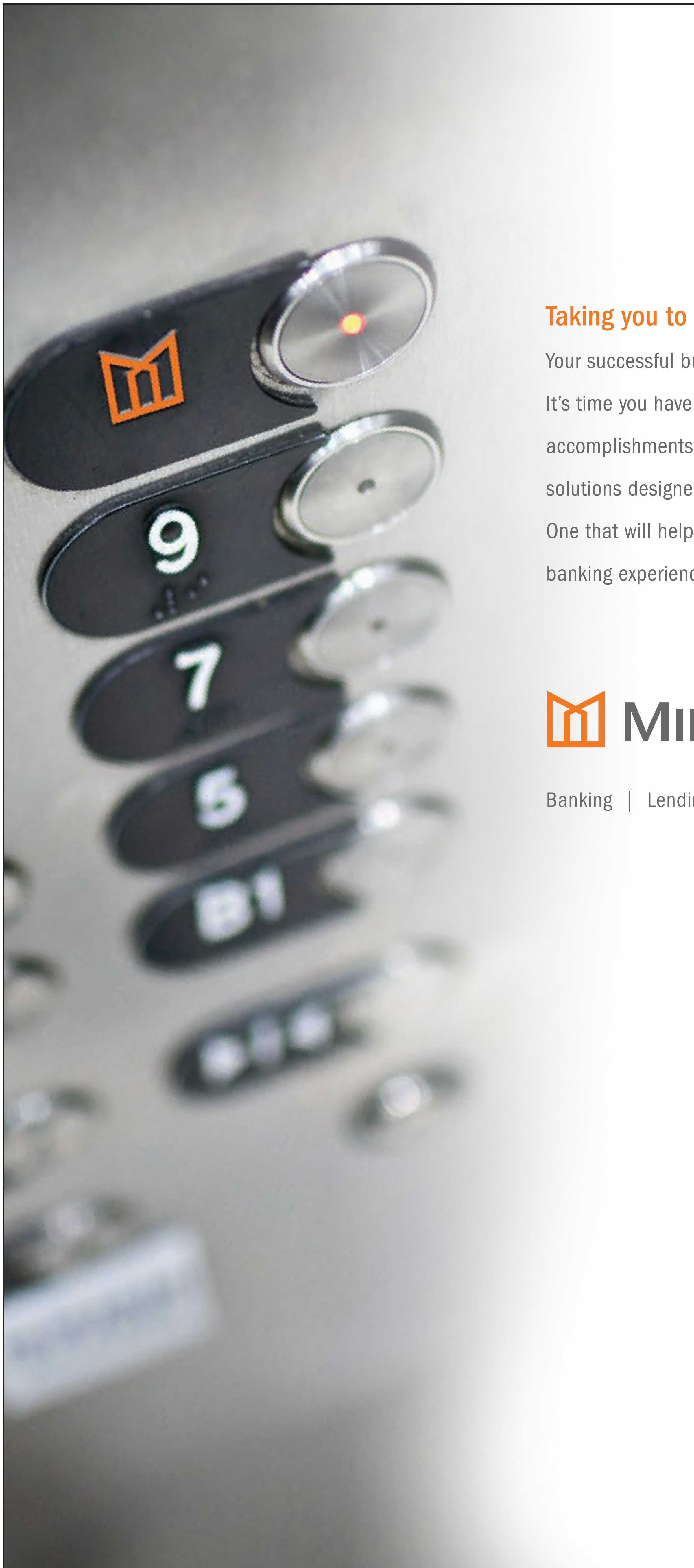
With as much confidence as the craft beverage scene, new restaurant concepts are finding their proper places in the market and filling voids along the way. Restaurants such as Till Kitchen, Prime 25, Odyssey Gastropub, 503 West, Over Easy and Bingo Burger, to name a few, are breaking the mold on the old and standard. They're offering locally sourced ingredients when possible and bringing the "goods" to those who've been starving for this kind of quality for too long.

Key to continued growth is generation of additional jobs. The health care sector has nearly $1 billion in construction scheduled in the next several years with three new hospitals, two major hospital renovations and various other medical-support facilities. In the short term we get construction jobs, and in the long term we get the permanent health care jobs.

Another sector poised for significant growth is cybersecurity. The state Legislature has approved $8 million to create the National Cybersecurity Intelligence Center in the former TRW plant, adding 100 high-paying jobs with potentially thousands of additional jobs from businesses wanting to locate in the vicinity. In addition, the Air Force Academy has spun up its Cyberworx project bringing cadets and cyber professionals together on practical research projects. The Air Force Space Command is building an ever-more robust cyber program to combat cyber aggression on our satellites and other military assets. Root9B is ranked the world's top cybersecurity firm by Cybersecurity Ventures and announced relocation of its headquarters to Colorado along with the current operations center. The ongoing threat coupled with the recent publicity on our cyber vulnerabilities portends significant growth in this relatively new sector.

The housing market has been torrid with a record 15,318 single-family home sales in 2016. The previous record was in 2015, making for two back-to-back records and indicating an economy that is on its way to full recovery. There were 3,237 single-family home permits pulled for 2016, which is the most since the 2008 Great Recession, according to the Pikes Peak Regional Building Department. Multifamily permits totaled 1,424, which is on top of very strong multifamily permits in 2014 and 2015. In total, there were permits pulled for $2,053,541,498 in new construction in the market.

We see the overall market continuing to strength into 2017.▲



Investment Market

Denver ends 2016 strong, 2017 looks promising

Jason Schmidt
Executive vice president, JLL, Denver

Even with the changing landscape of retail, 2016 was another strong year for the retail industry. Wages grew, the unemployment rate fell and the holiday season saw spending growth. Amidst the struggles of department stores and a growing e-commerce environment, Denver's retail real estate industry has never been stronger.

Year-end vacancy saw a slight decrease from the third quarter, moving from 4.8 to 4.6 percent. In fact, vacancy stayed below 5 percent in 2016, accentuating a downward trend that started in 2009. Net absorption totaled over 2 million square feet and rents ended the year at $16.23, nearly a 4 percent increase from last year.

We are now 91 months into the recovery, a month away from the third-longest cycle since World War II. Things have been going so well many are asking if 2017 is the year that the cycle will turn downward. What we will find, especially in Denver, is there remains room to run.

Economically, Denver is solid as evidenced by the 2.9 percent unemployment rate, as compared to a national rate of 4.6 percent. More impressive is Denver's job growth at 3.7 percent; two times the national rate of 1.8 percent. A key factor in Denver's growth is the wide band of industries including financial services, health care, technology and others. This diversified growth renders Denver's historical reputation as a boom-and-bust economy irrelevant.

Accompanying our past reputation is a tendency to overbuild. Throughout this cycle, retail construction has lagged its fundamentals. Over the last 30 years, Denver has delivered an average of over 3.5 million sf of retail space on an annual basis. Since 2010 this number has barely eclipsed 1 million sf. Although construction has picked up considerably in 2016, we will continue to operate well below the 30-year average. Current levels are even below figures from the late 1980s, the bleakest period in the last 30 years. In 2016, a total of 1.6 million sf of retail space was built in Denver and at the end of the year there was an equal amount under construction. Annual retail deliveries in this range will become the new norm even though fundamentals will remain strong.

The controls on construction will be heavily impacted by the lending environment. Having been active for several years, banks are overweighed in their commercial loan portfolios, especially in construction. This restraint will have the greatest effect on the small-format, local developers, who historically have had a major impact on Denver's growth. The rising cost of construction and onerous entitlement policies also will have a controlling effect on new inventory.

Many are concerned with an increase in retail inventory because of the global impact of e-commerce on brick-and-mortar retail. It is important to note that 2016 was a year of growth for online retailers; however, penetration of traditional retail is still only about 10 percent, according to JLL research. It is true that last year was rough for department stores and some appeal retailers. Locally, e-commerce contributed to the demise of Sports Authority, and Sears/Kmart are closing stores in Denver.

Retail continues to evolve, as evidenced by the redevelopment at several malls, including in Fort Collins and Longmont. In 2017 and beyond, closed department stores will create opportunity for owners to reinvigorate their properties, turning now unproductive anchors over to new, attractive and mixed-use environments. This shift will better position these assets and their remaining tenants in the "experiential retail" space at a time when even online retailers are looking for a physical location.

One factor that would have a waning impact on this cycle would be an elongated period of raising interest rates; this provides some reason for concern. Treasuries are up 50 basis points from early November; this combined with the widening commercial mortgage-backed securities and bank spreads have increased the overall interest rates. It is important to keep this in perspective when looking forward in 2017. Lending rates are still well under 5 percent, which historically is very low. Therefore, the spread between interest rates and cap rates remains favorable. Moreover, currently the 10-year Treasury rate is 2.4 percent. In our current 91-month cycle, Treasuries have been at 3 percent on several occasions, and since mid-December rates have been declining.

At the same time, capital still is interested in real estate, especially domestically. The yields provided by real estate remain favorable to alternative investments and the U.S. has become a safe bet for foreign capital. Denver experienced a heightened interest from institutional and coastal capital in the last cycle and, for the first time, has had consist attention from capital around the world. This is a trend that shows no signs of changing. In fact, capital in Denver remains frustrated in the inability to find enough quality retail product to buy; desire to place capital is not in question.

The Denver economy has proven its resilience during this long recovery period. It is this engine that has fueled an extended period of positive retail fundamentals, which is being held in check with limited construction. This positive environment coupled with capital's demand for yield will once again put Denver in an elevated position that will continue throughout 2017.▲

ESSEX FINANCIAL GROUP

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	150-210 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	• Life Insurance companies are eager to meet or exceed their 2016 CRE allocations, and plan to be active in the first half of 2017 • 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	210-275 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

Mesa Shores
Mesa, AZ
$16,000,000 Permanent Loan
Life Insurance Company

North Bear Crossing
Lakewood, CO
$4,900,000 Permanent Loan
Life Insurance Company

Plaza on the Green
Denver, CO
$16,000,000 Permanent Loan
Life Insurance Company

Jeff Riggs	Peter Keepper	Cooper Williams	Mike Jeffries	Ed Boxer	Michael Salzman	Michael Lapporte	Alex Riggs
President / Principal	Managing Principal	Principal	Principal	Principal	VP of Loan Production	VP of Loan Production	VP of Loan Production
(303) 843-0440	(303) 843-6002	(303) 843-4581	(303) 843-9220	(303) 843-9256	(303) 843-6015	(303) 843-4025	(303) 843-4027
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Market Trends

Investors adjust to new normal in internet age

As we all have witnessed, especially of late, the retail real estate market continues to evolve through the impact of the internet. Major retailers with decades of success and previously known as some of the most successful companies are now being crushed by retailers that had the foresight to create or sustain their business using the internet. What was once an ideal investment in a center with a clothing store or electronics retailer as the anchor is now proving to be a risky decision. As a real estate investor, you have to ask, what is a national credit? Is there a use that does not carry with it significant financial risk?

Joel A. Meranski
Asset manager, Western Centers Inc., Denver

The face of retail is forever changed, big-box retailers, department stores and specialty mall retailers are shutting doors, closing locations or going out of business entirely. Retailers that are surviving this new norm are those that are focusing on the opportunities created through the internet. Do they really need brick-and-mortar space? The traditional tenant mix at a retail property now has a tremendously different look, as you see more service tenants filling the spaces once filled by goods providers.

Successful retail real estate investors are identifying needs-based centers to invest in and internet-resistant tenants to place in their existing properties. These tenants include businesses such as dry cleaners, dentists, veterinarians and, most frequently, restaurants. Historically, retail properties may have contained restaurants that accounted for 10 percent of the shopping center. Now it is common to see a retail property with 40 percent or more of the tenants selling food or a 100 percent food-based retail specialty strip. This shift in the market has created a significant financial burden on landlords and tenants, given the fact that restaurants continue to be one of the most expensive build-outs in retail real estate.

Foothill Green Shopping Center in Littleton features many internet-resistant tenants, including two restaurants, a convenience store with gas station, hair salon, liquor store, pet-grooming business, taekwondo studio, insurance company and gaming center, among other businesses.

So, what does the retail investor do now? The decisions by landlords to lease to a certain tenant are no longer based on just the current creditworthiness of the specific tenant, but now require a landlord to strongly consider the sustainability and viability of the tenant's business when considering the internet. While consumers continue to desire a convenient, easy shopping experience, entrepreneurs will explore ways to fulfill that demand. The one thing we know is that no business is immune to ever-changing technology, as evidenced by the recent fulfillment of a customer's order at 7-Eleven with a drone delivery. Remember the iPhone is only 10 years old, technology is driving commerce more today than ever before and will continue to do so with the evolution of purchasing power at the consumers' fingertips. The consumer is in the bull's-eye of this change, first the malls are impacted, next the big-box stores and then?

Some businesses, such as automotive repairs, community-centric retailers and food service, appear to be the least impacted at this point. At least, for now.▲

Retail Trends

Franchises adapt to labor, land cost challenges

Owning a business is a dream for countless individuals. The franchising system offers entrepreneurs the ability to be in business for themselves – but not by themselves – with a proven structure to launch, operate and grow a business. With the changes in demographics and retail space availability, commercial real estate professionals and the franchise community now, more than ever, have opportunities to align and create success for all involved.

As a franchise broker and commercial loan broker, I observe the impact the availability and cost of retail real estate and regulatory demands affecting franchising. Franchisors seek ways to increase profit margins, and franchise buyers seek money-saving strategies. Statistics prove that franchising provides a significant number of jobs in our country with retail commercial space as a significant part of the equation.

Franchise businesses have grown at rates that exceeded the economywide growth of industries over the last six years. The International Franchise Association states that there are 732,842 franchise establishments providing more than 7.6 million jobs, generating $674 billion in economic output and 2.5 percent of the gross domestic product for the U.S. economy.

Franchise businesses provided more jobs in 2016 than wholesale trade, transportation and warehousing, nondurable goods manufacturing and information. Indirectly, franchise businesses support more than 13.2 million jobs, $1.6 trillion in economic output for the U.S. economy and 5.8 percent of the GDP.

Cheryl Chiasson
President, Commercial Funding Source and Franchise Connexion, Greenwood Village

Quick-service restaurants are the largest category, representing 25 percent of all franchise establishments, 45.5 percent of all franchise jobs and 30.5 percent of GDP. Franchisees own and operate 88 percent of all business format franchise establishments and franchisors own and operate 12 percent.

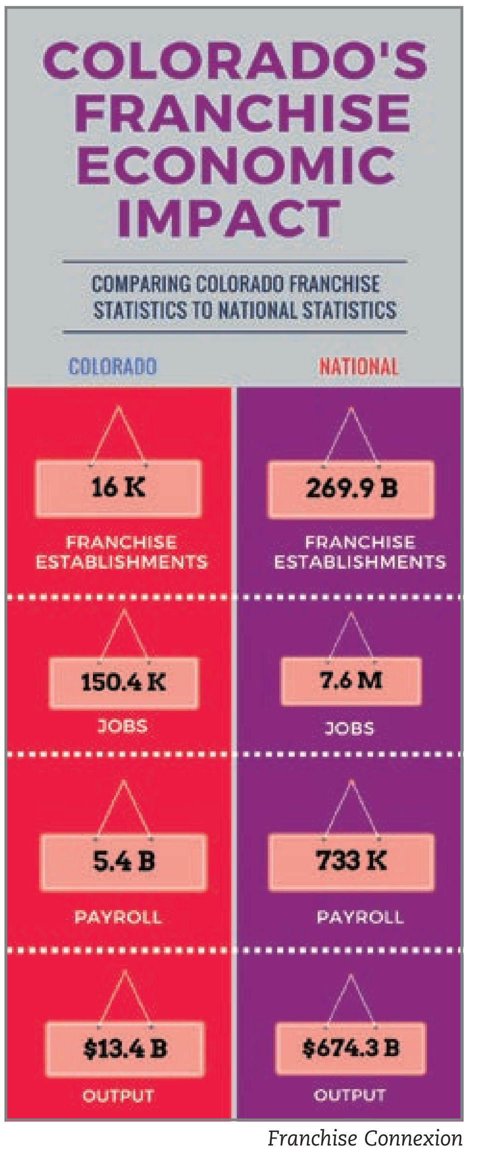
The biggest challenges that I've seen for franchises are the recent increase in labor costs, availability and cost of retail space, and regulatory threats such as the Joint Employer Act and the Affordable Care Act.

Colorado's Amendment 70 raised the minimum wage in Colorado to $9.30 per hour (increasing to $12 per hour in 2020). Several business groups, including the Colorado Restaurant Association, fought against the amendment. Employers in the restaurant and retail industries, with historically low profit margins, fear that they may be forced to eliminate jobs, reduce employee hours and/or reduce benefits to compensate for the increasing minimum wage.

Franchise Times reports that automation could positively impact restaurant labor costs soon. Restaurateurs are adopting smart automation, and with a wave of new equipment, burgers, chicken and light switches don't need to be flipped. New automatic grills can form burger patties. Chipotle and Pizzeria Locale hired a team of engineers to create a two-minute pizza oven. Chick-fil-A spent $50 million to create a grill that adjusts pressure during the cooking process to churn out 10 pieces of chicken in minutes.

Though the specific grill and pizza oven are proprietary, they signal a trend toward automated cooking that will shed labor costs by requiring fewer and less-skilled kitchen workers. Automation suites can monitor equipment efficiency for major power savings and watch temperatures, plus everything from inventory to hours worked can be tracked via inexpensive tablets. In fact, I observed a tablet-monitoring employee hand washing at the Crushed Red restaurant in Greenwood Village. Until recently, this type of equipment has been either unavailable or cost prohibitive, and the explosion of restaurant technology investments means high-tech devices now are more available and affordable for all operators.

Real estate cost and availability are of significant concern for franchises. According to the Buxton Real Estate Report 2017, the vacancy rates have continued to decline in 2016 and are forecasted to decline even further in 2017. According to the Urban Land Institute, 2017 availability rates are expected to decline to 10.6 percent. Thus, rental rates have ticked up again with a



Franchise Connexion

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Retail Broker Directory

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Generational differences impact consumer habits

What have we learned about retailing in the last year? Well, the first quarter of 2016 saw more national retail store closings than any quarter since 2010, according to Chain Store Age; and several national retailers filed for bankruptcy, including Aeropostale, American Apparel, Sports Authority and Radio Shack, among others. The Limited announced it is going to close its remaining 270 stores nationally and in January Macy's announced it will close more than 70 stores in 2017 and 100 more stores in the next two years. The coming Macy's closures average over 150,000 square feet each. That's a lot of very large, vacant retail space hitting the market.

What is causing all of this contraction by national retailers? Maybe there is a clue in these statistics. Target's store sales for third-quarter 2016 were down 6.7 percent, while its e-commerce sales for those same stores was up 26 percent, which are products ordered online and either shipped from or picked up at those stores, according to Retail Dive November 2016. E-commerce across the U.S. more than doubled from 2009 to 2016, accounting for 4.1 to 8.4 percent of all retail sales in those respective years, according to the U.S. Census Bureau. Some sources have e-commerce as high as 12 percent of total U.S. retail sales and its share of total retail sales is escalating annually.

The obvious reason for this escalation in e-commerce is the fact that we all now carry at least one device

Jay P. Carlson
Managing broker and co-founder, Front Range Commercial LLC, Colorado Springs

from which we can order anything from anywhere. Which begs the question, do we really need all of those brick-and-mortar stores to visit? The short answer is no. But again, there is more to it, and it begins with the word millennial.

I have heard this word more in the last two years than I have in all the rest of my late baby-boomer years. The shopping patterns of the millennial, Generation X and baby boomer generations are all different, and these differences are causing a paradigm shift in how retailing is executed in America today.

But first, who makes up these generations:

- Baby Boomers – Born between 1946 and 1964, currently aged 53 to 71.
- Generation X – Born between 1965 and 1980, currently aged 37 to 52.
- Millennials – Born between 1981 and 1997, currently aged 20 to 36.

The current retail brick-and-mortar stores were built for baby boomers. We grew up without computers. We saw ads on TV, heard them on the radio or saw them in the newspaper and that drove us to the store to purchase. And as the baby boomers had children and the U.S. population took off, we built more stores

The current brick-and-mortar stores were built for baby boomers, but these stores must change as Generation X and millennials represent larger portions of the consumer market.

to serve that quickly increasing population.

Generation X were not born with computer prevalence, but started using them sometime during their education years. Email was a norm. This generation used computers sometimes to research retail purchases, but still went to the store or the mall for most of their purchases.

Many millennials, also known as Generation Y, have never known a nondigital age – they get their information and much of their socialization from the internet.

All of us have embraced the digital age to varying degrees; all generations are using our smart devices to look up the score of the game, Google some trivia to settle an argument and, absolutely, to purchase retail items online. But the way we use the internet to make purchases does differ somewhat between generations and that is affecting the way retailers must operate today.

Baby boomers still have the most disposable income and account for almost 50 percent of retail sales in the US. Two-thirds of us routinely

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Restaurant Trends

Suburbs clamor for urban restaurant concepts

During recent conversations with chefs and restaurateurs who are competing for patrons in Denver's urban core, I learned that the going is highly competitive. And it's no wonder. Literally dozens of restaurants opened in downtown Denver's urban neighborhoods during the past three years, and surrounding neighborhoods, including Cherry Creek, River North, South Broadway and the Highlands, also witnessed the grand openings of dozens of new establishments. And many more are on the way to the central Denver trade area in 2017. That's a lot of competition – and quality competition, too.

As an outcome of this onslaught of restaurateurs, chains and talented chefs at urban addresses many dining

Kelly Greene
President, Urban Legend Retail Group, Denver

professionals are beginning to seek less competitive neighborhoods to call home. And they are quickly learning that the metro area's suburbs are calling for their unique, truly local food and intimate service.

While Denver's urban core arguably has become inundated with creative chef-driven concepts, the suburbs traditionally are lacking. The Denver Tech Center, Highlands Ranch and Lone Tree to the south; Littleton, Englewood and Lakewood to the west/southwest; Arvada, Westminster and Broomfield to the north; and Stapleton and Aurora to the east, have residents who are all wondering why they're being ignored. After all, they have an increasingly sophisticated palate, the available time to dine out and the disposable income as well.

> Money in the suburbs is just as green as the money residing downtown.

Despite the city's recent and remarkable population growth, diners in Denver's urban core finally are experiencing the wealth of options that residents of other major cities have enjoyed for years. However, there are only so many mouths, so much dining-out money and so many hours in the day to go around. And with a consumer base that is largely millennial, occasionally "old favorites" can be replaced by the hippest, newest, coolest place to check out. Retaining loyal customers requires consistent quality and service (i.e., a quality staff).

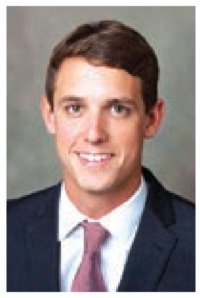
Many insightful and willing restaurateurs are discovering an untapped customer and revenue source in the suburban trade areas mentioned above. In fact, locations including Old Towne Arvada, Stapleton and the upscale apartment development along Belleview in the Denver Tech Center (named Belleview Station) have all welcomed the "urban flavors" of some of Denver's most notable chefs and concepts in recent months. Some have extended their reach as far as Lone Tree, Broomfield and Golden. These visionary foodies realized that a person doesn't have to live in a downtown condo or apartment building to enjoy – and pay for – their culinary creations. Money in the suburbs is just as green as the money residing downtown.

The creative dining concepts that opened in Denver's urban core during the past 36 to 48 months have been incredibly exciting and many have achieved great things. Many more will come and succeed in this urban setting. However, there are only so many new and existing restaurants that can be supported by Denver's urban residents. Restaurateurs would be wise to take a serious look at suburban locations as a fruitful place to begin their new venture.▲

Tony Guard's successful Los Chingones opened a new location at Belleview Station in the Denver Tech Center.

Development Spotlight

Retail takes the lead in Springs development



Parker Brown
Investment properties, retail and net lease, capital markets, CBRE, Denver

Led by the retail sector, development activity in Colorado Springs has experienced positive growth across all commercial property types since 2010. The city boasts a growing population coupled with a booming economy, and this pairing benefited consumers and led to a renaissance of retail development. As private and institutional capital sources evaluate investment and development alternatives throughout the Front Range, retail product in Colorado Springs is well positioned as an attractive asset class given the market's improved macroeconomic fundamentals.

Situated at the base of the Rocky Mountains and home to a dynamic economy, Colorado Springs is thriving. In 2015, Colorado Springs' economic output grew 4.5 percent year over year to $29.9 billion. This marks the city's largest increase since the Great Recession and outpaces Denver's growth of 4 percent over the same period. According to a forecast from the University of Colorado-Colorado Springs Economic Forum, this upward trajectory should continue through 2017, as evidenced by the Mountain Region's Consumer Confidence Index of 113.7.

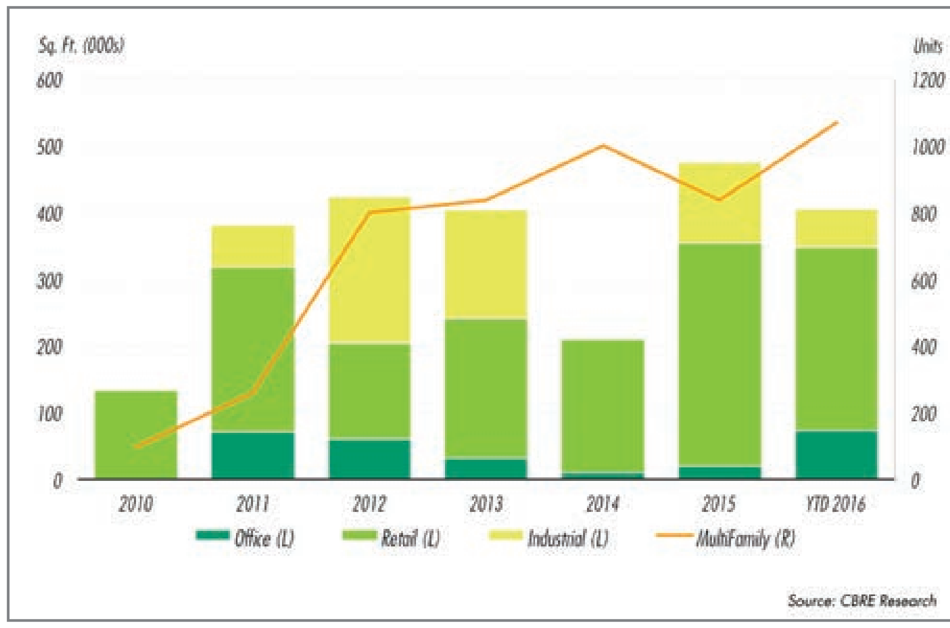
Colorado Springs features a population of over 450,000 residents. The local market experienced a population increase of 9.4 percent between 2010 and 2015, compared with 13.8 percent in Denver and 8.5 percent in Colorado as a whole. Likewise, the job market continued to strengthen. Colorado Springs boasts an unemployment rate of 3.2 percent, well below "natural" unemployment of 5 percent.

The expansionary path of the local economy and population has created an ideal scenario for both residential and commercial real estate developers. A recent report from the city of Colorado Springs noted that more than 4,000 residential building permits were issued in 2016, including 3,473 single-family permits. Low interest rates, a strong housing market and increased consumer confidence should continue to fuel residential construction activity and bode well for the region's retail sector in the immediate years ahead.

According to research provided by the CBRE Southern Colorado Retail Services Group, retail development has led the way for commercial real estate and accounted for approximately 50 percent of all commercial construction in Colorado Springs since 2013. As of October, retail projects under construction made up roughly 68 percent of total construction numbers with 10 projects under way.

The majority of activity is concentrated along the Powers Boulevard corridor and Colorado Springs' north submarket following significant housing and population growth. In the Powers Corridor, Sprouts Farmers Market announced plans to open a new store in the second quarter at 5617 Barnes Road. In the north submarket, developers, investors and retailers alike are attracted to the area's strong housing growth. New developments in the area include Northgate Plaza, Polaris Pointe, InterQuest Marketplace and Briargate Crossing. Pizza Hut, Anytime Fitness, Sprint, Sprouts Farmers Market, Ace Hardware and Jimmy John's are a few notable retailers that recently opened in the trade area. One significant project coming to the market is Claremont Ranch Marketplace at the southeast corner of Constitution Avenue and Marksheffel Road, which will consist of a 123,000-square-foot King Soopers Marketplace, an additional 15,000 sf of shop space and four pad sites. The development will be the first grocery-anchored center along Marksheffel Road and the property's site is surrounded by the residential neighborhoods of Claremont Ranch, Cimarron Hills, Hannah Ridge, Jessica Heights and Wilshire.

In 2016, cap rates for strip center and shadow-anchored retail properties in Colorado Springs approached 7.25 to 7.5 percent on average. However, some newly constructed product commanded cap rates in the mid- to low-6 percent cap rate range. Colorado Springs typically offers fewer competitors and less compressed



Development overview: Colorado Springs has seen positive fundamentals in all tracked property types in the past few years, and development has returned to near pre-recession levels.

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City Highlight

The boom continues in downtown Denver

Eli Boymel
Broker, Crosbie Real Estate Group, Denver

Downtown Denver has been attracting and retaining businesses and employees for decades with a significant increase in more recent years. However, in the past 10 or so years, we have seen a pattern shift – people want to live downtown too. Breaking from previous generations' ideals, millennials are waiting longer to start their families and choosing to live in the heart of the central business district. It's a place they can live, work and play. Sixty-two percent of millennials indicate they prefer to live in the type of mixed-use communities found in urban centers, where they can be close to everything they need, according to Nielsen.com.

This trend has directly and positively impacted downtown Denver. Millennials want in on the urban lifestyle. As a result, downtown Denver has more cranes in the air than the Florida coast. And unlike before, these buildings are almost all mixed-use, not just office buildings. SkyHouse Denver, 999 Seventeenth Street and Dairy Block are just a few examples of luxury mixed-use developments in the heart of the CBD.

This is all great news for retailers and restaurateurs. Weekend lulls are no longer a thing. Downtown's residential population has almost tripled since 2000, according to the Downtown Denver Partnership, making it an appealing spot for retailers and restaurateurs. In recent years, King Soopers opened near Union Station and Whole Foods is expected to open in 2017 – the first full-service grocery stores downtown. Downtown also is getting attention from large international retailers with Uniqlo and H&M opening flagship stores on the 16th Street Mall. The city of Denver has responded well to the increase in population: RTD is expanding its transportation services by adding new trains and bus routes, Denver B-cycle has taken off in popularity, and the city continues to add bike lanes, parks and other amenities that make central Denver a highly desirable place to live.

Denver is not unique in this urban shift. Cities like Austin, Texas, Nashville, Tennessee, Boston and many others are experiencing the same thing. Out with the suburbs, in with the city life. People want to live where they work and play in the city centers. However, Denver's growth is unprecedented. More than 7,000 additional residential units have been built in downtown Denver in the past two years alone, with thousands of more units to come, according to the Downtown Denver Partnership. This growth, in turn, creates a high demand for all kinds of retailers: restaurants, breweries, grocery stores, banks and the like. And because folks are waiting to start families, it leaves them with more disposable income for a longer period of time, which ultimately creates a successful retail environment.

The growth in downtown Denver is spurring growth in the surrounding markets. The boom in the River North has been going on for years, but it is at a peak right now. With the development of the new World Trade Center, a light-rail station and new multifamily, RiNo is taking shape as a true mixed-use neighborhood and is attracting retailers and restaurants to accommodate the influx of residents to the area. While RiNo has been the center of the local culinary scene for a while, now national restaurants are taking notice, such as Shake Shack's recent announcement that its first Denver location will be in RiNo.

> This is all great news for retailers and restaurateurs. Weekend lulls are no longer a thing. Downtown's residential population has almost tripled since 2000.

Meanwhile, the Highlands remains a major focal point for new retailers. Projects like Avanti help local restaurants get a start in the market, while local and regional restaurants are finding success in the neighborhood as well. The Central Platte Valley is also seeing large growth with the new multiuse developments like LAB building, 1700 Platte Street and the future development of 2375 15th Street will bring it full circle. Other neighborhoods surrounding downtown such as Jefferson Park, Uptown and Five Points have seen some strong growth and will continue to see it into the near future.

All of these trends and data points beg the question – is this growth sustainable? Many retailers are bullish on Denver due to the fact that Denver is faring better than most cities on growth. The projected growth rate in the next five years is 12.6 percent, compared to the projected U.S. growth rate of 3.7 percent, according to the Downtown Denver Partnership. While some challenges such as land and construction costs still remain, the growth projection and "cool" factor of downtown and the surrounding neighborhoods have attracted and will continue to attract all types of retailers to our area.▲

City Highlight

Black Hawk eyes development renaissance

How does a historic mining and mill town of less than 2 square miles become a destination for more than 20,000 visitors daily and a gaming hub that contributes $88 million annually in taxes to the Colorado economy? With the indomitable spirit and unwavering vision for progress and prosperity that first drove the Pikes Peak Gold Rush of the 1800s.

Black Hawk, "The City of Mills," is Colorado's second-oldest city. After peaking with a population of more than 2,000 in the late 1800s, Black Hawk began to decline in numbers in the early 20th century. On Oct. 1, 1991, following a successful Colorado ballot measure that allowed limited stakes gambling in the commercial districts of Black Hawk and two other Colorado mountain towns, speculators opened the first renovated historic structures for use as casinos. Gaming proved spectacularly successful in attracting new investment to the area in amounts unheard of since the gold boom more than a century before.

In Black Hawk's most recent revival over the past 20 years, over $1 billion has been invested in land, casinos and related development to create the popular Gaming Outstanding Lodging and Dining District, commonly known as the GOLD District. Today, this mountain city is ranked 18th in gaming destinations by the American Gaming Association and generates over 85 percent of Colorado's gaming tax revenue.

With a can-do Western attitude, Black Hawk is determined to make the most from the second-boom period by creating a vision for the next iteration of what the city can offer tourists and the state of Colorado.

Jack Lewis
City manager, Black Hawk

Black Hawk is proactively planning to broaden its economy through an innovative vision for its next renaissance. The vision is to create the first gaming-centric destination in the state with all of the amenities of a premiere resort location resulting in the fusion of gaming, entertainment, shopping, exceptional culinary experiences and outdoor recreation. In doing so, the city hopes to attract new visitors and an expanded source of revenue for the city and for those who stake their business in the 1.5-square-mile city limits.

By increasing the number of restaurants and nongaming activities in Black Hawk, the region could expect an estimated $197 million a year in incremental revenue, according to the city's strategic plan. Increasing the number of nongaming businesses is also expected to draw an additional 44,000 visitors annually.

"Our vision is designed to drive and increase visitor volume and velocity through variety, which translates into more visitors, more often, for a longer period of time because we will have more to offer," said Mayor David Spellman. "The addition of these amenities will establish Black Hawk as Colorado's premier gaming resort destination."

With enthusiastic, forward-thinking city leaders and less than 100 residents, the city's progressive outlook and nimble decision-making make it one of the most business-friendly environments in the state.

Black Hawk
Black Hawk is realigning Gregory Street to include a mix of commercial, retail and hospitality uses, active street-front retail and integrated public spaces.

To make way for this vision to become reality, the city is realigning Gregory Street to create a pedestrian-friendly entertainment district that will enhance the historic mining town's gaming experience. The city's development goals include a mix of commercial, retail and hospitality uses, active street-front retail and integrated public space. This will create development opportunities within blocks of existing casinos with targeted amenities such as:

- Craft breweries, distilleries, vintner and tasting rooms.
- Restaurants.
- Entertainment venues.
- An event/conference venue.
- Local specialty retailers and craftsmen.
- Outdoor entertainment facilities.
- Educational experiences with historic properties.

The development area is comprised of several parcels on Gregory Street

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Technologies foster operational efficiencies

The window to bury your head in the sand has now closed. If technology is not moving toward the forefront of your shopping center operations arsenal, you aren't maximizing net-operating income as efficiently as you could, and investors and owners will soon take note.

The word "technology" and its comrades "internet" and "smartphone" have oft struck fear into the hearts of shopping center owners. Shopping center industry disruptors – online shopping, show rooming and Amazon – have been written about, panel discussed and highlighted extensively. Although consumers have shown they absolutely want value, convenience and efficiency, they continue to prove experience is vital. Successful shopping centers provide all of these elements.

Now is the time to leverage technology along with all it has to offer the shopping center developer, owner and property manager.

Forward-thinkers always have led the shopping center industry, and the present time is no exception. While many have focused on developing a defensive strategy, retail property owners can benefit from a wealth of offense-driven tools aimed at improving the performance of shopping centers.

• **More efficient operations.** Operational teams can benefit from the time and cost savings of automation programs. For example, irrigation systems can send text alerts when a leak occurs and usage is exceeding preset thresholds. Site lighting timers can be overridden remotely from a cell phone to facilitate daylight work, avoiding the

Danaria Farris McCoy, CRX, CSM, CMD
Division operations director, NewMark Merrill Cos., Longmont

need to travel on site and manually override. Keypad-entry doors can wirelessly generate one-time-use codes to avoid key check out for roof access. Roof inspection vendors may not need access, however, as inspections can be completed by roofing professionals manning drones that generate detailed, high-resolution imagery for historical documentation, along with infrared mapping that can identify moisture problems before major issues occur.

Shopping center portfolios can be seamlessly tracked with software-overlay technology, like Datex Property Solutions, which we developed to mesh data from accounting programs, property management and lease administration software. A dashboard view can show how a Subway operator in one location compares to 15 others in the portfolio and how its occupancy costs compare to other sandwich quick-service restaurants. Technology can be leveraged to capture data formerly compiled manually in piecemeal spreadsheets and can make that data available within minutes on your smartphone, on-the-fly, before an important meeting.

The interface technology dashboards have access to the full spectrum of operational data, including viewable documents. It can aggregate the data within portfolios to generate key performance index factors encompassing all operational segments with a click, rather than with hours spent running multiple reports to compile a new spreadsheet when an analysis is needed. Projects, which typically are created off line by multiple users for essential tasks like property management reports and annual operating budget drafts, are centralized with workflow automated to communicate when certain tasks have been completed. This avoids the need to email drafts back and forth or use a collaboration tool outside of the accounting and property management software.

• **Improved marketing results.** While indoor centers have long benefitted from people counters at doorways, outdoor centers have struggled to accurately capture foot traffic data in a cost-effective manner. Marketing directors want to accurately show the results of their hard work, but are frequently left to estimate attendance or pull information from tenants. With the penetration of smartphones reaching an all-time high and the availability of proprietary Wi-Fi analytics programs, the marketing director can watch counts tick up live during major events direct from an iPhone. The director can compare the numbers to the previous year's event and the last 10 Saturdays and see what percentage of visitors is new to the center. This technology not only enables wiser marketing decisions, but also helps shopping centers elevate experiences to further distance themselves from online counterparts.

Although they may have a higher upfront cost and require more maintenance, a Wi-Fi-enabled digital directory offers an opportunity to merchants and guests that goes beyond static, printed versions. Directories can be updated with no lag time. Video packages from sponsors can be integrated into displays, and rotating between merchant content becomes as easy as the click of a button, rather than the struggle of how to be equitable with limited, stationary opportunities.

• **Leverage technology's worth.** Technology doesn't just make things easier; the latest tools make centers and services more valuable. The opportunities to increase revenue include the ability to provide hard data to those interested in leasing space and create low-cost or no-cost opportunities for merchants to promote their business and increase sales. Property managers who offer these tools, in conjunction with their experience, communication and attention, offer a distinct advantage to property owners and occupants.

Although new tools often come with a high upfront cost and the occasional kink, the long-term cost savings and efficiencies are demonstrable.

• **Don't forget the basics.** Technology can make decisions more informed, workflow more efficient and outcomes clearer. It cannot, however, make things right with a customer, develop an employee or form a relationship. Outfitting a brand-new skier with Olympic-grade skis won't make her Picabo Street. However, property owners and managers who have a solid foundation of excellence who employ technology to accelerate superior performance have a clear advantage.

As the shopping center industry continues to change, technology is not the foe, but rather an ally in enabling survival during a rapid evolution.▲

Market Drivers

Continued from Page 1

important in attracting and retaining clients. The Parlour Hair Salon and Matthew Morris Salon and Skincare are two local, independent companies that are great examples, Hansen said.

Ella Bliss is another good example, said Livaditis. "They've become an approachable space," he said. "They put more services under one roof and have created an experiential atmosphere with an overall good feeling. It feels like a spa, but it's more approachable, which makes it more of an everyday kind of thing and opens the door for people to do it more often."

The most pronounced impact on the real estate market is in the 5,000-plus-sf spaces. These spaces are becoming increasingly popular for salon suites. Salon suites offer stylists the opportunity to rent their own suite, while avoiding many of the pressures that come from owning and operating a physical salon.

Sola Salon Studios, founded in Boulder, is a great example. The company targets retail spaces that are about 5,000 to 7,000 square feet, mainly inline, but occasionally standalone, and demises the space into 30 private suites, said Jay Landt, a senior vice president with Colliers International. Instead of renting a chair a la the traditional salon model, stylists and other salon practitioners can rent a private suite. In about eight years, the company has gone from 15 locations to more than 300 across the country, said Landt.

"The competition has certainly been growing and I'm seeing more and more of these concepts pop up every year," Landt said. "The model has been accepted, it's successful and other people are trying to replicate it."

Some salon suites offer in-house services, such as a front desk receptionist and general atmosphere, but Sola Salon simply rents the space and lets each practitioner manage her business as she sees fit.

As the healthy economy gives consumers more discretionary money, health, beauty and wellness retailers have become more acceptable spending outlets. "People are more apt to spend money taking care of themselves than in the past," said Livaditis. "It's just become more acceptable."

Living in a state that repeatedly earns high marks for health and wellness helps drive cultural acceptance as well.

"It's becoming a very dominant sector in this market, and I cannot say if it's this dominant in every market," said Hansen. "Colorado is continually noted as one of the most healthy states. I feel it's a real plus for our market that we're getting these opportunities."

For landlords, the biggest appeal to any of these projects is that they are internet resistant and they come off as fairly sexy – it's fun to offer a unique concept in a center. Yet that can be both a good thing and a bad thing. Staying trendy, at times, can be a losing game as fads fade.

Other leasing challenges with the highly specialized concepts are that these younger, less-established businesses often can't pay the rent a typical fast-casual restaurant can afford. They also often have less credit developed and can be hesitant to committing to a five-year lease.

"Landlords are looking to make sure they get the most stable and secure tenants of these categories," said Hansen. "And although we seem to have an influx of them right now, not all of them are that stable."

Blu Hartkopp Photography

The Orchard Town Center offers a wide range of these types of tenants, including Elements Massage, Eyebrow Threading, Orchard Nail Spa, European Wax, Pigtails & Crewcuts, Sola Salon Studios, Spavia Day Spa and others.

The location matters for these types of services as well. Not only do they need easy access to their core demographics – typically in higher-income areas – but also they need small spaces, which not all shopping centers can accommodate, said Hansen.

For the holistic salons, including unique spas and salon suites, the biggest leasing challenge can be that leasing to one can severely limit the opportunities for the landlord to sign specialized, smaller leases within the center, because they'd be in direct competition with all the services offered at the salon. However, that doesn't seem to be hindering too many such deals.

"I do think that the salon suites have more of an across-the-board impact on the beauty side of things," said Livaditis. "We're seeing a lot of them and they seem to make a lot of sense."

Whether in the suburbs, downtown or anywhere else, there's growth in this product type, he said. For the smaller, specialized retailers, the growth is clustered in the high-end malls and higher-income areas. Typically, landlords are not signing beauty retailers that are too specialized in the traditional neighborhood shopping center, unless that shopping center's demographics appear to be able to support it.

When talking to a landlord about a new Sola Salon location, Landt makes sure to remind them that the overall beauty industry is flourishing and will continue to do so because it's services based.

"I also love to tell them it's great for their merchandizing mix," he said. "Although we're not trying to be an anchor, it's common for a typical Sola to draw 700 or 800 shoppers to that shopping center every week – if you think about 30 stylists, five appointments a day. It is a big draw."▲

Martinez

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for multifamily groups – providing more convenience and security along with a greater offering of products. Amazon also is testing this idea.

Today's most innovative retail concepts center on saving time and money, and creating experiences for customers. Closely integrated, which allows for more "free time" – by taking advantage of Blue Apron's fresh food offerings, for example – leads to increased opportunities for experiences and entertainment; two ideas highly valued by millennials and young urban professionals. These concepts are manifesting in activating alleyways, creating walkability and providing interesting versatile spaces with thoughtful co-tenancy. Examples include Larimer Square, Union Station, Dairy Block, Denver Central Market, Avanti, The Source and essentially all of Lower Downtown and River North.

Obviously, downtown Denver is prime real estate for walkable, active and versatile spaces. Commanding the market's highest rental rates north of $40 per sf – as does Cherry Creek North – the central business district is a small, 3.6-million-sf "landlocked" submarket characterized by churn. Closures and relocations occur frequently, but these vacancies are quickly filled.

Drum tight, the CBD has a 3.8 percent vacancy and, as such, absorption was flat in 2016 – it's hard to absorb what isn't available. New supply tends to be limited to ground-floor retail in office or multifamily projects or redevelopments like Union Station. Despite these constraints, the CBD offers an exploding restaurant scene, the addition of international retailers H&M and Uniqlo, grocery stores including a new King Soopers and the under-construction Whole Foods flagship store, and ongoing revitalization in the LoDo and RiNo neighborhoods.▲

Chiasson

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forecasted increase of 1.6 percent in 2017.

Restaurateurs are turning to nontraditional real estate options as A-plus properties become scarcer. Nontraditional real estate doesn't always mean "off the main drag." Adapting to smaller spaces can get a concept with a strong drive-thru component onto an awkwardly shaped piece of land near that A-plus competitor.

Forming lease agreements with big-box stores is another nontraditional route that can have major benefits for brands that don't have the bidding power or capital for a full build-out – with a stream of shoppers already at the door.

Reaching into underserved neighborhoods also can be a boon as shopping center construction slows. Inexpensive rent buoys less traffic and becoming the neighborhood spot is a major marketing win. Being adaptable keeps real estate options open and helps operators get above the bidding fray for historically perfect locations.

The surge of food trucks in Colorado suggests that food and beverage entrepreneurs are finding ways around the real estate burden. A year ago, I searched the internet and found 76 food trucks in Denver. Today, I find 236 on Roaminghunger.com, several of which are franchise brands.

Whether you blame the housing crisis, millennials, global urbanization or all three, there is a noticeable shift away from the suburbs in favor of trendy, urban neighborhoods.

Both millennials and empty nesters seem to prefer urban living. Businesses are following that urban migration and leaving the suburbs for locations closer to that growing urban community. That shift is forcing franchise groups to take a hard look at their real estate strategies.

Historically, food and service franchise groups have focused on locating at or near traditional grocery- or Target-anchored centers. Most of the Class A and Class B centers that were available for franchises are fully or nearly fully leased. Franchises entering or expanding in a market have no choice but to consider alternative locations.

One of the biggest impacts of the shifting demographics and development trends is that franchise groups now analyze potential locations very carefully to avoid costly mistakes. Franchisors rely more on the analytical tools that are available to paint a picture of a potential location in terms of current and future predictive forecast models.

Industries that have embraced the franchise model of growth that require occupying retail real estate include:

- Fitness, with a trend away from big-box gyms,
- Health care, including senior care and urgent care,
- Dental,
- Beauty,
- Computer services,
- Educational services, and
- Ancillary cannabis businesses.

While challenges exist for franchises, the outlook for franchising continues to be optimistic based on the last several years. Franchisors and business owners rise to the challenge to create solutions to thrive. Technology brings innovation and automation for marketing, delivery and the customer experience. It's exciting to know that no matter the marketplace, franchises will continue to lead the country in contribution, advancements and customer satisfaction.

I see service-based franchisors adapt and create an option to operate from a home office or small leased space. This means that many potential franchisees purchase a franchise that don't require retail space.▲

Carlson

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make retail purchases online, but we still want a one-on-one relationship with the retailer and still visit the store routinely. We also like to shop with a coupon.

Generation X represents 25 percent of the population nationally, but holds 31 percent of the income. They are in or coming into their prime earning years. Email is the most important channel for communicating with this generation. They respond well to personalized emails tailored to their interests and prior purchases. Loyalty programs are also big with this generation. Gen Xers shop more frequently at stores where they have joined a loyalty program. They window shop and research online then purchase at a store. Generation X will pay for quality.

Millennials want a full digital experience from a retailer, but not at the exclusion of the retail store. Millennials will window shop online and will rely on consumer comments more than other generations. When in the store they want to be communicated with by the retailer with online in-store specials. They want to be able to research product availability and price comparison all while strolling the aisles. Millennials are 2.5 times more likely to be influenced by blogs and social networking sites regarding a retailer, according to AdAge. Millennials want a low price. Millennials want a seamless shopping experience across all digital channels of the retailer, so today's retailers need to be ready to service all points of contact with this generation. They are almost twice as likely to make a retail purchase on their smartphone as other generations, but they are absolutely willing to go pick that item up at the retailer's store. Millennials make impulse purchases more often than other generations, usually based on peer input.

In 2015, the population of millennials in the U.S. overtook the baby boomer population. Generation X population is projected to overtake the baby boomer generation by 2028. The millennial generation continues to grow with young immigrants as the baby boomer generation shrinks from natural causes, according to Pew Research. Millennials are more diverse than any generation with 44.2 percent being part of a minority race or ethnic group, according to the U.S. Census Bureau.

In 2015, the metro Denver millennial population was 891,500, representing 24 percent of the population, while the Gen X population was 821,500 and baby boomers' population was 813,200, according to Metro Denver Econ. Corp 2016.

Generation X and baby boomers currently produce the bulk of the income in the national and local economy but, as you can see, the millennials are coming. Retailers must get to know this generation and communicate with them on their terms in order to be successful.

The retail models that grew around and where produced by the baby boomers are not going to survive in the fashion that we have known them. The digital and social aspect of retail purchasing will become pervasive in the coming years. The smart existing, old-school retailers will be smart to hire millennials to help guide them to and through the next generation of retailing in America. It will be interesting to see what the retail landscape looks like in the next 10 years.▲

Brown

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cap rates than in primary markets such as Denver, where average cap rates for strip center and shadow-anchored retail properties reached 7 percent in 2016. The Colorado Springs market retail investment sales volume for 2016 totaled approximately $167.5 million, roughly 20 percent of the size of Denver's 2016 volume.

Investors aware of Colorado Springs' improved macroeconomic fundamentals are seeking opportunities for well-located properties positioned in highly trafficked corridors that offer a path to net operating income growth. For property owners looking to monetize assets, capital outreach is critical to driving value as a healthy supply of new product is delivered to the market.

In Colorado Springs and across the Front Range, it is critical for property owners and investors to have real-time working knowledge of the most active and aggressive capital sources in the market along with an intricate understanding of the factors driving investment decisions in order to implement optimal investment strategies.▲

Lewis

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and represents approximately 71,000 square feet of potential building area. As part of the development, the city intends to offer the 5,000-sf restored and renovated Crooks Palace on a long-term lease. The development also plans a three-story, 124-car parking garage in the new area to accommodate the increased visitation.

To bolster this enterprising vision, the city has a goal for the inclusion of 3,000 hotel rooms located within the GOLD District. Upon the completion of Monarch Casino's 500-room luxury hotel and spa, the city will be half way to this critical mass of hotel rooms.

In addition to the Gregory Street realignment, Black Hawk recently purchased and annexed 600 acres on Maryland Mountain that now are part of its History Appreciation Recreation Destination district. This will provide passive recreational activities in areas intentionally left free of development for wildlife corridors and habitats, scenic views, historical areas, landmarks, forest range and agricultural land. The city plans to develop hiking and mountain biking trails, a nature center and picnic areas in the area.

These efforts will mark another important entry in the city's history that will set the stage for the next renaissance in Black Hawk. As Black Hawk preserves the spirit of its past, it continues to prepare for the future with an exciting new vision for a development renaissance.▲

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