

RETAIL PROPERTIES

Quarterly



The State of Retail

While not immune, Colo. adapts to retail shift

Most retail real estate owners have been bracing themselves for bad news. With all of the news of store closures and e-commerce growth, it would seem that retail vacancy rates would be well over 20 percent and that retail rents would have plummeted by now. But the fact is, this doom-and-gloom storyline is overblown. What goes unmentioned is the expanding retailers, including food stores, gyms, restaurants and other service or entertainment venues that do



Barbara Byrne Denham
Senior economist,
Reis Inc., New York

not fit the usual retailer profile.

In the Colorado markets, the numbers have largely stayed flat in three of the largest markets (Boulder, Denver and Colorado Springs) while Fort Collins has seen vacancy rates increase from 14.2 percent from

the end of 2016 to 15.7 percent at

midyear. Colorado Springs has seen vacancy rate increase 0.2 percent to 13.6 percent at midyear; Boulder's vacancy rate has remained flat at 12.4 percent; and Denver's vacancy rate also stayed flat at 9.7 percent. On a year-to-date basis through June, asking rents have increased 2.6 percent in Denver, 0.2 percent in Colorado Springs, 0.5 percent in Boulder and 0.1 percent in Fort Collins.

A more surprising yet reassuring statistic is the growth in retail jobs in the state. Looking at the growth

in average retail employment in the first five months of 2017 compared to the first five months of 2016 shows that retail has grown in line with the overall economy. Retail employment has grown 0.5 percent in Boulder, 4.3 percent in Colorado Springs, 1.2 percent in Denver and 3.4 percent in Fort Collins. In less populated areas where there are no retail real estate statistics, the employment numbers are just as buoyant: Pueblo has seen year-over-

Please see Page 25

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The state of retail

Many Colorado malls are evolving to answer new consumer demands.



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Banking reimaged

Capital One is designing its new real estate locations to embrace the digital generation.



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Planning TI projects

Help ensure your next retail tenant improvement project is on time and on budget.

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Letter from the Editor

Question of the issue: Is brick and mortar on life support?

The acceptance that we are in the midst of a structural retail shift is a theme of this issue. Not only do experts seem to be in agreement that this evolution is taking place, but also they agree that this does not mean the death of retail as we know it. Brick-and-mortar stores are here to stay, as long as they're willing to adapt to continue to cater to a changing consumer base.



This issue kicks off with a section about the state of retail. Articles on Pages 4-14 examine the retail outlook and share statistics, insights and predictions for the question on many people's minds: Is brick-and-mortar retail on life support?

The outlook for Colorado is rather sunny, assuming the types of tenants occupying this real estate will continue to change as the market learns a new equilibrium that embraces more experience-based retail.

The other articles within this issue also touch on these evolving customer needs. From leasing to marketing and managing, one driving force behind retailer decisions is how to turn a location into a sought-after destination that draws consumers.

Capital One is trying to do this with its new real estate locations, Capital One Cafés. The concept aims to redefine how consumers interact and think about visiting their bank. Apparently,

this shakeup is overdue. According to a recent study, 71 percent of millennials said they would rather go to the dentist than go to their bank.

On Page 22, a grocery veteran addresses the possible impacts Amazon will have on the supermarket competition. He challenges grocers to take a page from movie theaters, which were threatened by movie rental stores and streaming options. If supermarkets can reinvent themselves into places that consumers want to visit, the threat of Amazon, or any other internet-based grocery option, won't be that impactful.

And finally, within Colorado's packed brewery market, it seems safe to bet on the ones that offer unique experiences and atmospheres. The article on Page 20 states that a brewery without an interesting atmosphere, regardless of the number of taps it offers, will feel like any other restaurant and bar – critically impacting its ability to succeed in the tight market.

As many of these new shopping center tenants change their operating habits to entice consumers, shopping center owners might want to reconsider certain standard lease provisions, as attorney Heather Park Meek outlines on Page 16, in order to best protect their assets.

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State of Retail

Pipeline, employment growth are promising

As any retail broker can attest, the No. 1 question we are asked these days is, “What’s the future of the retail industry?”

When headline after headline profiles another store closure or major e-commerce takeover, it’s easy to think that the days of brick and mortar are numbered. Fortunately, the truth is not so simple. It’s true that traditional retailers are in crisis, damaged by quickly fluctuating consumer tastes, technological changes, prices and competition, but many retailers have been able to thrive in the retail market of the future.

In the past, if you wanted to buy anything, brick and mortar was the only option for consumers. Today, with the rise of online and omni-channel retail – brick and mortar is no longer an obligation; it’s a choice. Consumers have countless buying options, which is unprecedented in the industry. As a direct result, we’ve seen historic household names file for bankruptcy and close their doors because they weren’t able to keep up within an evolving industry.

More and more, we’re witnessing a strong initiative to improve the customer experience within stores and restaurants. The e-commerce platform has challenged retailers to push the boundaries of what they’ve done in the past and required them to truly make an effort to understand their customers. Many retailers now are relying heavily on data and analytics of the target consumer to select the appropriate locations and concepts that will cater to their customer appropriately. They’ve



Cameron Flint
Associate, CBRE
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Denver

become more creative with in-store experiences, using different methods to draw people in, whether that is in-store classes, wine tastings or green screens/photo booths.

Looking ahead, there are several reasons to feel confident about Denver’s retail market. We’ve witnessed a steady increase in population year over year and have benefitted from major corporate relocations.

The strong construction pipeline is indicative of developers’ optimism for the Denver market. Denver is poised for growth in our urban landscape with neighborhoods like Cherry Creek, the River North Arts District, Lower Downtown, the Highlands and South Broadway all seeing increased invested capital and redevelopment.

Denver’s strong population and economic growth is continuing to attract retailers from a variety of industries, including food and beverage, entertainment, grocery and fitness. One-of-a-kind projects like the redevelopment of old industrial spaces into unique, creative retail concepts (Central Market, the Source or Stanley Marketplace) are breathing fresh life into the market and giving consumers a new reason to get excited about Denver’s retail scene. This repurposing and mixed-use retail trend shows no signs of slowing down. The suburban landscape remains bullish and retail is follow-



One-of-a-kind projects, neighborhoods, shops and restaurants offer consumers reasons to still be excited about the Denver retail scene.

ing the major housing growth in the north and south parts of the market. Grocery-anchored retail remains the most dominant development opportunity, especially as power centers take a back seat while big-box retail changes course.

To answer the big question: Is brick and mortar really becoming obsolete? The answer is no. In reality, online purchases today represent less than 10 percent of all retail spending, according to the U.S Department of Commerce’s first-quarter retail e-commerce sales report. Further, the majority of online purchases are goods sold by brick-and-mortar retailers.

At the end of the day, it’s human

nature to be social, want to feel and test products, try new restaurants and visit different shops. The biggest change in the retail industry is the retailers themselves. They are becoming more sophisticated and site selection is more strategic.

Retailers are making an effort to understand their customer and all of their habits so that they can react appropriately. In lieu of all the negative headlines, there are a lot of retailers and restaurants poised for growth as they evolve to stay relevant and authentic. Brick and mortar is not going away, but rather it is growing into an experience-driven art form as consumers continue to evolve. ▲

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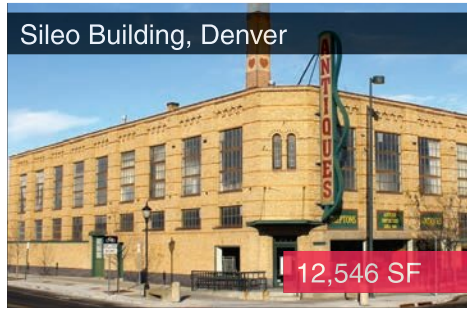
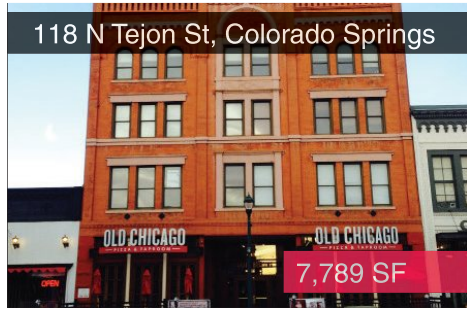
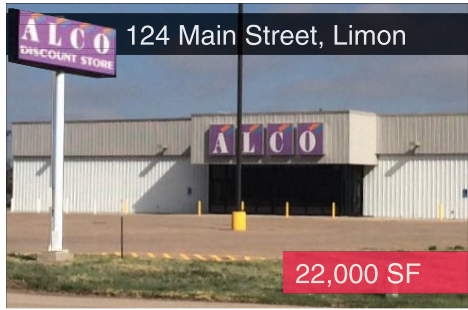
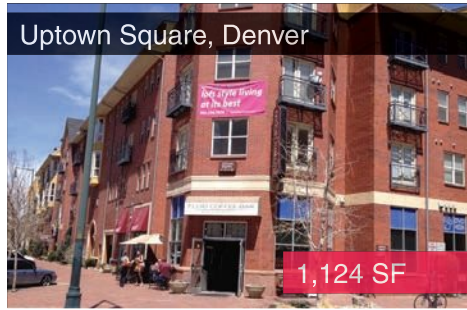

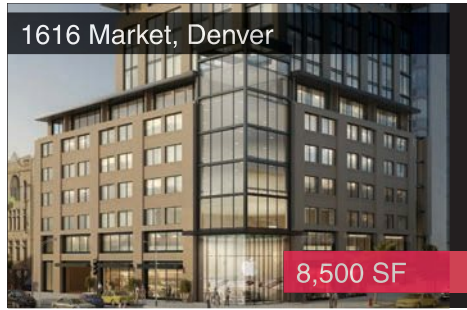


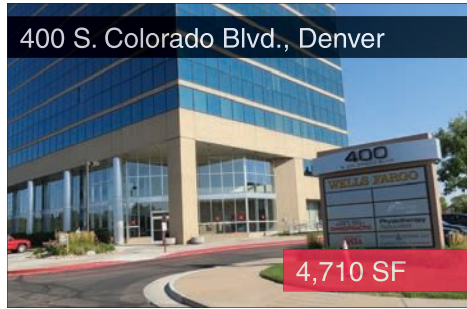


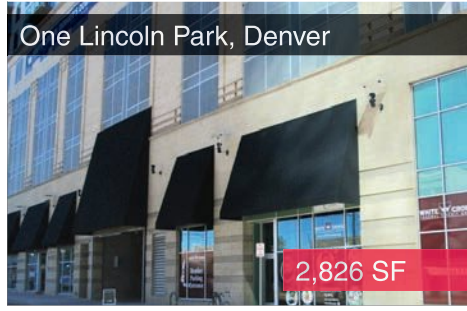
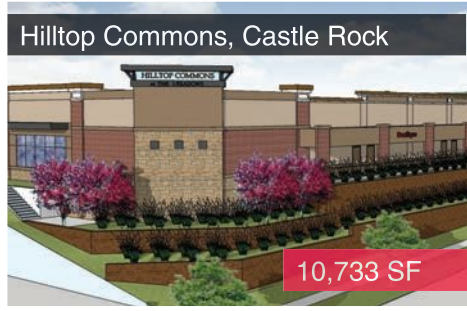


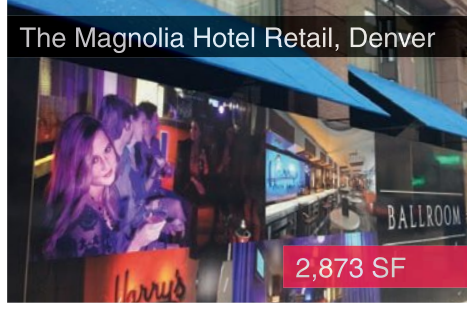
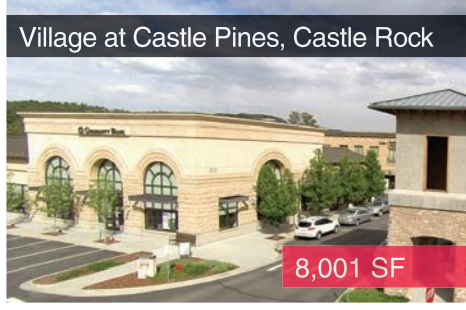

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SELECT NOTABLE RETAIL CENTERS: 29th Avenue Town Center, 796 S. Abilene, 3531 S. Logan, 18425 Pony Express Drive, Black Diamond Plaza, Bowles Avenue Marketplace, Brookhill V Shopping Center, Castle Pines Marketplace, Centennial Center, Colorado Marketplace, Craig Building, Eagle's Nest Village Center, Foxfield Center, Highpoint Marketplace, High Pointe on Parker, Hilltop Commons, JCRS II, Lake Arbor, Lakewood City Commons, Leetsdale Commons, North Bear Shopping Center, Northpark Plaza, NWC 136th Ave & Colorado Blvd, Park Plaza, Parker Center, Parker Gateway Marketplace, Parker Safeway Center, Parker Valley Center IV, Parker Valley Center V, Parker Valley Center VI, Quebec Village, Regatta Square, Saddle Rock Marketplace, Shoppes on Grant, Shops at Nine Mile, Somerset Village Shopping Center, South Pearl Shops, Strawberry Hill, The Marks, Thornton Plaza, Twenty Mile Depot, Village at Castle Pines, Village Plaza, Village Square Shopping Center

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State of Retail

Denver market offers support for retail opportunities

While high-profile, big-box store closures and Amazon's announcement of its acquisition of Whole Foods fuel the narrative that brick-and-mortar retail is coming to an end, a deeper inspection of retail property performance from a macro perspective suggests that the predictions of the looming demise are greatly overstated. Stable employment growth and rising wages bolstered consumer spending in May to 13 percent above the all-time, inflation-adjusted high recorded in 2008.

Although e-commerce sales contributed significantly to this figure, this shouldn't be understood as the end of retail, but rather as the beginning of a new phase in retail's evolution in which opportunity and upside still exist. This is particularly the case in Denver where retail property performance metrics such as employment, vacancy and rents fare better than their corresponding national averages.

Employment growth in the Mile High City outpaced the 1.4 percent national rate during the year ending in the first quarter. Hiring was led by the education and health services sector and the leisure and hospitality sector. By the end of 2017, Denver employers are anticipated to expand headcounts by 2.1 percent. Relatedly, the median household income has increased over the 12-month period ending in March to \$74,400 annually, which encouraged greater consumer spending and supported absorption, vacancy and rental improvements of retail real estate. Although strong retail sales continue to generate robust tenant demand for space, the development pipeline will be more modest this year.



Drew Isaac
First vice president
investments,
Marcus &
Millichap, Denver

In 2016, builders delivered 762,000 square feet of retail space. This year construction activity will moderate slightly, with only 714,000 sf of space slated for completion. The northeast and northwest submarkets will receive the bulk of new retail real estate. The majority of new retail space,

however, is preleased and will support strong net absorption of 1.2 million sf of new and unutilized space in 2017. Necessity and lifestyle retailer demand will account for a substantial portion of the absorption of space this year, which also will impact vacancy.

As of the first quarter, retail property vacancy in Denver dipped to 5.1 percent. Vacancy is expected to continue to decline another 40 basis points, reaching 4.7 percent by year's end. In the west and central submarkets, vacancy sank below 4 percent and could fall further as several projects for necessity retailers including National Grocers, CVS and King Soopers are underway. As vacancy drops metrowide, rents are expected to go up as a result.

By the end of the year, average asking rents in Denver will jump a predicted 4.8 percent to \$17.35 per square foot, a new high. In the west and central submarkets, rent growth was above the metro average due to strong absorption.

It is worth noting that although Denver's economic fundamentals and retail property performance metrics are positive, the limited number of retail

asset listings slowed deal flow over the 12-month period ending in March. In this period, deal flow for single-tenant assets compressed 13 percent. Sluggish investments sales activity was particularly pronounced for multitenant properties, where transaction velocity fell 23 percent. Notwithstanding, buyers were most active in the central submarket, where cap rates for single-tenant assets dropped into the low-5 to mid-6 range. Initial yields varied considerably, falling under 5.5 percent for the best properties with national credit tenants. Higher first-year returns were most commonly found in peripheral suburban markets.

Looking ahead, investors will scour the market for value-add opportunities, which represents a wide range of prices dependent on tenancy, deferred maintenance and capital requirements to bring rents to market value.

Additionally, western submarkets hold upside given that rent growth in those areas has outpaced the rest of the metro.

Going forward, the ability to turn the current dynamics and negative headlines into new opportunities may end up being one of the best wealth-creat-



ing strategies in retail real estate. Retail is full of highly skilled and sophisticated owners and advisers, and those who successfully reposition their properties to take advantage of the market changes will be poised to reap the benefits of an industry that is a staple of American culture.▲

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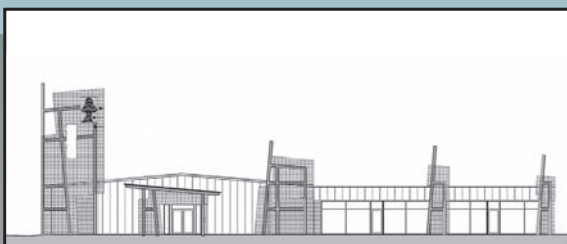
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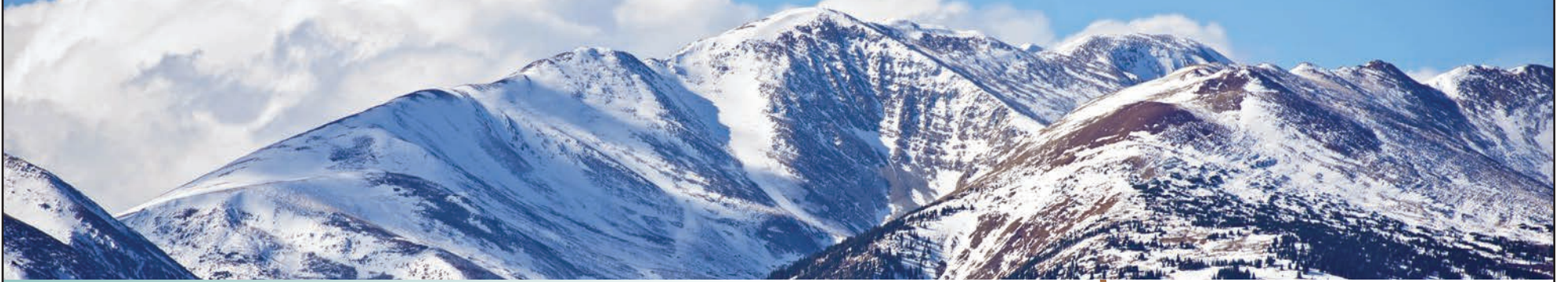
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COLORADO PROPERTIES

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Colorado Springs, CO
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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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State of Retail

It's all about food and fitness in the Pikes Peak region

The retail and restaurant market in the Pikes Peak region continues to see improvement and doesn't show signs of stopping, at least anytime soon. Vacancies are maintaining a downward trend, currently hovering around 6.5 percent, there is positive absorption, unemployment is at an all-time low and rent growth remains steady.

All of this good news comes despite negative headlines of store closures and bankruptcies. So where is the incongruity? I think it can be explained by the fact that consumer spending is still strong, it is just changing, and "Amazon-proof" concepts, such as restaurants, fitness centers, entertainment venues and service providers, are emerging and adjusting accordingly. It's an evolution. Colorado Springs and the Pikes Peak region continue to see a positive influx of these types of businesses.

In the past few months alone, a handful of new-to-market gyms and fitness concepts secured locations or are in the hunt for space. These include both large-format gyms like Vasa Fitness, Chuze Fitness and Crunch Fitness, as well as specialty studios like Burn Boot Camp and other sport-specific training camps. These concepts are great at backfilling larger vacancies and bringing new life and activity to centers, many of which have been deflated in years past by grocery store closings.

Other planned or under construction retail activity includes numer-



Tiffany Colvert
Broker, retail team,
NAI Highland,
Colorado Springs

ous multitenant developments. CVS Pharmacy is making a splash with various sites around town, Oskar Blues Brewery is coming in to downtown, and there are an assortment of local breweries arriving – including Trails End Self-Pour Taproom, Goat Patch Brewing, N3 Taphouse, JAKS Brewing, Purple Toad and The Brass Tap.

Likewise, there are many new restaurants in town or on their way that include Four by Brother Luck, Prime 25, Rooster's House of Ramen, Atomic Cowboy/Fat Sully's Pizza/Denver Biscuit Co. combo, Loyal Coffee, The Melt, Blaze Pizza, Billy Sims BBQ, DogHaus and Sawara Sushi. Plus, we just got our very own WhirlyBall (imagine equal parts basketball, lacrosse and bumper cars, originating from Chicago). We are fortunate to have a good velocity of fresh restaurants, bars, entertainment uses and retailers coming to the market.

However, it's not all new concepts. Many of our staple quick-serve restaurants and fast-food groups are growing as well. Qdoba, MOD Pizza, Starbucks, Chick-fil-A, Tokyo Joes, Dutch Bros. and Fuzzy's are expanding or adding stores. Even our local/region groups are adding units or expanding, including Over Easy, Iron Bird Brewing, Beauty Bar, Salsa Brava



Ivywild and Lincoln Center are two adaptive reuse projects that are housing an array of unique local eateries. Both properties were formerly elementary schools.

and CogStone Brewery.

Another trend we are seeing is the arrival of food-hall-type venues, and tenants are flocking to them. There are two fairly established adaptive reuse projects that are housing an array of unique local eateries: Ivywild and Lincoln Center. These unique properties, both formerly elementary schools, serve as social gathering places that offer a refreshing alternative from standard strip centers.

Bristol Brewing Co. stands tall as the anchor tenant at Ivywild, among the Principal's Office, Old School Bakery, Axe and the Oak Whiskey, and others. At Lincoln Center, Goat Patch Brewery is the newest tenant to join Cross Fit Southern Colorado, Lincoln St. Bar-

bers, Building3 Coffee Roasters, Cafe Red Point, Mountain Valley Market, Nightingale Bread and more.

Additionally, a Denver developer is under contract on a downtown building to open a food hall similar to Denver's Avanti or The Source. Finally, the Colorado Springs Public Market recently signed a lease downtown and should be announcing its opening soon.

Notice a theme here? These are restaurants, breweries, fitness and entertainment retailers, which are the types of retailers that are thriving – the businesses that offer things and experiences you simply can't buy online. The Colorado Springs and Pikes Peak region has a great climate for these concepts and it continues to improve.▲

1997 Flashback

catamountinc.com

World Population: 5,898,688,337 ★ Titanic, Jurassic Park, and Men in Black were the three biggest films of the year ★ First DVD players arrive on the market in the U.S. ★ South Park premiered as the most controversial show on television ★ The Spice Girls were the biggest pop group in the world ★ The Backstreet Boys made their debut with breakout hit "Quit Playing Games (With My Heart)" ★ Teletubbies made its debut—much to the annoyance of parents everywhere ★ The first book in the Harry Potter series, Philosopher's Stone, by J.K. Rowling was published ★ Steve Jobs returns to run Apple Computers ★ Mars Pathfinder lands on the surface of Mars ★ YAHOO! Mail was launched on the 8th of October ★ Tiger Woods becomes the youngest golfer to win the Masters at 21 ★ The Green Bay Packers win Super Bowl XXXI for the first time since 1967 ★ The Dow Jones Industrial Average closes above 8,000 for the first time ★ "Simpsons" becomes longest-running animated series in cartoon history.



20
25
80

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State of Retail

Store closures result from more than just internet

Despite what you've been led to believe, the internet actually is not the leading cause of death for brick-and-mortar retail. While the internet certainly cannot be discounted in the discussion of why retail seems to be failing, its impact often is massively inflated as the primary source of retail's recent woes. While many look to the internet to analyze the issue at hand, an in-depth analysis of the problem elucidates more nuanced reasons.

The first is the frequent failure of stores to reinvest capital into their brands. Many companies sold to private equity firms incurred large amounts of debt and were left without the proper capital to continuously improve their stores, products and consumer experience.

Another key reason is the decline of the regional shopping mall as a center of commerce and social interaction. While historically the mall was a place for people to shop and congregate, the mall experience has come to lack a unique or fresh feeling, leaving malls stagnant and uninteresting to the modern consumer. In addition to this, the millennial generation trends toward living near or within urban infill, whereas typically most malls are products of the suburbs.

Lastly, the abundance of retail space has saturated the market to the extent that there are simply more stores than there are people to shop.

In 2007, Apollo Global Management acquired Claire's in a leveraged buyout for \$3.1 billion. While



Stuart Zall
President, Zall
Commercial Real
Estate, Denver

Apollo's intention may have been to work on the brand in order to do an initial public offering a few years later, the recession unfortunately changed these plans. Now it's 2017, and Claire's is operating at a massive loss and collapsing under

\$2.35 billion of long-term debt and colossal interest expenses, according to business and finance website Wolf Street.

Claire's was an iconic brand that dominated the highly profitable accessory market for teenage girls. Leading up to its buyout in 2007, it always had been a fun and whimsical shopping experience that historically drove business into retail centers. Now saddled with so much debt, it is questionable, at best, if Claire's will be able to survive the coming years. Without the proper capital, Claire's essentially has been unable to merchandise its stores to attract new customers, drive sales and continuously improve its business model.

The decay of malls as the classic American hub for interaction and commerce derives largely from their inability or refusal to incorporate new, experiential-based retail to draw in customers. The consumer in the 21st century has consistently demonstrated a tendency to be more willing to spend money on experiences, such as movies



Seth Goldstein
Intern, Zall
Commercial Real
Estate, Denver

and restaurants, rather than on materialistic commodities. Most shopping malls have experienced great difficulties in transitioning from primarily soft-good apparel sales to food and entertainment venues.

Locally, Littleton's Southwest Plaza recently underwent a \$75 million renovation, but it remains to be seen how effective this remodeling will be on impacting sales and customer traffic. While the owner did a wonderful job updating the property, it is unclear whether the capital investment will pay off.

Today's shoppers are looking for an increasingly authentic feeling, gravitating toward places like River North or the Highlands, where they can discover chef-driven restaurants, craft breweries, boutique shops and a general sense of local presence. If customers do decide to shop or eat at a mall, they have shown strong partiality only to those that are certifiably best in class, such as Cherry Creek Shopping Center or Park Meadows. In the retail market, malls have yet to prove not only an acute awareness of the new consumer preferences, but also a willingness to adapt and conform to it.

Looking forward, there is hope for the future of America's malls. Malls aren't dead, they're simply being left behind. To catch up to the future of

retail, it's of paramount importance that they focus on bringing in specific concepts such as Apple, Tesla or Sephora, concepts through which the product's value is intrinsically tied to the experience of venturing into the store.

Furthermore, stores that maintain a certain degree of inelasticity are essential, as they require customers to show up for their services. These are the types of businesses that expand the trade area, drive more traffic and help increase overall sales. When customers are in search of a commodity such as a coffee pot or a pair of socks, inevitably the internet can prove to be more efficient and cost effective. However, retail shopping is a form of entertainment, one meant to imbue customers with a sense of fun and satisfaction, thereby evoking imagination that can lead to further impulse purchases. As a result of this, brick-and-mortar operations must look beautiful, incorporating the best lighting and nicest build-outs to entice consumers into making purchases.

In 2016, the United States reported six times more retail square feet per capita than the United Kingdom, according to Seeking Alpha. Since 1995, the number of shopping centers has increased by 23 percent, while the population has increased by only 14 percent, according to Forbes. The U.S has up to 50 sf per capita of retail space, which contrasts starkly with Europe's 2.5 sf per capita.

Please see 'Zall' Page 27



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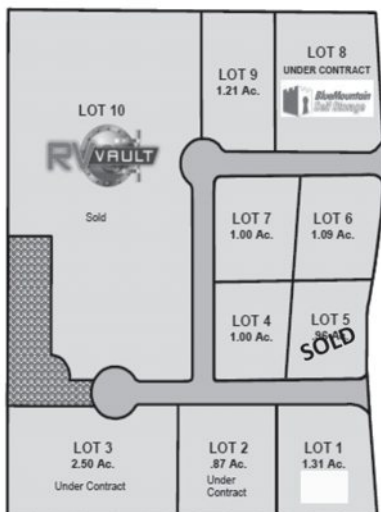
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Target Anchored - End-Cap Space 6787 S. Clinton St., Greenwood Village



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State of Retail

Millennials want evolved malls, not no malls

A current retail storyline in the national media is that the days of regional malls are numbered. The assumptions underlying this narrative are that purchases are moving online, retailers are going bankrupt, and millennials have rejected the suburban mall and the lifestyle it represents. Unfortunately, these claims are not entirely unsubstantiated.

On a national scale, the number of store closures is reaching a level unseen since the depths of the Great Recession in 2009. Between January and April, major retail chains announced plans to shutter over 3,500 stores nationally. This accounts for more than 62 million



Larry Thiel
Managing director,
Transwestern,
Denver

square feet, or 0.6 percent, of all retail real estate across the country – a significant amount of space to go dark in the span of four months. Credit Suisse predicts that up to 8,600 brick-and-mortar stores will close their doors in 2017.

Much of the focus for this deterioration has been placed on millennials, the rise of e-commerce and the cultural shift toward experience-based spending.



Brian Landes
Director of
GIS/location
intelligence,
Transwestern,
Walnut Creek,
California

In the current digital age, it is argued millennials no longer go to physical stores to buy the few material possessions they have, and the increased popularity of e-commerce has given all consumers a new avenue for purchasing goods. Retailers are now faced with the difficult task of adapting to compete with

Sports Authority, J.C. Penney, Sears, Gordmans, Golfsmith and Payless ShoeSource, the volume of closings appears to be less severe in the state than in other parts of the country.

For example, Sears Holdings, which operates both Sears and Kmart stores, announced it would close 237 stores nationwide in 2017. Only two of the 237 are in Colorado, which leaves 44 Sears and six Kmart locations operational throughout the state. Macy's, another prominent mall anchor, also underscores Colorado's relative resiliency. In 2017, Macy's announced it would shutter 68 of its stores nationwide, but none of Colorado's 14 Macy's locations were closed.

Why the seemingly optimistic outlook for Colorado's retailers compared with the national trend? Colorado's economy is outperforming much of the nation. A large contributing factor for this growth is that, according to a recent study by Zillow, 18- to 34-year-olds accounted for 35 percent of Denver's population growth from 2010 to 2014, up from 26 percent in the first 10 years of the century.

Not surprisingly, malls with the highest levels of occupancy are in areas where the millennial population is growing rapidly. Despite all the attention on urban living, it is anticipated that many millennials will follow a similar path as past generations and eventually make the migration to suburban America where they will be settling down,

the growing nature of e-commerce, shifting demographics in America's suburbs and the rise of experience-based retail.

Despite the growing number of stories that focus on malls' demise and the reality that approximately 12 percent of all retail purchases are completed online, regional malls nationally have had positive net absorption since 2010 (the only blip in absorption was in 2009 at the height of the recession). At the end of 2016, occupancy across the U.S. was 95 percent, equating to 848 million sf of space.

The story within the Colorado retail sphere is even more upbeat. There has been over 1.2 million sf of positive net absorption in the state's 19 malls since 2010, with current occupancy over 96 percent, equating to 19 million sf of occupied space.

While Colorado isn't completely immune to bankruptcies and closures from retailers such as



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Several traditional malls in Colorado, including the Streets at SouthGlenn, already have made the transformation into community destinations.

Please see 'Thiel' Page 27

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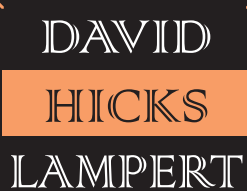
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State of Retail

Reimagine the uses for big-box vacant spaces

Multistore closures commonly force landlords to watch the lights go out on their anchor tenant(s), leaving behind the overarching question: What does a landlord do with large retail vacant space?

For larger retail centers that hold strong co-tenancy and are positioned in an area with attractive traffic counts, the task of replacing an anchor tenant or big-box space has proven to be easier than property types with different circumstances. Replacing tenants in a successful and busy center sometimes can be accomplished with simply finding other national tenants looking to close a gap in their geographic market coverage. Many of these new tenants come from the discount-focused arena as the market appears to shift in that direction for brick-and-mortar locations. However, the list of active and potential tenants across the board is irrefutably not what it once was and is forcing many owners to look for nontraditional or more complicated and expensive solutions.

In the situation of large grocery or department store vacancies, many times the only viable solution is to look at demising the space into two, three or four units. The resulting spaces tend to appeal more to the desired footprint of end users and generate a higher per-square-foot rate than if left as-is. Some of these replacements may even be the national retailers that historically would look for larger footprints, but now are looking for smaller and more specialized stores to stay viable in the market. Target, Toys“R”Us, Kohl’s,



Gannon Roth
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Best Buy and Whole Foods are just some of national tenants considering smaller store footprints in new locations.

One element that should not be overlooked by landlords and owners is that demising larger units often comes with a surprising price tag. Whether in the cost of construction or the

cost of downtime, landlords do not always find it worth it or feasible to demise a space even if the result is a more diversified property with higher per-sf rates.

The fact of the matter is construction costs are painfully high, the pool of qualified contractors is painfully low, and there are extreme backlogs and delays throughout the planning and permitting process in many municipalities. The costs to split just the electrical/heating/cooling systems and address restrooms in vacant units has been an obstacle proving to be a stopping point for more than a few of my clients.

On top of this, due to the deep bay-depth design of older stores, it often is not feasible to demise big boxes into smaller units without the result being unattractive for traditional retailers looking to maximize their storefront widths.

Without a similar, ready-to-take-over tenant, many property owners decide a full redevelopment is the only solution. Experienced and well-funded property owners may decide

to retain and complete a redevelopment themselves. However, many owners realize this is not realistic for them. As a result, with the holding costs and complexity of these projects, their only option is to sell their retail asset to an experienced developer.

A few local examples of long-time retail locations redeveloped or slated for redevelopment include:

- The recently closed Kmart property on Alameda and Broadway, which

Hampden and Yosemite into a 100,000-sf-plus indoor Edgemark Self Storage location.

- The former Safeway on Hampden and Happy Canyon slated for a repurposing into a multitenant, high-end retail and restaurant destination.

Often redevelopment in the short-term is not a viable solution due to costs, poor location, surrounding market saturation, and lengthy rezoning and planning/approval processes. When this is the case, landlords must bite the bullet and look for nontraditional users for their traditional retail space. These often are less desirable uses with lower credit and lower rates. Most owners have the obligation to keep income coming in, whether long term or short term, to keep their redevelopment project afloat or simply prevent a loss of the property to their lender. These users are frequently event centers, churches and trade/charter schools, among others. Landing one of these tenants to a poorly located retail property is not always the kiss of death. Some remain long-time tenants at a very low cost of replacement from previous tenants.

As the retail market evolves, we will continue to see many of the retailers we have known our entire lives go dark, and there will be new retailers in the market we could not imagine in the old landscape. However, I believe retail is not dying, only evolving. As an industry, we have proven we can evolve with these ever-changing markets and have the determination and creativity to keep retail viable, even if on a new path.▲

Whether in the cost of construction or the cost of downtime, landlords do not always find it worth it or feasible to demise a space even if the result is a more diversified property.

is in planning for redevelopment into a mixed-use property with as many as 350 multifamily units.

- The 2015 teardown and redevelopment of the Office Depot on

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Resurrecting retail: Leasing issues to consider

It's true, the glittering era of shopping malls is dead. Whether you blame it on the rise of e-commerce, a cultural shift toward experiences rather than things, the oversupply of malls or millennials in general (when in doubt, blame a millennial), the rapid demise of shopping malls has been staggering.

Since the start of this year, more than 1,500 store closures have been announced and up to 25 percent of American malls are predicted to close within the next five years. While many outdated malls already have been demolished and redeveloped into open-air town centers, others have incorporated new uses into their existing structures. The general shift has been toward mixed-use developments that bring together shopping, working, living and entertaining.

With the physical structures of retail centers being updated, various retail lease provisions are in need of updating as well. Here are a few issues to consider when drafting leases in today's retail environment.

- **Allocation of operating expenses.**

Traditional shopping malls generally allocate operating expenses among retail tenants based on their proportionate share of the total square footage of the project.

For mixed-use developments, however, landlords will incur certain costs that benefit some tenants but not others. Therefore, landlords will need the ability to allocate different operating expenses to dif-



Heather Park Meek
Attorney, Otten Johnson, Denver

ferent tenants. For example, if a landlord creates an outdoor seating area for office employees to eat lunch, the costs of cleaning, maintaining and repairing such an outdoor seating area should be allocated solely to the office tenants.

Landlords should establish separate categories of projectwide expenses and use-specific expenses, along with different denominators for the proportionate shares, for each type of tenant. If the different use components of a mixed-use development has or will have separate owners, the projectwide expenses should be addressed in a recorded declaration.

Additionally, the desired amenities and the tenant mix will change over time. If the above-mentioned outdoor seating area is used by the employees and customers of the retail tenants or the residential tenants, a portion of the related operating expenses should then be allocated to those tenants as well. Landlords should reserve the right to determine the amenities being offered, the tenants who are benefiting therefrom and the calculation of the tenants' share allocations.

- **Percentage rent.** Percentage rent, a form of rent that is paid based on a percentage of gross sales, is a

stalwart of retail leases. Percentage rent incentivizes landlords to select a complementary mix of tenants and provides tenants the flexibility to pay rent based on the profits of the business.

Today, the interplay between the in-store experience and online sales has made it exceedingly difficult for landlords and tenants to determine the gross sales that are attributable to the physical location. If a customer walks into a store, tries on a couple of items, but goes home and orders the same items online, will the purchase be included in gross sales? What if a sales associate helps the customer order it online while in the store? Alternatively, what if a customer buys an item online and picks it up in the store?

With many retail stores decreasing their physical footprint and storing their inventory off-site, these retail situations are becoming more prevalent. Furthermore, digitally native brands, such as Warby Parker and Bonobos, are using their physical locations as "zero inventory, high-experience showrooms" rather than traditional stores for the sale of goods. While tenants may see a boost in online sales based on their physical location, landlords do not see that same boost in the gross sales reports.

If landlords want to include a portion of online sales in the calculation of percentage rent, it will need to be captured in the lease definition of "gross sales." One approach is to include online sales that are subject to state retail sales tax. In

Colorado, the "Amazon tax" requires out-of-state companies to collect sales tax from Colorado residents who make online purchases. Many (but not all) states have passed similar laws.

Landlords and tenants would still need to negotiate how the total online sales are allocated among the multiple store locations (if applicable) and how to determine which online sales are connected to the physical location. These determinations could require additional information on customers' purchasing habits.

As percentage rent calculations become increasingly complicated, another approach is to eliminate percentage rent altogether and rely on other forms of rent. Landlords can still require delivery of gross sales statements in order to understand the tenants' financial conditions without the headache of determining percentage rent.

- **Co-tenancy requirements.** Retail leases in malls and shopping centers commonly include co-tenancy provisions, which allow tenants to exercise certain remedies if key tenants or a certain number of other tenants are not operating in the shopping center. Co-tenancies often are tied to an anchor tenant, such as a department store or a grocery store, under the theory that an anchor tenant will attract a large number of customers, which then creates foot traffic for the smaller tenants in the shopping center.

Please see 'Meek' Page 27

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TYPE OF CAPITAL	SOURCE OF CAPITAL	EXPLANATION	RATES/SPREADS	LTV/COVERAGE	TERM	AMORTIZATION	FOCUS	TRENDS
LIFE INSURANCE COMPANY	<ul style="list-style-type: none"> Insurance premiums Annuity and GIC sales 	<ul style="list-style-type: none"> Non-Recourse Longer-term fixed rate loan 	150-210 bps over the comparable US Treasuries	<ul style="list-style-type: none"> Up to 65% LTV 1.25x Minimum DCR 	5-30 Years	25-30 Years	<ul style="list-style-type: none"> Grocery-anchored centers Power Centers Top tier credit tenants Major metro areas 	<ul style="list-style-type: none"> 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)	<ul style="list-style-type: none"> Sales of mortgage-backed securities through public markets 	<ul style="list-style-type: none"> Non-Recourse Longer-term fixed rate loan 	200-275 bps over the greater of swaps or treasuries	<ul style="list-style-type: none"> Up to 75% LTV 1.25x Minimum DCR 8.0% Minimum Debt Yield 	5, 7 & 10 Years	30 Years	<ul style="list-style-type: none"> Neighborhood Centers Strip Centers Second tier credit tenants Local credit tenants Secondary/Tertiary Markets 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Corporate Debt Deposits 	<ul style="list-style-type: none"> Recourse (some non-recourse available) Shorter-term fixed and floating rate loans 	200-300 bps over bank cost of funds	<ul style="list-style-type: none"> Up to 75% LTV 	Up to 7 Years Fixed	Interest Only to 25 Years	<ul style="list-style-type: none"> Single-Tenant (NNN) Freestanding Retail Neighborhood Centers Local credit tenants Secondary/Tertiary Markets 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Private Capital Institutional Capital 	<ul style="list-style-type: none"> Non-Recourse Shorter term bridge loans for acquisition and/or repositioning 	LIBOR + 300-600 bps (some w/ floors)	<ul style="list-style-type: none"> Up to 85% LTC Going-in 1.0x DCR 	1 - 5 (3+1+1)	Interest Only	<ul style="list-style-type: none"> Grocery-anchored centers Power Centers Credit tenants Value-Add Transactions Recapitalizations 	<ul style="list-style-type: none"> Pricing depends on leverage level, property quality, and Sponsor strength
MEZZANINE/ PREFERRED EQUITY	<ul style="list-style-type: none"> Private Capital Institutional Capital 	<ul style="list-style-type: none"> Junior financing secured by a pledge of, or participation in ownership interest 	Mezzanine 8%-12%	<ul style="list-style-type: none"> Up to 85% LTC 1.10x DCR 	2 - 10	Interest Only (in most cases)	<ul style="list-style-type: none"> Neighborhood Centers Strip Centers Second tier credit tenants Secondary/Tertiary Markets 	<ul style="list-style-type: none"> 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



Marietta Trade Center
Marietta, GA
\$25,000,000 Permanent Loan
Life Insurance Company



Wilmore Shopping Center
Wheat Ridge, CO
\$6,100,000 Permanent Loan
Life Insurance Company



Northridge Plaza
Olathe, KS
\$32,500,000 Permanent Loan
CMBS

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This information is intended to illustrate some of the lending options currently available. Other options may exist. While Essex Financial Group strives to present this information as accurately as possible, no guarantee is made as to the accuracy of the data presented, or the availability of the terms at time of application. Rates and terms are subject to change. Please contact one of our mortgage bankers for up to date rate and term information.

Banking Highlight

Designing banking locations for the digital age

In the 10 years since the first smartphone was released, essentially enabling everyone to be connected to the internet all the time, the way we live, work, shop and manage our money has shifted drastically. As technology drives more of what we do on a daily basis, how we approach the design of commercial real estate spaces for traditional institutions like bank branches has reached a critical crossroads.

According to a 2016 Accenture survey on digital banking, 60 percent of consumers use online banking at least weekly. Some may interpret this as a declining need for physical bank locations as a whole, but it's important to note that among those who said they use online banking at least weekly, 87 percent said they still crave a place to go with human interaction to complement their online experience. This trend is not exclusive to banking, either – even as consumers increasingly shop online for everything from food to apparel, they still value an in-store experience where they can browse products and have their questions answered in real time.

It's clear that what this new technology-savvy generation craves is a retail and service experience that lives at the intersection of the digital and physical worlds and is intentionally designed for how people live, shop and bank today.

So what does this mean for the physical banks of our parents' generation as they now look to reinvent themselves for a new generation



Matt Rowan
Physical design manager, market destination team, consumer bank marketing, Capital One, Washington, D.C.

of technology-obsessed customers? Simply put, they need to hit refresh, both on design and concept. According to Viacom's Millennial Disruption Index, 71 percent of millennials said they would rather go to the dentist than go to their bank. Imagine if banks were places that customers wanted to go, rather than a place

they had to go? Imagine a beautiful, state-of-the-art café and community space where instead of talking to a banker behind a desk, you're sitting on a sofa with an iPad and a cup of coffee, while an ambassador coaches you through setting up an account, paying your bills online, applying for a credit card and more.

My team was tasked with creating a physical concept that brought to life Capital One's goal of taking the stress out of people's relationships with money and helping them solve their money problems and meet their financial goals. We imagined a place with meeting rooms that anyone can use, comfortable nooks and lounge seating where people can relax, and a welcoming community space with a strong education component, where people can meet, get work done, learn about new products, and enjoy a great cup of coffee and a local pastry.



Capital One Cafés are designed to take the stress out of people's relationships with money and feature meeting rooms anyone can use, comfortable nooks and lounge seating where people can relax, and a welcoming community space with a strong education component, where people can meet, get work done, learn about new products, and enjoy a cup of coffee and a local pastry.

We partnered with architecture firm Rockwell Group to bring to life a relaxing and inviting space with lots of open areas that can double as workshop and event space, creative nooks and casual seating areas for visitors to have money conversations in a more relaxed setting than a traditional bank office, and digital screens that allow visitors to browse interactive content focused on financial education. In each café, we also incorporate local design elements, such as murals and photography from local artists. In our Denver and

Boulder café locations, for example, we worked with Kelsey Montague.

Today, when a customer enters one of our Capital One Cafés, they are greeted by one of our café ambassadors, sporting apparel curated by former Project Runway contestant Shirin Askari and an Apple iWatch that allows them to order coffee for guests without having to pause the conversation. Café ambassadors are there to answer questions – not sell – and can talk to customers about

Please see 'Rowan' Page 28

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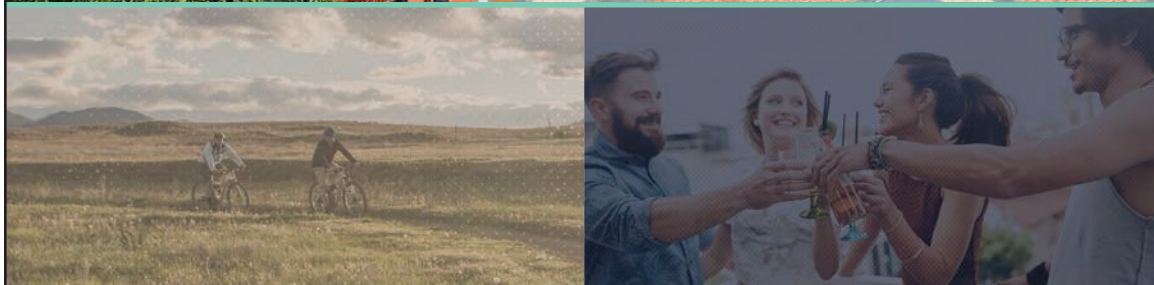
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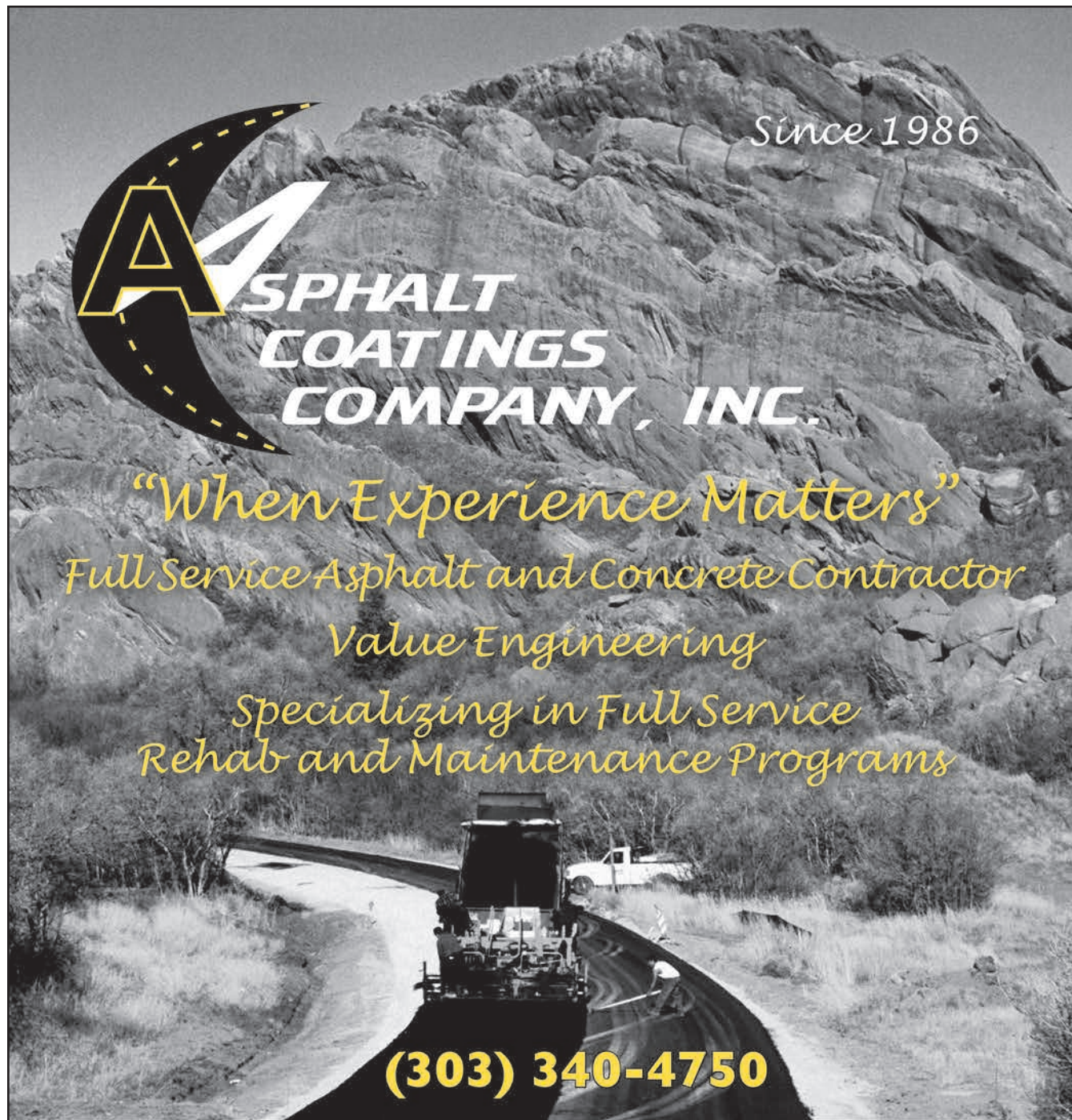
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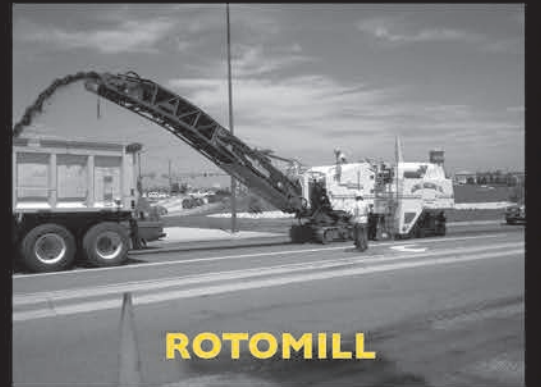
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Craft brewing makes big impact on retail real estate

Craft brewing is by no means a new trend, but one that has gained exponential popularity over the last decade – and Colorado has been a leader of the movement.

It's no secret that Americans love beer, and as the foodie culture has grown, so has the taste for quality, innovative brews. Today's beer enthusiasts are aficionados going through beer flights like a wine connoisseur would do in Napa. The current consumer culture has become more environmentally conscious, fostering an interest in how things are made and where ingredients are sourced. To that end, the premium price craft beer enthusiasts are willing to pay for quality is driving the increased demand for production – and small, independent breweries are opening across the U.S. at a rapid pace.

According to the Brewers Association, the number of craft breweries in the U.S. has more than tripled during the last 10 years, and Colorado is right in line with this trend. In fact, from 2011 to 2016 the number of craft breweries in the state grew from 126 to 334, counting only those that fall into the brewpub, microbrewery or regional categories. Colorado ranks third in the nation for breweries per capita. The highest concentrations are in Denver (58), Boulder (43) and Larimer County (34).

Microbreweries – which are categorized as selling less than 15,000 barrels per year – are growing at a faster clip than brewpubs – which are categorized as restaurants that



Ray Rosado
Retail director,
Cushman &
Wakefield, Denver

brew and sell beer on site (with an outside distribution of less than 75 percent). In Colorado, microbreweries outnumber brewpubs more than 1.5 to 1. Among the microbrewery field there is a subcategory of small, local neighborhood breweries that are holding their own against the larger-scale brewers.

Since it seems tough to compare the production sizes, perhaps the term “nano-brewery” (which has no official definition, but typically refers to production of 2,000 barrels or less) needs to gain more traction, particularly in markets like Denver. It's an important distinction because these nano-brewers are starting to take over taps in local restaurants and bars. In the interest of constantly offering something new to their customers, bars and restaurants often have rotating tap handles, which in turn offers nano-breweries, like Bruz Beer in Denver, the chance to expand distribution and increase recognition. Similar to how “big beer” felt the craft beer disruption seven or eight years ago when the microbreweries started taking their taps at local restaurant and bars, the microbreweries are feeling the disruption now from the nanos.

As the number of brewers multiplies and distribution channels become more congested, craft brew-



Pamela Flora
Director of retail
research, Americas,
Cushman &
Wakefield, San
Diego

eries are able to create their own “shelf space” by opening taprooms and selling their product one pint or growler at a time. There is an added advantage to selling on site because none of the money is shared with distributors or third-party retailers. As the business evolves, breweries are putting a larger emphasis on front-of-house retail as a way to grow business. According to a recent study done by the Brewers Association, data suggests that sales for microbreweries with tasting rooms grew faster in 2016 than those without.

Look to the larger microbreweries to start searching for places to expand their taprooms, with and without food. The next wave we'll see in Denver is the craft beer tap house – but not brewery. In some cases, these are expansions from existing craft brands that want to expand into new markets or neighborhoods and, in other cases, it can be a third-party opening a collaborative taproom where beer enthusiasts can taste what microbreweries and nano-breweries from a wider geography have to offer. Developers are looking to anchor their properties with experiential retail, and well-known craft breweries and taprooms offer that draw.

Craft breweries are starting to

define their local areas. While “creating an experience” is paramount in retail across the board, it is even more important in the craft brewing space because millennials remain the core consumer here. Breweries without an interesting atmosphere, no matter how many taps they have, will feel just like any other bar or restaurant. Breweries that incorporate open spaces for various activities, like live music, backyard-style games or even yoga classes create a fun environment that attracts both beer drinkers and nondrinkers to enjoy a collective social setting. It is not uncommon for a craft brewery in Denver to have as many dogs and kids playing as adults drinking beer.

Craft brewing hits on multiple cylinders for the local economy. Craft breweries work as economic engines, creating jobs and attracting tourism. In fact, per the Travelocity.com Beer Tourism Index, Denver and Colorado Springs both fall into the top 10 beer destinations, ranking second and sixth, respectively, among larger metros. Meanwhile Boulder and Fort Collins land at numbers two and three, respectively, on the list among smaller metros.

The commercial real estate impact of the craft-brewing trend has profoundly impacted both the retail and industrial sectors, particularly when it comes to redevelopment. Breweries can make great use of retail spaces that are hard to backfill. Of course, there are

Please see 'Rosado' Page 28

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Grocery Update

Supermarkets must enhance shopping experience

Last year, I wrote about how many of the conventional supermarkets were building larger stores that offered more products in an attempt to compete with new retailers. While this was initially a successful defense, I did not think it ultimately would be the way to defeat these new enemies in the grocery war. Today, it's rumored that Kroger, which was aggressively building larger stores, has put on hold on any new store development. Did Kroger stop building new stores because someone there read my article and agreed with me, or am I the Nostradamus of grocery war prophecies?

Regardless of my opinion, development of new stores by the conventional supermarkets has slowed, and many observers believe that conventional supermarkets face a new threat from internet giant Amazon with its purchase of Whole Foods. Will Amazon drop the A bomb, moving grocery purchasing online? I don't think so.

Many companies have tried and failed to convert customers to online grocery shopping. The conventional supermarkets fought back by offering their own internet shopping and delivery or in-store pickup options. Amazon is not new to this either; the website offers grocery products to online shoppers and has started experimenting with brick-and-mortar stores called Amazon Fresh.

When you compare Kroger with Whole Foods, it become clear that the "conventional supermarket" still



Howard Gerelick
Shopping center consultant, retired vice president of real estate, Safeway, Phoenix

dominates. Kroger has 2,778 stores in 35 states compared to 438 Whole Foods stores in 28 states. The average store size for Kroger is 62,600 square feet, compared to 39,000 sf for Whole Foods. The average sales per sf for Kroger is \$557 compared with \$915 for Whole Foods. Of the estimated \$649.1 billion in total food sales in the U.S., Kroger's market share is 17.7 percent compared to 2.4 percent for Whole Foods. However, Whole Foods clearly is the dominant food retailer in the natural food sector with a 15.7 percent market share of the natural foods sales in the U.S.

Back to the battleground, the conventional supermarkets typically feature a larger army in terms of more convenient store locations that can offer more variety than an online retailer. So why is an online retailer's purchase of a natural foods grocery chain causing so much speculation? The answer, I believe, goes back to 1980 when Whole Foods opened its first store. The opening created an excitement among consumers to buy products and prepared foods that were not typically available in conventional supermarkets. The diverse product offerings gave consumers a unique shopping experience. Even with its

limited number of stores – making it less convenient than conventional supermarkets – and its higher prices – earning the nickname of "Whole Paycheck" – the chain developed an almost cult-like following from consumers.

I believe it is access to this consumer that Amazon hopes to capitalize on with its purchase of Whole Foods. Amazon now has a retail test tube to be innovative with and to experiment with new formats, integrating the brick-and-mortar shopping experience with the uniqueness of what internet shopping has to offer.

Can the conventional supermarkets fight this new partnership? Yes, if they recognize that they will have to make major changes to their store formats. These changes need to take advantage of their convenient locations and make the shopping experience more exciting.

Just as video stores and, later, online and on-demand availability of movies were projected to be the demise of movie theaters, theaters responded by adding better sound, seating and food to make going to the movies an entertainment experience. These new theaters still can motivate customers off their couch into their luxury chairs with better screens, 3-D and waiter service, in spite of many homes having expensive home theaters.

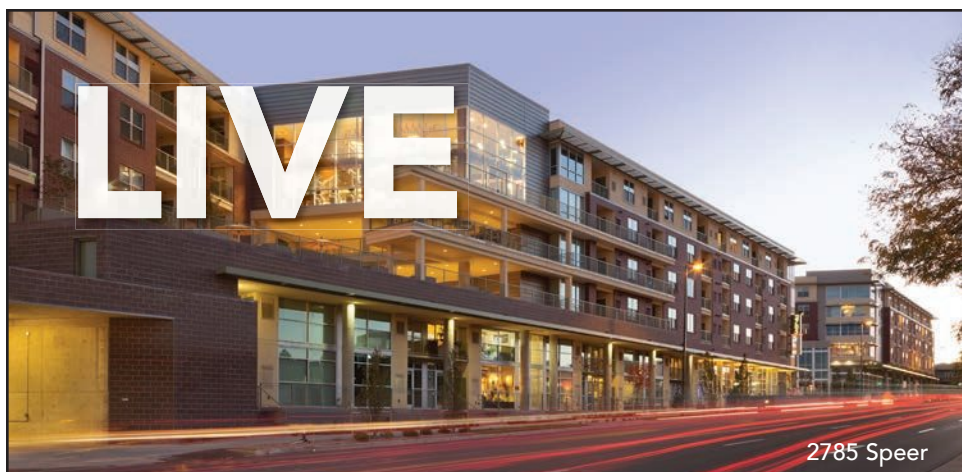
The conventional supermarkets must do the same and enhance the shopping experience for consumers – is it possible to make going to the supermarket as exciting as watching a movie in a theater?

To start, these conventional stores must look at their product mix and focus on items that consumers need daily, not on what consumers buy only occasionally. For example, customers would benefit from a larger assortment of food options, say types of chips, than they would from a larger assortment of home cleaning supplies, say mops, which are only bought on occasion.

If consumer are not provided with more food choices, they will drive past the more conveniently located supermarkets in favor of shopping at a destination store with more unique product offerings and service. It doesn't take a rocket scientist to sell food – it is a commodity we all need – but how it is sold will determine who wins the grocery war.

This is the major problem facing the conventional supermarkets. To combat it, they need to think unconventionally. I don't think you can buy a mop at Whole Foods, but you can on Amazon. By buying Whole Foods, Amazon will be able to join the best of both worlds of online and brick-and-mortar shopping.

Nobody said wars make sense, but sometimes they are needed for the greater good. Hopefully Amazon's purchase of Whole Foods and its entry in to the battlefield of the grocery war will ultimately benefit all of us. More and different stores will give us better stores. We will enjoy a better shopping experience – an experience that makes us want to go to the grocery store to see and taste the new and exciting food offerings.▲



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Management

Centers need to differentiate from e-commerce

In freshman-level marketing classes, new business students learn about the unique selling point: The differentiating factor between a product or brand and its competitors. Good marketers then use this set of attributes to create a positioning statement and hammer this message home in all marketing strategy, content and communication. Why should customers pick you over your competition? What makes you different; what makes you better?

All businesses should identify their unique selling points and the shopping center industry is no exception.

When it comes to identifying what separates a center from its competitive brick-and-mortar counterparts, these differentiators are fairly concrete to pinpoint. The standard differentiators generally are centered on tenant mix, location, amenities, safety, activities, and quality of the property and its operations.

When it comes to honing in on what definitively separates brick-and-mortar shopping centers from online retailers, the industry often has focused on attributes that are quickly expired by their fleeting uniqueness.

In the early 2000s, the brick-and-mortar industry standard to differentiate from online competition relied primarily on security and tactility. The newness of online transactions created a potential vulnerability and our industry ran with it, thinking customers wouldn't want to jeopardize their financial security



Danaria Farris McCoy, CRX, CSM, CMD
Division operations director, NewMark Merrill Mountain States, Longmont

and enter credit card data online.

This was a short-lived differentiator – in 2000, only 22 percent of adult Americans had made a purchase online, and today that number is over 80 percent, according to a 2016 Pew Research study. The majority of consumers generally are not swayed by this fear and understand

that a compromise of information can happen online, in store and even at the gas pump. It is no longer an advantage.

Another ubiquitous brick-and-mortar differentiator of the not-so-far-off past was tactility. If you come to a mall you can see the product, feel the product and try it on. Although this technically holds true today, this gap continues to rapidly close as virtual reality technology advances. This strategy also didn't take into account the rapid acceleration of smartphone technology and the ability to touch something in store, beat the price from your phone and have it arrive on your doorstep the next day.

So what, then, do shopping centers have that set them apart?

As technology continues to evolve exponentially, I believe there are three differentiators that will not dissipate anytime soon and should be at the heart of any shopping cen-



NewMark Merrill Cos.
Gold's Gym amplifies a standard indoor yoga class with an outdoor silent yoga experience at Village at the Peaks as a way to enhance customer experiences.

ter marketing and operational plan.

• **Emotion.** As a species, humans need connections. It is now possible to never leave your home and have all of life's consumer essentials brought to you at a relatively competitive price, but where's the joy in that? The faster and less complicated online shopping gets, the greater the continued need for emotional connection.

Shopping centers have long provided not only goods, but also a venue for emotional connections. And while shopping center marketing of the past focused on convenience, discounts or luxury, and how much "stuff" was available at a mall, the shopping center's unique proposition of the future is deeper. For example, a mother taking her daughter on an afternoon trip to buy a prom dress; or taking your retired father for a coffee just to enjoy the afternoon together and learn more about him; or sitting at an outdoor café to work from your laptop. A shopping center is more than a place to buy goods. It is a

community landmark that is an integral backdrop for the moments that make life wonderful and a neighborhood catalyst for creating connections that truly matter.

• **Experience.** Massage therapists have been coming to homes and offices for years. They offer the same quality massage available in a spa, but their unique selling point is convenience – we'll come to you. Yet, the spa industry has continued to grow and thrive since massages became deliverable. The two experiences aren't comparable, although the end result of "a massage" may be the same.

Shopping centers create a venue for experiencing, rather than simply transacting.

While merchants keen on surviving continue to work on developing their in-store experience, savvy shopping center owners, regardless of shopping center asset class, tenant mix or size, are honing in on the importance of the experience

Please see 'McCoy' Page 25

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Management

Help your quick turnaround TI projects succeed

One of the most common requests when working on retail and tenant improvement projects is a quick turnaround. This can be a challenging – and sometimes frustrating – situation for both the owner/lesser and the general contractor. But by working together and understanding the process up front, the experience can be successful.

In the end, both the contractor and the end user want the same results: a quality project, done safely, that comes in on time and on budget. The general contractor's name and reputation is at stake, and taking longer than planned means having to pull workers off other jobs and costs money. As a business owner, you need your doors to open as scheduled, and you may have contractual obligations to the municipality or the landlord to finish the work by a certain deadline. So what are the pinch points and how can we work together to avoid them?

• **Establish a realistic timeline.** Planning a project well in advance and establishing a realistic timeline are paramount to the success of a project. This isn't to say it can't be done quickly – but it does need to be in line with the type and amount of work being done in order for it to be done safely and to the highest level of quality.

One key factor to doing this is choosing a design team that has experience working with your specific type of project (franchise restaurant, clothing store, etc.) and, perhaps more importantly, experi-



Corey Nook
Project manager,
on-call division,
Haselden
Construction,
Centennial

ence permitting documents for the jurisdiction the project is in. Another key factor is to bring on the contractor as early as possible.

• **Be aware of permit timing.** Permits are not a glamorous part of construction. Most people know they're necessary, but often they may not understand what permits are required and the amount of time it can take to get them. Any inspectable item (such as framing, drywall, electrical, mechanical, plumbing, roofing, building façade alterations, signage, ingress/egress alterations, fire protection, life safety, etc.) needs a permit. Basically, anything that is not strictly cosmetic (e.g., paint, carpet, fixtures) needs a permit.

Because of the heavy construction climate in the Denver metro area, city and municipality building permitting offices are requiring review times of up to 12 weeks. Three months – think of how much that could set your project back if you hadn't planned ahead! And that's just building permits.

The local fire departments issue separate permits based on their review of fire protection and life safety. If your project involves items such as food preparation, child care facilities, swimming pools/spas, tattoo/piercing, etc., you also will need



Haselden
Jersey Mike's Subs on Arapahoe Road saw its tenant improvements completed in six weeks.

health department permits.

When dealing with permits, having good drawings can make a world of difference. A designer that has worked with your authority having jurisdiction can create drawings that allow permits to be issued with minimal review comments and, therefore, minimal rework on the design.

• **Bring your contractor on early.** Bringing on your contractor early in the process gives you several advantages in meeting your timeline and budget. It allows for constructability reviews, which ensures the design can be built as envisioned and diminishes the possibility of rework in the field. When your general con-

tractor provides you with real-time pricing – which they should – you will stay up to date on your budget from the beginning of the project. This eliminates surprises that may require stopping work to figure out a solution because you're suddenly (and unexpectedly) over budget.

Hiring a contractor who understands the labor market is increasingly important and with today's labor shortages, your contractor will need to start putting your team together as soon as possible – another reason to bring him on as soon as possible. If you wait until the last minute to bid the job,

Please see 'Nook' Page 28

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Aisha de Haas, vocalist
Harolyn Blackwell, vocalist

A Tribute to Ella Fitzgerald honors "The First Lady of Song" on what would have been her 100th birthday in 2017. This program will feature many of her chart-topping hits from the Great American Songbook, including "It Don't Mean A Thing (If It Ain't Got That Swing)," "How High the Moon," "I Got Rhythm," "Summertime," "A Tisket, A-Tasket," "Satin Doll," "Blue Skies," "Bewitched," and many more. Several songs will be performed with the original Nelson Riddle and Billy May orchestrations, along with others newly created by Tony Award®-nominated arranger Larry Blank. This program stars three amazing singers: Capathia Jenkins, Aisha de Haas, and Metropolitan Opera diva Harolyn Blackwell.



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State of Retail

Continued from Page 1

year retail growth of 2.6 percent, Greeley has seen growth of 3 percent and Grand Junction has seen growth of 2.7 percent.

So is Colorado immune to the problems hitting the retail sector? Not really. Already in 2017, Fort Collins saw the closing of at least one Safeway, and Boulder saw the closing of a Whole Foods. Over the last two years, Colorado Springs saw the closings of 122,630 square feet of retail stores, including Sports Authority and Golfsmith. The same two brands closed stores in Denver along with Haggen, Kmart and Neighborhood Walmart stores. Altogether, Denver has seen 440,100 sf of store closings of major brands.

If these metros are seeing store closures and yet little to no change

in vacancy rate along with positive employment growth, this suggests that other retailers are leasing the empty store space. This should not come as a surprise when considering how well the overall Colorado economy is doing. Year to date through May, the state has added 18,800 jobs in the seven main metropolitan areas (Boulder, Colorado Springs, Denver, Fort Collins, Greeley, Grand Junction and Pueblo) that make up 89 percent of the total state employment. This rounds out to an annual growth rate of 2 percent. Most of these added jobs – 12,300 – were added in Denver. Fort Collins added 2,500 jobs year to date; Boulder added 1,400 jobs, Greeley added 1,300 jobs, and the other markets have added fewer than 1,000 jobs each. More jobs means more demand for retail.

Still, although the economic news

is positive, many of the added employees are young – the demographic that prefers to shop online. What can we expect given the current state of the retail market?

One interesting analysis is measuring retail employment per 1,000 residents. We calculated this measure for all 82 metros that we track, and we found that the U.S. metro average ratio of retail employees per 1,000 residents was 50. How do the Colorado markets compare? For the four counties in the Denver area, the measure averaged 47, healthier than the U.S. average. However, it was above 50 in Arapahoe and Jefferson counties.

In Boulder County, there are 53 retail employees per 1,000 residents, 46 in Colorado Springs (El Paso County), 54 in Grand Junction (Larimer County), 34 in Greeley (Weld County)

and 46 in Pueblo County. Thus, most counties in the state are not over-retailed.

In sum, Colorado has not (nor will it) escaped the overall structural shift that the retail sector is undergoing with its shakeout of some older brands of retail stores. The good news is that Colorado is surviving the changes better than most states across the U.S. mainly due to the fact that the economy in Colorado is on sound footing. The good news is that developers are not building retail space as they had in past expansions, which will keep a cap on vacancy rate increases. Still, vacancy rates could increase in the next few quarters as the full impact of store closures is expected to hit in the third quarter, but the increase should not be too alarming given how the market has survived thus far this year.▲

McCoy

Continued from Page 23

at the center level. Although large indoor regional malls and open-air shopping destinations have long had customer service programs, owners and managers of neighborhood retail centers and grocery-anchored centers now are realizing the essential importance of experience.

We employ the Engage program, which encourages the property management team members and third-party vendors to become active in the cultivation of great experiences through eye-contact, noticing opportunities for interaction, greeting, assisting, going above and beyond, and developing exceptional experiences.

• **Engagement.** Most shopping center owners have shifted marketing budgets away from traditional brand

advertising to experiential and engagement marketing. The traditional summer concert series, tree lightings and other staple events now are surrounded by year-long creative programming aimed at driving foot traffic, which used to be generated by traditional anchors, and it works. Staying at the forefront of creating exceptional events that engage the community and partnerships that leverage community relations will be vital to the successful shopping center of the present and future.

As shopping center management, operations and marketing teams prepare strategic plans for 2018, it's time to zero in on what truly makes us different and leave simply existing so consumers can buy things behind, there's a new expert for that.▲



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Over 5,000 members of the Longmont community engaged in an American Ninja Warrior style competition with the Wolfpack Ninjas at Village at the Peaks.

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These statistics are only a few facts that are emblematic of a much larger, systematic problem: saturation. There are far more stores and shopping centers than there are people, and the effects of this tremendous volume are finally catching up with the retailers themselves. Due to the overabundance of stores, each is seizing sales from another, to the extent

that very few businesses are making enough money to justify keeping their doors open.

While the situation appears dire, in fact, a type of natural selection is taking place. Retailers are closing their doors, developers are embarking on fewer projects and, eventually, what will remain is the proper number of stores. However, this is not to say that developers need to wait out the retail crisis twiddling their thumbs;

instead, they need to adjust their mindsets. The traditional mall or basic shopping centers are no longer models for success. Developers need to focus on transit-oriented developments and mixed-use projects that include housing, offices and hotels. Developments such as these will provide built-in consumers, allowing retailers to grow a stronger, more consistent customer base. The future appears bleak with many businesses

shutting their doors, but this is not the end of retail, it is merely a harsh restructuring.

Yes, many malls, shopping centers and companies will go under in the coming years, but what will that leave behind? Healthy survivors and optimistic developers who will emerge from the ashes of retail's past and characterize the future of the retail economy with fresh ideas and new concepts.▲

Thiel

Continued from Page 12

buying homes, having children and doing activities that lead to the acquisition of goods – meaning a potential increase in shopping. As millennials continue to trend toward experience-based spending, they will require a different kind of gathering center than the traditional suburban mall their baby-boomer parents frequented.

As a result of this new demand, malls have rolled with the punches by finding new tenants, alternative uses and redesigning their spaces to appeal to the shifting demographic. The advantages of regional malls

are too good to pass up – namely, they are conveniently located to consumers, offer ample parking and often have large space blocks that are unavailable in other venues. Several traditional malls in Colorado have already made the transformation into community destinations, including Belmar, Streets at South-Glenn, Twenty Ninth Street, Gardens on Havana and Foothills.

These transformations often include shifting from enclosed hallways to open-air spaces that bring in natural light, incorporate pedestrian walkways and focus on community gathering areas. Sleepy department stores, record stores,

trendy apparel chains and novelty stores are being replaced with fresh, high-energy concepts. Entertainment users such as Jump Street, Round One and movie theaters as well as fitness users including Colorado Athletic Club, 24 Hour Fitness, boxing and rock climbing gyms are all benefitting from the recent churn in tenancy.

It is anticipated that regional malls will continue to experience more closures from anchor tenants. Contrary to popular belief, this can be positive news for the properties, as many of the pending closures are tenants that bring limited value to the community and mall owners. As

mall owners regain control of this space, there will be an increase in traffic-generating uses, namely more entertainment as well as fitness, office, medical and community uses.

The successful conversion to alternative uses depends greatly on the surrounding demographics, foot traffic and potential rental income. In many cases throughout suburban America, a repurposed mall may far exceed value as conventional retail space. Although one thing is certain: The regional mall in Colorado is far from being extinct. It is evolving into a new type of gathering place that meets the needs of its changing communities.▲

Meek

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However, it recently was reported that approximately 324 department stores consisting of up to 37 million square feet are scheduled to close in the next couple of years. Although the grocery sector has continued to grow, some national chains are experimenting with smaller formats. While some

of this available anchor space will be leased to other tenants with substantial size requirements, such as gyms, entertainment centers, music venues and schools, other anchor space will need to be divided and leased to multiple tenants. As the retail sector continually changes, landlords will want maximum flexibility to reconfigure and revitalize

their projects, with or without an anchor tenant.

To the extent possible, co-tenancy provisions should be deleted entirely or tied only to a certain percentage or number of retail stores that are operating. If the project includes nonretail uses, then any nonretail space should be excluded from the co-tenancy determination.

In conclusion, landlords and tenants are being faced with a new set of expectations and obligations when negotiating retail leases. Although this article has focused on typical lease provisions that are being updated or replaced, the changing retail landscape likely will generate a number of unique lease provisions for new retail developments.▲

Rowan

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their money habits, goals and action plans, or help them open and manage their accounts.

Guests also have the opportunity to check out the demo bar and challenge their financial knowledge through interactive screens that provide educational money content. Many café demo bars are equipped with Amazon Echos, where customers can test out the latest in voice-assistant technology and learn how to use the Capital One skills with Alexa.

As the commercial retail industry

continues to evolve, the spaces they occupy will need to evolve as well if they want to stay relevant. Providing great products and great customer service is essential, but it's equally important to connect and engage with customers through your physical space by showing them, not just telling them, that you are an innovative and future-focused retail business that caters to the way people live and interact with your products now. The future of banking – and commercial real estate as a whole – is exciting, and new concepts like the Capital One Cafés are just the beginning.▲



Capital One Moving away from the typical banker sitting behind a desk, "ambassador coaches" touting iPads meet with customers to answer questions in a more casual environment.

Rosado

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certain requirements for production, which include high ceilings for kettles – usually 12 feet or higher – and slab-on-grade to accommodate kettles that can weigh as much as 15 tons, depending on the brew system.

Real estate deals for microbreweries are special in that the brewers need to obtain approvals based on their production and distribution, but they need to have a lease in place (with appropriate contingencies) before they can set up their systems. Deals usually require four to six months of free

rent as the brewer sets up operations and navigates the approval process.

While the craft brewing trend is in a new phase of maturity, there are still many opportunities for growth. According to a list of upcoming breweries compiled by COBeerGeek, there are 190 in various stages from con-

ceptual plans to current construction across the state of Colorado. In metro Denver, the trend might slow down due to the sheer number of breweries that have opened in the last few years, but we feel growth across Colorado will continue booming for years to come.▲

Nook

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you may not find the workforce to complete it and costs will increase accordingly. Utilizing the general contractor early also permits a collaboration between him and the designer to further help keep your timeline on track. For example, if a long-lead item is going to push the project past the deadline, they can work together to procure these items early or suggest in-stock items that will fit within the schedule.

• **Consider a construction manager/general contractor delivery method.**

Some owners choose to negotiate directly with their selected general

contractor in lieu of the typical design-bid-build delivery method. This "hard bid" process leaves precious little time to understand lead times, overall construction durations and constructability. The subcontractor market can then dictate the schedule based on its availability and may not take into consideration the owner's requirements. By negotiating in an open-book fashion with the general contractor, you can better customize your construction team who then understands the owner's expectations and drives toward a common goal.

• **What else can you do?** Planning ahead is the single biggest thing you

can do to make your project a success, however there are many things that may seem somewhat inconsequential that can have a major impact on your project. Making sure that your financing is in place before you begin and having documentation that shows it's in order (such as a letter from your bank) is very helpful. Make sure everyone involved in the project understands from the start what changes are and are not allowed to be made to the property – and who will be paying for each of those changes – this will save headaches and precious time during construction.

Ensuring the design team under-

stands the branding standards (especially in the case of a franchise) is crucial. If you, as an owner, are providing items that will be used in the construction process, be sure those items are ordered well ahead of time and coordinated within the design documents to avoid delays.

Finally, being responsive and decisive are two of the most important aspects of a quick-turn project and can make the difference between finishing on time and not.

There's no doubt that quick-turn projects can be a challenge. But when all the parties involved work together to make them a success, it makes all the difference.▲



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