A Colorado Real Estate Journal Publication

August 2021

RETAIL PROPERTIES Quarterly

Food halls bring opportunities to smaller communities

Regular Architecture

When a food hall owner covers most of the build-out costs and provides kitchen equipment, as is the case for the future Fuel & Iron Food Hall in Pueblo, restauranteurs have a much more approachable cost to getting a business started. In smaller markets with reduced lender and investor pools, this can be the difference between chefs opening restaurants or abandoning their dreams.

Opening a restaurant is always a challenging endeavor, especially with the uncertainty caused by the COVID-19 pandemic. Restaurant build-out costs often are a few hundred thousand dollars, putting restaurant ownership out of reach for many chefs looking to establish their first restaurant. This challenge is compounded in smaller communities like Pueblo, where the buildings are generally older, requiring an increased expense to convert the space into a restaurant. Furthermore, landlords in smaller markets often lack the financial capacity to provide tenants with significant improvement allowances. Landlords also may be hesitant to provide a large allowance even if they have the capacity to do so because lower market rents may not offset the upfront cost of the allowance.

Nathan Stern
Assistant vice president, Broad Street Realty, and co-developer, Fuel & Iron

Given the greater challenges of opening restaurants in smaller markets, food halls can make considerable impacts in these communities. A food hall can be scaled up or down to house an ideal number of restaurant spaces to support the economy. A prime example of this is the Warehouse Food Hall in Craig, population 9,022, which features three vendor spaces in addition to a central bar, fitting for a community of its size.

While the economic models vary by food hall, in some situations, such as the future Fuel & Iron Food Hall in Pueblo, the food hall owner will build out the restaurant spaces and provide kitchen equipment. This reduces the expense on the restauranteurs to only cover signage, inventory, pre-opening labor and marketing costs averaging around $20,000, a much more approachable number than trying to open a brick-and-mortar restaurant. In smaller markets with reduced lender and investor pools, this can be the difference between chefs opening restaurants or abandoning

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INSIDE

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COLORADO REAL ESTATE JOURNAL

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All Colorado Real Estate Journal conferences will adhere to Colorado Department of Public Health & Environment COVID-19 requirements.

7:00 - 7:25 a.m.
Check-in, Registration and Networking

7:25 - 7:30 a.m.
Welcome and Opening Remarks

Emcee: Carl Schmidtlein, P.E., LEED AP, CPESC, CDP, CRX - Principal, Galloway & Company, Inc.

7:30 - 8:15 a.m.
Broker Panel: Industry Forecast and Retailer Review

Jon Weisiger - Senior Vice President, CBRE

Tony Pierangeli - Managing Principal , SRS Real Estate Partners

Kenneth A. Himel - Broker, David Hicks Lampert

Courtney Dahlberg Key - Partner, SullivanHayes Brokerage

Cory Dulberg - Broker, NAI Shames Makovsky

Kelly Greene - President, Urban Legend

Moderator: Stuart Zall - President, The Zall Company

8:15 - 9:00 a.m.
Single Tenant NNN Panel

Erika K. Shorter - Vice President, Acquisitions, Evergreen

Lucy Dinneen - Managing Director-Central Division (Rocky Mountain and Northwest Regions), Cadence Capital Investments

George Balafas - Co-Founder/ Managing Partner, Kentro Group

Zach Wright - Director & Partner , Blue West Capital

Matthew J. Henrichs - Senior Vice President, CBRE | Capital Markets

Moderator: Drew Isaac - Senior Vice President, Investments , Marcus & Millichap

9:00 - 9:45 a.m.
Networking Break

9:45 - 10:30 a.m.
Capital Markets Panel

Brad Lyons - Executive Vice President, CBRE | Capital Markets

Riki Hashimoto - Executive Managing Director, Capital Markets, NEWMARK

Jason Schmidt - Managing Director, JLL Capital Markets

Jon D. Hendrickson - Managing Director, Cushman & Wakefield, Capital Markets | Investment Sales & Acquisitions

Ryan Bowlby - First Vice President Investments, Marcus & Millichap

Moderator: Peter Keepper - Principal, Essex Financial Group

10:30 - 11:00 a.m.
Colorado Food Halls

Troy Guard - Chef | Owner, TAG Restaurant Group

Nicholas Gray - President, Bonanno Concepts

Justin Croft - Vice President of Development & Leasing, Zeppelin Development

Moderator: Kristoffer Kenton, AIA, NCARB, LEED AP - Director of Architecture, Partner, Galloway & Company, Inc.

11:00 - 11:45 a.m.
Development & Investment Strategies Panel

Tyler Carlson - Managing Principal, Evergreen

Will Damrath - Vice President, Market Officer, Regency Centers

Mark Sidell - President, Gart Properties

Dusty Batsell - Executive Vice President of Real Estate, Baceline Investments

Celeste Tanner - Chief Development Officer, Confluent Development

Moderator: Carl Schmidtlein, P.E., LEED AP, CPESC, CDP, CRX - Principal, Galloway & Company, Inc.

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Letter from the Editor

Outlook offers optimism tinged with anticipation

In reading this issue, you'll discover there's renewed hope that retail sales are turning the corner and market fundamentals are starting to reflect numbers similar to those before COVID-19 entered our lexicon; but also there's trepidation about what the next few months will bring.

The economy is growing quickly, but the pandemic still threatens that progress, according to the National Retail Federation. "Gross domestic product surpassed its pre-crisis peak during the second quarter and vigorous growth is expected throughout the rest of the year. It is a very different year from 2020 and a much better one," said NRF Chief Economist Jack Kleinhenz. "The economic momentum has been helped by government monetary and fiscal policies and, more importantly, the rollout of COVID-19 vaccinations."

Kleinhenz went on to say that, "Vaccination is the key to further economic recovery, reopening and rebuilding."

Colorado recently reported 70% of the eligible population is vaccinated, but if you take into account those who can't get vaccinated yet, the number of fully vaccinated Coloradans dips to 54.7% as of Aug. 5. The delta variant now accounts for 95.5% of all new COVID-19 cases, which brings fears for more shutdowns, occupancy limitations and mandates as we head into fall.

Additionally, fears about increasing inflation are becoming more common. While many experts are claiming that rising inflation will be short-lived, some fear it could be a topic of conversation for much longer. A tight labor market and rising prices are contributing to inflation, but there's hope that as the extra unemployment benefits sunset in early September, more folks will start working again and help alleviate some of these pressures. However, if schools struggle to stay open amid surging COVID-19 cases, the numbers won't rebound as quickly.

Yet, even as we find ourselves trying to anticipate what comes next for retail, we're reminded that the market is resilient and fluid. Disrupters come and go. People are social, they like buying things and they like new experiences. As the pandemic very clearly showed us, people also like convenience, safety and reliability. Retailers that embrace both sides of the consumer coin are proving to be capable of riding this wave too.

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AS IT TURNS OUT YOU CAN BUY LOVE
INVESTING IN TECHNOLOGY ALLOWS US TO BETTER UNDERSTAND OUR CUSTOMERS AND PROVIDE THE OPPORTUNITY TO EARN THEIR LOYALTY. BY USING OUR WIFI ANALYTICS AND OUR MERCHANT CENTRIC TOOL, WE CAN TELL WHO LOVES US. THEN TAKE THE STEPS TO EARN EVEN MORE LOVE.
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470,000 Sq. Feet
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Englewood, CO
98,228 Sq. Feet
Fort Collins Marketplace
College Ave. & Horsetooth
Fort Collins, CO
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17th Ave. & Pace St.
Longmont, CO
80,454 Sq. Feet
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Denver, CO
18,218 Sq. Feet
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Ken Pratt & Hover St.
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Market Update

Denver retail took first steps toward recovery in Q2

As the rate of vaccinations increased and government restrictions eased this spring, national consumer confidence and retail sales hit their highest levels since the onset of the pandemic. In the second quarter, the Denver retail market posted positive quarterly net absorption (210,300 square feet) for the first time since the onset of the pandemic as tenant demand, especially from national and regional restaurants, picked up.

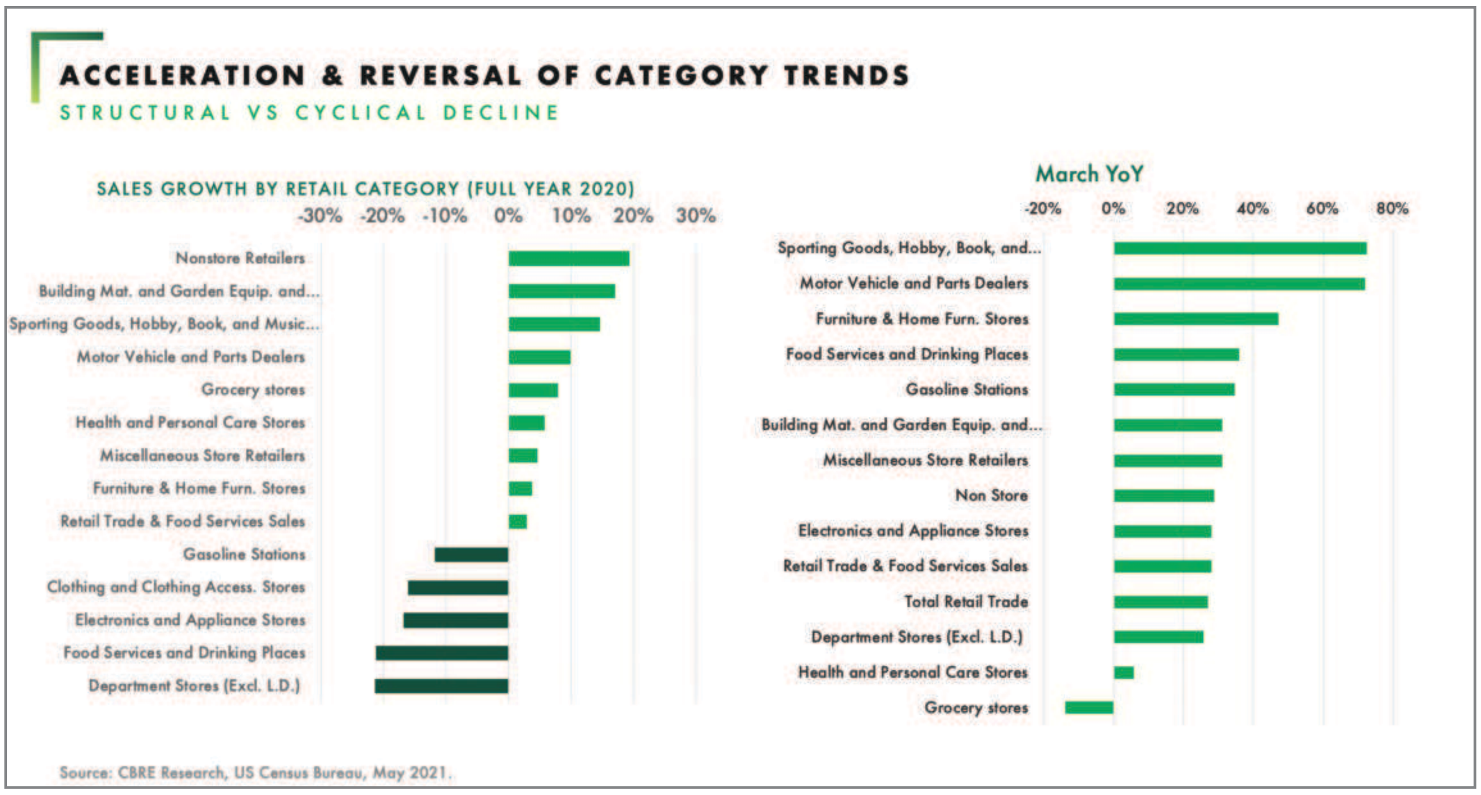
Jon Weisiger
Senior vice president, CBRE

Further improvement is expected as tenant activity has picked up. At Home's 80,000-sf store opening in Lone Tree was the largest of the quarter. Nine projects totaling 343,500 sf were delivered in the second quarter, with 69.2% of space pre-leased. Two were large downtown projects: McGregor Square (90,000 sf) and Market Station (82,000 sf). The development pipeline is expected to pick up as several new developments, some of which were previously delayed, will break ground in the third and fourth quarters. Investment sales volume nearly doubled quarter over quarter to $312.2 million.

■ **Consumer spending.** Throughout the pandemic, spending dropped almost equally across all industries of employment. Government stimulus and unemployment benefits encouraged spending among lower household income groups while higher-end income groups experienced reduced spending on services and travel/hospitality. Already we are seeing a surge in spending due to pent-up demand as stores have reopened ("revenge shopping"), especially as higher-income groups put away more in savings during the pandemic than ever before. Top quartile earners spend the most on nonessential goods and will lead the rebound.

■ **Which segments are resilient?** Reversing the 2020 trends, consumer spending in 2021 has increased substantially for sporting goods retailers, motor vehicles, nonstore retailers, building materials, garden equipment, hobby stores, motor vehicles, grocery stores, health and personal care, and home furniture. While there have been some modest gains in apparel, many retailers are pointing to an increase in spending as children return back to school and workers return back to office environments and entertainment venues.

In the restaurant sector, the recovery already has impacted the quick-service and fast-casual segments as many leases were inked in the first half of the year. Demand also is increasing among full service dine-in concepts as well. Through much of 2020, grocery store sales were achieving year-over-year record growth as consumers stayed at home. That trend has reversed as more and more consumers are comfortable venturing out to restaurants as an alternative to dining in. On a national level, gross spending on dining out is just now trending back to exceed dollars spent on groceries. Some of the lasting impacts in both segments include larger focus on drive-thru, takeout



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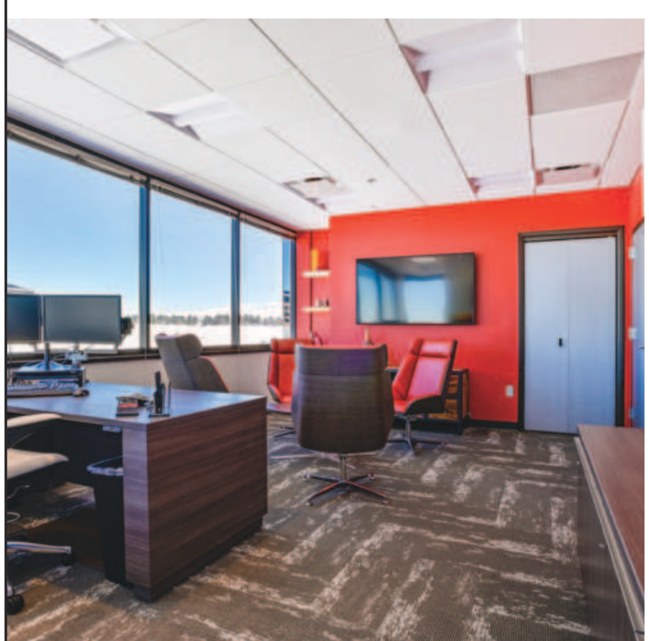

Market Update

Colorado retail real estate proves resilient, again

Experts have feared technology and rapid adoption of e-commerce would result in a demise of retail; however, the reality is that those fears – and predictions – have proved to be quite different. Even with more consumers relying on e-commerce and various operating restrictions for retailers throughout the pandemic, retail sales are rebounding due to pent-up demand. As it turns out, retail real estate has once again proved resilient, especially in Colorado markets.

The vaccine rollout allowed states to ease restrictions and, with it, investor interest in retail has returned. As evidenced by recent transaction volumes, the pandemic also caused pent-up demand in both the equity and debt markets.

Lifestyle changes made during the pandemic have increased Colorado's popularity. This is accentuated by the fact that the last decade has been a time of strong job and population growth for Colorado; yet, the growth in new construction for retail has been historically low. The result is an extremely healthy dynamic for the retail market that, when coupled with the continued liquidity in the market, will elevate Colorado's retail real estate market beyond pre-pandemic volumes.

The popularity in Colorado is seen throughout the state. Our capital markets team recently worked on assets within the Front Range and among the mountain communities along the Interstate 70 corridor. Investors view the Front Range as

Jason Schmidt
Managing director, capital markets, JLL

a place to invest, with strong consideration for both Colorado Springs and the Northern Colorado markets, especially Fort Collins. The mountain resort communities have experienced extraordinary growth throughout the pandemic, which has increased their desirability with investors. As an example, Summit County has experienced a 15.1% increase in home value in the last year, and, in Breckenridge, the median sales price for a home increased 30% in June alone, with the trend expected to continue for the coming months.

Nationally, according to JLL research, the total U.S. retail transaction volume was over $10.7 billion for assets over $5 million through May of this year. Grocery-anchored retail continues to top the list as the most desired asset class; however, community and neighborhood centers have the highest trade volume due to their availability and the preponderance of private capital. Given the performance in retail sales and the compression of cap rates in other asset classes, retail is a comparatively strong value. Investors experiencing higher-than-expected competition in the multihousing and industrial markets will look toward retail for a higher yield.

With a backdrop of strong economic growth and increased foot traffic at retail locations, the U.S. Census Bureau recently published its advanced monthly retail trade report. The report shows June at an 18% increase from last year. Additionally, the apparel category saw its sales jump 47.1% from June 2020, while the food and beverage segment saw a 40.2% increase from last year. Overall, the year-over-year comparison shows a robust rebound in June. Additionally, the National Retail Federation predicts retail sales will grow between 10.5% and 13.5% in 2021.

The pandemic has accelerated trends, making the retail industry stronger by solidifying new patterns and sluffing off weakness. One area that is experiencing substantial changes is the mall space. Many malls were struggling pre-pandemic, and we are now seeing the full effects. New data from our firm for June has the vacancy in the national indoor malls space surpassing suburban shopping centers and strip malls. The data predicts that the U.S. indoor mall vacancy rate will be close to 9% this year while outdoor shopping centers will be around 7.8% and power centers nearly 7%. As a comparison, in 2009 mall vacancy was 5% while its counterparts where closer to 11%.

The transition in the mall space is illustrated by two recent transactions in the Colorado market. Although these properties were traded at a fraction of their respective cost basis, they both will benefit from new ownership and remain key contributors to the retail environment in the surrounding communities.

We recently brokered the sale of the 647,000-square-foot Foothills Mall in Fort Collins to a partnership between McWhinney and Prism Places. Developed in 1973, the mall has strong connectivity to both Old Town Fort Collins and Colorado State University and is a key parcel in the Northern Colorado real estate landscape. In the hands of new ownership this asset will experience meaningful transformation with substantial investment and "redensification."

Earlier this month, Seattle-based Bridge 33 Capital bought the Belmar Shopping Center. The 1 million-sf mixed-use project acts as the downtown for Lakewood and is a true "sense of place" in the community. The reset basis in the property will allow new ownership to work with a combination of office and retail users to reprogram the project to better meet the needs of its market and along with it solidify its viability.

Given its strong performance, Colorado's retail has elevated itself during the downturns of the last several decades. Post-pandemic, we continue to see the same result. With unprecedented capital for acquisition and reinvestment, Colorado will continue to be a premier location for investment and, this time, the effect will be felt deeper throughout the state. ▲

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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	165 - 250 bps over the comparable US Treasuries	• Up to 65% LTV • 1.50x Minimum DCR	3-30 Years	20-30 Years	• Grocery-anchored centers (majority of income derived from grocer) • Internet proof infill neighborhood centers • Top tier credit tenants • Major metro areas • Low leverage requests	• Life companies have tightened underwriting parameters to be more conservative. This includes: lower loan to values and higher vacancy factors • Lenders want to understand collections, any relief requests or lease amendments, and tenant viability prior to funding • More due diligence at both the property and Sponsor portfolio levels required in order to obtain committee approval. • Best execution at or below 60% leverage, but some will push to 65% on the right deal • Full-term I/O available on some grocery-anchored centers up to 55% LTV
CONDUIT (CMBS)	• Sales of mortgage-backed securities through public markets	• Non-Recourse • Longer-term fixed rate loan	175 - 250 bps over the greater of swaps or treasuries	• Up to 70% LTV • 1.40x Minimum DCR on NCF • 8.5% Minimum Debt Yield on NCF	5 & 10 Years	25-30 Years	• Grocery-anchored centers (majority of income derived from grocer), those specifically positioned to withstand the COVID-19 pandemic • Internet proof infill neighborhood centers • Top tier credit tenants • Major metro areas	• Have broadened their appetite for well positioned grocery and non-grocery anchored retail centers • Reserves have been removed in most cases • Focused on acquisitions or cash-neutral refinances in the current environment • Full-term I/O available on some properties up to 65% LTV
BANK	• Corporate Debt • Deposits	• Recourse (some non-recourse available) • Shorter-term fixed and floating rate loans	200 - 300 bps over corresponding treasuries L + 250-325 floating (0.50% Libor Floor)	• Up to 65% LTV	5-7 Years Fixed	Interest Only to 25-30 Years	• Grocery-anchored centers (majority of income derived from grocer) • Internet proof infill neighborhood centers • Top tier credit tenants • Major metro areas	• More focused on quality assets (grocery-anchored centers, irreplaceable retail) but have broadened profile to include lesser quality assets • Most competitive for Sponsors with established banking relationships and strong borrower history that are willing to accept recourse; standards are tightening for Sponsors with no deposit relationship • Primarily recourse loans, with non-recourse available to strong Sponsors • 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 + 350-600 bps (0.50% Libor Floor)	• Up to 75% LTC • Going-in 1.0x DCR	1 - 5 (3+1+1)	Interest Only Years 1-3	• Grocery-anchored centers • Properties with strong operating history • Credit tenants • Value-Add Transactions • Recapitalizations	• More focused on quality assets (grocery-anchored centers, irreplaceable retail) but have broadened profile to include lesser quality assets • Pricing depends on leverage level, property quality, and Sponsor strength • Likely need a business plan with strong anchor for retail
MEZZANINE/ PREFERRED EQUITY	• Private Capital • Institutional Capital	• Junior financing secured by a pledge of, or participation in ownership interest	Mezzanine 7%-11%	• 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

DCR - Debt Coverage Ratio
DUS - Delegated Underwriter Servicer

LTV - Loan to Value Ratio
LTC - Loan to Cost Ratio

LIBOR - London Interbank Offered Rate
REIT - Real Estate Investment Trust

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.

Essex Financial Group - Recent Retail Transactions

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Spanish Fork, UT
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Life Company

Webster Lake Promenade
Northglenn, CO
$15,600,000 Permanent Loan
Life Insurance Company

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Parker, CO
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Investment Market

Pre-pandemic activity and trends pick back up

Ryan Bowlby
First vice president investments, National Retail Group, Marcus & Millichap

Contrary to what many were forecasting, retail assets in Colorado have been trading at yield metrics as aggressive as, and in some cases more aggressive than, they were pre-pandemic. The rollback of business restrictions during the early portion of 2021 has lifted consumer spending at Denver restaurants, bars and entertainment destinations. These venues also benefitted from the MLB All-Star Game, which brought a foot traffic into Lower Downtown that rivaled pre-pandemic levels. In addition, Colorado is among the top five states in the country with respect to 2021 job growth relative to pre-pandemic employment levels, driven heavily by gains in the leisure and hospitality industries. These economic improvements, along with sustained population growth, are generating demand for available retail space. During the second quarter, positive absorption was recorded for the first time since the summer of 2019. Colorado's appeal to national investors has only increased during the pandemic, as the Mountain West and Sunbelt have seen sustained population inflows from more congested cities on the West Coast and the Northeast.

Fueled by service industry, technology and logistics-related job creation, the metro area is poised to record annual employment growth of 6.1% this year, translating to the addition of nearly 89,000 jobs. By the end of 2021, the number of employed individuals in Denver is projected to trail the pre-pandemic mark by just 1.3%. This job creation bodes well for future consumer spending at essential and nonessential retail shops and restaurants, and it should assist in absorbing Denver's vacant stock, which expanded by 874,000 square feet over the past four quarters ending in June. While the current vacancy rate of 5.7% is healthy by historical standards, it is 160 basis points above the market's low point recorded in late 2018. The increase in available space coincided with a 3% uptick in average asking rent, which pushed the metro area's mean asking rate to $18.50 per sf. A third consecutive year of rising vacancy is likely to prevent operators from pushing market rents on a metrowide basis. However, properties in supply constrained submarkets likely will see strong demand from restaurants and entertainment-related retailers as they re-enter the market in the second half of 2021 after delaying their expansion plans.

Private capital and high-net-worth investors have targeted stable, cash-flowing neighborhood centers but often have found little or no inventory available. This dynamic has led to very strong sales for quality, income-producing properties with multiple offers and quick marketing periods. One such property we recently closed was Parker Gateway, which featured a Starbucks with a drive-thru and Car Toys. We began receiving offers almost immediately upon commencing marketing and were under agreement within two weeks. Recent deal flow demonstrates robust investor demand as the past 12 months ending in June have seen a 12% increase in transaction activity in Denver. This elevation was partially driven by a historically active fourth-quarter 2020, where the number of closings rose by nearly 20% year over year.

Quality, income-producing properties are seeing strong sales with multiple offers and quick marketing periods. One such property, Parker Gateway, began receiving offers almost immediately upon marketing and was under agreement within two weeks.

Given the intrastate migration trends from urban to suburban, which predate the pandemic but have accelerated since, private buyers (both locally and nationally) have shown an increased willingness to chase the population growth to various tertiary markets in the state. Colorado Springs, Fort Collins and the U.S. 34 Corridor (Greeley, Loveland and Johnstown) have seen increased demand and transaction velocity. These markets have more favorable cost of living and strong economic drivers in place, such as a major university, collection of tech or defense industry employers, or key locations along Interstate 25 allowing for residents to commute easily.

While many investors began lining up capital to chase distressed retail assets since the early days of

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Investment Market

Investment trends leading Colorado's retail recovery

Consumer confidence and national retail transaction volume reached their highest levels since the pandemic began in the second quarter. This statistic was true of the Colorado retail investment sales market, which experienced an increase of 184% in transaction volume from the onset of the pandemic. Since January, the retail sales market in Colorado saw an acceleration in recovery, which was primarily driven by low cost of capital and limited inventory. These two factors have fueled the demand for both single-tenant net-leased and multitenant properties in Colorado. As demand increases, we've seen three major trends emerge: an influx of out-of-state capital, a transformation of consumer needs and investment criteria, and an unprecedented pursuit for grocery assets.

Carly Kelly
Director, investment sales, Blue West Capital

■ **Influx of out-of-state capital.** The Denver metropolitan statistical area has become one of the most desirable regions in the nation to invest in due to its unparalleled population growth, expanding educated workforce and competitive business environment. This has brought an influx of out-of-state capital into the Denver MSA over the last few years and specifically into the retail real estate space.

Overall, $340 million in assets traded in the second quarter in the Denver MSA. The three largest retail transactions of 2021 were all acquisitions by out-of-state investment firms. Most recently, Belmar, the large retail and office district in Lakewood, was bought by Bridge33, a Seattle-based real estate investment firm. The asset traded for $113 million and closed June 28. In March, Quebec Village Shopping Center in Centennial closed for $20.8 million and was purchased by Kensington Development Partners, based in Chicago. The third-largest retail transaction this year was the sale of the Sprouts-anchored center in Englewood. Gerrity Group from California bought the property in May for $14.9 million. In the past 12 months, only 34% of total transactions were purchases by Colorado-based investors, while 66% were by national and foreign investors. This is a trend that has been increasing consistently year over year.

■ **Consumer trends transforming investment strategy.** As we emerge from the pandemic, it's evident that consumer behavior has changed. Retail consumers now require e-commerce and convenience. When asked, 68.2% of U.S. adults said they will rely on curbside pickup as a result of their behavior during the pandemic. Simply stated, e-commerce went from convenience to necessity during the pandemic and will remain a necessity as we continue through the recovery and beyond.

Implementing curbside and online pickup, offering a drive-thru and having an effective omnichannel approach are a few ways in which retailers are adapting. As investors look at acquiring stable and accretive cash flow for the future, they are paying a premium for retail properties that align with the evolving needs of consumers. This is reflected through the unrivaled demand for long-term STNL assets with a drive-thru or serviced-based tenants, grocery-anchored shopping centers and smaller stabilized multitenant properties. These assets have shown to be resilient during the pandemic. Stabilized power centers in tertiary markets remain the most challenging among retail dispositions since some big-box retailers have struggled to adapt to e-commerce. Investors have less confidence in the longevity of stabilized power centers, which has driven up cap rates and limited the buyer pool.

■ **Demand for grocery.** While demand for STNL has reached historic levels, the multitenant retail sector experienced unprecedented volatility and challenges during this past year. Investor sentiment around the multitenant sector suffered the most due to the pandemic's impact on tenants, inability to finance and broader macroeconomic uncertainty. The exception to this was grocery-anchored properties. Grocery-anchored shopping centers were highly sought after due to their essential nature and unprecedented sales growth, which led to historical cap rate compression.

Grocers also started adapting. Online ordering, delivery services and pickup went from conveniences to essential needs. Many grocers that already utilized third-party services for pickup and delivery transitioned to developing their own platforms. Digital grocery orders made up only 5% of all pre-pandemic sales, but in 2020 online grocery sales grew to 52%. Grocers were one of a few retailers that implemented large expansion plans during the pandemic. A couple of examples include Aldi opening 70 stores during 2020 with plans to open 100 more this year, including adding curbside pickup to 500 additional stores. Kroger and Ocado opened their first of many robot-run fulfillment centers in 2021, giving them the ability to fulfill the accelerated pace of e-commerce orders. Finally, Amazon released two new grocery prototypes and will continue to expand its brick-and-mortar grocery footprint in the coming years. The stability, growth and transformation of the grocery sector reinforces this segment as a superior investment.

■ **Outlook.** The outlook for retail properties in Colorado remains positive amid a reopening economy. Consumer spending has increased, domestic travel has returned and unemployment is declining. All of these are crucial drivers for the continued progress of the retail investment sales market. The outlook remains mostly positive, but the unknowns with the new delta variant, the uncertainty of 1031 exchanges and inflation concerns could drastically impact the retail market going forward. ▲

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Trends

Local governments can help retailers succeed

A few weeks into pandemic-driven shutdowns of indoor retailing and food service businesses, real estate and economic development professionals believed that COVID-19 would inherently change the way businesses, consumers and landlords would behave, and forever alter the landscape of the retail industry and its economics. After some observation it became apparent that the pandemic was not incredibly disruptive to retail as an industry, but rather it acted as an accelerator of change already in motion, fast-forwarding the adoption curve of certain consumer behaviors. For brick-and-mortar retailing to not only remain competitive but also to thrive in this new future, several factors are necessary, including integration of more holistic elements and placemaking, choices for consumers and the incorporation of a synergistic mix of uses. The intent is to attract more organic foot traffic. Local land development policies and economic development strategies will need to be updated to support these repositioning and redevelopment efforts.

The factors above are driven by specific stakeholders, including the retail businesses, shopping center and real estate owners/developers, and local governments that manage the regulatory environments. Sustainable retail success lies within the confluence, where the vision and appetite of these respective stakeholders is aligned. In an ideal scenario, retailers will be able to deliver a built environment

Daniel Ryley, CEcD
Executive director, Arvada Economic Development Association

that provides the products, services, experiences and environments that consumers are seeking with little to no uncertainty regarding feasibility within shopping centers and local land use policies. How cities respond with updated or modified land use policy will have a direct impact on their tax revenue stability and sustainability.

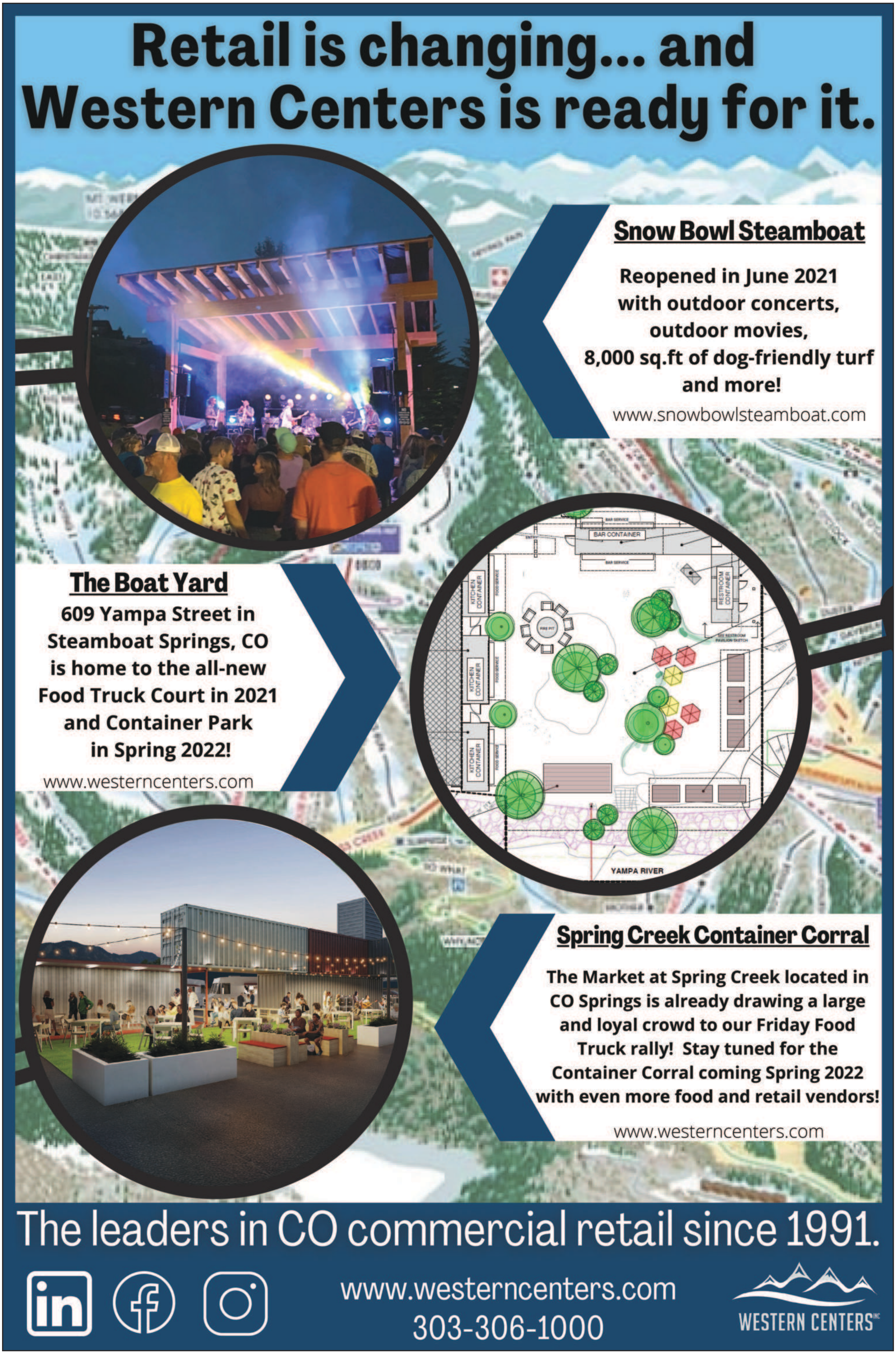
For many Denver metro area municipalities, as much as 60% of general fund revenues may come from sales tax (the rest comes from service fees, permits, federal and state funds, and property tax). This dynamic has created behaviors within cities that, in many instances, over-prioritize and protect retail development. After the Great Recession shifted consumer spending to include more experiences, and paired with the emergence of e-commerce, the landscape of most cities has been left "over-retailed," a condition of having too much square footage and not enough customers. The outcome: Vacant storefronts and buildings that may be leased to non-sales-tax-generating uses or low-economic-impact uses. The South Dakota v. Wayfair Inc. Supreme Court ruling has bought municipalities some time (cities are now collecting sales tax revenues on online purchases delivered within their borders); however, cities need to work with the retail industry to better align what this land use will look like in the future.

The emerging needs of sustainable retail real estate require transitioning from the current state to an environment integrated with flexible and creative uses, including residential, employment, light manufacturing and distribution such as breweries and distilleries, traditional retail and food service. Within mixed-use real estate areas, retail can be complemented by public spaces and placemaking while still optimizing access, density and foot traffic, and thereby the amount of transactions. These diverse elements often conflict with allowable uses within cities' current commercial zonings, which may tailor to traditional retail, but not the diverse and synergistic uses which generate customers for those types of businesses. Local governments must look into their land use policies and existing built environment to understand if they are prohibitive or conducive to where the industry is going, and what supports a robust local economy.

In Arvada, a new land development code was adopted in the summer of 2020 that creates much more flexibility and certainty to reposition, reformat or redevelop shopping center sites. The new code was not reactionary to the pandemic; however, the timing of the code's adoption was serendipitous as COVID-19 exposed and accelerated changing consumer behaviors. At 120,000 people over 40 square miles, Arvada is a moderately populated suburban first ring city, and the large majority of its land has been developed over the years with low-density housing or designated as open space. This residential environment coupled with proximity to major transportation networks and automotive thoroughfares paved the way for much of Arvada's commercial real estate footprint to be developed for retail activity along just a few transportation corridors.

Born out of an intensive research and community engagement process, Arvada's new land development code addresses the challenges facing retail shopping centers via new and improved zoning districts. Mixed-use zoning areas, which were ascribed to nearly all of Arvada's retail shopping centers, embrace the changing nature of consumers and employers, as well as the city's unique geographic position within the metro area. As Arvada spreads outward to the north and west from the metro's center, its density wanes, transitioning from retail power centers and multifamily apartments to the rural feel of large dirt roads and horse pastures. Meanwhile, interstates, bus routes and commuter rail connect and flow through Arvada's more urban boundaries with Denver, Wheat Ridge and southwest Adams County. As both density and demand taper across the city, so does the allowable intensity within the mixed-use areas, including height restrictions, parking requirements

Please see Ryley, Page 27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Trends

Reinvigorating Five Points and RiNo through retail

Brick-and-mortar retail already was at a crossroads. Between the rise of e-commerce and the fall of the traditional mall as the social epicenter of towns across the country, the prognosis for retail was murky at best. Then the pandemic threw those trends into hyperdrive.

But what it also revealed is how much we need one another. As humans, we are inherently social. Our online shopping carts, while convenient, were no substitute for brunch and exploring local shops with a friend. People-watching on Zoom couldn't hold a candle to being streetside at a bustling café.

Jodie McLean
CEO, Edens

We stopped bumping into each other and starting a conversation – like it or not. And our sense of connection and community was poorer for it.

Smart retailers and developers of retail destinations can play an important role in the impending post-pandemic revitalization of cities, reflecting the reality of the changes we've undergone as a society and a culture.

Edens

The first step to establishing a retail destination as an integral part of a community's social fabric is creating the right conditions in the retail ecosystem. This starts with understanding the location and what the market wants, as well as how to strategically bring in the right retailers to function as their own thriving community.

Tom Kiler
Managing director, Edens

The retail experience of the future must be inclusive and barrier-free. It must tap into people's heightened self-awareness, social conscience and expectations for transparency and accountability. It must be compelling enough to draw people out of their homes and into the public realm.

By establishing places that breed a culture of togetherness and human familiarity, where people are naturally inspired to gather, connect and communicate with one another, we can help build a new model for retail as a vital part of the social fabric of our communities.

■ **Building an intentional retail ecosystem.** The first step to establishing a retail destination as an integral part of a community's social fabric is creating the right conditions in the retail ecosystem. This starts with understanding the location and what the market wants, as well as how to strategically bring in the right retailers to function as their own thriving community.

For us, this means looking for a mix of national and local retailers that understand the vision for building connections and have demonstrated a commitment to their communities.

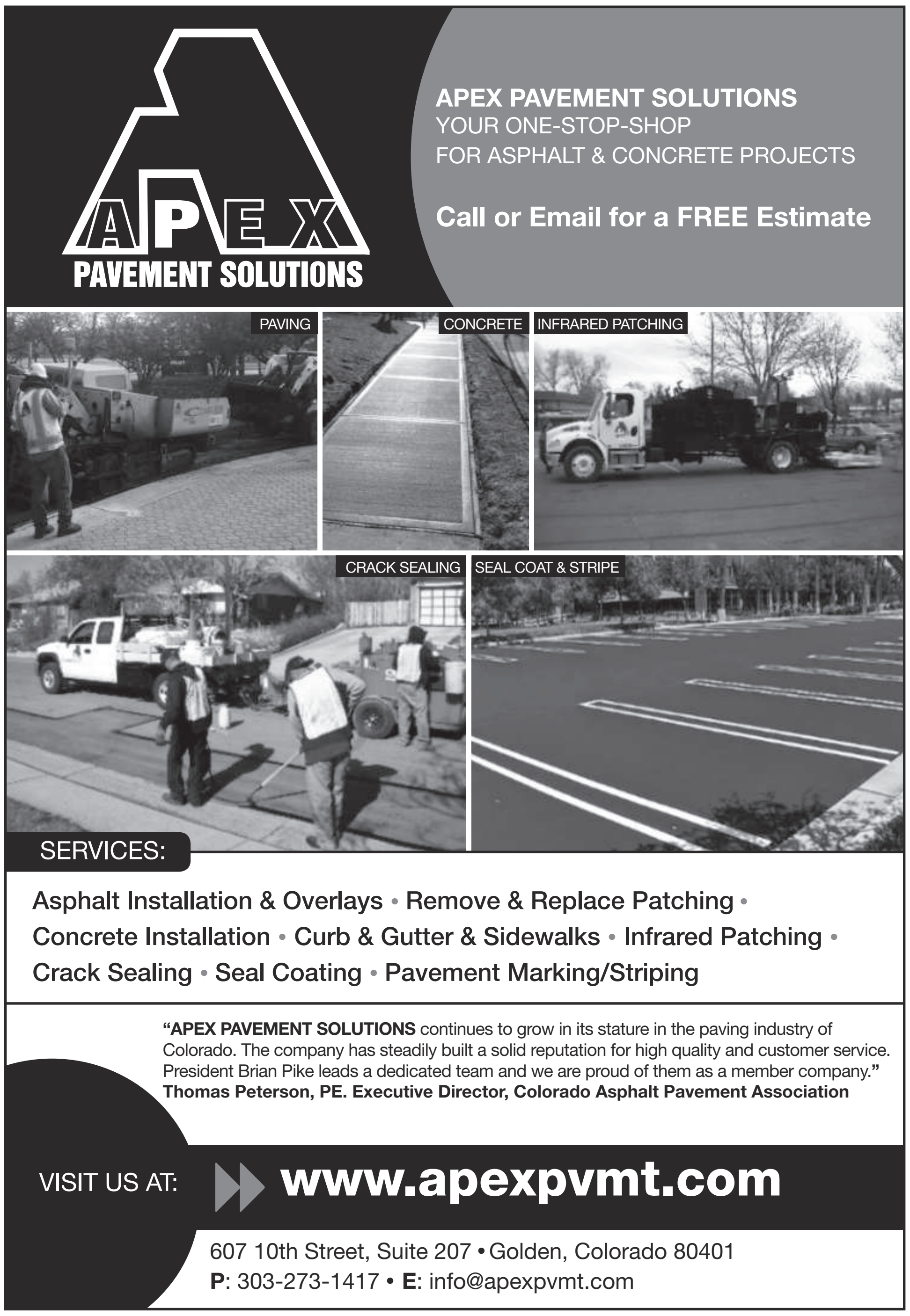
When we first came to the Five Points neighborhood and RiNo Art District in 2018, we listened when community members told us how important it is to preserve the soul of this area. We listened when they told us that this district is made up of five different historic neighborhoods with unique needs and priorities. And we will continue to listen. From our conversations to date, we have felt the unspoken yet palpable vibe of the area, soaking in the atmosphere so that we could truly appreciate this distinctive place and reflect it in our actions as community members.

With these needs in mind, over the last few years, we've built out a portfolio of 36 retailers, 50% of which are owned by women and Black, indigenous and other people of color. Each one brings a unique presence to the district, and together they have formed a community that uplifts and supports one another with a concerted focus on diversity, inclusivity and serving their community. For example, national outdoor brand Patagonia regularly works with local retailer and Five Points neighbor False Ego to help the company develop its strategy, business plan and identity as it grows its business.

■ **Creating a compelling public realm.** Looking beyond the walls of their stores, many of the retailers we work with also recognize the importance of placemaking in their neighborhoods. What's good for the community and the public realm is good for business.

For example, Denver is historically lacking in green space and urban

Please see McLean, Page 27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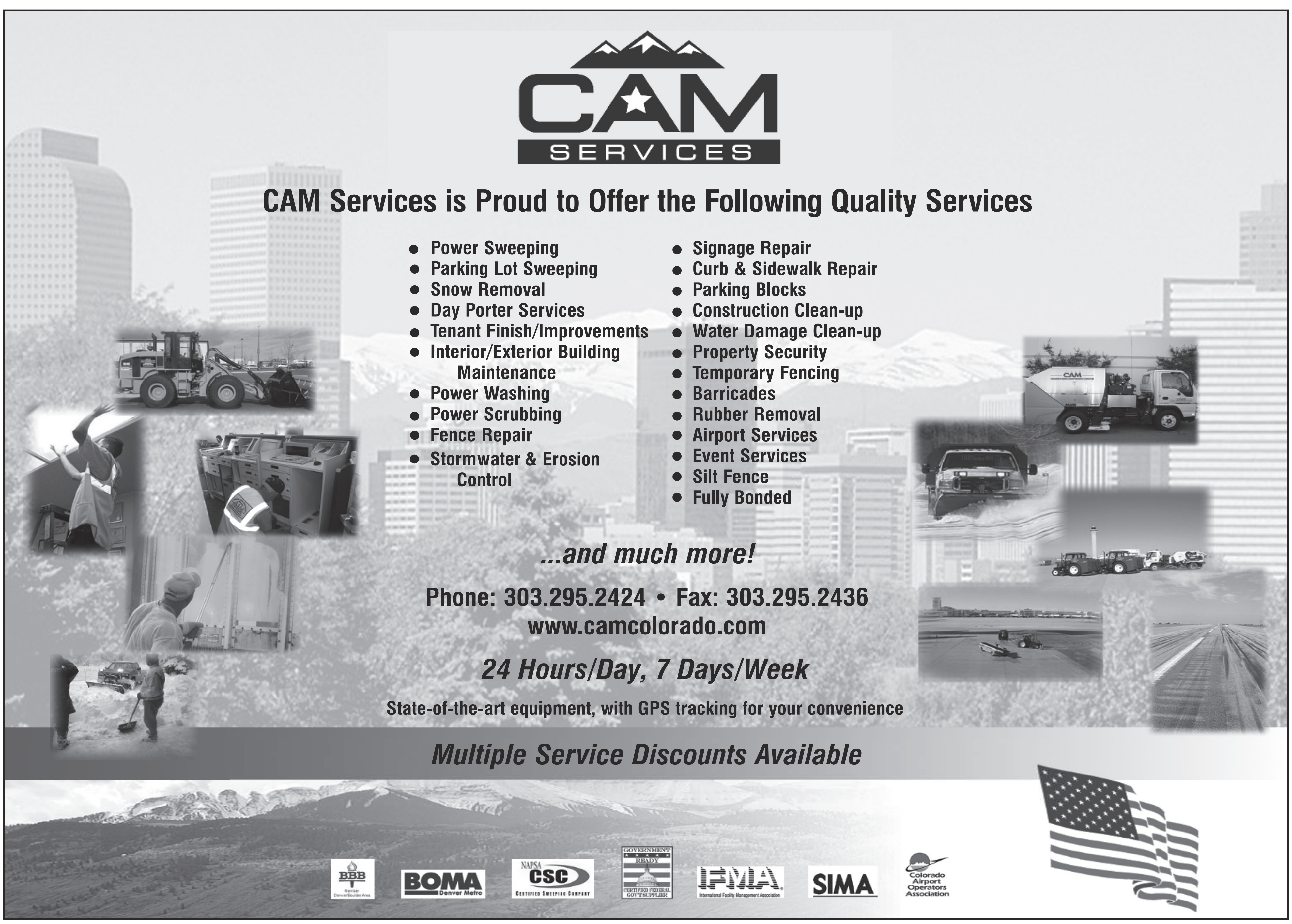
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Restaurants

Recent activity: Glimmer of light or a shooting star?

Robert Hudgins
Director, Cushman & Wakefield

What a difference a year can make; last year at this time we were five months into the COVID-19 pandemic, mask mandates, reduced occupancy restrictions and the restaurant industry was teetering on the edge of survival. Today we can see a glimmer of light, but is it the light at the end of the tunnel or is it just a shooting star?

As the restaurant industry struggled through a second shutdown and a dismal holiday season, it was greeted in January with a new round of Paycheck Protection Program funding and another lifeline. Then the rollout of the U.S. government vaccination program shifted into high gear, and by the beginning of April, all Colorado residents ages 16 and over were eligible for vaccinations. Spring was in the air and everyone was ready to crawl out of what seemed like a yearlong hibernation.

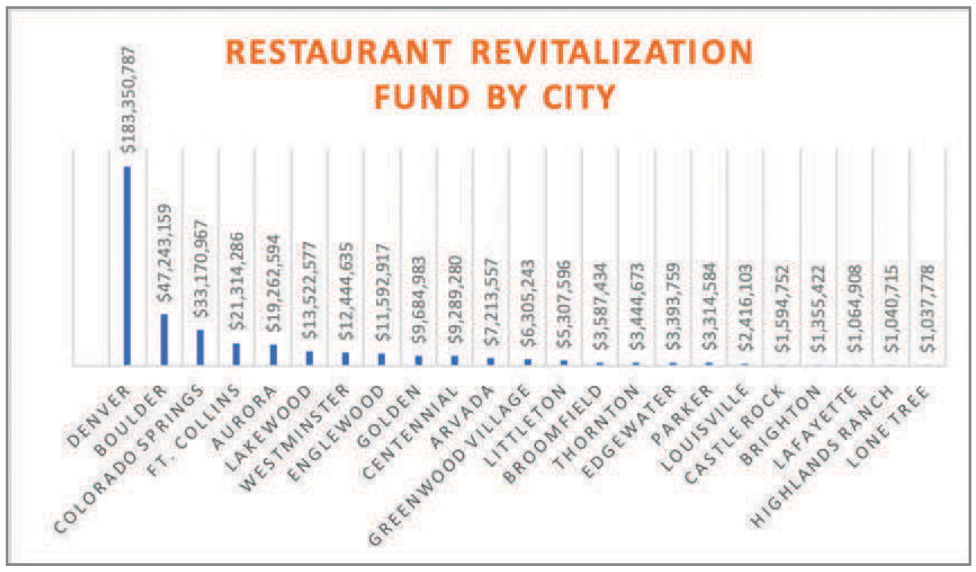
The retail real estate market shifted into a frenzied pace that we have all been struggling to keep up with since. The restaurant industry is on fire with new concepts entering the market and existing restaurants wanting to expand their footprints and open new locations. However, the rush has really been centered around existing restaurant spaces that unfortunately were not able to make it through the pandemic.

I attribute some of this activity to a government program, the Restaurant Revitalization Fund, which was just an idea and a call for help when I wrote about it last year. It was approved March 11, as part of the American Rescue Plan Act, which appropriated $28.6 billion for the Small Business Administration to award funds to eligible food and beverage establishments.

While digging into the Colorado businesses that received funding released by the SBA, I found the total dollars pumped into the food and beverage industry and overall economy were somewhat astounding. According to data released by the SBA as of July 12, there were 1,762 businesses in Colorado that received a total of almost $480 million. The amounts received ranged from a low of $1,527 to a high of $10 million, depending on the specific establishment. Upon digging further, I found that establishments in the city of Denver were the big winners, having received slightly over $183 million, or 38.25% of that total. This number is so staggering that it takes the next 10 cities combined to come in slightly over the amount Denver establishments received.

The cities listed in the chart account for almost $402 million, or 84.25%, of the total funds received in Colorado. Is this what's driving the restaurant boom here in Colorado? Maybe. Without knowing each establishment's year-over-year losses, it could simply be a small consolation to greater losses sustained trying to survive. I also believe the chart shows the flight to the suburbs, as residents left the density of the urban environment or were no longer commuting into the city for work.

Restaurants are very busy; we have great momentum and there are a lot of positive indicators, but there is a very strong headwind blowing in the face of the food and beverage industry from a number of different areas: inflation, hiring difficulties, labor costs and threats of further mask mandates and occupancy restrictions.



The cities listed in the chart account for $401.95 million, or 84.25%, of the total funds ($479.92 million) 1,762 businesses in Colorado received as part of the Restaurant Revitalization Fund, according to data released by the Small Business Association as of July 12.

■ **Inflation.** According to the U.S. Bureau of Labor Statistics and its Consumer Price Index Summary released July 13, "The index for food away from home rose 4.2% over the last year, the largest 12-month increase in that index since the period ending in May 2009. The index for limited-service meals rose 6.2% since June 2020 and the index for full-service meals rose 4.1% over the last 12 months."

At the same time, the CPI seasonally unadjusted 12-months ending June 2021 is showing gasoline prices up 45.1%, down from the 12-months ending May 2021 of 56.2%, and used cars and trucks are up 45.2% with a huge jump from the 12-months ending May 2021 of 29.7%.

"The index for used cars and trucks rose sharply for the third consecutive month, increasing 10.5% in June. This was the largest monthly increase ever reported for the used cars and trucks index, which was first published in January 1953," the report states.

Has the U.S. monetary policy injected so much currency into our system that we are now seeing the start of hyperinflation? Probably not, but that is just because the general definition of hyperinflation is the out-of-control inflation where the price of goods

Please see Hudgins, Page 28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Restaurants

How tech is shaping the future of restaurants

Ross Carpenter
Director of leasing, NewMark Merrill Cos.

As masks, latex gloves and plastic partitions slowly fade from our day-to-day existence, we constantly have been asking ourselves how consumer behaviors have been influenced by the pandemic and how we can adjust to stay ahead of them. Restaurants arguably experienced the most dramatic and abrupt change as indoor dining was shuttered during the pandemic. Although the economy largely closed down in March 2020, U.S. fast-food drive-thru sales increased by $300 million for the month compared with the same period in 2019, according to data from the NPD Group, a market research firm. Studies have shown that other off-premises food options also soared, with one suggesting that 53% of adults now view takeout or delivery food as "essential to the way they live" and 68% of customers saying they are more likely to purchase takeout and delivery food now than before the pandemic, according to data from a January National Restaurant Association report. Such a historic shift away from traditional on-premises dining certainly will have lasting implications to the industry, and the customer preference for the newfound convenience is not going away.

■ Tech driving drive-thru throughput. The most visible example of this shift came during the early days of the pandemic when drive-thru lanes overflowed onto arterial streets across the country and drive-thru restaurants scrambled to implement operational efficiencies and ramp up technology to improve the customer experience. In addition to its new prototype restaurants, which include two full-length drive-thru lanes around the entirety of the building, Chick-fil-A ramped up its integration of tracking cameras and artificial intelligence technology to better manage inventory and food safety. The new AI systems rolling out can anticipate restaurant-specific demand curves and compare them with other external data along with real-time inventory levels to proactively take steps to accommodate previously unpredictable order fluctuations.

Burger King also is continuing to develop its "Blue Flame" AI menu board system, which uses predictive technology to upsell customers in the drive-thru lane by suggesting foods based on customer traits, weather patterns or what is popular in the area at the time. Several retailers have made the news lately for their use of facial recognition inside stores, but many restaurant concepts are experimenting with technology that can identify repeat customers in the store and instantly access their profile and order history using a smartphone's Bluetooth signal, Wi-Fi ping or biometrics.

■ A race to frictionless ordering. Although digital ordering and pickup have existed for some time, their adoption in the U.S. market has been relatively slow … until last year. Restaurants rushed to make sure their ordering systems could handle the increase in online takeout and delivery orders and have honed them through COVID-19.

For example, Olive Garden focused on perfecting its digital ordering platform as soon as its dining rooms closed, and its efforts seem to be paying off. Takeout orders in the most recent quarter represented 33% of its total sales, an impressive doubling of its pre-pandemic level of 15%, according to the most recent annual report guidance from Darden, the parent company for Olive Garden. A nice side effect of its digital platform development is that a record 64% of all takeout orders in the most recent quarter were made online, freeing up valuable staffing resources and reducing the cost of order mix-ups from human error. Still, the increase in digital sales didn't outpace the loss of dine-in revenues as Darden reported a dip in comparable revenue of 7.8% over the prior fiscal year due to disruption in traffic and indoor dining restrictions.

Even with the diminished top-line sales, however, earnings before interest, taxes, depreciation and amortization during the same period improved by 27.3% as the company underwent several cost-cutting, order processing and menu simplification programs designed to improve margins. Restaurants have spent a significant amount of time and money updating their systems and investing in tech over the last 18 months, but the operational efficiencies and profitability gained in the process should generate long-term improvements to their bottom lines.

■ The future of restaurant demand. As advancements in tech continue to push the envelope for sales achievable within a given square footage of restaurant space, the price of well-located, well-managed shopping center space and the increasingly rare drive-thru will continue to increase. Indoor dining is coming back slowly, with most restaurants in Colorado only just reaching their 2019 visit levels two or three months ago, based on our analysis of data from Placer.ai. Savvy shopping center landlords will continue to work with their restaurant tenants to find designated areas for contactless pickup, expanded outdoor dining areas, and provide more community messaging and events focused on keeping customers on-site and restaurants tenants happy.

The increased adoption of tech in the restaurant industry is no different than what we have seen in the larger retail arena over the last decade. Takeout and delivery aren't going to kill the traditional brick-and-mortar dining industry, but they will place more pressure on a restaurant demand for convenient, unique and high-quality locations, further increasing the value of curated and well-managed shopping center destinations. ▲

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The BOSS Directory

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Management

The medical spa tenant: What you need to know

Flora Waples, MD
Founder, Restor Medical Spa

It is no secret that the medical spa industry is booming. In the last 10 years, medical spas have moved from the barely known fringe to a competitor to plastic surgeons. The global medical spa market is predicted to expand at an impressive compound annual growth rate of more than 15% over the period between 2021 and 2031. If you own retail, mixed-use or even traditional office space and haven't seen a letter of intent from a medical spa, you probably will soon. Here is what you need to know when you get one.

First, what is a medical spa? A medical spa offers nonsurgical treatments including injectables such as Botox, lasers and body contouring. These procedures require medical training and licensure but stop short of actual surgery.

You can think of aesthetic and spa treatments as a continuum that runs from nail and hair salons to plastic surgery practices. Salons deal primarily with hair and nails, while traditional spas will offer massages, facials and other "wellness" treatments, and plastic surgeons perform … well … plastic surgery. Generally speaking, the further you move to the right along this continuum, the older, higher educated and more wealthy the demographics of an area will need to be in order to support the business in question.

While awareness of the efficacy of treatments grows and the potential for profitable business ventures becomes obvious, the industry is still new, fragmented and mostly unregulated. The industry did not truly exist until approximately 2008. Additionally, over 75% of medical spas are owned and run by a single owner who is likely a doctor, nurse or esthetician with no previous experience running a business.

In short, there is growing demand, lots of money to be made and very few sophisticated operators. It's the Wild West out there.

So, you have a letter of intent from a bona fide medical spa, not a hair salon with nail tech and a part-time injector in the back. Is this a stable, successful prospective tenant? Below are some factors that you may want to consider.

■ **Number of locations.** Less than 25% of medical spas nationally have more than one location. If a multi-location practice approaches you, chances are you are dealing with a business owner – not a physician who wants to be left alone to practice medicine with limited understanding of how to run a business. This has a higher rate of long-term success and is less reliant upon a single person's injecting hand continuing to work well.

■ **Does the owner perform the majority of the procedures?** Looking at what the owners are doing will tell you a lot about the practice. Are they in the room treating patients

Restor Medical Spa
Space requirements typically comprise four to eight treatment rooms, some storage area and a lobby. The most similar layouts are those for massage studios or a traditional doctor's office but with fewer or possibly no offices. The finishes, however, will be more expensive. Clients are paying luxury prices and expect a luxury experience.

on a daily basis? This means that they are working in the business, not on it, and their growth is limited by the hours they have in their day. Their practice may be profitable but not scalable, and will likely disappear completely if they retire. If they have hired and trained midlevels (nurse, estheticians, etc.) to do a majority of the procedures, then you may be dealing with a scalable and resilient organization that has the potential to grow.

■ **What is the ratio of lasers to injectables to esthetics?** While Botox gets all the buzz, it is actually one of the least profitable procedures due to the high, inflexible costs of goods and cost of skilled labor. (Be aware that most medical spa owners do not know this. Doctors are notoriously bad at understanding their own books.) To help you understand the profitability of the practice, look at the ratios of the service types.

- Esthetic procedures: These are things that do not need a doctor's supervision – such as facials and light peels. Most medical spas will offer one or two of these things, but it is a small part of overall revenue.
- Injectables: This is Botox and its cousins, fillers and platelet-rich plasma therapy. These can be profitable, but if they are more than 50% of appointments, profitability will be elusive.
- Lasers: These are by far the most profitable services a medical spa

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Wildfire season: Best practices to protect assets

Jarrett Wagner, AIC, AIS, WACH
Risk control representative, Society Insurance

Come August, more than 9,000 wildfires burn in the U.S., on average, causing nearly 2 million acres of damage, which includes residential and business structures.

Looking at historical data of the 20 largest wildfires in Colorado's history, nine of those have occurred since 2018, 15 of those have occurred since 2012 and all 20 have occurred since 2001. Even more alarming, the three largest fires all occurred in 2020.

"We're having fire years, not fire seasons anymore," said Colorado Division of Fire Prevention and Control Director Mike Morgan.

Ahead of the wildfire season, we put together prevention tips and controls property owners can implement to better protect their assets and tenants from wildfires.

■ **Examine building materials.** From your roof to your patio, it's important to understand what materials offer the best fire protection and the controls you can implement to reduce the likelihood of your property going up in flames.

- Roofing: Class A fire-rated roofing material is most effective against fires. Fire-resistant roofing materials include clay tile, slate tile, concrete tile (fiber-reinforced) and metal.

It is equally important to keep roofs and gutters clear of pine needles, leaves or other debris. It's also a good idea to have a local fire marshal or roofing professional assess your roof.

- Exterior walls: Noncombustible siding materials like brick and concrete offer the best protection against fire. Try to leave 6 inches of clearance between the ground and the start of the siding to prevent damage from direct flame contact. If a combustible siding material is used, these 6 inches of clearance, as well as defensible spaces, are especially important.
- Windows and vents: Dual-pane windows with tempered glass offer increased protection against radiant or direct flame contact. Vents should be covered with 1/8-inch (minimum) noncombustible metal mesh screening to help minimize the size of embers that can enter attic or crawl space area vents.
- Patios, decks and porches: Flammable materials should not be stored on or under decks. Consider enclosing your elevated deck, patio or porch. Some manufacturers also are incorporating fire-retardant chemicals into products like wood-plastic composite decking, so be sure to look into this material option. If you have an existing wood deck and are not looking to replace it anytime soon, consider having it treated with exterior fire retardant.
- Enforce smoking controls: The National Park Service estimates at least 85% of wildfires are caused by human activity. Provide receptacles in easily accessible areas and place these away from the building and combustible materials. Ensure your employees empty these receptacles regularly. The ground should be

Looking at historical data of the 20 largest wildfires in Colorado's history, nine of those have occurred since 2018, 15 of those have occurred since 2012 and all 20 have occurred since 2001.

cleaned of cigarette butts to eliminate fire hazard.

■ **Identify and proactively address your defensible zones.** The Federal Emergency Management Agency defines a defensible space as an area around a building in which vegetation, debris and other types of combustible fuels have been treated, cleared or reduced to slow the spread of fire to and from the building. The National Fire Protection Agency recommends a defensible space of up to 200 feet from a structure, which encompasses three zones. Each zone has different maintenance needs:

- Zone 3: 100-plus feet (to property line) – Remove dead trees and plants. Keep trees spaced.
- Zone 2: 30 to 100 feet – Remove dead vegetation. Remove hanging branches at least 6 feet off the ground. Trim tall grasses/plants that would allow fire to travel up trees.
- Zone 1: Zero to 30 feet – Use gravel, rock or mulch. Relocate firewood piles. Plant high-moisture-content annuals and perennials.

■ **Understand your severity zone.** Which severity zone a business is in ultimately will dictate what preparations need to be done to protect the property. As you can expect, preparing for a potential wildfire is even more critical if your property is classified as being in a high or extreme severity zone.

A severity zone is classified as moderate, high or extreme. These classifications can be based on fire history in the area, vegetation/landscaping, slope and other terrain features.

Search where you operate in Colorado to view the risk using this tool from the United States Department of Agriculture. You also should consider contacting your local insurance agent to discuss in more detail.

Last year was an extremely challenging fire season in Colorado, and in July, the National Significant Wildland Fire Potential Outlook expected warmer and drier than normal conditions, especially in the West, throughout the summer. Additionally, more than 90% of the West is in drought, with over half the region in extreme to exceptional drought. By investing in quality building materials, taking proactive measures of regularly maintaining the landscape around your building, and understanding the risk where your business is, you are taking control of the variables in your power and taking proactive measures for a situation that can seem out of your control. ▲

Food Halls

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their dreams.

Some of Colorado's most successful food halls, such as Avanti F&B in Denver and Boulder, serve as incubators, intentionally selecting vendors with aspirations of opening their own brick-and-mortar restaurants. For these entrepreneurs, starting within a food hall has several advantages beyond lower startup costs. Food hall margins for restaurateurs tend to be more favorable than stand-alone restaurants, often 15% to 20% of sales. This allows the vendors to save funds that they can invest in their future brick-and-mortar restaurant. Restauranteurs within food halls also generate an operating history, making them better candidates for future loans. With limited kitchen space, food hall menus are much smaller, allowing vendors to pick their best four to six dishes to serve, increasing sales per item and reducing waste. In addition, restauranteurs can test their culinary concept, receive customer feedback and iterate that concept over time to make it stronger while simultaneously building a loyal customer base. Finally, food hall owners often take on many costs and services that restaurateurs would be responsible for in stand-alone restaurants, such as marketing, paying sales tax and busing tables. This allows restaurateurs to focus more on their product and customer service, giving them an opportunity to dial in those aspects of their business before moving to a stand-alone location.

While initially concentrated in downtown Denver, in recent years food halls have proliferated throughout the Denver metro area and the state of Colorado. This development should pay dividends in democratizing restaurant ownership and incubating a new generation of restauranteurs who will make positive contributions to the food and beverage industry in Colorado for years to come.▲

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Weisiger

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and curbside pickup, which many restaurants and grocers alike are seeking.

One of the later segments to recover has been the theater and entertainment venues. After being quarantined and social distanced for more than a year, consumers are ready to return to theaters in search of blockbusters that were postponed or canceled. While streaming services gained a record number of subscribers, private screenings grew. Many theaters will continue making strides in the near term as more blockbuster movies are released. Those theaters that offer newer amenities, such as larger reclining seats, the latest audio and video enhancements, as well as food and alcohol will attract the most attention.

■ **Which retail trends will continue?** Certainly, the e-commerce segment plays a growing part in retail, although most consumers still visit stores to test, try on and understand products before making purchase. The pandemic served to accelerate the need for many retailers to sharpen their online presence. While e-commerce grew significantly in 2020, the warehousing and transportation costs as a percentage of purchase price are twice as high for e-tailers versus brick-and-mortar players. Home delivery and returns erode profit margins and the reverse logistics account for a large part of industrial absorption. As a result, many retailers are fulfilling orders directly from the store. As retail continues to rebound, we expect to see retail store space continue to shift to fulfillment space, and an amplified presence of pickup areas and curbside delivery. As an example, it was reported that 66% of Best Buy's online revenue was picked up in store or curbside. Additionally, while Target reported a substantial increase in its e-commerce side of business, more than 95% of its fourth-quarter sales were fulfilled by its stores.

Other trends include some retailers seeking to move out of traditional mall settings to open-air centers, as they are seeking traffic and curbs. Some retail brands are focusing on partnerships with other stores, such as Sephora's recent announcement to test opening in several Kohl's department stores, while Ulta will launch in selected Target locations. This will help promote more in-store traffic.

In the first half of 2021, retail took major steps toward recovery from the pandemic. Pending limited resurgence of COVID-19 cases, the second half of 2021 will see more people returning to the office, improved domestic travel and a declining unemployment rate – all crucial drivers for the local retail market to recover. ▲

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Bowlby

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the pandemic, distressed asset sales have been relatively few in number, with notable high-profile exceptions such as Belmar and Foothills Mall. There are still a significant number of potentially distressed retail loans currently on watchlists and it is possible we might see a spike in distressed asset sales. However, it is clear that government programs designed to assist small businesses and lender willingness to work with tenants and landlords extended much needed lifelines that appear to have prevented a wave of distressed assets sales for now.

As we look forward into the remainder of 2021 and into 2022, market fundamentals appear to be aligned for strong growth and an attractive environment for investments in income-producing retail properties. However, there are several known risk factors that could lead to hurdles and bumps in the recovery. Inflation is an obvious one, though the Fed assures us the current inflation spikes are transitory and not likely to lead to sustained inflation and corresponding spikes in interest rates.

Legislatively there has been much written about proposed changes to the 1031 exchange, stepped-up basis and capital gains tax laws. Elimination of the 1031 exchange would have a chilling impact on transaction velocity, but it is clearly a net negative with respect to tax revenue generation. These proposed changes are leading many owners to reconsider their holding strategy, in particular those who already were considering a disposition within the next few years. This could lead to an increase in inventory in the second half of the year and better buying opportunities for investors who have been largely on the sidelines thus far into the recovery. ▲

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Ryley

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and the breadth of commercial uses, thereby optimizing real estate well positioned for redevelopment while protecting established neighborhoods.

With these new mixed-use zoning districts as a foundation, Arvada is hopeful to encourage shopping center owners and developers to explore reprogramming and repositioning of retail real estate assets to accommodate the evolving industry. Additionally, the use-by-right zoning within the new land development code is anticipated to create more certainty and lower investment risks, allowing owners and developers to implement programming that meets the needs of retailers and consumers while integrating nicely into surrounding neighborhoods. Cities will continue to invest in retail revenue generation and sustainability post-pandemic, so it's imperative to approach the challenge with a land development policy lens. While it may feel counterintuitive, rethinking the way retail real estate is used will help fortify and enhance retail spending, protecting the critical sales tax revenue Colorado cities depend on. ▲

McLean

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tree canopy, which creates a host of issues in a community; but from a retail perspective, long stretches of hot, shadeless street disincentivize people from exploring a neighborhood on foot. We aim to create places where the community can spend time, and a connection to nature is essential. This bears out in retail statistics: In multiple studies, consumers demonstrated a willingness to pay 11% more for goods in shaded and landscaped business districts, and they were willing to stay longer and shop more.

So, rather than wait for someone else to address the issue, our retailers took on the greening of their neighborhood themselves. Local Denver business False Ego teamed up with the Denver Botanic Gardens, National Wildlife Federation, University Colorado Denver, Patagonia, Quantum 3 Construction and Edens to launch a beautification project on Walnut Street, replacing concrete and aging brick with Colorado-native plants and trees, transforming the pedestrian experience while incorporating green space to the increasingly well-traveled street. They are even finalists in the Salazar Center Thriving Cities Challenge, aimed at developing ideas that advance climate resilience and racial equity through nature-based solutions in their own communities.

We have brought this same focus to the heart and soul of this district: the artist community. River North is where art is made, and promoting the talent and creativity of the artists here is essential to maintaining what makes this district within Five Points so different from any other in Denver.

Earlier this year, in a moment of serendipity, we welcomed the Museum for Black Girls into one of our spaces. This interactive art installation, led by local artist Charlie Billingsley, celebrated and educated visitors on the history, culture and contributions of Black women. Five Points historically has been the center of Black culture in Denver, and this museum served as a way to highlight the experiences and achievements of Black women while creating space and exposure for 10 artists and creative women of color.

As a sponsor of the RiNo Art District's Mural Program, we're humbled by the power of the arts in this community and inspired by the leadership of local artist and community leader Alex Pangburn. The mural program each month highlights a unique group of artists, and the second half of the year kicked off in July with a spotlight on youth and women artists, followed by graffiti crews, artists with disabilities, indigenous artists and mentors with emerging artists. Marking the latest installation, Burton recently unveiled a new mural by artist Jessa Gilbert as part of its Chill Foundation youth development program in partnership with Third Way Center.

Establishing true community like this begins with continuous listening and then requires action. Through efforts like these and our retailers' dedication to invigorating the neighborhood as they grow their businesses, we can build a stronger and more resilient community than before, while giving Denverites a place to gather, connect and share, no matter what comes next. ▲

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Hudgins

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and services rises at an annual rate of 1,000% or more.

Personally, when my wife told me that I spent over $1,000 on gas in June, saying I was shocked is an understatement. I do not want to know what that number will come in at for July. With the work-from-home environment and a big percentage of Colorado employees not commuting back and forth to work, consumer outrage over the prices at the pump has really been muted locally and nationally.

Restaurant owners know about the inflationary state of the economy we are seeing, and every establishment has had to raise its menu prices, some two or three times, during the last 12-18 months. Commodity and labor price increases are getting passed along the supply chain and squeezing restaurant profitability. Ultimately, it's being passed onto the consumer, but pent-up customer demand has accepted these increases for now. However, if these increases do not slow down, consumers eventually will need to cut their discretionary spending and the majority of that will be felt by the restaurant industry first, further hampering the recovery that is just now starting.

■ **Labor.** Another big issue facing the food and beverage industry is the sever labor shortage. During the pandemic, restaurants were forced to lay off employees to cut costs in their efforts to survive. At the moment we have no governmental occupancy restrictions, but very few restaurants are operating at full capacity because they have not been able to hire back the appropriate staffing requirements. So, restaurants are now dealing with their own operational restrictions, and this is preventing them from maximizing performance and profits.

Wages paid to keep current employees along with starting wages have all increased and some businesses are even offering signing bonus with 30-, 60- or 90-day wage increases after hiring, but positions still are left unfiled. More concerning is just the total lack of applicants applying for the jobs. I was driving past a McDonalds the other day and out on the street was a big sign on the road saying, "Hiring, starting pay $18/hour." This is a $5.28 premium over the current Colorado minimum wage of $12.32 an hour that was typically the starting wage for an entry-level position at fast-food establishments. If the typical entry-level position is now commanding a starting pay of $18 per hour, is this the new effective minimum wage in Colorado? If so, this represents a 144.57% increase over the 2011 minimum wage of $7.36 per hour and a 50% increase over the 2020 minimum wage of $12 an hour.

■ **COVID-19 resurgence.** The Colorado COVID-19 data listed our seven-day positivity rate as of July 29 at 5.11%, which has more than doubled from our most recent low of 2.28% listed on June 19. On July 30, Gov. Jared Polis issued the Fifth Amended Public Health Order 20-38: "The Order requires face coverings in some settings. Additionally, the Order maintains some restrictions on certain activities while we continue to take steps to limit the spread of COVID-19 in Colorado, which includes a provision that authorizes CDPHE to require a county to comply with additional restrictions should certain metrics be met."

If our positivity rate does not quickly flatten, the governor will have no choice but to implement increased mask mandates and occupancy restrictions soon will follow.

The Colorado restaurant industry is on the path to recovery, but right now it is still too early to know if the light we see is the end of the tunnel or just another flicker and a much longer road lies ahead. ▲

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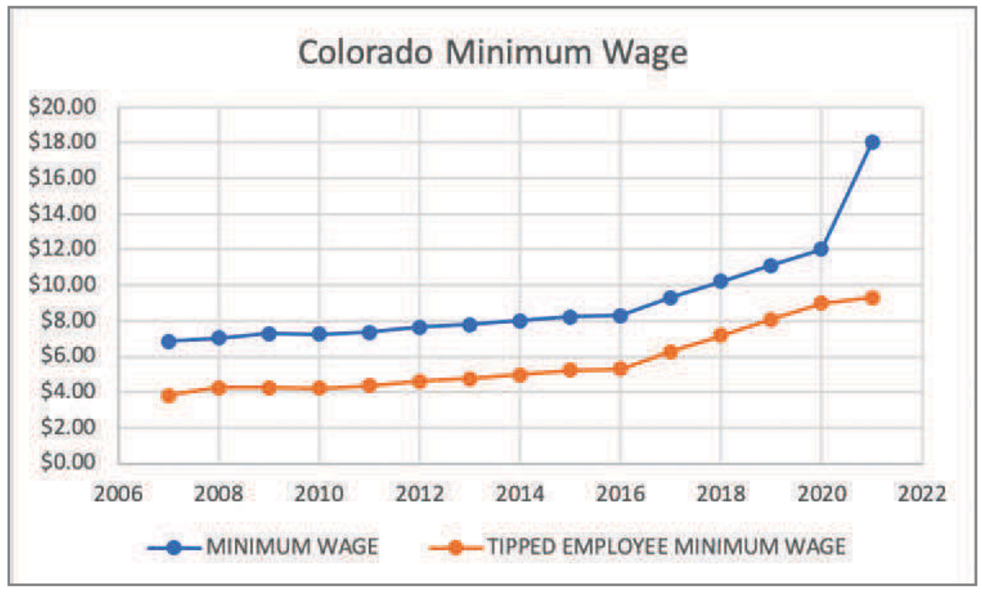

The $18 per hour listed in the above chart is for illustrative purposes only and is not the actual Colorado minimum wage currently in effect. Data from Colorado Department of Labor and Employment

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will offer. Usually these comprise 30% or more of revenue, and if they are higher, the business is likely on solid financial footing.

■ **Build-out requirements.** The practice will need individual treatment rooms, only slightly larger than the average spa, with sinks. It may need 220-volt outlets in the rooms that have lasers, and good venting or air filtration systems. Lasers produce plumes that can be both foul smelling and/or toxic, depending on the type of procedure.

Generally, space requirements range from 1,700 to 4,000 square feet and comprise four to eight treatment rooms, some storage and lobby area. The most similar layouts are those for massage studios (think Massage Envy, but with fewer treatment rooms) or a traditional doctor's office but with fewer or possibly no offices. The finishes, however, will be more expensive. Clients are paying luxury prices and expect a luxury experience. Tenants will require parking, preferably dedicated and somewhat private. ▲

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