Knowledge Leader™

COLLIERS INTERNATIONAL PROPERTY MAGAZINE

SUMMER 2012

LUXURY
HOW IS HIGH-STREET RETAIL FARING?

PERSONAL BIZ
THE HOTTEST TRAVEL GADGETS

HOBBY LOBBY
STRIKING GOLD IN CALIFORNIA

Wingin' It

BUFFALO WILD WINGS CEO SALLY SMITH

Colliers INTERNATIONAL

Visit Colliers at ICSC RECon

Colliers INTERNATIONAL

We're proud to be a part of the ICSC's 2012 Global Retail Real Estate Convention. Ready to accelerate your success? Drop by our booth and get connected to the latest news and information on Colliers' convention activities.

Colliers International Booth | S243 R Street, South Hall Level 2

ICSC RECON May 20-23 2012 Las Vegas, NV

contents

SUMMER 2012

COVER PHOTO BY TATE CARLSON

From the Editors' Desk

DAVID BOWDEN DYLAN TAYLOR

IN BETWEEN THE LINES

WE'RE PLEASED TO PRESENT the Summer 2012 issue of *Knowledge Leader* magazine, focused on retail commercial real estate.

Why a retail issue?

First and foremost, we find it fascinating to look at commercial real estate through the lens of a particular specialization. Retail comprises such a wide variety of properties, making it a great cross-section of the industry. From luxury retailers to dollar stores, banks to restaurants, small mom-and-pop shops to large lifestyle centers, retail real estate intersects with our professional and personal lives daily.

In addition, retail real estate is a leading indicator for the economy as a whole, so the strength of the specialty is important to track. We all have a strong emotional connection to the health of the retail sector in commercial real estate because it directly reflects consumer confidence and behavior.

And finally, the myriad challenges that retailers face and the important role that retail space plays in ever-evolving consumer brands demand creative solutions. Retail business must be responsive to shifting consumer trends and changing demographics; and now more than ever, the ability to quickly adapt and re-think is essential to success.

So, even if your business doesn't directly involve retail real estate, we're certain you'll find something useful or inspiring in the innovation and creative spirit of our retail experts.

This issue leads of with a cover story on Sally Smith, CEO of Buffalo Wild Wings. The article sheds light on how what started as a humble college hangout and has steadily grown into a leading restaurant brand.

Also in this issue:

- A roundtable interview with Colliers retail experts from across North America, discussing the vital trends and topics that will shape 2012;
- KC Conway's insights on supply and demand in retail real estate;
- The markets to watch in single-tenant net-lease investments; and,
- A behind-the-scenes look at successful retailers A&W and Hobby Lobby.

In addition to the Colliers professionals quoted in this issue, we would like to recognize the editorial contributions of Colliers retail experts in both the U.S. and Canada, including Vikki Johnson, Jim Kovacs, Kimberly Lamb, Liz Johnson, Anjee Solanki and Ted Chryssicas.

David Bowden
Chief Executive Officer | Canada
Colliers International

Dylan Taylor
Chief Executive Officer | USA
Colliers International

VOLUME 6 ▶ NUMBER 2

Knowledge Leader™ COLLIERS INTERNATIONAL PROPERTY MAGAZINE

EXECUTIVE MANAGING EDITORS
Dylan Taylor and David Bowden

EDITOR
Teresa Kenney

ASSOCIATE EDITORS
Christine Schultz, Lex Perry, Aaron Finkelstein

ART DIRECTOR
Amy Wallace

PROJECT MANAGER
Heidi Page

CONTRIBUTING WRITERS
KC Conway, Doug Frye, Teresa Kenney, Mary Mowbray, Ann Natunewicz, Michelle Santos, Cheryl Reid-Simons, Victoria Simpson, Niki Stojnic, Heidi Stout Tretheway, John Wolcott

PROOFREADER
Jim Thomsen

ADVERTISING SALES
Jenna Badu-Antwi

This magazine is published by Colliers International.

Colliers INTERNATIONAL

To order more copies, learn about advertising options or subscribe to *Knowledge Leader*, visit www.knowledge-leader.com.

TIGER OAK MEDIA

Tiger Oak Publications
1518 First Ave. S, Suite 500
Seattle, WA 98134

Knowledge Leader is published three times annually by Tiger Oak Media, Inc., with offices at 1518 First Ave. S., Suite 500, Seattle, WA 98134; 206.284.1750.

POSTMASTER: Send address changes to: *Knowledge Leader*, Colliers International, 601 Union Street, Suite 4800, Seattle, WA 98101. Publications Mail Agreement No. 40064408. Return Undeliverable Canadian Addresses to: Express Messenger International, P.O. Box 25058, London, ON N6C 6A8. PRINTED IN USA.

Single-Tenant Market

COLLIERS INTERNATIONAL'S NEW SURVEY OFFERS ECONOMIC INSIGHTS FOR SINGLE-TENANT NET-LEASE INVESTMENTS.

BY ANN NATUNEWICZ

The following is a synopsis of the first in a new series of biannual reports from the U.S. Retail Research team of Colliers International's Retail Services Group.

2011 WAS A HISTORIC year for single-tenant net-lease investment. Retail properties accounted for nearly half of the more than 33,000 transactions, and demand for high-quality assets led to rates at, or near, historic lows across all property categories. Investors clamored to place money in available opportunities, causing significant capitalization (cap) rate compression (100 basis points within a year) in long-term deals with good credit.

In the world of commercial real estate, this statistic is often seen as an indication of consumer consumption and a robust economy. Investors are looking for a safe place to park their money, and these assets are attractive for long-term investors. If political and economic uncertainty continues into 2012, Colliers expects that both high-net-worth individuals and institutional capital will continue to snap up single-tenant, net-lease properties.

Eight Markets to Watch

In 2012 and beyond, retail real estate investors will be smart to keep an eye on the following subspecialties:

Automotive

The average U.S. car on the road is now 10.8 years old—the oldest on record—as buyers have been reluctant in (or prevented by their lenders from) assuming new debt. After several challenging years, new car sales rose 10.2 percent in 2011 to an annualized rate of 12.8 million. In addition, financing is becoming more available as the employment picture improves. Also, both the full-service and do-it-yourself (DIY) sectors of the automotive category will continue to benefit from the slow economic recovery, as they serve the needs of the aging U.S. passenger fleet. Nationwide, Colliers has noted 205 credit single-tenant net-lease auto transactions that closed during 2011, with 43 confirmed during the fourth quarter.

Banks

As of June 2011, there were approximately 98,000 bank branches in the U.S. as banks expanded rapidly during the recession to backfill small spaces (less than 5,000 square feet) vacated by local or regional tenants. For 2011, we have been able to confirm 142 single-tenant bank transactions that closed, 34 of them during the fourth quarter. Cap rates for the sector were our sample's lowest: Bank of America, Wells Fargo, and J.P. Morgan Chase & Co. each averaged below 6 percent for ground leases. At the corporate level, the banks' collective financial health remains a high-profile issue that will influence how they manage their retail real estate portfolios. Since 1995, the country's total bank branch count has had only two years of year-over-year declines: 2010 and 2011.

Big Box

The 2007–2009 development bust forced a change in real estate strategy for big box retail. Earlier in the decade, developers envisioned and gained financing for large projects by signing on a handful of national credit big box tenants. With fewer new projects being built (many of those recently approved are anchored by grocers), big box retailers first shifted a larger percentage of their open-to-buys to freestanding suburban locations, and then, more recently, to under-retailed urban infill areas. Going forward, a growing percentage of big box retailers will occupy significantly smaller footprints. To better hedge their risks, retailers testing new concepts are doing so in larger, often core, markets, with investors hungry for new product. For 2011, Colliers' 199-property big box transaction sample averaged an 8.6 percent cap rate.

Convenience

During 2011, Colliers was able to confirm 226 single-tenant transactions in the convenience sector, with 56 transactions closing during the fourth quarter. After banks, convenience

stores registered our sample's lowest average cap rate (7.2 percent) for both the fourth quarter and the full year. A lack of new inventory in an already hot category suggests further cap rate compression in 2012, as buyers jockey for high-profile locations in markets of all sizes. The performance of existing locations is highly dependent on the price of oil, as gasoline sales accounted for just over two-thirds of the chains' 2010 revenues. As cash-strapped consumers seek ways to save money, chains that offer a cents-off-per-gallon discount in exchange for using lower-fee forms of payment could benefit relative to competitors.

Drug

After a wave of consolidations in the past decade, drugstores are one of the few retail categories with three national players remaining. The three chains—Walgreens, CVS Caremark and Rite Aid—operate a combined 19,800 locations. The sector is closely watching the prescription drug market and its fast-approaching "patent cliff": the timeframe when patents will expire on Viagra®, Plavix®, and Singulair®, to name a few. EvaluatePharma—an international news analysis service for pharma and finance professionals—estimates the expirations could jeopardize $250 billion in sales between now and 2015 because pharmacy sales drive approximately two-thirds of chain drugstore revenues. To compensate for lower prescription revenues in the future, drugstores are refining and differentiating their front-end merchandise mixes. Within the single-tenant net-lease transactions, the drugstore sector recorded the largest number of transactions: 21 percent of the total confirmed by Colliers International.

Dollar

Dollar stores' strong earnings and aggressive expansion plans have made them extremely popular with landlords and property investors. The combined store count of the four major dollar store chains—Dollar General, Family Dollar, Dollar Tree, and 99¢ Only—at 21,500 now exceeds that of the three large drugstores. Dollar stores' merchandising is converging to overlap with products traditionally sold not only at drugstores, but also grocers, supercenters, and warehouse clubs. In 2011, Colliers confirmed 139 dollar store single-tenant transaction closings nationwide, significantly less than the chains' combined 1,300-plus new store programs. Cap rates averaged 8.9 percent, with little change throughout the year, and with little variation among the chains. Going into 2012, we expect further cap rate compression within Dollar General, as the retailer recently transitioned from 10- to 15-year deals and from double-net (tenant responsible for all operating expenses and real estate taxes) to triple-net (tenant responsible for all operating expenses, real estate taxes, and building roof and structural integrity) deal structures.

Fast Food

This category includes food-service operators that do not provide table service and may offer drive-thru services. After drugstores, fast food properties traded the most frequently within our sample size, and achieved one of the lowest average cap rates. We were aware of 412 transactions that closed during 2011, with an average cap rate of 7.68 percent. In a fourth-quarter earnings season that has brought many downside surprises, fast food chains (at least, those that have reported results so far) have handily exceeded expectations and reiterated their real estate programs.

Restaurant

Colliers tracked 212 single-tenant net-lease transactions that closed during 2012, with 47 of them closing during the fourth quarter. The pricing spread between national and regional/local operators was among the widest of all the retail tracked—up to 300 basis points in some markets. Overall, the sector traded at an average of 7.7 percent in the fourth quarter of 2011. Historically, the performance of the restaurant sector has been a strong leading indicator for retail real estate and the broader economy. In mid-2007 the national Restaurant Performance Index (RPI) dropped below 100, signaling recession. Consumer spending on dining out subsequently declined as people shifted to grocery purchases and eating at home. The index rose above 100 in early 2010 but has fluctuated between 99.5 and 101 ever since, dropping below 100 four times. Should the RPI continue to trend upward, we would expect the pace of new openings to accelerate in 2013, adding inventory for single-tenant net-lease.

EXPERT OPINIONS

"Sale-leasebacks of restaurants in both fast food and casual dining will continue as these franchisees take advantage of a seller's market, using the funds to expand, remodel and pay down debt."

CYNTHIA SHELTON, DIRECTOR, INVESTMENT SERVICES, BROKERAGE
COLLIERS INTERNATIONAL

"Cap rate compression is occurring because demand outweighs supply. A scarcity of new product is causing demand for old inventory and stimulating a bidding war on old product. People are now willing to pay more for properties."

JAY GOMEZ, SENIOR VICE PRESIDENT, INVESTMENT SERVICES GROUP
COLLIERS INTERNATIONAL

2012 and Beyond

Colliers expects that both high-net-worth individuals and institutional capital will continue to snap up single-tenant net-lease properties in 2012. The imbalance between high investor demand and lack of new inventory could hold year-over-year transaction levels relatively flat, but for sellers seeking the most advantageous pricing, the next 12 to 18 months presents a window of opportunity. A rebounding economy will spur new development, although inventory levels are not likely to tick up significantly before 2014. Beyond that point, the spread between treasuries and single-tenant cap rates will tighten as higher inventory levels ease some price pressures and investors' risk tolerance increases.

Watch for 2012 to be another record-breaking year for low cap rates on long-term credit products and continued low rates even on products in secondary markets. KL

Ann Natunewicz is National Manager of U.S. Retail Research with Colliers International's Retail Services Group. To read this report in full, visit www.colliers.com/ and download a complimentary PDF copy.

spotLIGHT

THE PEOPLE, PLACES AND EVENTS SHAPING THE INDUSTRY

TOP TRANSACTIONS

Strike a (Yoga) Pose

COLLIERS INTERNATIONAL | Chicago has been named the exclusive agent of the Lululemon Athletica store at 930 N. Rush Street in Chicago. The 2,930-square-foot, one-of-a kind asset is located at the northwest corner of Rush and Walton Streets, one of the most prestigious shopping districts in the world. The Colliers team, including Executive Vice President Peter L. Block and senior associates Brad R. Teitelbaum and Eric M. Suffoletto, is marketing the property on behalf of a private seller.

The single-tenant retail building was completed in 2009 as a build-to-suit specifically for Lululemon Athletica, a yoga-inspired athletic apparel company founded in 1998 and headquartered in Vancouver, British Columbia. The company has a long-term lease in place at the property.

The property is located in the heart of Chicago's Gold Coast neighborhood, across the street from the brand new Elysian Hotel. The Gold Coast is renowned for its lakefront views of Lake Michigan, its luxury real estate, and its abundant dining and shopping options. The Gold Coast submarket, with just over 2.5 million square feet of retail space, currently features just a 4 percent direct vacancy rate, nearly half of Chicago's overall vacancy rate and well below the national average.

"World-class properties of this quality, size, and location are rarely brought to the open market," says Block. "This is truly a unique opportunity in a retail corridor that can only be rivaled by Rodeo Drive in Los Angeles, Union Square in San Francisco, and Fifth Avenue in Manhattan."

INDUSTRY PARTNERS

Colliers and KPMG Team Up for Biannual Report

For almost a decade, Colliers International has partnered with the international tax advisory firm KPMG as a sponsor and key participant for its biannual Competitive Alternatives Report. KPMG's report/guide compares business locations in North and South America, Europe and Asia Pacific. Released in March, the 2012 report is the most thorough comparison of international business locations ever undertaken by KPMG, analyzing business costs for more than 110 cities in 14 countries. The study measures the combined impact of 26 significant cost components that are most likely to vary by location, as applied to 17 different business operations.

Colliers has once again played a key role as a major sponsor and partner in identifying the real estate cost components by surveying more than 480 local offices around the globe. Full study results are available online at www.competitivealternatives.com.

Be a Part of the 2012 Colliers National Meeting

Sponsorship Opportunity

October 3-5, 2012 | Manchester Grand Hyatt | San Diego, California

Reach Hundreds of Colliers Industry Leaders and High-Volume Brokers

Our national meeting is an intense three-day event where over 1,200 professionals gather to celebrate our success and plan our future—and we want you to be a part of it! There are a limited number of sponsorship opportunities available, so claim your spot now.

Your benefits as a sponsor will include:

- Logo placement on National Meeting collateral, event website, displays and presentation materials
- Access to 1,200 real estate professionals from around the globe
- Recognition onsite at the National Meeting

Call or email:

Rosanne Apodaca
+1 213 532 3265
rosanne.apodaca@colliers.com

Colliers INTERNATIONAL

Q&A

EXECUTIVE INSIGHT WITH: MARK KESCHL

NATIONAL DIRECTOR OF RETAIL

AS NATIONAL HEAD of the Retail Services Group for Colliers International since April 2011, Mark Keschl oversees business development and best practices for the more than 350 Colliers retail professionals in the U.S. Mark has 35 years of in-house and third-party experience guiding the real estate strategies of such top brands as Toys-R-Us and OfficeMax.

What brought you to Colliers?

I was inspired by the growth opportunity here. It's rare that you get a chance to be involved with a global organization on the rise like Colliers. When I came aboard, the Retail Services Group already had highly talented and experienced retail professionals across the country, so the potential to elevate the entire platform was exciting.

How did you get started in the business?

My education was in finance, and I started in the accounting department at Arbor Drugs (later acquired by CVS). I had to do percentage rent accruals, which required reading all the leases—and I was on my way. That is what makes retail real estate interesting: People come to it from a variety of educational backgrounds and professions.

How do you spend your time?

I'm traveling constantly, working with our team and clients in all corners of the U.S. I enjoy that because I get to meet different constituents across the retail sector: landlords and tenants, brokers and developers, small businesses and multinationals. Working for retailers, you tend to get tunnel vision in trying to meet the opening plan; Colliers provides a much wider scope.

What's been your experience so far?

The culture here is really a differentiator for me. It's been a real pleasure to collaborate and build the national practice with our specialists across the country who are so willing to share their expertise with other Colliers professionals throughout the platform.

Even as economic conditions improve, retailers face significant challenges. So it's been especially rewarding over the past year, helping our retail clients find solutions to their business problems—which doesn't always mean just opening more units.

What advice would you give a new broker considering a retail focus?

Retail brokers are a special breed, I think because retail demands more innovation and creativity than most commercial real estate work. Real estate should be thought of as a strategic asset by all occupiers, of course, but how a retailer's brand is viewed by its customers is largely based on the locations the retailer occupies, so it is a critical part of the business strategy.

So be prepared to really get to know your clients' businesses, and function as a true business partner. Markets are not stagnant either, so it is critical that you keep abreast of changes. People move, jobs move; the area that may be hot today could be obsolete tomorrow.

What are new industry trends that clients and brokers should be aware of?

This is going to be a year of opportunity. Improvement will continue as the economy recovers in fits and starts, but retailers are still going to be under pressure (as they always have been) to compete for the consumer's attention. This is going to drive a lot of innovation in the stores, focused not only on changing footprints and optimizing locations, but also on improving the customer experience. Some of that's being driven by the need for multichannel integration. The traditional retailers now realize that online sales are a significant factor, and are here to stay. The forward-thinking retailers that embrace it, and utilize their significant skills in sourcing, distribution and technology to compete will be the winners. KL

A Taxing Dilemma

AS CONGRESS CONSIDERS SEVERAL BILLS AIMED AT UNIFYING TAXATION POLICIES FOR INTERNET RETAILERS, WE WEIGH THE PROS AND CONS OF A STREAMLINED SALES TAX FOR ONLINE PURCHASES.

BY VICTORIA SIMPSON

U.S. RETAILERS have faced a perfect storm in recent years—economic pressures (unemployment, the housing market collapse, high gas prices) have run head-on into a digital revolution that arms savvy consumers with smartphones and 24-hour access to the Internet.

Online sales have steadily increased over the past decade, outpacing brick-and-mortar sales by as much as 4-to-1. For 2011, Forrester Research estimates online sales grew 11 percent compared to brick and mortar's 2.5 percent and ComScore reported that during November and December online sales increased 15 percent year-over-year to $37.2 billion, compared to an estimated 4 percent increase in traditional retail. Last year also saw 10 shopping days with online sales over $1 billion.

The explosion of this retail channel has amplified concerns over sales tax implications, because in practice, most online purchases are not subject to any type of sales taxation. While all retailers, online or not, must collect taxes on sales in any state where they have a physical presence, the U.S. Supreme Court ruled in Quill Corp. v. North Dakota (1992) that a given state couldn't unilaterally burden interstate commerce by forcing mail-order retailers to collect and remit taxes if they weren't located in that state. However, the court also explicitly looked to Congress to act as arbiter of interstate trade under the Commerce Clause of the Constitution and define what power the states had in this regard.

The Streamlined Sales Tax

In 1999, state legislators and governors began collaborating on a Streamlined Sales and Use Tax Agreement (SSUTA). Since 2005, SSUTA has provided a voluntary platform that simplifies the collection and administration of sales taxes in the 24 member states. Key features of the streamlined tax system include uniform tax definitions, rate simplification, and state-level administration.

Pressure on state budgets during the recent recession has brought the Internet sales tax debate into the spotlight once again. Several bills are under consideration by the U.S. House and Senate:

- House of Representatives bill, H.R. 3179: The Marketplace Equity Act
- Senate bill, S. 1832: The Marketplace Fairness Act
- House of Representatives bill, H.R. 2701/Senate bill, S. 1452: The Main Street Fairness Act

These bills all grant state taxation power on remote (i.e., online) retailers, either through the existing mechanism of the SSUTA, or by establishing similar minimum simplification standards. The bills also agree on exempting small retailers, although the exact definition of 'small' varies. Some form of H.R. 3179 or S. 1832 is the most likely to pass, having drawn strong bipartisan support.

The Pros and Cons

Supporters believe that these bills will level the playing field for local brick-and-mortar retailers who serve as the economic backbone of many communities. Internet retailers, it's argued, receive as much as 10 percent pricing advantage under the current system.

The International Council of Shopping Centers (ICSC) has been a strong proponent of this policy. "Twenty-first century retail is about the blending of old and new: whether brick-and-mortar, online, or new ways of shopping we can't imagine yet," explains Betsy Laird, Senior Vice President for ICSC's Office of Global Public Policy. "But the evolution of retail is being held back by a decades-old policy that gives certain retailers a competitive advantage by lowering their costs of doing business. ICSC believes that *a sale is a sale*, no matter where it takes place. We hope Congress, in its wisdom, promotes a business environment that allows all retailers to thrive, today and in the future."

However, online retailers counter that try-

Pressure on state budgets during the recent recession has brought the Internet sales tax debate into the spotlight once again.

Online sales have steadily increased over the past decade.

ing to calculate multiple state and local sales tax percentages could be a nightmare for a small online business. Even under a simplified sales tax system that allows a retailer to pay a single "blended" rate for each state, there are still potentially 45 different states to collect for.

While large retailers like Amazon already have the technological platform in place to meet such a requirement, smaller businesses may not; opponents warn that solving the compliance problem would require time or money, resulting in expense passed on to the consumer. In testimony before Congress, Tod Cohen, Vice President of Government Relations and Deputy General Counsel at eBay Inc, framed the debate not in terms of online vs. brick-and-mortar, but big vs. small. "[These bills] would change the playing field in a way that would apply sales taxes to small business retailers in the same manner as giant retailers…consumers would face a new tax cost on goods purchased from small remote retailers."

Cohen may have a point. After years of lobbying against collection of Internet sales taxes, Amazon recently came out in support of the Marketplace Fairness Act, and has struck individual tax deals with many states in which it does business.

Too Little, Too Late?

A growing number of industry analysts have speculated that the whole premise of the Internet sales tax debate is outdated. Julie Coons, President and CEO of the Electronic Retailing Association, quotes Forrester Research findings that 75 percent of online sales come from multi-channel retailers from whom states are already collecting sales tax because of physical presence.

The efficiencies of large online retail operations may also make the sales tax loophole a moot point. Two recent price surveys found that Amazon was able to undercut major competitors' pricing by a significant margin even after sales tax was factored out. For example, KeyBank Capital Markets found that Amazon's sales-tax-included prices on consumer electronics in New York were eight to 11 percent lower than in-store prices at Walmart and Best Buy. In fact, according to William Blair & Co, both Target and Walmart's online operations undercut their own stores by 1 or 2 percent.

Which raises the greater question for the larger retailers: Why pay for showroom space so customers can buy online? Given the persistent prediction that as much as half of all sales will be Web-influenced by 2015, failure to manage multichannel retail integration and respond to changing consumer habits poses a threat to brick-and-mortar retailers of any size.

So, as always, perhaps the voice of reason is a balanced one. "From a standpoint of basic fairness, it's a no-brainer," states Pat Duffy, President of Colliers International in Houston. "It's a loophole that really ought to be closed. But let's be honest: That horse is out of the barn. It's not going to change the behavior of the convenience shopper." Duffy cites rising fuel costs as one of many factors behind online sales. "You may see some impact in the high-tax states, but in most cases, sales tax is just a tiebreaker." KL

Re-balancing Act

THE IMBALANCE OF SUPPLY AND DEMAND IS JUST ONE OF THE FACTORS AFFECTING RETAIL REAL ESTATE TODAY. BY KC CONWAY

SINCE THE ONSET of the 2008 financial crisis, the commercial real estate market—particularly its retail sector—has been reeling from losses: the loss of value, down approximately 45 percent peak-to-trough; the loss of demand, resulting from anemic consumer spending and the elimination of eight million-plus jobs; and the loss or scarcity of capital, due to the closing of 536 banks between the first quarter of 2008 and the first quarter of 2012.

Here we are four years later, and many of the key economic metrics have finally improved—thanks to trillions of government intervention dollars for the Troubled Asset Relief Program (TARP), interest rate mitigation, loan modification programs, and economic stimulus.

In the first quarter of 2012:

- **Unemployment** has fallen below 8.3 percent due to magical government math in estimating the labor participation rate;
- **Eighty percent of the 19 largest U.S. banks** have passed their first post-Dodd-Frank stress tests;
- **February retail sales** turned in their best performance since September 2011, due in large part to increased auto and gasoline sales, with gas prices up $1.87 per gallon from 2008 prices to $3.85 per gallon; and,
- **Consumer confidence** has rebounded from its 2009 low to the level of the 1991-1994 recession.

Many economic and real estate industry analysts view the improvement in these economic measures as a signal that the economy and commercial real estate have recovered. However, I believe we are in a period of measured rebalancing, and that it will take years—not quarters—before the economy and commercial real estate will recover to pre-2008 levels.

Measured Rebalancing

As U.S. businesses have reconfigured their balance sheets through layoffs and curtailing capital spending, they are now in a position to re-engage in activities like business travel. In the first quarter of 2012, business had clearly moved from a "risk-off" mode to a "risk-on" strategy, with increased capital spending and business travel. This is also evident in manufacturing. This shift has allowed warehouse and hotel real estate to experience a more accelerated rebalancing than, say, retail real estate.

The latest PKF Hospitality Consulting hotel statistics for the first quarter of 2012 are all markedly better than 2009, and at or near 2004 levels. Warehouse is Colliers International's top commercial real estate property type pick for 2012 due to limited new supply, strong demand, limited distressed warehouse loans maturing over the next few years, and the potential for capitalization rate compression to sub-6 percent levels.

However, the commercial property types that are inextricably linked to consumer spending—housing and retail—are only in the early stages of this measured rebalancing cycle.

To understand the tepid rebalancing in retail commercial real estate, the key variables to focus on are:

- **Supply:** How much new construction was completed between 2004-2011
- **Purchasing Behavior:** The impact of online retail sales
- **Demand:** Doubling up of households, more so than increase in gross retail sales
- **Retail Sales:** Excluding gasoline and automobiles

Supply

During the 2004 to 2011 period, approximately 695 million square feet of new neighborhood and community center retail space was completed in the United States. To put that figure in perspective, new supply over the most recent seven-year period surpassed the total new supply added in the preceding 14 years. In other words, the U.S. overbuilt retail real estate.

The overbuilding of housing exceeded that of retail real estate in the period leading up to the financial crisis; which makes sense, as retail traditionally follows rooftops. Retailers assumed all the new residential housing was going to be occupied, and delivered the space to meet an anticipated demand which was never realized.

This misinterpretation of demand was compounded by growth in online retailing that has retailers wrestling with how to combat the phenomenon now described as the "scan and scram" shopper: a consumer who visits stores to research merchandise before buying elsewhere—most often online—at a better price.

According to McGraw-Hill Construction and Colliers International, approximately 24 million square feet of new community and neighborhood shopping centers remain under construction across the U.S. With an estimated 175 million square feet of the 695 million square feet of retail space completed in the preceding seven years still un-leased, the U.S. has nearly 200 million square feet of new supply contributing to the mid- to double-digit retail vacancy rate.

The imbalance of supply and demand for retail construction has been most pronounced in Texas, California and Florida. Between 2004 and 2011:

- 67 million square feet of new retail space was completed in Texas—or 10 percent of the total new retail space completed across the country;
- 65 million square feet of new retail space was completed in California at a rate of 9.3 million per year; and,
- 63 million square feet of new retail space was completed in Florida.

And it is not just those three states. Arizona and Georgia added 28 million square feet and 29 million square feet respectively during the 2004 to 2011 period; Pennsylvania and Ohio rank among the top five states for retail space still under construction, with 1.265 million square feet and 760,000 square feet, respectively. Oversupply is the primary factor holding back retail real estate from a more measured rebalancing.

With respect to the demand side of the equation, key economic statistics like retail sales are misleading. The Commerce Department reported that February 2012 retail sales looked stellar, with the best showing since September 2011. However, much of that increase was skewed by auto and gasoline sales. The 3.3 percent increase in gasoline sales, combined with Americans buying more fuel-efficient cars to replace an aging fleet, is skewing retail sales figures upward. These reported figures also exclude retail services which continue to be flat or declining due to the elevated unemployment rate. Other than teen and women's clothing, Americans are not yet opening up their pocketbooks for discretionary spending.

Until the U.S. sees job growth in the 300,000-to-400,000-per-month range, retail demand will remain measured and bifurcated between the markets with job growth—such as Energy Corridor, Knowledge Gateway Centers and Agricultural Belt markets—and those without—government and financial service centers and state capitals where state governments are struggling with ongoing deficits. Consumer spending will remain constrained and retailers will have little demand for the 200 million square feet of vacant new retail space.

> **New retail** space supply over the most recent seven-year period surpassed the total new supply added in the preceding 14 years.

The demand for luxury goods remains strong. Christian Dior (this page) reported an increase in revenue by 17 percent in 2011 over 2010, and Prada (opposite page) saw net income rise by 72 percent in 2011.

High Street

DESPITE THE CHALLENGING ECONOMY, HIGH STREET RETAIL HAS MAINTAINED ITS LUSTER. BY MARY MOWBRAY

IN THE DAYS and months following the financial catastrophe of 2008, there was much talk about the inevitable decline—and perhaps even collapse—of the luxury retail sector. Luxury goods were often seen as not just a symptom of unbridled financial excess, but even as a cause of our economic woes. As a result, the outlook did not look good for upscale retail real estate.

Fast-forward to 2012, and a walk down most prime high-street shopping districts across North America will reveal quite a different story altogether. Although there has been some movement of tenants over the past few years, most vacancies have been filled by new retailers moving into the market, or by existing retailers expanding. In Canada, for example, Toronto's Bloor Street—home to the city's most exclusive shops—has seen Louis Vuitton and Tiffany & Co. both lease larger stores.

The demand has also resulted in generally stable or rising rents. In 2011, net rents on New York's iconic Fifth Avenue rose by more than 20 percent and by more than 10 percent on Chicago's North Michigan Avenue—appropriately nicknamed the Magnificent Mile.

The real estate picture is supported by growing sales for luxury retailers, as well. In 2011, same-store sales growth for luxury retailers was higher than same-store sales growth for all other retail chains tracked by the International Council of Shopping Centers (ICSC).

Luxury Versus Aspirational Consumers

Luxury retailers have not been immune to the economic fallout of the past few years, however. The so-called aspirational customers—those consumers who may have limited discretionary spending dollars but purchase the occasional, emotionally charged luxury item—were certainly a factor in the growth

of luxury sales prior to 2008. They also helped grow the businesses of many aspirational brands—companies that sell higher-priced products, such as a $300 handbag, but are not true luxury brand companies.

As soon as the economy turned, however, aspirational customers stopped indulging in the occasional extravagant splurge, as many felt the effects of job layoffs and stock market losses. In the face of economic uncertainty, these consumers' purchasing decisions were more motivated by value.

Luxury shoppers want value as well, but value for them is defined by the perceived individuality and inspiration of both the product and the shopping experience, and less on pure economics. Luxury retailers understand this, and during the economic downturn, focused on their core customer: the frequent luxury shopper.

The luxury consumer's focus on the shopping experience translates into an emphasis on real estate. The physical store becomes critical: the location, the visibility, the profile, the design, the ambiance—all play a role in creating the ideal shopping experience. So luxury retailers have continued to invest in existing stores to maintain the customer's experience. According to a recent American Express Business Insights *Spend Sights* report, consumers in 2011 were shopping less frequently but spending more in fewer transactions, resulting in higher sales, particularly for luxury goods.

The importance of the physical store and its effect on sales has also resulted in a focus on flagship locations in prime markets. Although there was a slowdown in new stores in the immediate aftermath of 2008, it is unlikely that a decline in sales now would result in many luxury retailers actually closing any stores. The focus on flagship stores can be viewed from two perspectives: Flagship stores serve to enhance the customer experience, as they are generally easily accessible and adjacent to synergistic retailers; and they also tend to be high-performing from a sales perspective.

National Versus International

Luxury retailers are also increasingly focused on global growth opportunities. Many already have a significant presence in the major urban centers in North America, especially in the United States. It is more profitable for them to open new stores in rapidly growing regions, such as Asia, than in secondary urban centers in the U.S. It is also easier to pick a high-sales location in a relatively un- or under-served country than it is to pick a location in a secondary or tertiary market in North America. The combination of population growth, increasing personal wealth among the middle class, and brand identification make these emerging markets very lucrative for, and attractive to, luxury retailers.

Interestingly, the global economic growth that is so attractive to luxury retailers is also working to the advantage of luxury retailers operating stores in North America. An increasing number of luxury shoppers buying in North America are from Asia and South America. These international customers shop in North America because it's less expensive for them to. Their local market may have more prohibitive consumption taxes or the selection may not be as large. They may also be taking advantage of the weak U.S. dollar.

In the end, the continued success of high-street retail comes down to strategic restraint. Luxury retailers have generally taken a disciplined approach to their real estate because of their smaller portfolios of stores relative to mass-market retailers. They don't have the large number of stores to average out poor real estate decisions. This discipline, combined with a high-touch, high-value customer experience and a focus on Class A flagship locations, bodes well for high-street retail real estate moving forward. KL


MIA 82 CHI 92
NBA WEDNESDAY
PROGRESSIVE

TATE CARLSON

WINGIN' IT

CEO SALLY SMITH HAS TAKEN BUFFALO WILD WINGS FROM A COLLEGE-TOWN FAVORITE TO A NATIONAL ICON.

BY CHERYL REID-SIMONS

You could say that Sally Smith is an accidental CEO. In 1996, after a thoughtful and painstaking search, the board of Minneapolis-based Buffalo Wild Wings hired someone else to head the then-fledgling restaurant chain. The much-anticipated first day for the new president and CEO arrived—but he didn't. As it turned out, he changed his mind about the job but somehow never got around to letting Buffalo Wild Wings know. The executive board convened an emergency meeting and immediately looked to Smith, who had joined the company just two years earlier as chief financial officer. "They said, 'You should be the CEO,'" Smith recalls. She might not have been looking for a promotion to the top job, but she got it anyway.

Sixteen years later, that unexpected promotion looks like one of the wisest moves the board could have made. At the time she took the helm, Buffalo Wild Wings was a regional Midwestern chain of about 70 restaurants. Since Smith's appointment, it has grown into an 837-restaurant chain, with a presence from coast to coast in the United States, and a growing presence in Canada.

TATE CARLSON

WHEN BUFFALO WILD WINGS CEO SALLY SMITH TOOK OVER THE COMPANY, MOST STORES WERE DOING ABOUT $1 MILLION IN ANNUAL SALES. TODAY THAT FIGURE IS $3 MILLION.

Smith says listening to her customers is a key to the brand's success. "I enjoy listening to the guests and what they are looking for," she says. "Our loyal fans have always told us where they wanted us to open a location." Which, it seems, is pretty much everywhere.

Before joining Buffalo Wild Wings in 1994, Smith's only restaurant experience was waitressing in college. A finance and accounting student, Smith had become a CPA before joining Miracle-Ear as CFO. The leap from a hearing aid company to a restaurant wasn't as strange as it may seem. Miracle-Ear had both franchisees and retail offices.

"That gave me a lot of experience in franchising and retailing," Smith says. A year after selling the hearing aid company, Miracle-Ear founder Ken Dahlberg approached Smith about a little company whose board he chaired: Buffalo Wild Wings. Dahlberg told her the company had a great product and fervent fan base, but was in dire need of a strong hand in the finance arena to help attract investors. Smith signed on, and has been shepherding "B-Dubs"—as the restaurants are affectionately called by their many fans—to national prominence ever since.

BIG WINGS ON CAMPUS

The original Buffalo Wild Wings was an improbable foundation for a major chain. Located near Ohio State University in Columbus, "we truly were a college bar," Smith explains. Along with great wings and sauces, Buffalo Wild Wings was among the first to install big-screen televisions with cable showing sports and a little channel most college kids couldn't yet access in their dorms: MTV.

The first few Buffalo Wild Wings followed that same recipe: close to a college campus, sports-themed and aimed at students. In fact, most of the early franchisees were still college students themselves or recent graduates. "We used to have coupons on the back of our menus

that said, 'Ever think of winging it yourself?' That was how we found franchisees," Smith recalls. "When I joined, there wasn't a lot of criteria for who could be a franchisee. We had a commissary and trucks shipping food out to the restaurants. Any capital we had went into trying to open another restaurant or to lease another truck."

Besides getting a tighter rein on the finances, Smith moved to update the company's logo and restaurants and expand its market base and advertising targets. "We're very female- and family-friendly, while still being a sports bar," she says. "Our guests are 30 percent families." She also moved to put the franchising program on hold while instituting some basic requirements for franchisees. "If we wanted to be a national brand, we needed new strategies for finding and cultivating franchisees," she says.

If those changes made some early franchisees and loyal B-Dub fans nervous, the results were like a cool bite of bleu cheese dressing after a spicy wing: a welcome and tasty relief. "Our franchisees are very pleased with where we've taken the brand," Smith notes.

WILDLY SUCCESSFUL

When Smith took over, most stores were doing about $1 million in annual sales. Today that figure is $3 million, and the number of restaurants continues to climb. When the company went public in 2003, Smith set a goal of 1,000 restaurants—a milestone it should pass next year. Eventually she sees 1,400 to 1,500 Buffalo Wild Wings in the U.S., with another 100 in Canada. "We're getting a lot of interest internationally," she says.

For what started out as a Midwestern college hangout, that growth is impressive enough; but the economic climate over the past few years has put plenty of other established casual restaurants on the defensive while Buffalo Wild Wings has continued to thrive. "We've really continued our pace of growth since 2008," Smith notes. In fact, "our unit openings have increased between 13 and 15 percent per year."

While money may have tightened up for other companies, Buffalo Wild Wings is in a position to keep pushing forward. "We're very strong financially," Smith says. "We have a strong balance sheet with a lot of cash on hand, so we've been able to continue our unit development while other retailers really slowed theirs down or decided not to do a deal they had been pursuing. That leaves a lot of opportunity for us and we've been able to continue to grow."

It isn't that Buffalo Wild Wings hasn't made any missteps, Smith explains. It's just that the company acts quickly to correct them. "Early on when we had 200 to 250 restaurants, we opened up too many new markets at one time," she admits. "We saw some of the results and realized we had to tighten up." And despite the overall upward trend, 2010 showed some flattening out of the revenue charts, due in some measure, Smith believes, to competitors wooing customers with happy hour specials and big-game viewing parties.

"We kind of took it for granted that our guests knew that we were the place for that kind of experience." With a little reminder to its guests, Buffalo Wild Wings welcomed back strong growth in 2011, however. How strong? Profits in the last quarter of 2011 were up 34 percent.

RECIPE FOR SUCCESS

Smith says Buffalo Wild Wings succeeds in part because it provides entertainment along with food. "You can watch the game or play trivia. There's a little bit of something for everybody."

"It's been a real pleasure to work with Buffalo Wild Wings," says Dan Bourk, Senior Vice President for Colliers International in Kansas City. "We all know how tough the times were, starting in 2008. But they never hit the stop button; they were out there making deals, and that's paid off for them now. There's no question they've led the charge for the casual dining sector, and I see that continuing for a number of years."

And as Buffalo Wild Wings was able to grow during the most difficult economic times in recent memory, Smith is naturally optimistic about the future. The key to success, she says, is sometimes simple patience: "We have a robust real estate approval process. We'll wait for the right site. We're waiting for a site in downtown New York City. We have a franchisee ready to go, but we have to make it work in a site that works for us, not just being in New York City to be in New York City."

And being successful affords the opportunity to be that much more patient and selective. "We've changed what we look for from a real estate standpoint. Early on we were definitely looking at [Class] B or C sites because we had no choice. Now we will wait for that site that has great visibility, good access, ample parking—all the things you're looking for. And typically we have enough in the pipeline that we can wait for the site we want and still make our goals (for new stores)."

Smith says an improving commercial real estate market will create more opportunities for successful fast casual dining chains like Buffalo Wild Wings to expand. "Developers will start developing again," she predicts. "That came to a screeching halt in 2008 and 2009. Developments we thought were going forward stalled out. Now we're starting to see more robust retail development beginning across the country." In addition, Buffalo Wild Wings is looking to shrink its current 5,000- to 6,000-square-foot footprint for urban environments and smaller markets.

The company is also turning to existing, more non-traditional buildings. In White Plains, New York, the company converted an old bank building. "We kept the vault and turned it into a separate dining room for group events," Smith says. In Minneapolis, she adds, Buffalo Wild Wings opened a restaurant in a former and now historic fire station near the University of Minnesota campus. "We think we can make a lot of unusual locations work. You always worry about how you stay fresh."

Indeed, creating and maintaining a distinctive local feel to each of its locations is part of how the chain maintains such a loyal fan base. Whether it's the selection of local beers on tap alongside the national brands, or blackboard specials featuring bratwurst in the Midwest and wings with Old Bay Seasoning on the East Coast, each location has something that makes it a little different right alongside all its standard items. "If they're traveling, people know the brand well enough to know what they're going to get," Smith says. But the company is careful not to use a cookie-cutter approach with its restaurants. "We want each to be unique to its community." KL

THE STATE OF RETAIL

KNOWLEDGE LEADER SAT DOWN WITH SOME OF COLLIERS INTERNATIONAL'S LEADING EXPERTS TO DISCUSS WHAT'S HAPPENING WITH RETAIL REAL ESTATE TODAY—AND WHAT TO EXPECT IN THE FUTURE.

BY TERESA KENNEY

MEET THE EXPERTS:

***Knowledge Leader* (KL):** At the end of 2011, what was the state of retail in your market?

Dan Bourk: In this market, there was no real new development, but the fourth quarter saw retailers going on site tours and drafting LOIs [letters of intent], and shopping centers had more showings. I don't know if that translated into any deals being made, but after the last few years, it was nice to see the activity.

Solomon Ets-Hokin: Overall, 2011 was the year I think the logjam unjammed. To Dan's point, the last quarter was probably the most progress we've seen since 2008. However [Class] C real estate continues to be problematic, but B real estate is better, and A real estate has been pretty hot.

Among actively expanding tenants, they, for the most part, only want A's, and their parameters are very specific. One of the most important attributes of A real estate today is it accommodates specific uses that are scarce to the trade area, and the barriers of entry are high. For instance, you could have a shuttered grocery store in a densely populated area that doesn't have a gym serving it. Even though the real estate from a grocer's perspective is a B because of its deficient size, it's the only 30,000-square-foot surface-parked box in the area that is gym-deficient, so you'll have two or three gym operators fighting over it.

James Smerdon: We came out with a report in October [2011] that forecast December 2011 sales in Canada would be marginally better than December 2010 sales. We were expecting 3.55 percent sales growth across the country. We actually had 3.6 percent sales growth, so we were very close. We also forecast that Quebec would be slightly down for year-on-year December sales, and actually all provinces recorded increases, including Quebec. Some provinces—Saskatchewan and Alberta in particular—had more than 8 percent sales growth for the month of December.

So Canada is a bit of a different animal from the states. We're seeing consistently low vacancy rates in major markets, increasing lease rates, flat or declining cap rates for almost all retail asset classes, and fairly strong development activity. We've got three large shopping centers under development or in the planning process in the Metro Vancouver area alone.

Jon Barry: 2011 was our best year since 2007 in terms of number of retail lease and sale transactions and square footage leased. Eighty percent of the deals we did were under 2,500 square feet, which is true to form in any economy. Rents ranged from 50 percent to 95 percent of prior peak levels, depending on the location. Investment sales activity also exceeded any year since 2007, fueled by financial institutions beginning to dispose of REOs [real estate owned properties], and increased activity among REITs [real estate investment trusts] and many well-capitalized private equity funds.

Steve Lane: My specialty is in junior anchor tenant representation, and fourth quarter 2011

ONLINE SHOPPING

ALL OF OUR ROUNDTABLE PARTICIPANTS AGREED THAT ONLINE RETAIL IS AFFECTING BRICK-AND-MORTAR RETAIL REAL ESTATE. ANN NATUNEWICZ, NATIONAL MANAGER OF U.S. RETAIL RESEARCH WITH COLLIERS INTERNATIONAL'S RETAIL SERVICES GROUP EXPLAINS THE OPPORTUNITIES ONLINE RETAILING PRESENTS TO TRADITIONAL BRICK-AND-MORTAR RETAILERS AND LANDLORDS.

Retailers like Chipotle (above, top) and LA Fitness (above) have been aggressive in their searches for real estate.

"The 2011 holiday season was very strong for e-commerce. Retail has entered a new era—people are adapting and mobile technology is evolving. How retail businesses provide goods and services will need to evolve as well.

"This is the kind of transformation that only happens once every couple of decades, so 2012 is a huge year of opportunity. Many retailers are still trying to figure out what their online retail strategies are, and landlords can work with them to help promote their brands and ultimately make sales."

THINGS TO CONSIDER:

Retailers: "Bricks-and-mortar retail may evolve into more of a hybrid, offering customers the opportunity to pick up their online purchases in the stores. This may mean changing store hours to accommodate work hours—malls typically don't open until 10 a.m.—as well as locating warehouses near high-volume stores."

Landlords: "Depending on their tenant mix, landlords may want to consider upgrading the infrastructure of their spaces to accommodate more computers, as more retailers integrate their online and bricks-and-mortar shopping experiences. And as retailers look to change their hours, landlords may want to reorganize space in the parking lots to anticipate heavier traffic during certain times of day."

in my market was—and still is—busy. There's been a lot of competition for the few remaining big box vacancies, and little new construction. That's continued into 2012.

Bourk: I don't see a big difference from 2011 to 2012, either. We aren't seeing any new construction, aside from some specialty retail development such as single-tenant buildings and new grocery stores, etc. With the lack of new development, I think absorption, moving forward, is going to be positive.

For 2012, there has been a focus on developing a game plan by restaurants and value-added retailers. We're seeing more retailers with specific growth goals this year and looking forward to 2013 and 2014.

Smerdon: Dan, are you seeing more growth by retailers who serve a certain socioeconomic demographic?

Bourk: No question. I think the value-added retailers and the casual dining restaurants are the ones making the big push as either new-to-market or expansions within a market.

Ets-Hokin: Walmart just started actively pursuing locations for its grocery concept in the past 18 months here [in Northern California]. Because real estate that meets their large square footage requirements is so hard to find, they've been looking at spaces as low as 25,000 square feet to up to 50,000 square feet to accommodate their grocery concept.

We are also starting to see green shoots in terms of ground-up development. It's very sparing, but there are a few major projects being built—though it's probably less than 25 percent of what it was in 2006.

Here, the hottest categories are pharmacies and gourmet grocers like Whole Foods. There is also a bidding war in this area between 24-Hour Fitness and LA Fitness, and between the dollar stores like 99¢ Only, Dollar Tree, Dollar General and Family Dollar.

For restaurants, the quick-service guys like Chipotle and Five Guys Burgers are being pretty aggressive; the gourmet sandwich shops are hot, as well, like Panera Bread and the Corner Bakery.

After two-plus years of "kicking the can down the road," special servicers are now more inclined to foreclose, and once the property becomes REO they are looking at strategies that include leasing and new investment in cases where clear, near-term value enhancement can be achieved.

Barry: In Atlanta, retail development is at a near-standstill similar to the Midwest. This reflects the challenges we face in the housing market. Atlanta's primary industry was growth: as development activity pushed deeper into the suburbs, retail development followed. Most of the problem properties are located in the emerging suburban markets that failed to produce the population needed to support the retail. In these markets, it is very difficult to fill vacancies with viable tenants at any rent, much less the

rents that were anticipated when the projects were built five years ago.

Conversely, closer-in Atlanta markets are very strong. Occupancy and rents are near pre-recession levels. Limited new development activity in these areas combined with a gradual improvement in the housing market in the in-town and close-in suburbs will strengthen existing shopping centers in these areas. Active tenants include all of the discount general merchandisers, fast casual dining, finer dining, mattress stores, fitness centers and various office/service users.

Smerdon: [For Canada] in 2012, we are expecting a lot of activity to do with Target's takeover of Zellers. Target stores will be opening in 2013, and while there will be some new construction, 90 percent of their retail properties will be former Zellers stores. This is causing quite a bit of turmoil with turnovers in shopping centers because of the construction work needed to get the individual units ready.

Solomon mentioned the growth of dollar stores and that is also being felt here, as well as QSRs [quick-serve restaurants] like A&W and McDonald's.

So the real message is, if you want to expand into Canada the trick is finding the space to do it. In some cases it is going to be settling for space that may not be ideal, but working within what's available and hoping something gets developed after your first lease expires. It really is a landlord and developer market in the metropolitan areas.

KL: What are some of the challenges your markets are facing in 2012?

Bourk: Like Atlanta, here in the Midwest, there is not going to be any new retail properties developed aside from some infill locations. For tenants looking for space, they may need to look at existing space which might be the traditional B shopping center properties, but in good locations.

Even the housing market—which has been pretty stagnant—seems to be improving in some areas. It seems like no one even looks at a redevelopment today without some sort of subsidy—whether it's a TIF [tax increment financing] agreement or a CID [community improvement district], or in Kansas, STAR [sales tax revenue] Bonds.

Ets-Hokin: For retail management and landlords, the biggest challenge is matching the deal to the required risk profile. Everybody is paying much more attention to the risk profile, which many are probably wishing they had been doing all along.

Most retailers are mitigating risk by only pursuing A-plus locations that meet their exact requirements. This is the main reason it is harder to make a deal today, post-recession—the real estate has to be really right. In the words of Pat Duffy [President of Colliers International's Houston office], the days of the "freeway broker" are gone. A freeway broker is someone who stands in the middle of the freeway and waits for the deals to run them over. In today's market, as a broker, you have to add value. You have to be versed and understand what's driving the demand, as well as what's curbing the demand.

TREND ALERT

APPLE IS OPENING UP store vignettes in select Target stores. This is a business model that has been successful for retailers and service companies like Starbucks and bank branches.

Barry: In Georgia, there has been a real lack of major anchor tenant activity. Kroger used to do 10-plus stores per year in the state. I am told there will be only four new stores for Kroger in the entire U.S. in 2012. Target opened 85 new stores in the U.S. in 2005. They are projected to open only 12 in 2012. Of course all of this is a reflection of a poor job market, leading to a very weak residential market, leading to no justification for new store development.

Perhaps the biggest challenge, however, is the increasing impact of the Internet on retailers. It is outrageous that shoppers can walk through a brick-and-mortar location, learn about the product, and then avoid sales taxes by purchasing the item on the Internet. The Internet now accounts for 8 percent of all retail sales including groceries, gas and dining out. Specific industries are getting clobbered by the Internet such as electronics and clothing, which are now at nearly 30 and 20 percent of all retail sales, respectively.

Lane: Many retailers, such as Kohl's, will no longer pay market rents; they will only do subsidized deals. Junior anchor growth will by necessity expand into new markets to find vacant boxes for expansion as new construction is still minimal. New construction, when it happens, inevitably gets delayed due to a number of obstacles—primarily financing and co-tenancy.

KL: Is the co-tenancy issue a looming problem in your market(s)?

Barry: It's been a problem for power centers and lifestyle centers for years. Most of the concerns have already surfaced and either have been successfully addressed or have forced borrower and lender to discuss solutions, if any, to save the deal. As a result, many deals that have been in special servicing are closer to falling into foreclosure.

Lane: It's a constant struggle. Lenders and developers are pushing back hard on co-tenancy clauses, however retailers are doubling down as they do not want to be left in failing centers. In the end it will be a compromise but, in my view, retailers have the ultimate power, so co-tenancy clauses will remain. KL

CRISIS MANAGEMENT

COLLIERS INTERNATIONAL LOOKS AT CALIFORNIA'S LATEST ECONOMIC CRISIS AND OFFERS EXPERT ASSISTANCE TO THOSE AGENCIES MOST CRITICALLY AFFECTED.

BY JOHN WOLCOTT

In 2011, the California Legislature passed Assembly Bill 26, calling for the dissolution of the state's nearly 400 redevelopment agencies.

CALIFORNIA'S FRAGILE ECONOMY

suffered another blow on February 1, 2012 when the state closed nearly 400 redevelopment agencies (RDAs), shutting off the flow of roughly $5 billion in annual real estate investments to 390 cities.

Since the late 1940s, local redevelopment agencies have funneled a regularly replenished flow of property tax revenues into projects intended to turn blighted urban real estate into economic stimulus centers. Redevelopment agencies were given a portion of property tax funds to partner with developers to create financially feasible redevelopment projects. After agencies paid off their project bonds, revenues flowed to schools and special districts.

Behind the demise of the generally successful agencies was a weakness that often afflicts complex, decades-old, multibillion-dollar government programs: accumulating enough tax revenue funding to attract too much attention.

A myriad of successor agencies have been created to carry out that dissolution, and Colliers International has been proactive in reaching out to those groups most affected by the challenges resulting from this chaotic new chapter in the state's economic history.

Successful past projects include Old Pasadena and San Diego's Gaslamp Quarter—both revitalized historic downtown shopping and restaurant districts—as well as 40,000 affordable housing units for families, seniors and low-income people in Los Angeles. The massive project provided tens of thousands of construction and permanent jobs for the city.

In recent years, roughly $5 billion a year fueled those agencies' projects. Then abuses began, such as redevelopment projects that, as Los Angeles County Board of Supervisors

Past successes for California's redevelopment agencies include 40,000 affordable housing units for families, seniors and low-income people in Los Angeles. The massive project provided tens of thousands of construction and permanent jobs for the city.

Chairman Zev Yaroslavsky told the *Los Angeles Times*, "evolved into a honey pot that was tapped to underwrite billions of dollars worth of commercial and other for-profit projects."

News media reported that some RDAs allowed local governments to use state funds for expensive projects with little public value. In some instances, RDA funds never reached any redevelopment project, such as when the city of Oakland used $20 million of those funds to pay for city employee salaries.

Such abuses, coupled with Governor Jerry Brown's search for funds to replenish the state's budget shortfall, led to the passage of Assembly Bill (AB) 26, which called for the RDAs dissolution, shifting their funds to state coffers.

Responding to legal challenges of the bill by the California Redevelopment Association (CRA), California's Supreme Court unanimously upheld the legislation this past December, effectively eliminating RDAs and providing "more than a billion dollars of ongoing funding for schools and public safety," as Gov. Brown has described in news interviews.

The California Supreme Court also traced the dramatic growth of RDAs in recent years to the state's Proposition 13 in 1978 that "created a kind of shell game among local government agencies for property tax funds," wrote Justice Kathryn Werdegar, so that the only way to obtain more funds "was to take them from another agency [and] redevelopment proved to be one of the most powerful mechanisms for gaining an advantage in the shell game."

The state Supreme Court ruling resulted in predictable changes in the California real estate market, says Solomon Ets-Hokin, senior vice president for retail leasing and development in Colliers' Oakland office.

"The now-defunct redevelopment agencies were very, very important for creating projects in California," he explains. "In 2009 and 2010, they accounted for $8 billion in revenue and $9.4 billion in expenditures. They created $30 billion in long-term debt, assisted in developing 12.5 million square feet of new construction and 4.9 million square feet of rehabilitation projects that involved 35,000 direct jobs and created 17,550 affordable living units for individual households."

He says that AB26 was, in reality, "simply a money grab by the state. Then, to get the money faster and give the sponsoring entities a chance to keep the RDAs, the legislators passed AB27, which would have provided for payments by RDAs to the state in order to stay in business. That would have put $1.78 billion into the state's general fund at the beginning of this year. But when the Supreme Court upheld AB26 and threw out AB27, the RDAs lost the ability to remain intact, and the state did not get all the money they were counting on," Ets-Hokin explains.

The loss of the RDAs, Ets-Hokin says, "has contributed to the overall trend is that projects are way down in the state, with the exception of grocery-anchored developments, such as Safeway stores, which is [currently] working on 24 projects, all but one of which are redevelopments/expansions of existing stores. Retail outlet centers are also hot right now."

Meanwhile, there is potential for the RDAs to be replaced by an array of new agencies and programs that spans a wide spectrum of funding, development options and jurisdictions.

"What can replace the RDAs? Things like infrastructure financing districts, Mell-Roos special tax districts and various assessment districts, business improvement districts, historical preservation programs, certificates of participation bond financing, sales tax and transient occupancy tax increment financing, general fund annual budget allocations, Sustainable Community Strategy (SCS) supportive projects, federal new market tax credit programs, U.S. Economic Development Administration Public Works and local general obligation bonds, to name a few," Ets-Hokin says.

To help make sense out of a rapidly changing real estate market, Colliers is bringing together teams of experienced market, finance, construction and development staff to evaluate these economic development challenges in the midst of the weak general economy.

"Our new Colliers Agency Dissolution Services group can assist the successor agencies," says Ets-Hokin. "We can help those agencies' oversight boards resolve the maze of existing city, county and redevelopment agency contractual and project obligations."

"We broke down the RDA network into 16 regions and organized ourselves so that we have 16 lead Colliers agents reaching out to these successor agencies and their oversight boards," Ets-Hokin explains. "We'll be talking to all 391 of the former RDAs to introduce Colliers' multi-service solutions program, which is unique in the marketplace."

In addition to real estate advice on transferring responsibilities to new agencies and resolving contractual project issues, Ets-Hokin notes, "Colliers can manage properties, guide the liquidation of assets, and help these new agencies operate in today's changing marketplace. Our people have the talent and experience so we're working to position ourselves for that role."

"Our team already has many established contacts in the state. so we can pick up the phone and connect with the right players. It's important for agency staff to work with people who understand how important this change is to the many people who lost jobs and projects," he says. KL

HOTSPOTS IN CALIFORNIA'S COMMERCIAL REAL ESTATE MARKET

Walmart is introducing 13 of its Neighborhood Markets to California.

In Colliers International's Los Angeles office, Christopher Maling's role as Senior Vice President for Retail Investments is wide-ranging, including teaming with Oakland's Solomon Ets-Hokin to contact the successor agencies to offer his real estate expertise.

"We're working as part of Colliers Agency Dissolution Services group to identify which properties would be candidates for selling," Maling explains. "Our goal is to offer our various service lines to help resolve their issues. Everybody is pioneering through this but our retail, industrial and land guys are ready to help."

No one, he muses, can "really claim to be a specialist is these types of situations" but he knows Colliers has broad-based expertise to offer.

"We're facing a hodgepodge of various assets, from a land parcel 5-feet-wide by 1,000-feet-long between two large, privately owned parcels, to a $300,000 ground lease and a downtown L.A. property with 350,000-square-feet of offices. We're basically coming into this as a service provider that has empathy. We know they have to sell this or that and we have the guys to help them," he says.

Without the public funding that RDAs provided, Maling envisions this transition period will see many development projects that won't be done because they "don't pencil out, so you will have areas of blight that continue to be underserved, kind of like Detroit but magnified for the whole state, affecting downtown areas in cities like Los Angeles, Oakland and Stockton," he says.

When he's not troubleshooting major economic upheavals like the RDA crisis, however, Maling is doing what he loves best, dealing with shopping centers and the state's rare hot markets such as grocery-pharmacy stores like Safeway and discount stores, such as Walmart and Target.

"Grocery distribution is one of the key retail sectors that have continued to evolve and fill a need," he says. "It's all based on the common fact that people have to eat, so you're getting a lot of competition in this market."

A "lot of competition" may be describing the new competitive situation for grocers lightly.

Safeway is expanding 23 existing stores and building a new one in California, and its newly branded Vons grocery stores are expanding in the southern part of the state, even offering home deliveries.

Throughout the state, Walmart is setting up 13 of its new Neighborhood Markets in shopping centers and empty locations, such as former Circuit City sites. And Target stores are expanding their grocery sections, as well.

At the same time, there's increased competition for discount grocery stores from high-end stores, such as Whole Foods, Sprouts Farmers Markets and Stater Bros.—Southern California's largest privately owned supermarket chain with 167 stores.

"One of the new Walmart Neighborhood Markets is going into the bottom of an apartment building in Los Angeles on the outskirts of Chinatown. That's really raising some eyebrows," Maling says.

Maling says competition in California's grocery market is "kind of a head scratcher," with new competitors turning up everywhere, including new Fresh & Easy Neighborhood Markets in smaller spaces from 5,000 to 15,000 square feet. The stores are a brand of Tesco, a United Kingdom chain that is the second largest grocery chain in the world after Walmart, measured by profits. Tesco arrived in Arizona in 2007 and now has 185 stores in California, Arizona and Nevada.

The competition is good business for Maling's favorite activity: matching new tenants with existing shopping center space and finding unconventional locales for new specialty grocery markets. KL

STRIKING GOLD IN CALIFORNIA

RETAILER HOBBY LOBBY EXPANDS INTO A TIGHT PROPERTY MARKET AND SEES SALES SOAR. BY VICTORIA SIMPSON

IN AMERICA'S WILD WEST, gold prospectors dreamed of striking it rich in California. Today, finding a fresh retail market in America is a little like prospecting for gold: It takes perseverance and the boldness to explore old claims that might yet yield a profit. One U.S. retailer that has done just that is Hobby Lobby.

Humble Beginnings

Hobby Lobby was founded by David Green in 1972 in a 300-square-foot retail space in Oklahoma City, Oklahoma. With just $600, Green grew Hobby Lobby into a company with $2.7 billion in annual gross sales, 23,000 employees, and more than 500 stores across 41 U.S. states.

Stores average 55,000 square feet and feature departments dedicated to art and crafts, picture framing, fabrics, wearable art and home décor. The company carries anywhere from 65,000 to 100,000 stock keeping units (SKUs) annually—more than double the amount of their closest competitor.

Built On Family and Faith

The son of a minister, Green built his business on Christian principles and attributes his success to his faith. He runs the company with his sons: Mart Green—who is also the founder and CEO of Mardel Christian and Educational Supply, a Hobby Lobby affiliated company—and Steve Green, President of Hobby Lobby.

West-Coast Prospecting

From 2000 through 2007, Hobby Lobby opened a new store every two weeks with $1.2 million in inventory. By 2007, the company had more than 385 stores across the U.S., with only Utah and Arizona representing its retail footprint in the west. Though looking to expand west, the state of California was not considered an ideal retail environment due to high occupancy costs and potential red tape.

Following the economic downturn of 2008 and the collapse of the California-based Mervyns chain, however, Hobby Lobby approached Colliers International to explore the viability of entering into the market with the possibility of occupying some of the vacated Mervyns' properties. Scott Nelson, Hobby Lobby's Vice President for Real Estate, characterizes the company's strategy: "Redeveloping existing space is a big part of our development model, especially with the halting of new shopping center development and the demise of certain big box retailers in the last recession. The potential for using these types of properties has opened up expansion opportunities for us."

Setting the Gold Standard

For a property to be considered a good Hobby Lobby candidate, it has to contain sufficient population and income levels to support a minimum sales threshold; be isolated enough to be served through a single advertising print channel for cost effectiveness; and be close to a large metropolitan shopping area from which to import a tertiary customer. The ideal location would also be one-half mile or less to a successful retail area or mall, have a two-hundred-twenty-space-plus parking lot, be surrounded by high traffic counts, and offer easy vehicle access. The deal-breaker? The property must have a notable presence and unobstructed visibility from the street.

According to Nelson, Hobby Lobby can expand or remodel a space within six to eight months. "We are not limited by any quotas, so if a building is available, we can move quickly to open it," states Nelson. "We are flexible on the buildings we can take, as a majority of our buildings are second generation—and we have also combined spaces in order to enter a market."

In 2009, Hobby Lobby toured more than 100 big box opportunities across the state, including 25 sites from the Mervyns' portfolio. Still concerned about the state's business climate, the company chose to open a single store before making a larger commitment to a state-wide expansion.

Hobby Lobby's methodical location search and strict property requirements paid off. Its first California store opened in Visalia in January 2010. The Visalia store, a former Mervyns, produced the best grand opening in chain history and continues to deliver impressive sales. Former Mervyns in Temecula, Roseville, Rancho Cucamonga, and Modesto opened in the fourth quarter of 2011, and matched Visalia's unprecedented success. Another store was added in 2011, taking over a former Gottschalks in Merced.

The Gold Rush Is On

Hobby Lobby is still mining West Coast gold with openings planned for Las Vegas and Washington state. And its expansion into California continues with three planned openings in former Mervyns in Stockton, Morgan Hill, Laguna Niguel, as well as a former Best Buy in Victorville. Hobby Lobby is also in letter of intent and/or lease negotiations on another dozen sites, two of which are ground-up construction.

With more than 500 stores now, Nelson thinks the U.S. market has room for another 500 Hobby Lobby locations. "We are very excited about the California market and its potential, not only for sales, but for the number of locations. We look forward to serving our customers through an effective store base. We are continuing to look aggressively for potential locations across the state, as well as throughout the west and in the New England and Florida markets."

It looks like Hobby Lobby will be striking gold in the U.S. retail market for years to come."

The new A&W at Toronto's Lester Pearson Airport opened in January 2012.

CHAIN REACTION

PAUL HOLLANDS, CEO OF A&W IN CANADA, DISCUSSES THE BURGER CHAIN'S LEGACY BRAND, ITS ONGOING RELATIONSHIP WITH CANADIANS, ITS PLANS FOR GROWTH AND HIS OWN SUCCESSFUL JOURNEY WITHIN THE COMPANY. BY MICHELLE SANTOS

A LARGE, FROSTED glass mug bearing the letters "A" and "W", brimming with frothy root beer and sitting next to a burger wrapped in a foil bag—ever since A&W first opened a drive-in restaurant in Winnipeg in 1956, this has been a fond image for Canadians. Fifty-six years and more than 750 additional restaurants later, A&W is now the second-largest burger chain in Canada with $800 million in annual sales, and it continues to be deeply entrenched in the memories and lives of Canadians. Whether you ask a baby boomer or a kindergartner, chances are, they'll have an A&W anecdote to share.

"We're a storied brand that started in the '50s and has become part of Canada's fabric," explains Paul Hollands, CEO of A&W Food Services of Canada Inc. "It's been a long relationship and we continue to bring the legendary part of the brand to future generations, all the while keeping what's wonderful about it."

Hollands himself has enjoyed a long-standing, meaningful relationship with A&W, having been with the company for 31 years. He's worked in various areas of the business, from marketing to business development and franchising to operations. According to Hollands, his career path is a testament to A&W's emphasis on professional growth. "We encourage people to manage their own careers and pursue careers that fit their lives and own ambitions; we encourage them to work within different parts of the business."

And it's been a remarkable ride for Hollands, one whose highlights include the transformation of the business in the mid-70s from a chain of 200 drive-ins to a slew of 754 restaurants, none of which included drive-in service. "We essentially closed one whole chain, then built a new one four times the size," muses Hollands. "We transformed an old business and made it better, including inventing a whole new menu, cooking and ordering system." To date, this undertaking remains Holland's most challenging and rewarding achievement.

And the journey continues. A&W has embarked on a very ambitious expansion plan, with its sights set on Ontario and Quebec. "Our goal is 40 new store openings a year," declares Hollands. The restaurant's urban store concept is a big driver of the initiative, with Vancouver, Toronto and Montreal presenting particularly prime opportunities to establish both free-standing and urban locations.

The company also launched a successful program to attract more franchisees, which resulted in nearly 200 pre-sold franchises.

A&W's successful strategy caters to its customers' needs. "We need to be convenient to save people time and we need to be in close proximity to where people live, work, shop, play and go to school," Hollands explains.

As the chain's business model has evolved dramatically over the years, so too has its real estate requirements. The restaurants are located in urban areas, and the traditional 4,000-square-foot, free-standing franchises have given way to 1,800-square-foot concepts with drive-thru windows. Achieving higher productivity per square foot than ever before, A&W has very specific location criteria: a Class A, free-standing structure that allows for a drive-thru.

Just as Hollands carefully determines restaurant locations and configurations, he mindfully conducts real estate transactions with proven partners. "We like to work with people in a partnership/collaborative way," he shares. "It isn't about a single deal; it's about building relationships with people who can get to know our business, bring us to our desired site and bring the deals home."

While A&W seems to have mastered the recipe for a lucrative franchise, Hollands recognizes certain trends could call for some adjustment. The retirement of baby boomers is one such trend. Hollands foresees retired baby boomers interacting with the quick-service restaurant industry differently. "They will no longer be under time pressure, so they may not use A&W the same way," he explains.

Canadian immigration is another factor. "People coming to Canada who perhaps are not familiar with our offerings could propel us to respond accordingly, change our menu, for example," Hollands adds. He also cites continued urbanization—particularly in Montreal, Calgary and the Greater Toronto Area—as a driving force in the years to come, one A&W will address with its urban store concept.

"And the economy isn't what it was," Hollands concludes. "A&W will have to continue to change and innovate. Some scenarios, we have the answer for, and some, we're still pondering."

More than three decades after he began his career at A&W as a junior marketer, Hollands continues to turn the page on his relationship with the brand. When asked to look back and share his take on success, he does so twofold: "A&W is a strategy-driven business. Success is being clear with what you want to do and achieving it. And it's about making a difference in people's lives, in whichever way." Throughout his tenure, Hollands has made choices that impacted not only the business, but also his own professional growth. He says the one thing he'd tell people entering the industry is to "find the organization that has the values you're looking for and the right climate for you to work in. The rest will fall into place."

OPPORTUNITIES
RISING

choices

FEATURED SPEAKERS

Asieh Mansour
Head of Americas Research
CBRE

Jim Collins
Author, *Great by Choice*

Sheena Iyengar
Author, *The Art of Choosing*
S.T. Lee Professor of Business, Management
Division of the Columbia Business School

2012 CREW Network Convention
& MARKETPLACE

OCTOBER 24-27, 2012 | CHICAGO, IL

Choose to Join Us in Chicago!

Register at WWW.CREWNETWORK.ORG

CREW NETWORK
CONVENTION
CHICAGO•12

Cassidy Turley Commercial Real Estate Services | CBRE | Colliers International | Fulbright & Jaworski L.L.P. | Jones Lang LaSalle | Studley | Walmart Realty

Investment/Leasing Opportunities

A SELECTION OF COLLIERS INTERNATIONAL AVAILABLE PROPERTIES

Colliers INTERNATIONAL

Northport Business Park

129 AVENUE & 170 STREET

Edmonton, Alberta

- New, high-cube, modern distribution/ light manufacturing facilities
- Ideal location in Northwest Edmonton
- Multi-building, master-planned industrial development with developer guidelines
- Dock & grade loading
- Yard storage/trailer parking available
- 151,200 SF now leased
- 42,000–176,400 SF available

ROD CONNOP
+1 780 969 2994
rod.connop@colliers.com

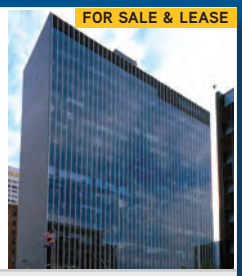
EVELYN STOLK
+1 780 969 3002
evelyn.stolk@colliers.com

DAVID KRAUS
+1 780 969 3026
david.kraus@colliers.com

One 11 Tower – Downtown Class 'A' High Rise Building

111 W. MONROE AVENUE

Phoenix, Arizona



- 255,566 total SF, 1,000-100,000 SF available
- In the heart of downtown Phoenix
- Within walking distance of light rail
- Property management and 24/7 security on site
- Newly remodeled building lobby and conference facility
- Amazing iconic downtown investment opportunity

CHARLES MISCIO
+1 602 222 5192
charles.miscio@colliers.com

GREG MCMILLAN
+1 602 222 5181
greg.mcmillan@colliers.com

MARCUS MUIRHEAD
+1 602 222 5176
marcus.muirhead@colliers.com

Stampede Station

210 – 15TH AVENUE SE

Calgary, Alberta

- 315,447 SF
- 416 parking stalls
- Projected completion date of Q4 2014
- Project is designed to incorporate current sustainable building systems and construction practices. LEED® certification and building customization can be achieved if requested by anchor tenant

CHRIS LAW
+1 403 571 8769
chris.law@collierscalgary.com

DAN LANNON
+1 403 215 9865
dan.lannon@collierscalgary.com

140 Acres Prime Industrial

NW BROOKWOOD PARKWAY & EVERGREEN PARKWAY

Portland, Oregon

- Up to 140 acres, minimum 50-acre purchase
- Tax incentive programs
- Majority shovel-ready certified by State of Oregon
- Adjacent to Genentech, SolarWorld, and rapidly expanding Intel Ronler Acres campus
- Industrial zoning

HOWARD LARSON
+1 503 499 0083
howard.larson@colliers.com

MIKE THOMAS
+1 503 223 3123
mike.thomas@colliers.com

Long-Term Sublease

3777 KINGSWAY

Burnaby, British Columbia

- Up to 97,000 SF of contiguous space over 6 floors
- On-site amenities include fitness facility, cafeteria, wellness centre, large auditorium, coffee shop, convenience store and bank
- Unobstructed views
- Walking distance to 2 SkyTrain stations
- Fully improved floors
- Furniture available

ROB CHASMAR
+1 604 661 0822
rob.chasmar@colliers.com

MARCO DIPAOLO
+1 604 661 0838
marco.dipaolo@colliers.com

www.3777kingsway.com

Prestigious Industrial Property for Sale

175 CENTRAL AVENUE SOUTH

Bethpage, New York

- Prominent world headquarters facility
- 205,000-square-foot manufacturing & distribution center
- Numerous tailboards; 5 drive-ins
- 20- to 34-foot ceiling height
- High-density EFSR sprinkler system
- Additional 25,000-square-foot mezzanine
- 30 minutes to Manhattan
- Possible investment opportunity

JEFFREY SCHWARTZBERG
+1 516 284 3411
jeffrey.schwartzberg@colliers.com

JASON MILLER
+1 516 284 3416
jason.d.miller@colliers.com

Investment/Leasing Opportunities

A SELECTION OF COLLIERS INTERNATIONAL AVAILABLE PROPERTIES

Colliers INTERNATIONAL

Prime Industrial Building

FOR SALE & LEASE

6900 TRANS-CANADA HIGHWAY

Pointe-Claire, Québec City

- Well-designed industrial building, entirely air-conditioned
- Total available area: 60,099 SF
- Production area with compressed air and optical fiber system
- Numerous amenities
- 150 parking spaces
- 22' clear height
- 2 truck level doors, 1 interior door

MICHEL BOILEAU
+1 514 764 2821
michel.boileau@colliers.com

www.collierscanada.com/441

American Axle Manufacturing

FOR SALE & LEASE

1 DAUCH DRIVE

Detroit, Michigan

- 2.6 Million SF for or sale or lease
- Minimal square footage 50,000 SF on a lease basis
- 30 cranes, 54 overhead doors, 65 docks
- Ceiling heights 14' to 40'
- Rail access

BRENT BESHEARS
+1 248 226 1686
brent.beshears@colliers.com

Glenwood 6

FOR LEASE

8255 NORTH FRASER WAY

Burnaby, British Columbia

- 71,376 SF office/warehouse space
- Attractive architectural features (Christopher Bozyk Architects design) with an abundance of full-height glass
- Air-conditioned, design-built office layouts
- 26' ceiling heights offering high cubic storage capacity

DARREN CANNON
+1 604 662 2637
darren.cannon@colliers.com

STUART MORRISON
+1 604 662 2676
stuart.morrison@colliers.com

GREG LANE
+1 604 692 1442
greg.lane@colliers.com

glenwoodindustrialestates.com

Center Twenty-One

FOR LEASE

2100 FRANKLIN STREET AND 2101 WEBSTER STREET

Oakland, California

- Class A office space in the heart of Lake Merritt and Uptown markets
- Center Twenty-One offers +/-690,000 square feet of office space in two distinct buildings
- Two buildings are linked by elegant nine-story, sky-lit atrium.
- Ideally located in close proximity to BART and Oakland's AC Transit system

KEN MEYERSIECK, MANAGING DIRECTOR, SVP
+1 510 433 5802
ken.meyersieck@colliers.com

TRENT HOLSMAN, SVP
+1 510 433 5859
trent.holsman@colliers.com

SCOTT GREENWOOD, VP
+1 510 433 5827
scott.greenwood@colliers.com

Modern Distribution Facility

FOR LEASE

25 COTTRELLE BOULEVARD

Brampton, Ontario

- 120,000 to 350,826 SF available
- Prestigious warehouse/distribution facility
- One of the few large distribution centers in the GTA; more than 300,000 SF currently available
- Located in close proximity to Pearson Airport and intermodal yard
- Additional dock doors possible

GARRY WATTS
garry.watts@colliers.com

GRAHAM MEADER
graham.meader@colliers.com

+1 416 777 2200

collierscanada.com/3930

Trophy Single Tenant NNN Ross Dress for Less

FOR SALE

460 S. LAKE AVENUE

Pasadena, California

- Strong demand for well-located, single tenant net leased properties on long term leases.
- A+ trophy location in Pasadena, California on South Lake Avenue.
- Investment grade tenant with a S&P bond rating of BBB+ on a fresh 10-year lease with one, five-year option.
- Rental rate positioned at or below market rental rates for the trade area.
- Strong tenant sales.

TOM J. LAGOS
+1 213 532 3299

STEVE ALGERMISSEN
+1 213 532 3241

EL WARNER
+1 213 532 3264

ColliersRetail360@colliers.com

www.ColliersRetail360.com

Investment/Leasing Opportunities

A SELECTION OF COLLIERS INTERNATIONAL AVAILABLE PROPERTIES

Colliers INTERNATIONAL

850,000 SF Warehouse

8875 TORBRAM ROAD

Brampton, Ontario

- Only existing building greater than 700,000 SF in Greater Toronto Area
- Ample trailer parking available
- Potential to retrofit to 32' clear height
- Divisible to 400,000 SF
- T-5 lighting
- 40' x 50' bay sizes

GORD COOK
+1 416 620 2831
gord.cook@colliers.com

VICTOR COTIC
+1 416 620 2892
victor.cotic@colliers.com

teamcresst.blogspot.com

OMP Fontana Distribution Center

10651 ELM AVENUE

Fontana, California

- 454,016 SF building
- 32' minimum clear height
- ±3,886 SF office space
- T5 lighting and silver scrim foil in ceilings
- ESFR sprinkler system
- 200' full concrete, gated and secured truck court
- Two-street frontage on Elm and Poplar Avenues
- Excellent access to the 10, 15, & 60

STEVE BELLITTI
+1 909 612 2617
steve.bellitti@colliers.com

THOMAS TAYLOR
+1 909 612 2614
thomas.taylor@colliers.com

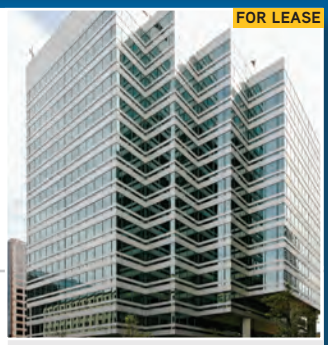
JOSH HAYES
+1 909 612 2625
josh.hayes@colliers.com

SUMMER COULTER
+1 909 612 2628
summer.coulter@colliers.com

Prime Midtown Toronto Office Space for Lease

121 BLOOR STREET EAST

Toronto, Ontario



- High-profile, Class A office building with podium signage opportunity
- Up to 65,000 SF available
- 4 full floors with interconnecting staircase
- Individual floors can be leased
- Excellent Bloor Street views
- Underground tenant parking
- 24/7 security
- Solid ownership with responsive property management

ALBERT BOLTER
+1 416 643 3480
albert.bolter@colliers.com

RYAN MCIVER
+1 416 643 3749
ryan.mciver@colliers.com

www.121blooreast.com

Prologis Mid Counties Industrial Center

16400 TROJAN WAY

La Mirada, California

- One-of-a-kind distribution facility
- 26' ceiling clearance, .6/3000 sprinkler calculations
- Thirty (30) dock high loading positions/three (3) drive-in ramps
- Fully secured yard
- Corporate identity location
- Divisible to 141,190 SF and 78,810 sf

CHRIS SHEEHAN, SIOR
+1 310 381 2431
chris.sheehan@colliers.com

ADAM DEIERLING
+1 310 381 2416
adam.deierling@colliers.com

Valley Park Business Center

6021 BROADBAND BOULEVARD

Shakopee, Minnesota

- 500,000 SF on 109 Acres
- High-image manufacturing facility
- 26' – 27' 8" warehouse clear height
- Flexible design and abundant natural light
- Built 2001
- Close to Minneapolis/St. Paul Airport and numerous local amenities

BILL RITTER
+1 952 897 7743
bill.ritter@colliers.com

RYAN KRZMARZICK
+1 952 897 7746
ryan.k@colliers.com

ERIC ROSSBACH
+1 952 897 7872
eric.rossbach@colliers.com

Visalia Marketplace Shopping Center

SEC OF S. DEMAREE STREET & W. NOBLE AVE

Visalia, California

- Anchored by Kmart and Save Mart
- Value-add opportunity
- Entitled vacant land included
- Vacancy in shop space included
- Break up strategy to sell off parcels
- National credit tenants
- Priced at $19,950,000
- Terms: All cash
- 200,794 SF building

CHRISTOPHER E. MALING
+1 213 532 3292
chris.maling@colliers.com

DAVID MALING
+1 213 532 3291
david.maling@colliers.com

www.malingteam.com

Go, Go Gadget

MAKE ROOM FOR THESE SMALL, MULTI-PURPOSE TRAVEL ACCESSORIES IN YOUR CARRY-ON BAG.
BY NIKI STOJNIC

EVEN IF YOU'VE got packing down to a science, new smaller and sleeker gadgets make it impossible to pass up the opportunity to downsize your gear even more. Some of the hottest travel accessories pull double duty, allowing you to reduce your footprint on the planet *and* the airplane.

Power Up

Keep your phone, MP3 player, e-reader, or camera ready to go with the finger-sized PowerStick, a USB-powered portable battery charger. Load it via a USB port and it's ready to plug into any device that needs a battery boost, using one of the five included connectors. The PowerStick is available with 2 GB, 4 GB or 8 GB of storage capacity, and you can even personalize them with your logo for client thank-you gifts. **www.powerstick.com**

Just In Case

Convert your iPad into a laptop-style device and back again when you snap it into the ClamCase®. The case connects an external keyboard to your tablet via Bluetooth, which, thanks to a 360-degree hinge, allows you to flip the keyboard under the iPad for a horizontal touch-screen stand, ready for typing. For normal tablet use, simply flip the keyboard completely behind the screen. **www.clamcase.com**

Stowaways

You never know when you'll need an extra bag, whether it's to carry extra files, souvenirs or a spare…well, *anything*. Timbuk2's ingenious Hidden line of bags raises the bar on the now-ubiquitous reusable tote. Small lightweight pockets expand into the 'Hidden Messenger' bag, made of tough rip-stop nylon. **www.timbuk2.com**

Fold 'Em Up

It was once said of legendary dancer Ginger Rogers that she did everything the more famous hoofer Fred Astaire did—only backwards and in high heels. The same could be said for busy female executives, running from the airport to the boardroom with little space in briefcases or overhead bags for more comfortable—but equally stylish—footwear. Until now, that is. Tieks' line of leather flats fold in half and stow in purses or bags at the ready for when your sharp patent pumps wear out their welcome. Tieks' impressive color options make it so easy to coordinate, you may need to get more than one pair. **www.tieks.com**

Chip Magnets

The emergence of radio frequency identification (RFID) technology in credit cards has given rise to tech-savvy credit card skimmers who swipe the information from the chips' radio waves by simply brushing a portable scanner against the pocket of an unsuspecting victim. Shield your credit card numbers from possible theft with RFID-protected Magellan's Aluminum Wallets. The wallets are sturdy, stylish and small (just three-quarters of an inch thick, and 4 1/4 inches wide by 2 3/4 inches high), making them perfect for your next business trip—or your next trip to the store. Magellan's offers larger RFID-protecting wallets for passports, as well. **www.magellans.com**

Cool Off

Scorching fast processors often make laptops uncomfortably hot, making cooling pads or lap desks a bulky necessity while away from ergonomic office comforts. No need to pack yet another accessory, however. The HeatShift CoolGuard Netbook Sleeve doubles as a sleek laptop travel pouch—TSA-checkpoint friendly, no less—as well as a neoprene cooling pad upon which to place the laptop when in use. **www.thermapak.com**

Lighten Up

A little more light is always welcome, but unless you're camping, a traditional flashlight isn't the most practical travel tool. Instead, tuck a couple of Grip-On lights in your pocket for hands-free lights. The Swiss-engineered, versatile little LED lamps will hook, clip, or hang on books, e-readers or menus, as well as odd or round surfaces like umbrellas or wine bottles. The battery will last for more than 48 continuous hours, and the LED is rated for 50,000-plus hours. **www.tipseelights.com** KL

Sustainable Giving

BUSINESS LEADERS ARE TAKING THE LEAD IN CORPORATE ACCOUNTABILITY AND PHILANTHROPY. BY HEIDI STOUT TRETHEWAY

ALTHOUGH THE TERM corporate social responsibility (CSR) has been part of the business lexicon for more than 50 years, its role in overall business management continues to evolve.

CSR, also known as corporate citizenship, corporate conscience or sustainable business practices, considers more than a business's bottom-line effort to generate revenue for shareholders. It also takes into account stakeholders, that is, people who are affected by the organization's activities such as a business's surrounding community, the environment and natural resources, and both consumers and employees.

How will business define the coming decades and its role in shaping the world? This question is often front-and-center for members of the World Economic Forum (WEF) who meet several times each year for the purpose of "improving the state of the world."

Members include political leaders and heads of state, business leaders, non-governmental organization representatives, entrepreneurs and thought leaders in the arts and culture. This past January at the World Economic Forum's 2012 annual meeting in Davos, Switzerland, more than 2,500 people raised issues of development, power shifts and sustainable solutions to the world's most challenging problems.

"It's not a question of whether business should play a role in global problem-solving," says Doug Frye, President & CEO of Colliers International. "It's a question of how we can get involved. There is a tremendous leadership vacuum growing as global power shifts, and governments are either unwilling or unable to set the course for meaningful change and stewardship."

Frye and Dylan Taylor, CEO for Colliers International in the U.S., attended the WEF meeting in Davos and contributed to the committee for Infrastructure and Urban Development, which Frye co-chaired.

In development, Frye says Colliers plays a key role in sustainability because its professionals have the opportunity to guide clients toward energy-efficient choices in development, renovations and property management. The ripple effect can go far—40 percent of the world's emissions pollution comes from buildings, while only 14 percent comes from cars.

CSR has been criticized as "window dressing" by some, a just-for-looks attempt to polish a brand without creating meaningful change. Ultimately, corporations must provide transparency in their CSR efforts to avoid the perception of "greenwashing" (claiming to use

sustainable practices as a marketing tactic, without an earth-friendly solution).

Transparency is also key in corporate accountability and governance. Colliers International was the first real estate or financial services firm to sign the WEF's Partnering Against Corruption Initiative, known as PACI, which was launched by CEOs as a platform for peer exchanges on dilemma situations. More than 140 companies have since signed the agreement to commit to global standards against corruption.

"We can't take it for granted that business and government will do the right thing, or even agree on what the right thing is," Frye says. "Too often, business-as-usual means cutting corners or skipping past inconvenient regulations. PACI sends the message that we're together on this commitment—we're going to play by the rules because in the end, it's better for all of us."

In addition to leadership, sustainability and corporate accountability, one of the most common elements of CSR is philanthropy. This ranges from company-sponsored funds and foundations, to direct sponsorships of events or charitable organizations, to employee-targeted fund-raising efforts for one or more causes.

But fundraisers often find that the most challenging aspect of a campaign is engagement—in fact, the cost to reach new donors (such as through the purchase of a donor list for a premium) can drain a substantial percentage of the donor's first gift. Many charities rely on recurring donors to make up for that first high-cost-of-acquisition gift.

Frye wondered how business might solve that problem, and had an idea: sponsoring a philanthropic effort that emphasized *social* giving. "It's not about the few people who can give the big amounts; it's about getting lots of people to give a little and then engage more and more givers," he explains.

From the seed of that idea, Everyone Gives was born. The social giving campaign launched Feb. 22 and in 17 days raised nearly $750,000 from 12,000 individuals in 64 countries. Thousands of charities benefitted from these pledges, and in addition to funding the campaign development, Colliers International provided more than $50,000 worth of bonus incentives for the most active participants.

"Everyone Gives was a great example of how businesses can use existing resources to do good in the world," Frye says. "Our professionals have vast networks of contacts, clients and friends, and this effort proved our ability to unite behind a common cause and make a significant impact."

While CSR remains a subjective and voluntary metric for business, organizations have free rein to define their approach to corporate social responsibility as they choose. But Frye and many of his colleagues at the World Economic Forum hope strides toward greater accountability, sustainability and philanthropy will create a ripple effect that permanently links business leadership in these areas with the new definition of sustainable business success. KL

Above clockwise: The opening buffet at the Annual Meeting 2012 of the World Economic Forum in Davos, Switzerland. William H. Gates III, Co-Chair, Bill & Melinda Gates Foundation, during the session 'Global Economic Crisis: Role and Challenges of the G20.' Klaus Schwab, Founder and Executive Chairman of the World Economic Forum during the session 'The World Economic Forum's Vision and Mission.'

Opposite page: The sign for the 2012 World Economic Forum clearly states its mission: Committed to Improving the State of the World.

ALL IMAGES: ©WORLD ECONOMIC FORUM SWISS-IMAGE.CH; WORLD ECONOMIC FORUM: MORITZ HAGER; OPENING BUFFET: MONIKA FLUECKIGER; WILLIAM H. GATES III: SEBASTIAN DERUNGS; KLAUS SCHWAB: REMY STEINEGGER

The ABCs of Management

SEEING PAST BLIND SPOTS CAN HELP BUILD A BETTER TEAM.

BY DOUG FRYE

Doug Frye is the global president and chief executive officer for Colliers International.

KENNA KLOSTERMAN

IN AN INDUSTRY where expertise is critical, cultivating the right employees means the difference between success and failure—for client assignments, for our brand and for our business as a whole.

In the last edition of *Knowledge Leader*, I took issue with the claim that one exceptional employee is better than a hundred average people, because I believe businesses should strive to transform their people into great employees, not just hire superstars.

Today, my attention is on how to manage the team you've got and how businesses can retain and promote the best people.

What makes an "A player"

Imagine categorizing each of your employees as either an A, B, C or D player. I define the best people—the "A players"—as those who are both great producers and a great cultural fit.

Managing these people seems like a no-brainer, but many managers fail to invest in these people for greater responsibility and leadership. Too often, the squeaky wheel gets the grease, and managers spend a disproportionate amount of time trying to improve challenging employees while neglecting the A players.

A players at every level in your organization can be engaged, whether in executive succession planning, as career mentors, as subject matter experts who train others, or simply to plan office social gatherings. Each time you give A players an opportunity to lead, you spread the culture you intend.

Dealing with D players also seems like a no-brainer—but the longer you wait before weeding them out, the more you send a message to the rest of the team that poor performance and negativity will be tolerated. This can eventually pollute customer service, product quality and financial performance.

At Apple, Steve Jobs insisted that A players only like to work with A players, and demanded his managers guard against what he called "The Bozo Explosion"—that slippery slope where each lesser tier of employees attracts the next rung down.

I contend, however, that managers have an opportunity to transform B and C players into A players if they can identify the employee's weaknesses and guard against their own blind spots that tolerate subpar performance.

Culture, results and blind spots

A business coaching firm we work with frequently, aPriori International, developed a framework to help managers coach employees at each level.

First, the definitions: B players are culturally aligned with your organization but are not producing at their full potential. C players produce great results, but often at a cost to culture, either with a poor attitude or difficult interpersonal relationships.

Why do B players rank higher than Cs, especially since the latter produces results? In aPriori's coaching sessions for our managers, coach and co-founder Travis Carson explains that B players simply need more skills, tools or accountability to get the job done—a structural change—but C players need a complete attitude adjustment, which can often require a personal transformation.

That's really, really tough.

What I've found most valuable is the insight on blind spots—why some managers tolerate poor performance or negativity even when it affects the rest of the team. Fundamentally, it's the managers' work styles and whether they are chiefly concerned with results or culture.

For bottom-line-driven managers who are concerned with competence, C players can be a blind spot, because the manager will overlook the employees' negative impact on culture or coworkers since they are, after all, getting results.

For culture-oriented managers who are concerned with sincerity and team cohesion, B players can be a blind spot, because these managers support positive, friendly employees even if they don't produce strong results. These managers are likely to give B players many chances to improve their results, while the bottom-line managers will forgive C players' bad attitudes or poor interpersonal skills.

I believe Colliers' clients, professionals and partners want to work with A players, so we'll continue to hire the best and the brightest—our expansion and acquisition strategy places a heavy emphasis not only on market leadership and expertise, but also on ensuring that new partners are a good cultural fit.

Internally, we'll also be pushing our managers to see past their blind spots and take action to help our people contribute to our culture and our bottom line. Whether it's gaining greater expertise, learning the nuances of client services or working better together in groups, I'm convinced that the best business strategy isn't just seeking A players from outside your organization, but also building A players from within. KL

EVERYONE GIVES.org

THANK YOU

for helping us change the world.

In just **17** days, Everyone Gives raised nearly **$750,000** for thousands of charities around the globe. We believe that when passionate people are united behind a common cause, we can change the world—**for good.**

Thanks to the following organizations for their support in making Everyone Gives possible:

AT&T
Colliers International
Dorsey & Whitney
Microsoft
Stoke Strategy
Techblocks
The Edgewater Hotel
Visual Media Group

Give. Share. Change the World.