Knowledge Leader™

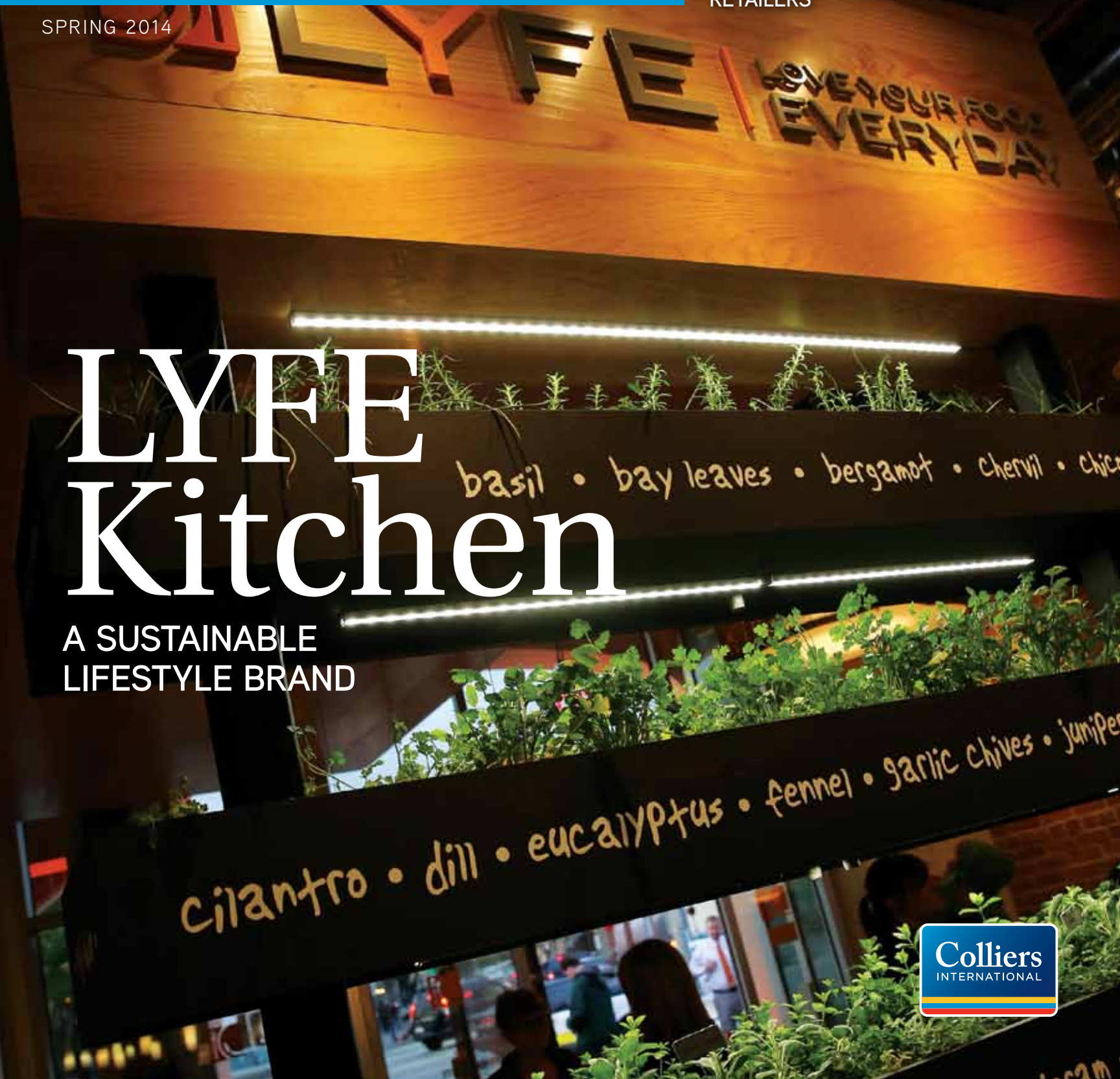
COLLIERS INTERNATIONAL PROPERTY MAGAZINE

SPRING 2014

RETAIL THERAPY
A LOOK AT THE RETAIL INDUSTRY TODAY

B2B
MAX'S WINE DIVE EXPANDS ACROSS THE U.S.

TRENDS
ONLINE VERSUS BRICK-AND-MORTAR RETAILERS



LYFE Kitchen

A SUSTAINABLE LIFESTYLE BRAND

Colliers INTERNATIONAL

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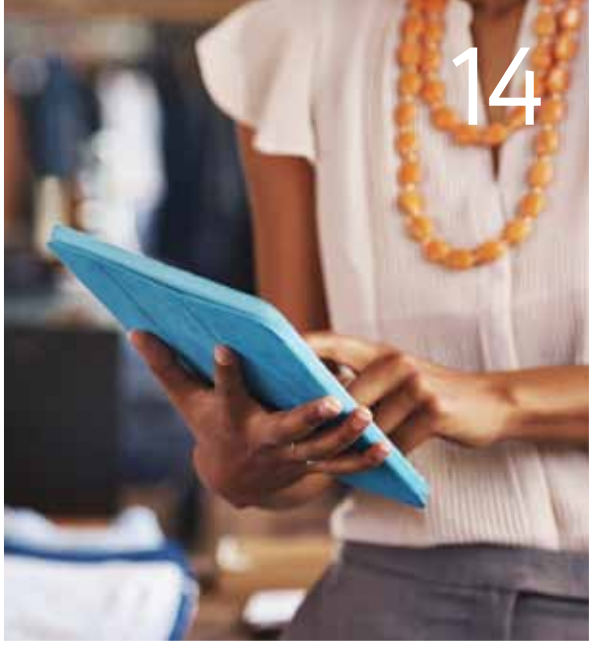

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COVER PHOTO COURTESY OF LYFE KITCHEN

From the Editors' Desk

DYLAN TAYLOR

DAVID BOWDEN

IN BETWEEN THE LINES

WELCOME TO THE SPRING 2014 ISSUE OF *KNOWLEDGE LEADER* MAGAZINE, which shines the spotlight on retail commercial real estate.

This is always an exciting issue to work on, because it brings us in touch with innovative new brands and affords us the opportunity to cover such a wide variety of forward-looking trends. Whether it's the ongoing evolution of online retail or refinements in brick-and-mortar concepts, the world of retail is constantly changing.

We're in a particularly interesting period. Retailers have weathered the leading edge of the disruptive changes that e-commerce and the economic downturn have brought about. The millennial (or Gen Y) consumers are establishing their identity, and brands are successfully adjusting to how consumers in their early 30s socialize, think and buy. The wave of big-box vacancies that began five years ago has spawned a variety of smaller concepts and creative re-use strategies—such as medical use. And the long-term impact of the recession (and the slow recovery that has followed) has seen the emergence of dollar stores and outlets.

What happens next? Times such as these spawn innovation, as surely as those typified by extreme disruption. Once the worst is over, you see thought-out, methodical adjustment, as retailers focus on getting the size of their footprints right, and feel safer undertaking experiments and concepts that are less reactive.

Pop-up retail is a great example: Once primarily the province of fly-by-night or seasonal retail operations, it's being transformed by large brands leveraging minimalist in-person shopping experiences, on-demand production and fast home delivery. Even Google opened six pop-up retail experiences in major markets across the U.S. this past holiday season.

In this issue, we examine some major trends and innovative brands that give you a look at what's coming. Our cover feature is on LYFE Kitchen, a fast-casual concept dedicated to sustainability both on the plate and in the built environment. Other stories include:

- B2B: Houston's Lasco Enterprises undertakes MAX's Wine Dive expansion nationally, while retaining its unique culture
- The retail outlook from Canada and Mexico
- A roundtable discussion with Colliers experts in brokerage, investment and property management
- Outlook 20/20: Outlet shopping is attracting new consumers and brands
- Trends in e-commerce: multichannel, data security, millennials

In addition to the Colliers professionals quoted in this issue, we'd like to extend our gratitude to the many Colliers retail experts who contributed their knowledge and editorial guidance, including Earl Clements, Ted Chryssicas, Robert Hantgan, Kevin James, Vikki Johnson, Corrine Lin, Beth Patterson, Deborah Perry and Lisa Vela.

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A New Outlet

REVAMPED RETAIL STRATEGY MAKES OUTLET SHOPPING 'IN.'

BY MARIANNE HALE

OUTLET STORES WERE ONCE the last stop for misfits: irregular clothing, damaged goods or unsuccessful product lines. Today, however, outlet retail is moving out of the fringes of retail and bringing with it a new strategy that capitalizes on recession-fueled frugality. In fact, with budget-friendly pricing, outlet retail isn't just excelling, it's outselling its full-price mall counterparts.

"On average, outlets outperform malls in terms of sales per square foot," says Solomon Ets-Hokin, national chair for the Colliers Retail Services Group. "Outlets are now competitive with traditional malls."

The incentive for change was twofold, says Ets-Hokin. One: Brick-and-mortar retail as a whole has had to restructure the customer experience as consumers have taken their wallets to the Web, leaving malls to compete with e-giants like Amazon.com. And two: The recession uncovered cracks in the size of the United States' physical retail footprint that weren't as apparent in happier economic times.

"It's like the tide went out, and it exposed the weakness in the system," Ets-Hokin says. "You see all the tires and bottles and washing machines laying in the mud."

For starters, the U.S. was overreaching with retail space. According to a 2013 Colliers report, the U.S. had 23.8 square feet of retail shopping space per capita in 2012. Compare that to Canada's 14.6 square feet per capita or Australia's 10 square feet per capita. Some of the overbuilding in retail tied to the housing crisis in many secondary markets, where new shopping center development followed the explosive growth in new suburbs.

Since the recession, retailers are putting much more thought into sizing their stores appropriately for the population. Ets-Hokin explains that desirable malls, from a national tenant's perspective, typically serve approximately 300,000 people.

"The brick-and-mortar shopping experience is, in a way, consolidating and shifting," he notes. "Retail in general is right-sizing. There's a lot of extra retail space out there for the number of consumers. I think that's sort of pushing the shift."

As is consumer demand. All of the belt-tightening of the recession has made being thrifty hip.

"I think a sensibility was born [out of the recession] to save more money, to be more practical, to be more frugal," Ets-Hokin says. "Retail had to respond to that. It's chic now to not have debt, to buy your more sensible, fuel-efficient vehicles with cash."

When multi-store outlet malls began opening in the 1970s, they were located in less populated areas because brands didn't want to compete with their full-line retailers selling their goods, Ets-Hokin explains. But now the brands have realized that, aside from leveraging vertical integration for better margins, providing a great customer experience elevates the brand.

"Retailers know the consumer wants sales promotions and if they don't offer discounted merchandise for savings seekers, a competitor will. So the thinking for retailers has become, if consumers want deals, they should buy from our brand as opposed to our competitor's. Why not make it convenient for these shoppers and open up an outlet location next door?" says Ets-Hokin.

Seattle-based retailer Nordstrom locates many of its discount Nordstrom Rack stores in close proximity to its full-line stores.

Seattle-based Nordstrom, for example, which plans to unveil 27 new Nordstrom Rack stores in addition to three new full-line locations this year, plants many of its Rack stores in close proximity to its full-line stores, (even relocating the Rack store in Seattle to a core location directly across the street from its downtown flagship). Currently, the retailer has 117 full-line stores and 142 Nordstrom Racks, and acknowledges its strategy online, noting, "Many customers shop at both stores, and this gives us a way to better serve them while making it more convenient for them to shop with us."

> Retailers know the consumer wants sales promotions and if they don't offer discounted merchandise for savings seekers, a competitor will.

Originally, outlet malls functioned as a place for retailers to liquidate leftover merchandise from past seasons. But now, many retailers carry in-season merchandise in their outlet locations, while some brands rely primarily on outlet retail.

Children's clothing brand Sprockets sells almost exclusively at outlet locations, with just two of its 10 stores operating as full-line stores. You'll find much of the same merchandise at a Sprockets outlet and a full-line store, says Sprockets Executive Vice President Mark Cardinale.

Many outlet-mall leases require that retailers offer a discount of at least 30 percent off the manufacturer's suggested retail price (MSRP) on their wares, Ets-Hokin says. Sprockets, which has plans to open three more stores in outlet malls this year, does just that, but Cardinale says he finds the "sweet spot" for the brand are the goods discounted by 40–50 percent.

"You won't find too many things at regular prices at a Sprockets store," Cardinale says. "It's not just the value proposition; it's also the value/convenience piece of things."

Cardinale has seen many customers who are willing to park in the faraway parking spaces to shop at an outlet mall because they can stretch their dollars while conveniently cruising mall standbys such as Abercrombie & Fitch and Gap.

In fact, a lot of retailers open virtually the same store in outlet malls as they do in any other mall, Ets-Hokin says, because their business model can sustain that.

"You'll find a Gap at an outlet center, and it will look and feel and be priced the same," he explains.

In the end, it's all about seeing the demand and then meeting it, Ets-Hokin says.

"I think it's really just about being smarter, about putting the retail where it needs to be, being customer-centric, making it convenient. It means not sticking to some philosophical rule that you have to separate certain formats within a brand by a certain distance," he says. KL

spotLIGHT

THE PEOPLE, PLACES AND EVENTS SHAPING THE INDUSTRY

Big Deals

OHIO INVESTMENT SERVICES COMPLETE TWO TRANSACTIONS TOTALING NEARLY $112 MILLION.

IN MARCH, COLLIERS INTERNATIONAL'S Ohio Investment Services completed the sale of two separate portfolios, or 10 individual properties totaling $111,924,002 and 1,243,227 square feet. Jeff Johnston, CPA, Chris Prosser, CCIM, and Steve Timmel, CCIM, all brokerage senior vice presidents with Colliers International in Ohio, represented the seller in each transaction.

The Lowe's portfolio sale consisted of three Lowe's Home Improvement stores located in Ohio and Kentucky for $36.7 million and approximately 382,000 square feet. The three properties were located in Zanesville, Ohio; Fremont, Ohio; and Florence, Kentucky, and were purchased by Cole Capital.

The Walmart portfolio consisted of three Walmart-anchored retail centers and four Walmart shadow-anchored retail centers totaling 860,938 square feet. All seven properties were sold to Phillips Edison & Company for a total of $75.2 million. The centers were located throughout the Midwest, including Ohio, Michigan and Indiana.

"Both portfolios were attractive to investors because of their stability, superior condition and location," says Johnston. "It's good to see institutional capital migrating back into the Midwest for high-quality assets such as these."

The two portfolios represented by Colliers International's Ohio Investment Services included Lowe's Home Improvement stores and retail centers with tenants such as Marshalls.

The Walmart shadow-anchored retail centers included tenants such as Marshalls, Jo-Ann Fabric and Craft, PetSmart, Staples, Dollar Tree, Rent-A-Center, Sherwin-Williams and other national credit retail tenants.

For additional information about Colliers International in Ohio, visit colliers.com/ohio.

TROPHY RETAIL

COLLIERS INTERNATIONAL MARKETS POWELL STREET BOUTIQUE HOTEL.

COLLIERS INTERNATIONAL HAS BEEN retained as the exclusive marketing agent for 33 Powell Street in San Francisco, a trophy Union Square asset featuring a boutique hotel and high-profile retail space. Colliers International's Investment Services Group, including Tony Crossley, Tim Maas, Frank Wheeler and Erik Hanson in San Francisco, will market the property for sale. The 142-room boutique hotel offers premium ground-floor retail space anchored by high-end cosmetics retailer Sephora under a long-term triple-net lease.

Located at the foot of the famous Powell Street Cable Car Turnaround, 33 Powell Street is at the retail epicenter of the city at the confluence of Union Square and Market Street. "33 Powell Street offers a very rare opportunity for an investor to acquire an absolute 'A+' location in San Francisco's sought-after Union Square, which is a primary recipient of more than 16 million annual visitors and billions of dollars spent in the city," says Erik Hanson, vice president, Colliers Investment Services Group in San Francisco.

Located at 33 Powell Street in San Francisco, this boutique hotel includes premium ground-floor retail space.

Cost of Doing Business

KPMG AND COLLIERS TEAM UP FOR BIENNIAL STUDY.

AUDIT, TAX AND ADVISORY FIRM KPMG has again teamed with Colliers International on KPMG's biennial *Competitive Alternatives* study, released in late March. As the report's sole real estate sponsor, Colliers' extensive global market research helped KPMG quantify "the cost of doing business" across 100 cities in 10 countries.

Analyzing 26 key cost components (including taxes, labor, facilities, transportation and utilities) in seven different B2B service sector operations and 12 different manufacturing sector operations, *Competitive Alternatives* 2014 offers essential guidance to international investors, and anyone who studies commercial real estate.

Canada ranks second in the 10-country survey, with a 7.2 percent total cost advantage over the baseline United States; Mexico tops this list (18.7 percent cost advantage), and is the only emerging nation included in survey.

Labor costs remain the largest factor in location cost for both service businesses (75–90 percent) and manufacturing (44–60 percent), with facility costs in second place (4–16 percent and 26 percent, respectively).

In the U.S., Atlanta, Cincinnati, and Orlando, Fla., were the three most-cost friendly business locations among major U.S. cities; Montreal, Toronto, and Vancouver, British Columbia topped Canada's list.

Of particular relevance to commercial real estate is the study's focus on the comparative competitive advantage of countries in attracting or fostering specific industries: digital services, research and development, and corporate services. For example, the digital services sector was benchmarked against two firms involved in software and video game development, whose primary costs were impacted by salaries and benefits, and the ability to attract creative and technical IT professionals. Interestingly, Canada demonstrated the strongest relative results, ranking second among the listed 10 countries. Canada proved to be 17.8 percent more cost-effective for this subsector, mostly due to the substantial incentives that various Canadian provinces offer to digital media production industries.

For more detailed information on KMPG's 2014 Competitive Alternatives *study, please visit: competitivealternatives.com.*

Q&A

EXECUTIVE INSIGHT WITH: SOLOMON ETS-HOKIN

NATIONAL CHAIR, RETAIL SERVICES GROUP, COLLIERS INTERNATIONAL

SOLOMON ETS-HOKIN IS NATIONAL CHAIR OF COLLIERS' RETAIL SERVICES GROUP, and a senior vice president for Colliers in Oakland, Calif. He began his real estate career in 1995, and specializes in landlord and tenant representation of national clients such as SyWest Development, Kin Properties, Safeway stores, Oakley sunglasses and Hobby Lobby stores in various project and territory assignments that range throughout California, the nation and the world.

What motivates you?

My job is to service the client and grow Colliers' business. I focus on those two simple initiatives and all the things that motivate me follow, like prosperity for my family, time and resources for philanthropy, and the personal satisfaction that comes with success.

How did you get started in the business?

My family had a retail business that I got involved with after college. We decided to grow that business, and I started handling the real estate portion. Later, I got out of that business and was hired by the brokerage firm that had represented us.

What do you see as new industry trends that clients or brokers should be aware of?

Retail, and thus retail real estate, is evolving due to a variety of forces. E-commerce is playing a big role in making retailers be smarter about their product assortments, having the right-size stores, and developing a multichannel strategy with regards to how their customers can access goods and services. Because of this, *brands*, as opposed to retailers, are becoming retailers. Apple is the best example of this.

The great recession has also played a role in sculpting retail, as companies trim underperforming stores and become hypervigilant about picking the best locations.

But the biggest force changing retail is the millennial generation's increase in buying power, and its sensibilities/habits about the use of technology and social media. More than ever, retailers have to be great all the time, in every way, because every single customer experience can be instantly shared with thousands.

What is the biggest accomplishment of your career so far?

I really struggle with this question because accomplishments are a byproduct of what we do. In other words, we have to always be "on," always take great care of our clients, always do the best job we can, and the "big accomplishments" follow.

What advice would you give to someone just entering the business?

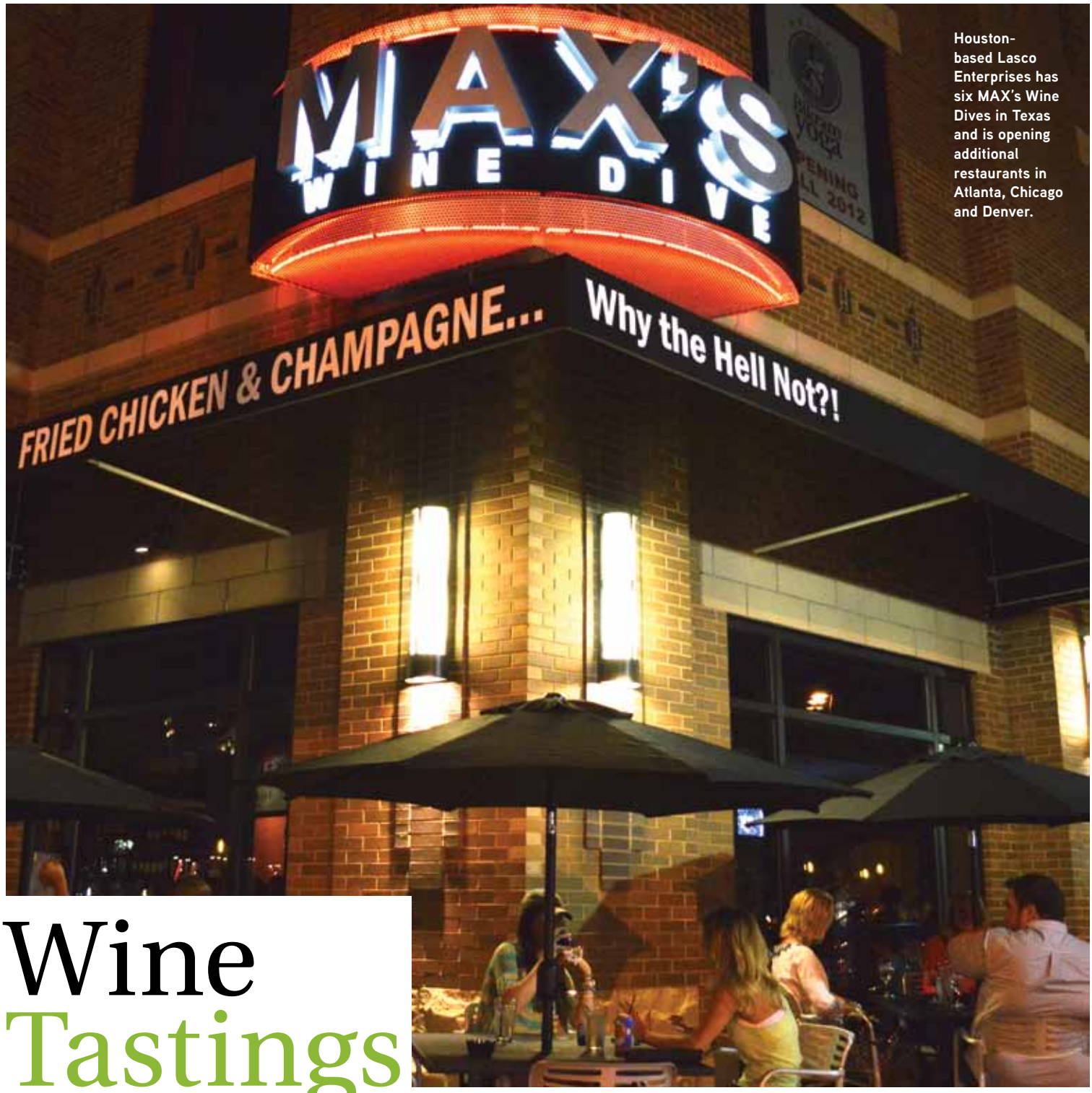
Figure out who you are early on. Leasing, investment? Tenant rep, landlord rep? A little of both? What market area are you going to focus on? What type of product: urban, suburban? You will evolve, but you have to start off with a plan that you can apply yourself to. Your job is to become an expert in your field, and your challenge will be to get hired over other experts. The more you define your area of expertise, the less competition you'll have. Once you are hired, your job is to become that client's trusted advisor.

What are your favorite business books?

The Trusted Advisor by David H. Maister, Charles H. Green and Robert M. Galford. This book is a must-read for anyone in our business.

Words to live by?

Always do a good job. KL



Houston-based Lasco Enterprises has six MAX's Wine Dives in Texas and is opening additional restaurants in Atlanta, Chicago and Denver.

Wine Tastings

HOUSTON-BASED MAX'S WINE DIVE LEVERAGES COLLIERS' EXPERTISE IN U.S. EXPANSION.

BY ALEXA STANARD

EACH MEETING BETWEEN MEMBERS of the Colliers Retail Services Group and its client Lasco Enterprises opens with a pressing question: *Red or white?*

Houston-based Lasco, a company with several food and wine concepts, got its start in 2003 with the Tasting Room Wine Café, an intimate wine bar and retail store. Founder Jerry Lasco opened the store after being furloughed from his job as a commercial airline pilot.

"I had a passion for food and wine, and I wanted to go into business, so it was kind of a

logical choice," Lasco says. "The Tasting Room was a hybrid of a restaurant and a retail store. It was very small, with just two employees. But it was successful, so we opened up a second and then a third."

In 2006, Lasco and his wife, Laura, opened MAX's Wine Dive restaurant and wine bar (named for one of their sons; their other son is the namesake of one of Lasco's wines), with the idea of providing gourmet comfort food and excellent, affordable wine in a laid-back atmosphere.

"We paired the dive-bar atmosphere with great food, no pretension and great wine," Lasco says. "It's been very popular."

Indeed. Today, Lasco Enterprises employs more than 600 people and is opening additional MAX's Wine Dives in Atlanta, Chicago and Denver. Those stores will join six in Texas, and the company hopes to open dozens more around the country. As it's grown, Lasco has scooped up numerous awards, for everything from its fried chicken to its work environment and its contributions to the community.

Its relationship with Colliers has been integral to the company's ability to expand and remain true to its vision. Greg Cizik, a partner in Colliers' Houston office, was a member of Lasco's advisory board when Lasco decided to expand the MAX's Wine Dive concept. Cizik urged Lasco to meet with Patrick Duffy, president of Colliers | Houston and former chair of the Colliers Retail Services Group.

"As an advisory board member, I have one of the best jobs in town," says Cizik. "Once a month we meet in a private room to enjoy Lasco's latest menu offerings, great wine, fellowship, and to hear the executive team's business plan; we're actively encouraged to offer our critique. How cool is that? Because their real estate strategy was going to be so key to their successful growth, my business partner, Edward Edson, and I knew that Jerry and Pat just had to meet."

"Before I even met these guys, I was having two to three meetings a month at the Tasting Room; it's just where everyone goes," Duffy adds. "Within the Retail Services Group, we have an offering we call the Colliers Retail & Restaurant Real Estate Continuum. It's designed to provide the full life cycle of services that an expanding retailer needs: strategy, site selection, site development and lease administration of a growing footprint."

MAX's Wine Dive focuses on providing great food and wine in a fun, unpretentious atmosphere.

The retail continuum's integrated services offering allows retailers of all sizes to outsource the business processes around portfolio and transaction management. Combined with Colliers' expertise in site selection, brand positioning and market penetration, it allows retailers and restaurants to focus on their core



(L-R) Lasco Enterprises Founder and CEO Jerry Lasco (left) and Chief Brand Officer and Partner Jonathan Horowitz; MAX's Wine Dive's menu items include MAX and Cheese Horowitz (top) and pulled pork stuffed peppers (bottom); MAX's Wine Dive in Dallas.

business objectives.

"What we presented to Jerry is 'We can help you with your strategy as you leave Texas,'" Duffy explains. "'How are you prioritizing? How are you deciding where Lasco would be best? What are the markets where Lasco would do best?' Not many companies can provide an outsourced real estate department to a retailer. What we've done with Lasco is allow them to focus on their menu and providing great wine. They don't want to manage real estate; they want to focus on their restaurant."

Colliers developed a list of 50 possible areas within a three-hour flight of Houston, then culled it to a list of 35 markets with direct flights for the sake of operational efficiency. Finally, the firm engaged brokers in the top 10 markets from its list and started site selection.

"They're very picky about location," Duffy says. "The energy is what they want. MAX's Wine Dive is a fun place to go. If a location is too big, it just doesn't have that vibe. Landlords are climbing over themselves to get us into their properties, but Lasco's attitude is 'We'd rather turn people away and keep the energy.' They're absolutely committed to MAX's staying MAX's and not becoming a franchise."

Lasco says Colliers' expertise helps greatly in managing the increased costs and complexity of expansion, providing counsel on everything from hiring to training, marketing and regulatory compliance.

"There are Colliers offices in every city we're looking at going," Lasco says. "A lot of times the Colliers brokers we're paired up with will have firsthand knowledge of many of the questions we ask, whether it's about a regulatory matter or employment law or whatever. And when they don't have the information, they become a great resource for connecting us to the specific professionals who do. That's a huge asset. When we go into town, we never feel like strangers. Somebody who lives there and knows where to find resources is our advocate. It's given us a lot of confidence and it allows us to focus our energies on doing our best at being operators."

Lasco says his company set out to prove two things this year: that it could expand outside of Texas and that it could have multiple locations in one city. Since opening its second Houston store, sales at the first have jumped 14 percent, its largest year-over-year increase. The second store produced $1,200 (annualized) in sales per square foot in its first month.

"If we continue to do that, we can go full steam ahead," Lasco says. "We're about to turn on the spigot in terms of expansion. This will be our biggest year, but 2015, 2016, we will likely double and then triple the number of stores."

The company's focus on its core vision and its emphasis on being "chef-driven" enables it to expand broadly while remaining fresh, Duffy says.

"They go into every market and find a great local chef and bring that person in," Duffy says. "The left side of the menu is the Wine Dive menu, found at every MAX's in the country. The right side is whatever the chef wants to do. So every MAX's has a different right side, and the chefs compete to have their unique menu offerings moved to the left side—which is the best of MAX's Wine Dive. It gives them all types of freedom to do whatever they want.

"It's an event," he adds, "to go to MAX's Wine Dive restaurant and wine bar. They're all very passionate about what they do. I've been doing this for 31 years, and I've had more fun on this account than any other."

For more information on the Colliers Retail & Restaurant Real Estate Continuum, visit colliers.com/us/retail.

Souvenirs & Sundries

SHIFT IN HOTEL RETAIL IMPACTS REVENUES AND PROFITS.

BY ROBERT MANDELBAUM AND GARY MCDADE

HOTELS PROVIDE RETAIL OPERATIONS primarily for guest convenience and satisfaction, and they are, in general, only a small part of total hotel revenue. Of the properties in the *Trends® in the Hotel Industry* database of PKF Hospitality Research, LLC (PKF-HR) that reported retail sales and expenses, retail sales made up just 0.9 percent of total hotel revenue in 2012. Retail operations vary greatly depending on the type of hotel. The retail department at large full-service resort and convention hotels often includes clothing stores, gift shops and newsstands. Limited-service, select-service and extended-stay properties frequently operate just a kiosk or mini-mart located next to the front desk that sells items mainly for the guest's convenience, such as snacks, drinks and microwavable food.

To examine the financial impact of retail operations on U.S. hotels, we analyzed the 2012 revenues, expenses and income provided by 2,037 properties in the *Trends® in the Hotel Industry* database of PKF-HR that reported retail sales and expenses. We also analyzed the annual revenues, expenses and income of 435 properties that reported retail sales data for each year from 2007 to 2012 (most current data available) to gain an understanding of historical trends. All of the analyzed properties managed their own retail operations. Properties that leased their retail operations were excluded from the analysis.

Sales Still Down

Retail revenue for all hotels in the survey sample averaged $1.80 per occupied room in 2012, which is still 27.4 percent below 2008 levels. This is consistent with the results we have seen for other non-room-related revenue. As noted in previous PKF-HR studies, while room revenues have steadily increased since the depths of the 2008/2009 industry recession, revenues from food and beverage, other operated departments, and rentals and other income have not grown

concurrently. This is, in part, due to guests' and meeting planners' need to control their spending in light of higher room rates.

Resort hotels generated the highest retail revenue in 2012, measured on a basis of both dollar per occupied room ($7.47) and percentage of total revenue (1.7 percent). Although retail offerings at convention properties are similar to those at resort hotels, the volume of sales at convention properties was much lower than resorts on both a dollar-per-occupied-room ($1.56) and a percentage-of-total-revenue (0.6 percent) basis. The ratio of retail revenue to total revenue among the other property types ranged from 0.4 percent at limited-service properties ($0.39 per occupied room) to 0.8 percent for full-service properties ($1.43 per occupied room).

Profits Almost Back

In contrast to the decreasing sales volumes, retail outlet department profits, while still below, are much closer to prerecession levels. Profits per available room were $149.51 in 2012, which is much higher than the 2009 amount of $116.57, but slightly below the $156.96 earned in 2008. On a per-occupied-room basis, retail outlet department profits were $0.59 in 2012. This is still below the 2008 level of $0.63, but improved over the 2009 value of $0.51 per occupied room.

Profit margins for retail outlets have increased above the 2007 level of 28.5 percent of department revenue. In 2012, after deducting direct operating expenses for cost of goods sold (47.6 percent of department revenue), labor costs (15.2 percent) and other direct operating expenses (4.1 percent), retail departments returned an average 33 percent of department revenue to the bottom line. The primary reason for the increase in retail department profit margins is the 14.6 percent decline in labor costs that occurred from 2007 to 2012. We attribute this decline to the growing number of hotels that have replaced their gift shops with kiosks staffed by front desk personnel.

Retail revenue for hotels surveyed averaged $1.80 per occupied room in 2012—27.4 percent below 2008 levels.

The profit margins for limited-service, extended-stay and full-service hotels were higher than the margins at resort and convention hotel retail outlets. Limited-service, extended-stay and full-service hotels averaged a 39.3 percent profit margin in 2012, while profits for the more extensive operations at resort hotels were 25.1 percent of department sales. The greater profit margins at limited-service, extended-stay and full-service properties are attributable to the nature of retail operations associated with these property types. Their retail operations are generally smaller in scale than resort and convention hotels, and require little or no labor resources to operate. Retail operations at resort hotels are generally more extensive than those at other property types and often include clothing, souvenirs, news periodicals, books and other items. These outlets are separate from front desk operations and require their own dedicated staff to operate.

> The profit margins for limited-service, extended-stay and full-service hotels were higher than the margins at resort and convention hotel retail outlets.

Adapting

Hotel owners and operators continually alter their operations to meet the changing requirements of their guests. Stimulated by the growing desire for quicker and more simplified retail outlets, properties have abandoned the traditional "newsstand/gift shop" in favor of kiosks and mini-marts. This transformation has occurred in both large and small hotels. These new retail operations have proven to be well received by guests, and highly efficient. KL

Robert Mandelbaum is director of research information services for PKF Hospitality Research. Gary McDade is a research analyst. This article was originally published in the February 2014 issue of Lodging. *To purchase a copy of the* 2013 Trends® in the Hotel Industry *report (2012 data), please visit* pkfc.com.

One growing retail trend is "webrooming": researching a product online before purchasing it in person.

Net Worth

TRENDS IN ONLINE SHOPPING ARE CHANGING THE RETAIL LANDSCAPE, AND BRICK-AND-MORTAR RETAILERS ARE RESPONDING IN KIND.

BY NAOMI CRAW

THE BATTLE LINES BETWEEN online and brick-and-mortar retailers are shifting, as brick-and-mortar retailers begin to rethink their business strategies. From the emergence of the first multichannel retailers to the shopping habits of millenials, here are some of the trends to watch:

Brick-and-mortar stores are standing their ground

In recent years, big-box stores have fared poorly. Circuit City and Borders closed their doors for good, and Best Buy continues to struggle against Amazon.com. However, there are some signs that big-box stores and other brick-and-mortar retailers are getting their e-commerce feet underneath them and standing their ground against online retailers.

According to retail expert John Talbott, associate director of the Center for Education and Research in Retailing at Indiana University's Kelley School of Business, the most recent holiday shopping season saw online retailers losing some of their competitive edge as "brick-and-mortar retailers learned how to play the game." The trick, it seems, is for retailers to integrate smoothly across channels and to view their online presence as just another—although by far their largest—location. "Cyber Monday perhaps is turning into Cyborg Monday with traditional bricks and mortar joined at the hip with their own websites to create a competitive monster," he notes.

Brick-and-mortars are also remaining competitive by capitalizing on a recent consumer trend: "webrooming". The inverse of "showrooming", the practice of researching products in the store before buying online, with web-

rooming, consumers research a product online (by reading Amazon reviews, for example) before buying a product in person. According to a November 2013 Harris Poll, webrooming was more prevalent in the early part of the 2013 holiday shopping season than showrooming. The key is for retailers to learn how to convert webrooming on their websites into purchases at their physical locations. The Harris Poll noted that the leader in this trend so far is Walmart: Sixty-seven percent of webrooming customers who researched a product on Walmart.com, ultimately purchased that item at a Walmart in person.

Ann Natunewicz, vice president of the Retail Services Group for Colliers International in San Francisco, observes that while "big-box stores need to rethink the way they use their space, there is still a lot of value in well-located real estate for retail." Evidence of this is found in the online retailers that are now seeking physical spaces, such as JustFab.com, an online retailer of women's accessories, which just opened its first brick-and-mortar store at the Glendale Galleria in Arizona this year.

There's no such thing as a free tax

The explosion of e-commerce over the past few decades has generated numerous economic ripple effects, with sales tax near the top of the list. As the law currently stands, consumers are not required to pay sales tax when the online retailer they're purchasing from has no physical presence in their states. However, that doesn't mean the purchase is tax-free. Most states stipulate that residents pay "use tax," which is equivalent to that state's sales tax, for online purchases. The problem is that no one follows this law, so some states are losing billions of dollars in sales tax revenue, and brick-and-mortar stores are at a competitive disadvantage.

Enter the Marketplace Fairness Act—legislation currently pending in Congress that would make it mandatory for all online retailers to collect sales tax, regardless of whether they have a physical presence in the state of the purchaser. The current version of the bill exempts sellers with less than $1 million in annual sales.

Although this new legislation would have a major impact on state revenues, Natunewicz explains that it may not significantly influence consumers. "Consumers will still choose online for the convenience, regardless of sales tax. And they will still choose brick-and-mortars for the experience," she says.

Mind the millennials

To survive the coming decades, retailers will need to understand millennial consumers as they enter their peak spending years. Compared to previous generations, millennials (loosely defined as the generation currently in their early 30s) tend to make fewer—but better researched—purchases. "What scares retailers is that millennials are not as obsessed with *stuff*. Unlike previous generations, they are much more thoughtful about how they purchase things, though they're not unwilling to spend money," says Natunewicz, adding that as millennials age and start families, they will likely fall into more traditional patterns with spending and homeownership. "But they'll approach it all in a more mindful way," she says.

Millennials also gravitate toward authentic dialogue with brands, often through social media. The good news for retailers is that if millennials like and respect your brand, they will often do much of the marketing on your behalf through avenues like Facebook or Twitter. According to a recent study of 250 brands by advertising agency Barkley, nearly half of millennials "like" a brand on Facebook and interact with a brand through social media at least once per week. This can be enormously influential for companies, as millennials generally trust crowdsourcing and their peers' opinions.

In their marketing strategies, retailers will also need to remember that millennials love their smartphones and tablets. According to research by Comscore, an Internet analytics company, millennials spend a full day of every week online and are mobile-heavy in their usage. "Marketers who do not leverage mobile as a primary digital marketing platform for millennials may miss a large segment of them entirely," the report states. The numbers from the 2013 holiday shopping season bear this out: According to a *Business Insider* intelligence report, mobile commerce grew 63 percent over last year, and one in four purchases made on three major shopping days (Cyber Monday, Black Friday and Thanksgiving) was made on a mobile device.

Security scares

As more of our business is conducted online, more of our financial information is in danger of cybertheft. The massive data breach at Target over the 2013 holiday shopping season highlighted just how devastating such a breach can be: Hackers stole credit and debit card accounts from 40 million customers, and the personal information of another 70 million. It may well be the largest-ever data breach of a retailer.

"Whenever data are stolen at such a large level, customer trust erodes. … We're still behind Europe and other parts of the world in terms of data security, and when people know the technology exists to protect their data, they're frustrated that retailers aren't using it," says Natunewicz. She says one takeaway for retailers from the Target debacle is that "no matter how strong your brand is, you always have to be vigilant to protect it." She predicts that companies' security measures will begin to evolve more quickly, and that 10 years from now, the way we pay for goods will be significantly different.

Navigating e-commerce in 2014 will involve many balances and blurred lines. Online retailers will need to ensure customers' security while also gathering their personal information to more effectively market to them. Brick-and-mortar retailers will have to integrate smoothly across all channels. And those marketing to millennials must invest in authentic engagement with these more prudent consumers while also maintaining profit margins. The winners in the e-commerce era will be the ones who can do all of those things well. KL

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LYFE IS
& SUSTAINABLE

Facts of LYFE

Designed from the ground up with sustainability and healthful eating in mind, LYFE Kitchen isn't just a new national restaurant chain—it's a lifestyle brand.

by Sheila Mickool

In 2011, Janet Evans, a five-time Olympic medalist in swimming, successful businesswoman and mother of two, joined an advisory panel established by a new and little-known company, LYFE Kitchen. Evans, who is passionate about good health and sustainable practices, recognized that same passion in LYFE Kitchen. In her capacity on the company's National Mom Advisory Panel, Evans helps lead the discussion on how to keep today's busy families happy and healthy. She advocates for moms and their families by guiding LYFE Kitchen's efforts to provide great-tasting, good-for-you meals that meet the demands of their hectic lifestyles.

While Evans may be a familiar name, LYFE Kitchen may not be—yet. That is about to change. What McDonald's is to fast food and Starbucks is to coffee, LYFE Kitchen strives to be to the fast casual restaurant segment. With its superb fare, the new brand is associated with numerous powerhouse names, Evans included. LYFE Kitchen launched in 2011, with an executive team that includes Founder Stephen Sidwell, a successful entrepreneur and CEO of Devante Capital; Mike Roberts and Mike Donahue, both former top executives at McDonald's; and celebrity chefs Art Smith and Tal Ronnen, both of whom have worked with Oprah Winfrey.

LYFE's President & CEO, the legendary Mike Roberts, knows what today's active consumers want. He spent 30 years establishing McDonald's global leadership, launching 31,000 restaurants in 118 countries. He is credited with the chain's meteoric growth, high standards of quality and stunning business success. Now he's turning his considerable talents to solving what he describes as "one of America's most significant unmet needs: providing great-tasting, good-for-you food that's surprisingly affordable, remarkably convenient and eminently sustainable."

In pursuit of that mission, Sidwell and Roberts launched LYFE Kitchen, not as the newest national restaurant chain, but as a socially responsible lifestyle brand. LYFE is an acronym for "Love Your Food Everyday" and captures the brand's vibrant philosophy that your daily food choices are important for long-term health. It also reinforces the company's core principle: offer food, products and programs that are good for consumers and the planet.

LYFE is already off to a remarkable start with highly successful restaurants open in Palo Alto, Culver City and Tarzana, Calif. They also recently opened its first store outside of California, in the River North area of Chicago. In the next five years, the company plans to have 250 restaurants operational throughout the United States.

LYFE Kitchen's founders believe that great food can do amazing things: contribute to better health, support local farms, promote sustainability, champion environmentally sound businesses and give back to the community. These are lofty goals that LYFE Kitchen intends to achieve through inviting and appealing restaurants that serve breakfast, lunch and dinner. To further enhance the dining experience, it has added regional beer and wine to the menu.

Vegan, locavore, vegetarian, gluten-free or meat-loving—LYFE Kitchen has entire menus that fit any lifestyle. Ingredients are locally sourced, fresh and organic. Everything is of the highest quality, minimally processed and naturally seasoned with herbs and spices. From the Farmer's Market Frittata on the breakfast menu to the Grass-Fed Burger and Portobello Pasta with Free-Range Chicken

LYFE Kitchen's ingredients are locally sourced, fresh and organic.

on the lunch and dinner menu, no creams or butters are used. Menu items are less than 600 calories and include less than 1,000 mg of sodium. These mouthwatering entrees are chock-full of essential nutrients. Healthy eating never tasted so good.

"It's hard not to love what they do," says Bryson Battle, a Dallas-based associate in Colliers International's Retail Services Group. Battle works closely with LYFE Kitchen's vice president of development, Greg Semos, on site selection, and has been very involved in the opening of three new restaurants in north Texas. They plan on having all three operational by late summer 2014. The brand appeals to a certain lifestyle, one that Battle lives daily. "My girlfriend and I have our own garden at home and grow vegetables and herbs. We are both marathoners, so what they are accomplishing really speaks to us," he says. "It reflects my life choices: to live healthy, eat organic foods, drink smoothies in the morning and choose sustainable options."

"The restaurants are sleek and modern," he adds, with a warm and inviting environment. "The herb wall is the trademark living symbol of our commitment to 'Eat Good. Feel Good. Do Good.' They want every LYFE Kitchen restaurant to feel as warm and inviting as the meals." Patrons who drop by should feel at home, whether they are mixing with new people at the community dining table, having a sit-down meal in the living room area or catching up with friends on the patio.

Location and demographics are important factors in choosing restaurant sites. "They prefer to go in to lifestyle centers," says Battle. Factors include neighborhoods that embrace a healthy lifestyle as well as heavy retail that is walkable with dense day and evening populations.

From the ground up, "it's all about sustainability," says Semos. "Many elements of the design and construction of a LYFE Kitchen are focused on making sure we are doing the right thing. Our wine is delivered in reusable casks. We are WELL Building-certified, meaning that we consider our air and water quality in the restaurant and that we are offering a healthy environment. We're LEED-certified. Even our selection of furniture and equipment is informed by our desire to provide a quality health environment."

(Top to bottom) LYFE Kitchen's hydroponic wall in its Culver City location has more than 60,000 microgreens; each location has an herb wall; Executive Chef Art Smith (foreground).

Recycled materials and renewable resources are used whenever possible. They use recycled stainless steel where practical in the kitchen, the table tops are bamboo and the community table is made with plantation teak certified by the Forestry Stewardship Council as coming from renewable forests. The foam used in upholstery is certified not to emit gases in use. Paint used in the restaurant is free of chemicals.

"Entering a new market is a huge challenge, because we feature locally grown foods and a commitment to organic suppliers and local suppliers. We have to consider how we bring these to each new location," says Semos. "'Local' generally means within a few hundred miles, not just next door. Some of our food is really local, some is pretty local, and some is always a challenge. It's hard to find local tomatoes in January in Chicago." But Semos hopes that working with hydroponic farmers willing to locate to the Chicago area will resolve those types of issues.

"'Eat Good. Feel Good. Do Good.' These are not empty company slogans," says Battle. He's a committed LYFE-er. "It's been incredible working with LYFE Kitchen; they are very driven and everyone is passionate about what they are doing."

On a recent trip to Southern California, Battle ran the Malibu Marathon. After the race, LYFE Kitchen was his restaurant of choice to refuel and relax. "It was a delicious ending to a great day," Battle says. "I can't wait until I can enjoy LYFE in Dallas."

LYFE Kitchen believes in building relationships, partnerships and community. Battle was able to learn that firsthand. "This is the first time as a broker that I felt like I was truly part of the team I was serving; LYFE Kitchen is a great brand, but most importantly, it's a group of great people. They are going to be a wonderful addition to the North Texas community."

Sustainable practices, attractive green construction and an outstanding customer experience are all mission-critical elements of LYFE Kitchen's brand. "In the end, though, it's all about the food," Semos says, "and that has to be great to keep you coming back." KL

PHOTOS COURTESY OF LYFE KITCHEN

Canadian

Outlook

James Smerdon, Vice President, Director, Retail Consulting | Canada, provides an inside look at the state of retail in Canada.

The Canadian retail sector is undergoing fundamental changes that are both challenging and exciting, representing opportunities for investors and occupiers alike. Nationwide retail sales continue to grow at a modest rate, with provincial economies posting a range of performances over the past year. For the most part, the determining factor in a province's retail performance continues to be the job market, and the energy sector in New Brunswick, Alberta and Saskatchewan has been outperforming other sectors for more than a decade.

NOVEMBER IS THE NEW BLACK (FRIDAY)

One recent change to the Canadian retailing scene is the transfer of spending from December to November, a shift that is largely attributed to Canadian retailers adopting U.S.-style Black Friday sales events. At the national level, November 2012 retail sales of $40.2 billion accounted for 8.6 percent of the total for the year, while December's volume was $4.36 billion, or 9.3 percent.

In 2013, December was $900 million stronger than the year before, but November 2013 was $1.6 billion better than the previous year. Collectively, November and December of 2013 were 2.9 percent better than November and December of 2012, compared to a lukewarm full-year growth rate of 2.5 percent. November now accounts for 8.7 percent of full-year retail sales in Canada, compared to less than 8.2 percent a decade ago. December, while still a vital shopping month, continues to decline in importance for the retail industry in Canada, accounting for 9.3 percent of annual sales in 2013 compared to more than 10 percent a decade ago.

There are two main reasons given for the shift of consumer spending to November. First, Canadian retailers—especially those in communities near the U.S. border—have been offering late-November discounts in an effort to reduce the flow of Canadian consumer dollars to the U.S. Black Friday sales which traditionally kick off the country's holiday spending season. While some Canadians are still attracted to the spectacle of Black Friday south of the border, the discounting at Canadian retailers has proven extremely popular. Indeed, Canadian Black Friday has drawn away some of the post-Christmas Boxing Day (December 26) sales, further compounding the relative importance of November versus December.

The second reason for November sales growth is the transition to online retail. In order to receive orders in time for the holidays, organized online shoppers place their online orders well before December, especially given the longer delivery time to Canada from some U.S. websites.

While some Canadians are still attracted to the spectacle of Black Friday south of the border, the discounting at Canadian retailers has proven extremely popular. Indeed, Canadian Black Friday has drawn away some of the post-Christmas Boxing Day (December 26) sales, further compounding the relative importance of November versus December.

OFF-TARGET?

Target Canada's planned rollout of more than 120 stores across the country has hit a number of speed bumps. After taking over most locations of the discount department store Zellers, Target embarked on extensive renovations in every store.

Canadians were largely underwhelmed by the in-store experience, which could be attributed to unrealistic expectations, higher prices compared to the U.S. stores and reports of empty shelves in some locations. Target might not have been able to meet consumer pricing expectations after paying Canadian import duties and generally higher costs of doing business in Canada, but empty shelves were an indication that the chain may have underestimated the logistical challenges of running a national retailer in the second-largest country in the world.

The latest problem for Target was the consumer data breach that affected an estimated 70 million Target customers in the U.S. and Canada. The company's response has been quick, but consumer confidence takes time to repair.

Target's rollout problems in Canada likely won't affect other U.S. retailers' decisions to enter the Canadian market. By all indications, the wounds have been self-inflicted rather than reflective of any weakness in the Canadian markets. Target's takeover of the Zellers stores

was one of the most ambitious retail expansion programs in history. Other U.S. retailers will likely adopt a more measured approach, either with fewer total stores, or through incremental expansions.

DEPARTMENT-STORE WARS

For any Canadian alive today, there have always been two major department stores operating in the major metropolitan centers for as long as anyone can remember. The Hudson's Bay Company has been the one constant in Canadian retailing. Having been in continuous operation since 1670, it predates most businesses, governments and other institutions in the world today.

Eaton's, a major Canadian retail brand for more than a century, declared bankruptcy in 1999, and Sears took over many of its urban locations. Now in 2014, the face of Canadian urban retailing is looking to enter a new era of competition. Sears Canada still operates more than 100 department stores in Canada, but virtually all are in suburban markets. Sears has selectively culled its chain and sold leases to landlords, banking hundreds of millions of dollars in the process.

Target's takeover of the Zellers stores was one of the most ambitious retail expansion programs in history. Other U.S. retailers will likely adopt a more measured approach, either with fewer total stores, or through incremental expansions.

Within two years, Nordstrom and Saks Fifth Avenue each expect to have seven to eight full-line stores opening in Canada, and 10–20 of their discount outlets (Nordstrom Rack and Off 5th, respectively). In addition to these new luxury retailers, Canada's incumbent players, Simons and Holt Renfrew, are both expanding. Much of the media coverage about the Nordstrom and Saks Fifth Avenue expansions in Canada is about who will win and who will lose. However, as history has shown, a few things will come of this competitive battle: First, Hudson's Bay will outlive us all. Second,

Canadian metropolitan markets seem able to support two major department store brands, plus additional luxury/fashion retailers. Third, it will probably take a decade or more to gain a clear picture of real winners and losers.

OUTLOOK FOR CANADIAN RETAIL

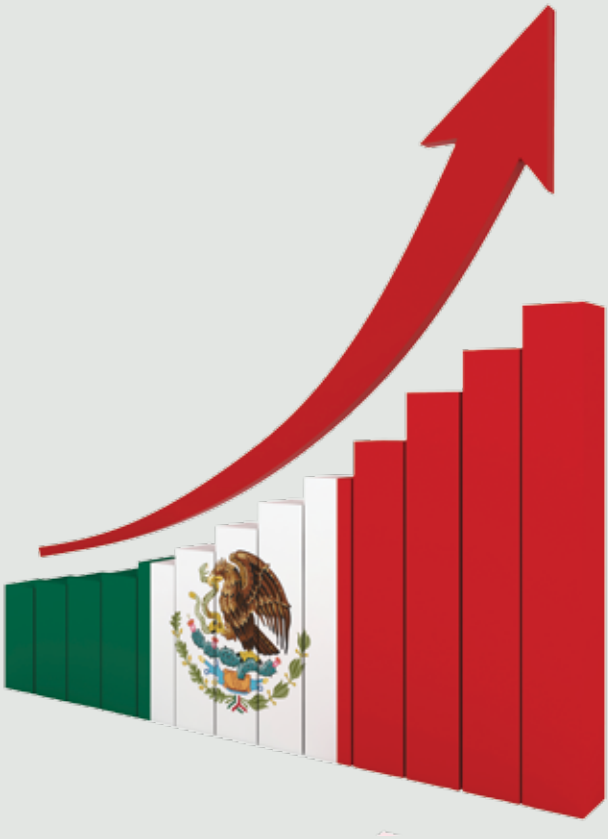
Looking ahead, Canada still represents a land of opportunity for retailers, developers and investors. Canada's metropolitan markets have stable and growing economies, population growth and relatively low unemployment. Lease rates for retail space tend to cause "sticker shock" for people unfamiliar with the Canadian market, but the International Council of Shopping Centers' (ICSC) shopping center productivity data consistently show that higher lease rates are justified by higher sales revenues per square foot in Canada, relative to the U.S.

Analysts watching Canadian retail real estate note that the "landlord's market" may be coming to an end. With millions of square feet of new construction, further rounds of store closures thanks to the shift to online retail, and the potential for increasing interest rates looming, the balance of negotiating power may finally tip back in favor of tenants. KL

Toronto Eaton Centre, at right, is one of Canada's busiest shopping malls.

Mexican Outlook

Flavio Gomez, National Manager, **Market Research** | **Mexico** provides an inside look at the state of retail in Mexico.



The Real Estate Market and the Mexican Economy

While Mexico's manufacturing sector will remain the main driver of growth over the next decade, the country has begun the transition to a service-oriented economy in which the domestic consumption will play a greater role and generate further growth in commercial real estate, particularly in the retail segment.

During 2013, the construction of corporate buildings, retail centers and industrial space continued with a steady growth. FIBRAs (Mexico's real estate investment trusts) continue actively investing in different types of property. It is important to note that the slowdown in the U.S. economy has reduced the rate of growth of commercial real estate over the previous year; however, the sector maintains a positive growth outlook in the medium and long terms.

The global growth story continued in the second half of 2013, although the disparity between economic areas increased. Overall, global growth ended up slightly higher than predicted in 2012. According to the Organisation for Economic Co-operation and Development (OECD), the acceleration of government spending is the key factor driving the global economy for the next two years. Mexico has recently approved reforms that seek to reestablish solvency and continue its economic growth.

The country's recent adoption of energy reform could increase its growth rate to 3.5 percent in 2015. In comparison, the International Monetary Fund (IMF) projects a global growth rate of around 3.7 percent in 2014, and 2.8 percent in the United States. Moreover, the predicted global average inflation for 2014, will be around 3.5 percent. The estimated inflation in advanced economies (U.S., Japan, U.K.) is approximately 2 percent. The exchange rate at the end of 2013 was 12.50 pesos to the dollar, up slightly from the previous quarter, which closed at 12.35 pesos/dollar.

Demographic and Geographic Dynamics

The Mexican population is experiencing a demographic transition as a result of years of improvements in public health policies that have reduced mortality and birth rates. These trends are driving consumer demand by extending the economically active segments in the population pyramid (Mexico's "demographic bonus").

These effects may also be viewed in

terms of expected growth rates of the four major age groups that make up the population pyramid. According to the National Population Council (CONAPO), the youngest age group (0–14 years) will decrease at a compound annual growth rate (CAGR) of 0.2 percent from 2010 to 2050. The cohort ages 15–24 also represent a minor portion of the total population (declining at a CAGR of 0.2 percent from 2010 to 2050). By contrast, the two older age groups (25–64 years of age, and 64 and older) will grow at a CAGR of 0.9 percent and 3.0 percent respectively during the same projected period.

Retail Real Estate Market

During 2013, Mexico has shown a favorable and growing macroeconomic climate, due mainly to the stability of the commercial real estate market. The country is considered a competitive and emerging market, attractive to foreign investment. That same year, the retail sector saw an increase in store openings by national and international brands, as well as the creation of new formats adapted to the needs of each market.

There has been a major trend in the expansion and remodeling of existing shopping malls, to update the spaces and the brands to address a growing middle-class consumer base. As a result, malls are becoming more competitive, with a better mix of brands and products.

Colliers' survey of the retail sector in Mexico shows 560 shopping centers (of more than 10,000 square meters each, or approximately 107,600 square feet), totaling 17.3 million square meters (186.2 million square feet). This includes community centers, entertainment centers, neighborhood centers, fashion malls, lifestyle centers, power centers, outlets and mixed-use developments.

Shopping Centers Under Construction

At year-end 2013, 36 shopping centers were under construction. The 28 projects for which rentable area figures are available total 903,680 square meters (9.73 million square feet). Ten of these are expansions of existing centers, and the remaining are new projects. Thirty-eight percent of construction is in power centers, 36 percent are mixed-use developments, and 19 percent are fashion malls. Forty percent of new center construction is in metropolitan Mexico City.

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By the end of 2014, it's expected that 23 new centers of more than 10,000 square meters will be open, for a total of around 545,000 square meters (5.87 million square feet). Among the most notable developments are Plaza Andamar in Veracruz, anchored by El Palacio de Hierro, and the second stage of the Antea Lifestyle Center, anchored by El Palacio de Hierro and Liverpool.

Planned Developments

Forty new developments are in the planning stages, comprising 576,000 square meters (6.2 million square feet). Eleven of these are expansions. Sixty-three percent of these planned projects are in metropolitan Mexico City, and 90 percent are either mixed-use projects or power centers.

Trends for 2014

- Strong investment of foreign capital in Mexico's commercial market
- Entry of new foreign luxury brands, both in Mexico City and other major cities
- Retailers' continued to focus on "right-sizing" footprint and product mix to adapt to the changing consumer demographics and buying behavior
- Construction of mixed-use developments combining office, retail and multifamily
- Increased development of vertical complexes in areas of high population density
- Continued growth in e-commerce activity
- Greater and more controlled investment growth as FIBRAs/REITs continue to financially institutionalize retail.

Retail Therapy

Experts weigh in on the issues and opportunities facing the retail industry today.

BY TERESA KENNEY

THE RETAIL INDUSTRY IS BACK, but like an old friend you haven't seen in a long time, it's changed—in some cases, dramatically. Retailers are reinventing themselves to compete in the marketplace, new brands are being introduced, while some sectors are simply fading away. *Knowledge Leader* sat down with some of the industry's most respected experts to learn more.

MODERATOR: WHAT IS THE STATE OF THE RETAIL INDUSTRY TODAY?

Chris Maling (CM): Retail is still very robust and active in various sectors. High street retail is doing a dominant amount of business, and we're seeing a lot of international tourist trade spurring that. On the other end, you have the discounters and low-price retailers also doing well. Midrange retailers, however, are just hanging in there. They'll have some good months; they'll have some bad months. A lot of it is affected by weather or by the time of the year, such as back-to-school, holiday or post-holiday shopping seasons.

CHRIS MALING
Senior Vice President | Los Angeles

In the grocery arena, we're seeing consolidations and discussions about further consolidations. You peel back the layers and what's really happening in California is, labor has cut into the margins for a lot of these grocery stores, making it difficult for the stores to compete with non-union shops. They're losing market share and sales. So that sector is just OK—some are doing better than others. Whole Foods and Sprouts, for example, are now gaining momentum and continue to grow in that sector.

Investor clients on both the private side and the institutional side still look at retail as an asset class to invest in; but again, the 10-year treasury dictates a lot of where cap [capitalization] rates are going, which affects single-tenant net lease and multi-tenant retail. Retail is still a very popular and heavily focused sector for investors to be in, but it depends on what your profile is, where you see you putting your capital into and in what type of retail, whether it's single-tenant net lease, strip retail or anchored grocery/drug.

ANJEE SOLANKI
National Director, Retail Services

Anjee Solanki (AS): We're also seeing our institutional clients reinvesting in their existing stabilized assets, because, as Chris just described, there is so much momentum that pricing starts to get out of whack. Within their own portfolios, clients are evaluating opportunities for densification, to add additional GLA [gross leasable area], to create new value. And it's helping them, as they go through their own internal analysis, readjust the value of their projects because they're able to reduce the cap rates to a certain extent.

Grocers such as Whole Foods are adding delivery services to their urban stores.

There's also a change in consumer spending, and that change, I think, is influencing how retailers identify spaces to lease. Nordstrom is a great example. I think this year the number of Nordstrom Rack stores is going to surpass the number of traditional Nordstrom department stores. Is that going to ultimately have some impact on their department store concept because the sales are, in essence, going to be diluted? And as people get into this habit of shopping at more value-oriented locations, you're going to see, as Chris described, this middle segment of shoppers and retailers potentially disappear, leaving the very high end and the more value-oriented retail.

BOB BROWNING
Vice President, Retail Services | Washington, D.C.

Bob Browning (BB): In Washington, D.C., the tenant side of retail is very active, especially on the food side. You have a lot of new concepts coming in. They're actually classifying a new category of fine casual dining: fine fast casual. Vacancy rates here have stayed compressed; they're very low—sub 5 percent. I'm seeing the rental rates escalate, to the point that it's probably going to squeeze out some midlevel retailers. I don't know how they can sustain some of the rental rates that are being warranted here. It seems as though we skipped right over $40 per square foot to the $50-plus per square foot range in many of these submarkets. At least within D.C., I can tell you that it's extremely active, extremely competitive and quite frankly very difficult to get deals done. The landlords typically have a choice of tenancy if they have a good product.

AS: I completely agree with you. In some projects, we're recapturing space from traditional retailers and putting in these fast-casual concepts.

They're fresh, they're new and in terms of sales, they generate higher sales per square foot. They are the next junior anchors to a lot of these properties.

MARK ENGEMANN
Vice President | Sacramento

Mark Engemann (ME): What is too much? Some of my clients' food sales are being impacted because of the amount of competition.

AS: Parking also becomes a challenge from an operational standpoint. There are definitely pros and cons. But when you look at the sales, it's amazing to me. We're seeing sales in the $2.5 million and up annually. When landlords see these numbers, these per square foot numbers, they want more. I don't know how long this will last.

Retailers like GAP turned to discounts and special offerings during the economic downturn in 2008.

ME: In some cases, we're saying we'll just wait for the next turn. It gets to the point where it's so ridiculous that we'll wait until they go out of business. It's a hot trend with $2.5 million out of a 2,500 -square-foot space, but how long do they actually have legs to pay for that kind of rent? When they go out of business, we'll sublease it from them.

CM: The triple-net sector is still very strong all across the country. Before, the tendency was for people to want to stay in the marketplace where they reside; now, they're buying in California, Virginia, Florida, Texas—tax-free states. They're parking their money in quality corporate tenants or strong franchisors that are good operators. And these are in QSR [quick serve restaurants], they're in drug stores, they're in various other C-stores [convenience stores]. We're seeing a strong, strong push in that arena.

MODERATOR: ARE MIDRANGE DEPARTMENT STORES ON THE WAY OUT?

ME: I would think mid-retail is on its way out: department store, grocer, retail, they all seem to be in distress.

MARY MOWBRAY
Senior Vice President Retail Group | Toronto

Mary Mowbray (MM): Chris, you started off by saying there's this increasing bifurcation of the market: the high end and the value play. But when Target came into the Canadian market, midrange department stores, which had been sort of a moribund category, significantly began to ramp up their game. Sears is the big question mark. They've given back their locations in the top shopping centers across the country, which have been picked up by Nordstrom.

I think part of the issue is people don't want to identify with being middle class any longer. People want to see themselves differently. So that middle-class offering doesn't even resonate with consumers.

MODERATOR: ARE TODAY'S MIDDLE-CLASS CONSUMERS SHOPPING DOWN OR ARE THEY SHOPPING UP?

AS: I think it's a possible combination. In my opinion, it has to do with the downturn in 2008. People started to hold back in their spending, so as the economy picked up, there was almost this pent-up demand. People shifted how they shopped, and the economy created that shift. Consumers

went to the more value-oriented retail. You saw that with Gap and Banana Republic. Every time I walked by a Gap or a Banana Republic, I received some sort of coupon or discount. Their windows are covered with special offerings. Look at how Target advertises. I think it was two years ago, they had a holiday advertisement with Neiman Marcus. Retailers, I think, created these special offerings as a way of keeping their customers or bringing their customers back.

ME: There's also no longer a stigma with shopping at a low-end discounter like Goodwill. At one time, if you would lease space to Goodwill, you almost hid it, and now you trumpet it. So the stigma is not there anymore.

MODERATOR: IS TARGET CONSIDERED A MIDPRICED OR DISCOUNT RETAILER?

AS: Target is a unique one. When we did an informal customer intercept study, we found that shoppers that shop at Neiman Marcus would also shop at Target. Nordstrom actually did a study and found that they had no problem being in a Target-anchored center because it was the same consumer that they were vying for. Target is its own beast.

MM: Wouldn't you still say that Target's overall proposition is value? It may be combined with style and interesting product, but there is definitely a value proposition? When Target came to Canada, the main criticism was that its prices weren't as low as consumers were expecting based on their experience shopping in Target in the U.S. and based on Target's reputation. So I wouldn't say discount, but wouldn't you say that people don't mind saying they shop there and they also shop at Neiman Marcus, but that there's a value connotation to Target?

AS: Yes, I would agree, there is definitely a value proposition there. I also think it's become your one-stop shop for everything. You can get groceries, you can get home products, you can get travel. And now they have these designers, even though it's a very small area within their stores. I think they took what Sears and JCPenney used to do and just elevated the experience.

Value-conscious consumers are supporting discount retailers, such as Ross Dress for Less.

MODERATOR: ARE DOLLAR STORES STILL GOING AS STRONG AS THEY WERE DURING THE ECONOMIC DOWNTURN?

BB: Dollar stores are very active. Chris, are you seeing cap rates on dollar stores creeping into the sixes?

CM: It depends on where you are. Among primary, secondary and tertiary markets, there is always a 50-basis-point spread on the cap rate. Dollar General, Dollar Tree and Family Dollar are dominating and very active. 99¢ Only stores are having issues; they were going to open up in a number of former Fresh & Easy locations in California in order to go with a smaller concept, however, they have pulled back. I looked at financial

NEW DEVELOPMENTS

While the roundtable discussion revolved primarily around existing retail space, the panel also addressed how new construction is developing around the country.

MODERATOR: WHAT IS THE STATE OF NEW CONSTRUCTION TODAY?

BB: In the D.C. market, there's not as much land. The big parking fields are gone, it's all garage or deck parking, which a lot of the retailers do not like, so there's a big push to create these town centers around metros and transit. From my office window, I can see about 20 cranes around D.C. We're seeing more vertical, high-density developments—even in the suburbs—with residential above, retail on the bottom. A lot of our retailers get spooked when they don't see a big parking field, but I tell them, developers are utilizing as much of the land as they can.

AS: Safeway's done a number of podium stores for that reason, with parking above the store. They are looking for as much real estate for their store concept size, and parking is at a premium. They've been very successful with their podium store locations.

ME: We've seen that with a lot of grocers. They have great pieces of real estate and joint venture with residential or commercial developers.

BB: I think it's geographically subjective. It's a matter of what part of the country you live in. If you go into other markets where there is more inventory of land, then you can have the more traditional-type retail.

information on them, and it's not very healthy; there are some concerns about their viability going forward. I would be concerned if I had them as a tenant in my shopping center and start thinking about replacement tenants.

Bob Feinberg (BF): Here in New Mexico, we're also seeing this dichotomy. Los Alamos, New Mexico, is the third-highest income county in the U.S. In this town of 18,000 people 24/7, and 28,000 five days a week, Kroger has its smallest store, a Smith's Food and Drug; it's the highest-grossing Kroger in the state. We are relocating them across the street into a new 113,000-square-foot space—similar to a Fred Meyer—and we are working with a national dollar store to back-fill a portion of the space.

BOB FEINBERG
Senior Vice President & Principal | Albuquerque

I'd say that the average median income here is about $107,000 per person. These are quality shoppers, yet they'll go down to Santa Fe, or a city called Espanola and shop at Walmart or Staples. We're also seeing Ross and TJ Maxx, and for that matter, dd's Discounts and Dick's Sporting Goods, now doing their concepts in smaller peripheral cities around the state. Dick's has been considering smaller concept stores in the less-populated cities around the country.

MODERATOR: IS THE INFLUX OF INTERNATIONAL CONSUMERS STILL OCCURRING? DO YOU SEE MORE FOREIGN BRANDS COMING IN?

AS: There is definitely a continuation. Union Square hasn't seen such high occupancy in a long time. But there are also shifts occurring, so you're seeing quite a bit of high-end jewelers coming into the marketplace in San Francisco. We're also seeing a shift in terms of new high street retailers: Tom Ford is looking in the marketplace. Ferragamo just relocated from one side of the block on Luxury Row to another because of a better co-tenancy opportunity.

H&M has two other concepts in Europe, one is called COS; it's more of their high-end line, more fashion forward, higher price point, but still approachable. They're opening up their first location in the U.S. in New York. They have another store called "& Other Stories." It's very similar to what you see coming right off the runway, but again at a very approachable price point. So these retailers are reinventing various lines, but they're also coming into the U.S., because they know they have a marketplace here. From an international shopper standpoint, we're seeing more shoppers coming here from countries like Korea, India and China. They're buying up a storm.

And retailers are still paying ridiculous rents. I think the last deal I saw in Union Square was for about 5,000 square feet, multi-level, off of Post between Stockton and Grant. The ground level went for $450 per square foot. Mary, how does that compare to your market?

MM: In Toronto, Bloor Street is the highest rent street in Canada. Rents there are probably about $325 per square foot, depending on the side of the street. It's been quite an active street in the past three years. We've seen a 15,000-square-foot Louis Vuitton. Tiffany's has relocated there. Holt Renfrew, which is like Canada's Barneys or Saks, is opening up a freestanding menswear store. But those retailers look at it as being fairly competitively priced from a global perspective, because those same rents in New York City would be four or five or six times as high.

MODERATOR: IS POP-UP RETAIL STILL A TREND OR IS IT ON ITS WAY OUT? WHAT ARE SOME OTHER RETAIL TRENDS YOU'RE SEEING IN YOUR MARKETS?

AS: We've done several pop-up concepts. It's changed from what it was and where it is today, in that, before, we were putting in pop-ups to fill space, but now what we're doing is actually finding tenants that we really like

MODERATOR: SO ARE VERTICAL DEVELOPMENTS MORE PREVALENT IN THE DENSER URBAN AREAS?

BB: Dense urban and dense suburban areas. Again, very subjective to D.C., but you are seeing these high-density developments going up that people can live/work and then jump on the Metro and do all their shopping.

AS: People may not want to live in the city, but they are creating these urban projects in these suburban markets for that very reason. You have transportation nearby; you have housing; you have shopping. It's all under one umbrella.

MM: I think what is happening is often driven by very specific reasons. It might be driven by lack of developable land, driven by some geographic physical constraints to expansion, or it could be driven by political initiatives to curb sprawl. In Toronto, we have a greenbelt that was put in place a number of years ago that rings the city. And once that land is developed, you can't develop within that greenbelt. So then you have to go outside it and you're restricted by things like infrastructure—not just roads, but sewers and other utilities. There is a desire on some people's part to live there, but the reasons why it happens in various communities are really very specific to those cities.

but they may be hesitant to test our market. So what we do is say, "Why don't you come into our project, come into our market it, test it, and we'll give you a favorable rate for a short period of time. If we both feel there is benefit, let's convert you into real rent."

We went from creating a pop-up scenario to more of an incubator-type tenant, where we're incubating them in our projects. These are more unique, independent, craft-oriented concepts that we're bringing in. It seems to be working really well for us.

CM: Brooks Brothers had a 12,000-square-foot store in downtown Los Angeles for decades. They closed it after the downturn and then, about a year ago, opened up a 2,000-square-foot storefront, and their sales are going through the roof—we're talking in the five-figure range. In the store, they have a terminal island with a computer, so if you can't find what you're looking for in the store, you can order it online. They will pay for your shipping to either your home or back to the store. They are also offering more tailored clothing; you can actually get fitted for suits and other types of garments. It's a home run. I don't know if that's going to be a trend, and we'll start seeing more retailers go that way, but it's a blend of brick-and-mortar and online merchandising.

AS: That's a great point, Chris. We're seeing that, too. We've seen several Bonobos and that's exactly what they do. It's a men's clothing store, very Ralph Lauren-like. You can't buy anything in the store and take it home with you. You go in, you pick out what you're looking for, you get fitted, they take you to a computer terminal, you order it and it gets shipped to your house.

MM: There are a couple of similar stores that opened here in the financial cores of Vancouver, Calgary and Ottawa. They only do pop-up shops—they come in and open for six months. It's reasonably priced suits, high quality, and they have a really cool-looking store. It's ultimately to drive their customer base online. Once they're established, you don't need to have the brick-and-mortar presence anymore.

AS: Speaking of online: We're seeing more and more Amazon Fresh trucks all throughout the city. They're taking large distribution locations in near-urban areas. It's another grocery vehicle: You order your groceries up to 10 at night and you receive your order the very next morning by 7.

CM: In downtown Los Angeles, we've seen re-gentrification of industrial warehouse buildings going residential and office—the population has gone from 5,000 residents to 50,000 in the last three years. The grocers that have come into the area are offering delivery, whether it's Smart & Final, Ralphs Fresh Fare—and a Whole Foods is being built right now. They are all offering the ability to order groceries online for delivery.

BF: GrubHub just filed for a $176 million IPO—that's the food distribution and delivery outfit out of New York that merged with Seamless.

AS: I think that retailers that have been around for a while are reinventing themselves and using block-and-tackle tactics, where they're going into their own markets and introducing new concepts. Grocery retailer Harris Teeter, for example, has a new concept that's a smaller format, but very high price point. So within their stores, they have an area just for cigars, and then another area for craft beers, so you can sit and enjoy a beer while your wife or your husband is grocery shopping. They are trying to capture every demographic in that market with different levels of store types.

MODERATOR: WITH DOWNSIZING AND STORE CLOSURES, HOW ARE LANDLORDS CREATIVELY ADDRESSING VACANT SPACE?

CM: We're seeing medical use starting to backfill very difficult space in strip retail and neighborhood shopping centers if they have the required parking. All of a sudden, medical users, such as dialysis centers and urgent care [clinics], are popping up in retail environments. And retail landlords like it for many reasons: It's easy access for their clients, highly visible, typically the rents are cheaper and there aren't the issues you'd find in a medical office building, such as parking validations. It's a positive for retail owners because you're backfilling space, you're generating traffic to the center, and depending on what type of medical center it is, it's not necessarily a very large parking issue. With dialysis centers, in particular, a lot of patients are being delivered by shuttle from hospitals, skilled nursing or congregate care facilities and then being picked up, so it's not a major impact to the center.

AS: You know what's funny, Chris, is now we're also seeing medical care for animals—not your traditional veterinarians—in retail spaces. One of the large pet stores has a hospital concept for pets.

BF: Banfield—which has locations in PetSmart stores—is actually doing some freestanding animal hospital concepts, as well.

ME: We are also seeing old restaurant locations being repurposed as urgent care. You can pay pretty good money for the building and you get the visibility, the parking, and fairly decent ingress and egress.

CM: Another thing that I think is going to be a talking point going forward is the banking industry. I had a meeting with the president and CEO of a bank, recently. He told me that they aren't opening any new branches. If anything, they're looking to close branches. He said mobile and online banking is now the future of banking, and unless you've got $75 million on deposit at a branch, it doesn't make sense to have one. "Very expensive advertising" is what he called it. It's strictly billboard. But on the same note, I keep seeing Chase open up branches, both end caps or freestanding. Is anyone else seeing that as well? Is repurposing bank branches something we're going to need to be thinking about going forward?

ME: I think what you're seeing is downsizing. Bank of America is getting out of some of their 10,000-square-foot buildings—3,500–5,000 square feet is plenty of space now. Many of the banks are getting out of supermarkets.

MM: The trend with banks in Canada is totally different—not that they're opening massive sites, but they are very active and very aggressive about the locations and developments that they want: freestanding pad sites or, at a minimum, end caps for new developments and corner locations for

infill, urban locations. In an urban infill site, their building might be as low as 3,000 or 4,000 square feet, but are more likely 4,000 to 5,000 square feet, and they want to be in high-net-worth or middle-income communities and capture the investment services as well. So our five major banks are very aggressive in our market.

CM: The other day, someone asked me when was the last time I went into a bank branch. I couldn't remember. With online banking, mobile banking and the ATM, I don't have a need to interact with a human being in a bank branch. I know certain demographics still like that kind of relationship and may even have a safe-deposit box at a bank. But it's an interesting question to ask a certain age demographic: How do you do your banking? Have you been in a bank branch? I think you'll find when you talk to 10 people, half of them will say, "I've never been in a bank branch" or "I can't remember the last time I've been in one." So it's an interesting trend going forward. I just comment on it because if you've got leases that are rolling, with the way technology advances, in the next five years, I think we're going to see a lot of bank branch closures in retail shopping centers due to consolidations because we don't need them anymore.

ME: That's where I see more ATMs coming. So a bank may close a branch and put in an ATM.

BB: I think you're going to probably see some type of modified hybrid banking locations. They'll be small, like 1,500–2,000 square feet. It will be interesting to see how it goes.

AS: A couple of banks in the California market have actually added a café component.

MM: They added a café to an existing branch?

AS: No, these are more new branches.

MM: I think it speaks to the changes in that sector. The Dutch bank ING is only online; they have no brick and mortar and always offer very aggressive interest rates. They leased a 10,000- to 12,000-square-foot, multistory building in a prime downtown area with very heavy foot traffic. The facility has a café, and a public space where you could come in and read a magazine or access the Internet, and community groups could use space on the upper floor at no cost. It was really a branding exercise. The bank was ultimately bought by one of our big five banks, but it speaks to the massive changes in that sector.

BB: Chris, do you see any of your investors concerned with buying banks as investment property because they may be going dark?

CM: No. However, there is pause with older branches on larger footprints. My response is "They have been in Beverly Hills for the last 20, 30 years. Forget it's a bank right now, you've got good real estate." If it's good real estate and can be repurposed, I don't think it's a major issue. But if it's an older branch and it's got high rent and a very short term left, I think you see people shying away from it or they just bake in a higher cap rate to say, "OK, I'm planning on the bank leaving and I'm looking just at the value-added component to the real estate." But there's an insatiable appetite across the country still for single-tenant bank branches. The market place has so much demand, merchant developers can't build these fast enough.

MODERATOR: DO YOU SEE NEW BRANDS ENTERING THE MARKET?

AS: Reebok has a new, smaller store concept called Fit Hub that is around 2,500 square feet. People are much more casual now, and retailers are introducing more lines of yoga wear or performance wear. Converse has a new concept, and Nike has a new performance store that is different than the one they rolled out about five years ago.

Another trend that I'm seeing is going back to the lifestyle projects, with more craft, more independent restaurateurs, coming into locations. In Southern California—I think it's in the Tustin marketplace—they have staple tenants such as Whole Foods, Ross and Target—but they're also bringing in more of a local flavor, more independent boutique restaurants: the unique baker, wine shop and cheese shop. Federal has done something similar in Manhattan Beach. In these suburban markets, it's creating a town center feel.

MODERATOR: WHAT IS THE IMPACT OF ADDITIONAL RESTAURANT SPACE BEING ALLOCATED TO RETAIL CENTERS?

AS: That's the million-dollar question. We're all trying to figure out what that tipping point is in terms of GLA allocation to restaurants and QSRs versus other retailers. It's challenging. I used to think it was 10 percent of the total GLA and now I'm seeing projects where it's become the junior anchor to the project because it brings in so much foot traffic. But it also only brings in foot traffic during certain times of the day. We're working on a project in North Carolina that is overweighted in restaurants and food by probably close to 35–40 percent. It only brings foot traffic to the project during lunch and dinner, so for the balance of the day, it's nearly empty. The other retailers are suffering because of it.

ME: And don't you find the landlords and developers are bringing in more restaurants because the retailers, the soft goods guys, can't pay the types of rent that they are performing these projects at?

AS: Exactly. Some clients are saying, "We don't want to take on that risk because it's a long-term hold." Others that are looking to flip the project in a couple of years are taking that short-term gain, and not taking into account the risks that are associated after five years, because it's not their risk, it's the next buyer's.

ME: But even if the landlord wanted to lease to additional soft goods and fill the center with more of a soft goods/restaurant mix, is the retail there to fill the space? The Palladio in Sacramento is having some real push-back because they don't have the retail in the area to fill the space.

MODERATOR: That's all the time we have today. Thank you all for joining the conversation and sharing your insights. It's clear that in 2014, the key words for retail are "reinvention" and "repurpose." It will be interesting to see how the sector continues to evolve.

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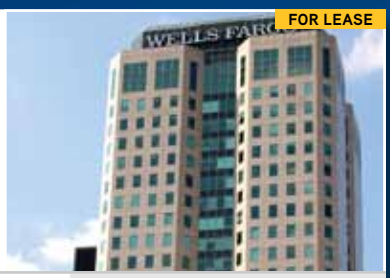

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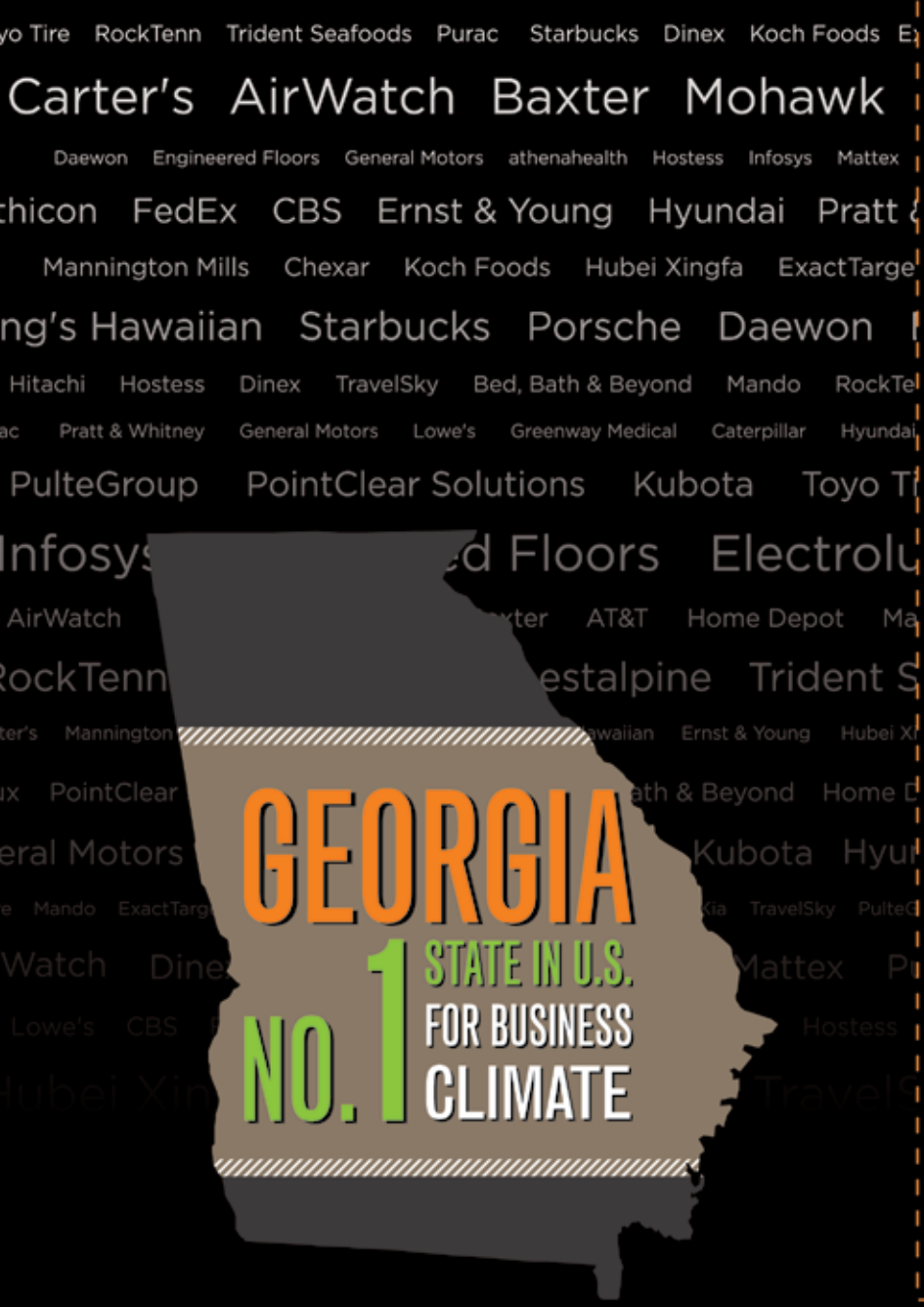

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Doug Frye is the global president and chief executive officer for Colliers International.

Lucky 13

ENDURING LEADERSHIP, AND WHAT LUCK HAS TO DO WITH IT.
BY DOUG FRYE

THIS MONTH, Colliers Global President & CEO Doug Frye celebrates 13 years at the helm of one of the world's largest and fastest-growing commercial real estate companies. When Doug joined the company in 2001, Colliers International was significantly smaller, and the business landscape was decidedly less complex. In honor of his 13th anniversary, we asked Doug what it takes to survive, thrive and lead in today's always-on business environment.

Q: Four years is the average tenure of a CEO in a company of $1 billion or more. You've been at it for 13 years. To what do you attribute your staying power?
A: I have always found that if you provide an environment where people feel they are safe to take risks and run with their ideas, they will reward the organization by continually improving and coming up with innovative and enterprising ideas. This has been the case, as we have grown every year, except 2008 during the global recession—and even then, we picked up our largest percentage of market share, as many of our competitors stumbled and eventually went out of business or into bankruptcy. I believe there is nothing more sustainable or more rewarding than being on a great team. So I guess you could say that I placed my largest bets on people.

Q: Is there an instance when luck has played a role in your success?
A: Yes, 32 years ago when I walked into a recreation center and met my wife.

Q: From your vantage point, what has been the biggest change to commercial real estate in the last 13 years?
A: Technology has ushered in a slew of changes to our industry, especially in the last few years. Our business has always been driven by relationships and access to information. Social networks and real-time collaboration have been transformative in bringing people and opportunities together in ways that would never have been imagined in the past. We are also generating amazing market insights and predictive analytics for decision making that are in real time and are visually very compelling. This is being made possible by "mashing up" structured and unstructured information.

Q: Has all the change been positive?
A: We ultimately frame it that way! When we embrace change—especially change brought about by innovation—we inevitably become smarter and better at what we do. The fact that our world is smaller and more interconnected than ever before means more opportunities for people and ideas to connect, and more business as a result.

Q: How has technology changed Colliers as a company?
A: Technology innovation has helped Colliers evolve from a network of independent firms to a globally integrated enterprise. And, with offices and clients dispersed over every geography, technology has certainly brought us closer together. New-age communications tools like desktop videoconferencing have made the world much smaller and have accelerated collaboration. We've taken a good deal of guesswork out of our processes; we no longer say to ourselves, "If only Colliers knew what Colliers knows." Thanks to "big data" and the back-office systems that support it, we have instantaneous access to whatever information we need to make smart decisions, and we make those decisions as teams, with all the right players at the table—even if that table is an on-screen videoconference. Through the use

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KENNA KLOSTERMAN

of cloud computing and mobile solutions, work is no longer "where people go," but "what people do." People are no longer tethered to their office desks.

Q: And how has Colliers changed technology?

A: Technology has become a competitive differentiator for Colliers in the world of commercial real estate. Today, we're not only leveraging technology innovation within the company, we're also offering our clients tools like *Colliers 360*, a business intelligence dashboard that helps them to manage global real estate portfolios from wherever they are. It saves our clients both time and money, and just as important, it gives them confidence in their decision making. We have adopted a cloud-first and mobile philosophy, and are already seeing the benefits of being first-to-market with solutions. I'm extremely proud of the way we've innovated in technology, and I'm confident that we've barely scratched the surface.

Q: When you joined Colliers International in 2001, what did you set out to accomplish?

A: I saw a global footprint with incredibly smart people and a depth of local knowledge unmatched in the industry. I knew if we could rally behind a common vision of being the most progressive and enterprising organization in the world, and harness this energy under one powerful brand, we could take the industry by storm. Based on the feedback from our clients and every industry metric, that's exactly what has happened.

Q: What do you hope to achieve going forward?

A: A recent global brand survey shows that Colliers International is clearly one of the top three CRE firms in the world. So, analysts and clients who don't know us very well may think we have accomplished our goal, but nothing could be further from the truth. We strive to be a model for all organizations, and being successful is not the hard part—it's how you go about it that counts. We believe we must have a net positive impact on our local, regional and global communities. We have a responsibility that transcends our core business.

Part of that responsibility is giving back to the communities we serve through social platforms like Everyone Gives. But we must also step up to lead on important global issues, like the Partnering Against Corruption Initiative (PACI), a World Economic Forum pact, which Colliers was the first CRE company to sign. Colliers is a great company playing on a global stage, and I see us leveraging that stage even more as we continue to grow.

BE STRONG ENOUGH AND CONFIDENT ENOUGH IN YOURSELF TO ADMIT THAT YOU DON'T HAVE ALL THE ANSWERS. PARTNER WITH PEOPLE WHO ARE THE CONSUMMATE EXPERTS IN THEIR FIELDS—AND TRUST THEM. **AND DON'T TAKE YOURSELF TOO SERIOUSLY. PASSION, CREATIVITY AND, ULTIMATELY, PRODUCTIVITY, ARE MORE EASILY OBTAINED IF YOU'RE HAVING FUN!**

Doug Frye, early 2000s

Q: What's the most important lesson you've learned as a leader?

A: Having a giving attitude—being generous with my time and attention—is not only the most important lesson I've learned in leadership, it's also the most important lesson I've learned in life. Caring enough to really listen to people broadens your perspective and builds trust. People will only fall in behind a leader they trust.

Q: What advice would you give an aspiring CEO?

A: Be strong enough and confident enough in yourself to admit that you don't have all the answers. Partner with people who are the consummate experts in their fields—and trust them. And don't take yourself too seriously. Passion, creativity and, ultimately, productivity, are more easily obtained if you're having fun! And for the last 13 years, I've been having fun. KL

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