DENVER RETAIL INSIGHTS

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WHY DENVER?
DENVER OVERVIEW
FUNDAMENTALS ARE STILL STRONG NINE YEARS INTO THE BUSINESS CYCLE

3.2M
2017 Metro Population

3.0%
Unemployment

$76,643
Median HH Income

$452,200
Median Sales Price Single-Family

228,265
Net Migration Since Recession (2010-2017)

+2.7%
Nonfarm Employment (YTD Sep. 2018)

+3.6%
2017 GDP Growth

+9.4%
Single-Family Permits (YTD Sep. 2018)

POPULATION DISTRIBUTION BY GENERATION

DENVER MEDIAN AGE IS 36.2 YEARS VS. 37.7 YEARS NATIONALLY

NET MIGRATION TO & FROM COLORADO
NUMBERS REPRESENT NET INFLOW/OUTFLOW IN 2016 (EX: 8,112 MIGRATED TO CO FROM IL ON NET)

Source: U.S. Census Bureau, 2018.
• Colorado will add 5.3% to its current population over the next five years, down just slightly from 5.5% over the past five years.

• There has been a shift in the statewide dispersal of net migration.

• Areas outside metro Denver have recently begun attracting a greater proportion of new Colorado residents.

• This may ultimately impact where companies locate their offices, as they try to follow talent.

<table>
<thead>
<tr>
<th>Region</th>
<th>2010-2017 Share</th>
<th>2016-2017 Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro Denver</td>
<td>66.1%</td>
<td>31.3%</td>
</tr>
<tr>
<td>Northern Colorado</td>
<td>19.7%</td>
<td>30.2%</td>
</tr>
<tr>
<td>Colorado Springs</td>
<td>11.6%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Other</td>
<td>2.6%</td>
<td>18.8%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, September 2018.
DENVER RETAIL MARKET

INVENTORY
By Product Type

59 POWER CENTERS
25.0 Million SF

45 STRIP/IN-LINE CENTERS
1.9 Million SF

398 NEIGHBORHOOD/COMMUNITY CENTERS
41.8 Million SF

727 TOTAL
81.4 Million SF

Q3 2018 FUNDAMENTALS

1.2M SF
UNDER CONSTRUCTION

14th
MARKET RANK BY RBA

7.2% Direct Vacancy

DELIVERIES
2018 YTD: 1.1M SF
2017 Total: 1.1M SF

NET ABSORPTION
2018 YTD: 339K SF
2017 Total: 339K SF

$18.90
AVERAGE ASKING RENT (NNN)

Source: CBRE Research, Q3 2018.
COMING SOON

RETAILERS NEW TO DENVER

Source: CBRE Research, Q4 2017.
## Population, Median Household Income, and Education

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle</td>
<td>3.9</td>
<td>12.2%</td>
<td>419,000</td>
<td>$80,594</td>
<td>10</td>
<td>25.3%</td>
<td>7</td>
<td>42.0%</td>
</tr>
<tr>
<td>Denver</td>
<td>2.9</td>
<td>13.1%</td>
<td>334,000</td>
<td>$72,977</td>
<td>21</td>
<td>23.5%</td>
<td>9</td>
<td>42.5%</td>
</tr>
<tr>
<td>Austin</td>
<td>2.1</td>
<td>22.5%</td>
<td>388,000</td>
<td>$72,435</td>
<td>23</td>
<td>28.4%</td>
<td>6</td>
<td>42.8%</td>
</tr>
<tr>
<td>San Diego</td>
<td>3.3</td>
<td>7.5%</td>
<td>234,000</td>
<td>$71,703</td>
<td>24</td>
<td>17.6%</td>
<td>29</td>
<td>37.4%</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>1.2</td>
<td>10.2%</td>
<td>112,000</td>
<td>$68,942</td>
<td>26</td>
<td>20.5%</td>
<td>15</td>
<td>33.0%</td>
</tr>
<tr>
<td>Phoenix</td>
<td>4.7</td>
<td>12.7%</td>
<td>533,000</td>
<td>$58,783</td>
<td>56</td>
<td>16.0%</td>
<td>43</td>
<td>30.8%</td>
</tr>
<tr>
<td>Las Vegas</td>
<td>2.2</td>
<td>12.9%</td>
<td>251,000</td>
<td>$54,757</td>
<td>70</td>
<td>6.3%</td>
<td>100</td>
<td>23.3%</td>
</tr>
<tr>
<td>U.S.</td>
<td>325.7</td>
<td>5.3%</td>
<td>16,381,000</td>
<td>$58,229</td>
<td>N/A</td>
<td>16.0%</td>
<td>N/A</td>
<td>30.3%</td>
</tr>
</tbody>
</table>

### Figure 1: Denver is a Top Market for Demographic Growth

Source: U.S. Census Bureau, 2018; Moody’s Analytics, Apr. 2018.

Note: Rank given among the 100 largest markets; table sorted in descending order of median household income.

## Denver’s Lease Rates are Competitive Compared to Similar Markets

<table>
<thead>
<tr>
<th>Project Submarket</th>
<th>Size (Sq. Ft.)</th>
<th>Project Type</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Station</td>
<td>Central</td>
<td>88500</td>
<td>Mixed Use</td>
</tr>
<tr>
<td>9th &amp; Colorado Retail</td>
<td>Central</td>
<td>235,000</td>
<td>Spec</td>
</tr>
<tr>
<td>Vista Highlands</td>
<td>Northwest</td>
<td>185,200</td>
<td>Spec</td>
</tr>
<tr>
<td>Floor &amp; Décor</td>
<td>Northeast</td>
<td>79,739</td>
<td>BTS</td>
</tr>
<tr>
<td>Topgolf</td>
<td>Northeast</td>
<td>57,200</td>
<td>BTS</td>
</tr>
<tr>
<td>Summit Thornton</td>
<td>Northeast</td>
<td>49,980</td>
<td>BTS</td>
</tr>
<tr>
<td>Main Event Entertainment Center</td>
<td>South</td>
<td>49,882</td>
<td>BTS</td>
</tr>
<tr>
<td>A Line Square</td>
<td>Central</td>
<td>42,000</td>
<td>Spec</td>
</tr>
</tbody>
</table>

### Figure 2: Select Denver Retail Developments

Source: CBRE Research, Q1 2018.

### Figure 3: Denver’s Lease Rates are Competitive Compared to Similar Markets

Source: CBRE EA, Q4 2017.
NEW RETAILING, E-COMMERCE & RETAIL MYTHS
SHIFTS IN CATEGORY GROWTH (2012-2017)

HIGH GROWTH

30% Restaurants & Bars
26% Furniture & Furnishings
21% Health & Beauty
16% Jewelry
15% Shoes
14% Grocery

LOW GROWTH

8% General Merchandise
7% Clothing
3% Sporting Goods
-5% Electronics & Appliances
-13% Bookstores
-14% Department Stores

Source: US Census Bureau
SHIFTS IN SPENDING BEHAVIOR: THE BARBELL EFFECT
CLOSURES HAVE BEEN CONCENTRATED IN THE MID-RANGE
RETAIL BANKRUPTCIES TIMELINE, 2015-2017
THE WORKPLACE
MARRIAGE
THE HOUSING MARKET
POPULATION GROWTH
KALE
THE OLYMPICS
WORK ETHIC
RETAIL
HOTELS
CHAIN RESTAURANTS
THE INTERNET
CEREAL
CROWDFUNDING
THE MOVIE BUSINESS

MILLENNIALS ARE RUINING EVERYTHING
MILLENNIAL BEN

• Still believe in marriage and mortgages

• Net migration towards the suburbs

• Distinct shopping patterns and preferences
  • Convenience is key
  • Digitally engaged
  • Amenities and experiences

• Heavily indebted, but stand to inherit an estimated $30tn over the next 30 years
LOOKING BEYOND THE MILLENNIAL: GEN Z

76%

“Shopping in physical stores provides a better overall experience compared with shopping online”

66%

“It is important when buying online for that retailer to have a store nearby”

63%

“I use all online and in-store options for shopping offered by retailers”

SOURCE: ICSC GEN Z SURVEY, 2018
It’s the e-pocalypse...
THE COMMON DATA HEADLINES

E-COMMERCE AS A % OF TOTAL RETAIL SALES

<table>
<thead>
<tr>
<th>Year</th>
<th>E-Commerce as % of Total Retail Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2.5%</td>
</tr>
<tr>
<td>2006</td>
<td>2.5%</td>
</tr>
<tr>
<td>2007</td>
<td>2.5%</td>
</tr>
<tr>
<td>2008</td>
<td>2.5%</td>
</tr>
<tr>
<td>2009</td>
<td>2.5%</td>
</tr>
<tr>
<td>2010</td>
<td>2.5%</td>
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<tr>
<td>2011</td>
<td>2.5%</td>
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<tr>
<td>2012</td>
<td>2.5%</td>
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<td>2014</td>
<td>2.5%</td>
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<tr>
<td>2015</td>
<td>2.5%</td>
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<tr>
<td>2016</td>
<td>8.9%</td>
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<tr>
<td>2017</td>
<td>8.9%</td>
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<tr>
<td>2018</td>
<td>8.9%</td>
</tr>
<tr>
<td>2019</td>
<td>8.9%</td>
</tr>
<tr>
<td>2020</td>
<td>14.0%</td>
</tr>
<tr>
<td>2021</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, emarketer.com

E-COMMERCE VS. IN-STORE SALES GROWTH (YOY)

<table>
<thead>
<tr>
<th>Year</th>
<th>E-Commerce Growth (YOY)</th>
<th>In-Store Growth (YOY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2.5%</td>
<td>15%</td>
</tr>
<tr>
<td>2007</td>
<td>2.5%</td>
<td>4%</td>
</tr>
<tr>
<td>2008</td>
<td>2.5%</td>
<td>4%</td>
</tr>
<tr>
<td>2009</td>
<td>2.5%</td>
<td>4%</td>
</tr>
<tr>
<td>2010</td>
<td>2.5%</td>
<td>4%</td>
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<tr>
<td>2011</td>
<td>2.5%</td>
<td>4%</td>
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<tr>
<td>2012</td>
<td>2.5%</td>
<td>4%</td>
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<td>2013</td>
<td>2.5%</td>
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<td>2014</td>
<td>2.5%</td>
<td>4%</td>
</tr>
<tr>
<td>2015</td>
<td>2.5%</td>
<td>4%</td>
</tr>
<tr>
<td>2016</td>
<td>2.5%</td>
<td>4%</td>
</tr>
</tbody>
</table>
ANOTHER VIEW OF THE SAME DATA...

E-COMMERCE VS. IN-STORE RETAIL SALES

$ BILLIONS

>90% OF RETAIL SALES STILL OCCUR IN-STORE

AN ESTIMATED 50% OF E-COMMERCE SALES ACTUALLY GO TO BRICK-AND-MORTAR RETAILERS

<5% OF TOTAL RETAIL SALES GO TO "PURE-PLAY" E-COMMERCE PLAYERS

Source: U.S. Census Bureau, Q1 2018
BRICK-AND-MORTAR BRANDS ARE LEVERAGING E-COMMERCE

% OF TOTAL REVENUE EARNED ONLINE

NORDSTROM 26%  ANTHROPOLOGIE 39%  WILLIAMS-SONOMA 53%

Based on latest quarterly filings
WHY NOT CLOSE THE STORE?

E-COMMERCE IS EXPENSIVE

• MAINTAINING AN OMNICHANNEL PLATFORM
• THE HIGH COST OF FREE DELIVERY
• THE EVEN HIGHER COST OF RETURNS

STORES GENERATE PROFIT

• SPEND PER TRANSACTION IS HIGHER IN-STORE
• UPSELL OPPORTUNITIES WITH IN-STORE RETURNS
• STORES DRIVE ONLINE SALES
E-COMMERCE SHARE BY RETAIL CATEGORY
A KEY INDICATOR OF TENANT MIX RISK

HIGH SHARE

- 78% Computers
- 66% Books
- 38% Housewares

- 35% Office Products
- 31% Toys
- 24% Sporting Goods

LOW SHARE

- 3% F&B
- 3% Home Improvement
- 8% Furniture

- 9% Beauty Products
- 15% Jewelry
- 15% Footwear

Source: Forrester Research
THE CHALLENGE:

CREDIT

VS.

COOL
NEW PERFORMANCE MEASURES

Measuring store performance:
From sales per sq ft to ?

NEW CREDIT EXPECTATIONS

Credit vs. cool:
Need to balance investor demand for credit and consumer demand for new and different

NEW LEASING TERMS

Increased flexibility in lease lengths and terms
Increased partnership between retailers and landlords
BUT THE ROLE OF THE STORE HAS CHANGED

FROM A SPACE OF TRANSACTIONS...

...TO?
INTEGRATING EXPERIENCE INTO THE STORE
GOODS VS. EXPERIENCE OR GOODS *WITH* EXPERIENCE?
COEXISTENCE OF CONVENIENCE & EXPERIENCE....
...AND ITS IMPACT ON GROCERY
ADAPTING TO FAST-CHANGING RETAIL

NEW EXPENSES
- Shipping costs
- Delay costs
- Restocking costs
- Issues with returns

ONLINE & IN-STORE RETAILING
- lululemon
- Fabletics
- Restoration Hardware

FORCING NEW QUESTIONS FOR RETAILERS:
- How large?
- How long of a term?
- What disruption/fear is happening in the industry?

DECIDING WHAT IS APPROPRIATE FOR THE RETAILER
- Warehousing capability options
- Order online, pick up in store (Walmart, Target, Old Navy) vs Clicks-to-Bricks (Fabletics, Casper, Amazon)
- Return options - at what point are online-only stores being forced to consider brick & mortar locations in order to give customers peace of mind that they can return something conveniently
GROCERS: ASSESSING THE LANDSCAPE

US GROCERY REVENUE AND MARGINS

- Immediate need to invest in store formats, omnichannel and tech
- Players with wide footprint and ability to invest have competitive advantage
- Omnichannel strategies will vary by geography (urban vs. suburban vs. rural)
- But given logistics costs and price pressures, brick-and-mortar networks will maintain importance

SOURCE: CREDITNTELL, COMPANY FILINGS, 2017

*ESTIMATED

NOTE: EBITDA MARGIN FOR WALMART AND TARGET INCLUDES ALL BUSINESS LINES, NOT JUST GROCERY
IS E-COMMERCE TAKING OVER BRICK-AND-MORTAR...
...OR IS IT THE OTHER WAY AROUND?
URBANIZATION OF THE SUBURBS
STREETS & URBAN ENVIRONMENTS

RETAILER UNDERSTANDING
With presence in every major market, CBRE’s network of Streets & Urban Environment professionals are able to tap into an unmatched database of growing retailers.

OUR NETWORK, DIALED IN
We track emerging brands that are poised for growth and expansion, allowing landlords first access to cross-market and cross-channel concepts.

60+
Participating Streets & Urban Professionals

450+
Retailers Tracked
DENVER’S RETAIL REVOLUTION

Urbanization of the Suburbs

Millennials and younger GenXers – the generations that made urban living hip again – are forming families and looking for alternatives to costly Downtown living. The suburbs are responding by densifying and expanding public transit, but also by re-imaging their retail offerings. Walkable mixed-use projects with boutique fitness centers, chef-concept restaurants and dog-friendly breweries have become the new suburban reality in Denver. Popular Downtown restaurants are opening suburban outposts, and with great success.

In-N-Out Burger Joins Victory Ridge Mixed-Use Development Project in Colorado Springs with Future Distribution Center and Retail Location

Colorado Springs, CO | November 30, 2017

Westside Investment Partners, Inc. is proud to confirm hamburger establishment with a loyal following, is on Victory Ridge mixed-use development located in north the hamburger chain’s first land acquisition in the Colorado Springs area. Current plans call for the development of the In-N-Out Burger on a 22-acre parcel to support future growth in Colorado Springs. Establishment of an In-N-Out Burger restaurant at the project development at Interquest Parkway and Voyager Parkway. Completion of the regional facility will require due process.
THE IMPORTANCE OF DATA UTILIZATION IN RETAIL
Both owners and tenants alike are benefiting from the guidance of new data. Retailers are choosing the best spots in the market for their new stores with the classic factors such as visibility, rate, and co-tenancy, but as new developments are rapidly increasing in Colorado, data is driving more of these target store decisions. Owners are also looking at the best tenant options for their shopping centers using data analysis rather than using typical criteria for tenants.

We can now dig into the type of person who entered a shopping center, which stores are highest trafficked, how long the average person stays in the center, and how many times they have been there. Data allows us to see the actual target market for a shopping center and the psychographic characteristics of the people in the market. This helps an owner narrow down which prospective tenants will actually succeed in their centers in addition to synergistic co-tenancy.

Tenants can use data to see the projected growth numbers, psychographic information and match markets with other markets that have their high-performing stores.
Looking toward the future...

Kroger Plans to Introduce Driverless Grocery Deliveries

Supermarket chain aims to test what executives call the world's first autonomous deliveries this year.

Kroger's partner, Nuro, has raised $92 million to build a driverless vehicle prototype that is about half the width of a sedan and navigates with a network of cameras and radar sensors. PHOTO: KROGER

By Heather Haddon

Updated June 28, 2018 1:09 p.m. ET

9 COMMENTS
THANK YOU

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