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# WeeklyTAKE

A QUESTION OF BALANCE: THE CHANGING WORLD OF URBAN & MIXED-USE RETAIL  
W/ TERRY BROWN, BRIAN TAFF & MELINA CORDERO [03.02.2021]

## Spencer Levy

I'm Spencer Levy and this is The Weekly Take. It was one year ago this month that U.S. states and territories issued the first stay at home orders of the pandemic in the commercial real estate world, one sector had to adapt and evolve almost immediately after a nation of consumers was locked down. On this episode, we're talking urban mixed use retail with three guests who mind the store every day.

## Terry Brown

I think that local retailers were probably more entrepreneurial than ever. Their livelihoods were at stake.

## Spencer Levy

That's Terry Brown, managing partner of Asana Partners, a private equity platform headquartered in Charlotte, North Carolina. Over the past six years, Asana has invested in roughly 30 mixed use projects in 13 states across the country.

## Brian Taff

During the pandemic, and we've really had to rethink what that experience is and what we've missed and we think about spaces differently.

## Spencer Levy

And that's Brian Taff, the CEO of Streetsense, a creative advisory based in Maryland. The firm consults with investors to help build real estate brands and communities. We're also joined by a familiar friend of the show, CBRE managing director Melina Cordero. Melina is a strategic advisor and thought leader who heads our retail capital markets group from Washington, DC.

## Melina Cordero

2020 wasn't just about COVID. There were a lot of events over the course of 2020 that I believe are going to have long term impact on us as consumers and on the business.

## Spencer Levy

We'll talk about the changing nature of the retail sector with a focus on high density central business district. We'll consider capital markets and credit, as well as choices for investors, operators and, of course, consumers. We'll also look at technology, new ways that bricks and mortar and the virtual realm of e-commerce are coming together as retailers of all shapes and sizes have adapted to a very tough year. And more coming up, an in-depth discussion of urban mixed use retail. That's right now on The Weekly Take. Welcome to The Weekly Take. Terry, let's start with you. I think it's fair to say, Terry, that in the near term, high density cities, particularly those that are dependent upon mass transit, have been struggling more than others at the same time that's where much of your portfolio is. So tell us, how's it going, given your focus on these high density cities?

## Terry Brown

You know, I think that our portfolio has fared relatively well from an operating results point of view. We've been pretty much right on top of the results reported by some of the higher quality public companies in the space. The results are varied obviously different locations,

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different neighborhoods, different geographies are important. I would say the areas CBD has struggled more so because of the lack of office workers in those areas. Most of our investments are in near urban and urban neighborhoods. They've held their own primarily because of the patronage of the residents who live there. I mean, if you look at places like the South and in Charlotte or the Beltline in Atlanta or even old town Alexandria, the people who are home working from home tended to support the retailers in their neighborhoods. So I think it depends on location. Clearly, there's a difference in those areas where businesses have been closed for longer, especially in the restaurant, food and beverage sector.

### **Spencer Levy**

You're suggesting to me that local retail, notwithstanding the challenges we face, has been doing pretty well.

### **Terry Brown**

I think, surprisingly, local retailers were probably more entrepreneurial than ever. Their livelihoods are at stake. It's different when an individual owns a store, too, and they support their family out of that store versus some of the bigger chains. And, you know, the story's not reported so often, but the guys who quickly move to create apps where they've not had apps, open websites, do curbside, all those things that the entrepreneurial and the innovation among local retailers was really just extraordinary. And to a certain extent, they were more nimble, maybe even with less capital, than the larger, better capitalized competitors that they have.

### **Spencer Levy**

Well, Brian, let's turn to you now. And what's been your experience with urban mixed use retail, how it's performing today?

### **Brian Taff**

So I'll just say, you know, a quick note, nod to Terry. You know, when you think about what you've invested in, you know, these are destinations. It's not just, you know, retail or urban retail, you know, at its base level. And so these are places that, you know, you really want to go to and you want to visit. You go and you have an experience there. And I think during the pandemic, we've really had to rethink what that experience is and what we miss. And we think about, you know, spaces differently. We've spent a lot of time working with local municipalities, business improvement districts, and really trying to help retailers gain some sort of footing and advantage when the small local retailers, you know, they really didn't have access to all those tools even though they existed. So being able to ensure that they were able to connect with their customers in a way that they hadn't before. And so we've seen a lot of activity in these urban environments where street trees have popped up, pedestrian areas have popped up. We've done a lot of work thinking about how we can work with municipalities, downtown districts to not only activate the areas and create safe environments for people, make them more pedestrian friendly, but also activate and help those retailers really compete and stay connected. So that's been a big area of focus for us.

### **Spencer Levy**

So, Melina, let's turn to you. And I'm not sure that the capital markets have been quite as robust today, certainly the leasing market as well. Give us the sense of what the facts are on the ground today when you see it turning the corner for urban mixed use retail.

### **Melina Cordero**

There's no doubt that I would say urban environments, especially, you know, dense

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downtowns have been hit harder by COVID in some of the limitations than, say, areas of the suburbs that we're tracking. Right. So a lot of us do predict a longer recovery time for the densest urban cores, the greatest downtowns like Manhattan or downtown in San Francisco. But that doesn't mean long term that they are dead or that there is not retail future there, so I think part of it is just different recovery times for different geographies. And the other part of it is where people going to end up, where are the densities going to grow? And I think we're going to see ongoing densification of the suburbs. And I think that people are going to be back in the cities because that's where employment's going to stay. So I think ultimately, where retail wants to be, where restaurants want to be is where the people are.

### **Spencer Levy**

Well, Terry, you recently purchased Larimer Square, almost 90 million dollar asset and historic parts of Denver. Tell us more about this project. Why was it attractive to you?

### **Terry Brown**

Well, I think Denver itself is just a very attractive market to geography, to connectivity to the southwestern states where you have extraordinary job growth, the proximity to the West Coast. So we've been looking at Denver, but Larimer Square. I mean, there are very few places and Brian alluded to it, but there are very few urban places where you could have both sides of the street for an entire city block is two hundred fifty thousand square feet. About half retail have office historic. The street now has been closed, at least for the pandemic, well known, but also a place where we could use our streets both in terms of access to capital to renovate and make the office space really, you know, office space that works in 2020 and 2030, as well as kind of reinvent the merchandizing over a period of time. We get to almost all of the retail spaces over the next four or five years. And it's very similar to the work that we've done in other historic districts across the country. So we're really bullish on Denver. We think Larimer is very well known. We think we have a really good plan to innovate and keep it current. You know, it's been around for 150 years, so we want to make sure that we continue to help it evolve.

### **Brian Taff**

You know, Spencer, to Terry's point, Terry talks about, you know, these historic areas. These are areas that we just continue to reshape over time. Right? I mean, they've got a history that in some cases, you know, we're even more interesting than what we're doing there. And we have the ability to create a level, you know, a vibrancy. Over the last 50 years or so, we tried to separate where people live from where manufacturing happens and where people live from where retail happens. But today, we're in these environments and mixed use is really, really critical, you know, to vibrancy. You've got office upstairs. You want to go downtown and downstairs to the street. You know, when you want to have lunch, you know, it's a great place not only to shop, but it's a great place to work and it's activated. So those are things that really are interesting. And from our perspective, we not only think of mixed use or a mix of uses, but a mix of users. And these historic districts are just ripe for that year after year and century after century.

### **Spencer Levy**

Well, I think it's fair to say that these historic districts, many of them had fallen on harder times for years and now are making a huge comeback around the country. You could point to the Wynwood section of Miami, you can point to Fulton Market in Chicago. You can point to maybe one of the pioneers of it, which was the high line and then the meat packing district in New York. Melina, tell us more about some of these districts. Name a few and why they're so popular today.

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## **Melina Cordero**

Yeah, and I think you need to add the wharf in D.C. to that list. Right. It's happening in almost every major city of the country. And I think part of that is if you look historically and this is a global trend, but certainly in the U.S., we are urbanizing, which means that we have been moving towards the cities for decades. And when I say cities, that includes, you know, the suburban rings closest to the cities. But cities are getting denser, suburbs are getting denser. And so these areas of the city that were before on the fringes and maybe were industrial or military uses, we see that, for example, in the candlestick area of San Francisco are being redeveloped and are being turned into these vibrant, mixed use environments where a lot of people want to live and people of different ages and cohorts. So I think that's interesting as well. And it makes for an interesting dynamic. And again, if you look at every major city in the U.S., you can find an example of that.

## **Spencer Levy**

Well, Terry, I'm going to guess that that type of real experience speaks not only to you, but to the retail clients, to the office clients because of that, using older architecture and maybe combining with new. What's your point of view, Terry?

## **Terry Brown**

I think that clearly is the case. And if you've been in the retail business for a really long time, new ground up construction in a new location, it takes years to train a consumer or tours to come to that location and change shopping patterns. And so Brian alluded to it. But if you can offer, you know, a historic destination, a place that people have been coming to and want to come, if you can offer authenticity and building and design and, you know, create the right merchandizing in that district. It's just a much easier task than brand new ground up creative space. And it just works. I think, you know, a lot of people follow retail focus on kind of the emotional connectivity of a retailer with their consumer. And they as they try to do that, both in person and with a digital experience, just the authenticity of that experience and the emotional connection of space and place to the consumer just gets to be really more and more important every day.

## **Brian Taff**

That's really, I think, a very important thing. In some ways, you know, we can replicate walkability, but having a connection and having something exciting that's going on that also contains secrets of the past, you know, is very exciting, you know, for people and understanding that neighborhood, you know, connects not only the place, but it also connects over time. You know, these little nuances really are drivers of value in people feeling like, you know, they belong to a place or a place belongs to them, that there's pride, you know, in the neighborhood and it's not something that's manufactured.

## **Spencer Levy**

So, Melina. Let me turn now to a topic you and I have debated for years now, which is the local is the new global or credit versus cool. I think we're all in violent agreement on this call about placemaking about having a great experience. All this is what the consumer wants. But the consumer isn't a bank. The consumer isn't underwriting the credit of the tenants in the facility. So let's walk through that for just a moment and how having this type of use may impact its financial ability. Is it a negative?

## **Melina Cordero**

It is that the big question of the moment. We've been talking about this for years. I think all of

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us, right where we have this fundamental tug of war, where the lenders want credit and the people want cool. And how do we all of us in between the two build retail destinations that please both ends of the chain. Right. So it's a question of balancing. It's also, I think, longer term, a question of lenders adjusting to what the new retail reality is. In some cases, that's different lease terms than we were used to 20 years ago. In some cases, it's different tenant types. And then I think there's this other wild card that we're seeing happening. It's, you know, is it credit versus cool or can we have both? And I'm seeing a lot of larger credit tenants, credit retailers that they themselves are trying to go cool. And they're coming up with even newer concepts that look and feel different from their bigger or, you know, more common concepts. You see companies like Lululemon that are buying or partnering with other firms that may be seen as newer, cooler. And so there's a little bit of a blending going on. But fundamentally, it's all about balance.

## **Spencer Levy**

Terry, let me turn the same question to you. And very often or historically, you used to have to finance the multi-family section differently than the retail section, different than the office section. Is that still the case or are you now able to get one sort of umbrella financing package for the entire project?

## **Terry Brown**

You know, a lot of that depends on the size of the retail relative to multifamily. Obviously, today's in today's environment, multifamily is it easier to finance than retail? So a lot of it just appears is relative to the size. But Melina alluded to the perception with the lenders. Like, I think over time some things will evolve. I think we saw last spring we saw local retailers pay their rent and we saw national retailers not pay their rent until after very challenging negotiations. And then I think the second thing is you could take a view if you're in our business and it's not the view of the lending market, but your credit of a retailer and store is only as good as the cells that actually occur in that store because the last thing you want is a dark store. So the reality of it is the cells that are generated in the store, in my opinion, are way more important than the credit behind the lease.

## **Brian Taff**

When we talk about credit and we talk about the drivers of these things is always going to be, you know, financing and the availability of credit. You really want to understand, you know, who is the consumer, you know, who's coming there and are they going to come? Even if, you know, my anchor changes, if you understand who the consumer is and you understand what they're spending and what the drivers are, you know, you'll be able to minimize the vacancy. You'll be able to create the vibrancy that you're looking for. So in a way, really, you know, the consumer and that consumer demographic does become, you know, value because today rent per square foot is very, very different when people being able to buy online restaurants, doing takeout. You know, we're seeing for the first time, you know, formal sit down restaurants that never really thought about take out, that's becoming part of what's being designed into their entire experience, partly because of COVID, but we also think those are things that are going to stay.

## **Spencer Levy**

But this does bring up the key question that we're all asking, which is how deep will e-commerce penetration be in which forms of bricks and mortar retail will be durable? Terry, what's your point of view on that?

## **Terry Brown**

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I think bricks and mortar will continue to be important. I think that the consumer's expectation is that the experience with the retailer or with the restaurant really surrounds the restaurant. Clearly, you had extraordinary growth in e-commerce during the summer months. We're seeing increased foot traffic back at retailers, especially in some of the Sunbelt and Rocky Mountain states. But I expect things will normalize and we'll get I don't think the long term expectations for e-commerce will be much different than we anticipated. If you look out 10 years, I think the expectations will be pretty much the same expectations that we had. Pre pandemic.

## **Spencer Levy**

Melina, I think you have some stats on that, because we did see for a while in 2020 hockey stick growth upward of e-commerce penetration. But that seems to have tempered. What are the facts right now in terms of e-commerce penetration?

## **Melina Cordero**

Yeah, 2020 was an interesting year to watch for e-commerce stats. What we saw was a pretty big jump in the second quarter of the year where we went from about 11 percent of all retail sales online. We jumped up to about 16 percent. So most of our estimates, most of the industry consensus is that we accelerated, you know, e-commerce growth by about three years in 2020. What was fascinating, though, is what happened next, because what we saw after Q2 in the summertime is stores started to reopen that e-commerce actually dropped, so dropped back down two percentage points to about 14. So what this told us was that people had rushed to go online, obviously because of health and safety reasons and store closures. And as soon as stores reopened, a lot of people went back. So that's a really important point for us to let sink in and right there's a fundamental desire of consumers to be in brick and mortar. Yes, I think certain categories and types of goods will go online a lot faster than others. But at the end of the day, e-commerce is really expensive for retailers to operate, and it's not that fun for consumers to shop. So in my view, you know, I have to agree with Terry that there will always be a place for brick and mortar.

## **Brian Taff**

I think we're getting to a point where retail really is about choice. You know, it always has been right. Where do I get that blue shirt? You know, what restaurant do I go to? Right. So it's always been about choice. Now we're in a time because of real optimization of moving goods, you know, to the consumer, understand where the consumer is and really being able to cater to individual needs. The product can get to the consumer rather than the consumer having to get to the product. And we just have to recognize that it's now a two way dynamic. Which is you used to have to go shopping to shop and now shopping comes to you whether you want it or not. I think these retail connected experiences go all the way back, you know, to the industrial and logistics and how the products find the people. And then it's going to become more and more important. In terms of designing, you know, right now we're already talking about how do you rethink, you know, restaurants to do omni channel, which is something that retailers thought about, but restaurants really, really didn't. It was, you know, pick up takeout and catering, but now they have to take it to a different level. So I think more and more we're going to see it's choice. You know, how do you want to shop? Where do you want to shop? And if you don't provide the choice and part of that choice is time, then I think, you know, you're at a disadvantage and that's going to be an important thing.

## **Spencer Levy**

So, Terry, let me turn to you. A lot of times we talk about hybrid. A lot of times you talk about

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omni channel and that's in the physical design of the space. So I want to ask you first a physical design question. The second thing I'm going to ask you is a lease question. Should you or would you pursue getting a percentage of the internet sales in your region because you may have helped generated from your bricks and mortar. So design and seeking internet sales for the landlord.

## **Terry Brown**

That would be ideal. I think it is not something is likely to happen because of the control over the information. But I think, you know, if you look just at the activity of returning merchandise to stores and the impact on even in the store retailer, employee compensation, all those types of things, that would be very logical. But, you know, for most all of the situations that we're involved with now, we have a really hard time still accessing the internet or what you might call the shadow sales from the bricks and mortar store, even though there's more and more evidence showing the shadow sales that come from brick and mortar stores. But I'd like to think that would happen over time. We've largely been unsuccessful in doing so.

## **Spencer Levy**

Let me turn now to a topic that I think talks about placemaking, but maybe outside the place. And that has to do with the rise of what we call ESG capital, environmental, social and governance, Brian. And how we design spaces today. Is that influencing you today? And tell us how?

## **Brian Taff**

I think it's the answer is yes. It's influencing us directly in everything we do. You know, our clients are asking about what it means and what it means to them. A big piece of that, really, when we talk about, you know, environmental, social and governance is really about transparency and trust. You know, what are you doing and how can you see it and feel it? On the environmental side, there are a lot of guidelines, but we want to think about it in the construct of, you know, what impact does it have on the people that are shopping there and why is it important to them. Today more than ever, they're looking to figure out where they should be going or whether or not the place that they're going to go reflects the brand that they want to be. So I think it's becoming more and more important. And those questions are now being asked, you know, at the beginning, not just in, you know, the design or the construction process.

## **Spencer Levy**

Let me ask a difficult question, Terry. Hopefully it's not that difficult, but we talk about these historic areas that have been downtrodden and maybe you're there to bring them back. But there are some parts of town where we've tried things like opportunity zones, empowerment zones under Bill Clinton. Have you ever looked at areas that are in some of these more impoverished areas? Is there a opportunity to invest there that you're thinking about?

## **Terry Brown**

There is. I would say with respect to opportunity zones, we do have some neighborhoods, Deep Ellum being one of those neighborhoods, which some parts of deep Ellum are part of part of an opportunity zone. In that case, the neighborhood had such momentum before we became involved in the momentum afterwards, that really it would be hard to argue that the opportunities on capital there spurred more activity. I think our experience as a company is we can take something that has energy and accelerate the energy, the places we've struggled with our investments are thinking that we're so smart that we can create

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energy ourselves or change consumers. So we have been skeptical and found it difficult to try to create value for our investors by, you know, playing really in opportunities. Many others do. There are a lot of amazing companies and organizations who've tried. That is just something that we've really not focused on or been unable to do.

## **Spencer Levy**

Brian, let me turn to you now, because there was a great case study that I learned the first day I met you a couple of years ago about a project you guys did in Flint, Michigan, a city that was clearly struggling, still has still has its struggles. But nevertheless, you were able to help it by bringing in a grocer there.

## **Brian Taff**

Well, that's a really great example. It goes really beyond that particular case. And that is what we hear a lot about, is retail right sizing. How do we get the retail right? Candidly. And so in the case of the grocery, this was a situation in which they were really trying to lure, you know, a national chain to an area when really what we ended up doing was working with the community to help give the local grocers the opportunity that really only the big ones have. You know, how do you make the local town favorite, you know, win and be competitive? How do you drive, you know, demand and create value for, you know, the local hero? And so that was an interesting opportunity. But all across, I think the country and even in other places that we're working, we see this idea that, you know, retail just cannot be dispersed, you know, without driving the demand. It's hard to walk through a downtown area and see, you know, boarded up retail. And we like to say that, you know, if you've got boarded up shops, it's almost like smiling, you know, with a missing tooth, you can't hide it. So how do you really create the density and the vibrancy by bringing those things together? So we concentrate a lot with that. And I think that that's going to be a really important way when we think about, you know, how do we deliver retail communities that are going to spawn activity, you know, in these downtown markets.

## **Spencer Levy**

So let's all take out our crystal balls now. How do you think that COVID-19 is going to change retail moving forward, locationally, tenants or otherwise?

## **Melina Cordero**

Yeah, I mean, I have a couple of predictions and I think, you know, 2020 wasn't just about COVID. There were a lot of events over the course of 2020 that I believe are going to have long term impact on us as consumers and on the business. You were talking about ESG earlier. You know, I think that there's a lot more awareness about social causes, about consumers holding companies and retailers accountable for things like representation of different minority groups, women owned businesses. So I think that is going to stick. And I think that all companies and especially retail companies that are so close to the consumer need to stand for something and need to be clear about their values. And so that's one thing I think is going to stick with retailers and our relationship with them. You know, another thing that is definitely going to stick is technology. So technology was already growing within the retail space and with the real estate space before 2020. But you have an increase in demand for convenience and now you have an increase in demand for health and safety and hygiene within our real estate spaces. So I think we're going to see a lot more automation of things like checkouts, trying clothes on, trying makeup on, trying shoes on. So there's going to be a lot of automatization and technology that's leveraged to streamline and make the shopping experience just more efficient. So those are two of the big predictions I have for retail space.

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## **Spencer Levy**

Melina, I'm glad you brought up the automatic payments thing and use of anything but cash. One of the things that concerns me about the pandemic, we've certainly had a tremendous divide between the haves and the have nots before. And I think some of these technologies, such as credit cards or automatic payments, is just going to make the divide worse, because if you are at the lower end of the economic strata, you have less access to those types of things to do. Those types of things concern you, Melina?

## **Melina Cordero**

Absolutely. You know, and it goes back to we were talking about food deserts earlier. There's tremendous, you know, lack of equity and access to retail and access to different technology and payment systems. Absolutely. I think as well about places like China and South Korea, where, you know, digital payments have taken off at all income brackets. So I think that there are potential solutions there. But you're absolutely right. And it's something that we need to address as a business world is the haves and the have nots divide that we have.

## **Spencer Levy**

So, Brian, same question. Outlook, crystal ball how's COVID changed us. How has it changed mixed use retail. How was it changed placemaking?

## **Brian Taff**

I believe that people are going to want to get back to places and travel and gather probably more than they ever have. The question is they want to be able to do it in a way where it's thoughtful, you know, they feel safe and there's a purpose for why they're doing it. As I was talking about before, with choice, you can get anything delivered and like Melina. I you know, I do think there are some things that are going to stick technology as a big one. But I think technology, if it's done, writes invisible. And so it just works in the background and allows us to walk out of a store much faster with a product that we want. It allows us to pay and get up and leave whenever we want. So I think those things are going to be really important and technology will always continue to stay involved. I think pedestrian friendly is going to become more and more important so that people feel like they can be outside. And I think getting outside is another thing, you know, that we're going to rethink. We really haven't focused on it before. And then the last thing is you want these places that are destinations that's just, you know, a brand new place. You know why you're going you know what you're going to do there. You know what it's called when you tell people, let's meet it. You see Larimer Square, they know where to go. And I think the idea of how we activate these spaces, not just with retail or food, but other things that are going on, even the old sidewalk sales are going to be interesting things where you had to be there. You got to give them a reason to be there. And it can't be something, you know, they can get, you know, through an app. And so I think those are the things that we're going to focus on.

## **Spencer Levy**

Terry, same question to you. How was COVID changed us? How has it changed mixed use? How does it change the way you think?

## **Terry Brown**

I think the decentralization of the workforce, even within urban areas, is something that's not been mentioned. And I think that creates new retail opportunities and something that's not likely to change. But just to amplify things that the others have said, like, you know, retail has

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been part of the American dream for 200 years now. Two hundred and fifty, two hundred sixty years, a place where inequality is addressed because retail has offered the opportunity for people to have a dream, to live the dream, to work their way, to create a business, create a small business, create an opportunity to be their livelihood, to support their family and those kind of things. And I saw that during the pandemic, you saw innovation. You saw people forced to do things. You saw one generation really start to move away and out of the business. And you saw really a new young generation of retailers take advantage of technology, of innovation, creativity. And I think that really gives me a lot of hope for retail, especially retail, as it relates to mixed use going forward.

### **Spencer Levy**

Well, Terry, thank you. And I want to say on behalf of The Weekly Take, I want to thank our three terrific guests today, Terry Brown, partner, Asana Partners. Terry, thank you for joining us.

### **Terry Brown**

Thank you. Pleasure to be here.

### **Spencer Levy**

You were terrific. And two of my friends and colleagues, Brian Taff, CEO of Streetsense, and then, of course, Melina Cordero, managing director, retail capital markets. Thank you for joining us today.

### **Melina Cordero**

Well, thanks, Spencer.

### **Spencer Levy**

For more on today's topic and more info on our show, check out [CBRE.com/TheWeeklyTake](https://www.cbre.com/TheWeeklyTake). You can also find a forward looking report we recently published on the retail sector, the future hybrid store, integrating retail and logistics in an era of omni channel. We would also love to hear from you, so whether you found us on Apple podcast, Spotify or another platform, please subscribe and review us wherever you listen. Thank you for joining us. Until next time I'm Spencer Levy. Be smart. Be safe. Be well.