

# WESTERN REAL ESTATE BUSINESS™

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NEVADA

NORTHERN/SOUTHERN CALIFORNIA  
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## SOUTHWEST RETAIL UPDATE

**Arizona & New Mexico retail developers and investors — most like it hot, but all must pick their spots.**

Amy Bigley

The retail development markets of Arizona and New Mexico are still being fueled by new construction and large transactions. Developers are trying to tap into underserved areas through both ground-up construction and the repositioning of existing properties. Although consumer spending continues to boost the retail industry, companies have had to react to new market realities.

### ARIZONA

#### Downtown Phoenix

Scottsdale, Arizona-based RED Development has partnered with Naples, Florida-based Barron Collier

Company to develop CityScope, a mixed-use project located in the core of downtown Phoenix. Encompassing three city blocks in the Copper Square district, the development will feature 600,000 square feet of Class A office space, approximately 250,000 square feet of retail and restaurant space, two boutique hotels (TWELVE and Hotel Palomar) offering a total of 400 rooms, approximately 1,200 residential condominiums, approximately 65 for-rent apartments, approximately 100,000 square feet of open space including Patriot's Park and approximately 3,900 parking spaces.

Jason Bacon, vice president with RED Development, sites many rea-



De Rito Partners Development Inc. recently acquired Scottsdale Pavilions, a 1.1 million-square-foot retail center in Scottsdale, Arizona, for \$88 million.

sons for the development and interest in downtown Phoenix — an underserved retail market, Class A office vacancies at all-time lows, lack of hotel rooms to serve the new convention center, recent trends and desire for urban lifestyles, and downtown's significant daytime population.

With the first phase expected to open in 2009, the \$900 million project is set to bring new life to the downtown sector.

According to CoStar, the Valley's retail market is more than 137 million square feet and by comparison the existing retail product in downtown Phoenix is very small, nearly 450,000 square feet.



CityScope in downtown Phoenix will include 250,000 square feet of retail.

"The trend prompting retail growth is residential development, which is currently on the rise in downtown Phoenix," explains Rick Murphy, senior vice president at CB Richard Ellis' Phoenix office. The attraction of

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### OPINION COLUMN

## GOOD INTENTIONS, NOT ENOUGH TEETH

**Los Angeles' new green building ordinance is not nearly forceful enough to truly effect change. Similar legislation elsewhere in the West can — and should — do better.**

Randy Shortridge

SEE L.A. GREEN, PAGE 40

## ROCKY PATH TO OPPORTUNITY

**Activity still abounds in the Rocky Mountain states.**

Brian A. Lee

Both Colorado and Utah feature some rugged, difficult terrain, but judging by the development and investment activity in and around Denver and Salt Lake City, real estate players are enjoying the views. *Western Real Estate Business* recently checked on trail conditions in the Rocky Mountain states.

entering the market as well as existing retailers expanding," he says. "Although new development has somewhat slowed in the outlying growth areas, we are seeing a good deal of development/redevelopment activity in infill locations."

For instance, Miller Weingarten Realty has multiple redevelopment projects going on in the Denver metro area. When it opens this spring, River Point at Sheridan will include major tenants such as SuperTarget, Costco, JC Penney and Regal Cinema. The result of a dynamic brownfield urban-renewal project adjacent to the South Platte River in the Mile High City's south metro area, the 135-acre property will consist of an outdoor collection of major retailers, shops, dining and

SEE ROCKY MTNS., PAGE 40

### COLORADO

#### • Retail

Despite the challenges related to the current housing market downturn, Colorado's retail market remains relatively strong, says Joe David, partner at Greenwood Village, Colorado-based David, Hicks & Lampert Brokerage (DHLB).

"We continue to see new retailers



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## SOUTHWEST RETAIL UPDATE

### SW RETAIL from page 1

living in an urban setting has grown significantly in recent years, resulting in a mini-boom in development of downtown lofts, condominiums, apartments and other types of housing. "As more residents move into the downtown area, the critical mass needed to support sales revenue will occur, attracting further retailers to this submarket," Murphy says.

CityScape is looking to tap into this new market by offering a wide variety of residential, commercial, retail and office opportunities. The development is positioned to serve the new Arizona State University Downtown Campus, the newly renovated Phoenix Convention Center, the US Airways Center, Chase Field, numerous theatres, attractions and new developments as well as the growing daytime population.

The live-work-play concept has led to a shift toward mixed-use development in the market, notes Murphy, with the 2.5 million-square-foot CityScape project being the largest project in downtown Phoenix in more than 6 years.

As residential development begins to slow in the Valley's peripheral areas, retailers have started a flight to infill, which is causing some rental growth in the Valley's central areas, explains Murphy. "Downtown Phoenix, which currently lacks the population density to support a vibrant retail market, still has a way to go before it can benefit from this trend; however, with the growth of urban living and projects like CityScape well underway, the critical mass that is needed is slowly building."

### Valley of the Sun

Retail development and redevelopment is also on the rise in metro Phoenix and surrounding cities, with notable projects and transactions such as CityNorth, De Rito Partners Development Inc.'s acquisition of Scottsdale Pavilions, Barclay's Salt River Commons in Scottsdale and the development of Baseline Marketplace in Mesa, Arizona.

Being developed by Related Urban and Thomas J. Klutznick Company, the 144-acre CityNorth project will feature 1.25 million square feet of retail space, gourmet dining options, a residential and business community and a five-star hotel.

Related Urban is currently developing the urban core of the project, CityCenter of CityNorth. The core will encompass three neighborhoods in Phoenix's Northeast Valley: High Street, The Boulevard and 54<sup>th</sup> Street. When complete in October, High Street will offer 190,000 square feet of retail space. Completion for the second phase, which includes The Boulevard, is slated for November 2009. With a build out of more than \$2 billion, the entire CityNorth is scheduled for completion in 2011 or 2012.

"Infill new development is holding much steadier than new development in less mature outlying submarkets — that's the geographic shift," says Frank Demeter, principal with Boulders Realty Advisors in Scottsdale. "Developers are also shifting towards mixed-use projects, despite some softness in the office and residential markets."

CityNorth will add great weight to the Valley's mixed-use momentum by offering a wide variety of opportunities for residents, daytime customers and employees.

The confluence of affluent demographics, sustained job growth and regional access created an optimal development situation. "The synergy of those three factors made it a perfect opportunity to introduce the Related Urban brand to this market," says Webber Hudson, executive vice president of Related Urban.

Hudson explains that with CityNorth the companies are developing a 5.5 million-square-foot city, which will serve as the urban core of the area. CityCenter of CityNorth will comprise multiple districts, each with its own distinct lifestyle quality and aesthetic. "We are not 'building making', we are 'place making' — [by designing the project] with open public spaces, great architecture, a relevant retail and restaurant mix as well as landscaping designed to reflect and enhance the natural environment," says Hudson.

Demeter and his fellow Boulders Realty Advisors principal Jim Zemezouak have noticed a general slowdown and refocusing in development.

"On the development side, the industry still seems to be zeroed in on upscale, pedestrian-friendly malls, explains Zemezouak. "The upscale trend isn't necessarily being mimicked at the consumer level, where shoppers appear to be in a retrenching mode, protecting more of their disposable incomes."

Demeter also notes that in response to slack consumer confidence and persistently high costs, retail developers are pushing back development timelines, particularly in non-infill locations. Developers are also finding fewer attractive financing options, which can also lead to project delays.

Another interesting retail trend involves leasing and investment opportunities in the market.

Zemezouak explains that the Arizona market is currently tough for 'mom & pops' businesses that cannot afford space in more advantageous projects. Because of this, investors need to pay special attention to the likelihood of finding tenants to fill vacancies that are capable of paying pro forma rents.

Demeter elaborates on this trend. "The larger anchors and sub-anchors are being choosier in the projects they'll consider; they're also pushing back timelines expansions." Leasing activity has slowed because smaller tenants are buckling under the weight of the high rents, which are needed to sustain high-profile projects.

Demand is still hot though for retail properties in the Valley of the Sun. About 15 miles east of Phoenix, De Rito Partners Development Inc. recently acquired Scottsdale Pavilion, a 1.1 million-square-foot retail power center in Scottsdale, from Spire North LLC and Spire South LLC for \$88 million.

"Given the scarcity of land in the [Scottsdale] market and rising construction costs, the acquisition represents an outstanding investment [for the company]," says Chuck Carlise, president of De Rito Partners Development Inc.

With the local retail sector still going strong and the center's prime location along Freeway 101, the acquisition was an easy decision for the Phoenix-based company. De Rito was able to buy the center for approximately half of what it would cost to build it today, notes Carlise.

Working with the Salt River Pima-Maricopa Indian Community, De Rito Partners plans to invest more than \$25 million into renovations for the center. The company also plans to add 150,000 square feet of commercial space to make Scottsdale Pavilions

into a true community destination.

Also in Scottsdale, Barclay Group is developing Salt River Commons, a retail power center located at the corner of Pima Road and Via de Ventura. The center will be anchored by a 185,000-square-foot SuperTarget, which is relocating from its Scottsdale Pavilion location. Slated to break ground this fall, the 400,000-square-foot power center will encompass nearly 40 acres of the Salt River Pima-Maricopa Indian Community. The Scottsdale-based company has partnered with Vertical Holdings and VDG LLC to develop the project, which is scheduled to open 2009.

Further east in Mesa, Scottsdale-based Glimcher Ventures Southwest will start development of Baseline Marketplace this spring. Situated at the corner of Loop 202 San Tan Freeway and Baseline Road, the \$100 million project will offer retail shops, restaurants and office space. Slated for completion in 2009, the center will also offer a 350-unit multifamily residential component, which will be built by Trillium Development.

### Tucson

By hitting the 1 million-population mark in 2007, Tucson has been propelled into the limelight for regional and national retailers. This growth has generated a great deal of interest in the city and its environs.

"In addition to new operators, many national retailers and restaurants already in the marketplace are looking at expansion within the Tucson metropolitan area," says Nancy McClure, first vice president with CB Richard Ellis' Tucson office.

McClure explains that as the Tucson housing market began to slow due to the credit crunch, many retailers began to re-evaluate expansion plans and refocused on Tucson's central core, where population density can support revenue sales.

In the central core, the focus continues on the redevelopment of existing centers in viable locations. Currently undergoing a major re-tenanting and redevelopment from an early 1960s mall to a super power-type center in the heart of Tucson, El Con Mall is a perfect example of this trend.

"Centers like [El Con Mall] allow retailers to come into a trade area and enjoy 'here and now' sales from densely populated, high-traffic areas," says McClure. "Older, obsolete properties are being demolished to make way to newer trends, revitalizing retail hubs and generating sale tax revenues for the municipality."



CityNorth, a 144-acre project in Phoenix, will feature 1.25 million square feet of retail space.

Tucson has seen more and more development happening along the market's two major freeways, Interstate 10 and 17. Previously looked at by only industrial and warehouse users, motels, and travel services, the many retail centers and other commercial-based properties are popping up along the freeways to serve the markets' expanding residential area.

Two such developments are Arizona Pavilions, located at I-10 and Cortaro Farms Road, and Tucson Spectrum, which is located at I-19 and Irvington Road. Arizona Pavilions thrives by serving the northwest quadrant of Tucson and beyond to the rural communities, while retailers at Tucson Spectrum have been so successful that a second phase is currently under construction.

Eastbourne Investments Ltd. will develop The Bridges, a 1 million-square-foot retail center located at I-10 and Kino Boulevard. Anchored by a Wal-Mart Supercenter, the project will provide neighborhood, lifestyle and entertainment components to the underserved Tucson market.

Although Tucson is seeing the same cautionary leasing and investment

trends as the Phoenix area, McClure notes that the Tucson's economy has a solid foundation. "The fundamentals of a diverse economic market in Tucson are here, and, with that, Tucson's economic slowdown is expected to be shallower and more condensed than what other parts of the nation might experience."

As retail follows rooftops, local, regional and national developers are still trying to catch up with Tucson's residential explosion. Westcor, a Macerich company, has announced plans for two major regional malls in northwest and southeast Tucson; Vestar is currently developing Oro Valley at Tangerine and Oracle roads, with plans for a second project within the University of Arizona Science and Technology Park; Barclay Group is constructing the second phase of Tucson Spectrum and is pre-leasing its planned 1.3 million-square-foot Marana Spectrum project; and Donahue Schriber is developing a Wal-Mart-anchored center at Ajo Way and Kinney Road, with plans for a second development on the city's southeast side. Additionally, local developers Larsen Baker, Bourn Development,

Barclay Group's 1.3 million-square-foot Marana Spectrum in Tucson, Arizona



Cottonwood Properties and Red Point Development all have numerous Tucson projects in the pipeline.

## NEW MEXICO

The Albuquerque area is seeing a lot of development in the South Valley and Southwest Mesa markets, with three big power centers coming online this year in the suburban trade areas.


"This is in response to the healthy residential growth seen in the northwest and southwest quadrants," explains Steve Maestas, managing partner with Albuquerque-based Maestas & Ward Commercial Real Estate. The combination of the new power centers and the repositioning of Winrock, an Albuquerque regional mall, will bring approximately 2.2 million square feet of retail space to the market.

Due east of Albuquerque, Liberty Development Group LLC is currently developing Liberty Square, a 43-acre commercial center located in the heart of Edgewood, New Mexico. The project, which is divided into two phases, is slated to include a 16-acre commercial development and a 13-acre upscale residential park. Liberty Square North will feature 160,000 square feet of commercial space including an eight-screen movie theater, a hotel, a restaurant, a bank and a large retail center. Liberty Square South will consist of approximately 120,000 square feet, including two restaurants and two retail business centers.


Although leasing activity has cooled in New Mexico, retail activity is still the most profitable in the market. Positive job growth, with a 3.5 percent unemployment rate, is keeping retail activity in Albuquerque strong as local business are continuing to expand.

Maestas and RBI president Neil Wachsberger both cite Las Cruces as the market to watch for future retail development. "It is affordable, under stored, has a great quality of life and is growing," says Maestas. □





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