March 22, 2015 North I-25 Business Association Meeting

Featured speaker: Josh Skarsgard

**“Retail and Restaurant Real Estate Development in New Mexico”**

At the March 22 meeting, Josh Skarsgard provided a humorous and informative look at the retail and restaurant real estate development process in Albuquerque and other New Mexico locations. Here are the highlights:

To solve the challenges of poor economic climate, must “match the demographic”

Retail has a positive effect on economic development

Creating jobs in construction and in stores

Money multiplier effect

Urban infill and redevelopment mean a better built environment

More options in retail and restaurants

Albuquerque is an underserved retail market

This is why restaurants want to come here

We are a good market for “higher end fast casual food”

Case in point, Chick-Fil-A. Though their menu runs about $1.50 higher than McDonalds, Chick-Fil-A has seen success in our market.

Retail development is substantially different from multi-family or industrial development.

Types of retail development strategies:

 “Fish on the hook” development – tenant in tow.

 Build to suit/turnkey

 Ground lease – the best, in his opinion. Triple Net (NNN) ground leases are gold.

 Flip – must hold for 1 year and 1 day for long-term capital gains treatment

 Land development

 Perilous with lots of possible, unpredictable issues

‘I am addicted,” said Josh. I see every corner as a retail opportunity!”

Cap rates are important in valuing retail opportunity.

Cap rate = Annual Net Operating Income divided by Sale of Real Estate (Value)

Cap rates are at an all-time low.

Perception of risk affects the ground lease; the higher the risk, the higher the cap rate will be.

Fast food ground leases are great. Says Skarsgard “If there were nuclear war, there would be hamburgers!”

His world – Roles of a Retail Developer

Political, banker, lawyer, psychologist, mediator,

Must use honey, not vinegar to be successful. He says, “Love ‘em, hug ‘em, don’t fight with them!”

To be successful, the developer must know the retailer, their goals, and their customers.

Rule of thumb: McDonald’s customers are WalMart shoppers; Chick-Fil-A customers are Target shoppers. Moms of young kids tend to prefer Chick-Fil-A as a healthier option because of their 100% refined peanut oil use.

Chick-Fil-A has 1800 locations in the US; New Mexico is their #1 target market west of the Mississippi.

Chain restaurants set requirements for their sites. Some examples:

Starbucks requires that there be no premium coffee within a mile of their location

Panera Bread- soup exclusive in their area

Beware of entitlements

Sector development with design regulations plans are killer; they make for odd requirements. These can mean landscaping requirements or shielding of traffic or the menu board from the neighborhood.

His perspective on other locations in the state:
Santa Fe is “ridiculously underserved in retail,” but restaurants often don’t want to deal with their restrictions –“wet” water being one

Roswell is very business friendly – he was told “Just build it, son!”

“DollarTree is as if 7-11 made love to WalMart” or “convenience meets value.”

WalMart is losing market share to stores like DollarTree, to the extent that WalMart is considering opening its own version of these “Dollar” stores, or buying up some of them.

“Fast casual (dining) is the future,” said Skarsgard.

Assessing local sub-markets, Skarsgard said:

1. Uptown is ground zero – considered most desirable for retail.

2. Cottonwood – a strong contender

3. Paseo area