

TIA and Branding

SAN DIEGO'S POPULATION IS PREDICTED TO INCREASE BY MORE THAN **25%** IN THE NEXT 40 YEARS!



That is a lot of people needing goods and services. The mixed use concept of blending retail with residential, commercial and entertainment uses, is one of the more important platforms to meet the live-work-shop strategies for the future. In some ways this is a new frontier for a lot of retail, especially with food, haircutters, dental, medical and other services. Adapting to the mixed-use evolution is critical for many retailers and retail developers. The marketplace and environment is becoming increasingly dense and urbanized and conversely retail under the circumstances will have to adapt in some areas to less centralized real estate.

Retail is currently in a major renaissance period. The whole doom and gloom about ecommerce being the end of retail, as we know it, is essentially a lot of media hype. While ecommerce has admittedly taken a significant bite out of the "commodity" side of the retail pie, the vast majority of sales are still out of physical stores. Commodity sales are continuing to gravitate to ecommerce...as makes sense. However, in no way does that mean that retail GLA is going to decrease. While retail is of course evolving as it needs to, it is also going to be increasing GLA just to keep up with the growing population of San Diego.

The primary focus of the evolution is the transformation of the "experience"... which can best be done in the "physical" space. Granted, this has been a growing mindset of the industry for a while now. Over the course of the last decade, the evolution in retail real estate has been dramatic. All of the major mall and even daily needs developers have embraced the Entertainment/Experience concept with an extremely dedicated mind-set. They realized just as this decade was beginning that their individual survival depended on it.

While the retail industry continues to trend towards a greater focus on providing an enhanced experience for shoppers, the residential and office developers were somewhat late to the game. That said, they are catching up fast. Retail is no longer essentially an afterthought for the residential/office developer, but instead a sought after partner in creating the "experience" for the potential renter. It is often a critical part of the sales pitch.

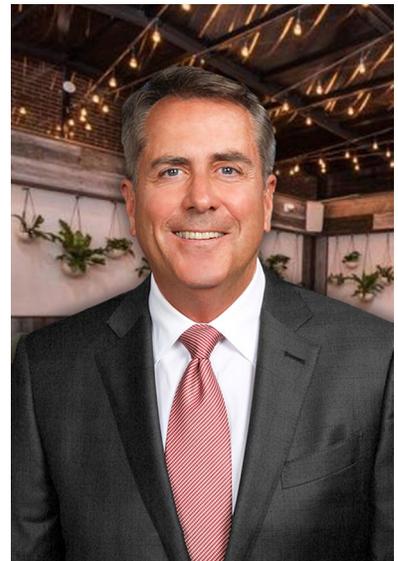
In the past, the residential/office was where the money was and the allocation of retail space was just something that had to be incorporated to placate the Cities. However, there is a quiet revolution happening in the retail component of mixed use and the Landlords are often now pushing the retailer to participate in the overall Branding of the project. And this can be an added and previously unexpected expense for the Retail Tenant.

As an example, it is conceivable that an area like North Park on El Cajon Boulevard between Park Boulevard and I-805, could end up accommodating all the usual Daily Needs Retail; from the Grocer and Drug to all the normal food and services. However, it will all be spread out along the first floor of what will become predominately mixed-use development.



The whole mixed-use surge is a real opportunity for some retailers and restaurants. However, it can be challenging to adjust their brand to the circumstances. It is expensive to customize and many of the mixed-use developers are demanding a greater say in the presentation of the Retailer's Brand, which is why the tenant improvement allowances ("TIA") has to be taken into account earlier in the Letter of Intent. Historically, the economics and especially the TIA were usually negotiated before the issue of signage and/or interior design was addressed. However, the need to change that timeline is the reality of the new Branding with many mixed-use projects.

As San Diego's population grows and mixed use projects are designed for diverse functions and needs; communities will continue to benefit by the synergy of live-work-shop. However, in the past, while there may have been a requirement in the lease that the Landlord had approval rights on the signage, it was seldom if ever demanded for the interior. I believe this is going to be a more common point in lease negotiations going forward. The challenge of how to blend diverse brands into essentially a singular Brand statement will be an increasingly relevant issue.



Kevin Cassidy
Senior Vice President
kcassidy@flockeavoyer.com

