

Rocky Mountain News (CO)

August 5, 1996 Section: Business Edition: Final Page Number: 1B

SUPERSTORE SLUGFEST AT NEW MALL RASH OF POWER CENTERS BY PARK MEADOWS MEANS LOW PRICES FOR SHOPPERS, BUT WILL THEY ALL SURVIVE?

Michele Conklin

Rocky Mountain News Staff Writer

The best bargains in town soon will be found in the stores outside Park Meadows mall.

But shoppers better get there while the going is good because many of the deals - and the stores offering them - may not be there long.

More than 60 stores - including the big players in several categories - are set to open within the next year along the County Line corridor outside the new mall. That saturation will mean intense competition between the stores, quickly leading to low, low prices.

That's good news for shoppers - at least for those who can stomach the traffic hassles that are expected to come with the development of more than 2.5 million square feet of retailing space within a 3-mile radius of the mall.

``Tell the consumers of Denver to enjoy the slugfest," said Kurt Barnard, editor of Barnard's Retail Marketing Report and a well-known national retail consultant.

Power centers - shopping centers that feature warehouse-size stores - typically locate around regional malls because of their accessible location and drawing power. It's no different at Park Meadows, where three centers are being built on the mall's borders and a half dozen stretch down County Line.

What's different, however, is the saturation in particular segments. Five major players in consumer electronics, five in the home accessories, two book superstores and handfuls more in other categories will duke it out.

This is the only place in the metro Denver area that will experience this phenomenon, local retail experts said.

``You've got to ask yourself how many sets of sheets are needed in the marketplace," said Mark Goldberg, the developer of the Wal-Mart-anchored center at C-470 and South Colorado Boulevard.

Goldberg worries about the Home Express that opened in his center last fall. Pacific Linen already operates down the road, while Bed, Bath & Beyond, Linens & Things and HomePlace are set to open outside the mall. Home Express, which recently filed for bankruptcy protection, is considered vulnerable in its segment.

``Home Express is not the strongest," Goldberg said. ``The C-470 store is a good one, but the company is feeling the weight of the number of stores in that category."

Pacific Linen also has filed for bankruptcy protection and recently closed its Cherry Creek store as part of that effort. While its County Line store is hanging on, it suffers from poor visibility in the back of the Willow Creek Center.

HomePlace, still a private company, has yet to make money.

How much retail is too much?

Even without adding Park Meadows and these centers to the mix, Colorado ranks seventh in the nation for the amount of retail space compared to the population. In 1995, the state had nearly 24 square feet of retail space for every resident, according to industry studies.

Some consumers question whether the metro area is overbuilt and in store for a major shakeout, similar to the office building collapse in the 1980s. But developers and real estate brokers say there is no need to worry.

The retail vacancy rate in the metro area is just 6%, said Mary Beth Jenkins, a retail expert with Denver-based Laramie Co. A rate double that indicates trouble, she said.

Additionally, lenders have changed their investment criteria. Developers must have at least 40% of their projects pre-leased by national companies with healthy balance sheets. Lenders also are requiring the developers to put up as much as 20% of their own money before financing the remainder.

``Lenders have gotten smart," said Ed Wulfe, a Houston developer who has seen the power center war waging there for years. ``Deals are being done with little speculative (empty) space and a high equity requirement, so a lot of things that happened in the '80s shouldn't happen again."

Category killers consolidating

Still, what occurs around Park Meadows will depend more on the national retail scene. While a single store may thrive in the booming Douglas County area, the parent corporation could be ailing and eventually fold. That scenario was played out earlier this year when Michigan-based Fretter went under and took metro area Fred Schmid stores with it.

Retail analysts say that consolidation of category killers, the stores that specialize in one type of merchandise, will continue into the next decade. Home accessories and consumer electronics are two areas likely to be hit.

``If you've got two or three companies in the same category, you're probably OK," said Thomas Mathews, a real estate broker for the Denver office of CB Commercial. ``It's when you start getting four to six deep that you start having some problems."

The deciding factor over who lives and who dies will be the balance sheet, Barnard said. That's particularly true in the Park Meadows area because of the saturation of retailers.

``When there is competition in the marketplace, it becomes a slugfest of price promotion," Barnard said.

A company's balance sheet is important because when stores are competing on price, profit margins shrink. The stronger the company, the more it is able to weather slim margins as well as continue lowering prices. In some cases, stores will sell some products for less than they bought them simply to shore up market share.

At the same time the stores around Park Meadows are lowering their prices and reducing their profit margins, they're dealing with higher expenses than normal because of inflated rent prices and wages.

Some stores outside the mall paid as much as \$15 a square foot in rent, one of the highest rates in the metro area.

One store that might be the first to feel the squeeze is Tandy-owned Incredible Universe. This mega-sized consumer electronics store opened in May 1995 and is said to be the best performing in Tandy's 16-store chain.

But it hasn't had much competition.

Best Buy will open next month on a hill just above Incredible Universe and facing the state's first Nordstrom. CompUSA will open next door the month after, and SoundTrack will open across the street from the mall in March. Circuit City, meanwhile, opened last fall just 2 miles

down the road.

Consumers who may have shopped at one or two consumer electronics stores in the past now will be able to comparison shop at these five stores in just minutes.

``The consumer is the real winner; they're going to love it," Goldberg said.

The Incredible Universe concept, backed by Fort Worth-based Tandy, has yet to make money. Earlier this year, Tandy announced plans to close two stores and is considering leasing part of the stores to other companies.

New concepts replace old ones

So what will happen when some stores go under?

Will the upscale Park Meadows retail resort be surrounded by boarded-up big boxes?

It's unlikely, at least for the time being, retail experts say. Plenty of other stores are in the wings. Concepts that are just starting to be expanded include supersize wedding stores, gardening shops, communications concepts and learning stores.

``Never say die to the power centers," Jenkins said. ``As long as they offer the value, people will deal with the inconveniences."

Jenkins does question the long-term viability of these stores. If smaller stores that are easier to get in and out of and have better service can find a way to offer selection and low prices, big boxes will disappear, she predicted.

An analyst who believes many stores are drawing their last breath is Gary Wright, a Denver-based retail consultant. Supersized discount stores became popular in the 1970s and 1980s when the population of young adults - consumers that need lots but have little to spend - was expanding.

Now the population is aging and looking to replace items with higher quality goods, Wright said. Evidence of this trend has already shown up. Stores that were superstars in the past decade, such as Toys `R` Us and Wal-Mart, have dropped from 35% annual growth rates 15 years ago to about 6% in the past five years, he said.

``If you extrapolate those growth rates, you run into negative numbers," he said. ``The big box retailer is not going to disappear, but it's not the be-all and end-all that people think."

INFOBOX

PARK MEADOWS POWER CENTERS

ZELMAN RETAIL PARTNERS

Best Buy opens (9/96)

Opening: CompUSA, Famous Footwear, Lil' Things, Linen & Things (10-12/96).

Container Store, Petsmart (3/97)

Vacancy: 26,000 square feet.

WESTBROOK DEVELOPMENT CO.

Opening: IMAX Theater plus 100,000 square feet of retail space available as part of planned entertainment district featuring ice rinks mountain biking trails and rock climbing gym.

KITCHELL DEVELOPMENT/WESTBROOK DEVELOPMENT

Incredible Universe open

Opening: Home Depot Bed Bath & Beyond(10/96)

Vacancy: 90,000 sq. ft. with letters of intent from mostly small tenants including a 6,000 sq. ft. contemporary furniture store.

ZELMAN RETAIL PARTNERS

Circuit City open

Open: On the Border

Vacancy: One restaurant pad.

GOLDBERG PROPERTY ASSOCIATES

Wal-Mart open

Open: HomeBase, Home Express Media Play Pets USA

Vacancy: None

DPC DEVELOPMENT

Open: Hobby Lobby, Steinmart, Aspen Mills Bread Co., BankOne, Boston Market, CPI Photo, Dairy Queen, Family Bookstores, Great Clips, GNC, Goodyear, Mattress Firm, Pak Mail, Paradise Cleaners, Subway Total Petroleum, Wallpaper Warehouse, Walgreens.

Vacancy: None

WILLOW CREEK CENTER

Pacific Linen open

Open: Carpet Exchange, Family Fitness, MotoPhoto, Safeway

Vacancy: None

MARLEX DEVELOPMENT

Opening: Barnes & Noble/Starbucks, Colorado Elk and Antler, Pier One Imports, Ultra 3 (10/96). A&A Luggage Chipotle Cucina Cucina Einsteins Bagels, Juice Stop, Kinko's Mulligans Golf, One Art USA, One Hour Optical (11/96)

Vacancy: None

OPUS DEVELOPMENT/KOELBEL & CO.

Toys 'R' Us open

Opening: American Furniture Warehouse, Borders Books, Jared Galleria of Jewelry (11/96).

Hallmark Showcase, HomePlace, J. Alexander's, Just for Feet, PetCo. (1-3/97) Park Promenade including Antoine Du Chez, Christy Sprots, International Optique, Larry's Shoes, Pour La France Regiment Shops, Rock Bottom Brewery (6-7/97)

Vacancy: 80,000 square feet of large-store space, 20,000 square feet of small store space.

THE HAHN COMPANY

Opening: Champps Americana, Crocodile Cafe, P.F. Chang (Fall/96).

Vacancy: One restaurant pad and 8,000 square feet of small store space.

One parcel of land taken by First Bank. Hahn in negotiations with six other tenants, including a hotel.

Vacancy: Two one-acre parcels remain.

Graphic: Joe Wagner / Rocky Mountain News