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Investors find value in old centers that serve neighbors

by John Rebchook

Drive anywhere around the Denver metro area and you will see small, unanchored shopping centers that serve the surrounding neighborhood.

While these strip centers may not have the national tenants and high profile of bigger and flashier centers, some of them have served nearby rooftops for decades.

Steve Peckar of J&B Building Co. represents a local group that covets those kinds of centers.

The investors recently created Lakewood Garrison LLC to purchase the 44,405-square-foot Meadowlark Shopping Center at West Sixth Avenue and Garrison Street in Lakewood.

The sales price of \$4.15 million equates to \$93.46 per sf, far below the replacement cost for the center that initially was constructed in 1956, 13 years before Lakewood was even incorporated as a city.

The seller was Meadowlark Hills LLC.

"I represented a group that was kind of doing a 1031 exchange," Peckar said.

"They really like these older, in-town retail centers that serve local neighborhoods."

While the center has no national names as tenants, more than 40 percent of the retailers have been there for at least 10 years and more than 20 percent of them had been there for at least 20 years, according to Mark Lippitt, a principal and founder of Unique Properties LLC-TCN



Meadowlark is at West Sixth Avenue and Garrison Street in Lakewood.

Worldwide, who listed the property for the seller.

"One of the appeals is that we see very little downside" to owning it, given the purchase price and the track record of the tenants, Peckar said.

There are a total of 14 tenants in the center, ranging in size from a 454-sf barbershop to a 7,441-sf dog training center. The Credit Union of Colorado takes 4,220 sf.

"It has your typical, neighborhood uses," Peckar said. J&B Building Co. will manage Meadowlark for its new owners.

The center is about 78 percent leased.

"It's really a great value-add opportunity in our opinion," Peckar said.

Not every investor is drawn to these kinds of centers, he said.

"I think it takes a certain kind of investor to want a property like this," Peckar said.

However, they can be great investments, if the buyers and

managers know what they are doing, he said.

"Generally speaking, one of the nice things is that these kinds of properties are not overpriced," Peckar said.

"I think the market for the bigger centers with national names is a bit overheated," he said.

"You can purchase these types of centers at a bit higher cap rate. I think the cap rate on this deal is about 8 percent, while we are still seeing the newer centers anchored by national tenants selling in the low to mid-6s."

He said the group purchased the center at a huge discount to the replacement cost.

"If you were building this center from the ground up and you owned the land, I'm guessing your cost would be \$150 per square foot," Peckar said.

Lippitt said the seller had owned it for a bit more than a year.

"It was a quick sale," Lippitt said. "From start to finish,

I would say it was a 30-day purchase."

The seller had purchased it from a family group that sold it because of health issues in their family, he said.

"They made a fair profit on the deal" when they sold it to Lakewood Garrison LLC, he said.

"Before they sold it, they had improved it, retenanting some of the space, gave it a facelift and generally enhanced it," Lippitt said.

The new owner will bring it to the next level, he said.

"My sellers took it up a notch, and Steve Peckar's buyers will take it up another notch. It still has another notch to go," Lippitt said.

The deal could not have gone smoother, he said.

"Everyone involved in the transaction was a perfect gentleman," he said.

Lippitt agreed with Peckar that neighborhood centers such as Meadowlark are still attractive to some buyers, even as newer, glitzier developments have been constructed throughout the metro area.

"It's interesting," Lippitt said. "Even as demand is going up for the larger shopping centers and the big-box centers, there is still interest in these smaller centers. These aren't destination centers that draw from a large geographic area. To me, they are the last of these freestanding retail centers that serve the surrounding community. That's kind of neat."▲