



channel mastery

Channel Mastery Podcast, Episode #98: Kristin Carpenter Interviews
Mark Falcone, founder and CEO of Continuum Partners

www.channelmastery.com/98

Kristin: Welcome back everybody to another episode of the Channel Mastery podcast. I have a very special guest on the podcast today. I'd like to introduce you to Mark Falcone of Continuum Partners. Welcome to the show, Mark.

Mark Falcone: Thank you, Kristin. I'm delighted to be participating.

Kristin: This is a first for me in over two years of doing the Channel Mastery podcast. I actually have not had the pleasure of hosting somebody who is, in my opinion, a retail real estate development expert. So I know that's a lofty title. You have many facets to your role at Continuum and such an interesting background. Can we start by having you walk our audience through kind of the trajectory of your career? You know, what Continuum stands for, how it's differentiated and then we'll go into some trends in retail real estate.

Mark Falcone: Sure. Continuum Partners is a Denver-based real estate development company that was established in 1997. I moved here from upstate New York to really form a ground up new kinds of real estate development enterprise that really was trying to do a better job of aligning our projects with the perspective and the philosophy I had about what the real needs and threats were to the ecology that we constantly intervene on when we build the human habitat. So, we think of ourselves as human ecologists. You know, we are fundamentally in the business of building and manufacturing the human habitat. And so what we tried to do was create a set of values and a set of guiding principles that we would reflect on in every project that we attempted.

Mark Falcone: Over the years it's now been over 20 years, we really had the opportunity to be involved in a really unique and diverse set of kinds of projects. And in many cases our projects have really broken ground on new, more progressive ways of approaching the built environment. Some examples of that would be in the early 2000s we redeveloped a shopping mall in the western suburbs of Colorado called Villa Italia. And Villa Italia was built in 1965, and the day it was opened, it hosted customers from 13 different states. Literally one of the most successful enclosed shopping malls in the country. And it was owned by the Equitable Life Insurance Company. And from a real estate investment standpoint, it was enormously successful. But by about 1995 only 30 years later, that mall was losing its vitality at a rapid clip.

Mark Falcone: And you know, in the late '90s the city approached us about potentially working with them on a repositioning of this property and I'll bore you the details. But after a couple of year process, we ended up in ownership of the mall and began a process to reevaluate this significant piece of commercial infrastructure. The human ecology and human habitat is not that different from other species.

Mark Falcone: So the problem with this mall was that it was a monoculture, right? It was this very single purpose property that was organized around the fundamental value thesis that it had a unique tenant mix that created together, all of these tenants together, created a compelling purpose of trip that would draw people to it. Well, unfortunately, the way these malls were designed, you know, the tenants, especially the department stores, have very long term control over the real estate. So fast forward 30 years later and Montgomery Ward and JC Penny no longer have the kind of excitement of offering that they might have had in 1965. And so, gradually the tenants that were in the mall, this combination of synergistic users that together created this compelling appeal, didn't have that anymore.

Mark Falcone: And so suddenly you've got this 100 acre piece of land in the heart of this city of Lakewood that is now not just declining in value, but sucking value out of all of the neighborhoods around it. And so, you know, you basically had a catastrophic decline in value in the same way that if you have, say, a park that's only filled with a single tree and a blight comes along, all of those trees are wiped out all together at the same time in a relatively short period of time. So fundamentally what we looked at is we said, "Look, this is the commercial, civic, cultural center of this city. It needs to have a broad, diverse set of activities that we'll give it resilience and that will allow it to be relevant regardless of what might be happening in any particular trend or product cycle with any particular activity. And it really needs to be walkable and built around the scale." I used to say about 150 pounds of flesh and water as opposed to 3000 pounds of steel and highly explosive fuels.

Kristin: Awesome.

Mark Falcone: So we were able to completely reconceive of this 100 acres. We were able to break it up into 30 city blocks. We were able to take the street grids, which came to a halt on the perimeter of this Battleship Galactica kind of building and we were able to reconnect those streets through this 100 acres. It's a little bit like a wildlife corridor. You know, when you build a highway across a piece of the landscape. And afterwards we gradually figure out, "Wow, we've cut off the migratory path of a lot of these animals. So we've gotten in the business now of building these underground tunnels or these walkways so that the animals can actually migrate across this barrier.

Kristin: Interesting.

Mark Falcone: Yeah. So we effectively did the same thing there. And so Belmar, which is what it's known as today, is about 2.5 million square feet of development. It's an incredibly diverse dynamic neighborhood. It's got everything from affordable

senior housing in it to high end luxury town homes, to almost a million square feet of retail distributed. And you know, everything from a Target to a Whole Foods to restaurants, a movie theater. It's got just shy of a half a million square feet of office space. And it's got an incredibly diverse offering of housing. And so this is a place that now has so much more resilience and so, and we'll be able to be relevant a hundred years from now. Believe me, it was not easy knocking down that mall because when you understand the embedded energy and the embedded resource that was in that had to be obliterated, we got to be able to build in a more durable, sustainable way than that. Now, the good news is we were able to recycle 95% of that material, but it still was a massive amount of energy that was completely redeployed. So anyway, today that Belmar project is a really interesting community. And again, we've had the privilege of being involved in a whole variety of other groundbreaking kinds of projects like that.

Kristin: Well, and I also wanted to just ask a couple of questions around that and I think this might tie into some of the broader retail trends and retail landscape that I was hoping to tap into you for in terms of your experience. So it sounds to me like you have a mixed use that really does have kind of those quote "anchor stores" that a development would kill for like a Whole Foods, et cetera. Was the cart in front of the horse? Were you able to get Whole Foods in there or did the actual mixed use residential and business need to go first? You know what I mean? Like how did you actually get them in with this struggling Lakewood mall before it became Belmar? Or did they come in when it was Belmar? I'm just curious about kind of the timing of all of that.

Mark Falcone: Yeah, we had to kind of create Belmar first. So we literally vacated all of the remaining tenants. We knocked it down. And then, the first phase of development included just shy of a million square feet. And it was a couple hundred apartment units and then a, a fair amount of retail. And we did have some of the larger format retail on that first phase. We had a big 60,000 square foot movie 12-plex movie house. We had a Linens 'n Things. We had a DSW Shoe. We had a Staples, but we also had a lot of small shop retail and we had some office above as well. Actually, we also had a Galleons in that first phase.

Kristin: Oh, interesting. [crosstalk 00:10:10].

Mark Falcone: Yeah, a big two-story Galleons. Within that office we built a pretty significant amount of office and we actually were able to capture the largest advertising agency between Chicago and California in that first phase. So you know, we've pretty early on kind of caught the attention of smart forward-looking people.

Kristin: Right. And it sounds like you have been, I think, re-purposing and disrupting retail even before the great apocalypse, right?

Mark Falcone: Yes. In fact it was very interesting. I was involved in a study of enclosed shopping malls with PriceWaterhouse Coopers and Harvard University back in the early 2000s. It basically was a study that identified back then that there was a significant excess of enclosed shopping malls in the US. And that the transition of those shopping malls and the repurposing of them was going to be a

challenge but also represented a significant opportunity. So we've been absolutely trying to understand and think about how retail would change in the US even before the real expansion of the Internet.

Kristin: It's so interesting because the way that you've described this and we're going to talk more in detail about another large project that you're working on in Denver, but it sounds like you had a vision around a live works scene that could actually support kind of the purpose of an Amazon Go, you know what I mean? Or a smaller format Target. And that's long before these retail strategies or different types of retail popped onto the scene. So I just think it's really interesting that you guys basically looked at it like ecology frankly. And that's, there are some tenants to that that I think are evergreen in terms of whether it happened in 1995 or whether it's happening in 2019.

Mark Falcone: Yeah, I think that the fundamental nature and needs of the sapient hasn't really changed that much in the last 10,000 years. It's changed a lot maybe from a 100,000 years ago, but in the last 10,000 years since we've been organizing and larger herds, if you will, we have needs to create places where we create exchange and where commerce takes place up until about 80 or a 100 years ago, all of that was it was within the reasonable, walkable distance of a person's daily habits and routines. And you know, with the invention of the automobile in the US in particular, that really changed that paradigm.

Mark Falcone: I was an urban history student. As we sort of studied these kinds of challenges, we looked at the ecological footprint, we looked at the scale of our cities exploded with the advent of the automobile because the key planning paradigm is that people will walk on a regular basis about a quarter of a mile from their home or their place of business. And then you think about it, that doesn't create a very big space, right? You know, a quarter of a mile radius is about 125 acres. If you think about downtown Denver, if you think about what we think of as the historic downtown Denver core, it's about 300 acres. And of course today, the urban footprint of our metropolitan area is 750 square miles. So another way to think about it is that a person will regularly shop in an automobile within about five miles of their home. And so, a five-mile radius captures 50,000 acres, okay? So, and if you think about it, you know, school districts tend to be a sort of market planning module once you're in the automobile age.

Mark Falcone: And so, suddenly the footprint of our cities exploded and all of this energy leaked out to a lot of different places. In the old days there was one key retail street in every city. Every city had their High Street. And that is, and that was, where where retailers wanted to be. And that's where, you know, a residence could take a trolley line or walk and know that they would be able to fulfill all of their shopping needs in one place. We tried to replicate that with the suburban shopping mall, but we moved the mall out there without all of the other support networks that made those downtowns work. And I think today what we're starting to do is recognizing that there was real virtue to that traditional commercial node and where it was nicely connected to these supporting centers of activity like office space, like the important civic and cultural activities, and even in the suburbs like with Belmar. We're taking what was that

single purpose shopping mall and kind of creating a little local Main Street if you will in that place.

Kristin: And that it kind of brings us perfectly into your new project in Denver called Market Station. And the reason that I'm teasing it up right from that is I feel like we can add to your historical perspective of human ecology and habitat. We can now add to that human interface and experience in a different way just because of the overdose of screens and kind of swinging the pendulum from online research direct to consumer. And now we're seeing a swing over here, which is, "I'm fine researching online, but I really want to go into a shop and experience what is the theater of the brand or get a perspective of an expert. I.e.: A specialty retailer or whatever it is that possibly could be part of the backdrop of Market Station.

Kristin: Can you talk a little bit about what you're hoping to create in Denver proper? Obviously it's quite different than what you just talked about at the Lakewood Mall in a suburban setting because obviously the grid is different. I think that if you give the background of what you repurposed, it would be very, very interesting in terms of a ground center, if you will, for this type of experience.

Mark Falcone: Yeah. I appreciate you mentioning the Market Station project because it is one from a retail standpoint that I think is particularly interesting and particularly exciting for all of downtown Denver's recent renaissance and success. And we had a hand in a fair share of it. We were actually the master developers of the entire Union Station neighborhood. So our job was to create the transit infrastructure that would then become the framework around this whole neighborhood. And along the way we were able to develop several of these buildings around this transit hub.

Mark Falcone: Market Station is the last of the development parcels that we had control over as a consequence of that role. And it is bound by 17th Street on the north, the directional north end. 16th street on the south. And then, Market Street and Blake Street on the long ends of the block. And that was the former bus station before we created the new underground bus concourse over here in the Union Station neighborhood.

Mark Falcone: So, we started with a big 80,000 square foot block, literally right in the dead center of lower downtown. And we knew this needed to be something unique and special. And we looked around and we recognized that downtown Denver really kind of hasn't found its High Street shopping experience since its rediscovery and its renaissance. As we looked, around this was the most obvious place to really anchor that. The cool thing about retail is that a hundred feet matters. It's not like an office building, right? I could logically sit there and say, "Hey, I'm going to be in this cool new building on 18th street. It's only two blocks away from the 16th street shuttle. It's maybe five blocks away from Union Station. It still will work just great. It's a really cool building and it lays out well." Or "I'm going to buy an apartment either up in the River North neighborhood or in Low High or maybe I'll go up to Capitol Hill" right?

Mark Falcone: When it comes to retail, you don't have those kinds of diversity of choices. I mean retail only really works well in a very, very narrow set of places because you are so reliant upon the embedded foot traffic or automobile traffic. I mean you could sit there and say, "I'm going to put a store on Colorado Boulevard" or "I'm going to put a store the half a mile further to the east over on Evans," right? Let me tell you something. A store in Colorado Boulevard, it's going to blow the doors and sales off of the one on Evans.

Mark Falcone: And the same thing is true of foot traffic. There's places where foot traffic is dense. One of my partners repositioned all the retail at Rockefeller Center in the late '90s. There's a big difference between the Sixth Avenue side of Rockefeller Center and the Fifth Avenue side of Rockefeller Center. I mean a big difference. And so with retail you've got to make sure that you have all of the conspiracies of traffic that you need to really make this stuff work. And what's also really cool about our site there is that the one way pair of streets between Market Street and Blake Street together convey 60% of the cars that come in and out of downtown Denver. So again, not only do we have the foot traffic on the 16th Street mall, which is like 20 times the foot traffic on 17th Street. But we also have really easy access for people that think of this as a regional destination and want to come in and park under the building.

Mark Falcone: So, we saw those factors coming together and we said, "Wow, we've really got an opportunity to do something really special here." And we thought hard about what Denver really needed. You know, it's interesting, the luxury retail brands have never done well in Colorado. There's no status associated with owning a \$12,000 handbag here.

Kristin: True that.

Mark Falcone: But people, they'll spend a lot of money on a bicycle.

Kristin: Yes, they will.

Mark Falcone: So, we went to where the market is and we said, with this emerging sort of focus on Denver for these outdoor retail brands, we need to create a place that's a cluster. That's where we create enough different offerings that somebody even as far away as Littleton would say, "Look, I need to get a new shell for skiing this year. I'm going to go down to Market Station and actually I can shop 15 different brands and make sure I get one that fits me well." And so as this idea gained hold with us, we actually ended up branding it Basecamp at Market Station. Crazy enough the trademark was available on that, which I can't believe,

Kristin: I can't believe that either. That's pretty insane. And okay. So let's talk a little bit more about this vision because this is the first time I've ever heard of an actual real estate development that actually has outdoor recreation as a backdrop. And I'm correct in saying that, right?

Mark Falcone: I think that's the case. I mean, we haven't ... Certainly within the resorts, especially the ski resorts. There are good clusters of these things, but nothing I don't think quite as intentional as what we've set out to do here.

Kristin: I feel like if a retailer provides a theater to a brand through physical merchandising, what you're creating at Market Station is essentially a theater of sorts to attract people with theme or a similar interest to come and have an experience there. And yes, there are stores and I think there's going to be some other things that you have kind of in the wings in terms of creating that theater and that experience that maybe aren't retail. Do you want to talk a little bit about that in terms of any givebacks or cause or even media that you're thinking could be cool to deploy in this Basecamp environment?

Mark Falcone: Well, yeah, we've, we've always believed that there needed to be a balance of poetic sort of harmonic between the, you know, the, the human habitat and the landscape that we allow the rest of the planet species to colonize. And over the years I've been, I've been a volunteer leader for the Nature Conservancy since the late '80s. In fact I chaired the Colorado board for several years and had the thrill and the privilege of being involved in a lot of really cool landscape scale preservation projects here. So, part of the reason that part of what drew me to Colorado was the sense that if we got the human habitat right, we could actually take a lot of pressure off the rest of the landscape. And as the success and prosperity of the Front Range cities continues to grow even though we may have slowed down the pace of which we're expanding the urban footprint of our cities, we're putting more people out into these recreational assets and we think there's a real need and an opportunity to ensure that the recreational enterprise that we engage people or sell people to participate in really takes along with it a sense of stewardship and responsibility to preserving that.

Kristin: I could not agree more.

Mark Falcone: Yeah, we're trying to find ways to embed within this collection of retailers opportunities to connect the audience and the customers to the significant stresses that their recreational appetites create. And of course, you guys know well better than anybody that there's all kinds of ways that through good protocol and good behavior, we can all enjoy this recreational resource without necessarily killing it for future generations.

Kristin: And so this is another really cool facet to Basecamp, in my opinion, because obviously we've seen ... Verde has an awesome client called Loge Camps, L-O-G-E camps. And one of the missions behind Loge Camps is it's essentially outdoor recreation destination. And you could call it a hospitality solution, but there are all kinds of experience in retail that goes into that, that they're cooking up. But right now it's Oregon, Washington, and Colorado. And he and the team over there, refurbish motels and turns them into kind of millennial friendly, outdoor destinations. And the whole mission there is, the more that people can actually experience the beauty and the backdrop and recreating outdoors, the more they'll fall in love with it, the more they'll conserve it. And I love that you're trying to offer a similar inspiration at the point of purchase. I think that is super interesting.

Mark Falcone: Well, what's interesting is that as these cities densify, really what this demographic is telling us is they want both experiences in their life. They love the intensity of intimate human interaction. Right? They like meeting around conversations and creating dialogues around a crowded coffee shop, right? They like being able to walk down sidewalks and interact with their coworkers and their neighbors. In the suburbs we created kind of this really interesting isolation from that kind of day-to-day stuff. But they also really want their wilderness experience as well. So in a way, the densification of these cities, you know, is probably going to have the effect of putting even more demands on our wilderness areas. And so making sure that we educate people about the appropriate way to interact with those wilderness areas is essential.

Kristin: So just out of curiosity, can you share the timeline around Market Station Basecamp?

Mark Falcone: Yes. The building actually tops off next, next week.

Kristin: Wow.

Mark Falcone: Yeah. It's \$200 million project. There's office over retail, and then, there's also a couple of different apartment projects embedded in it as well. It includes 80,000 square feet of retail. So, we hope that will ultimately equate to about 30 different retail establishments. I would say that we've got somewhere between 10 and 15 of them signed up already. We'll open late spring of 2020. It's literally located right in the heart of lower downtown Denver. So, we think it's a great opportunity for Denver to kind of reveal itself and fully express its sort of cultural recreational personality to visitors as well as our residents and employees.

Kristin: I love that. So the other thing that I think is a really fantastic bridge is just the leadership that Colorado has had in the outdoor recreation. The establishment of multiple industries working together. A much bigger impact on the nationwide scene in terms of like lobbying and advocacy efforts in Washington and really just elevating the profile of outdoor recreation, whether it's motorized, non-motorized. All the industries have come together, raised their hand to be part of this. And there will be links in the show notes to a lot of different resources around this for the audience to be able to interact with.

Kristin: But ultimately [Colorado] I think, as one of the first states to stand up an Office of Outdoor Recreation, right? It's a perfect place I think to actually create a bit of an experience around that for consumers and for enthusiasts of the outdoors because ultimately we have the Capitol building. Now we have the show there, the Outdoor Retailer show. And actually I don't know if I can say Interbike is there, but bikes are being folded into this as well. Obviously we've had rep shows in different facets of the industry. We now have SIA obviously as part of outdoor retailer in winter market. It really does feel like there's a trade component, there's a government component, and now we have a consumer component, which I think is cool from an experiential standpoint.

Mark Falcone: Yeah, I think that, look, Colorado ... One of the things that excited me and really provoked me to move here was I just saw a lot of great thought leadership and I saw a place that didn't get bogged down with traditional barriers politically and philosophically. I saw a place that was just really open minded about things. And Colorado is big enough. It's small enough that you can make interesting things happen. Yet it's big enough that we matter. And we've been exercising that thought leadership in a lot of different ways over the last 10-15 years.

Mark Falcone: I think that one of the things that I'm excited about in interacting with all of these outdoor recreation retailers is most of them have a corporate philosophy that aligns really well with ours. Private enterprise is a great way for human society to mobilize resources to address a human need. But sometimes we create more need than we solve by the mechanism with which we address the, the market that we're trying to seek. And what I'm loving about the outdoor industry is that they are really candid and forthright generally about accounting for the externalities of their production process or their transportation process, et cetera.

Mark Falcone: And that's what we have to collectively do as a society if we're going to somehow hang on to this precious resource that we were born into. We've got to recognize that our business enterprises have to do more good than harm. And when we get to a place where we find ourselves executing a solution that might've been really, really thoughtful and forward looking 30 years ago and things change and our expectations evolve and we have to confront the fact that our business solution no longer solves more problems than it creates. And I see the outdoor industry as being a place where in our economy where that kind of leadership is really coming to the fore.

Kristin: I love that. That is so well said. And just to wrap up here, I wanted to also ask, I mean it's so interesting to hear you talk about repurposing existing structures, whether it is that ginormous mall in Lakewood or the bus station in Denver. And I know you have a number of other projects and I'll put links in the show notes, so the audience can check out more of what you do at Continuum.

Kristin: But I'm curious about the upcoming Urban Transportation Act. Almost a Redo there, right? Like I feel like that's also going to have an interesting impact on a retail establishment in a mixed use like Basecamp in terms of how people get there and whatnot. Have you guys had any kind of conversations with government there or even with industry around how the actual way people move around the City of Denver might change or in other cities as well? I'd love to just get your take on that before we wrap up.

Mark Falcone: Yeah, I mean, we're at a moment where, you know, the technology, revolution around transportation is going to be really profound. I mean, the last time, the last little period that we had something as profound at this is really the late 1800s into the '20s. It was remarkable how many different sorts of transportation technologies were preeminent for a moment over a relatively short period of time. And we're clearly in the middle of that again.

Mark Falcone: But to just give you one example of it. I was participating in a press conference a couple of weeks ago. George Washington University has a real estate center, kind of a land economics, center embedded in their business school. And they released a study a couple of weeks ago that has been measuring the kind of real estate development that has been happening in the US over the last 20 years. And what's fascinating is because they're trying to make a case to investors to invest in "walkable" sort of compact, humanly scaled kind of product, what they've been observing is the economic performance of those neighborhoods over more conventional suburban single-purpose neighborhoods. And they're finding, not surprisingly, but with a lot of great data that these walkable neighborhoods like what we did with that Belmar, like what downtown Denver is, like some of these other projects that we've been involved in, are driving meaningfully more value to investors over the other things.

Mark Falcone: And what's really interesting is that since 2010 the top two cities who have manufactured more of that walkable neighborhood as a percentage of their entire built environment, since 2010, our New York City. Not a big surprise, right? That's New York City is number one because almost everything they do by definition is that. And the second one was Denver, Colorado.

Kristin: Oh, that's proud.

Mark Falcone: What's really interesting is they asked me why I thought that was the case. And it's a very straightforward answer. It was the expansion of our fixed rail transit initiative that began in 2004. The reporter asked, "But your transit ridership is not meaningfully higher than it was, say, 10 years ago." I said, "You're right. But the nature of our development has all been aggregating around those transit stops. And more compact, more dense, more humanly walkable scaled kinds of stop. And that lowers significantly the ecological footprint of our built environment." And what happens is people may not necessarily get on that train, but they take care of a lot more of their daily needs and their activities out of their home by simply walking. When you leave a suburban house, virtually 100% of your trips are by car. In these more dense, walkable neighborhoods, it's pretty regular for 40% of your trips to be on foot.

Kristin: That is super fascinating. I wonder if we could put a link to that in the show notes as well, that study. Okay.

Mark Falcone: Yeah, I will. I can send it to you out of this meeting, but it's a fascinating study and it's done by a super smart group of real estate economists have been doing this for a long time.

Kristin: That's awesome. Well thank you so much. This has been a very inspiring conversation. I literally feel like we could talk for two more hours, but I want to be respectful of your time and the audience's time. Really great to learn everything from you today, Mark, on this topic. I look forward to not only revisiting the trajectory of Basecamp as we get closer to spring 2020, but I have the secret hope that I can actually do a live podcast or two from there as I'm up there for different trade shows. So my hope is that I can use the theater that

you're creating as a bit of a backdrop for our audience at Channel Mastery as well. So just know that we're watching, we're cheering you on. And thank you so much for the great work that you do.

Mark Falcone: Kristin, thanks very much. It was a pleasure.