



Stacked: Rudy Torres, assistant director of the Vallarta Supermarket in Winnetka, shows off the store's large "carniceria," or meat section.

PHOTO BY THOMAS WASPER

LATINO POWER

L.A.'s growing Latino population has more buying power than many realize. But developers are catching up with a trend changing retail.

By **KAREN E. KLEIN**
Staff Reporter

Three butchers work behind a long meat counter, weighing and wrapping a stunning variety of beef, pork, chicken and lamb. Next to them, a case displays five kinds of ceviche, a raw seafood cured in citrus. Another counter offers no fewer than a dozen kinds of fresh cheeses.

Take in the enormous produce section, fragrant bakery, restaurant tables and heavy foot traffic you might think you were in a swanky **Whole Foods** market.

But the mariachi music and TV screen showing rodeo high-lights would prove you wrong. This is not an artisanal grocer — it's the Vallarta Supermarket that opened in a closed **Albertson's** store in Winnetka in 2007.

While mainstream supermarkets are consolidating, shrinking their space and losing market share after decades of growth, supermarkets and other retailers catering to California's growing, 14.5 million-strong Latino population are thriving.

Founded in 1985 as a 1,000-square-foot Van Nuys carniceria, or butcher shop, Vallarta now has 41 stores throughout California. The chain opened its newest market in Canyon Country in February, and its growth plan calls for opening three more annually until it is operating in 100 communities by 2030.

As of last year, 38 percent of the San Fernando Valley's 2.3 mil-

lion residents were of Latino origin, growing 18 percent since 2000 — twice as fast as the Valley's overall population, according to **Colliers International**. And the retail and real estate development sector that has grown up around them serves a consumer group that eclipses mainstream American shoppers on several fronts.

For instance, Latinos go to the grocery store a whopping 26 times a month, triple the average of the general population, according to the Food Marketing Institute, an industry organization based in Arlington, Va. And with larger households and more home cooks, Latino shoppers spend \$175 more at grocery stores annually than the national average, according to **Nielsen Co.**, a research firm based in New York. It says Latino buying power in the U.S. will hit \$1.5 trillion this year.

For decades, however, mainstream real estate developers have been slow to embrace the population due to stereotypes, a lack of market data and security concerns that keep them out of the densely populated, working-class neighborhoods dominated by Mexican and Central American immigrants.

That's been a long-term missed opportunity, said **Matthew May**, president of **May Realty Advisors**, a Sherman Oaks retail brokerage. That leaves these neighborhoods with smaller, dated

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SPECIAL REPORT REAL ESTATE QUARTERLY



PHOTO BY THOMAS WASPER



PHOTO BY DAVID SPRAGUE

Indoor, Outdoor: Shoppers at the Vallarta market in Winnetka sit for a bite to eat, left. Developer Cary Lefton next to a piece of artwork showcased at his Plaza del Valle.

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centers that often struggle with customer service and quality.

“They’re underserved by retail and overserved by work ethic. You’re less likely to find a national credit tenant, but the family ownership that is there pitches in and works twice as hard to keep the business going,” May said.

Gradually the Valley is catching up, with new developments like **Arturo Snieder’s** \$78 million Plaza Pacoima and remodeled retail centers like **Cary J. Lefton’s** \$19 million Plaza del Valle springing up in Latino enclaves over the past 15 years. These centers typically include a mix of national brands, like Anna’s Linens, Marshall’s and Auto Zone, along with mom-and-pop shops and health care clinics.

And it’s not just the Valley – Ventura County and the Antelope Valley also boast

fast-growing Latino populations, and have the added bonus of extensive land available for development.

Snieder’s upcoming project, called Amara, is scheduled to open in 2017 and will feature 500,000 square feet of retail space along the 101 freeway in Camarillo.

Retail rebirth

The struggle to renovate an aging Panorama City shopping center is typical of the challenges that face developers in Latino neighborhoods – and how much they have overcome.

The property was 30 percent vacant and a haven for prostitution when developer Lefton, of **Agora Realty & Management Inc.** in Sherman Oaks, acquired it in 1999 for \$10 million. And as soon as escrow closed, a murder occurred on the site.

By that time, however, Lefton was committed. He completely revamped the 1950s-era center, closing in a parking lot to create 20-by-

20-foot retail stalls traversed by open-air paseos. He installed architectural features and artwork from San Miguel de Allende that he sourced on buying trips to central Mexico. And he still takes a personal interest in improving the look and operation of the center.

“I picked up these at a market in Calabasas a couple weekends ago,” Lefton said, pointing to a series of Tin Man-style metal mariachi players adorning a plaza balcony. “I thought they’d be perfect there.”

Since it opened in 2004, it’s clear that the 14-acre Plaza del Valle has been embraced by the community, with a children’s playground, offices leased by local non-profits and a room used for neighborhood meetings.

“It’s a place where neighbors are buying from neighbors,” Lefton said.

The developer spent \$9 million on the project in addition to the property costs, financing it with bank loans and private equity funds. But he’s managed to make it pencil

out, leasing the stalls on a month-to-month basis to entrepreneurs for about \$3 a square foot – slightly higher than the local average. The 70 spaces are fully occupied, with about 20 percent annual turnover.

Lefton’s market research shows why the center is always bustling: There are more than 742,000 people living within 5 miles, more than 60 percent of whom are Latino. Median household income is \$47,000, close to the Los Angeles County average.

At Plaza del Valle, national brands like **Sprint** and **Wells Fargo Bank** operate alongside entrepreneurs running businesses that have outgrown garages and kitchen tables. Barbers, upholsterers and tailors share space with tax preparers, bookstores and an Internet café. As shoppers stroll, they look down at a Hollywood Boulevard-style “Walk of Fame” that honors Latino entertainers and

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PHOTO BY RINGO H.W. CHIU



PHOTO BY THOMAS WASPER

Large and Small: Developer Arturo Sneider at his Plaza Pacoima at 13520 W. Paxton St., left. Pedestrian walks by Agora Realty's Zocalito center, also in Pacoima.

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community heroes.

An old movie theater has been transformed into a banquet hall that seats 300 for wedding receptions and quinceañeras – a Latin American debutante celebration for 15-year-old girls. One building has been removed to allow street views into the center that hosts music, children's activities and community events every weekend.

Lender troubles

Lefton admits there are challenges: His small business tenants required so much hand-holding that he had to hire an on-site manager. "It does affect our bottom line," he said. And because the mom-and-pops typically don't have marketing budgets, it's up to the center's handful of national tenants to bring in traffic.

Sneider, co-founder of downtown L.A.'s

Primestor Development Inc., also has had considerable success over the past decade, establishing 80 centers since 1992.

But his first shopping center development plans in the 1990s were kicked back by local officials. They wanted to know why he hadn't included perimeter security fencing. Mystified by the request, Sneider – a native of Mexico City who came to the U.S. to attend college – toured nearby Latino retail centers. All were ringed by heavy fencing; some even included raised guard towers in the parking lots.

"They looked like prisons," recalled Sneider. Security concerns were only part of a decade-long obstacle he had attracting national retail tenants to his developments. There was also a lack of solid financial data on Latino shoppers, which led to the perception that all his potential customers were low-income, uneducated and sent every penny they could spare back to Mexico.

"For 10 years, I could not get a single brand tenant to even return my phone calls," Sneider said. "I told them I didn't realize you had to be a college graduate to buy shoes."

In desperation, Sneider began packaging marketing data himself and speaking at business events across the country. When he couldn't get mainstream lender financing, he turned to the Asian banks that served the Korean entrepreneurs who owned mom-and-pop retail shops in Latino areas. "They understood where the money was in their customers' markets," he said.

It wasn't until the 2000 U.S. Census finally brought attention to the explosive growth of the young, immigrant Latino population that Sneider's ground-up projects began to gain traction – and national brand tenants.

He brought **Walgreen Co.** and **Starbucks Corp.** to his retail center at Sepulveda and Nordhoff in 2005. "At the grand opening, couples walked up to us in tears, they were so glad

to see this in their neighborhood," he said.

In 2010, he opened Plaza Pacoima, a 343,000-square-foot power center featuring a Lowe's, Costco and Best Buy in the northeast Valley community.

Despite the two developers' successful track records, getting conventional funding for projects in largely Latino, lower-income areas is still tough. Agora put up \$7 million of its own capital to remodel an eyesore at San Fernando Road and Van Nuys Boulevard in Pacoima last year. "We couldn't find a lender to work with us," Lefton said.

He went ahead anyway, transforming the corner into the 20,000-square-foot Zocalito of Pacoima. Designed by **Perkowitz + Ruth Architects' Studio One Eleven** in Long Beach, known for urban infill developments, it features state-of-the-art retail spaces, clean lines, shade trees and public restrooms and water fountains for the transit riders who congregate out front.

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It's now fully leased to a dentist, medical clinic, coffee house and **Verizon Communications Inc.** store, designed to appeal to the ongoing demographic shift from the Latino immigrant generation to first-generation Mexican-Americans, to a millennial generation that may be first-, second- or third-generation.

Lease rates for the small shops of roughly 450 square feet are \$2.25 per square foot, in line with retail space on nearby Van Nuys Boulevard.

Fresh variety

As the expansion of Latino retail took off, there were some missteps. Mexican retailers like **Supermercados Gigante**, a leading Mexico City-based supermarket, and **Famsa Inc.**, an appliance seller based in Monterrey, made unsuccessful forays north of the border.

"They thought they were known here, and they'd have an easy time of it," Sneider said. "We did a lot of head-scratching, until we realized there was a disconnect over lower-quality, lower-brand product lines that reflected an old-school mentality. It was almost like they were doing a favor for the Latino community by putting their stores here."

It turned out that Latino shoppers flock to quality and customer service just like everyone else, he said. **El Super**, a Mexican-owned supermarket chain with four San Fernando Valley locations, took that into account and has done well here, Sneider said.

While small panaderias and carnicerías still thrive in Latino neighborhoods, shoppers long ignored by mainstream grocery chains can now shop at bright, full-service supermarkets that offer enhanced meat, seafood, deli and bakery departments as well as extensive produce sections and dairy counters that would be the envy of artisanal cheese-mongers.

In the Valley, Sylmar-based **Vallarta Supermarkets Inc.** is the category leader with 25 outlets from Palmdale to Oxnard. Its stores carry family-sized portions of staple items such as cereal, beans and corn oil but have small frozen-food sections, reflecting Latino shoppers' priority on freshness, said **Rudy Torres**, assistant director at the Winnetka store.

"I see the same customers shopping all the time. They all know my name and have conversations with me," he said, adding that 80 percent of his regulars speak Spanish.

Vallarta's direct competitors, **El Super**, **Superior Grocers** and **Super King Markets**, have eight local stores combined. Food4Less, a **Kroger Co.**-owned warehouse concept with eight Valley locations, and the **Wal-Mart Supercenter** in Porter Ranch might also be considered competitors, though neither carries Latino specialty items.

James Rodriguez, senior vice president at Colliers International's downtown Los Angeles office, said that serving the Latino grocery customer is surprisingly lucrative. Since the stores tend to be in high-density neighborhoods, Latino supermarket sales per square foot can be nearly double that of middle-market supermarkets' average sales of \$450 per square foot.

And they are growing fast, another contrast to supermarket chains such as Ralphs and Vons, which have lost 15 percent of their market share nationwide since 2000. **Phil Lempert of Supermarket Guru**, a Santa Monica consulting firm, said traditional supermarkets will continue to shrink in the coming years. "They're being squeezed by artisanal markets like Whole Foods and **Trader Joe's** on one side and by the enormous discount warehouses like Wal-Mart on the other," Lempert said.

The millennial generation – on the cusp of eclipsing baby boomers as the most important consumer demographic in the U.S. – presents a challenge for retailers and developers used to catering to the aging group of more traditional Latinos.

Tom Sheppard is an expert on Latino marketing who does client development for

Listen Up Español, a bilingual direct-response center based in Maine.

He noted Latino millennials born in the United States consume more Spanish-language media than older Latinos born here. But they're also fond of American brands – like Cheez-Its and Pop-Tarts – that they may not find on the shelves of Latino grocers.

"As the new generation becomes majority-minority, it is also becoming one of the most tolerant generations," he said. "Stores can stay relevant by incorporating a more diverse mix of products."

Sneider's newest Valley projects incorporate appeals to the younger Latinos, adding luxury



May



Rodriguez

amenities, top-notch tenants and high-end marketing. He calls them by one-word names that work well in both Spanish and in English.

His Olivo in Mission Hills is a remodel of the Mission Hills Plaza, a 14-acre property that Primestor purchased in 2007. Plans are in the works for redevelopment of the center at the corner of Sepulveda Boulevard and Devonshire Street, though the cost is still up in the air. The center, which includes 155,000 square feet of retail with a grocery store as the anchor, will get a facelift and may have its entrances and parking flow realigned.

Millennials are a group that Sneider knows well and has labeled "American-Mexicans." But at his retail centers, their most-requested tenant was a surprise: **Chipotle Mexican Grill Inc.**

"These guys know Chipotle isn't authentic – but they love the modern, crisp branding of their culture," he said, adding that **Panda Express Group Inc.**, **Blaze Pizza LLC**, **Forever 21 Inc.** and **The Habit Burger Grill** also are popular at his centers.

Although such brands are discovering that they can do good business appealing to Latinos, Sneider doesn't see Primestor following millennial "American-Mexicans" to the more upscale neighborhoods where they may move in the future.

"My hope – my mission, really – is to fulfill this vision in their own neighborhoods so they don't have to grow up and move away from their communities," he said.

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Patron enters adult daycare center.



Main plaza with shades.



Doors from San Miguel de Allende.



Patron takes a break.

Plaza del Valle is a 197,000-square-foot center that features 70 small shops catering to its mostly Latino neighborhood in Panorama City. Cary J. Lefton, of Agora Realty & Management Inc., spent \$19 million to transform the property's 14 acres, which had been a crime-ridden, 1950s-era shopping center. The Sherman Oaks developer closed in a parking lot, creating outdoor paseos, and brought in artwork and architectural elements from the central Mexican town of San Miguel de Allende. It was opened a decade ago, but Lefton continues to update the center, which is popular with local non-profits and community groups and features weekly entertainment.



Clothing vendor.



Tile design.



A larger store.



Lady of Guadalupe statue.