



Retail Brokerage: The critical nature of retail: Consumers providing economic means to power retail sales

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As I pen my flagship article for NYREJ, I believe it is imperative to shape the context upon which I view the retail real estate industry. Whether you are a property owner, developer, retailer, broker, property manager, appraiser etc., we each owe our careers to the anchor, which is retail. I employ the term "anchor" given its connotation within our industry and its import to our whole economy.

Lets start with the facts, consumer spending accounts for two-thirds of United States Gross Domestic Product. Consumers are the engines driving our economy. Propelled by employment, consumers are provided with the economic means to power retail sales. The vast majority of consumer spending activity occurs within the retail real estate inventory of the United States, ranging from the mom and pop shops in your local town to the department stores of a super regional mall. So much so, that the ICSC tracks over 7 billion s/f of shopping center space within the U.S. In addition, approximately 7 billion s/f of additional non-shopping center retail space resides within cities and towns across America. In total, over 14 billion s/f of retail space houses the economic activity accounting for two-thirds of all U.S. economic activity.

I've always found this to be a startling fact and it reminds me that retail, as a commercial asset class is the single largest asset class. From a professional standpoint, all of us are offered a vast playing field. One footnote to this part of the story is the emergence of on-line retailing, which presently accounts for approximately 4% of global retail sales. We have begun to see the initial effects of this growing trend upon the brick and mortar landscape. Remember Comp U.S.A., Borders Books and Circuit City! While "clicks" have certainly not destroyed "bricks" as some warned, the "clicks" will certainly change the shape of the "bricks" in the years to come.

Moving on to the next major trend, the critical nature of retail extends well beyond the shores of the United States. The globalization of retail is having immense cross-culture impact. Consider the cultural exchange, which takes place in what a person may eat, wear, hear and experience. Retail is joining us together faster then any other cultural activity and with the emergence of social media, the connections are occurring even quicker.

The winds of trade have always driven economy's and cultural exchange, which is the essence of retail. A reading of a sixth grade social studies book explains the roots of the retail trade from the river valley civilizations of Mesopotamia fertile, to "tea from China " culminating in a McDonald's in Beijing; we've come a long way.

It's the basis of these fundamental roots, which help us to understand the nature of \$3,000 per s/f rents on Manhattan's Fifth Avenue along with the relentless drive to conceptualize and develop new formats in the retail experience. All of these factors have coalesced to rank retail assets near the top of the investor food chain. Quality retail assets command the most competitive capitalization rates as investors seek out the "best-in-class."

This is markedly apparent in the core urban centers in which the best retail assets have benefited most from the globalization of retail along with most basic of economic fundamentals; demand outstripping supply. The final ingredient driving this trend is the utilization of retail space as part of a brand marketing strategy.

New York City exemplifies this trend. Benefiting from the footfall of over 50 million annual visitors, 11 million of which are international visitors, New York operates in the context of a global retail market. London, Paris, Milan, Tokyo, Hong Kong, Shanghai along with the growth of Mexico City and Sao Paulo combine to form a peer group of global players in retail. Other gateway cities in the United States are benefiting from this trend as well. Boston, Chicago, Miami, Los Angeles and San Francisco have also seen significant value spreads in urban "high street" retail.

The benefits of retail extend well beyond the notions touched upon here. However, for the purpose of the retail real estate professional, they demonstrate the magnitude of professional business opportunities which unfold in front of us every day, all of which is supported by the critical nature of retail.

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