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Upholding your shopping centers' value in 2020 and beyond - by Richard Birdoff

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It's no secret that e-commerce has grown exponentially and continues to have an impact on the retail industry, as seen by store closings and liquidations. Due to the added value e-commerce is offering shoppers, it's likely that it'll stay on an upward trend, and retailers who can't adapt to the changing times are bound to struggle. However, these exits often present opportunities for shopping center owners to reposition their assets and incorporate new offerings for the community. According to a report conducted by JLL Retail, by the end of 2022 it is projected that more than 850 e-commerce brands will open brick-and-mortar stores across the United States. The question then arises: How can developers and owners stand out in this market and what should they focus on as we enter this next retail phase? Here are just a few factors to keep in mind as we dive further into the new decade:

Off-price retail chains will reign supreme

As general apparel stores continue to close and downsize their retail footprints, off-price retail chains like Ross Dress for Less, Marshalls, and Burlington will remain strong and highly-sought-after players in the market. These stores not only offer name brands for discounted prices, but they also provide the customer with an in-store, "treasure-hunt" experience while searching for the perfect bargain. These off-price models are a hit with consumers looking for trendy yet reasonably-priced fashion items and help drive traffic to neighboring tenants.

Grocers will continue to be in demand

It is expected that wholesale club and grocery stores will experience reliable growth, the same as it has been for the last few years. Data provided from Statista shows that from 1992-2018, grocery store sales in the United States saw constant growth with about $646.4 billion spent on groceries in 2018 alone. Stores that contain staple or convenience items will always be needed. In fact, during the Great Recession when consumers were cutting back on items such as luxury goods, groceries and medication remained profitable.

Diversity will equal more profit

The most successful shopping centers will be those that incorporate a diverse mix of retail tenants and non-retail offerings such as office or residential. Diversification is key for attracting the younger generations such as millennials and Gen Z who want to settle down outside of urban/transient areas, but still want the ease that a city lifestyle provides: live, shop and work at one location. Therefore, having retail, grocery, fitness, health, entertainment, and more on one property is a win-win for everyone.

Big-box spaces will be backfilled with non-traditional concepts

Due to a recent wave of bankruptcies, we saw an increased number of closures from retailers who had once filled old, big-box spaces. A modest amount of those leases had percentage rent clauses, which ultimately were no longer benefiting the landlord because the breakpoints were so low, especially in older leases. Therefore, the exit of many of these big boxes provides landlords with an opportunity to fill these spaces with new, profitable tenants that could still serve a use for the community. Large hospital systems, for example, are opening a medical office or urgent care. Another developing trend is replacing the big-box spaces with entertainment concepts such as trampoline parks and bowling alleys, a shoo-in for filling storefronts of this size and scale and avoiding demo.

Migration of millennials will determine hot locations

The migration of millennials to prime job markets will determine upcoming prime locations for retail development. Locations with warmer climates such as Tampa, Atlanta, and Phoenix are seeing an expansion of population growth. Moreover, cities such as Portland, Seattle, and Austin where large corporations like Apple, Amazon and Google are investing and seeing tremendous growth also present opportunity for new development.

Areas that are seeing a decline in population include locations in the Northeast such as New York and New Jersey. However, some Northeast suburbias that are surrounded by colleges and universities like Boston and Philadelphia are still continuing to grow. Identifying locations with strong corporate presence, a good transportation network, and population growth should be top of mind as you build out your project pipeline next year.

Despite the news of retail store closures and the age of e-commerce, there is still immense opportunity in retail real estate. One thing’s for sure, staying ahead of the curve by paying close attention to industry trends and your customers’ wants and needs will keep your shopping center well-positioned for many years to come.

RD Management is one of the nation’s largest privately held real estate development and management organizations, with over 150 retail, mixed-use, vacant land, office, hospitality, and self-storage properties in its national portfolio.

Richard Birdoff is the principal and president of RD Management, New York, N.Y.