AN INSIDE LOOK AT RETAIL…

7/1/2020
Updated

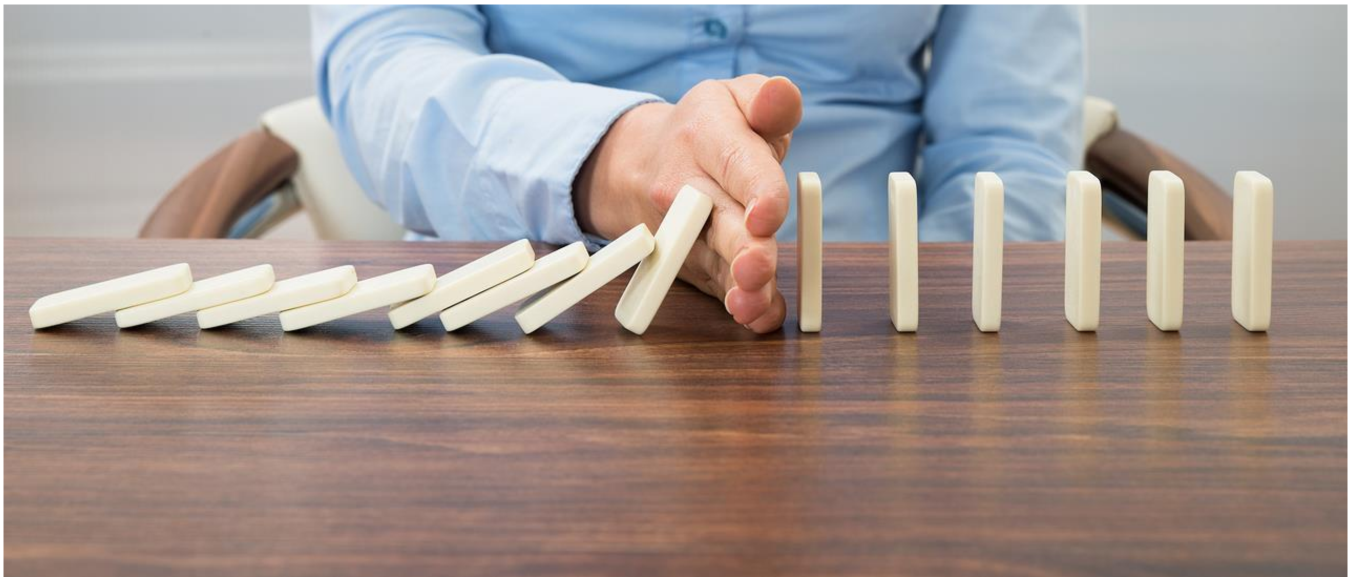
Commerce City

A summarization of retailing by concept and its relationship to the current trends in retailing.

An Inside look at retail…

COMMERCE CITY

Introduction



[disˈrəpSH(ə)n]

NOUN

disturbance or problems which interrupt an event, activity, or process.
synonyms:

disturbance · disordering · disarrangement · disarranging · interference · upset · upsetting · unsettling · confusion · confusing · disorderliness · disorganization · turmoil · disarray · interruption · suspension · discontinuation · stoppage · obstruction · impeding · hampering · spoiling · ruining · wrecking · undermining · holding up · delaying · delay · retardation

The major shifts in consumer behavior have caused significant disruptions in the retail industry. As retailing continues to come under fire from online retailing to changes in consumer preferences, all aspects of bricks and mortar retailing, including shopping center design are under scrutiny.

THE FOUR DISRUPTIONS IN RETAIL

DemandJump Blog (Edited)

There are countless factors contributing to retailing disruptions, the four main factors are:

1. Consumer Disruption
2. Technological Disruption
3. Competitive Disruption
4. Economic Disruption

Consumer Disruption

The digital connectivity of this day and age is representing a tectonic shift in consumer expectations and preferences. We can shop (or search) from anywhere with mobile phones. Amazon and other retailers are giving us the ability to make purchases online in a few (or even one) click. Not to mention, we can now have almost anything delivered in two days, *and many things delivered in two hours or less*. This includes everything from household appliances, to office supplies, to groceries. Just a few years ago, an item being out of stock was not really a big deal. Today, it's unacceptable.

Technological Disruption

Every aspect of retail is being disrupted by technology, across the entire funnel. Today's shoppers are never more than a few clicks away from a purchase, a brand message, or a review. The increasing amount of touchpoints can be daunting, but innovations in data capture, artificial intelligence and more are allowing brands to serve up a more relevant experience from first touch to first conversion and beyond.

Competitive Disruption

Most retailers used to have three to five competitors to worry about. Now competition comes from anywhere, and everywhere, nonstop. We used to have one distribution channel. Now we have brick & mortar, ecommerce, marketplaces, resellers, digital storefronts, affiliates, comparison shopping engines… and the list never ends.
On top of this, we are facing the incredible proliferation of media channels, technology tools, and data sets. We used to worry about television, radio and print. But today, there are over 120+ marketing channels that marketers must compete through.

Economic Disruption

The fourth and final disruption comes from external economic pressures. Growth in retail has come from mainly price-based or premiere brands. Those brands which live in the middle (middle tier) are falling behind.

Predicting the future of retail sometimes feels more like a "wild guess". Consumers need to become far more predictive before retailers can feel comfortable about making wholesale changes.

That said, retailers are not entirely "sitting on their hands" - every retailer is trying to gaze into the future and determine what changes they need to be making. Cautious exploration regarding store sizes and concepts are ongoing with experimentation being more the norm than dramatic changes.

The 2020 Pandemic has the potential to create yet another seismic shift in consumer behavior. The major shifts in consumer behavior prior to the pandemic caused disruption in the retailing industry confusing shopping patterns and stymying retailers. The retailing outfall from global pandemic shutdowns will only serve to create wider and deeper disruptions at an accelerated pace within the retail industry.

What is retail economic development?

This seems to be a common question from municipalities across the country. Without available educational training in retail, municipalities have few if any resources to be educated and relevant in recruiting and retaining retail within their City/Town. Lacking resources, most municipalities struggle to understand what a relevant retail recruiting/retention program should look like.

What it isn't –

Gap Analysis / Retailer Hit Lists…

- Without better direction, municipalities turn towards the concept of "gap analysis" as a tool to identify retailing gaps believing that once identified, these gaps are an entree to gaining the attention of a targeted retailer.
- What better way to get started on recruiting retail than to buy data that will show you where you should focus your efforts – like a magnifying glass over a roadmap, this data will bring into focus retailing categories (and retailers themselves) for you to pursue. Right?

So, what's wrong with data?

- The monumental shifts in retail have shoppers not buying the same thing, with the same frequency, from the same retailer.
- Data relies on a predictive consumer – something we are not right now, making data suspect in its ability to forecast anything in retailing.
- Retailers have the capacity to produce their own internal data that has been developed and refined to reflect their own individual predicative analysis.
- A retailer relying on their own internal analytics is not going to be swayed by generic data produced by outside firms.
- If a retailer is interested enough in an opportunity, they will utilize their own data tools to evaluate the options.

Trying to do the job of the retailing professional…

- Armed with the “gap analysis” data and maybe even a “retailer hit list” municipalities strike out on their own to contact retailers directly and try to convince them to locate in their community.
- Uneducated in retailing site selection and without a network of retailing relationships most of these efforts result in little to no success.
- Brokers, shopping center owners and developers are part of an established network - all of which have a significant leg up on any municipality in terms of access to retailers.
- Each of these players have a strong economic incentive ($) to fill vacancies and fulfill development of vacant sites. Attracting and locating retail is their primary job – a job they do every day.
- Assuming any of these players is not motivated or lacks enough effort with retail recruitment is misguided.
- These professionals know the trends, opportunities and challenges that exist for each retailer and can become a meaningful partner in helping the City navigate through the complexity existing in retailing.

What it is –

Learning…

- Becoming more knowledgeable about retailing is your primary tool, it allows you to set appropriate expectations, gives you an understanding of where you can be effective and most importantly, increases effectiveness.
- Too many folks in general think they are knowledgeable regarding retail because they are a consumer.
- You cannot rely on what you know as a consumer.
- We all shop, we all have opinions about retailers, but that does not make us “retail experts”.
- We must put aside preconceived beliefs based on our own personal habits.
- Retail site selection is comprised of many factors, each factor important when making decisions on potential sites.
- The more educated you can become in the factors, the more you become able to assess and present viable opportunities to the appropriate retailing contact.
- Unrealistic expectations based on a lack of retailing knowledge is alienating to the retailing community and stifles efforts.
- Becoming a relevant partner identifies your community as one that “gets” retail with a realistic perspective and understanding of your retailing marketplace.

A common example of the ostrich effect is that people intentionally avoid information that could help them monitor the progress that they're making toward their goals. This form of avoidance involves not paying proper attention to information, after it has already become readily available and/or biased interpretation of information where you interpret information in such a way that its unpleasant implications are ignored. The final form of avoidance involves forgetting unpleasant information after it has already been processed. Psychology Today

Listening…

- If a retailing professional (broker, retailer, shopping center owner) shares information with you – listen to it.
- Any information that helps you better understand a trade area or potential development is valuable, even it is not what you want to hear.
- Too many municipalities adopt the "ostrich effect" and try to ignore information that is useful because it does not match their perspective of their own market.
- Remember, you are not the professional – you don't know the retailing market better than the professionals.
- Listening and taking information in from those that are the professionals has a lot of worth.

Effective Partnering…

- Once you've educated yourself and listened to what the retailing professionals have to say, you can use this newfound perspective to make the right connections with the right professionals who will help you tackle the issues you face with retail recruitment and retention.
- Working together towards a common vision gives both sides a voice in shaping your retailing community.
- By sharing community goals and challenges, your partnership can shape new perceptions of your community and open new opportunities to attracting retail.

First Step…

Retail economic development starts with knowledge. That education will lay the groundwork in becoming a relevant partner with the retail community. That education will allow you to evolve into:

- Specific development focus and detail for key strategic areas.
- Align the City's vision with retail market realities.
- Guide economic development efforts in retail in a meaningful way.

The following tutorial is designed to provide an in depth understanding of retailing concepts, trade area dynamics and trends that are affecting the entire retailing industry.

It is this education that will lay the groundwork in becoming that "relevant partner".

How Do Retailers Make Location Decisions?

- Many retailers were willing to move away from "standard site selection criteria" during the boom years of the late 90's and early 2000's.
- During the 2008 recession period, most retailers had stores that became underperforming with the blame being put on the real estate.
- Post-recession, we saw retailers stepping back to basics and managing site risk.   In yet a still chaotic retail landscape, retailers more than ever are concerned about site characteristics, site planning, economics and trade area demographics.
- With retail once again in a "changed environment" - retailers are looking to reinvent aspects of themselves to be more attractive to a "new consumer" perspective.
- The result could be smaller stores, variation in product selection and increasing trade area requirements to ensure that there is more than enough support for a store.

Each individual retailer is unique – each genre of retail is unique…

- Retailing is far more defined than consumers perceive.
- Development concepts are dictated by the real estate itself.
- The trade area size, demographics, accessibility all determine what retail concept can be supported.
- Retailers generally stay within the concept that best delivers their target customer to them.
- Each retailer, no matter how big or small they are and even those within the same genre have different criteria based on "who they think their customer base is".

National retailers evaluate opportunities from a global perspective…

- Real estate decisions are made from a national perspective.
- Sites in Colorado compete with all other markets in the operating area of the retailer.
- That means that an opportunity in Colorado may not be acted on if better opportunities exist in other markets.

Retailers do not have endless capital for expansion…

- If there are 100 great site opportunities, a retailer may only be able to go forward with 15 of those.
- All opportunities will be prioritized with only the very top options being considered.
- Many factors, unique to each retailer go into the limitation on capital and limits of expansion.

Although the specific criteria may be different by retailer – there are some basics involved in site evaluation:

1. New opportunities need to meet the basic criteria that a retailer feels is necessary for their success. For most retailers, that will be a determination if there are enough customers in the trade area to be served. Additionally, some retailers will expand that question to determine if there are enough "target customers" available.
2. Consideration will be given on the accessibility to the target site – how does the trade area deliver customers to the site. Retailers tend to look for a 4-sided intersection where customers can reach the site from all 4 quadrants of the trade area. 3-legged intersections (access only from 3 points) are considered a possible negative when evaluating a site and are especially negative to large format (50,000 square feet and up) retailers who need to draw from larger trade areas.
3. Placement in the trade area – retailers are looking for the most central location to capture customers. Sites "off center" of the trade area are not as desirable unless there are extreme barriers to market entry forcing that kind of location decision.
4. Development horizons are relatively short. Retail tends to be a fast-paced industry with retailers constantly trying to adjust their business to meet the needs of a sometimes fickle consumer. Needing to be adaptive, they cannot estimate their location needs very far into the future.
5. Proximity to existing "sister" stores is considered. Any opportunity considered to significantly "cannibalize" sales of an existing store will most likely kill a new opportunity or require significant consideration.
6. Proximity to competitors is considered. Some retailers prefer to be as close to their competition as possible while others feel the need to be a distance away. This component is unique to each retailer.
7. Project opportunity plays into the decision. Anticipated co-tenancy, style of center, placement in the center all are reviewed.
8. Economics of the deal. Can the projected sales support the deal economics? Retailers do not open in the "red" with the idea of getting into the "black" down the road. New stores must be profitable day one.
9. There is no land banking of sites – retailers do not see the value in committing capital to non-performing assets or to "bet on the future". They will wait for the development opportunity to mature before making a commitment.

Retailing Concepts - Restaurants

Types of Restaurants

Fast Food or Quick Serve Restaurant

A fast food restaurant, also known as a quick service restaurant within the industry, is a specific type of restaurant that serves fast food cuisine and has minimal table service. The food served in fast food restaurants is typically part of a "meat-sweet diet", offered from a limited menu, cooked in bulk in advance and kept hot, finished and packaged to order, and usually available for take away, though seating may be provided. Fast food restaurants are typically part of a restaurant chain or franchise operation that provides standardized ingredients and/or partially prepared foods and supplies to each restaurant through controlled supply channels. The term "fast food" was recognized in a dictionary by Merriam–Webster in 1951. (Wikipedia)

Fast Casual Restaurant

A fast casual restaurant, found primarily in the United States, does not offer full table service, but advertises higher quality food than fast food restaurants, with fewer frozen or processed ingredients. It is an intermediate concept between fast food and casual dining, and usually priced accordingly. The category is exemplified by chains such as Chipotle Mexican Grill, Shake Shack, Five Guys, Bruegger's, Freddy's Frozen Custard & Steakburgers, Newk's Eatery, Noodles & Co., Panera Bread, Smashburger.

Characteristics normally associated with fast food & fast casual restaurants are:

- 2-3 Mile Trade Area
- Stand-alone retailers requiring 1-2 acres.
- Auto-centric feeding off "pass by" traffic.
- Need direct visibility and accessibility to the main traffic corridors.
- Typical locations are within high traffic corridors allowing the convenience factor to drive market interest.

Casual Dining

A casual dining restaurant (or sit down restaurant) is a restaurant that serves moderately priced food in a casual atmosphere. Except for buffet-style restaurants, casual dining restaurants typically provide table service. Casual dining comprises a market segment between fast-food establishments and fine-dining restaurants. Casual-dining restaurants often have a full bar with separate bar staff, a full beer menu and a limited wine menu. They are frequently, but not necessarily, part of a wider chain, particularly in the US.

Characteristics normally associated with casual food restaurants are:

- 5 Mile Trade Area (Minimum)
- Stand-alone retailers requiring 2.0-2.5 acres.
- Population requirements are 100,000 – 150,000 within the trade area.
- Median Household Income - $50,000
- Daytime population / employment within the trade area.
- Need direct visibility and accessibility to the main traffic corridors.
- Typical locations are regional locations with established restaurant reputation.

Fine Dining

Fine dining restaurants are full-service restaurants with specific dedicated meal courses. Décor of such restaurants features higher-quality materials, with establishments having certain rules of dining which visitors are generally expected to follow, sometimes including a dress code. Fine dining establishments are sometimes called *white-tablecloth restaurants*, because they traditionally featured table service by servers, at tables covered by white tablecloths. The tablecloths came to symbolize the experience. The use of white tablecloths eventually became less fashionable, but the service and upscale ambiance remained.

Characteristics normally associated with casual food restaurants are:

- 5 Mile Trade Area (Minimum)
- Stand-alone retailers requiring 2.0-2.5 acres.
- Population requirements are 100,000 – 150,000 within the trade area.
- Median Household Income - $75,000
- Daytime population / employment within the trade area.
- Need direct visibility and accessibility to the main traffic corridors – 30,000-50,000 ADT.
- Typical locations are regional locations with established restaurant reputation.

Variations

There are numerous restaurant variations that include cafes, buffets, coffee houses, brew pubs that may straddle the lines of traditional restaurant types.

Their characteristics will match most closely based on the type of restaurant they are.

Restaurant Development Trends

- 50% of consumers are eating out at least weekly – demand is stable but not rising.
- Casual dining has had a slight decline in sales whereas pubs have seen moderate sales growth.
- There is a strong rise in online ordering resulting in 3 out of 5 customers ordering delivery or takeout at least one a week.
- There has been an active "opening and closure" pattern with restaurants – concepts closing and new concepts taking their place, identifying the volatility in the restaurant industry.
- Consumer preferences are continuing to evolve creating a divide between convenience and those looking for a "memorable dining experience".
- There is a blurring of the concept lines which is leading to a new concept – "fine casual".
- That factor has fast casual restauranteurs starting to place more emphasis on the dining experience.
- Older, under-performing restaurants (in all concepts) may be closed to make way for newer concepts that better meet consumers changing preferences.
- **The number of restaurants per capita seems to be high indicating that a "correction" may be looming for the restaurant industry. This would result in closures or slowed expansion in the fast casual, casual dining segments.**

Each of the noted trends from the Retail Tutorial speaks to an industry that was chaotic and over-saturated prior to the pandemic. The shut-downs will serve as an accelerated "weeding out" of restaurants that were on the "edge of demise" prior to the shut-downs. On the surface, the number of restaurants that won't reopen seems like a catastrophic hit to the restaurant industry but in fact, fewer restaurants could mean a healthier restaurant environment long term. Restaurants that have strong brands and concepts will benefit from the "weeding out" of lesser concepts that have diminished the overall health of the restaurant industry.

Retailing Concepts - Convenience

Characteristics

- Convenience retail is the most common of all retail with small trade areas of only 1-2 miles, these retailers are the ones we see in our everyday travels to work, school and home.
- Small in scale, these retailers rely on a "pass by" customer base and need visibility and ease of access.
- Generally, stand alone and auto-centric, retailers in this genre are decidedly service focused and more recently, "food" focused.
- Retailers in this genre include quick serve restaurants, liquor, coffee, gasoline, etc.
- Today's convenience customers are focused on value, service, personalized experiences and convenience.
- As with all forms of retailing, convenience retail is transforming to meet the criteria of a more fickle consumer.
- From new concepts from long established chains like McDonalds to new concept retailers, the look of convenience retail is definitely changing.
- Even though the character, design and formatting throughout retail is changing, the basic criteria is not.
- Convenience retail may look different moving forward, but their placement in a trade area and criteria for locations will not change.

Characteristics normally associated with convenience retail are:

- Smaller scale with store sizes between 1,000 to 3,000 square feet.
- 1-2 Mile Trade Area
- Stand-alone retailers requiring 1-2 acres.
- Auto-centric feeding off "pass by" traffic.
- Need direct visibility and accessibility to the main traffic corridors.
- Typical locations are within high traffic corridors allowing the convenience factor to drive market interest.

Convenience Retail Development Trends

- The concept of convenience retailing is changing dramatically.
- Once reserved for gas stations and fast food the consumers focus on convenience is now opening the door for new concepts in retailing.
- The quick-serve restaurant dining explosion has dramatically impacted the outdated concept of convenience.
- Targeted towards younger generations whose primary concern is price, taste and ease of access – these new food retailers are changing the convenience retail market considerably.
- The new look of convenience retail is more modern and broadly represented and aimed at grabbing the growing quick service food dollar.
- With all of retail going through a transitional phase, some of the newer trends in convenience retailing are not necessarily sustainable.
- The volatility in consumer spending coupled with too many new retailers trying to enter the market has a decided impact on the number and type of restaurant concepts that will continue to exist.
- A lot of trial and error is going on in the marketplace, especially in the dining arena.

Getting good food at the same place you get gas seems like an oxymoron, but that perception appears to be changing. As more convenience-store chains focus on improving food and beverage quality, they are growing visits and posing a competitive threat to quick-service restaurants, according to officials at market research firm The NPD Group. "These food-forward retailers have moved forward in terms of quality and variety," NPD analyst Bonnie Riggs said. "They are a segment to watch … a retailer to take note of, put into your competitive set." **Restaurant News**

Good.

Most convenience retail will be unaffected by the shutdowns in the long run. Resilient and most able to adapt, convenience retail is able to survive most disruptions without significant impacts.

The exception will be the quick-serve restaurants who are experiencing the issues noted in the previous section. Traditional fast food restaurants (McDonald's, Taco Bell) will likely not be affected.

The worst that may come about is a lag in timing on new development deals as companies have shifted focus to different pandemic issues versus executing new site development.

Retailing Concepts - Neighborhood

This scale of retail is designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighborhood.

Characteristics

- Neighborhood retail is "needs based" retailing that provides for the sale of convenience goods (food, drugs, sundries) and personal services for the day-to-day living needs of the immediate neighborhood.
- Grocery remains one of the most dynamic retail genres with new grocery retailers (Aldi) entering the fray along with the substantial impact from online options for grocery.
- With Amazon projected to become the 3rd largest grocery in the US – impacts to conventional grocers is substantial.
- There are now multiple grocery concepts divided between conventional and alternative.
- Newer to the grocery landscape, alternative grocers are more specific in their approach.
- All concepts of grocery will need to re-invent themselves if they are to keep any type of foothold in the marketplace.
- Whether that is smaller stores, more specialized product selections, etc. – each grocer is having to evaluate how they stay relevant in the face of the new competition.

Conventional Grocers

- Conventional grocers are King Soopers and Safeway in the Colorado market.
- Site selection is fairly consistent between these grocers.
- They are less concerned with the specific demographics of the trade area as they are the depth (number of people) of the trade area.
- Real estate decisions are based on the projected sales volumes and since these grocers are considered the "primary" shop they expect to be shopped by the broader trade area.

Characteristics normally associated with these conventional grocers are:

- Store sizes range from 40,000 SF to 123,000 SF.
- 2 Mile Trade Area
- 15-25 acre project size (includes ancillary retail).
- Prefer to have other convenience retail included in the development area.
- Development "style" defined – little variance in the "prototypical center".
- This is a destination oriented shopping trip for the customer base.
- Need to be highly accessible to the residential base.

Alternative Grocers

- Alternative food retailers, Whole Foods, Sprouts, and Natural Grocers have made an extensive mark in Colorado and the grocery industry as a whole.
- Site selections for these grocers vary by retailer as each has a specific "retailing point of view" for grocery.
- Site characteristics are very different versus the traditional grocers.
- Limited by size and a specific "retailing point of view", all alternative grocers require a larger population base to support their concepts.
- Their smaller size and more limited product selection (versus conventional grocers) limits their ability to be a "single shop" for most customers.
- High traffic locations are sought that are already in the shopping pattern of the trade area customers.
- Whole Foods is concerned about finding higher income and education levels within their trade area – believing that customers with higher disposable incomes are more predisposed to shop their concept.
- Sprouts tends towards a more generic customer profile and builds customer loyalty from their fresh produce and meat.
- Avid "healthy" consumers shop all the stores in the genre as no one "alternative grocer" carries the full gambit of healthy related products.

Characteristics normally associated with these alternative grocers are:

- Store sizes range from 13,000 SF to 50,000 SF.
- Trade areas are less defined in scale – much broader than the conventional grocer.
- Not considered a "primary" store for consumers.
- 5-10 acre project size (includes ancillary retail).
- Prefer to have other retail included in the development area – some regional in aspect.
- Development "style" undefined – can vary in type of center.

Grocery Trends

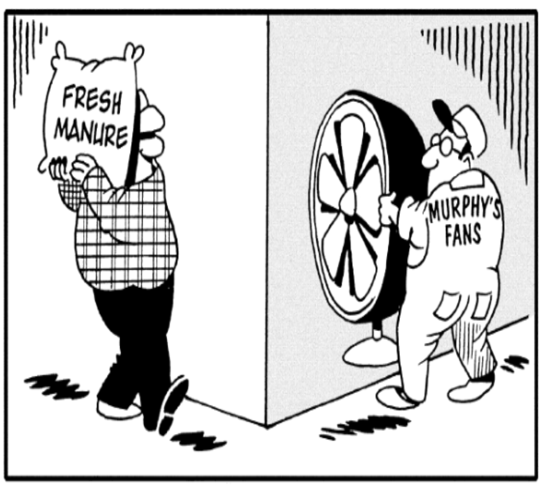
- Online grocery retailing is having a profound impact on the capacity for bricks and mortar grocery retailing.
- Expectations are that online grocery retailing will continue to substantially increase, placing Amazon as a major competitor into the grocery mix.
- 43% of shoppers have ordered groceries online in 2019.
- Online grocery sales are projected to grow to $30 billion by 2021.
- Online grocery sales are projected to reach 40% of total grocery purchases by 2025.
- That equates to the equivalent of 3,000 bricks and mortar grocery stores based on volume. FMI
- The syphoning of the food dollar to "ghost retailers" limits and reduces the need to expand bricks and mortar stores.

- Conventional food retailers, King Soopers, Safeway and Walmart Neighborhood Market are all impacted by the entrance of new food retailing concepts in addition to the online options.
- Once the only significant grocery opportunity, conventional grocers enjoyed holding the bulk of the available "food dollar".
- King Soopers and Safeway have been evaluating how to best address factors of economy and alternative/healthy trends which has required these grocers to re-position themselves to remain relevant to an emerging "new" grocery consumer.
- Still the most convenient grocery options, their store networks are far more extensive than any of the new concept grocery retailers.
- These grocers may be modifying their concept, but they are still desiring to be the "neighborhood grocery option".
- The concept of alternative food stores is the most dynamic within the grocery concept.
- Whole Foods, Sprouts, Natural Grocers, and Trader Joes' have all "staked a claim" in the Colorado marketplace.
- Consumers are evolving in their food sophistication, caring about sustainability, organics, farm to table, etc. – with no one retailer carrying the full gambit of products, consumers are shopping multiple stores.

There is much debate on whether online options for everyday needs has met the challenge or failed during the pandemic - making the biggest question whether consumers will more readily embrace online shopping or stick with physical grocery stores. Did the pandemic accelerate the shift to grocery shopping online or expose its challenges?

Physical stores seemed better poised to address the supply chain issue than Amazon was. For weeks, name brand toilet paper was illusive on Amazon… In an environment where you buy what you can versus what you want – online options are not nearly as attractive. Poised to become a convenient and safe alternative to the traditional grocery store – online options have had some significant failures in meeting that objective. Will Amazon stumbling affect consumer confidence long term?

Pickup and delivery options have also become unreliable with shoppers receiving incomplete or cancelled orders, or lack of available time slots. As the traditional grocers have significantly invested in their online presence for delivery and pickup, they too have not met consumer expectations a month later.



Everyone understands that these are unprecedented circumstances but, the pandemic definitely exposed shortfalls in all alternative forms of grocery shopping. When things really hit the fan, the only reliable option was the standard "grocery shop" that we have done for years.

It is unclear how this extreme event in our lives will permanently affect grocery – as every aspect of grocery was under scrutiny before (as the trends show), the grocery industry will likely need to broaden adaptations for on-line retailing.

Regional / Power Center (Big Box)

Several large anchors, including discount department stores, off-price stores, warehouse clubs or "category killers" (stores that offer huge selection in particular merchandise categories at low prices) dominate. The center consists of several freestanding anchors, sit-down restaurants and a few, small specialty tenants. ICSC (Edited)

Characteristics

- Regional and/or power center retail is generally comprised of general merchandise retailers such as Walmart and Target and a compliment of specialty retailers that "specialize" in goods within a specific range such as hardware, books or electronics, discount clothing.
- Specialty retailers are categorized as "junior anchors" due to their smaller store sizes in comparison to "anchor" type retailers Walmart and Target.
- So named "category killers" because they could "kill" competition, these retailers succeeded in saturating marketplaces.
- There is a decided shift in power retailing to "value oriented" retailers such as TJ Maxx/ Marshall's/Home Goods, Ross Dress For Less, Nordstrom Rack, etc.
- These are the retailers that are still hitting a chord with consumers and some of the only active retailers in this category.
- There are strong expectations that this format of retail development will need to broaden - extending into entertainment elements and non-retail uses to provide a more attractive environment for consumers.

Characteristics normally associated with power center retail are:

- Store sizes vary depending on the genre of the retailer.
- 5-7 mile trade areas.
- 25-40 acre project size.
- Population within the trade area ranges from 30,000 to 100,000 people.
- High profile locations with Interstate visibility and access.
- Co-tenancy with other junior anchor retailers.
- Co-tenancy with general merchandise retailers.

Power Retailing Trends

- Power retailing has now broadened to include entertainment concepts like Alamo Drafthouse; grocery concepts like Sprouts, fitness and beauty concepts; and medical and other alternative uses.
- Many of the retailers within this category are specialized in their retailing perspective (office, pets, sporting goods) making them prime targets for online retailers.
- Many are enlarging their online presence like Petsmart who has started Chewy.com to siphon sales to their own platform.
- Most are looking at smaller store footprints and/or converting space for service related options (pet grooming, communal working spaces).
- The "darlings" of this category have been the value retailers such as Ross, TJ Maxx and Burlington.
- Perhaps the "poster child" for unimaginative retailing, power centers are under attack for their lack of amenities and overall appeal.
- Conceptually, for this concept of retailing to sustain itself long term, changes in center design will be necessary.

From this…

To this…

Issues for these retailers will be directly related to the shutdown and how long it will take for consumers to feel comfortable with shopping in a traditional manner and frequency.

March and April were seasonal transition months with stock going from winter/spring to summer. Quickly transitioning that "out of season" stock out of the stores + restocking with new seasonal merchandise could be a challenge for some retailers.

There will be chains that were "on the edge" financially (Pier 1) that will not be able to withstand the financial burden of being shut down.

Super-Regional Center

This center sells a full variety of general merchandise, mostly apparel. Its main attractions are its anchors; they are typically enclosed regional malls. ICSC

Characteristics

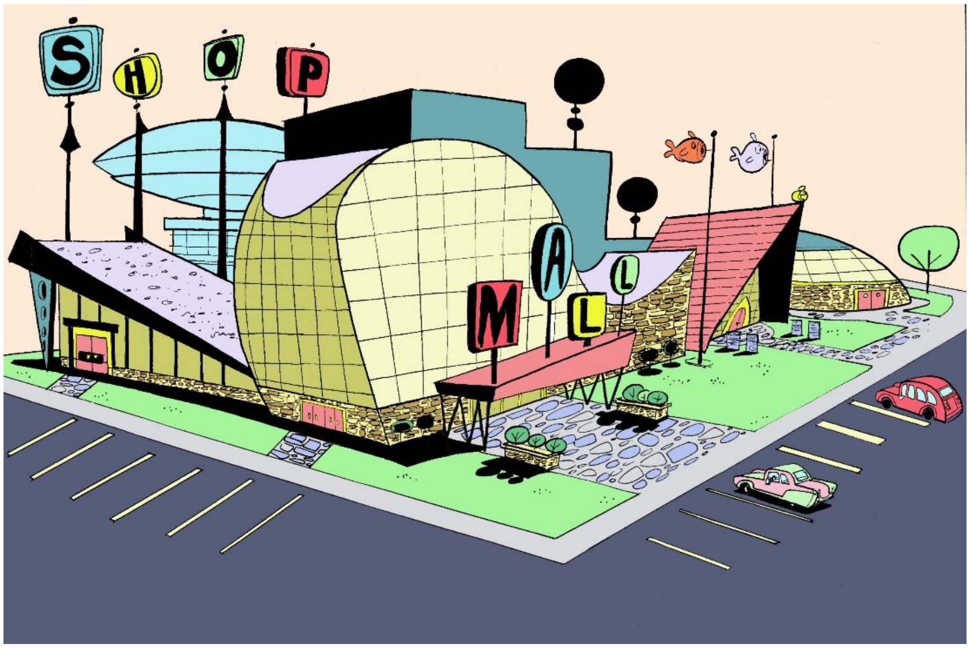
Enclosed Mall

- A super-regional center generally refers to "mall" projects/developments.
- Typically thought of as a fully enclosed shopping area, the concept was first developed in the United States in the late 50's and 60's.
- Much is in doubt as to what the future holds for the concept of enclosed malls.
- With the majority of the country's malls built 20+ years ago, the aged perspective of "the mall" is certainly contributing to its downfall.
- Dramatic changes in retailer makeup, aesthetics and entertainment uses within the mall will be necessary if the concept is to remain into the future.

Characteristics normally associated with this scale of retail are –

- Retail focus is primarily non-discount soft goods (clothing).
- Store size of retailer does not dictate super-regional classification.
- 20 Mile Trade Areas
- 50+ acre development size.
- Population numbers around 1,000,000.
- High-profile locations at Interstate cross sections.
- Co-tenancy with other super-regional retailers.

Enclosed Mall Retailing Trends



- The most asked question in retailing is - “Is there a future for the enclosed mall?”
- Considered a dinosaur by consumers and retailers, can the enclosed mall reinvent itself to once again be attractive to consumers?
- If so, what does the “mall of the future” look like?
- Transformation of the concept is definitely needed.
- Focus is on “consumer engagement spaces” or CESs.
- Ideas on transformation range from adding large and compelling attractions such as theme parks, indoor ski slopes, theaters, museums, art galleries, event space for concerts, food festivals and themed gatherings.
- Retail spaces will need to be viewed in a new way where people engage with the brand and the brand’s experience.
- The “mall” concept needs to transition from a place where consumers connect with products to places where people engage with a broader experience.

Lifestyle



- Lifestyle centers were designed to be the antidote to the enclosed mall.
- Lifestye centers are smaller than their "kissing cousins" the enclosed mall – averaging around 300,000 square feet.
- Architectural style is purposefully "eclectic" as to not feel sterile and encourage customer interaction.
- The quirky styles of the facades make the stores seem more unique, local and "un-chain" like.
- There has been a lot of criticism about this development concept as there are a number of hits and misses in the centers developed to date.
- The upper-end target demographics, "Disneyland" approach to architecture and even the open-air perspective have hindered the concept.
- Increasing the entertainment component, adding high density residential and careful selection of retailers could make this the "home run" shopping center concept of the future.
- Expectations are that the concept will need to evolve to be fully seen as an answer to "what is next" in retail shopping center design.

Characteristics normally associated with this scale of retail are –

- Retail focus is broad with a mix of big box retailers & mall type retailers.
- Store size of retailer does not dictate super-regional classification.
- 20 Mile Trade Areas
- 50+ acre development size.
- Population numbers around 1,000,000.
- High-profile locations at Interstate cross sections.
- Co-tenancy with other super-regional retailers.

Lifestyle Center Retailing Trends

- As all of retailing is starting to embrace elements of a "lifestyle center" – the concept seems to provide a springboard into the "next generation" of retail.
- Embracing entertainment elements and high density residential, their formula for a non-integrated mixed use center is certainly appealing.
- Then, why are there so many of these centers with high vacancies then?
- Challenges center on the scale of the centers and the tenant mix which skews towards the super-regional mall retailers.
- This dynamic makes these centers not as community driven as consumers would find attractive.
- Competitive to the traditional enclosed mall, as the enclosed mall seeks transformation that will include "lifestyle" elements – will the mall retailers retract to those centers and leave behind their "kissing cousins"?
- As retail continues to transform, it is a question if there is still a role for these hybrid centers that straddle big box and mall retail.
- The argument can be made that the lifestyle concept will provide valuable intel on how to approach retailing centers going forward but, may not be sustainable in its current scale and retailing focus.

Outlet

- Outlet is a type of shopping mall which specializes in "value" merchandise relative to the specific retailer.
- Many of the retailers are typical "mall" retailers who manufacture "value" merchandise for their outlet sister stores (i.e. Coach, Nike, Ann Taylor).
- Once relegated to outlying areas, outlet retailers are seeing the benefit of being in proximity to their standard stores.
- With that change in perspective, outlet has now started to proliferate into metropolitan areas.
- These centers require extensive population bases and expect to serve a very broad geographical area.
- Proximity to an enclosed mall or lifestyle center is preferred.

Characteristics normally associated with this scale of retail are –

- Retail focus is primarily discount soft goods (clothing).
- Store size of retailer does not dictate super-regional classification.
- 20 Mile Trade Areas
- 50+ acre development size.
- Population numbers in excess of 1,000,000.
- High-profile locations at Interstate cross sections.

Outlet Center Retailing Trends

- Outlet malls have always been attractive for their promise of a "bargain hunting" experience.
- As consumers started gravitating more towards "value" shopping, the appeal of outlet malls increased.
- Spurred by this new found popularity, developers expanded the concept throughout the country.
- Concerns have been raised that saturation may have been met within the concept.
- Locally, there may be some validity to that concern as the Denver Premium Outlets have yet to fully lease the project 18 months after opening.
- As with all forms of retail – the "experience" is a strong component in the evolution of the outlet concept.
- Outlet may need to tweak design and layout to move away from cavernous alleys and inauthentic architecture.
- The "bargain hunting" aspect will need to be heightened through design and not just store bargains to fully engage consumers.

Club Membership

- Club membership stores Costco and Sam's Club fit into the super-regional retail category.
- They consider themselves "stand alone" retailers not needing the typical co-tenancy required in just about every other retail genre.
- Sam's Club does prefer to co-locate with a Walmart Supercenter.
- Costco is seen as appealing to a more affluent demographic than Sam's Club.
- Costco has 785 stores nationwide.
- Sam's Club has 599 stores nationwide.

Characteristics normally associated with this scale of retail are –

- Retail focus is primarily discount goods.
- Store size of retailer does not dictate super-regional classification.
- Source of goods for small business owners.
- Trade areas of 250,000 people (without cannibalizing from "sister stores).
- Sam's Club prefers to co-locate with a Walmart Supercenter.
- High-profile locations at Interstate cross sections.

Club Membership Retailing Trends

- As a stand alone retailer, Costco does what it does – very well.
- Seen as a retail influencer, Costs has a "cult like" following.
- Costco's retailing influence is strengthened by not having other concepts that compete with themselves.
- The Sam's Club concept is diluted by Walmart Supercenters – even though they like to share the same site believing there is strength in their co-tenancy.
- Costco outperforms Sam's Club in almost all locations.
- Walmart has been experimenting with innovative ideas to help the Sam's Club concept bridge that gap.

Mixed Use & Retail

- In the mid to late 2000's, the answer seemed to be creation of mixed use developments with a "main street" design focus.
- Many of these suburban "main streets" were incorporated into larger developments aptly named "lifestyle centers".
- The concept of creating "main street" retail has been and continues to be a highly discussed and debated topic in retailing circles.
- Many believe that the creative aspects associated with this type of retailing is what will "save" the conventional bricks and mortar retailer.
- As consumers are looking for "more" from a shopping trip, this type of retail development could provide the experience so lacking in the conventional retail formats.
- How retail is incorporated into larger mixed use designs is where things sometimes go wrong.
- Maintaining elements of visibility and accessibility to the larger trade are a mandatory.
- Successful retailing in a mixed use development is entirely dependent on maintaining the factors important to retail.
- The access and building orientations commonly found with these concepts can prevent the retailer from having visual connection with the major street and less than direct access to their buildings.
- In fact, conventional retailing, specifically national chain retailers have mostly shied away from these opportunities.
- That said, as retailers and developers search for ways to engage the consumer, mixed use very well could be the answer.
- As with all retailing right now, evolution of the concept will need to happen to determine what works and what does not in what has conventionally been a challenging retailing concept.

Factors that greatly enhance the attraction of this type of retail:

Significant residential density in close proximity or incorporated into the project is needed to create a captive customer base for the retail/service. That residential component needs to be in walking or biking distance to the project. The higher the residential density, the better.

A grocery anchor that can provide daily service and customer trips to the retail area is cited in many of the successful projects. That "basic service" provider provides a continual customer base to the area necessary to support the smaller retailers who on their own cannot sustain that level of customer draw.

Competition from strip retail was the most cited issue in the success of other mixed use projects. The ability of retailers to forego the "main street" opportunity in favor of a "tried and true" center was very impactful to the "main street" projects. The conventional developments were especially successful in syphoning off national retail tenants. As retail is evolving, this dynamic may turn out to be more to a transitional issue than having a long term impact.

Automobile dominated orientation for the area also provided a challenge to "main street" developments. Areas where shoppers could easily bypass the "main street" provided challenges to the retailers in those projects.

Scale of the retail needs to be in-line with the scale of the other uses and the positioning of the project. Ability of the project to attract an appropriate anchor, density of the housing, competitive retail in the area, traffic counts all contribute to the depth of the retail square footage that will be supported.

Placement of the retail is paramount to its success. No one project can sustain the retail included within that project. The retail must be visible and accessible to the larger trade area for it to survive. Any design that eliminates those two aspects will fail from a retailing component, even if all the other factors have been met.

What about ground floor retailing?

Mixed Up Priorities for Mixed-Use Buildings Strong Towns (Nolan Gray) Edited

In cities and towns across the country, hundreds of acres of urban land are going to waste. In the Bay Area, it has reached the status of blight. Along Main Streets and within retail clusters across the country, it lies dead, draining life from the streets that host it. No, I'm not talking about parking requirements. I'm talking about ground-floor retail.

If you live in an urban neighborhood, you probably already know what I'm talking about: the rows of empty storefronts and stray mixed-use buildings that can never stay leased out. But what you might not know is that, in many cases, this empty ground-floor retail is the unintended consequence of policies that urbanists have cheered on for years.

Today, many major cities require ground-floor retail for new apartments and offices. More commonly, as in the commuter suburbs of New Jersey, incorporating ground-floor retail is a necessary condition for receiving the variances and rezonings needed to construct apartments and offices, particularly near transit.

How did we get to this point? The goal, in itself, isn't unreasonable…

Where it works, it activates streets, improves safety and, at its best, makes car-free living possible. Having seen and experienced great streets and neighborhoods with ground-floor retail, urbanists today assume that to build a great neighborhood you need to have a lot of ground-floor retail. Ignoring that causation may work both ways here, they settle on the easiest solution: mandate it wherever possible. The result is the empty storefront blight that we now see in cities across the country.

The trouble with these mandates is that they are instituting an outcome—ground-floor retail—where the processes to make that outcome sustainable aren't present. In order to make ground-floor retail work, you need at least three things: developer expertise, an existing retail corridor, and sustainable retail market rents.

Criteria #1: Developer Expertise

Before any mixed-use project can get underway, you need developers with experience building and managing mixed-use retail. We often lump "developers" in together like they all do the same thing, but really, we should think of them more as farmers, specializing in specific products and regions. Foisting urban mixed-use retail onto a market-rate or affordable housing developer is like asking a family-run orchard farmer to set aside a quarter of her budget to cultivate potatoes. If it doesn't make the whole enterprise unprofitable, it will at least force the farmer to take a big hit and provide a sub-par product.

Requiring the inclusion of ground-floor retail into a proposed housing or office development from your local developer can, for similar reasons, lead to higher costs and less efficient construction and management. This ultimately makes the project less attractive than, say, a comparable development opportunity out on the edge of town. This alone can often kill a project altogether, meaning that your city will need to wait on a large, national developer with expertise in urban mixed-use projects, which might not happen depending on the size of your town.

In many small and even mid-size towns, lack of expertise is a major stumbling block for these kinds of projects, which means fewer homes and offices in urban style neighborhoods. This lack of expertise can kill otherwise great projects (e.g., apartments near transit) where mandates are present.

Criteria #2: An Existing Retail Corridor

But let's say you have that local developer who can do mixed-use projects or a national developer with expertise and confirmed interest. Next you need an existing, naturally emerging urban retail corridor. The heart of the problem with ground-floor retail mandates is that they are often speculative projects. Policymakers want this to be a thriving, mixed-use neighborhood someday; they want you to make the first bet on that gamble by adding ground-floor retail to your project.

The trouble is that urban retail (e.g., with minimal setbacks, abutting a sidewalk, with parking in the back) in isolation almost never makes sense, even if the parcel is neighbored by conventional suburban retail. Market research from the folks who have skin in the game—the real estate research firms—indicates that ground-floor retail absent an existing retail corridor adds no value to a unit or neighborhood in the eyes of prospective tenants. It will take decades of consistent mandates, high population densities, and, as we will discuss below, ongoing demand for housing and retail space in that area for this kind of corridor to form. That is to say, far longer than any investor is interested in considering. In the meantime, residents who want to live in an urban neighborhood will look elsewhere, and the retailers who depend on their dollars will follow.

Criteria #3: Sustainable Retail Market Rents

But perhaps you live in a really exceptional city: you have a developer with expertise plus a busy urban retail corridor. You still need market rents on retail that are high enough not only to cover construction costs, but also the additional operating expenses unique to retail, including new management costs, marketing, and leasing commissions, as well as new costs like tenant improvements.

If margins are thin, this forced set-aside can and does kill projects. But if margins are a little larger and developers are clever, they will build the retail and let it sit vacant. Why? Because they must build it to build the associated profitable use—housing—but the costs of operating and marketing retail (tenant improvements, in particular) and the risk of signing an unprofitable lease in a bad market make keeping the space occupied a bad deal. Thus, the brand new retail space sits vacant.

In the end, nobody is happy: developers are forced to lose money on retail space that shouldn't be built, while residents have to suffer a new drain on the streets.

Too Complex to Mandate

If urbanists want to create great streets, they should focus less on a particular end that they want to engineer into existence. After all, as we can see with the unintended consequences associated with these ground-floor mandates, cities are far too complex for that kind of thinking. Instead, urbanists should focus on understanding and supporting a framework by which these great streets could emerge. Sometimes that means proactive action—say, by beautifying your streets or working with your chamber of commerce to train local developers. But sometimes that means doing nothing—particularly when doing something means blocking the small, unplanned changes that will, over time, add up into a great street.

A tale as old as time is the best way to illustrate the relationship between mixed use development and retail…

- "Beautiful" in its design and complexity, mixed use development holds a lot of promise as a development concept that residents and consumers will find attractive.
- Like the famed love story – mixed use is attracted to the "retail beast" yet is not sure it should be.
- Difficult, demanding, ugly at times and decidedly snarly, retail is not best suited to the complexity of mixed use.
- When retail looks in the mirror, it sees the possibility of being part of that beauty yet, is not confident it knows how to be in that relationship.
- For retail to become the "handsome prince" to the beauty of mixed use, it will have to be coaxed out of its natural character through careful thought and design.

What's Next For Retail?

We know we are less materialistic…

A move away from "things" is now a common response by consumers. Seemingly more interested in travel and entertainment, this shift in consumerism has a decided impact on conventional retailing. Retail shopping for clothing and personal items is mid-way down priorities lists for expendable income. Home electronics, once a staple in retailing is even further down the list in terms of interest from consumers. This trend is not just associated with the "millennials" it is reaching throughout the generations. This priority shift in expendable dollars away from "goods" both positively and negatively impacts the conventional retail environment, breeding new retail concepts and conversely killing off some established retailers.

We know that we are changing how we shop for goods…

Coupling a consumer base that is much more conservative with their spending and a broadening of online shopping is having a significant impact. More convenient and perceived to provide a better value than bricks and mortar retailers, online shopping is increasing dramatically. Where once only tech savvy consumers utilized online shopping, online shopping is now become ingrained across the generational perspective. As more dollars are spent online, the need for bricks and mortar retailing is reduced. This dynamic shift in retailing has initiated a "stormy future" for conventional retail outlets.

We know we want a better experience out of shopping…





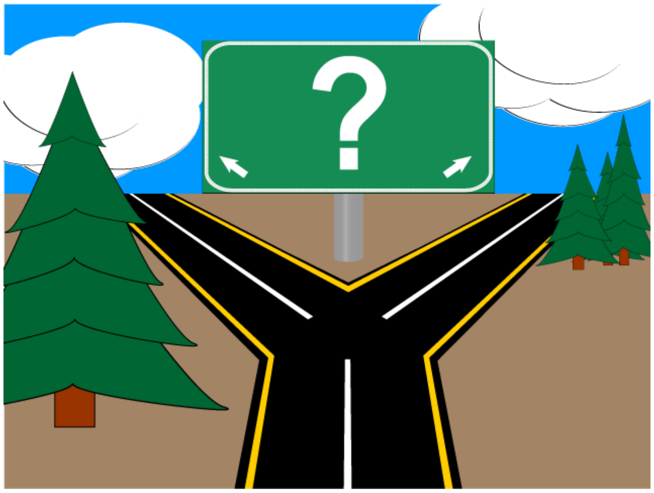
With more and more consumers utilizing online shopping to meet many of their retailing needs, what will draw customers away from their computer and into an actual store? This is a question being asked by every retailer. Taking a que from consumers wanting more "experiences" many in the retailing industry are focusing on is this concept to excite consumers. From the retailers themselves to the shopping areas they are located in, every aspect of a retail shopping trip is being analyzed to determine how the customer experience can be enhanced.

As retail is in the midst dramatic change, the uncertainty of this new landscape pushes both retailers and developers seeking to expand to cautiously consider every opportunity. The many issues impacting retail has led to disruption and instability for many segments of the marketplace.

The pandemic is not going to change these factors – the headwinds that were blowing against retail have only gotten stronger and faster.

> **The pandemic affect is "hastening trends" that we thought would play out over the next five to 10 years, notes Elias Wein. "We're accelerating our move to e-commerce, home delivery and BOPIS (buy online pick-up in store),". Traditional retailers that have been struggling to adapt to changing consumer behaviors for years or decades may be out of time. Liz Wolf, March 2020**

Where does that lead us to for the future of retailing?



The future of retail is certainly being debated. There are as many opinions as there are ideas of what retail of the future is going to look like. Retail has always been dynamic and that seems to be the only certainty going forward. The impacts from both the cultural changes of consumers to the expansion of alternative shopping avenues will certainly shape the future of bricks and mortar retailing. As both dynamics are still in their "pre-teen" years from a maturity perspective, the lasting impacts are not yet realized. Accelerated by the pandemic, retailers attempt to address the consumer's change in perspective will need to be more timely, we will see hits and misses as they struggle to adapt, leaving the retail development landscape in a state of flux for the foreseeable future.

Every 50 years or so, retailing undergoes this kind of disruption. A century and a half ago, the growth of big cities and the rise of railroad networks made possible the modern department store. Mass-produced automobiles came along 50 years later, and soon shopping malls lined with specialty retailers were dotting the newly forming suburbs and challenging the city-based department stores. The 1960s and 1970s saw the spread of discount chains—Walmart, Kmart, and the like—and, soon after, big-box "category killers" such as Circuit City and Home Depot, all of them undermining or transforming the old-style mall. Each wave of change doesn't eliminate what came before it, but it reshapes the landscape and redefines consumer expectations, often beyond recognition. Retailers relying on earlier formats either adapt or die out as the new ones pull volume from their stores and make the remaining volume less profitable.

Darrell K. Rigby – Harvard Business Review

Moving Forward…

As retailing is changing so must municipal perspectives regarding retail. Municipalities will need to lead the way in assisting transformation of outdated retail shopping center formats to ones that are more intricate and interesting from a consumer viewpoint.

If cities are to maintain a brick and mortar retailing environment that is healthy and vibrant – changes in the brick and mortar retail development pattern must be encouraged. Working with existing shopping center owners, developers and retailers themselves to not only visualize transformation but be encouraged to do so with useful tools will be the hallmarks of "municipal retail strategies". Taking a more active role in the direction brick and mortar retail development is a necessary step in maintaining a healthy retailing environment.

> **"For a long time now, one of my comments to audiences that I give speeches on this is to say we're not overbuilt, we're under demolished," said R. Michael Goman, a principal at Goman + York, the East Hartford, Conn., commercial real estate advisory firm, said. "We have to take some of this stuff down or it's got to be converted to other uses."**

Katy Press

KP Consulting & Associates

Founder and Principal

Katy Press's 30+ year retail real estate career has placed her on both sides of the retail development table, first as a retailer and then as a retail developer. Katy has operated a successful consulting practice working with many of the top retail developers, landowners, and cities in the region. Prior to consulting, Katy was VP of Development for Catellus Commercial Group initiating a regional retail development arm of the California company. Katy's first retail experience came in 1984 as a Real Estate Representative for 7-Eleven Stores in the Colorado marketplace. After leaving 7-Eleven she joined Safeway Stores and stayed there during the 90's holding the position of Real Estate Manager. During that tenure, Katy helped Safeway pioneer a self-development program that extended through the Colorado region resulting in the personal development of 20+ Safeway anchored shopping centers.

"As a consultant, I have had the privilege of working for both the private sector development community as we well as for public sector municipalities. With over 35 years in the retailing industry, my perspective and knowledge has strengthened my perspective and allowed me to be more effective for my clients."