NOT YOUR GRANDMOTHER’S RETAIL

Planning for Retail in an On-Line World
How do you plan for retail in an on-line world?
Take stock of what is happening...

**People are buying more online**

E-Commerce in the US reached nearly **$395 billion in 2016**. However, this only accounts for **11.7% of total retail sales**.

**Online sales affect retail categories differently**

Computer and Electronics and apparel and accessories accounted for **45% of ecommerce sales**.

**Most retail sales in the US are influenced by digital tools**

78% of shoppers research **online** before heading to a store.


Source: eMarketer, April 2013.

Source: Accenture, 2013.
#1 Demographic trends portend significant changes in shopping patterns
In 2015, Millennials surpassed Boomers for the first time...

Baby Boomers: 74.9 million (and shrinking)

Millennials: 75.4 million

Generation X: 65 million

Source: US Census Bureau 2016
In the next ten years....

**Millennials will be entering higher income brackets**

**Boomers will be retiring, with many living off savings**

![Projected population by generation](image)

Note: Millennials refers to the population ages 18 to 34 as of 2015.
Source: Pew Research Center tabulations of U.S. Census Bureau population projections released December 2014 and 2015 population estimates

PEW RESEARCH CENTER
97% of Millennials will post their experiences on social media.

Source: Internet Marketing Inc’s “Millennial Travel Trends: A Look at the Largest Generations’ Habits”

Millennials spend more than any other age group online, $2,000 annually, despite lower incomes than older adults

Source: Business Insider, 2015

49% indicate that social media influences purchase decisions (vs. 19%)

Source: Federal Reserve Board; Bureau of Economic Analysis; Census Bureau; Moody’s Analytics 2015

Increasingly customers research, locate, and buy products and services that have been redefined by their experiences on social media platforms.
#2 Mobility changes are afoot
...and being fueled by technology.
Millennials are driving car share usage

“We have experienced some relief in parking demand based on ride share”
- Hotel Operator, Midtown Atlanta
CARE ABOUT ACCESS, NOT OWNERSHIP

Percent of Millennials who think it is important to own an automobile

- 30%: No intention to purchase car
- 25%: Might purchase if I really need it
- 25%: Important, but not a priority
- 15%: Extremely important

SOURCE: GOLDMAN SACHS INTERN SURVEY 2013
Yet underlying zoning regulations have yet to catch up, particularly in urban areas:

(Parking Ratios Per 1,000 SF of retail)

**Urban**
- Low Car Ownership
- Public Transit
- High mixed-use density

**Urban/Suburban**
- Low to Moderate Car Ownership
- Commuter Transit
- Moderate Density

**Suburban/Rural**
- High Car Ownership
- No Transit
- Low Density
And minimum parking requirements remain exorbitantly high in many places...

- **Urban**
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  - Public Transit
  - High mixed-use density

- **Urban/Suburban**
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- **Suburban/Rural**
  - High Car Ownership
  - No Transit
  - Low Density
Cities all over the country are reducing or completely removing their parking minimums to encourage new development and create quality pedestrian environments.

### Minimum parking requirements

<table>
<thead>
<tr>
<th>Downtown/City</th>
<th>Minimum parking requirement for retail (per 1,000 SF)</th>
<th>Minimum parking requirement for restaurants (per 1,000 SF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Rochelle, NY</td>
<td>2.5–4.0/1,000 SF</td>
<td>6.7/1,000SF</td>
</tr>
<tr>
<td>Yonkers, NY</td>
<td>2.8/1,000 SF</td>
<td>6.7/1,000SF</td>
</tr>
<tr>
<td>Downtown Englewood, NJ</td>
<td>2.5/1,000 SF</td>
<td>3.3/1,000 SF</td>
</tr>
<tr>
<td>Downtown Providence, RI</td>
<td>2.0/1,000 SF</td>
<td>2.0/1,000 SF</td>
</tr>
<tr>
<td>City of Cambridge, MA</td>
<td>1.0/1,000 SF</td>
<td>2.0/1,000 SF</td>
</tr>
</tbody>
</table>

*Source: StrongTowns.Org*
#3 Retailers are right-sizing
Retailers are right-sizing into smaller footprints.

Percentage of total U.S. population living in an urban area

89%


Physical stores act as fulfillment centers for online purchases and deliveries. Therefore, opening urban-format stores enables retailers to:
1) Be in close proximity to consumers who choose to pick up items
2) Reduce delivery wait times

Physical stores act as show rooms and help build brand awareness amongst consumers

Target – Cambridge; 20,000 sf
IKEA ‘click-and-collect’ stores average 20,000 SF allowing customers to collect online orders easily and still purchase a limited range of products.
Nordstrom Local, West Hollywood, CA
3,000 SF (vs. 140,000 sf)
No dedicated inventory
Return/pick up
Emphasis on service (drinks, on site tailoring)

Heavy investment in mobile tools and engaging customers on their smartphones.

- In-store sales have fallen
- E-commerce sales have increased by 8% YoY
- On-line sales account for 25% of full-priced sales
#4 Shopping centers are diversifying uses
On-line shopping has resulted in decrease in **total sales** for some retail categories:

- department stores (-5.6%)
- electronics and appliances (-3.2%)
- general merchandise (-1%)
- clothing & accessories (-7%)

### Number of Retail Stores Closing in Early 2017

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Number of Stores Closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payless</td>
<td>1000</td>
</tr>
<tr>
<td>RadioShack</td>
<td>552</td>
</tr>
<tr>
<td>Bebe</td>
<td>170</td>
</tr>
<tr>
<td>JCPenney</td>
<td>138</td>
</tr>
<tr>
<td>American Apparel</td>
<td>110</td>
</tr>
<tr>
<td>Kmart</td>
<td>108</td>
</tr>
<tr>
<td>CVS</td>
<td>70</td>
</tr>
<tr>
<td>Staples</td>
<td>70</td>
</tr>
<tr>
<td>Macy's</td>
<td>68</td>
</tr>
<tr>
<td>A&amp;F</td>
<td>60</td>
</tr>
<tr>
<td>Sears</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: Business Insider 2017 – "More than 3,200 stores are shutting down – here’s the full list". Hayley Peterson.

No one is building enclosed regional malls today. All the development is redevelopment of existing centers.

Quote from Wall Street Journal October 24, 2017

Map of some of the latest mall-to-mixed-use redevelopments throughout the country

Source: LOA, 2018
Not many commercial real estate professionals have the capacity, capability, and creativity to successfully execute complicated projects like these.”

Chain Store Age, February 2018
Underperforming assets.

Well located, accessible, convenient

San Bernardino, CA
48.2 acre Carousel District
Downtown location
Mall redevelopment.

Well located assets.

San Bernardino, CA
48.2 acre Carousel District
Downtown location
Malls to housing (often affordable).

Boomers and Millennials are driving housing demand in affordable, accessible and linked communities.

Transit accessible site originally zoned for Manufacturing. Rezoning would trigger MIH* and could allow for hundreds of additional affordable housing units.

*In NYC, Mandatory Inclusionary Housing (MIH) ensures that up-zonings include 25% to 30% set asides at Average AMI of 60% or 80%.
Malls to housing (often affordable).

Sky View Park
Flushing, NY
448-units
Rooftop park
Spa/gym

Average Sales: $743k
The Shops at Skyview Center
Flushing, NY
Regional Mall (785,000 sf of retail)
#5 Food related micro-manufacturing is moving downtown
Honeycomb Creamery
Cambridge, MA.

Equilibrium Brewery,
Middletown, CT

Roasting Plant in
the Lower East Side, NYC.

Challenges
- Discretionary permits
- Light Manufacturing Use Restrictions
- Financing
#6 Downtowns and retailers need to sell an experience
Going to a physical store is still the preferred method of shopping for products as consumers seek unique experiences and services.

Why shoppers go in-store

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I want to talk to a salesperson</td>
<td>11.0%</td>
</tr>
<tr>
<td>I do not trust online security</td>
<td>13.0%</td>
</tr>
<tr>
<td>Return process is too complicated</td>
<td>14.0%</td>
</tr>
<tr>
<td>I want to verify the authenticity</td>
<td>15.0%</td>
</tr>
<tr>
<td>I have to go to the shop anyway</td>
<td>16.0%</td>
</tr>
<tr>
<td>I enjoy the experience of going to the shop</td>
<td>23.0%</td>
</tr>
<tr>
<td>Product is too valuable to buy online</td>
<td>24.0%</td>
</tr>
<tr>
<td>Shipping costs are too high</td>
<td>25.0%</td>
</tr>
<tr>
<td>Delivery takes too long</td>
<td>34.0%</td>
</tr>
<tr>
<td>I am concerned products look different</td>
<td>41.0%</td>
</tr>
<tr>
<td>I want to try the item on</td>
<td>55.0%</td>
</tr>
<tr>
<td>I want to see/touch the item first</td>
<td>55.0%</td>
</tr>
</tbody>
</table>

In response, traditional retailers are adapting store formats to include personalized services and more hands-on, memorable activities.

<table>
<thead>
<tr>
<th>Type of Retailer</th>
<th>Retailer</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home improvement and furnishing stores</td>
<td>Home Depot</td>
<td>DIY home décor classes, cooking classes and demonstrations, model kitchens</td>
</tr>
<tr>
<td></td>
<td>Sur La Table</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Williams- Sonoma</td>
<td></td>
</tr>
<tr>
<td>Electronics and appliance stores</td>
<td>Google</td>
<td>Live games</td>
</tr>
<tr>
<td></td>
<td>Best Buy</td>
<td></td>
</tr>
<tr>
<td>Sporting goods stores</td>
<td>REI</td>
<td>Rock climbing walls, equipment testing, yoga classes</td>
</tr>
<tr>
<td></td>
<td>Timberland</td>
<td></td>
</tr>
<tr>
<td>Café, restaurants, bars breweries</td>
<td>Starbucks, Starbucks</td>
<td>Social gatherings, outdoor dining, roasting</td>
</tr>
<tr>
<td></td>
<td>Reserve</td>
<td></td>
</tr>
</tbody>
</table>
#7 The rise of the food hall
Restaurants make up 15% of all retail sales. Restaurant sales growth has surpassed all other retail categories since the recession, +19% between 2012 and 2015.

Expenditure data shows that U.S. consumers have started spending more on dining in restaurants and meals outside the home (+5%) than on buying groceries and eating in (0%).*

8 in 10 consumers say dining out with family and friends is a better use of their leisure time than cooking and cleaning up**

*Source: Bureau of Economic Analysis Q1 2016
**Source NRA Restaurant Industry 2016
Key factors leading to the rise in food halls:

1. The rise in ‘foodie’ culture amongst younger consumers seeking authentic, quality prepared foods
2. Rising traditional restaurant space rents in major cities

Experience culture – things you can’t purchase on-line

Total SF expected in the U.S. by 2019

4 MILLION

Food halls today provide a variety of culinary experiences

Food halls offer food vendors and restaurateurs flexible leases and lower rents

Food halls are destinations that create high foot traffic downtown

Source: Cushman and Wakefield Food Halls Report, 2017
Pizitz Food Hall in Birmingham AL, located in the historic Pizitz department store building, is part of the larger revitalization effort of downtown.
#8 Downtowns and retailers need to build social media marketing strategies
Geofilters act as digital stickers on visitor’s photos

Posts should highlight new businesses and various activities taking place downtown.