“RETAIL ... WHAT IS IT?"

Let’s start at the very beginning... a very very good place to start!
“RETAIL” DEFINITION

re·tail
/ˈrē,tāl/
noun: retail; plural noun: retails
1. the sale of goods to the public in relatively small quantities for use or consumption rather than for resale.

https://en.oxforddictionaries.com/definition/retail
EMERGING RETAIL TRENDS

What is driving retail and retail real estate today?
New Era Demands New Thinking

“Real estate as an asset class has matured. Market participants need to realize this and make the appropriate adjustments.”

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ULI EMERGING TRENDS 2019 – INFLUENCERS
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This phenomenon is particularly true with consumables like beauty products.

Social commerce also has particular significance for the resale market where, for example, someone might put or see something on-line, and then tell their friends about it…creating hype
RETAIL APOCALYPSE NOW
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THE RETAIL APOCALYPSE

MORE STORES ARE FILING FOR BANKRUPTCY
RETAIL APOCALYPSE NOW
RETAIL APOCALYPSE NOW
RETAIL APOCALYPSE NOW
RETAIL APOCALYPSE NOW
RETAIL APOCALYPSE NOW
RETAIL APOCALYPSE NOW
RETAIL APOCALYPSE … NOT!!!
Retail isn’t dying, it has reoriented to more efficient platforms that give consumers one-stop shopping.
ULI EMERGING TRENDS 2019 – PLATFORMS

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Retail is as or more robust and diversified than at any time in memory.

- For example, the Canadian e-commerce platform Shopify started in 2004. As of 2017, it had 600,000 sellers.
- According to the 2018 letter to shareholders, over 5 million Amazon Marketplace sellers account for over 50% of total sales.
- Thredup, Craig’s List, and Ebay are examples of how an individual can easily conduct C2C transactions.
The Old Order is trying to figure out how to get an edge on the Titans, and the Titans are embracing some lessons from the Old Order’s playbook.
RETAIL – THE OLD AND THE NEW ORDER

- The Old Order is trying to figure out how to get an edge on the Titans, and the Titans are embracing some lessons from the Old Order’s playbook.
- Influencers and Platforms are driving refinements.

Broadlines and Food & Drug Technology Continuum

The Tech Titans

Source: CitiBank Research/Weinswig
MOM AND POP IS EVOLVING
MORE RETAILERS NOW THAN EVER
ULI EMERGING TRENDS 2019 – NEW EQUILIBRIUM

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- Even the strongest retail projects need broad reasons for customers to visit.
- Uses ranging from medical and educational services to distribution activity, with mixed-use or dense settings adding further support.
- The headlines should be ‘What kinds of Brick-and-Mortar Retail Will Survive’ and ‘How will we repurpose unneeded retail space?’
The customization and localization of the shopping experience is more important now than ever.
ULI EMERGING TRENDS 2019 – LANDLORD-TENANT RELATIONS

- The customization and localization of the shopping experience is more important now than ever.
- **Successful landlords will ask “WHY?” … a lot!**
  - Why should a tenant be in a project?
  - Why does the consumer care?
  - Why should a LL want it be in a project?
  - What is the retailer’s plan?
  - How they will complement co-tenants to create a mix that’s pertinent today?
ULI EMERGING TRENDS 2019 – LANDLORD-TENANT RELATIONS

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- A retailer with a larger social following will be sought after just as a retailer with high sales per square foot was in the past.
- Every 5 years tenants are reinventing themselves….what tenant lasts for 20 years?
- How are LL’s protecting themselves?
- A long lease term on a new tenant is a risk when there is no way of knowing if the tenant will be relevant in 5-10 years.
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Traditional retailers need to find new and better beacons than traditional signage for consumers to find and patronize them, and to continue to compete.
How Does Retail Organize Itself in Today’s World?

Let's talk about BEHAVIORS!
TYPES: COMMODITY RETAIL

A retailer selling goods and services which are consumed without emotional connection by the consumer and for which the consumer's primary motivation is price and convenience.

Examples include grocery and drug stores, mass merchants such as CostCo, Target or Wal-Mart, office supply stores such as Staples or Office Depot, or electronics, books and music.
TYPES: SPECIALTY RETAIL

Retailers selling goods and services which are consumed on a discretionary or emotionally-driven basis using discretionary funds/income, and where experience and a sense of place is a primary component when deciding how and where to spend discretionary time.*

Examples include fine dining, clothing, luxury hard and soft goods, or electronic, books and music, and even specialty shopping districts.

* With the rise of platforms and influencers, the importance of “place is evolving.”
Retail Channels Explained

How does this translate into digital retail as opposed to bricks-and-mortar retail?
Search over 200 stores at once and compare prices.

deals from 5,000+ retailers and brands

Save up to 10% - 6 results

Samsung Electronics
UN55MU6300F 55-inch 4K Ultra HD Smart TV (2017) [Save 99]

Samsung [NoMotion] U55JAM5500 Curved 55" 4K Ultra HD Smart LED TV (2017) [Save 99]

Nintendo 3DS Lite - Black

Nintendo Wii U - Aqua Blue

Lenovo Yoga 920 with Windows 10 Pro

Razer - Black Shark

Target

Whirlpool Smooth Touch Freestanding Gas Range

Walmart
HOW ARE RETAIL CHANNELS USED?

Omnichannel strategies work differently for commodity and specialty retailers.
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- For example, multiple retail channels might be used by a consumer in purchasing a particular **COMMODITY** like a television (e.g. research online at home, price checking on a phone while at a retail store).
TECH TITANS … AND THE REALITY OF SHOWROOMING

“I’d Walk out of a Store and Purchase Online for a Discount of…”

- 0% to 2.5%: 45% YES
- 2.5% to 5%: 60% YES
- 5% to 20%: 87% YES

Source: Citibank Research/Weinswig
HOW ARE RETAIL CHANNELS USED?

Omnichannel strategies work differently for commodity and specialty retailers.

- For example, multiple retail channels might be used by a consumer in purchasing a particular COMMODITY like a television (e.g., research online at home, price checking on a phone while at a retail store).

- By contrast, a SPECIALTY retailer might use aps, ads, and social media strategies to drive customer traffic to a brick-and-mortar store, restaurant, or shopping district.
HOW RETAIL IS EVOLVING

Generational Groups.
How do we spend our money?
What's different?
RETAIL TRENDS

- The shift toward enjoying experiences more than purchasing goods (commodity vs. specialty) will continue to move retail stores toward selling experiences rather than selling goods, and commodities will continue to dominate on-line.
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- Both consumers and cities want retail that is walkable from housing.
  - Retail and residential developers, and cities will need to work closely to create cohesive developments to satisfy this evolving consumer.
  - Suburban developments will replace shopping centers.
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URBAN VS. SUBURBAN

Source: John Burns Real Estate Consulting LLC calculations using U.S. Census Bureau data. *projection
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Societal shifts by frame of reference, attitudes, and habit.
RETAIL TRENDS

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- Stores and services catering to older buyers will flourish too, thanks to a 38 percent surge in the country’s population 65 and older from 2015 to 2025.
IMPLICATIONS OF ONLINE RETAIL

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  - Lower effective rents.
  - More marginal tenants with lower credit.
  - Redevelopment and repositioning opportunities (even old retail is well located, after all).
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- **Redevelopment opportunities for retail projects that no longer have a reason to be.**
  - Substantial reduction in amount of retail space; replace with other commercial and residential uses.
  - Focus on the best locations for retail in any given market; do long-range planning for use conversion on less viable locations.
PLANNING ISSUES

PUBLIC VS. PRIVATE SECTOR

Balancing competing interests.
PLANNING QUESTIONS WE’RE ADDRESSING

- There are implications for those who design public policy:
  - Rise of e-commerce has made retail planning more complex.
  - E-commerce will impact urban places.
The Hills at Vallco is not only a Town Center for Cupertino but also a new approach to city planning, seamlessly integrating a 30-acre rooftop community park into an exciting mixed-use neighborhood and adding an extraordinary amenity that all Cupertino residents will use and enjoy.
Mixed-Use Regional Hub in the San Francisco East Bay Marketplace

THE VISION

A MIXED-USE REGIONAL HUB IN THE SAN FRANCISCO EAST BAY MARKETPLACE
Perched above the San Francisco Bay complete with a beautiful panoramic view sits Hilltop by the Bay, a vast, fully-entitled 77-acre site that is quickly evolving to emerge as a walkable, mixed-use village that will bring its trade area a new, vibrant and flourishing community destination.
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- Retail is NOT dead, however…
  - it is undergoing a period of reorganization
  - it is changing because of social commerce
  - it is changing because of evolving retail platforms
THRIVING RETAIL DISTRICTS

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- To attract customers, projects need to differentiate themselves.
Are our expectations about vibrant areas realistic?
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The most vibrant areas are the most organic. Examples: Pearl District (Portland), Ballard (Seattle), SF retail streets, College Ave (Berkeley/Oakland), Willow Neighborhood (Phoenix), Bucktown (Chicago), Healdsburg and Sonoma Square.
SOCIAL/RETAIL ENGINEERING

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- Encourage natural retail evolution and do not force retail where it does not meet basic retail criteria.
THRIVING RETAIL DISTRICTS

- Create a Vision - Public/private partnerships, specific plans.
- Think Big - Corridors, city blocks, aggregate parcels.
- Create connections.
- Create pedestrian friendly environments.
- Encourage active building facades & outdoor uses.
THRIVING RETAIL DISTRICTS

- Manage for change.
- Be an Advocate – Every revitalization effort needs a champion.
- Stand Firm – Know when to say no.
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- Be an Advocate – Every revitalization effort needs a champion.
- Stand Firm – Know when to say no.
- and ... be extremely lucky! (...in an opportunity meets preparation kind of way)
CONCLUDING THOUGHTS

Thought he’d never get here!
LUCK IS NOT A STRATEGY

In the real estate industry, competitive strategies tend to focus on ways to perfect imperfect markets, products and/or services.

Words and phrases such as “build it and they will come” exemplify expectations whilst highlighting strategic insanity.

Roman philosopher and statesman Seneca said: “Luck is what happens when preparation meets opportunity.”
“That’s all Folks!”

THE END  (WHEW!)
QUESTIONS AND ANSWERS

RETAIL RESILIENCY CONSULTING
- Strategy and Planning
- Market/Location Intelligence
- Development Management

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LAST MILE – DEFINING THE ISSUE

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  - Consider that the New York MSA is home to about 20 million residents.
  - There are about 2.4 million commercial deliveries daily in the New York MSA, or about 0.12 per resident.
  - Nationwide approximately ten years ago, about 0.04 private deliveries (such as on-line purchases) were made per person per day.
  - Today, the rate is about 0.12, a 3X increase in private deliveries … a nearly 2X increase in total deliveries…in less than ten years.
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  - In Manhattan proper, as many as ¼ of all ZIP codes do not have enough street space for deliveries!
LAST MILE – WHAT TO DO?

➢ We live in a world where customers do not pay for the full cost of the convenience of deliveries
➢ There is a conflict between the need to facilitate easy and inexpensive returns (in order to generate consumer confidence and in turn sales), and the economics of those returns.
➢ On-line retailers and delivery companies subsidize deliveries and returns in order to generate top line sales growth, a common side effect of Wall Street’s demands.
LAST MILE – WHAT TO DO?

- City planning departments need to start developing policy to address supply chains.
- There will be an increasing contest for space of all sorts, in particular public space.
- Should a city’s general plan add a demand management element?
  - Should deliveries be aggregated and delivered to each household once or twice a week (how many deliveries truly are urgent)?
  - Public works departments need to address managing deliveries holistically, as part of their overall transportation management plan.
Externalities and Market Failure

Externalities are a major cause of market failure and occur in nearly every market – be clear on effects for producers and consumers.

- Externalities are **spill-over effects** arising from production and consumption for which no appropriate compensation is paid.
- Externalities lie **outside the market transaction**.
- Externalities cause **market failure** if the **price mechanism** does not take account of the **social costs** and **social benefits** of production and consumption.
- Externalities can be **positive** and/or **negative**.

Diagram: Categorization of externalities into positive and negative production and consumption externalities.
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- The solution lies in managing externalities!