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The new retail: The new consumer likes experiences

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The consumer is finding new ways to spend money. Bricks and mortar retail stores have evolved beyond malls and big box specialties and aggregations. Web-based retail, or Internet retail, while not so new, has continued to aggressively grow and grab sales from stores. The new consumer is not as acquisitive as yesterday; instead, the new consumer likes experiences. Expanded services, entertainment, food and restaurants have taken storefronts. In addition, the mobile market of trucks and wagons, and transient markets of stalls, tents and stands have proliferated. The investment property group for retail use is increasingly risky, increasingly fragmented and changing, challenging underwriters, appraisers, investors and developers.

Retail deals are still heavily reliant on the underlying credit of the lessees and guarantors. Formulaic tenant mixes for neighborhood, convenient, mall and supermalls, high fashion, lifestyle and other categories are changing more rapidly with the powerful forces from the internet, demographic and behavioral activity. Most maintain that malls maintain investment quality. Careful underwriting can identify investment or good quality retail properties in other categories. Managing the mix of tenants has always been challenge, and now new choices and new designs are more dramatic, more risky, and more changeable.

Anecdotal evidence of change abounds in traditional retail submarkets. Rising vacancy and declining rental rates, turnover and reconfiguration, demolition and neglect. There are many moving parts to the retail markets including shopping and personal services on wheels with new order and delivery options. Industrial, office and residential uses are impacted by the retail revolution as well. Convenience and access to shopping and services are real attractions for employees. Many employers provide these amenities onsite. Location can be enhanced, offset and moving! Changes in traffic patterns and mix of transit, vehicular, pedestrian, bicycle and other modes are also occurring more rapidly creating locational opportunities and hurting traditional hot spots. Transitional activity is widespread.

Many of these changes have been incrementally occurring in the marketplace. The rates of change are reaching quantum rates. Markets can still be described for analyzing supply and demand for retail uses. Market dynamics can still be traced by researching inventory, occupancy, rental rates, and additions to supply. However, the historic metrics of household consumption and patterns of consumption have changed and are dramatically impacting the investment quality of retail properties in most locales. Thorough diligence can mitigate the new risks and illuminate the opportunities of the new retail. The shadows of same day delivery from the web from giant distribution warehouses are just beginning! There is still retail!

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