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CRE Message: The ever changing retail landscape

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Technology is a wonderful thing. Advances in communication, medicine, agriculture and transportation have altered our world in so many ways. The results are sometimes stunning to consider within the context of a single lifetime. Of course innovations can ultimately produce substantial changes in the status quo requiring adaptation to modern technologies and an abandoning of the old, at seemingly an ever increasing pace. Do you still own the once ubiquitous VCR? I didn't think so.

A host of shifting trends is having a substantial impact on the retail sector. Online shopping and demographic changes are altering the way sellers have to position and market their products. Retailers are adapting to reduced space requirements. Shoppers are increasingly attracted to those brick and mortar shopping venues that offer enhanced experiences including casual and fine dining, theatres, and other sorts of entertainment. New open-air venues are being built that defy the older traditional mall concepts and many tenants are adapting to these newer centers which also have the advantage of lower CAM and real estate tax charges.

In a recent report, Trepp Real Estate Research, a highly respected source of cutting edge real estate and mortgage information noted a "barbell effect" where larger mall owners were shedding underperforming centers and "pumping money into high-end luxury malls." They also noted the negative trend in underperforming older malls that have JC Penney, Sears and Best Buy as anchors. Many of these properties are struggling to maintain market share and relevance and reflect higher risks to CMBS loan portfolios.

All of these changes are taking place within an environment in the United States that has the world's highest concentration of retail space per capita, outstripping areas such as Europe by a vast amount. The inventory of space features a broad range of older and newer venues with obsolescence taking hold at more traditional established centers.

As RREEF noted in a report published back in 2009, "Retail sales growth also will moderate due to demographic shifts to age cohorts that spend relatively less, and shifts to income groups who spend less of their incomes on discretionary retail goods. Higher taxes and greater shares of household budgets going to non-retail spending are also likely in the offing, further depressing retail sales." On the other hand, it is important to recognize that certain niches are indeed thriving, particularly those retailers who cater to the high-end shoppers at fortress malls and those in select urban locations such as in Boston's Back Bay for example. The retail "market" is not a homogenous environment and any analysis provided to clients must carefully reflect property and niche specific attributes and the impact of the ongoing evolution in shopping and the delivery of goods to the consumer.

Ultimately, cruel but efficient market mechanisms at work in the retail sector will sort out the changes for us all to see and to adapt to. As Yogi Berra once said "it's tough to make predictions...particularly about the future."

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