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The retail real estate industry: Survival of the fittest - by John Sokul

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To paraphrase Charles Darwin, it is not the strongest or the smartest who survive but those who best adapt to change.

The retail real estate industry is adjusting to changing consumer preferences, Internet retailing, and large numbers of store closings. In January of this year it was projected that 2,880 stores would close by the end of May. That number has been surpassed with new projections of 8,600 stores closings before the end of the year. This year alone, more than 300 stores have filed for bankruptcy protection, including national retailers such as The Limited, Wet Seal, BCBG Max Azria, Vanity Shop of Grand Forks, Payless Inc., Rue21, Gordmans Stores, Gander Mountain, RadioShack, and HH Gregg.

While some view these bankruptcies and store closings as evidence of "the death of the American mall," the retail landscape is not all doom and gloom. In fact, the best operators are adapting, reinventing themselves, and thriving. Here are some key observations.

Maximize Location

Malls in desirable locations are doing well and are seeing continued demand from tenants. Strip centers and malls in less desirable locations are struggling, finding it harder to retain existing retail tenants and attract new ones. These secondary centers are aggressively seeking non-traditional users to maintain occupancy levels.

Apply Leverage

Tenants are playing hardball in lease negotiations, taking full advantage of the news about lack of demand for traditional retail space. Some of this is posturing, but many landlords are, in fact, providing lower rents, higher fit up allowances, and more flexibility in lease terms.

Mix it Up

As noted above, landlords are seeking a wide variety of non-retail uses to fill and revitalize underperforming shopping centers. These include: residential, medical, fitness, wellness, office, public venues, performing arts, theaters, upscale restaurants, you name it – whatever will drive traffic to the malls, fill vacant spaces, and have a positive impact on the center. With occupancy rates in U.S. shopping centers at 93% as of March of this year, this strategy is working.

Go Omni Channel

Retail sales through digital channels continue to increase. In response, traditional retailers are investing heavily in omni channel retailing. This means adding a variety of digital shopping options (including mobile sales) to the traditional in-store shopping experience. Evidence indicates this investment is paying off by creating more loyal shoppers who ultimately spend more both online and in stores.

Eat, Work, Play

Many new centers are focusing on integrated destinations – from upscale living to everyday working and shopping. There appears to be strong demand for residential units located within mixed-use centers. Adding residential units to the shopping center mix creates new issues with respect to mall management and operations, including shared parking, security, air rights, and shared amenities, and CAM cost allocations. On a positive note, mixed-used centers can drive revenue for operators.

Be Flexible

The new combinations of multiple uses on a single site are placing stress on traditional zoning ordinances, which typically segregate uses by zoning district. Planned unit developments are becoming increasingly popular as a result. This planning tool allows for more overall flexibility in project design and mix of uses and ensures that municipal objectives will be met as part of the local review process.

Shopping center redevelopments and modernizations will continue to happen as owners adapt to the changing marketplace. These can include adding new space, eliminating vacant space, repurposing existing space or a complete tear down/rebuild. To be successful, landlords must be innovative, aggressive, and flexible. Savvy industry leaders recognize that the changes we are seeing are not a fad but a fundamental shift in the retail industry and, therefore, are being proactive in responding and adapting to these changes. You never know where a new tenant might come from and, unless your mindset is one of being open to change and new ways of doing business, you might miss an excellent opportunity right next door or across the street. An experienced legal team can help seize opportunities by being practical, creative, and having a positive, can-do attitude.

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