



nerej

The rapid advance towards global retailing

October 15, 2008 - Construction Design & Engineering

Today's challenging economic climate is creating opportunities for retailers around the globe. In the congested domestic environment where U.S. retailers are vying for consumer dollars that are stretched increasingly thinner, those retailers in search of new markets are turning to the emerging economies beyond the American borders. Brazil, Russia, India and China present tempting markets for stalled franchises in the U.S. Conversely, international retailers are finding new opportunities to expand into what remains the world's largest consumer marketplace - the United States.

What is spurring this global migration? For international retailers looking to call the U.S. home to a significant portion of their businesses, a favorable exchange rate and an excess of retail space makes putting down roots here very appealing. There is plenty of open space to house their ventures, and not undeveloped open space, either. Unfortunately for developers in this country, there is no shortage of newly constructed and vacated retail space to fill. In the fourth quarter of 2007, the national retail-vacancy rate rose for the 11th straight quarter to 7.5%, the highest level since 1996, according to research firm Reis, Inc.

This trend appears to be holding fast. With 34 million s/f of retail space expected to be completed by the end of this year, the vacancy rate is predicted to climb beyond 8%. In trade talk, many chains are simply "over-stored". Stores once considered mall mainstays—like Foot Locker, Disney Stores, and Ann Taylor are shedding underperforming locations. Big box retailers are not immune and are scaling back their expansion plans. Bombay, Linens and Things, and even Home Depot are closing stores, leaving the cavernous shells of their once-thriving businesses behind.

Filling these vacancies is a steady influx of fresh, new foreign retail brands. Kira Plastinina, for instance, a clothing store of a genius 15-year-old Russian fashion designer, is bringing in dozens of store units this year, mostly in California and Manhattan. Tesco's Fresh and Easy, branding itself as a "neighborhood market", moved into the west coast from the UK, seizing the opportunity to open a large number of 15,000 s/f stores as opposed to filling the fewer, larger spaces used by traditional "supermarkets".

So, are the U.S. markets affected? You bet they are! We are overbuilt as it is, so retailers that exit your local neighborhood are headed overseas in various directions. Brazil, Russia, India, and China are the biggest markets for a number of reasons. They are highly populated countries with a good deal of wealth generation, a burgeoning middle class, and a healthy dose of consumerism. Plus, these countries are recently opened markets so they represent virgin territory for outsiders. As a result, both high-end stores and price leaders are finding that the passport to success must take them to foreign locales. Lord & Taylor is headed to Canada, Costco to Australia, Bed Bath & Beyond to Mexico, and Abercrombie and Fitch is opening its first store in Europe. Apple and Best Buy are making their debuts in China. Au Bon Pain recently announced plans to enter India. Our global retail economy is in the midst of a huge tradeoff.

Retailers are responding to the age-old axiom of supply and demand, but with a twist. In the long run, what this means is that more retailers will become multi-branded as they adapt their formats and offerings to match their customers' tastes and needs. Gone will be the days of the mega-retailer. Instead what we'll see are multi-branded retailers doing business across multiple channels. Going global means going local.

What does this shifting environment mean for U.S. retail developers and REITS? We need to immerse ourselves in an ever-evolving learning curve. We're dealing with cultural shifts, establishing and maintaining relationships in foreign countries, and entering some uncharted territories. Developing joint ventures in Eastern Europe or India will no longer be a trend but will become a way of doing business. REITS will continue to explore top line growth opportunities overseas. We have opportunities coming and going: working with the influx of foreign retailers hungry for a piece of American pie, and partnering with overseas developers and franchisees to guide our U.S. clients into a burgeoning market on foreign soil.

The globalization that has resulted in the past decade has shrunk our world and opened many doors for those who possess the vision to see beyond the U.S. borders. If you focus your sight here, you'll have many opportunities, literally, in store.

James Kimball, Jr., AIA, is a principal and the retail business unit leader with Cubellis, Boston.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540