ENHANCING THE VALUE OF EXISTING RETAIL ASSETS

The fundamental success of shopping centers comes down to a carefully considered blend of value-driven innovation, multiple enterprising retailers and unique experiences offering an unmatched allure for savvy consumers. In order to drive quantifiable results in the competitive retail landscape, we have identified key challenges and opportunities faced by the world’s largest shopping center developers, when expanding or repositioning their portfolios.

The information and strategies presented are offered with forward-thinking developers and investors in mind—those who are ready to take a step into the mall of the future.

GLOBAL ECONOMY & THE REINVENTION OF THE SHOPPING CENTER

To maximize return on investment, creative solutions must be balanced with economic feasibility. Success is defined by how well the shopping center accommodates thriving retailers, builds shopper loyalty and creates a synergistic, prosperous community. As such, design strategy should be shaped with multiple audiences in mind, and value is measured using a triple bottom line approach that considers economic, social, and environmental factors. The result will be an innovative, renovated shopping destination that will thrive and maintain its relevance in the ever-evolving retail environment—a space where consumers are able to interact with their favorite brands and enjoy a unique shopping experience. Here, we review current shopping center performance on the global stage.

RE-POSITIONING RETAIL ASSETS CAN CAPTURE A NEW AUDIENCE

Over the last several years, the sight of crumbling façades and abandoned parking lots has contributed to popular consensus that the mall is dead. Research proves that this isn’t the case: ICSC and NCREIF data shows that NOI at malls increased 21.3% during 2014 reaching $28.62 per square foot, while overall shopping center NOI rose to $16.79, rising 8.3% over the year. According to CBRE, global shopping center development continues to grow, with a total of 11.4m square meters of new shopping center space opened in 2014, compared with 10.6m square meters in 2013. Although e-commerce is on the rise, it only represents about 8% of global retail sales. Additionally, the majority of consumers still have an insatiable need to fulfill their passion for consumption through in-store purchases. 82% of millennials prefer to shop in-store, and a TimeTradeTM survey released in May 2015 showed 65% of respondents reported a preference for in-store purchases, even if the item that they
A deep understanding of the target market and their preferences drives the mall’s evolution into a new and improved destination, capable of offering retailers the right space to attract and delight consumers. Repositioning an existing property can provide a potentially lucrative opportunity for developers and investors to enhance an asset’s capital value, drive higher rents, consolidate operating costs, stabilize immediate and mid-term income and reduce vacancy. Today’s flourishing shopping centers tend to be newer or retrofitted and cater to expanding demographics within an economically resilient environment.

Since shopping is a leisure activity that people choose to do over other activities, developers need to be mindful of the need for selective, complementary programming that will increase dwell time and improve the overall consumer experience. The most forward-thinking shopping centers are delivering deeper experiences to visitors by focusing on three things: inspiration, personalization and discovery. Consumers expect this process to be seamless, and due to advances in technology, chances are they are already well-informed on brands, price and competition before they step through the mall entrance.

**EUROPEAN SHOPPING CENTER DATA SHOWS STRONG INVESTOR APPETITE**

Investor confidence and investment in shopping centers is beginning to rebound and consumer spending power is gaining strength, particularly in Northern Europe. Europe accounted for 20% of total completions in 2014 with Russia and Turkey continuing to dominate the new development pipeline [source: CBRE]. However, with Russia’s challenging political climate and the Syrian refugee crisis, we can expect a slower year in retail development until this area

**IN 2014, SHOPPING CENTER INVESTMENT REACHED €21.1 BILLION**

Source: Cushman & Wakefield
begins to stabilize. According to Cushman & Wakefield, total shopping center floor space in Europe increased by 3.3% over last year, totaling 152.3m square meters, and total shopping center sales reached €524.7bn in 2014, a 2.7% increase from the previous year.

Undeterred by stalling rents, investors are buying up shopping centers and retail chains in Germany at the fastest pace since 2007. Foreign investors have acquired nearly €6bn worth of retail property in the first half of this year—some three times more than over the same period last year [source: BNP Paribas Real Estate]. Spain and Italy are also starting to see slow recovery. According to Knight Frank, Spain saw about €2.5bn in shopping center transactions last year, a new record relative to 2007, and is seeing higher yields than in the typical target countries, like the UK and France.

According to ICSC, over 90% of total European retail sales still occur in-store as consumers prefer to visualize and engage with their products prior to purchase. Retailers view Europe as a primary target for expansion, and international retailers see it as a prime opportunity to introduce themselves to key markets such as London, Paris and Rome. Therefore, in order to attract these top retailers, investors and developers need to invest in older or lower class assets to remain competitive in the marketplace. Owners have a unique opportunity to capitalize on the growing economy and present a leasing strategy that brings different retail tenants and local food offerings together in a newly renovated shopping center.

AMERICAS SHOPPING CENTER DATA SHOWS GROWTH EXPECTED IN TOP END MALLS

The US leads global retail industry revenue and the economy is in the midst of resurgence.

Gateway cities and shopping center locations surrounding transit are prime areas for redevelopments and have also attracted foreign investors. According to ICSC, roughly 110,000 US shopping centers contributed $2.5tn of the total annual retail sales of $4.5tn in 2013. They also employed 12.5m people—over 9.3% of the US workforce. However, a recent report predicts that Class A malls should perform at a high level for years to come, while Class B malls will remain stable because they adequately serve their target shopper in a given trade area. According to DTA, restaurants have accounted for nearly 45% of all shopping center expansions in the past five years. High-quality, fast casual-style offerings transcend traditional fast food or national chains to account for most of this growth. The future of lower class shopping centers is uncertain, and more of these will likely go dark or become something else entirely, such as a hospital or data center for ecommerce.

Meanwhile, Canada, the world’s fifth largest oil producer, has begun to feel the effects of dropping oil prices and the slowdown in China. However, because of its strong employment and consumer spending, this technical recession is predicted to be less impactful than in other places like Latin America. According to ICSC, 2013 sales at Canadian malls averaged US$673 per square foot over the past year, up almost 6% from a year earlier, and Canadian developers are adding about 5m square feet of retail space annually.

According to PricewaterhouseCoopers (PwC), over 40% of Canadian respondents shop in a store at least once a week. Canadian retailers sell about 12% more than American retailers per square foot, so it is unsurprising that these numbers have tempted American and global retailers to break into this thriving retail environment. However, thanks to skepticism
on the part of consumers who remain very supportive of local businesses, some international retailers have had a difficult time gaining traction in the Canadian market. As such, Canadian development requires a long-term investment, sufficient time and patience to build consumer relationships, and careful consideration of location and demographics.

In Latin America, a high percentage of the population lives in urban areas that have been under-retailed for quite some time. Major international retailers from the US, Europe and Asia are expanding throughout the region, resulting in the fastest average revenue growth in the world. Compared to the US shopper, the Latin American shopper visits malls more frequently and for longer periods of time, and the vacancy rate at many of the top luxury malls is around 3%. Shopping centers throughout Latin America offer secure air-conditioned environments with seating and food options and have become the preferred place for leisurely activities.

However, retailers are cautious about expansion, particularly in luxury markets, due to the challenging economic climate and the need for infrastructure improvements - particularly those that would allow for conversion opportunities from brick-and-mortar to online shopping. Additionally, the consumption-led model, in Brazil specifically, has reached its exhaustion point, and increased unemployment and decreased wages will lead to lower asking rents, higher vacancies and further stagnation in the industry. A few smaller, resilient economies such as Peru, Chile and Colombia offer greater potential and have fast-improving business climates.

ASIA AND THE MIDDLE EAST SHOPPING CENTRE OUTLOOK

Asia has always been an attractive region for high luxury international retailers, but with the economic instability in China, a majority of retailers have shifted focus to Hong Kong and Southeast Asia until conditions improve. The Middle East, on the other hand, will enjoy a boost

Tysons Corner Center
McLean, Virginia

Tysons Corner Center has emerged as a prototype for squeezing new value from an existing asset. Beginning with a ground-breaking over-build in the 1980’s, the design team from CallisonRTKL has driven a series of innovative renovations that have repositioned the center as one of the world’s most successful. The most recent re-invention has included a dining environment that redefines the food court, the addition of an outdoor plaza for programmed civic events, connection to Washington’s Metro and the development of an office tower, hotel and residential tower.
in the level of interest from international luxury developers in the near future thanks to the FIFA World Cup 2022 in Qatar and improvements in infrastructure and transit, despite oil depreciation and decreased tourism from Russia.

CONSUMERS’ PREFERENCE FOR SALES AND OPERATION IS IN-STORE
In-store is still the preferred shopping method for the majority of consumers, but digital technology is pervasive in every path-to-purchase, expanding the opportunities for consumer-centric experiences. Therefore, beyond a website or an app, brands must seamlessly integrate digital into store design to keep pace with consumers’ expectations and digital inclinations.

OVER 90% OF TOTAL EUROPEAN RETAIL SALES STILL OCCUR IN-STORE
Source: ICSC

In order to meet consumers where they are, brick-and-mortar retailers want to work with a developer who has fully embraced the integrated, omni-channel experience, making it easier to connect with consumers on a multitude of platforms. Retailers want to choose a destination that fits with their brand, which for some will require more precise real estate strategies and smaller physical footprints. Online brands that are looking to enter a physical space will need flexibility in lease requirements in order to test and capture their target market. Storytelling will be at the heart of the strategy for retail brands looking to cluster merchandise based on generational preferences.

HOW TO MAKE THE MOST OUT OF AN EXPANSION OR REPOSITION. FIVE THINGS TO PRIORITIZE

1. Lead with Data
Malls are overcoming the commoditization problem by focusing on consumer segments or creating zones within the mall that cater to a specific demographic. This is a successful tactic only when it begins with a comprehensive understanding of the local market. Traditionally, retailers have been at the forefront of digital integration and customer analysis. Yet developers have a unique advantage when it comes to consumer knowledge, and many tools are available to them for harvesting this data: beacons, apps, facial recognition software, and customizable purchase behaviors and suggestions are just a few tactics that help alleviate the guessing game in the consumer’s path-to-purchase. This data is crucial to determine metrics related to length of stay, per cap rates, demographic and psychographics and to have an informed discussion with retailers.

Developers need to position themselves as a valuable resource for retailers by offering statistics on consumer traffic and behaviors. When it comes to repositioning an underperforming asset, a review of the target consumer base, their available retail spend and the type of shops that will carry the most appeal is vital. Based on this insight, operators can make smarter choices about retail mix and tenant typology, asset size, design and branding.

2. Be Cost Savvy
Hidden operational costs and other unforeseeable expenses are not uncommon. Sufficient study, allowance and monitoring is the key to cost control. In many shopping centers, owners are overspending on asset management. A distressed mall should conduct a reassessment of its income and expenses in order to increase value, which could represent a big opportunity to drive significant savings.

With shopping malls, investors are not buying the building itself but the income streams associated with the asset. If a retail mall has no sales, it will struggle to retain tenants and operators will lose out on rental streams that significantly impact net operating income. To avoid this scenario, operators need to carry out a detailed appraisal of how the asset is performing from both a sales and rental perspective, compared with industry benchmark levels. This data enables them to accurately assess whether a retailer is paying the right level of rent and whether they are extracting the asset’s full potential.
3. Actively Manage the Tenant Mix and Break the Rules

One of the biggest challenges with shopping mall developments is that the profile of the typical consumer is subject to change, as the wider market continues to evolve. This means asset owners must review and challenge their leasing strategy and tenant mix on an ongoing basis to ensure it aligns with what the data suggests about demographic preferences.

Today’s consumers are not looking to fit in with the crowd and require a non-traditional approach to appeal to their fickle sense of style. Therefore, developers need to rethink their leasing strategy in order to create the necessary flexibility to reinvent the mall on a regular basis, enabling them to embrace high-tech and of-the-moment offerings and appeal to a larger consumer base. Currently, predominant trends point to offerings like 3D printing, fast fashion and mass customization as being more impactful than ever. Experimenting with food and beverage is another way that developers can pique consumer interest while also increasing dwell time.

Finally, while we live in an undeniably global marketplace and international retailers are critical to a successful merchandise mix, there’s no place like home. Striking a balance between well-known brands and local favorites takes flexibility, insight and big thinking. Many of today’s shopping centers suffer from homogeneity as developers tend to be more comfortable with a traditional retail line-up paired with a typical, fast food chain-driven food court. Meanwhile, high street retail and local markets have become increasingly popular because they offer a unique array of retailers and a richer, more authentic shopping experience. Though local retailers tend to be less business savvy when it comes to leasing strategies and will need more guidance, the rewards are worth it. Finding the right tenant mix and offering a fresh, varied selection of retailers is vital in a competitive market.

In addition to varied retail offerings, developers can look for other revenue streams, including sponsorships and community service pop-ups, that increase dwell time and, more importantly, invest in the community’s social fabric. Recent examples include: a Canstruction design competition (where massive structures are built out of full cans of food) and food drive; The Empty Shop project in São Paulo, designed as a clothing donation dropbox; and the Pinterest-sponsored interactive wall at Westfield UTC in La Jolla, California that enables consumers...
to view and pin products from the mall’s retailers.

In short: using the same tactics repeatedly will not make for a successful leasing strategy - it’s time to be a little rebellious and get to know the market.

4. Establish Consistently Strong Brands and a Flexible Portfolio

Brand plays an important role for both retailers and shopping centers. Retail centers often lose market share over time because their brands no longer resonate, and retailers require shops that enable brand evolution. Over seventy percent of 18-35 year olds think it is important that a brand helps them become a happier or better person [source: McKinsey]. Investing time in defining brand identity and then programming that into strategy and design will foster deeper, broader value.

Consider integrating variable sizes and types of space into the shopping center’s design. Along with offering flexible leasing structures to entice retailers that may have traditionally shied away from taking up space in a large shopping center. Newer retailers looking to test out products on the market and seasonal retailers are two such groups that do not require a large store or a long-term lease.

5. Choose the Right Team

Tomorrow’s retail centers must respond to an increasingly demanding and well-traveled consumer, as well as multi-platform retailers. From simple refurbishments to major overhauls, a repositioned asset should increase footfall and attract better tenants, identify new revenue streams and unlock hidden value. CallisonRTKL approaches retail repositioning with a holistic philosophy and a comprehensive toolkit including everything from consumer research and strategy to interior design, environmental graphics and master planning. We know that sometimes the biggest value can be gained from small changes.

Commercial developers need partners that can help them reduce the risk of their investments and devise a fresh concept for retailers and consumers. CallisonRTKL assists clients in forecasting market demand, acquiring land at the best price, optimizing the construction process, and minimizing the operational cost of the asset.

Our firm has a proven track record of creating high-value developments through our design, program management and cost optimization solutions covering the full development lifecycle, from site identification, planning, design and execution, through to controlled exit strategies.
ABOUT US

CallisonRTKL has a global dedicated retail mall team supporting the positioning and asset needs of over 50 of the world’s biggest retail brands. CallisonRTKL is a Design Consultancy of Arcadis, a leading global natural and built asset design and consultancy firm. Both teams work seamlessly toward the objective of enhancing value from existing retail assets for both retail mall investment funds and commercial developers. Please contact either your client account lead or one of our regional retail experts below:

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