



Real Estate Chiefs Assess Lay of the Land in 2017

by **Erin Sabo** on January 11, 2017 in **News**

The winds are turbulent in physical retail, and gusting in from several directions. Department store anchors in place for decades are closing shop. The sons and daughters of the suburbs are fleeing to cities or, if not, are demanding more cosmopolitan experiences at traditional malls. Online sellers, though still accounting for less than 10% of total sales, continue to advance and re-adjust shoppers' visions of what retail is. What's a retailer to do? Real estate editor Al Urbanski approached top retail real estate executives and asked, "If you met a retailer at a cocktail party, and he or she asked you to name the single biggest challenge they'd face in brick-and-mortar in 2017, what would you say?"

Their replies:

Scott Wolstein, CEO, Starwood Retail Partners: There's a huge amount of misinformation in the media about the impact of online retailing. The biggest enemy of brick-and-mortar is brick-and-mortar. We built up a huge supply over the past 20 years and now we're going through attrition. At Starwood, we actually benefit from distress in the marketplace. In Toledo, we re-invested in our mall and gained market share from the other two malls. Retailers have to do the same — **push out your low-performing stores and replace them with performers.**

Stephen Lebovitz, CEO, CBL: All those department store closures could turn out to be a positive thing for malls as we convert them to other uses. Most of our malls are 95% leased, and so we're receptive to having 100,000 square feet of space that could be turned to more advantageous uses like food and entertainment. **There's an opportunity here for retailers to experiment.**

Dave Moore, President, Irvine Company Retail Properties: The hardest thing for retailers in 2017 and beyond is going to be finding that sweet spot between brick-and-mortar and online. The consumer clearly has a calculation in mind on experience versus convenience, and then you have to weigh that against the backdrop of ever-growing consumer expectations. Forget whether you're a pet store or a drug store. On a micro-level, **what should be your ratio between online and brick-and-mortar?** That's going to be a top priority in the next 12 months.

Andrea Olshan, CEO, Olshan Properties: I would tell a retailer, "I think **you're going to be in centers with tremendous vacancy.** Online has taken away the need for three- and four-store markets. Many of these stores need to close; their four-wall profitability is just so low. Retailers have to do a gut check as to what they're doing in stores and what they're doing online, because shopping online is way too easy and opportunity lies in the in-store experience.

Glenn Ruffano, CEO, VEREIT, Inc.: As department stores like Macy's and Sears downsize, prime locations in malls are available for retailers that may have not been considered an anchor in the past. Retailers like Dick's Sporting Goods have already been **successfully recycling space** as they expand their market presence. We see less of this in the net-lease space, but we'll continue to monitor the market for opportunity.

Joel Gorjian, 24-year-old CEO of Gorjian Acquisitions: I was in a small town in Israel last summer and everyone was talking about this new mall that opened. I went over there and the **first thing you see when you walk in is a skating rink** in the center of the mall and then all these high-end retailers surrounding it. The mall was very crowded and it was a Wednesday night. Retail in 2017 has to provide an experience you cannot get over the Internet.

Jeffrey Edison, Principal & CEO, Phillips-Edison & Company: The retail industry is dynamically changing and it's increasingly important that you engage your customer. Do something more than just move in and hang your goods on the racks. Retailers are currently in three groups when it comes this issue: There are the deniers, there are those that are in transition and there are those who are already there. Kroger is leading the way in the grocery business by utilizing data analytics and customer feedback to provide a consumer focused internet strategy. They are redefining convenience in the grocery shopping experience.

Joe Coradino, CEO, PREIT: I think 2017 is the year when our industry really addresses the facts of the market we're in. Fifty percent of our business is dependent upon food and beverage versus only 1% a decade ago. We're redefining department store boxes. We are moving in a direction where we're **readjusting to customer needs and wants.**

Terry Montesi, CEO, Trademark Property Co.: If I were a retailer, I would be focused on the following: How do we **make a subconscious connection** with our prospective customers? How do we matter or make their lives better? How do I create an in-store experience and deliver in-store service that is worth the extra effort of going to brick and mortar stores?

Yaromir Steiner, CEO, Steiner + Associates: The big concern right now is online sales, but that portion of the business is exaggerated. You have retailers like Saks and Nordstrom spending on inventory control systems like Amazon's to know where every piece of underwear is. It's good to have those systems, but retailers have to **focus on being sexy and being more exciting.** Retailers doing unique things are few and far between. Developers are creating more exciting environments, but the retailer's not with us.

Ivan Friedman, CEO, RCS Real Estate Advisors: If retailers thought 2016 was bad, they should **be prepared for 2017 being worse.** The number of retail bankruptcies will be the same, if not higher, and we're not predicting an increase in same store sales. Even healthy retailers are feeling they can do the same business they're doing in fewer stores.

Joe Cosenza, Vice Chairman, The Inland Real Estate Group of Companies: So many retailers today, big ones like Kohl's and PetSmart, want to have more coverage, more shoppers, but they can't find a place at the inn at top centers so **they have to turn to a smaller format** in order to go into new areas. Go to a smaller format and feature the best-selling products you have. That would be my advice to them. If there's no room at the inn, you have to use the stable.

Hap Stein, Chairman & CEO, Regency Centers: If you have an opportunity to **lease good space in a good shopping center,** take it. We determine a good center with a combination of trade area demographics, resident and daytime populations, a strong anchor lineup, and average sales over \$360 per square foot.

Mike George, President, Mid-America Real Estate Group: I think a retailer would be making a mistake if he wasn't pursuing, at minimum, some pilot **opportunities in urban markets**. Stores may be more expensive to operate, but the volume and profit levels are high. The chains that we work with, both large and small, their top-performing stores are in urban markets.

Deborah Butler, President, Butler Enterprises: We're embracing **the reversal of the one-size-fits-all concept** that created cookie-cutter stores and shopping centers. People want a renaissance of the shopping experience.

Chaim Katzman, Chairman, Equity One: The next component on the horizon is the expansion of experiential retail centers, with more entertainment and dining opportunities. Many Class A centers in the U.S. have already begun to **mirror the European model** with higher-end amenities, from restaurants to beauty outlets and health spas.

Joe Dykstra Co-CEO, Westwood Financial: [Co-CEO Randy Banchik] and I talk a lot about the grocery-anchored and neighborhood shopping centers as the best last-mile solution for internet retailers. We believe that they're going to come into the neighborhoods with **more fulfillment-themed properties**. We know Amazon can deliver to houses, but we see them coming out in centers with more stores in which half the business will be devoted to fulfillment.

Ben Terry, President, ACRE So Cal: Retailers should **look for growth in tertiary markets in 2017**. There's an increase in housing starts in smaller California markets and that's supporting retail construction there. In Orange County, for instance, high housing prices are forcing people to move farther away. Take Menifee, due east of Irvine. You can get a 3,000-sq.-ft. house there for \$400,000. That's creating a need for high-quality retail there and we're seeing a lot of renovations.

Spencer Bomar, Principal, Avison Young: The one thing that I am telling retailers that they need to embrace change. They need to position themselves to be able to pivot quickly. They need to **have flexibility in their lease, space, merchandise**, merchandising, customer experience, and marketing.

Jeff Green, Principal, Jeff Green Partners: 2016 was the year of digital retailers opening brick-and-mortar locations — some successfully and others not. In 2017, **digital retailers need to establish internal real estate expertise** or bring in an outsider. Otherwise, they will end up in the wrong spaces or markets.

Jerry Hoffman, Principal, Hoffman Strategy Group: The retail industry will see additional department store closings and more right-sizing in 2017. Retailers that **employ omnichannel predictive analytics** that utilize consumer data to optimize new store location choices will have a profitable competitive advantage.

Nick Egelanian, Principal, Siteworks Retail: Retailers looking to expand in 2017 should ask themselves, **"Is our e-commerce approach strategically sound?"** If not executed correctly, you'll be following the likes of Kmart, which invested in category killers instead of its distribution technology, and Macy's, which bought into a shrinking store format when it should have been selling.

Jim Bieri, Principal, Stokas Bieri Real Estate: In 2017, retailers can expect to see **a three-fold increase — in interest rates, construction costs and retail sales**. A decrease in federal regulation will result in a stronger economy. In 2018, look for an increase of organic retail as small business is stimulated with lower taxes and general economic enthusiasm.

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