



Real Estate  
Development  
Entitlements  
Finance/Economics

Contact:

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- **The Great “Retail Recession”**
- Retail Trends
- Stories of Demise and Rebirth
- Who will Survive and Thrive?



# What Happened?

**Financial meltdown**



**Job Loss (annual unemployment rate more than doubled)**



**Loss of income / Disposable Income**



**Loss of consumer confidence**

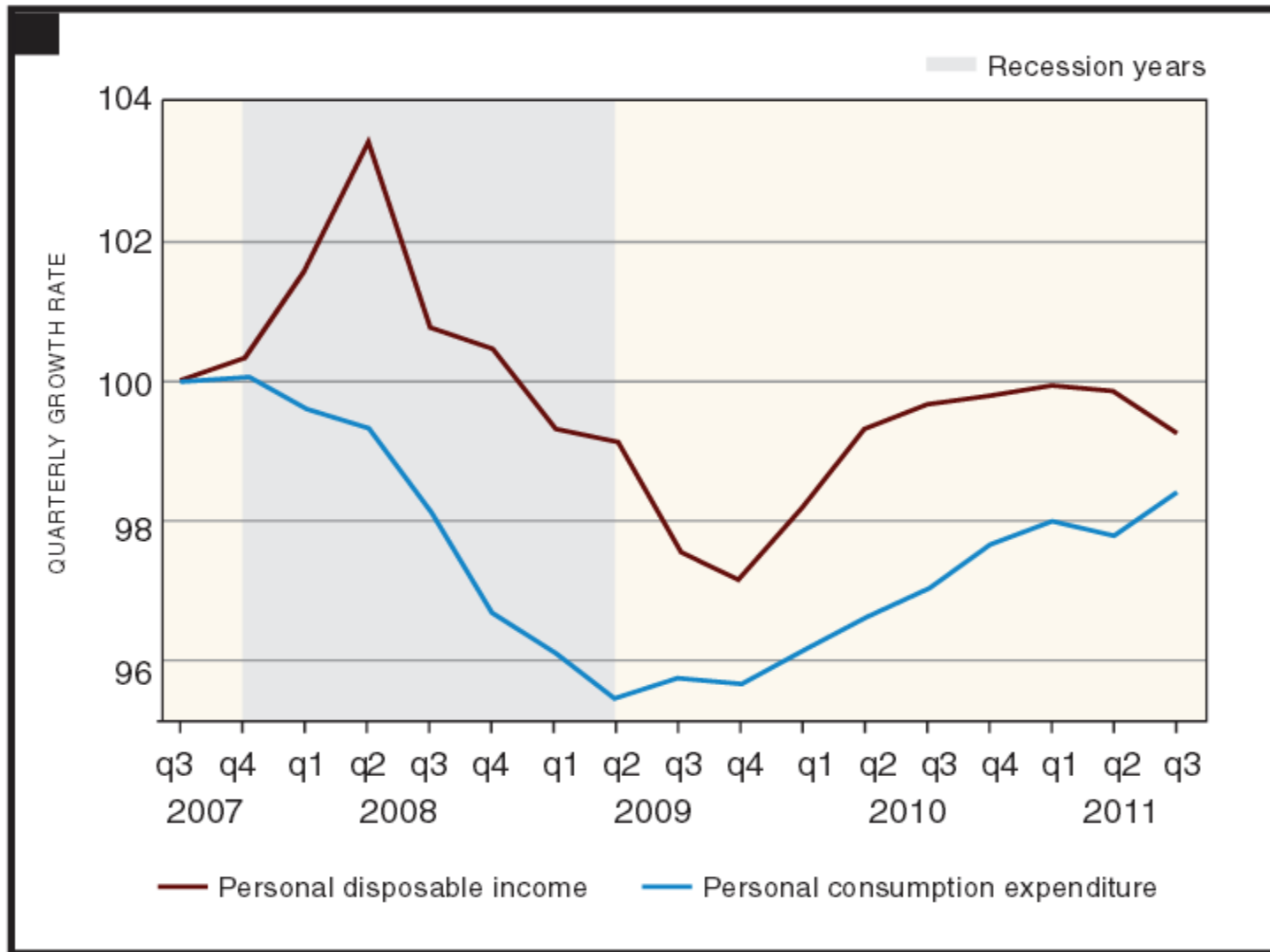


**Downsizing and curtailing spending on non-essentials  
(first YoY drop of consumer spending on record since Great Depression)**

**The outcome?**

- ***We bought potatoes not plasmas.***
- ***Grocers, basic necessity / value retailers did well.***
- ***Most others did not.***

# The Great Retail Recession



Source: BEA, NIPA tables 2.1, 2.3.4, and 2.3.5.

# The Structure of Retailing is Shifting

## *Less Brick & Mortar; More Online & Mobile*

- **Online Retailing**
  - Brick & Mortar electronic retailers increasingly vulnerable
  - Borders gone, B&N closing 20 stores per year for a decade
  - Fulfillment Centers expanding
  - *Increase in fulfillment centers may lead to more retail located in industrial areas as well as “B” and “C” locations*
- **“Showrooming”** – Browsing at stores then buying online
- **“Geofencing”** – offering promotions via mobiles in or near store
- **“Omni-channel” Shopping** – integration of all market pathways

## “Shrinkage”



# Credit Retailers Lost from 2008-2010

Anchor Blue  
Bassett Furniture  
Bennigan's  
Blockbuster Video  
Bombay Company  
Borders Books  
Cala Foods  
Circuit City  
CompUSA  
Dawahares  
DEMO  
Discovery Channel Stores  
Famsa  
Geoffrey Beene  
G.I. Joe's  
Good Guys  
Goody's Family Clothing  
Gottschalks  
Great Indoors  
Harold's  
Hollywood Video

Home Expo  
KB Toys  
Linens N Things  
Linder's Furniture  
Maytag Stores  
Mervyns  
Petite Sophisticate  
Rent A Center  
Ritz Cameras  
Sharper Image  
Shoe Pavilion  
Smith & Hawken  
Steve & Barry  
Tower Records  
Value City  
Virgin Mega Stores  
Walden Books  
Wickes Furniture  
Wild Oats Markets  
Wilson's Leather  
Yard Birds

*Partial list*

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- **Retail Trends**
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# Retail Trends – Demographic Shifts

## Aging Population

- Seniors on fixed incomes tend to spend less
- However, many forced to delay retirement after 401k's took hit

## Latino Market continues to expand

- National retailers beginning to respond
- Ground up Centers and Value-Add Rehab growing in majority Latino communities

**Asian neighborhoods catering to wealthy tourists** with targeted retail, hotels, and restaurants

## Millennials have different behaviors and value than predecessors

- Living in more compact, urban and shared spaces
- Socially connected online – Yelp, Facebook, Twitter
- “Sharing economy” growing – Airbnb, Lyft, Zipcar

# Retail Trends – The Changing Formats

1. **Retailer formats getting smaller** and smaller and smaller
2. **Big Box Retailers** with small formats to penetrate urban markets  
City Target; Wal-Mart Neighborhood Market; Best Buy Mobile
3. **“Discount” & Dollar stores are taking over** – 4 biggest dollar chains operate more locations than 3 biggest drugstore chains.
4. **300+ years of retailing at a fork in the road**  
JC Penney, Sears, and Radio Shack suffering identity crisis
5. **Outlet Malls** - Major retailers want to be in them
6. **Consolidation** – Office Max + Office Depot to fight Staples

# Retail Trends – The Changing Landscape

1. **Non-Retail Reuse:** Gyms & medical offices in vacated big boxes; compatibility with traditional retail is the wildcard
2. **Coffee & Donuts – Starbucks expanding (1,000 in 5 years)**
  - McDonalds & Dunkin' Donuts remain chief national foes in Coffee wars
  - Dunkin' Donuts to expand 300+ stores in California by 2016
3. **Burger Wars** – Five Guys with bad Habits sit at the Counter and are In & Out of different burger joints daily ...
4. **Stores open on Thanksgiving. What's next Christmas?**
5. **Virtual 365 day a year shopping opportunities**
6. **Anti Credit Card sentiment - Debit Cards IN VOGUE and Layaway is BACK**

# Retail Trends – Development & Investment

1. **Large Scale Ground up Development** less prolific due to economic contraction, supply overhang and shift to internet sales
2. **Brick and Mortar** will continue to be in demand in underserved and urban markets and in more urban formats
3. **Lenders** requiring extensive pre-leasing for construction loans
4. **Transactions: Quality over Quantity; Urban over Suburban**
5. **Grocery evolution: Fresh & Easy is leaving us**
6. **Recent housing recovery:** may speed retail recovery

**“Show Me the Money!”**



# Ten Relevant Retailers – This Year's Celebrities

**Our nation's most relevant retailers based on practicality, values, sensory appeal and social appeal according to Brodeur Partners:**

- 1. Amazon.com**
- 2. Target**
- 3. Wal-Mart**
- 4. Best Buy**
- 5. Costco**
- 6. Kohl's**
- 7. J.C. Penney**
- 8. Macy's**
- 9. Walgreen**
- 10. Apple**

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# Mall of Victor Valley – The Fallen

## Gottschalks



- Western US department store chain founded in 1904
- Went bankrupt during Great Recession in 2009.
- Created large vacant anchor space.

## Mervyn's

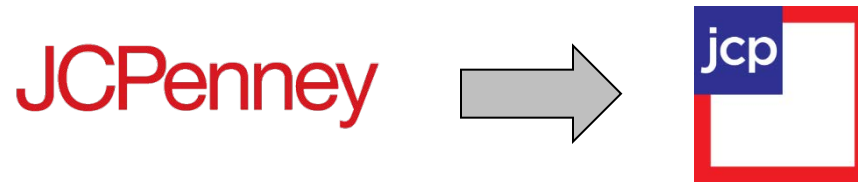


- Mid-level department chain founded in San Lorenzo, CA in 1949.
- Acquired by Dayton Hudson chain that included the emergent retail leader Target.
- Target prevailed and Mervyn's chain lived its useful life and died in Great Recession (Mervyn's went bankrupt in 2008 and gone by 2010)
- Created large vacant anchor space.

# Mall of Victor Valley – The Survivors

## JCPenney

- Brand founded in 1913
- Long term decline in dept store format + recession pushed chain to brink
- Reinvented itself replete with new image & logo in 2012
- In Victor Valley, expanded from 50 ksf and relocated into Mervyn's to become new 100 ksf anchor.



## Macy's

- Founded in 1858
- Survived past few decades in part through acquisitions + strong brand
- Took advantage of department store void in Victor Valley trade area and expanded Gottschalks building to become 100 ksf fashion anchor.



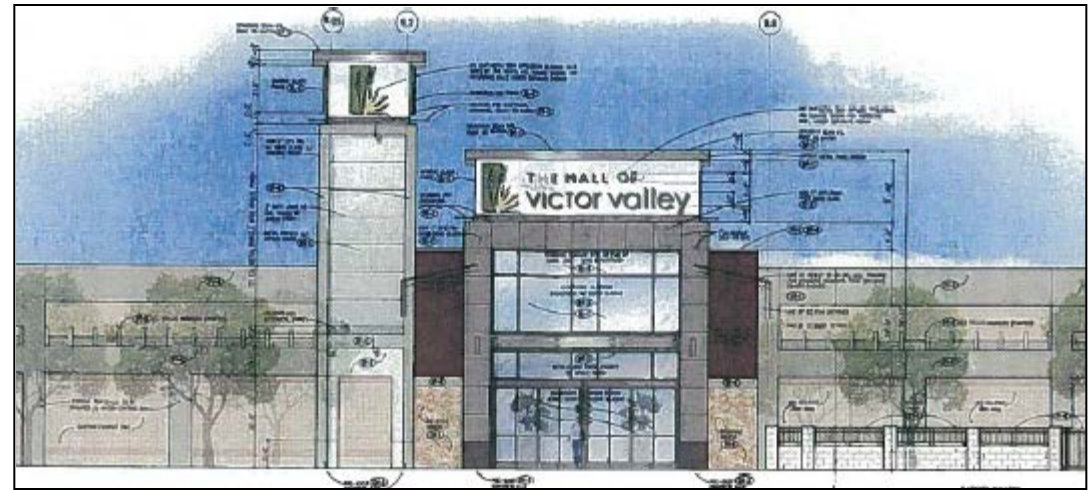
# Mall of Victor Valley – The Survivors

## Dick's Sporting Goods

- Fortune 500 retailer founded in 1950s in Binghamton, NY
- 451 stores in 42 states (2011)
- Surpassed Sports Authority in both store number and total revenue
- Managed losses during recession via cost control: reducing inventory, cutting shipping costs and scoring opportunistic land deals for new stores
- Filling a sporting goods void in the Victor Valley trade area
- Steps into a new format as a mall anchor.
- Good sales tax generator for City of Victorville



# Mall of Victor Valley – The ReDesign



# City of South Gate – “azalea” Retail Center

## The Location

- An unpredictable reinvention of old pipe manufacturing plant in urban infill setting.
- Void of retail east of Alameda and West of 710 Freeway.



## The Project

- 372,000 sf regional retail destination
- Public Plaza & Events Center, City Hall/Police Annex
- Under construction; Opening Mid-2014



# City of South Gate – The “azalea” Retailers



## Walmart

- Founded in 1962; World’s largest retailer with nearly ½ trillion in annual revenue
- South Gate represented huge void for retailer’s trade area.
- Demographics are a perfect match -- \$50-\$75K household incomes.



## T.J. Maxx

- Founded in 1976; later absorbed by TJX Companies after acquisition by Ames
- TJX Companies has been one of the strongest value discount chains during downturn – owns TJ Maxx, Marshalls and Home Goods brands
- Aggressive expansion plan, taking advantage of market share involuntarily relinquished during recession by more vulnerable brands

# City of South Gate – The “azalea” Retailers

## PetSmart

- Pet business exploded during recession.
- Downsized the house but not the dog house.
- Trend for spoiling dogs has increased
- PetSmart has shrunk in its format, but not going anywhere.



## In N Out

- Burger Wars rage on (Five Guys is new on the California scene)
- But name recognition and brand loyalty of In N Out is second to none
- History of slow expansion has built pent-up demand – esp. in South Gate



## CVS

## CVS/pharmacy

- Founded in 1964; growth through acquisitions across 4 decades
- Second largest pharmacy in the US after Walgreens with more than 6000 stores
- Everyone needs pharmacies well-stocked with essentials
- Wanted to locate in South Gate for several years; waited for Atlantic and Firestone location

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## “Help Me Help You”



# And That's a Wrap

1. Size matters
2. Retail real estate is about 3 things : Urban location, Urban location, Urban location.
3. California's Budget Structure Still Favors Retail but land use decisions may shift as online retail changes "points of sale" to distribution ctrs.
4. Less premium retail and more value retail (e.g. outlets)
5. Internet retailing rising fast, but still market for "bricks", especially in underserved and urban markets (i.e. South Gate)
6. Basic necessities will thrive in brick & mortar fashion
7. Entertainment and experiential retail is the anti Internet antidote
8. You can't eat over the internet; you can't drink online either

# CHEERS!



A background of rich red curtains with gold tassels. The curtains are drawn back, revealing a dark background. The text is overlaid on the curtains.

*This presentation is available online*

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