



The Changing Taste of Retail - 2014 -

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Kosmont Retail NOW! ®



- **The Changing Consumer**
- Technology & Social Media
- Brick & Mortar Strikes Back
- Development & Investment
- Case Studies in Retail Revival
- Summary & Tips for Success



Retail History 101: 1990s-2008

1990

Big Box

2000

Bigger Box

2008

Biggest Box

Retail History 102: 2009-Present

2009

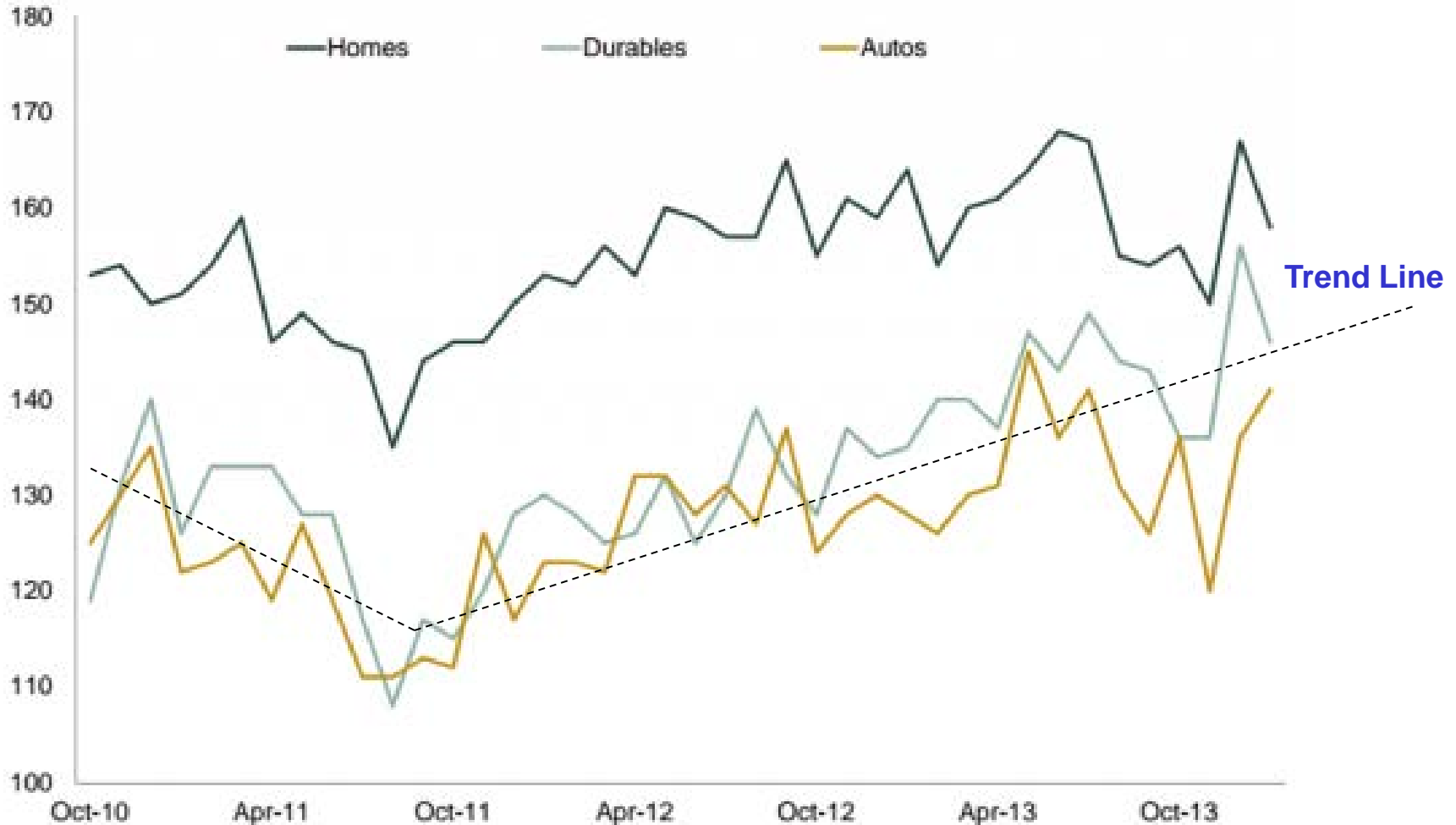
Disappearing Box

2014

Shrinking Box

Retail from Recession to Recovery

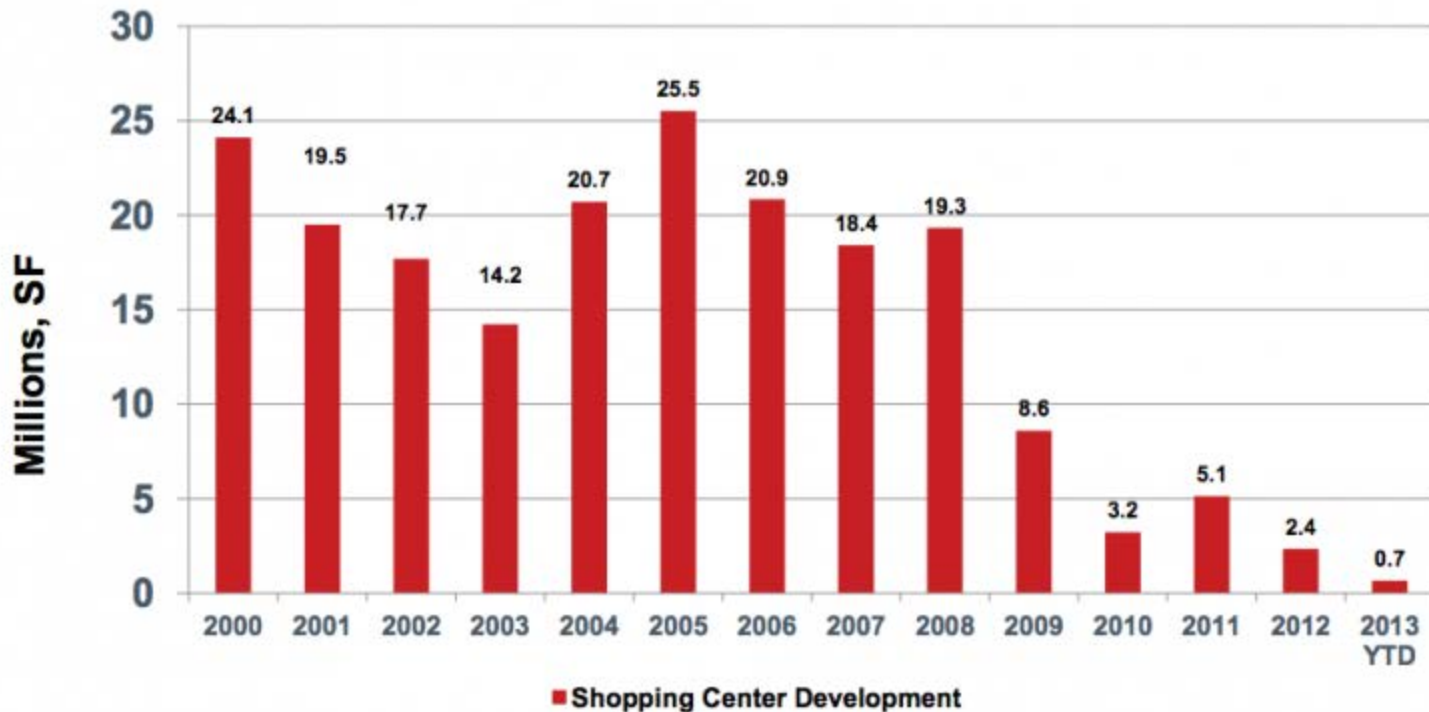
Consumer confidence and retail are connected at the hip



Retail is steadily lifting itself out of a recessionary hole

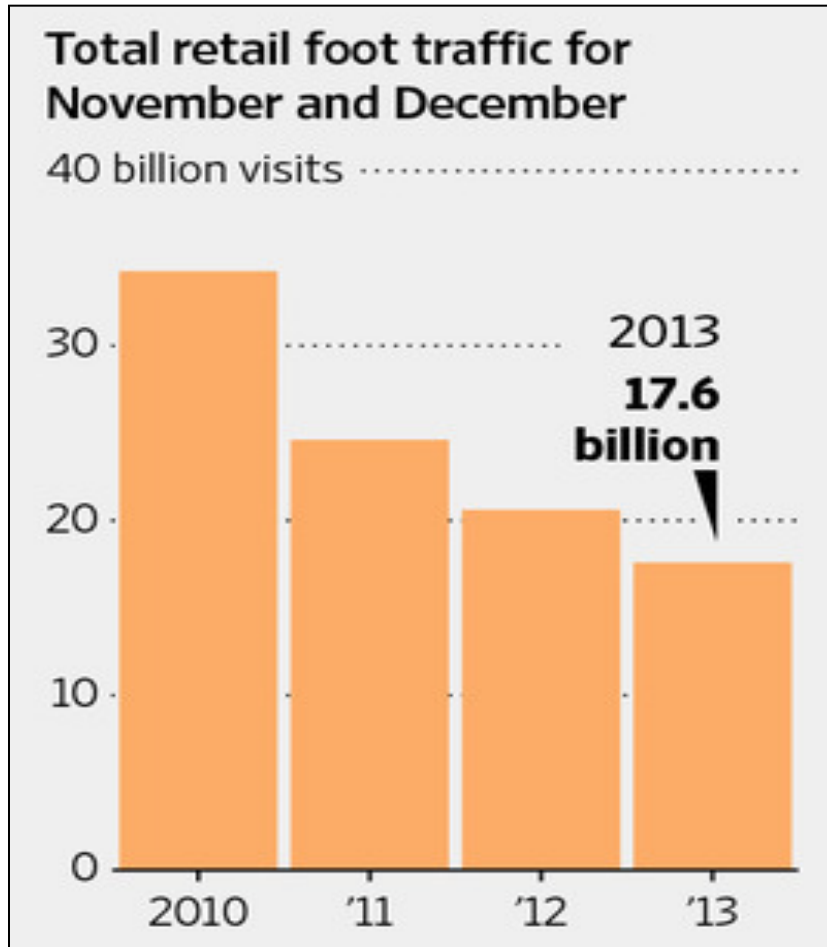
But Shopping Center Development Stalled

U.S. Shopping Center Development



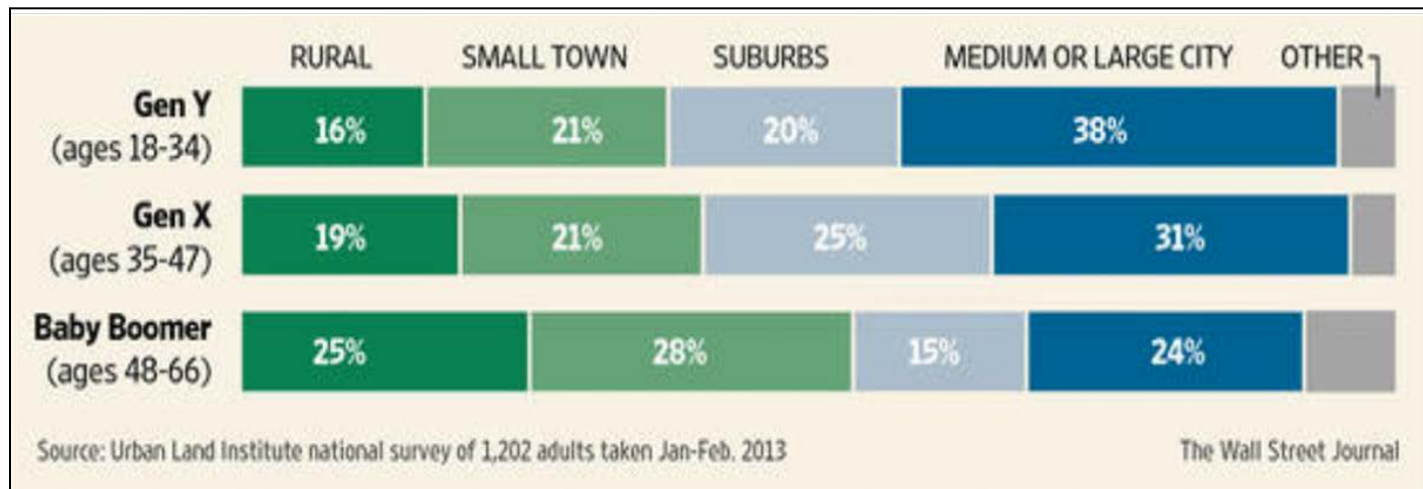
Shoppers Suspiciously Absent

So, if the economy is recovering...where are all the shoppers?



Consumers – Changing Locations

Youngest shoppers increasingly urban;
Gen Xers still suburban



Consumers – Changing Tastes

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

Aging Population

- Seniors on fixed incomes tend to spend less
- Aging baby boomers demand medical uses - potential candidates for retail centers (helps occupancy but not sales tax generation)

Latino Market continues to expand

- National retailers beginning to respond
- Ground up & Value-Add Centers growing in Latino-majority areas

Retail isn't just retail...anymore

Objective of a retail strategy has changed for new projects

- **Big Box is wrong as only primary target ... experience and entertainment component are primary today**
- **Back to the Village square – retail no longer isolated use**
- **Move from Products to Experience means consumption will be more a function of the number of “trips” to a center**

Strategy for existing centers has also changed

- **Objective – “fill dark spaces and attract trips”**
- **Think “out of the big box”**
- **City zoning and approval processes should be in synch with tenants that attract trips**

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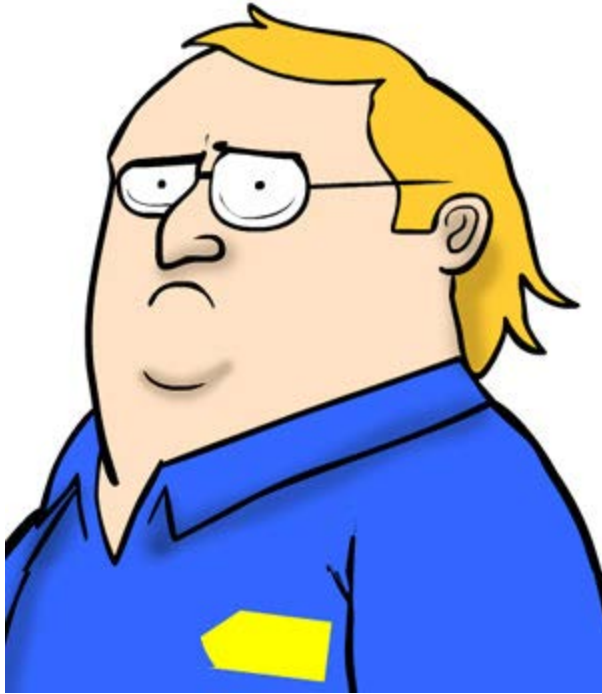


Internet Sales – Digesting the Data

Internet sales account for 6% of all retail sales, but...

- **Increasing 10-15% per year**
- **Fastest Growing sectors:**
 - **Commodities**
 - **Items with high costs per unit weight (making shipping affordable vs. in-person pickup)**
 - **Media of all kinds**
 - **Consumer Electronics**

The Future of Customer Service



***THE PAST:
Mr. Brick & Mortar***

***THE PRESENT & FUTURE:
A 'Genius' Solution***

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The Future of Internet Dining



You can't eat over the Internet.

The Itches the Internet Doesn't Scratch

It's where people have to be and where they want to be:

1. **Restaurants and Bars** – you can't eat or drink on the web
2. **Grocery Stores**
3. **“Place”** is the new Anchor Tenant
4. **Experiences as the main event** – theaters, performances, tasting stations, fashion shows
5. **Cars** – sitting in and test driving the new vehicle
6. **Some apparel still needs a “try-on”**. Survivors sync their in-store “fitting room” with their online “fitting room”

The Itches the Internet Doesn't Scratch

It's where people have to be and where they want to be:

7. **Retailers that incorporate services with products (e.g. Pet Stores, Auto Parts)**
8. **Goods with High Shipping Costs (e.g. dog food)**
9. **Customer service intensive (e.g. Home Improvement)**
10. **Strong Brands & Luxury retail**
 - can control supply chain as imitators are not a threat
 - less vulnerable to lower-price competitors

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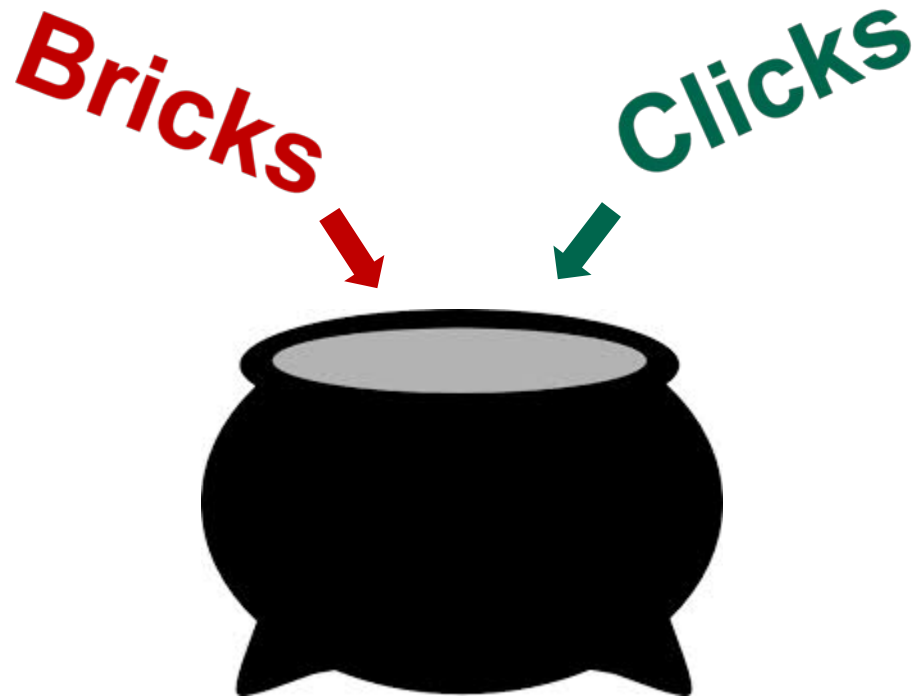
Retail Trends – The Changing Formats

1. **Retailer formats are smaller** and more flexible with layouts
2. **Big Box Retailers** with small formats are penetrating urban markets
City Target; Wal-Mart Neighborhood Market; Best Buy Mobile
3. **Consolidation** – Office Max merges with Office Depot to fight Staples, but Staples closed 40 US stores (45 in Europe) in 2013
4. **Non-Retail Reuse:** Gyms & medical offices in vacated big boxes; compatibility with traditional retail is the wildcard
5. **Grocery is bifurcating to Wal-Mart & Specialty formats;** "Legacy" grocers like Albertsons contracting; Aldi expanding

Retail Trends – Development

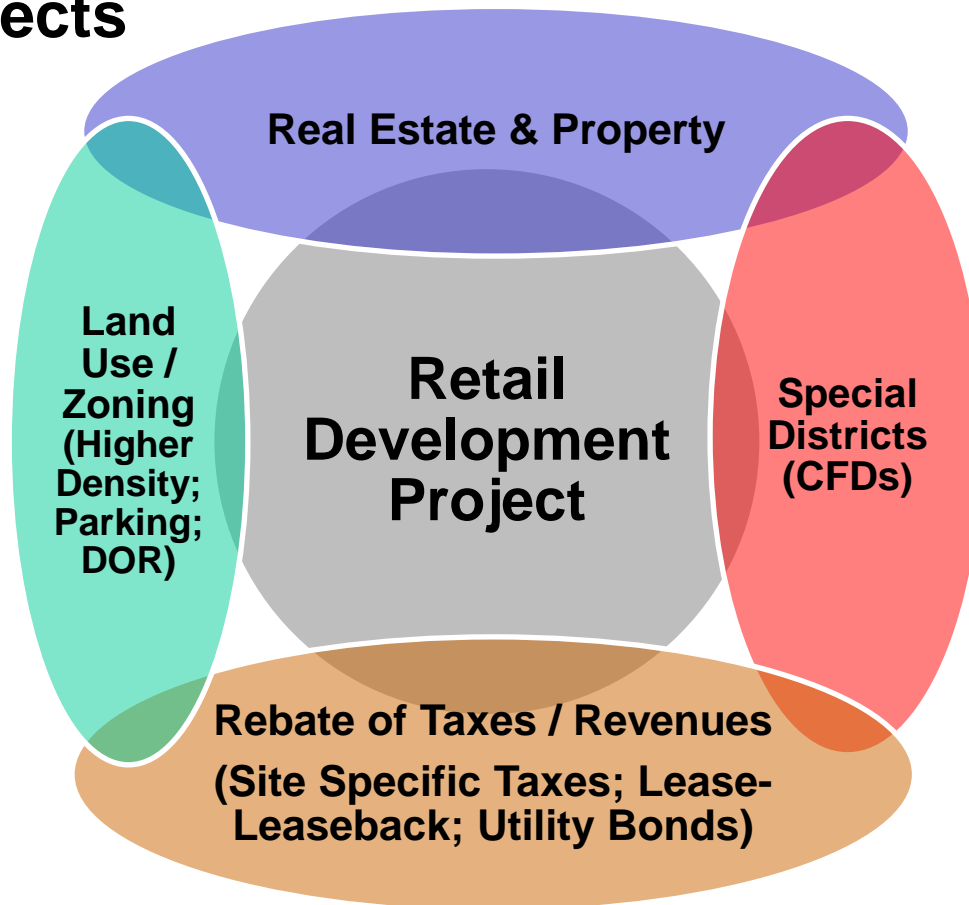
1. **Brick and Mortar** will generally continue to be in demand in underserved and urban markets and in more urban formats
2. **Targeted infill ground up Development** still works
 - supply, demand, tenant mix, format have to be in balance
 - developers & lenders more selective due to economic contraction, supply overhang and shift to internet sales
3. **Conversion of 1970s Downtown superblock indoor centers to street-oriented, outdoor centers.**

Retail Recipe for Success – TODAY



Retail Development – Financing Tools for Cities

Cities have 4 BASIC “Non-Redevelopment” TOOLS for Retail Projects



These tools often work best when used together

Retail Development – Former RDA Property

Economic Development /
Infrastructure Opportunity

Properties that may be Transferred to the City/County (requires OB and DOF approval [§ 34181(f)])



Government Purpose

- Roads, schools, police and fire stations, libraries, parks, Gov't offices [§ 34181 (a)]



Enforceable Obligation

- Property may be sold or retained for purposes of fulfilling an enforceable obligation [§ 34191.5(c)(2)]



Future Development

- Property is identified in approved redevelopment plan [§ 34191.5(c)(2)(A)]

Remaining properties (more than 2000 statewide) must be sold.

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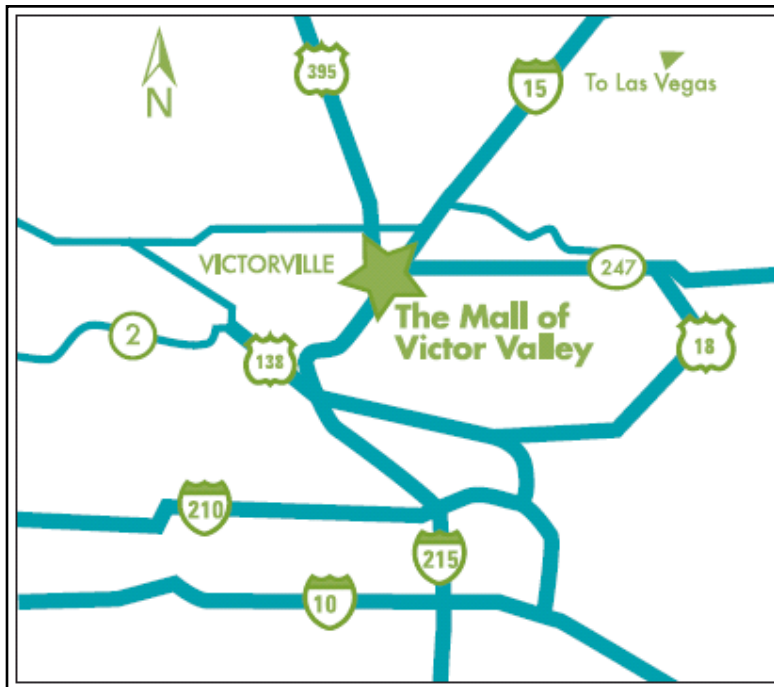
- The Challenges include:
 - *Underutilized* real estate
 - *Underfunded* real estate
 - *Obsolete* design & tenant mix
 - *Costly* improvements that inhibit development



Existing Center in City of Victorville

Mall of Victor Valley

Redesigned and Revitalized Existing Regional Mall



Victorville – Mall of Victor Valley

The Challenge

- Macerich lost several major tenants from a significant regional shopping mall (Gottschalks & Mervyns bankruptcies)
- Resulting decline in sales tax revenue for City of Victorville



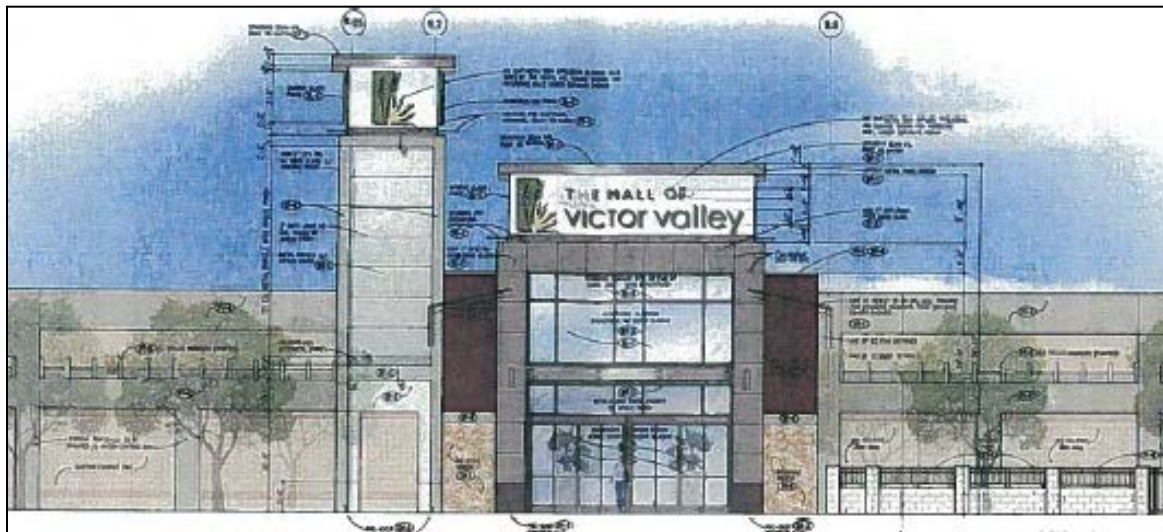
The Solution

- Kosmont evaluated & negotiated public-private options to retain & attract retailers; to generate jobs and sales tax revenue for the community
- Site Specific Tax Revenue (SSTR) sharing arrangement vis-à-vis Development Agreement between Macerich and City to pass through sale tax amounts greater than threshold value
- Re-tenanting and architectural redesign revitalized aging mall

Mall of Victor Valley – The ReDesign

The Results

- JC Penney opened in OCT. 2012
- MACY'S and Dicks Sporting Goods opened in 2013
- Façade Improvements and New Signage
- Net increase of 47,000 retail SF (531,000 total SF)





New Project in City of South Gate

“azalea” Regional Shopping Center

A 32-acre, 372,000 sf outdoor Regional Shopping Center with Public Event Plazas and City Hall Annex



City of South Gate – “azalea” Retail Center

The Challenge

- **South Gate has highest population density in LA County**
- **Yet residents are forced to drive great distances for basic retail soft and durable goods and quality restaurants.**
- **Primestor stepped forward to develop a retail center but the project required costly off-site improvements**

The Solution

- **Infrastructure Financing Agreement & Utility Bonds**
 - *off-site improvements funded as public-purpose*
 - *reduced risk for both City and developer*
- **EDA Grant & New Market Tax Credits closed project gap**

City of South Gate – “azalea” Retail Center



The Results

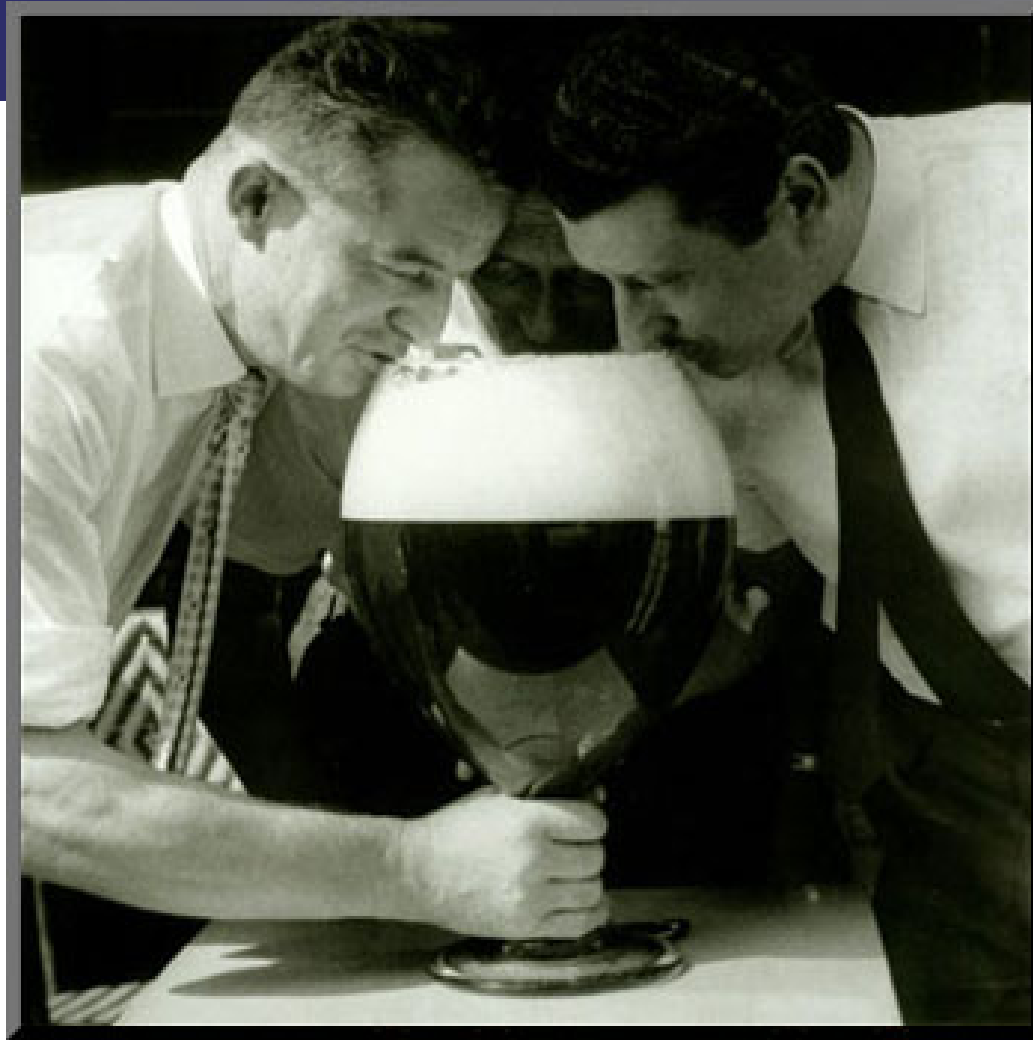
- 372,000 sf project to open in June, 2014 with major national credit retailers (Wal-Mart, Forever 21, In-n-Out, Ross) & modern design
- Project will generate \$2.6m per year in sales (2% sales tax rate)
- Enables City to recapture sales tax leakage & create ~600 jobs
- Public amenities include City Hall Annex, outdoor public plazas and event areas

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TOP 5 Take-Aways

- 1. Place making, entertainment and consumption is the key**
- 2. Keep track of where people NEED to and WANT to show up in person**
- 3. Cities need a long-term retail strategy not a retail study**
- 4. Infill Retail Projects get going with the four tools: Property, Taxes & Financing, Land Use Regulations, & Special Districts**
- 5. Bricks & Clicks – the key to retail is in the balance.**



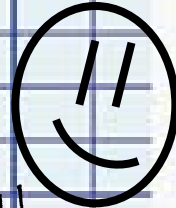
CHEERS!

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*Thanks &
come Again!!*

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