akerman

Retail Resilience: An Adaptation Nation

Featured Story

December 4, 2019

We are an adaptation nation. Embracing change to remain relevant has long been the mantra of savvy business owners and managers. Since the dawn of dial-up internet, retailers have struggled to keep pace with the evolving mores of our consumer culture and on a deeper level, how technology is changing our very human nature from the way we communicate to the way we consume.

Constant connectivity and ultra-convenient, ultra-speedy consumption have transformed not only how we shop, but *why* we shop with certain retailers. Our wants and needs and how we fulfill them are now part of a larger consumer conversation to be shared, liked, and experienced collectively in real-time. As humans, we have adapted to these new modes of digital discourse with every click, swipe, and post, naturally selecting the sellers and makers who are

Related People

Eric D. Rapkin
Jerry Reichelscheimer

Related Work

Real Estate
Commercial Leasing and Development

guiding the discussion and nimble enough to deliver more meaningful, albeit more instantaneous instant gratification. Many traditional retailers slow to respond to these sea changes have seen their market share slip away to online competitors - untenable debt loads and failure to adapt sending them down the slippery slope into the pre-internet primordial soup.

In the last two years alone, retailers have closed more than 250 million square feet of store space and more than 7,500 stores are expected to shutter before the end of 2019.[1] Even brick and mortar juggernauts are contracting and scrambling to reorganize and reposition in an effort to survive. S&P analysts state that about 12 of the approximately 136 retailers it rates would default this year, compared with only three defaults a year historically. [2]

> Previously shunned by mall landlords, gyms and high end movie theaters are now welcomed to the party.

The widespread closing of apparel chains and anchor department stores is causing landlords to rethink their tenant mix and to bring in tenants that will generate foot traffic to maintain a healthy mall ecosystem. Previously shunned by mall landlords, gyms and high end movie theaters are now welcomed to the party. Restaurants with celebrity chefs are highly sought after to draw in well-heeled customers who will patronize other stores. The ethos of shared experiences is also affecting the way we make and break bread. Carefully curated and themed food halls are reoccupying vacant retail spaces in class-A malls across the country. The trend shows no signs of slowing. “A new report by commercial real estate services firm Cushman & Wakefield predicts there will be about 450 food halls open across the country by the end of 2020; that’s a jump from 120 in 2016.”[3]

7,500+

Retail stores expected to close before the end of 2019

Business Insider

Necessity is the Mother of Reinvention

With this sea of change, comes opportunity for both landlords and retailers alike. Healthy consumer spending continues to buoy a delicate U.S. economy and a new wave of young, scrappy, and hungry retailers (as well as retailers who remain young and scrappy at heart) are reinventing the sector with an omnichannel approach that is increasingly personalized and leverages technology to heighten the customer experience, as well as the operational efficiency of every transaction.

This new hybrid environment has fueled brick and mortar expansion in ways we never could have imagined, with digitally native brands developing physical spaces to extend loyalty and tap the fundamental tenets of the experience economy, commoditizing memorable (and tweetable) experiences right alongside their newest product offerings.

A recent study published by the International Council of Shopping Centers (ICSC) explores the halo effect, described as the increase in sales of brick-and-mortar stores after an online purchase at the same retailer and vice versa. According to the data, when a consumer spends $100 online and visits a physical store within 15 days of that purchase, they spend an additional $131. This amount increases to an additional $167 from in-store to online.[4] “The long-term increase in incremental purchases reinforces the need for retailers to maintain a physical presence to maximize customer engagement and build brand awareness”, says Eric Rapkin, chair of Akerman’s Real Estate practice group and ICSC Florida State Director.

Thriving retailers are developing and deepening brand loyalty with customers of all vintages through authentic interactions supported by new tech in both the digital and physical environments. New and emerging technologies like continuous intelligence, computer vision, and the expansion of the Internet of Things are helping forward thinking retailers harness big data to provide customers with more personalized shopping experiences.

Central to why retail is experiencing a renaissance are a cadre of disruptors bringing new tricks to this old dog. Retailers are also leveraging smartphones - tiny treasure troves of customer data, storing our habits, preferences, shopping interests, and browsing histories with every purchase. “They give highly accurate location data without compromising personally identifiable information (PII) and allow fluid integration with the systems designed to gather and process data. With smartphones, retailers can better understand their customers while they are in the store without stepping on their privacy.”[5]

Facial recognition software, another retail-tech enhancement, delivers in-store ads that are targeted to customers as they shop. Opt-in apps also track the shopper’s buying journey while in the store so that retailers can harvest data and personalize marketing campaigns based on consumer habits. “Brands can now see how many shoppers interact with their products, for how long, and how this compares to the competition on display.”[6] This data collection has the potential to reshape everything from in-store organization to vast, omnichannel innovation, creating ripple effects across both the retail and industrial sectors and impacting everything from supply chain management to manufacturing automation.

The hybridization of the retail experience also involves a core change in how projects are being developed. Jerry Reichelscheimer, the chair of the Retail Leasing and Development practice at Akerman, sees a clear trend in that retail shopping centers can no longer be limited to retail and dining venues but must expand to include uses that catch the eyes and interest of both Millennials (Gen Y) and Centennials (Gen Z). “The younger generations, like earlier generations before them, want to gather in a ‘town square.’ A generation ago it was the retail mall. Today that mall needs to not only include retail but it needs to include entertainment venues and basic life services. We are seeing a shift where now someone wants to buy a pair of sneakers, get something to eat, go to the gym, visit a dentist and go to an entertainment/experiential venue all in the same place and during one trip,” says Reichelscheimer.

A prime example of this transformation is the American Dream Meadowland center in northern New Jersey which is scheduled to open this fall. Previously identified as the retail shopping center “Xanadu” that ran into financial problems at the start of the Great Recession, the unopened center floundered until it was acquired by Triple Five Group which is opening it as the American Dream Meadowland and is expected to contain, in addition to retail tenants, a theme park and water park.

Similarly, Akerman recently negotiated new leases for a retail center on the Manhattan/Bronx border which expanded the uses of the shopping center from primarily retail to include dental services, eyeglass services and a managed care operation. Where do we go from here will depend on what future generations will be looking for but the retail developer must keep watching the trends and be flexible enough to change.

> ”...a new wave of young, scrappy, and hungry retailers are reinventing the sector with an omnichannel approach...

Culture of Connectivity

Our desire for personal connectivity is also changing the way we both work and live. One growing national trend disrupting both the retail and office sectors is the rise of co-working space. The conversion of malls and other vacant buildings into shared, as well as whole-company office space is breathing new life into failing retail environments. Co-working companies like WeWork continue to expand across the country, creating instant networking hubs and much-needed foot traffic for stores and restaurants left vulnerable by big-box closures. According to a recent study by Jones Lang LaSalle, “the highest concentration of co-working spaces in retail nationally is in malls. The same study predicted that co-working space in retail would grow at an annual rate of 25 percent through 2023.”[7]

In Los Angeles, Google is once again reimagining the workplace on a larger scale by leasing the once-dying Westside Pavilion mall, which will be redeveloped into a 584,000 square foot “first-of-its-kind conversion from shopping mall to creative office space.” The project is slated for completion in 2022 and could serve as a model for other investors and developers looking to revitalize their retail portfolios.

In addition to connectivity, convenience and efficiency are also driving the need for people to live, work, shop and play within close proximity. Mixed-use developers are responding to this need by building amenity-filled condominium, loft and apartment residential communities to include office, retail and entertainment spaces.

---

1. Peterson, Hayley. “More than 7,500 Stores Are Closing in 2019 as the Retail Apocalypse Drags on - Here’s the Full List.” Business Insider, Business Insider, 12 July 2019, www.businessinsider.com/stores-closing-in-2019-list-2019-3.

2. Fung, Esther. “What Retail Recovery? Malls Under Pressure as Stores Close.” The Wall Street Journal, Dow Jones & Company, 16 Apr. 2019, www.wsj.com/articles/what-retail-recovery-malls-under-pressure-as-stores-close-11555407001.

3. Wolf, Liz. “Food Halls in U.S. Malls Are Thriving, but Is There Fear of Oversaturation?” National Real Estate Investor, 18 July 2019, www.nreionline.com/retail/food-halls-us-malls-are-thriving-there-fear-oversaturation.

4. “The Halo Effect II: Quantifying the Impact of Omnichannel.” International Center of Shopping Centers, 2018.

5. Juel, Carol. “Getting Ahead Of Technology Trends: Turning Customer Data Into Personalized Experiences.” Retail TouchPoints, Synchrony, 8 July 2019, www.retailtouchpoints.com/features/executive-viewpoints/getting-ahead-of-technology-trends-turning-customer-data-into-personalized-experiences.

6. Martinho-Corbishley, Daniel. “Reinventing High-Street Retail with Privacy-Protecting AI.” Business Reporter, Aura Vision, 17 July 2019, www.business-reporter.co.uk/2019/07/17/reinventing-high-street-retail-with-privacy-protecting-ai/#gsc.tab=0.

7. Acitelli, Tom. “The New Mall Tenant Is Your Office.” The New York Times, The New York Times, 30 Apr. 2019, www.nytimes.com/2019/04/30/business/the-new-mall-tenant-is-your-office.html.
