



Terry Montesi, Trademark



Andrea Olshan, Olshan Properties



Dave Moore, Irvine Company

2017 Survival Tips

Chief executives from leading retail real estate companies shed light on the new year's most pressing challenges for their tenants

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 readjust 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:

**Terry Montesi
CEO, Trademark Property Company**

If I were a retailer, I would be focused on the following: How do we **make a subcon-**

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scious 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?

**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.

**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.

**Glenn Rufrano
CEO, VEREIT, Inc.**

As department stores like Macy's and Sears downsize, prime locations in malls

continued on page 34

continued from page 33

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.

Stephen Lebovitz
CEO, CBL & Associates Properties

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 sq. ft. of space that could be turned to more advantageous uses like food and entertainment. **There's an opportunity here for retailers to experiment.**

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.

Joel Gorjian
CEO, 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.

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 reinvested 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.**

Jeffrey Edison
Principal & CEO,
Phillips Edison & Co.

We're on a slippery slope 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 as concerns 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 grocery, combining an internet strategy with a fast food strategy.

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.**

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 and 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 sq. ft.

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.

Spencer Bomar
Principal, Avison Young

The one thing that I am telling retailers is 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.**