

A Reprint from *Tierra Grande*

# CENTERS OF ATTENTION

## Retail Tenants and Trends

By Mark G. Dotzour

**W**here do developers go to shop for new mall tenants? One of their biggest shopping sprees takes place at the annual "leasing mall" at the International Council of Shopping Centers (ICSC) convention. This year, 850 exhibitors gathered in Las Vegas to meet face-to-face with 35,000 developers, retailers, lenders and city officials. Everyone had the same goal in mind — put more retail space into the marketplace.

Fifty mayors led a discussion on how private developers and local governments can work together to make retail development happen. The mayors realize a substantial part of their cities' budgets are paid by revenues from sales taxes collected at shopping centers.

Mayors from Boston to New Orleans to Reno to Long Beach delivered the same message to developers: "We want you to develop quality shopping centers in our community."

The mayor of Albany, N.Y., even distributed his home phone number. Boston's mayor promised to refund all development fees if submitted plans are not approved within a specified time.



Obviously some retailers are in greater demand than others. Each year ICSC recognizes retailers that put sizzle into the tenant mix and bring traffic to stores. Here are the six retailers honored this year.

### Trader Joe's

This specialty grocery offers more than 2,000 private label foods and other household items from all over the

world, many of which are distributed exclusively through Trader Joe's. Among the store's offerings are Pound Plus gourmet chocolate bars, seafood processed without chemicals, ready-packed Chinese chicken salad, European, South American and Australian wines for as little as \$2 per bottle and orchids from Thailand.

The chain has 216 stores in eighteen states (none in Texas). With 12,000 to 14,000 square feet of floor space, the stores are smaller than conventional groceries. About 25 store openings per year are planned, mainly on the East and West Coasts.

Trader Joe's recruits managers and staff who are outgoing and customer service oriented. The company's philosophy is that



grocery shopping should be fun. This approach, along with its unusual inventory, allows Trader Joe's to compete with major grocers.

### Hollister Co.

Hollister Co. caters to adolescents ages 14 to 18. Clothing and accessories are presented in a relaxed environment that encourages customers to "hang out" rather than breeze through. With chairs to lounge in, magazines and popular music playing, the stores resemble beach houses.

In four years Hollister has expanded to 177 locations. Another 85 stores are planned to open in 2004. Locations are chosen based on "where the kids like to hang." Frequent customer cards are offered to those who spend more than \$500, allowing the best customers to get special tickets to music concerts.

### H&M

H&M (Hennes and Mauritz) is all over Europe and is spreading throughout the United States. These stores offer stylish, affordable fashions for young women and men.

The first H&M store opened in 1947; now there are stores in 19 countries. Since entering the U.S. market in 2000, H&M has opened 70 stores. They have in-house designers and offer entire "looks" for less than \$100.

### Build-a-Bear Workshop

Build-a-Bear Workshop exploded on the retail scene seven years ago. At these stores, kids of all ages select, stuff, dress and name their own teddy bears. Clothing for the bears and other animals ranges from classic to trendy, and children can record a message that will play each time the bear is hugged. CEO Maxine Clark says, "What we sell is smiles."

Build-a-Bear currently has 155 stores. Last year they opened 40 stores; another 25 will open in the United States and Canada in 2004.

### Victoria's Secret

This widely recognized retailer of lingerie and women's apparel began remodeling their 1,000-plus U.S. stores in 2002. Between 45 and 50 stores have been remodeled; another 35 stores will be converted in 2004.

"Pink," the company's new sub-brand, targets women ages 19 to 22. The success of the "Pink" line is adding to the company's sales per square foot.

### Hot Topic

For a second consecutive year, Hot Topic was recognized as a "hot retailer." The company studies music and popular culture and develops clothing that supports the pop lifestyle.

The retailer pays employees to go to rock concerts to keep up with what teenagers are wearing and doing. The stores are half apparel and half accessories for the 12- to 22-year-old age group. Hot Topic has 540 stores, with plans to expand to 800 stores in the future.

### Small-Town Retail

Few national retailers want to locate in America's smallest cities and towns. But some do.

"Dollar" stores such as Family Dollar, Dollar General and Dollar Tree are active in smaller cities.

Fast-food franchises such as Subway and Quiznos are there, too.

So are movie rental stores such as Movie Gallery. Movie Gallery currently has about 2,400 stores and plans to add another 400 to 600 cities next year. This chain focuses on towns with populations of 5,000 to 15,000.

Save-A-Lot officials describe their company as "an extreme value retailer." Stores carry only 1,250 commonly purchased items and sell them at low profit margins. Save-A-Lot's growth plan targets communities of at least 20,000 and household incomes of \$35,000 or less.

### 'Dark Space' Increasing

Retail property owners are concerned with "dark centers," also known as "second generation" retail space. These are buildings that have been vacated by their initial tenants. Wal-Mart, which creates about 100 empty big boxes every year, currently has between 16 and 28 million square feet of dark space. The bankruptcy of Kmart increased the overall inventory of unused space.

Consolidation in the grocery industry is likely to produce more dark big box space. Panelists at the convention suggested that owners strongly consider promoting alternative uses, such



as medical clinics or office space. Conversion to apartments or condos is another possibility.

## Lifestyle Centers

During the '60s and '70s, retail movement was toward regional enclosed malls. The '80s and '90s brought power centers, a cluster of large big box retailers in a common area. Then came "shoppertainment," the blending of shopping and entertainment experiences. The latest retail design innovation is labeled the "lifestyle center."

Lifestyle centers are focused on convenience for upper-income shoppers. They are open-air developments where shoppers can park in front of the store.

The tenant mix is likely to include home furnishings, women's fashion, specialty stores, bookstores and restaurants. Architectural design is emphasized and is used to create a pleasant and possibly nostalgic experience. The goal of lifestyle center developers is to recreate the downtown shopping experience of earlier decades.

The criteria for a successful lifestyle center are availability of target population (young professionals and upper-income families) and convenience for the high-income shopper. The center must be easily accessible from the street, must be visually appealing and must give shoppers a safe feeling.

Tenant mix is important, too. A coffee shop or café helps bring traffic to the stores. High-quality design amenities generally mean that rents are higher in lifestyle centers, so higher-end retailers are most successful. Results have been mixed for mid-priced retailers.

Open-air lifestyle centers have proven successful in cold, northern climates like Chicago as well as in hot, humid Florida markets. Lifestyle centers are conducive to mixed-use development. Residential and office uses fit the concept well.

Currently, lifestyle centers make up a small portion of the shopping center universe, representing only 2 percent of the square footage found in regional malls. There are an estimated 120 lifestyle centers in the United States.

## Strong Investor Demand

ICSC panelists said that investment demand for retail properties is strong and cap rates have fallen to surprisingly low levels. Regional malls are the favored class, but community centers, power centers and lifestyle centers are also viewed favorably by investors.

Grocery-anchored retail shopping centers are viewed with caution. The onslaught of competition in the grocery business has been fierce.

Wal-Mart and Target have made significant inroads against major grocery chains. Discounters, such as Family Dollar and Dollar General, and drugstores, including Walgreens and CVS, are also selling food. Some grocers are insisting that "dollar stores" not be allowed to lease in their centers because they sell so many grocery products. More consolidation among traditional grocers such as Albertsons, Kroger and Winn-Dixie is likely.

Lots of money is chasing retail centers, making it easy to sell but hard to buy. High-leverage buyers are driving cap rates down and prices up.

One panelist quipped that some investors out there "have keys on their financial calculators that we don't have." Some California retail sites are selling at cap rates of less than 6 percent (one panelist cited 5.8 percent). As interest rates go up, cap rates are likely to rise as well. ➔

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***EMPTY BIG BOX SPACE** is abundant, presenting property owners with a tough marketing task. Creative sellers promote alternative uses for the space, such as office or medical space, apartments or condos. This former Wal-Mart store in Hearne, Texas, is now a high school.*



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