

# The Future of Shopping Centers:

## ICSC Highlights

BY ANDREA SLAYDON

What is it about a shopping center that makes it successful? Big named stores? Well-known restaurants and entertainment? The formula that has worked in the past is changing and experts say, of course, it all comes down to what the consumer wants. This sign of the times also points to the end of the traditional shopping mall. These were just some of the highlights from the International Council of Shopping Centers Texas fall 2016 conference.

"There is a paradigm shift going on in retail now," said **Scott Lynn, Founder & Co Principal of Metropolitan Capital Advisors**. "Some investors are following these entertainment, lifestyle, restaurants or food service oriented projects and they are saying, 'I think that's less risk today because that's where people are spending their money.'"

Metropolitan Capital Advisors is a real estate investment-banking firm that specializes in arranging financing for commercial developers and owners. Lynn and his team have arranged more than \$12 billion of debt and equity transactions for various types of commercial property. At the ICSC Texas conference, Lynn moderated a panel looking into the changes in shopping centers.

**Bottom line:** traditional bricks and sticks real estate with a Target or Walmart and nail salons and dry cleaners, for example, are not exactly what the buyers want anymore.

"They want to sit down on patios and drink craft beers and fine wines and have gourmet nachos with all that," said Lynn. "They're spending, every time they go, \$50 and that's really where people are going today."



Scott Lynn



Nick Egelanian

One great example is Village on the Parkway in Addison, Texas. The mixed-use center, owned by Lincoln Property Company, The Retail Connection, had a \$43 million initial acquisition price with a total \$85 million project cost.

"What they were able to do, at least initially, is a transaction that was de-leveraged," explains Lynn. "It didn't have a lot of financing on it. It was done with a lot of cash initially. Once they got the big tenants signed up, that being AMC and WholeFoods,

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## The Parke

**Location:** Cedar Park, Texas  
**Developer:** Endeavor Real Estate Group

- Acquired 42 acre site from DR Horton with no entitlements or pre-leasing
- Endeavor took the land risk due to success of their Target anchored center in close proximity
- 400,000 SF Center anchored by: Whole Foods (365), Dick's Sporting Goods, Nordstrom Rack, Marshalls, DSW, ULTA, Michael's, Old Navy & others
- Currently 93% leased & grand opening planned for early April 2017
- Center will be 100% leased by delivery in Spring 2017




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## Domain NORTHSIDE

**Location:** Austin, Texas  
**Owner:** Endeavor Real Estate Group & Northwood

- Purchased in 1999, Phase I started in 2004
- Phase I & II includes 1.05 MM SF of restaurant, office, upscale retail, apartments & hotel space
- Domain Northside (600,000 SF) anchored by Nordstrom and Restoration Hardware
- Specialty Retailers-70 (2-3K SF) tenants**
- Rock Rose** consists of 100K SF of best-in-class local with a Downtown Austin "South Congress" feel



then they went to the bank and the bank was able to give them financing."

When you exclude the two anchor tenants, the vast majority of the new tenants at Village on the Parkway are restaurants.

"The reason that center is so successful and popular today is because it's got a grocery store, it's got a theater which is entertainment and it's got the major draws which are all those restaurants," said Lynn. "People are coming to this center to eat and entertain themselves."

Lynn said the challenge on these heavy restaurant center projects is their high capital expense outlay and the probability of success is far from 100% because it's heavily driven by tastes and opinions.

The Domain NORTHSIDE in Austin, Texas has a very traditional, outdoor setting. It's owned by Endeavor Real Estate Group & Northwood and is anchored by Nordstrom and Restoration Hardware. The difference

for this project is the restaurant choices. It's all chef-driven, non-branded, non-chain restaurants. Because of the strong anchors of this shopping center, this "specialty restaurant row" works.

"Once the leases were signed there, they were able to leverage that at almost 80% of cost," said Lynn. "When you have specialty, non-named brands, chef-driven restaurants, no credit, for the first time this concept, no brand recognition, the leverage drops."

Compare the Domain NORTHSIDE to Las Colinas Specialty Retail in the upscale area of Las Colinas in Irving, Texas. Most of the tenants are well known brands that have multiple locations including Del Frisco, Chuy's, and Ascension Coffee. The owner of the land is Cowboys owner Jerry Jones. This project was a rare agreement because it was as simple as Jones shaking hands with Lincoln Properties and making a deal.

"They said, 'Look, we'll contribute our land at the

current market value and let's be partners. You guys go find the tenants, we'll contribute the land, we'll go to the bank together and borrow the balance of our net off our land." said Lynn, "This type of deal would usually throw up a red flag but because of the history with Jones, the community and Lincoln Properties, the deal worked."

The Parke in Cedar Park, Texas is a 42 acre site of land acquired from DR Horton with no entitlements or pre-leasing. Endeavor took the land risk due to the success of their Target anchored center in close proximity. The Parke is anchored by Whole Foods, Dick's Sporting Goods, DSW, ULTA, Old Navy, and others. Grand opening is planned for April 2017.

Another significant development from the ICSC conference was talk of cap rates between beautifully anchored power centers with long-term leases and great credit versus some of the specialty stores with no credit.

"There just wasn't as much differentiation for credit versus non-credit as one might have thought. That's just a sign of how hot the market is and how starved for product people are," said Lynn. "They're paying big prices for this well-branded, not necessarily well-anchored, by well-branded retail."

Lynn says the biggest surprise for commercial real estate right now: entertainment retail seems to be valued as highly as traditional anchored retail. ●

**SCOTT LYNN** is the Founder & Co Principal of Metropolitan Capital Advisors, a real estate investment-banking firm that specializes in arranging financing for commercial developers and owners. During the past twenty-five years, Scott and his colleagues have arranged over \$12 billion of debt and equity transactions for every kind of commercial property imaginable. The team at Metropolitan Capital Advisors have been consistently ranked as one of the TOP 25 Finance Intermediaries in the U.S.

## THE POST DEPARTMENT STORE ERA

**Nick Egelanian, President of Siteworks Retail Real Estate Services**, is a leading expert on retail and the shopping center industry. For ICSC his focus was retail in the post department store era. He says

The DEPARTMENT Store Era



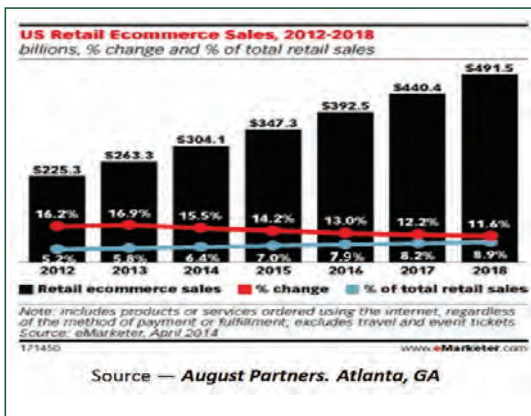
## The Post-Department Store Era (Departments In-A-Box)



Commodity Retail: Apparel  
Over 275 New T.J. Maxx, Marshall's, Ross, and Nordstrom Rack Stores in 2016

in order to understand what's really going on in retail today you have to understand where it came from.

"Back in the 60s, 70s, and 80s the mall was an extension of downtown. Malls had department stores as anchors and everything else a downtown would have," said Egelanian.



Then, in the 80s, specialty big box and chain stores really started spreading across the country. Egelanian said that is what started the destruction of the department store model.

"We've had a reduction in market share going on for 30 years. It's been so slow, so drip, drip, drip that most of us didn't see it happening," he said. "Of the 700-900 regional malls in the country right now at some point we will have less than 200. I think it will take about 10-15 years."

Here's something that might surprise you. Egelanian said contrary to what some people believe, online shopping is not killing brick and mortar sales.

"The entire internet accounts for less than 10% of all retail sales," Egelanian explains. "The fastest growing category in brick and mortar is apparel but there is a fundamental change in how this works."

Egelanian said for retail stores there is a race to the bottom on prices. The model that worked really well in regional malls, which was basically a high price

that could absorb the cost of working in a mall, no longer works because discount apparel is available everywhere. The model of discount retailing is now the norm.

### Annual US Retail Sales as of January 2016



"The brands that were exclusive brands to us in the 90s and 2000s—for example Coach, etc, now they have discount versions. The wallet I buy for \$175, the coach outlet store has 10 different versions that are \$45-55. The average person can buy this. This is happening to all the brands," said Egelanian.

Companies have dramatically expanded their customer base by doing this. So, what is in the future for shopping retail centers? Egelanian points to a development in Boston, Massachusetts as a good example.

"In every way it looks like a sophisticated mixed-use project with wide streets, restaurants, a subway line running near it and entertainment is part of it," he said, "but one major difference: every apparel retailer in it is off-priced; every apparel retailer is a factory store. You are going to see more and more of that in the future."

Besides the addition of discount retailers Egelanian agrees restaurants are a huge part of a shopping center's success.

"A lot of people in the industry call the restaurant the new department store," he said. "The same money you would invest in the department store 30 years ago, you will invest in 5-6 restaurants today. They drive the same amount of traffic and the same amount of revenue. Mall centers don't get that same bang."

When it comes to the success of shopping centers, it comes down to what the customer wants. For more highlights from the International Council of Shopping Centers Texas Fall 2016 conference check our website: rednews.com. ●

#### NICK A. EGELANIAN

Considered a leading expert on retail and the shopping center industry, Nick A. Egelanian pioneered the segmentation of retail into Commodity and Specialty sub-groups as the author of the retail chapter of the Urban Land Institute's Professional Real Estate Development: The ULI Guide to the Business, 3rd Edition in 2012.