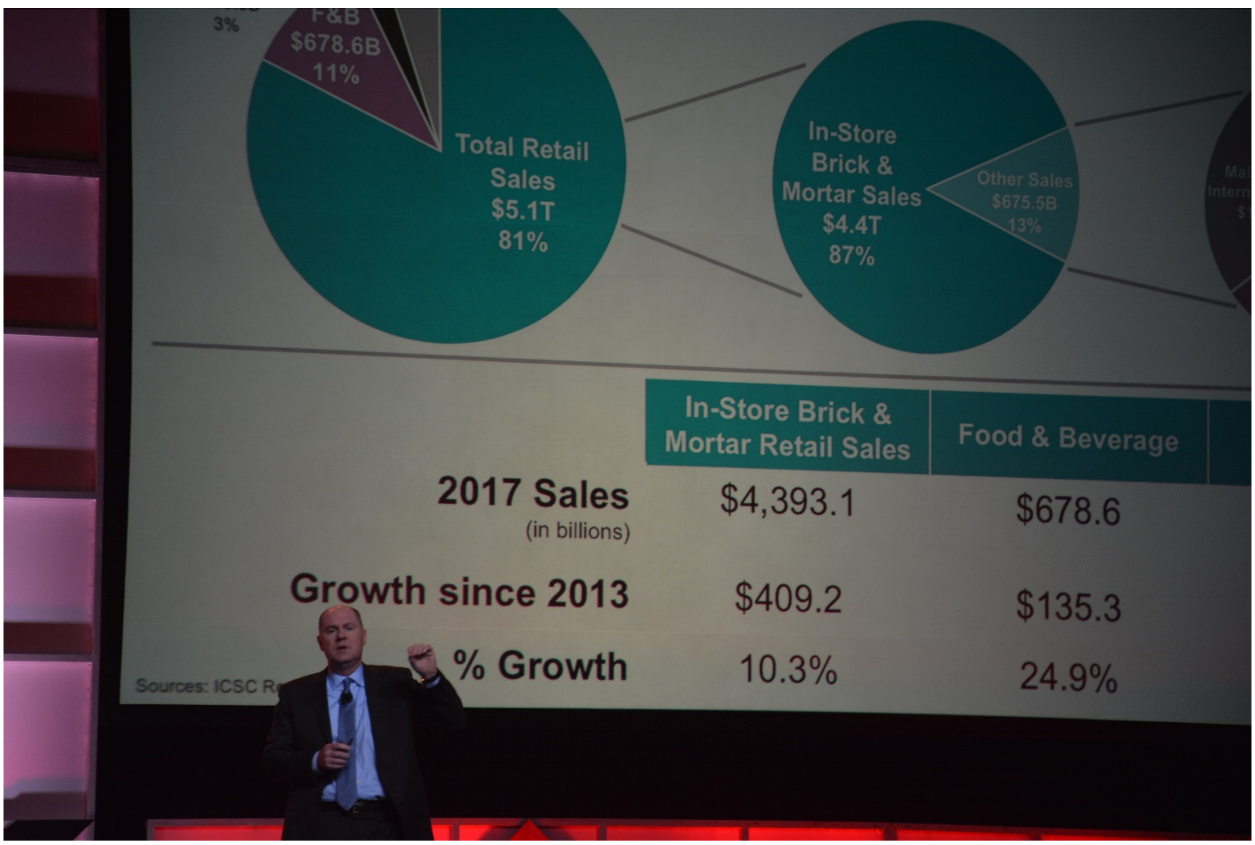
ICSC Highlights
May 2018
Las Vegas, NV
Words and Photos by Gary Marsh

"Brands, Bargains and Buzz," that's the closing quote on what consumers want from **Robin L. Klein**, CSM and President of Fashion Group Retail Inc. in Red Bank, New Jersey, after she gave a Monday morning workshop on the future of shopping centers.

ICSC President & Chief Executive Officer Tom McGee's primary message at RECON's Monday luncheon and keynote address focused on the evolution in retail real estate and that means more than the impacts to the industry from ecommerce. "Retail real estate is becoming consumer real estate," meaning the consumer is driving retail real estate more than ever, in part because the physical space has to be experiential to be successful.



McGee offered some interesting statistics to disabuse the notion that online sales – which the media often reports as 10 percent or more, is truly only 5 percent when you take out catalogue sales (yes, they still happen) and mail order sales, most of which are (legal) pharmaceuticals and medicines. He also said that 69 percent of all VC money geared for retail is for opening or expanding physical stores, even if the press reports that the U.S. is over-retailed.

One interesting trend in the sector is the "collision" of retail and healthcare. McGee mentioned the proposed mergers of CVS and Aetna and Walmart with Humana. Healthcare providers are already bringing their offices closer to their patients by opening offices with greater frequency in shopping centers. That trend started as the U.S. emerged from recession and cheap rents were the draw. Yet even now that retail rents have risen with the economy, medical offices are still expanding to retail locations.

E-Fairness was one of the topics among McGee's closing remarks on Monday. A challenge from a plaintiff in South Dakota was brought before the Supreme Court to decide whether online retailers will have to pay sales taxes in the future (a decision ICSC favors). The Court is expected to rule in June whether it will overturn the 1992 decision, Quill Corporation v North Dakota, when online sales taxes were originally exempted.

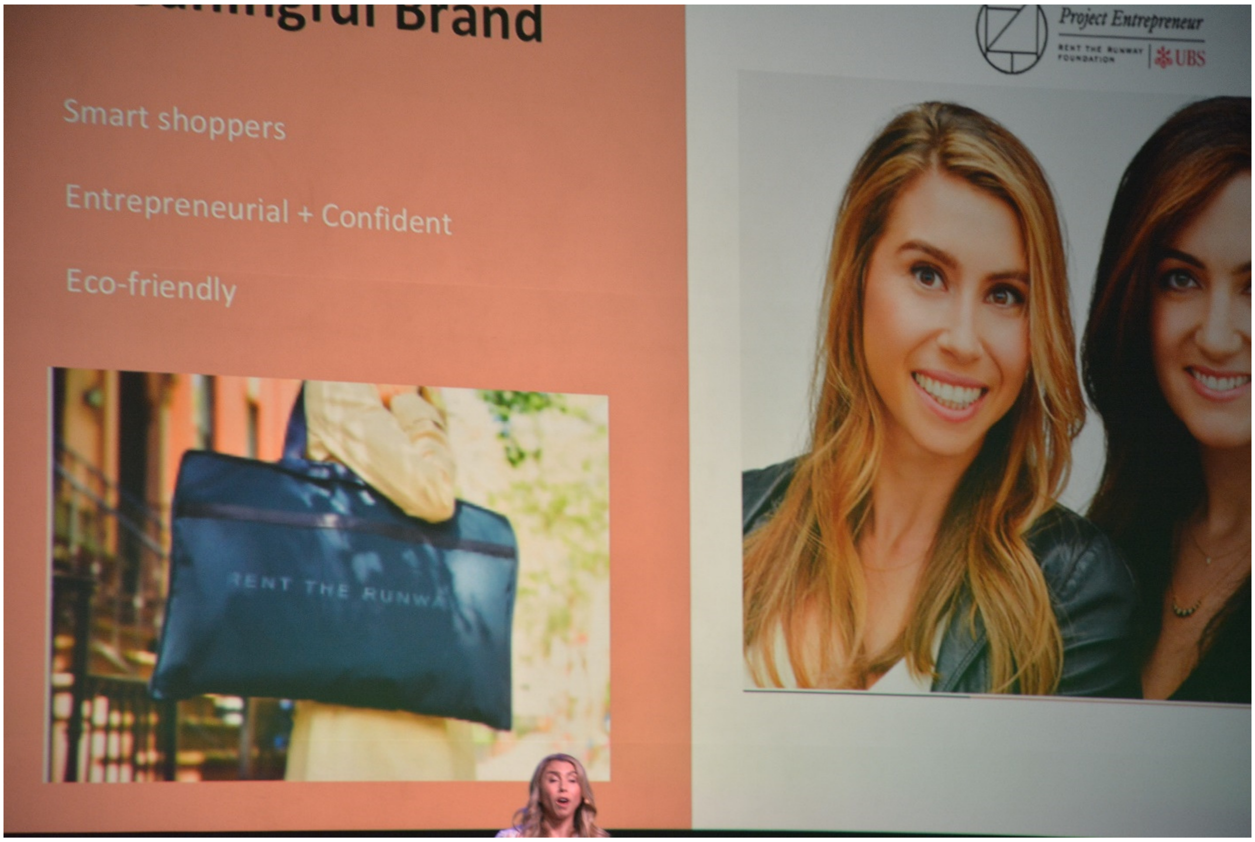
Monday's Keynote Speaker was **Daymond John,** an amazing entrepreneur and one of the dudes on the TV Reality Show **Shark Tank.** He delivered the message from his book, ***Rise and Grind***, which essentially is even if you have a good idea and talent, you still have to get up, do it, and grind it out. Amen. As for retail, John reiterated what others said throughout the week at ICSC: "millennials value experience more than anything."

Daymond John

John's comment on experience reminded us of a line from the new book by **Janice Kaplan** and **Barnaby Marsh** – ***How Luck Happens***. In the book, they offer "We used to be born into communities and had to find our individual selves. Now we are born as individuals and have to find community."

Retailers and retail real estate operators seem to be figuring that out.

Jennifer Fleiss, of Rent the Runway fame, delivered the Tuesday keynote address at lunch.



The premise of her store, which she co-founded with Jennifer Hyman (Fleiss is on the left, Hyman's on the right in this screenshot) was for women to create their own brand by the clothes and jewelry they wore – daily! From the law of unintended consequences and social media, Fleiss said that social media had made it nearly impossible for women to wear the same outfit, twice. Once seen in a post, tweet or Instagram, those clothes get banned to the hinterlands of the closet!

"The pressure to create your own brand is greater than ever," she said.

Fleiss left Rent the Runway and is currently associated with a startup lab and her first project is with Walmart which, she pointed out, "90% of the U.S. population lives within 10 miles of a Walmart."

Walmart is aggressively pursuing a strategy to tap into America's high degree of mobility, lack of personal time and the efficiency of the Internet. Walmart's new website is a merchandising wonder, according to Fleiss, where customers can now buy groceries and merchandise in advance of their visit to the store, pick the goods up when they arrive or just pull up to the store and have a clerk load them in your car.

What Are We Going to Do With All These Boxes?

Picture Clockwise top L-R: **Doug Sesler**, EVP, Macy's Inc., **John Clifford**, Founding Principal, S9 Architecture, **William "Bill" Guthrey**, SVP/Partner with KDC Development and **Jonathan Lischke**, Executive Managing Director, Merlone Geier Partners

Moderated by **Benjamin Schall**, President & CEO of Seritage Growth Properties (not pictured), some of the panelists asked that they not be quoted so the following takeaways from this breakout session are without attribution.

On converting big box retail stores and parking near them to housing: "If apartment rents are $1.75 per-square-foot, I can't convert (those boxes) to apartments, but if I can get $3.50 per foot for apartments, I'm off to the races."

"We're not developers but we have to think like developers and rhetorically ask ourselves, what is the value of our boxes?"

On big box stores that have either closed (some of them with a great deal of negative press) or the operator is evaluating closing some stores, the challenge and opportunity is in determining if the real estate value is greater than the operating value. In other words, does the real estate justify its expense with the operating value and revenue generated in place, or is the operator better served by exiting the space and selling the real estate?

On malls and big box conversions: “Each project has to be looked at individually and regardless of the (product) mix, there is still a role for place making.”

There was also some discussion on amenities and how they used to be isolated and clustered, whereas now they are a central part of the shopping center.

Further, and this was part of “densification” conversation, one of the panelists said that they expect as much as 40% of rentable square footage in shopping centers to now be filled by entertainment and F&B tenants, which historically has been more like 20% to 25% of the mix, at most. ICSC’s McGee said that F&B revenue at shopping centers had doubled in the last 10 years and is expected to double again in the next decade. The expanded restaurant mix is a combination of national brands and their franchises (Darden was mentioned) as well as local and regional food and beverage concepts.

Off-price stores (TJ Maxx, Ross Dress for Less) and home furnishing and accessory stores are in, apparel is out.

In addition to conversion to housing and as earlier noted, medical offices, some of these empty boxes are being repurposed into “creative offices,” a concept originated in San Francisco’s South of Market Area (SoMa) starting in the late 1990s with the conversion of older industrial buildings and carried on more recently in some of L.A.’s neighborhoods in and around “Silicon Beach.” This open office concept features high ceilings, exposed HVAC ducts and sometimes unrefined materials, such as plain or buffed concrete floors, brick walls and exposed beams.

One can see the appeal of empty big-box retail for conversion to non-traditional office space – if the respective market has sufficient demand for office space in general.

Parking and parking ratios were a hot topic during this panel. It used to be that a 5.0 ratio for parking was required in the 1970s and 1980s (5 parking spaces per 1,000 square feet of retail space) but now they are coming down to 4.0, which “opens up a lot of land,” as one panelist noted, while another said that “parking is the biggest demand in the financial pro forma – you want to have the least amount of parking spaces yet you also want the perfect amount.”