

| FEATURED ARTICLE

# THE RETAIL SHIFT



# SHIFTING RETAIL MARKET CREATES NEW OPPORTUNITIES FOR SIORS

**BY STEVE LEWIS | SPONSORED BY SIOR FOUNDATION**

**M**arketing retail space is hardly the first thing one thinks about when considering SIOR services, but marketing *re-used* retail space? Well, that's another thing entirely.

And in today's real estate market, there's plenty of that to go around. Driven in large part by the boom in cyber sales, brick and mortar stores and malls are closing in large numbers, with the facilities being re-vamped into all types of projects. Here are just a few examples:

- Mayfield Mall in Mountain View, Calif., has become Google offices;
- Hickory Hollow Mall in Antioch, Tenn., is now a hockey rink;
- 100 Oaks Mall in Nashville has become a medical center;
- Galleria at Erieview in Cleveland now boasts greenhouses;
- The Arcade in Providence, R.I., offers Microlofts;
- Northpark Mall in Joplin, Mo., is a high school;
- And Tri-County Mall in Oliver Springs, Tenn., has been transformed into a church.

Many, if not all such transformations offer a wide range of new opportunities for SIORs. Matthew Cravey, SIOR, Cravey Real Estate Services, Corpus Christi, Tex., convinced an investor to put under contract a former HEB Grocery store building. "While under contract, we found a charter school to lease the main building," he shares. "We then sold off pad sites to fast food restaurants."



"One regional mall in our market was acquired by an industrial development firm with plans to demolish the building and re-develop it as warehouse/distribution center space," notes John Van Buskirk, SIOR, Principal with Lee & Associates of Eastern Pennsylvania. "It's a great play – retail locations are typically population centric (a key when it comes to staffing distribution center operations), and the associated infrastructure provides a running start on the project development side."

His firm is also currently working on an assignment in an established retail location. The starting point is an 80,000 SF building acquired by a retailer to protect a lease for half the building, originally constructed in 1970 as a single tenant building. "From a competitive standpoint the pool of competing spaces at that size increment is deeper than I'd like, and as a result we are pricing redevelopment concepts which would simultaneously modernize the building and provide up to four tenant spaces and a restaurant parcel," he shares.

"One of my clients converted the 80-acre Randall Mall in the suburbs of Cleveland to a distribution center for Amazon," says Norm Khoury, SIOR, Brokerage Senior Vice President/Cincinnati Industrial Services Group, Colliers International.

And Christopher Bell, SIOR, Managing Broker, Black Commercial, Inc., an NAI Black Company, Spokane, Wash., currently is negotiating a deal for a locally headquartered company to relocate its corporate office from its campus near the hospital district to a suburban former grocery store building. "They will nearly double their parking and reposition their headquarters closer to their workforce," he notes.

## **DIFFERENT MARKETS, DIFFERENT OPPORTUNITIES**

While the growth of cyber retail has clearly been a moving force in the transformation of retail space, it is not the only important factor. Some stores, particularly larger ones (like mall anchors), no longer serve the needs of more specialized audiences, for example, and experts note that such factors can be key to the opportunities that are presented.

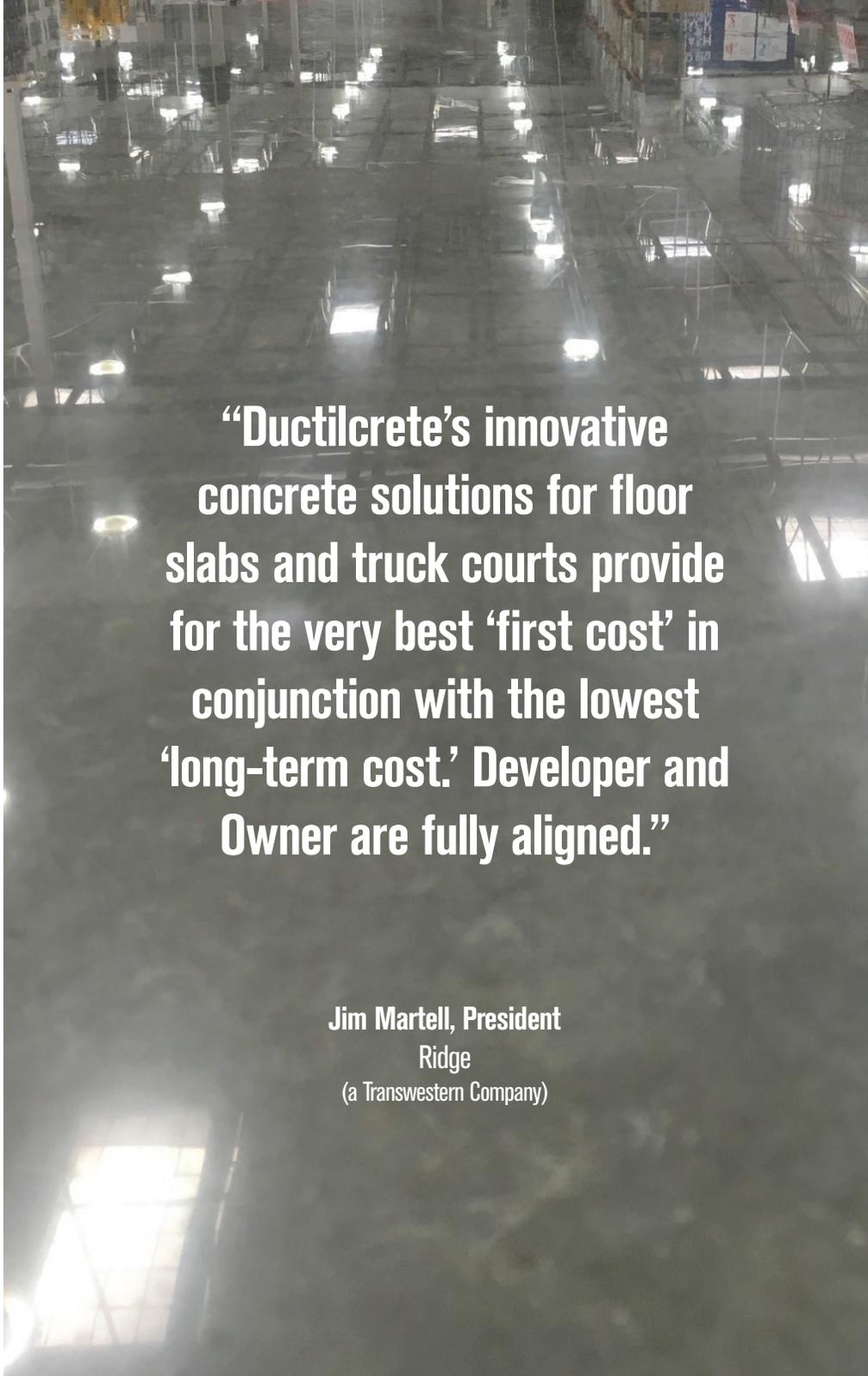
"The gloomy narrative around U.S. shopping malls fails to take into account the opportunities in retail spaces abandoned by retailers like Macy's, J.C. Penney, The Limited, Wet Seal, Payless, Rue21, Bebe and others that this year alone have shuttered hundreds of stores, many experts say," notes Retaildive.com.

Credit Suisse had predicted total brick and mortar closures of 8,600 for 2017 and an increase in 2018. Beyond the examples cited above, what other opportunities might exist? Anything from hotels and other services, such as dry cleaners, salons and barbershops; fitness, with gyms, yoga, Pilates and other workout centers; recreational activities for families, such as rock climbing, children's activities, even indoor water parks and amusement parks; and medical care uses, according to Peter Muoio, Chief Economist at Ten-X.

In fact, some of those opportunities actually include retail – albeit a different type than what had previously existed. Or perhaps even more surprising, *formerly industrial* facilities are actually being transformed into retail.

“In our area a lot of urban neighborhoods that used to be industrial are transforming into retail, and people are paying crazy prices,” says Danny Zelonker, SIOR Real Miami Commercial Real Estate, LLC. “I leased a 13,000 SF building to a company that does dental robotics implants.” This “unique type of retail,” he explains, does not compete, say, with Amazon. “It is very high end,” Zelonker observes.

In terms of former retail space, some Sprint and Verizon stores now occupy what used to be Radio Shacks, he continues. “A former Wal-Mart building is being divided into several spaces,” he shares. “These include Planet Fitness and Dollar Tree, along with smaller tenants.



**“Ductilcrete’s innovative concrete solutions for floor slabs and truck courts provide for the very best ‘first cost’ in conjunction with the lowest ‘long-term cost.’ Developer and Owner are fully aligned.”**

**Jim Martell, President**  
Ridge  
(a Transwestern Company)



[ductilcrete.com](http://ductilcrete.com)

**Disruptive Concrete Technology**

# “Brick and mortar stores and malls are closing in large numbers, with the facilities being re-vamped into all types of projects.”

## POSITIONING FOR SUCCESS

Given that a number of these opportunities fall within areas that may be new to some SIORs, what are the best ways for them to position themselves to take advantage of those opportunities?

“Leverage your skill set,” Bell advises. “If you do a lot of tenant rep work with corporate clients who are willing to look at non-traditional office properties, look to leverage your relationship with a broker who has relationships in the market with the property owners that would consider putting office uses into their retail properties.”

“Identify older, obsolete retail stores like Best Buy, K mart, older malls, and so on,” Khoury suggests. “Work with the local communities to determine local and state incentives. Then, contact all the developers/investors/sponsors/exhibitors at SIOR conferences!!”

“The most difficult part is finding a property to work on,” says Cravey. “I have noticed that because the vacant property is usually more affordable, there always seems to be a user that will take the property.”

The keys to success, adds Van Buskirk, are “necessity, basis, and demand.” When change is required, he explains, the right

(risk adjusted) cost basis and return are key. “And without demand for the revised format, the conversion will ultimately fail,” he cautions. “Thorough research on the tenant base, demographics, expected rents, tenant improvement implications and the availability of debt (if required) seem like a place to start.”

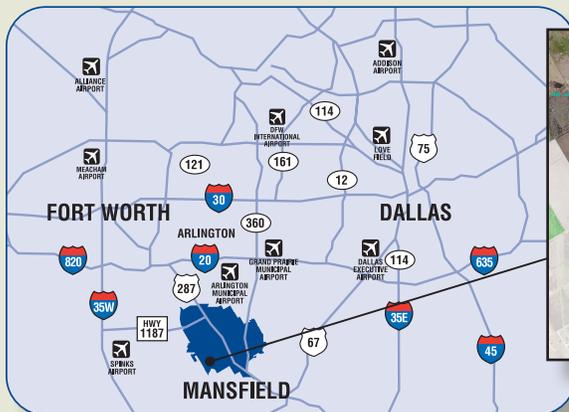
“Gather all the pertinent facts from your clients,” says Bell. “Get copies of all existing tenant leases and prohibited use clauses, loan documents, CC&R’s/ REA’s and sit down with your client to work through whether converting all or a portion of the retail property to office use will achieve your client’s goals.”



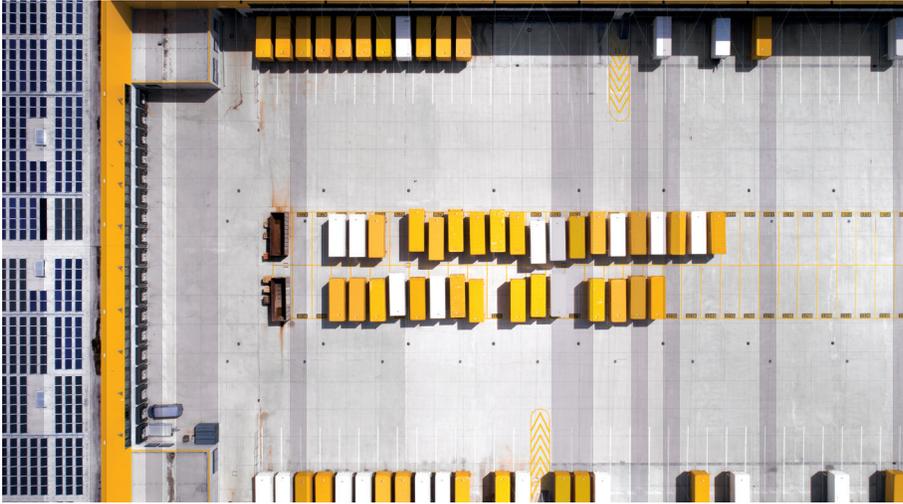
## MANSFIELD INTERNATIONAL BUSINESS PARK

### PROPERTY FEATURES

- Located less than 20 minutes from downtown Ft. Worth in hot South DFW Market
- Less than 25 miles from DFW International Airport and 35 miles to Ft. Worth Alliance
- Approx. 35 minutes from Union Pacific’s Dallas Intermodal Terminal and 35 miles from BNSF’s Ft. Worth Intermodal Terminal
- Easy Access to Hwy 287, Hwy 360, & I-20
- Fiber and Copper Internet/Media Available
- City Water and Sewer
- United Cooperative Services Electric service
- Close proximity to all the DFW Metroplex has to offer AND many local amenities in Mansfield including but not limited to a full assortment of local businesses/vendors, restaurants, hotels, schools, & entertainment



[www.mansfield-texas.com](http://www.mansfield-texas.com)



SPONSORED BY  
 **SIOR** FOUNDATION

Promoting and sponsoring initiatives that educate, enhance, and expand the commercial real estate community. The SIOR Foundation is a 501 (c)(3) not-for-profit organization. All contributions are tax deductible to the extent of the law.

CONTRIBUTING  
 SIORS

**THE FUTURE?  
 MORE OF THE SAME**

Most industry observers are convinced that if anything, the challenges for retail facilities and the demand for re-use will continue – and that the rise of cyber retail will only grow stronger.

New cyber sale records of all kinds were set during the past holiday season. ABC News reported that according to the National Retail Federation, more than 174 million U.S. consumers shopped in stores and online between Thanksgiving Day and Cyber Monday, with over 81 million people shopping on Cyber Monday alone.

ABC cited a report from Adobe Analytics that online sales hit a record-breaking \$6.59 billion on Nov. 27, up 16.8% from the previous year. And mobile sales set a new record on Cyber Monday: 47.4% of shopping happened from either a smartphone or a tablet. That means Americans spent over \$2 billion on mobile purchases.

Looking ahead, Credit Suisse predicts that about one-fourth of the nation's 1,100 shopping malls – or roughly 220 to 275 shopping centers – will close by 2022.

“According to the U.S. Census Bureau,” adds Van Buskirk, “For Q3’17, e-commerce sales were estimated at \$115.3 billion, or 9.1% of all retail sales on a seasonally adjusted basis.” That level, he adds, has increased steadily at a give or take 10% annual pace for the last 19 years, and has had a profound effect on both retail and industrial asset classes.

“For better or worse, it seems reasonable to conclude we’re in the early innings of this channel shift,” he asserts. “Millenials are coming into their own as the largest living generation, inventory tracking systems are growing more and more robust, secure payment systems continue to improve, and the requisite parcel infrastructure is expanding rapidly.”

“This trend should continue into the near future as retail chains adapt and right size their store footprint,” says Khoury. “In addition, retailers are starting to utilize their retail stores as a Distribution Center for last mile delivery.”

All of this, says Bell, makes the future bright. “In tertiary markets, construction costs continue to make new office construction difficult,” he says. “Coupled with retailer consolidation and reorganizations to be competitive with eCommerce, opportunistic SIORS will see great opportunities to place their tenants in well-located former retail properties.”



**Christopher Bell,**  
 SIOR



**Matthew Cravey,**  
 SIOR



**Norm Khoury,**  
 SIOR



**John Van Buskirk,**  
 SIOR



**Daniel Zelonker,**  
 SIOR