

TCN Fall Conference - 2017

The Swiftly Changing Face of Retail:
Issues Facing Retailers and Landlords
Today

DPI Retail

(www.dpiretail.com)

- Founded in 1982 by Peter Doerken
- Peter and Allen Lynch partnered in 1991 to begin a program as one of Wal-Mart's preferred developers in Southern California
- In 1996-97 transitioned away from Wal-Mart, moved to strategy of value-add redevelopment and selected ground-up development, long-term hold mindset

DPI Retail

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- Currently operate a portfolio of 19 shopping centers through Southern and Northern California, Salt Lake City
- Actively looking for new opportunities
 - “Barrier to Entry”, Dense Urban Markets
 - Daily Goods, “Treasure Hunt”, Convenience
 - Right Sized centers and buildings
 - Consolidation in operating markets
 - Well financed, internal equity, work hard for lender credibility and support

The Amazon Effect (AE)

- Most active, knowledgeable retail operators see transformation, not annihilation – online at 8%
- AE is about knowledge and convenience: consumers know more about their options than ever before, AE acknowledges and caters to fact that we live in a convenience world
- AE is most applicable to “commodity” and “middle-middle” retail
- Retailers forced to redirect expansion dollars to physical and digital infrastructure

The Amazon Effect (AE)

- Very hard for AE to consistently compete with immediate/daily needs (convenience and perishables), “treasure hunt”, and “experiential” retail
- Most consumers instinctively know that the current delivery model is not financially sustainable – “last mile” delivery a big challenge
- Landlords Must: CREATE AN ENVIRONMENT, GIVE CONSUMERS A REASON, BE KNOWLEDGE SPONGES, RECOGNIZE “YELP EFFECT”

DPI Strategy and How Do We Help Our Retailers?

- Long term holder, acknowledge the “partnership” with our retailers – like it or not!
- We operate by “building synergy” - not just leasing space, understanding retailers BEFORE, not AFTER, they are a tenant
- Give our retailers a predictable environment: consistent operations, clean center, predictable NNN expenses, regular ongoing investment in the physical plant

What does DPI watch for?

- Start with “right sized” – appropriate center size, understanding bay depths is HUGE
- Understanding operational needs for the retailers that each center is designed for
- AVOID “commodity” and “middle-middle” retail”, SEEK “unique” and “sustainable”
- Recognize those retailers who can effectively compete in an “omni-channel” world

PriceWaterhouse 2017 Holiday Shopping Survey

- Generation Z (13-29) vs Millennials
 - 81% Prefer in-store experience
 - Shoppers over 17 split evenly between online and in-store
 - “Fun experiences”, “Live Event”, “In-Store Specials”
 - It’s possible that these trends will change with age, but may signal an ongoing trend

JP Morgan: “Amazon Can’t Compete with Off-Price Retailers”

- Fall 2017: JP Morgan upgrades off-price apparel retailers Ross, TJX, Burlington – sees incremental sales growth of \$18-19B by 2021
- Department Stores have lost \$25B in sales (combined) since 2011
- Argument: Amazon encroachment into apparel most closely resembles department store model

JP Morgan: “Amazon Can’t Compete with Off-Price Retailers”

- It is extremely difficult to copy the “treasure hunt” experience online – analysts consistently cite “huge barriers to entry”
- Also note “1,000 buyers worldwide sourcing from 18,000 vendors in 100+ countries”
- Ross, TJX (33 straight Q’s of sales growth), Burlington all forecasting same-store sales growth for 2017

What's Next For Retail?

- Fewer centers, disappearing “B/C” malls, consolidation around best of class in specific sectors – the US is seriously over-retailed
- In busy world, and with housing and savings a challenge, more consumers will demand experiences – restaurants and bars, health clubs
- Surviving retailers will be omni-channel, will incorporate technology into in-store experience; bricks and mortar will also be distribution and fulfillment

What's Next for Retail?

- Retailers who sell an experience will take away AE advantage – convenience and price – by more effective in-store experience (see Best Buy in-store, Tilly's augmented reality)
- Daily goods retailers will offer multiple platforms – see Wal-Mart, Kroger, Target – as well as Amazon foray into bricks & mortar. Daily goods focus on in-store, prepared foods, private label
- Discretionary Retail will continue to evolve to social experience rather than simply needs fulfillment

OUT OF THE BOX!

AND INTO PROFITABILITY \$\$\$



No matter how you slice it, a big slice of the pie **when there no pie** is like eating air. It sucks.

The scariest river in the world ...



The Amazon Affect: A giant river of commerce changing the very nature and habitat of retail.

Forever.



This is the case where the little bOX murdered the BIG BOX!



Malls used to be filled with people.



... lots of people ...



... lots and lots and lots of people ...
and people meant lots and lots and lots of
RENTAL INCOME!



Malls were filled with people.

... what's bigger than a BIG BOX STORE?



Now people are filled ...



... with MALLS !!!

WHAT HAPPEND and WHY?

THIS is NEW MALL.

THIS is the **GRAND MALL SEISURE!**



THIS is THE **NEW MALL** and it is of
INFINITE SQUARE FOOTAGE.

1998

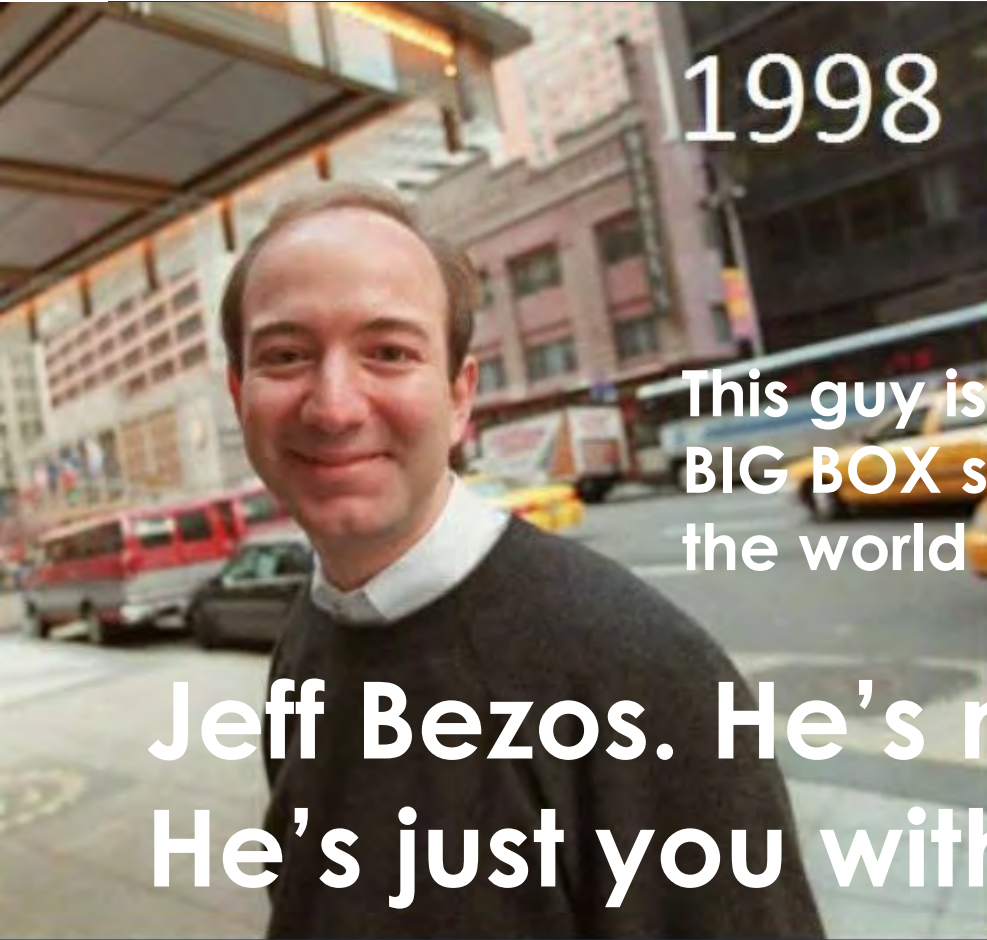
This guy is why
BIG BOX stores around
the world are closing....

Jeff Bezos. He's not a bad guy.
He's just you with a better idea.

1998: "I sell books."

2017: "I sell whatever the f I want."

2017





**THINK
YOURSELF
OUT OF THE BOX.**

**DON'T CLOSE YOUR MIND
TO THE IDEA THAT ALL THESE BIG BOX
CLOSURES
COULD LEAD YOU TO THE
BIG BOX BOOM!**

BIG BOX BUST ...





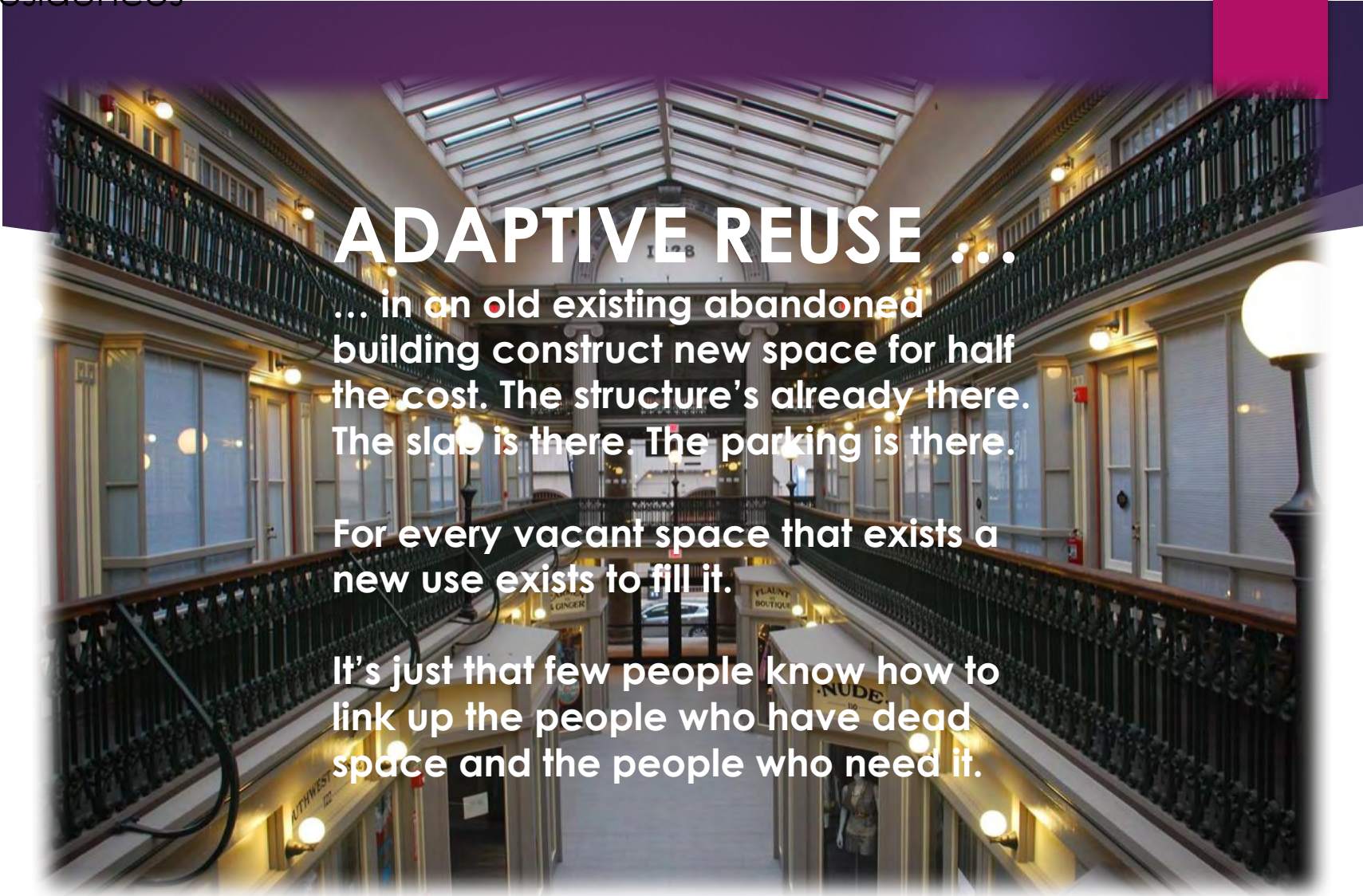
... come on now ... THINK!

ADAPTIVE REUSE ...

... in an old existing abandoned building construct new space for half the cost. The structure's already there. The slab is there. The parking is there.

For every vacant space that exists a new use exists to fill it.

It's just that few people know how to link up the people who have dead space and the people who need it.





**HOUSING!
BOON!**

JCPenney

STORE CLOSING!

BUST





BOON!



STORE CLOSING!



BUST!

STORE CLOSING! MUST GO! ENTIRE STORE SALE! CLOSING TOTAL LIQUIDATION! HELD BACK!

is more for less!





BOON!
... a new library ...



BUST



... new data processing center

BOON!

BEST BUY ...



BUST BUY ...



BOON!

... and blessings ...

... there is a perfect use for just about every building ...





BOON!

Medical Offices, Clinics, Specialty Care ... fantastic reuse!

The key word is that the space
is available ...





... air conditioned storage
space ... BIG
BOON!

Just about any use can be designed and built into a building that was designed and built for something else. All it takes is knowing who wants in and how to creatively make them fit.



Theaters ...



Learning Centers ...

Schools ...
Churches ...
Office Buildings

Government Uses

- Local
- State
- federal



Municipal Buildings ...



Libraries ...

THINK OUT OF THE **BIG BOX**

"We think about what goes IN\$IDE THE BOX."



Adaptive Reuse Specialists

- insanely creative
- experienced in EVERY type of use
- planning, architecture, interior design, NCARB registered
- use matrix masters
- inventory matrix maintenance
- brokerage sharing
- Quick turn-around on studies, municipal approvals, design and construction management/development