

RED RIVER & RETAIL REVIEW:

Attendees offer feedback on new Texas ICSC event

BY BRANDI SMITH



Thousands of people flocked to Fort Worth in early January to make connections and assess the future of retail development at ICSC's inaugural Red River States Conference & Deal Making.



Rafael Tapia

The three-day meetup signaled a change from years past when multiple similar events were held across the region. This year, ICSC brought together industry professionals from throughout Texas, Louisiana, Arkansas and Oklahoma.

That consolidation was applauded by attendees, such as Rafael Tapia, executive director of the Alamo Economic Development Corporation. Representing Alamo, Texas this year, it marks the ninth time Tapia has attended the Texas conference.

"I've started to notice that the show has become more developer driven. There used to be a lot more retail exhibitors. Last year, there were maybe 20. This year, they had about 40," he says. "I was pleasantly surprised."

Tapia also complimented the Retailer Central event, previously called Retail Roundup, held on Friday.

"It was much better attended by the exhibitors than it had been in years past," he says, adding that it appeared more organized. "It had been a mad scramble in my experience. This year, all the retailers who committed to being there attended."

While the diversity of exhibitors benefited community representatives like Tapia, development experts like

Capital Retail Properties' Eric Walker thinks mixing other states into the Texas event muddled the waters a bit.

"That would have more impact on Dallas brokers who are doing deals in Oklahoma than people in southeast or central Texas," he explains.

Walker added that many retailers and his major clients did not attend, likely because of the event's date.

"I'm not sure they could have picked a worse date for a convention for a couple of reasons," he says. "First, most people were either just getting back from the holiday break or still on break so leaving family was difficult. For this reason a lot of retailers did not bother to come."

The location change from Dallas to the Fort Worth Convention Center was a positive for Walker, though.

"It was an easy convention hall to access and it was next to several good hotels and restaurants, so it made for a very easy venue to navigate and set up dinners and events," he says.

The Texas convention, Walker says, has always been more about connecting with the Texas real estate community than it is about formal meetings. Capital Retail holds at RECon, the flagship ICSC event in Vegas.



Eric Walker

"Since most of the brokerage community did attend we got a lot of quality time catching up with friends and peers from the industry, so the trip was a success," he says.

Tapia would also bill it that way, explaining that ICSC's Texas event creates a central location where small communities such as Alamo can have meet-and-greets with the actual site selectors. "I felt this year was a lot more productive," says Tapia.

That could be because the region's small towns are starting to get a lot of interest from developers interested in single and multi-tenant properties.

"Some of the places being discussed in the meetings had to be looked up on map. They are not your well-known suburbs and fast-growing communities," according to Jon Kendall, Bohler Engineering's director of business development for its Texas division. "If you can find sites on the more-affordable suburban edge near regional hubs that feed the outlying, underserved rural communities, you have the required demographics

"Aside from looking at new, potentially smaller, target markets, another trend in retail development is the focus on value-add centers."

- Jon Kendall.



for certain retailers with lower cost of land and property."

Alamo is an example of that. Located in the Rio Grande Valley, the city of nearly 30,000 is growing. Sales tax revenue increased by roughly 6 percent in 2018, suggesting the community needs more retailers to serve those increased rooftops.

"It's one of the fastest growing MSAs in the state of Texas. We have a retail trade area of 150,000 with a retail potential of more than \$900 million," boasts Tapia.

Bohler's Kendall points out that, while many communities were represented at the show to promote themselves, developers were able to share their concerns and challenges.

"Whether expanding open-space ordinances on the front or less-than-timely construction inspections on the back, owners and communities need to keep looking for the win-win in their relationship," he says.

Alamo is doing just that on its end. The city created a 90-acre tax increment zone for its retail corridor along Interstate-2 as incentive for new development. Tapia's job is to let the commercial real estate world know what kind of opportunities await.

"By attending the Red River States Conference, I'm able to find out who is actually expanding in Texas," Tapia says, adding that he uses it to follow up contact with people he's met in Vegas or, alternately, initiate conversations he can continue in Vegas. "Being able to meet with different businesses that might be headquartered in Atlanta or Dallas or Austin, the event saves us time and money. We're able to concentrate our visits in one or two days."

"...both the Dallas-Fort Worth area and Houston area gained over 2,000 jobs a week throughout the entire year."

- Dr. Ray Perryman

Aside from looking at new, potentially smaller, target markets, another trend in retail development is the focus on value-add centers, Kendall says.

"The cost and uncertainty of new construction combined with fast-changing retail expectations makes value-add acquisitions a quick way to invest and generate the desired returns," he explains.

All the chatter about big-box bankruptcies signaling the end of brick-and-mortar locations for retailers isn't backed up by data. Per CBRE's Q4 2018 report on Houston, retail occupancy hit 94.9 percent at the end of the year.

"Even several big box closures, like major retailer Toys 'R' Us, were not able to derail the market," the report says.

More than 3.7 million square feet of retail is in development in Texas's largest city, a decline from years past, but still a strong showing.

That's consistent with what economist Mark Dotzour said in his keynote presentation at the STRIVE Symposium, hosted by STRIVE managing partners Jason Vitorino and Jennifer Pierson. Former chief economist of the Real Estate Center at Texas A&M University for nearly two decades, Dotzour suggested that 2019 won't be a correction to 2018's economic boom, but he did compare it to a "commercial flight that has hit 30,000 feet and is leveling off." He also indicated employment growth will be key for Texas.

In 2018, the state added 391,800 jobs with Dallas-Fort Worth and Houston leading the way. The DFW MSA, for example, created 116,400 new jobs last year and Houston generated 108,300, placing them in the Top 3 in the country (New York City came in second).

"What this tells us is if you stop to think about this for a minute, literally both the Dallas-Fort Worth area and Houston area gained over 2,000 jobs a week throughout the entire year. That's truly an amazing situation," says Dr. Ray Perryman of The Perryman Group. "They're very different economies."

Different indeed, but like all other cities, development there hinges on fundamentals such as interest rates. In that realm, Dotzour is optimistic, suggesting it is unlikely for the fed to increase rates any further. As such, he believes in a continued "intense appetite" for commercial real estate.

How will that carry over for the likes of Tapia and Walker? We'll have to wait and see at RECon in Vegas in May this year. Be sure to keep your eye out for REDNews! We'll be there as well and have a full report on the happenings and feedback in an upcoming issue.