

Buying into the future:

Texas outlook on retail

BY BRANDI SMITH

With gas prices down to their lowest prices in years, it might be expected that consumers would rush out to spend all the money they're saving at the pump. However, it appears they're stashing that money for a rainy day, creating a sluggish start to 2016.

Here in Texas, one of the biggest factors in retail, is the energy industry, but even that varies by market. Houston, where you might expect to see fallout from near record-low oil prices, is actually thriving.

Despite those historically crude low prices "Most retailers are confused by the discrepancy between their strong sales and the concern about Houston's economy," said Kenneth Katz of Baker Katz in Houston. "Fortunately and despite that inconsistency,

the appetite for growth among retailers is very strong and is helping to fuel retail real estate and related industries."

"Luxury brands and very specific retailers requiring high discretionary income may be scaling down, but on the whole, the retail market is looking to be very stable as the value retailers and essential businesses are growing," said Lindsey McKean and Kyle Kretsinger, broker and director of research respectively, of The J. Beard Real Estate Co. in Houston.

That drop in some high-end sales is also being experienced in Texas' second-largest city.

"We have seen some luxury retail centers, such as Dallas' Highland Park Village, where sales have been more erratic this spring, and many store managers believe this may be tied to the oil industry," said Venture Commercial Real Estate managing partner Mike Geisler.



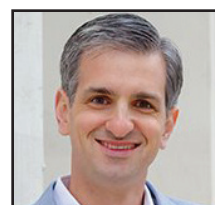
James Namken



Lindsey McKean



Kyle Kretsinger



Kenneth Katz



Mike Geisler



Brett Morrison



Dan Mitchell

* *Rise of the Foodie Nation*

Growth in Restaurant Concepts



Top Retail Categories with Expansion Plans that Include Texas
(U.S. Openings – 12 Months)

5,859

Fast Food

4,100

Food or Beverage Specialty

2,205

Restaurant (Family)

1,841

Variety Store

1,619

Restaurant (with Liquor)

Experts in Austin say there's been "little to no impact" there, but San Antonio has actually seen benefits from the energy industry, specifically production from the nearby Eagle Ford shale.

"Our unemployment rate is well below 4 percent, which in economic terms is considered full employment," said Dan Mitchell, who is the executive vice president for The Weitzman Group, San Antonio. "The retail market further benefits from population growth that is adding around 50,000 new residents a year."

That staggering growth across Texas is what many insiders think will morph retail as we know it in the years to come. As cities expand and their populations move to built-out areas, development will follow with a few caveats.

"Retail does follow rooftops, but it has to be existing rooftops," clarified Mitchell. "Developers and lenders are not taking a chance on projected residential growth after the housing collapse of 2007 and 2008."

"In North Texas, we are seeing new retail development in Mansfield, North Fort Worth, south Tarrant County and along the Highway 380 corridor as a result of residential growth in these areas," Geisler said. "Most of these new retail developments are anchored by grocers or Walmart."

Even as they follow consumers outside city limits, retailers aren't ignoring the needs of urban areas.

"In the absence of new retail development, the big focus is redevelopment," said Britt Morrison, who senior vice president of The Weitzman Group, Austin. "Our market is taking B and C centers and reinventing them as Class A retail or mixed-use wherever possible."

"Retail follows people, regardless of where they might be – in airports, medical centers, universities, office building and their neighborhoods," Katz said.

Added McKean and Kretsinger: "As far as urban retail, in Houston and other large Urban areas, we are seeing a flood of ground-floor retail under office or residential projects. Vertical growth is a must in these areas as available land is scarce and comes at a premium."

In this day and age, when online sales

are booming (they're expected to hit \$327 billion in 2016), experts say there will be an impact on brick-and-mortar stores, but not in the way that was predicted years ago.

"The contrasting views of the past that declared either the fleeting nature of e-commerce or the death of bricks and mortar have virtually disappeared," said Katz. "They have been replaced with a widespread recognition and belief the future lies in omnichannel retailing, whereby customers' purchases will be fulfilled through multiple means and that the most successful companies will be those that capture sales regardless of how customers choose to initiate them."

"This was one of the most discussed topics at the ICSC Open Air conference this spring," said Geisler. "Retailers feel they must embrace omni-channel marketing, creating a seamless experience for consumers who can engage with a company across multiple digital devices, social media and brick and mortar stores."

Morrison points out that, as far as Austin is concerned, that approach has been effective in drawing in consumers.

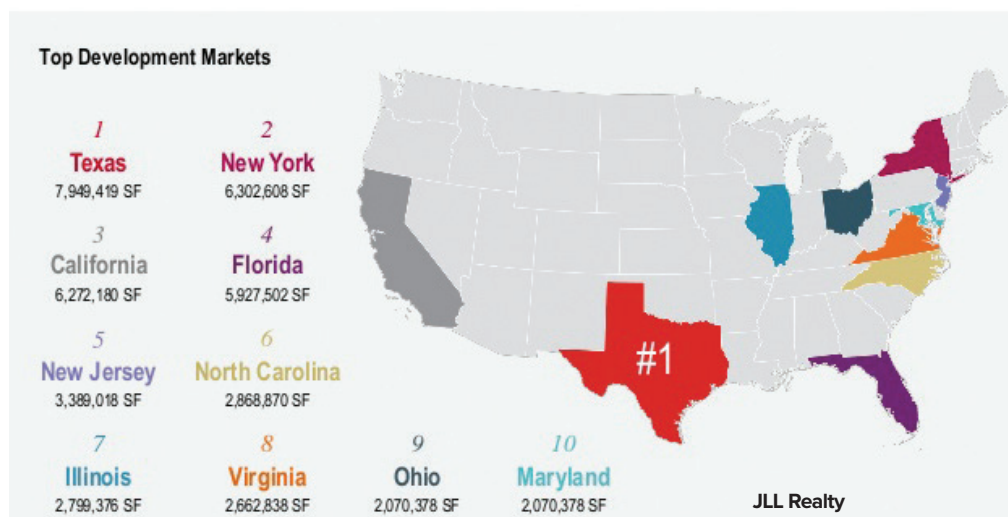
"Online still does not replace going to the dentist or buying a burger for lunch at your local QSR, but for traditional retail tenants, we are seeing them evolve to compete in every arena of retail, whether brick-and-mortar or online," he said.

Other retailers are cashing in on a "click-and-collect model," explains Mitchell.

"You order an item online, and then pick it up in the store, which avoids any shipping costs," he said. "The great majority of shoppers cross-shop the rest of the store when they come to collect their online purchase. This turns to the store into both a fulfillment center AND increases the sales per square foot for the entire store."

As retailers adapt to consumer needs, experts predict a shift over the next five to ten years. One of the more significant

* *Texas is Number One for Retail Development*



changes may be the tenant mix at new retail centers.

“Ten years ago dentists, dermatologists, urgent cares and other medical users were almost completely isolated to medical offices,” said Morrison. “Today, they are ubiquitous in the retail world.”

“Medical is a much greater factor in today’s centers, along with boutique fitness, health, beauty and the other types of services you cannot replicate online,” added James Namken, senior vice president of The Weitzman Group, Houston. “Restaurants have become a critical tenant category, since landlords see restaurants as a key drive for their projects.”

Dallas is seeing a similar trend with an increasing percentage of retail space going to restaurants, according to Geisler.

“For the San Antonio market, grocers continue to dominate new retail construction,” Mitchell said. “The mixes in conjunction with these grocers are strong concepts primarily in the Internet-resistant areas of restaurants, services, beauty, fitness, health and medical and dental.”

Another subtle change for development: the evolution of the traditional anchor store.

“Historically, most power centers were anchored by a large user such as Target, Kohl’s or JC Penney,” Katz said. “With the exception of Kimco’s project at the Grand Parkway and Kuykendahl, which will be anchored by Target, none of the new power centers being developed in Houston will have users of that nature.”

Many of the retailers that have historically sought out massive

amounts of square footage are now eyeing very different spaces.

“Several big boxes are streamlining their larger concepts and going for a more convenient neighborhood-style space with smaller footprints,” McKean and Kretsinger said.

“There is certainly still the need for large, regional shopping centers. But as big-box tenants such as Best Buy, Dick’s Sporting Goods and Ulta reduce their footprint in order to better allow for efficiencies, the trickle-down leads to shopping centers with less focus on the box users and more room for the expanding small-shop concepts,” said Morrison.

Mitchell says it’s all about “right-sizing.”

“Take H-E-B, our leading grocer. They are actively expanding several different-sized formats, with the largest being their Plus stores that often top 150,000 square feet,” he pointed out. “But for the growing residential market in downtown San Antonio, the grocer opened the 12,000-square-foot H-E-B Flores Market, sized to fit within an incredibly dense market and serve the needs of urban dwellers. We are not seeing cookie-cutter retail formats any more.”

As the needs of Texas consumers continue to evolve over the coming years, it’s clear local and national retailers are taking note. They’re focused on tailoring their approach to the demand when it comes to location, size and shopping options to further incentivize spending and strengthen the economy. ●

* *Retail Follows Rooftops*

*  Excerpts from JLL’s Top Trend in Texas Retail presented at ICSC Texas Retail Focus, January 25, 2016

