

# The Amazon effect



## How retailers are adapting to the rapidly changing environment

BY BRANDI SMITH

The one constant about the retail industry is that it's constantly changing, though experts in the field acknowledge that the current pace of change is unlike any they've seen in their careers.

"I feel like things are accelerating right now," says Artemio De La Vega, president and CEO of De La Vega Development, who was one of the Development & Construction panelists during ICSC's 2017 Texas Retail Forecast.

"As for the number of groups that are reinventing themselves and adapting to the changing times, it's probably the most substantial shift I've seen," adds Ryan Johnson, co-market leader at SRS Real Estate Partners, who moderated the retail panel during the forecast summit. "That's why it's a fun industry to work in. You have to be on top of your game. You have to know what's happening in the markets. You have to know what consumers want. That's what I love about retail."

The shift was a hot topic during ICSC, which De La Vega asserts has always been proactive about looking to the future.

"I don't think any of us really know exactly what's coming, but we can all agree that change is coming," he says. "We may disagree on how and what's actually going to happen, but I think we can all agree that it's going to be different."

### Adapting to Amazon

A significant factor in that change has been the so-called "Amazon Effect," the disruption caused to the traditional retail landscape by the online giant.

"[On the panel,] I focused on what we're doing as it relates to incorporating elements that would help the future trend for the newer generations and what they look for," says De La Vega. "Given millennials and other generations that are coming, their habits with the

iPhone and embracing technology are different than what we've seen in the past."

One way retailers are adapting to the increase in online competition is by offering something consumers can't find on the internet: services and experiences.

"There is more of a focus now on high-growth, service-oriented retailers that are more internet-resistant given the retail transition that we're going through," De La Vega says. "Developers are kind of looking for those tenants who are surviving in this environment."

He points to discount chains, such as Burlington, Ross and TJ Maxx, as examples of "treasure hunting" for customers. Those types of retailers, says De La Vega, are thriving, compared to the standard box stores.

### Interpreting interactions

Beyond the mix of retailers, developers like De La Vega want to create interaction in ways that are unavailable online.

"We're rethinking how we're planning our projects," he says.

The priority now, especially in mixed-use projects, is creating different levels of interaction, those that are planned and casual.

"I think that humans crave interaction now more than ever because of the internet," says De La Vega. "A lot of people are dating online now; we're even grocery shopping online; we're doing everything online. The more we do, the less face-to-face interaction we have."

He says casual interactions can be generated by combining hotel and restaurant traffic in a development. Planned encounters take a bit more finesse.





< Continued from Page 14

"You have people who live there visiting retail, where they just kind of hang out and they meet," De La Vega says. "We're creating projects where we integrate retail as kind of the sizzle in a project. The retail in a large mixed-use project helps bring that whole fabric together. People can just live, hang out and have face-to-face encounters."

He adds that's not just of interest for singles who'd like to meet new people, but could be as simple as a play area for kids that brings area parents together.

## Eating up demand

Restaurants are also an important component in these cultivated environments. An experience in an eatery is one that can't be replicated online.

"There's no doubt that landlords are flocking toward internet-resistant concepts. Food generally falls in that category, although there are continual changes even in that department," says Johnson, mentioning the increased use of food apps, online ordering and grocery delivery. "There are a lot of things that are even impacting that component of it, but I do think entertainment and restaurants will be one of the highlights going forward."

Wall Street, Johnson points out, has invested in restaurants, forcing their growth. That, he says, is a kind of double-edged sword.

"Unfortunately, a lot of times these groups are opening restaurants that don't really need to be opened," he says. "That ends up hurting a lot of people, so there's going to be some winners and losers."

Johnson says some markets, Dallas included, are becoming what he calls "over-fooled," a situation in which there are too many seats. That issue was discussed during the retail panel he moderated at ICSC, which included representatives from Alamo Drafthouse, Corner Bakery, Shake Shack and Eatzi's.

"Some of our panelists said 2017 was the first year they started to see some declines in their sales," says Johnson. "One of the taglines from Holland Burton, Corner Bakery's vice president of real estate, was 'flat is the new up.' So 2018 may be a flat year for a lot of restaurants, purely from a competition standpoint, but that's OK."

Another obstacle for the modern restaurant industry in Texas is labor.

"It's a very challenging aspect of their business and it is getting more difficult to hire not only good talent, but to pay for it," Johnson says. "It was interesting to hear how it is now even impacting their site selection."

Johnson referenced a comment from Bill Digataeno, COO and owner of Alamo Drafthouse, who discussed how Dallas/Fort Worth is the most competitive movie-eatery market in the country. Despite that, Johnson says Digataeno is very bullish on DFW and believes there are more opportunities for him to expand there. That sentiment was echoed by some of the other panelists, who suggested that despite the competitive restaurant market, so many new jobs are coming to the DFW area that it is still a great place for eateries to expand.

"They're just going to do it cautiously," Johnson adds.

## Innovate or go industrial

The old saying goes, 'If you can't beat 'em, join 'em' and that's just what some retailers are starting to do to compete with the likes of Amazon.

"Amazon has filed a crazy number of patents and Walmart is starting to do the same," says De La Vega. "I think retailers are starting to get into that game and they are realizing that they've got to jump in."

He suggests it's likely that we'll see more retailers enter that arena and be a part of the change. It's unclear, he says, what that will look like.

"I think you are going to see other retailers that are in the market today come out with exciting ideas," De La

Vega says. "I think they are going to jump in and be a part of the change."

Innovating, he insists, should be the priority of any retailer today. Citing Toys 'R' Us, De La Vega explained the danger of focusing on anything else.

"A private equity firm bought the company and just loaded it with debt. They're so focused on financial engineering that they don't leave a lot of room for innovation," he says. "Failure to adapt means the strong survive and the weak perish. I think that's what we're going to see."

While some retailers thrive, others are falling victim to the changing landscape, resulting in new opportunities in commercial real estate. A trend that is already emerging is an evolution from traditional retail to industrial.

"In Dallas-Fort Worth, there is great demand for shallow-depth space for local businesses," De La Vega says.

He gave the example of a sign contractor who needs a combination of showroom and warehouse space.

"Landlords probably aren't going to get top rent for that kind of property, but you can definitely get mid-teens," notes De La Vega.

He suspects class-A strip malls will continue to do well because of their tenant mix, which is often loaded with service tenants. Those retailers, De La Vega reiterates, will always need space because their offerings can't be satiated online.

"It's the class-B properties that will probably switch to more warehouse-industrial use," he says.

In an industry built on change and evolution, now more than ever, retail CRE professionals are prepared to do what it takes to survive, a stance emphasized at ICSC.

"I thought it was a good forecast overall," says Johnson. "There's continued positive sentiment from developers, retailers and finance." ■