Reconfiguring retail

The trends that are changing the face of the market

BY BRANDI SMITH

When it was built around 1860, the large brick building at the corner of Vickery and South Freeway in Fort Worth served as a stagecoach hotel. O.B. Macaroni took it over in the early years of the 20th century and operated out of it until just a few years ago. The three-story building is one of the oldest still standing in Texas' 16th-largest city.

Its newest owners, M2G Ventures, want to hold on to its history and build on that, according to Jessica Miller, the firm's co-president.

"We converted it into makerspace. We really want to celebrate makers and manufacturers there," she says. "We've built a roster of local and passionate tenants that includes Craftwork Coffee Co., Melt Ice Cream, W Durable Goods and Tex Malt."

Though M2G has a different concept for each of its projects, which also include The Crossing, The Foundry District and 710 S. Main, Miller says the company's approach is similar.

"We like to take an asset and deconstruct what it currently is, what its current use is, and convert it into what its new use could be," she explains. "We identify the soul or vibe of the neighborhood or community where it lives, then develop that story further."

Jessica Miller
M2G Ventures

That storytelling, she says, is essential to M2G's strategies, which focus on value-added retail and creative repositioning.

"The Foundry District in Fort Worth was a collection of old warehouses. We looked at that and said, 'OK, we're not going to tear it down. We're going to celebrate what they are and we're going to put people in there who can really highlight the industrial feel," says Miller. "We don't turn our back on the past. We celebrate what a property was and tell the story about it for the future."

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As a result, projects such as The Foundry District and O.B. Mac provide an emotional connection for consumers, which is essential in an age when many shoppers are turning to the internet.

"Consumers, which could apply to investors, retailers or customers, really gravitate toward branding that has a story behind it. If there's something that's bigger than the product or service they offer, people are naturally more likely to want to continue interacting with that and want to engage with that," Miller says.

M2G also encourages consumers to interact and

Market at Houston Heights
Houston

Eric Walker
Capital Retail Properties

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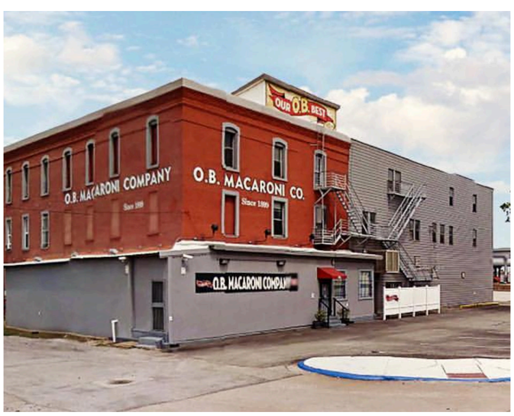
engage with public art, which is a key component in many of its projects.

"When developing art projects you want them to stand out as much as each of the individual retailers and to become another experiential and lasting touch point for the consumer -- a way to identify with the district," says Miller. "The customers may be visiting to interact with the art, but at the same time, they're becoming more familiar with that district. They're becoming more familiar with the tenants that are there, they are supporting the local businesses and in turn they are creating a cycle for the district that makes it top of mind for the consumer."

A brand's "experience" needs to be multifaceted in today's competitive retail environment.

"You have to create an experience for someone outside of what you're selling. Otherwise, they can just get the product on Amazon," says Miller.



O. B. Macaroni
Fort Worth

Eric Walker, the managing partner at Capital Retail Properties, echoes that.

"You'll notice the big names that are left in the retail world that sell things that compete with the internet are focused on experience," he says.

Walker argues that, in a way, the explosive growth in online retail has had a positive effect on its more traditional counterpart.

"If anything, the online retailers have made the brick-and-mortar retailers better. The brick-and-mortar retailers are investing in stores to make the shopping experience better, investing in their websites to improve online shopping and investing in new avenues for delivery," says Walker.

While a brand's history or story can be instrumental in luring shoppers in the age of the "Amazon effect," so too can its offerings. He says that over the past four months, more service users have come out of the woodwork.

"The term everybody's using now is internet-proof," says Walker. "Anything that is a service use, restaurant, medical or grocer is somewhat internet-proof and they're the most active tenants in retail centers."

Another trend both Walker and Miller are seeing is a return of mom-and-pop shops, which Walker points out have been almost non-existent since 2007. He says now they account for eight out of ten deals he's seeing in shopping centers.

The reason for the influx appears to be threefold. For one, Walker says a lot of the big companies have backed off on new openings. That's created new opportunities for the smaller fish. Lending has evolved as well.

"What really stopped the mom-and-pops back in 2007 was partly that a lot of them lost money from the mortgage crisis. The bigger issue was that SBA lending just stopped completely," Walker says. "I think it's a lot easier for these guys to get loans now to go out and grow."

He goes so far as to describe 2003 to 2006 as a kind of Houston retail heyday when new concepts and mom-and-pops were everywhere. Those were the retailers that drove the businesses and were the healthiest part of it, according to Walker. He says it's uplifting to see the mom and pops enter back into the market.

"I'm pretty excited about that," he says.

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Danny Signorelli
The Signorelli Company

The third factor in the rise of the small business has been a change in consumer approach.

"Consumers want to support someone they perceive to be local," Miller says. "I think that's a mind shift that's happened and you see it across the country."

That provides a new challenge for property managers, who have grown accustomed to stocking centers with national chains, admits Walker.

"Over the past six years, to fill a development, all I'd have to do is pick up the phone and call two or three brokers," he says. "Now we rely more on sign calls."

The day that Walker talked to REDNews for this article, he says he received five sign calls, which he calls "quality leads."

"Right now, we're seeing just as many sign calls turn into deals as we are relationship/broker calls turning into deals. The relationships are still there. A lot of these guys are getting picked up by brokers that we work with," he says. "It's an opportunity, I think, for some of the younger guys in the industry."

The part of the business that's seeing the biggest impact as a result is pre-build leasing, according to Walker. For the past decade or so, he says that by the time he started to build a new project, it'd be 90 percent to 100 percent leased. Now the reliance on sign calls means that percentage is closer to 50.

"Once I go vertical, all of a sudden, we're getting calls and we have a center leased," he says. "So it's a little scarier, but good."

That's a far cry from where Walker admits he would have predicted the retail market would be if you'd asked him a year ago.

"I was pretty nervous. You didn't know what was going to happen," he says. "Today I would tell you, I'm not really nervous, because I think the important retailers have it figured out. But new large developments are not happening in the next 12 months. They're 24 months and on."

Walker says the only large project underway right now in Houston is the Valley Ranch Town Center, which is being developed by Danny Signorelli. Capital Retail helped broker some of that for him until he got his own team last year.

"He's got a big vision. He's done an amazing job up there," Walker says.

Valley Ranch isn't one of the largest mixed-use developments under construction in the Houston area; it's one of the largest in the state. The project in New Caney features more than 1.5 million square feet of retail, shopping, dining, entertainment and multi-family housing.

"It's exciting to see the synergies of all the stores as the restaurants are thriving and the soft goods retailers are setting records," says Signorelli, president and CEO of The Signorelli Company. "Our Cinemark movie theater opened with a bang and we can witness the benefits of connectivity and synergy of a true experiential development."

Many of the trends mentioned by Walker and Miller are front and center at Valley Ranch, such as experiential shopping at Academy, service-based offerings at Family Express Clinic and mom-and-pop retailers like Yummy Tummy.

"We created the concept more than a decade ago based on traditional residential master-planned

Valley Ranch Town Center
New Caney

development strategies we have used for the past 20 years. 'Experiential' is nothing new, but today it has a name and is in the spotlight, and we are excited to have Valley Ranch in the conversation," Signorelli says, pointing out the development's assets that include Little League fields, the school District's sports complex, parks, trails and maximized connectivity. "Not long ago, the pinnacle of retail development was the 'grocery-anchored power center' and other experiential concepts were considered far-fetched and certainly high risk development. Today we are enjoying the exciting results from taking that risk."

The project was recently named a finalist for the Houston Business Journal's Landmark Award. Signorelli says it stands out from other developments, thanks to the hard work of a great team, what he calls a "solid foundation."

"VRTC passes all the typical retail tests, such as location and high-visibility, super strong market and demographics," he says. "Beyond that I would have to credit our concept and ability to be patient in developing a significant scaled project. There are steps to developing a project with this many moving parts. Not skipping a step has been critical to our success. Being patient has been tough at times, but the results are worth it."

If the success of Valley River Town Center is any indication, the retail sector of commercial real estate is thriving as it grows and evolves.

"Generally, we're pretty optimistic about the market," Walker says. "It's healthy. It's active." ■

Not-so-simple signs

BY BRANDI SMITH

For most consumers, signs are their first exposure to a brand, be it a restaurant, a store or a service. But often when commercial real estate professionals discuss retail and its trends, that first point-of-contact initially gets forgotten or looked over. That's not the case at Plano-based American Signs.

"What happens over time in any type of advertising is that the more that someone sees a brand, the more they start to embrace the message that comes with it. Ideally, there's some trust built into that," says Bill Young, the company's general manager. "So when they see that brand while they're driving by, they recognize it and connect with it."

Because brands, logos and consumer messages change so often, so too should a company's signage, according to Young. He estimates the lifespan of a sign to be about 10 years before either the message is obsolete or the weather has taken its toll.

Young says American Signs focuses on regional and national accounts because of its emphasis on developing long-term business relationships. Typically, that means companies opening five to 50 new locations each year, which keeps Young and his staff busy.

"For the most part, our job is to listen to what their brand is and what they want from a sign. Clients will sometimes supply us with drawings or artwork. Then we take that apart, compare it to landlord criteria and city code, and try to maximize the signage that they want on that building," Young says.

Because every city and landlord has different regulations and rules, it's important for American Signs to be staffed with detail-oriented people, from the designers to the sales staff.

They also have to be able to adapt along with the latest technology. Young says the biggest shift in the past decade has been from neon to LED lighting. The more energy-efficient LEDs, he says, grew in popularity once their price started dropping. However, he says some companies still prefer the look and feel of neon.

"It's still in demand, just not quite as much as it was ten years ago," says Young.

American Signs also stays busy producing electronic message centers (EMCs), which you see a lot of at schools, churches and at some retail centers.

"You'll see them in a lot of other applications, especially on highway signs, pylon signs and pole signs," Young says. "From a price standpoint, our clients are able to use EMCs as a better visual tool to market products. The software programs out there are evolving as well."

That evolution allows companies to switch out messaging and track traffic.

"Let's say you have four different ads running on your EMC. That software will allow you to monitor traffic flow to evaluate how many people saw each message," says Young.

While the technology and approach to signage may have changed over the years, what hasn't is the impact it has in drawing consumers in. After all, that's what keeps Young and his crew at American Signs busy.