

A Reprint from *Tierra Grande*, the Real Estate Center Journal

Retail Sign Language

By Mark G. Dotzour and Mimi Mize



Discussion of changing retail styles published in the summer issue of *Tierra Grande* continues. That article focused on convenience discount stores, casual attire, the shoe industry, auto super-stores, musical instruments, movie theaters and mall consolidations.

What is fun and exciting in retailing today is likely to be boring tomorrow. In the 1950s and 1960s, open-air shopping centers were popular; then came enclosed malls. The ill-fated "auto malls" came and went quickly.

Outlet malls and the "big box" concepts followed. Now, entertainment centers are the rage for large retail projects. And, in the spirit of *déjà vu*, open-air retail is back in vogue.

Big Business in Small Towns

Today many entrepreneurs, including those living in rural America, operate home-based businesses. In response, Staples, OfficeMax and Office Depot have determined that small towns with populations of 50,000 or more are excellent expansion markets. Furthermore, typical small towns do not have discount

electronic stores, such as Circuit City or CompUSA, offering fax machines, printers and personal computers at low prices.

Rural office supply stores are cashing in on a larger share of the electronic product market. Locating office supply stores in the country is supported by a .9 percent growth rate in rural population throughout the 1990s. Half of this growth is the result of people seeking small town values and comfortable retirement outside the city. Staples reports their rural stores expand much more quickly than new stores in more competitive markets.

Malls are evolving as they respond to changing tenant and shopper preferences. "De-malling" has been one response to decreased shopper enthusiasm for the standard regional mall. This process includes removing interior walls within several contiguous mall sites to create a larger, "big box" concept.

Mall tenants are sometimes successful at creating exterior entrances directly into their stores. This allows shoppers to park near the store's front door. Some malls are being more flexible about allowing tenants to push out exterior entrances or even place signage on the mall exterior.

That's Entertainment

The entertainment center concept has been widely embraced in an attempt to add excitement to new large-scale retail development. Developers and investors are incorporating entertainment, dining and shopping under one roof. Many areas of the country are experimenting with the concept.

In Hollywood, California, TrizecHahn is developing the \$145 million Hollywood and Highland building with 135,000 square feet of specialty retail; 100,000 square feet of entertainment; 70,000 square feet of restaurants and food courts; and 210,000 square feet of common area.

Entertainment centers also are being planned using the open-air environment. Recently, developers have seen a resurgence of the open-air concept because it reduces common area maintenance (CAM) fees. CAM charges in enclosed malls and shopping centers may be double or triple what the open-air tenant pays.

Glendale Town Center, a 700,000-square-foot, open-air pedestrian entertainment center is planned for Newport Beach, California. Construction is set to begin in the fall of 1999. Glendale will include a multi-screen theater complex, cafes and entertainment retailers.

Success for the entertainment center means bringing fun and enjoyment with nighttime activities and dining. Almost all are anchored by a multi-screen theater. The movie theater industry is seeing a turn from six to 12 theaters per complex to as many as 30. Many have stadium-style seating.

Megaplexes are developed in trade areas of 250,000 to 300,000 people with medium-to-higher incomes. Consumers are drawn in for a four-to-five-hour experience in which sit-down restaurants complement the outing. As noted in the last *Tierra Grande* issue, theaters are businesses encountering mergers, large new developments and fierce competition in the best markets.

Second-Hand Empires

Second-hand merchandise retailers have more than doubled their sales in the retail market in the past ten years. Consumers are attracted to price reductions from 50 to 65 percent and an ever-changing inventory. More of these retailers are locating in suburban malls and strip shopping centers and catering to the middle-class family.

Analysts believe the key to a successful second-hand store is selling new merchandise along with the used. Grow Biz International Inc., soon to be acquired by CD Warehouse, has built a second-hand retail franchising empire with more than 1,300 stores.

Products at second-hand stores range from sporting goods (677 Play It Again Sports stores), to kids apparel (207 Once Upon a Child outlets), compact discs (138 Disc Go Round stores), musical instruments (43 Music Go Round outlets) and computer video games (43 It's About Games stores). Some used-merchandise dealers believe their competitors to be big name discount retailers such as Wal-Mart and Kmart.

DISCOUNT STORES TURN UP THE HEAT

Fierce competition is occurring in the discount retail market. Wal-Mart Stores Inc. is showing considerable market strength, recently reporting a 7.6 percent sales increase in stores operating one year or more. Kmart Corp. also is showing renewed signs of strength, reporting second quarter earnings of \$80 million, more than double the earnings recorded last year.

Dollar General, one of the fastest growing retailers in the United States, posted a same-store sales increase of 7.1 percent. For more information on Dollar General, see the fall 1998 issue of *Tierra Grande*.

Target opened 21 new stores during the second quarter of 1998 and enhanced revenues by 13.5 percent. Dayton Hudson says Target's revenue increase reflects strong new and comparable store sales growth. Target posted a 6.2 percent increase in comparable store sales during the second quarter.

Mervyn's, on the other hand, reported a decrease in their comparable stores sales and revenues of 1.1 percent and 1 percent, respectively, for the second quarter. Parent company Dayton Hudson said the decline was mainly the result of lower-than-expected sales in its West Coast stores.



TO COUNTER SUPERMARKET PHARMACIES, major drug retailers are building free-standing stores with food marts.



Supermarkets With Convenience Stores

Traditional supermarkets are being pushed and pulled by competitors who have recently entered the grocery business. Sales per square foot have decreased in recent years as store size increased without added inventory. In addition, supermarkets are losing sales to retail formats that did not exist until a few years ago.

Superstores account for 35 percent of grocery sales while supercenters, such as Wal-Mart, bring in consumers as well. Wal-Mart is now the second largest grocery retailer in the United States.

Convenience stores have taken their share of the supermarket business. By adding a food market, a photolab and pharmacy, owners make freestanding stores an easy and fast one-stop shop. Theme retailers, such as coffee vendors and pet food, have developed and taken whole retail segments once dominated by supermarkets. Even the Internet has encroached on grocery retailers by offering dry goods at low prices.

Supermarkets are retaliating with new formats and expanding into other retailing categories. Supermarkets are adding gasoline pumps, ready-to-cook, ready-to-heat and ready-to-eat foods.

Some specialty grocers, such as Wild Oats and Whole Foods, are planning wellness centers within their stores. Other supermarkets have added banks, video rentals, florists and pharmacies.

Supermarkets are merging to reinforce their buying and market clout and to fend off the invasion of retail giants into their domain. In August, Albertson's Inc. acquired American Stores Co. The combined company pushes Albertson's to the top grocery position in the United States with 2,470 stores in 37 states.

The growing trend of supermarkets offering pharmacy services is creating a new equilibrium in the neighborhood and community center tenant mix. Traditionally, a grocery or drug store might anchor a neighborhood center. Now that supermarkets offer in-house

pharmacies, major drug retailers, such as Walgreens and Eckerd, are constructing free-standing buildings—often on a corner opposite the grocery store. Some of these freestanding drug stores offer food marts.

Competition over gasoline is fuming. Some grocery stores, such as HEB in Texas, are experimenting with gasoline sales in their parking lots. Ultramar Diamond Shamrock recently announced it was closing 300 "Stop and Go" outlets and "Corner Stores" citing low gas profits and competition from grocery stores.

Home Sales Help Home Furnishings

A booming housing market has translated into increased sales for home furnishings and furniture. With approximately 935,000 home sales nationwide and more than 1.63 million housing starts in June 1998, furniture and home furnishings retail sales jumped 1.2 percent.

Wal-Mart's second quarter profit jump of 30 percent has been attributed to increased electronics and home furnishings sales. Best Buy Co. reported second quarter sales rose 22 percent to \$2.18 billion because of better-than-anticipated electronics and entertainment software sales. Best Buy planned to open 23 new stores in the third quarter.

Michael's Stores, an Irving, Texas, craft retailer, posted a 14 percent sales increase. Company officials said they attribute the gain to strong home decor accessory sales along with higher sales of general crafts, art and floral products.

Hardware Plays Hard Ball

Hardware stores are revamping their marketing strategies to attract consumers with deep pockets. Home Depot, Inc., through its Expo chain, is displaying designer ceramic tiles and professional quality appliances, such as Sub-Zero refrigerators—an item consumers would never see at the traditional Home Depot Warehouse.

Six Expo stores are now open in Atlanta; San Diego; Miami and Davie, Florida; Dallas; and Westbury, New York. Within seven years, Home Depot plans to operate 200 Expo stores.

Meanwhile, Sears is experimenting with a store called The Great Indoors. These are one-stop shopping marts carrying everything from towels and candlesticks to Corian countertops and big screen televisions. If the concept works, Sears plans 200 outlets. Lowe's, on the other hand, is staying with their



DESIGNER CERAMIC TILES and professional quality appliances have appeared in non-traditional outlets.

single warehouse stores and has chosen to display upscale merchandise beside the lower-cost alternatives.

Toy Story

Toys 'R' Us, the largest toy seller in the world, is having a difficult time competing with discount retailers such as Wal-Mart and Target. The New Jersey-based retailer announced in August its second quarter earnings fell 57 percent, a third straight quarterly drop. In response, the company said it would close approximately 90 stores—50 from international operations and 31 from the Kids 'R' Us apparel chain.

The Toys 'R' Us strategy includes internal restructuring, cutting prices and slowing new store openings. Within the next two years, 75 percent of its locations will be remodeled to replace high-shelved aisles with clusters of video games, electronics, kids apparel and bargain-priced items.

If consumers appear bewildered by all the changes, it is understandable. When the pharmacy sells groceries, the grocery store sells gasoline and people go to the mall to be entertained, it may be difficult to tell from the sign on the front exactly what can be found inside. ☒

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Tierra Grande (ISSN 1070-0234), formerly *Real Estate Center Journal*, is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115.

Subscriptions are free to Texas real estate licensees. Other subscribers, \$30 per year, including 12 issues of *Trends*.

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