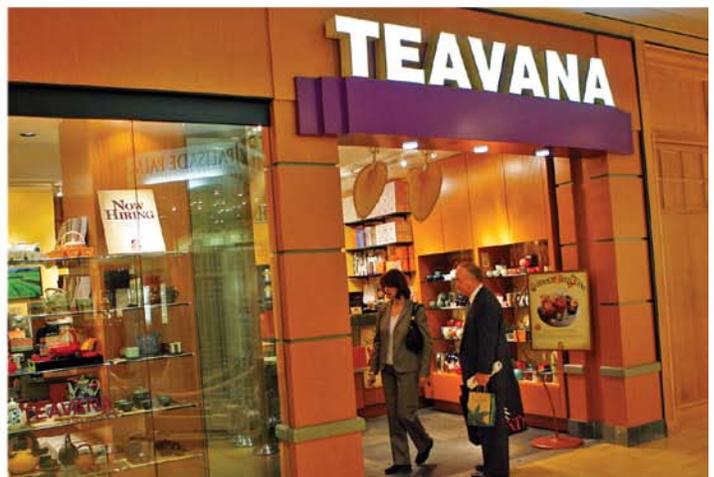


A Reprint from *Tierra Grande*

Retail Details

Massage, Mutts and Makeovers
by Mark G. Dotzour



ICSC what happens in vegas...

Each year, retailers and the shopping center development industry meet in Las Vegas for spring meetings of the International Council of Shopping Centers (ICSC). Over 40,000 attend the meetings to hear about the latest trends in retail and development. Retailers, developers, lenders, suppliers and municipal economic developers set up offices in the “leasing mall” at the convention center. For three days, the activity is fast and furious. Rumor has it that over half of the year’s retail leasing takes place in the conference’s leasing mall. This is a report on the 2006 event.

Two major socioeconomic trends are buffeting the retail industry and having noticeable effects on retail developers and investors. The first trend is the accelerating speed at which change occurs in the industry. Shoppers’ attention spans are shorter, and fads are coming and going faster. Shoppers do not have the luxury of leisurely shopping as they have had in the past. To compete, retailers must continually change their products and presentation, offering shoppers a “new” experience.

Commoditization is another major trend. Customers want assurance that retailers are offering a “value proposition.” That is, each retailer and shopping center must feature something that compels people to shop there. If retailers do not have a

value proposition, they become nothing more than a commodity. And in the commodity market, sellers must run as fast as they can to earn even a small profit.

High-end retail malls are thriving. A great location and proximity to high-income buyers is still a great combination for retail success. Well-located malls offering entertainment, interesting shops and convenience are succeeding. New restaurants such as Cheesecake Factory and Maggianos are drawing traffic wherever they go.

Battling the Competition

JC Penney is successfully engineering a turnaround. Its link with beauty retailer Sephora signals a move toward a different

client base — younger customers with spending power. Since 2000, the company has done a good job of repositioning itself to be “hip” and attractive to young clothing shoppers.

WalMart will remodel many of its stores and upgrade its product lines. It is looking to sell to customers in the middle 80 percent of the income distribution. WalMart strives to achieve 30 percent market share in all its product categories.

WalMart has already crushed the toy and food markets. Now it is focusing heavily on electronics. Best Buy is successfully competing with WalMart by getting new products onto its shelves faster.

Apparel companies are struggling to differentiate themselves by offering designer brands that cannot be found at other stores in addition to their own private labels. But Wal-Mart’s apparel brand “George” is not very strong, and the company will not become a dominant apparel player until it improves its brand.

The supermarket industry is engaged in a pitched battle, with WalMart currently the dominant player. The company opened 55 supercenters in January alone. Home Depot wants to get into the act and may open convenience stores by 2010.

Other supermarket chains are finding it difficult to compete with WalMart on price. Dollar Stores are adding food and pharmaceuticals. Convenience stores are expanding food inventories. Meanwhile, dining out is growing as fast as dining in.

Internet sales are increasing. L.L. Bean sells more products through its website than through its catalogue.

Big retailers have greatly improved their Internet capabilities. Catalogue distribution is likely to decline. However, internet sales amount to only 6 percent of U.S. retail sales, so a lot of business is still being done in brick and mortar stores.

Latest and Greatest

The ICSC awards for the “hottest retailers” recognize retail concepts that are bringing traffic to the centers and creating energy and interest of shoppers. Here are this year’s winners.

Massage Envy has opened 100 stores in the past three years. In a world of high stress, it makes massages easily available and affordable.

Citi Trends offers value-priced urban design clothes for 20 to 60 percent less than bigger stores. The company searches the world looking for trendy fashions at affordable prices. It looks to develop nationwide, including Texas.

Justice stores cater to “tweeners,” girls aged eight to 12. The retailer currently has 106 stores nationwide and plans to open as many as 75 stores in the next few years.

Mutropolis markets itself as a utopia for pets and their owners. The stores offer designer food and clothing for dogs and cats. Their slogan is “haute dogs and cool cats.” They even offer birthday cards and shower gifts for dogs and cats.

Teavana is the largest specialty tea store in the country, offering over 100 kinds of teas from around the world. The company currently operates 50 stores, and plans to expand to 200 in the next few years.

Selling Cities

A popular feature of ICSC conferences is the panel of mayors from large cities and small communities who are there to market

their communities to retail developers. This year’s big city mayors came from Atlanta, Baltimore, Boston, Columbus, Kansas City, Las Vegas, Long Beach, Saint Louis and the District of Columbia. Smaller cities whose mayors participated included Carol Stream, Ill. (pop. 43,000), Akron, Oh. (pop. 217,000), Marion, In. (pop. 31,320) and Westfield, Ma. (pop. 40,000).

Many cities rely heavily on sales tax revenue to pay their bills and, therefore, make retail development a top priority. In the past, developers found it difficult to navigate the maze of city government regulations, but that is changing.

“Columbus is moving to become a ‘one-stop shop’ for retail developers,” said Michael Coleman, mayor. “As mayors, we have to remove the obstacles for development to let the market take its course.”

“Retail is like water and electricity: it will flow where it wants to go,” added Anthony Williams, mayor of Washington.

“Giving tax incentives for retailers involves taking some risks and creating opportunities for other retail developments to come into the area. Saint Louis has used tax increment financing 70 times in recent years to encourage retail development,” said Francis Slay, mayor of Saint Louis.

“This is our first time at ICSC, and we are here in force to let people know we want retailers to come to Atlanta,” said mayor Shirley Franklin. “Retailers are our

partners; we work well with them,” said Thomas Menino, mayor of Boston.

Advice for Developers

The panel of mayors had this advice for developers seeking projects in America’s cities.

- Do not underestimate the purchasing power in older urban neighborhoods. Although household incomes are lower, population density creates significant purchasing power.
- Recognize that cities have changed in the past 30 years. They are now actively seeking retail development and are streamlining the permitting process to encourage private retail development.
- Recognize that mayors are a lot more entrepreneurial today. In the past, cities looked to the federal government for funding. Now, they look to the private sector for urban redevelopment.
- View mayors as partners in development projects. Mayors can offer valuable insight and assist in dealing with local community groups that may oppose development. ♣

Dr. Dotzour (dotzour@tamu.edu) is chief economist with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

Retail is increasingly becoming a vital source of tax revenue for all American cities. Mayors are aggressively courting retailers to come to their communities.



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

Director, Gary W. Maler; **Chief Economist**, Dr. Mark G. Dotzour; **Communications Director**, David S. Jones; **Associate Editor**, Nancy McQuiston; **Assistant Editor**, Kammy Baumann; **Art Director**, Robert P. Beals II; **Graphic Designer**, JP Beato III; **Circulation Manager**, Mark Baumann; **Typography**, Real Estate Center.

Advisory Committee

Douglas A. Schwartz, El Paso, chairman; David E. Dalzell, Abilene, vice chairman; James Michael Boyd, Houston; Catarina Gonzales Cron, Houston; Tom H. Gann, Lufkin; Celia Goode-Haddock, College Station; D. Marc McDougal, Lubbock; Barbara A. Russell, Denton; Jerry L. Schaffner, Dallas; and Larry Jokl, Brownsville, ex-officio representing the Texas Real Estate Commission.

Tierra Grande (ISSN 1070-0234) 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, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: E. Joseph Deering, pp. 1, 2, 5.