ABSTRACT

This paper discusses the major trends in commercial real estate since the recovery of the 2009 recession. E-commerce and changes in consumer behavior have resulted in a transition of shopping center development. This paper examines the environmental factors fueling industry change, the current trends, and their related effects on shopping center development and redevelopment. Finally, the paper will explore future implications of current trends on commercial real estate, arriving at the conclusion that commercial real estate will undergo significant transformation but will ultimately thrive.
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INTRODUCTION

Commercial real estate properties cater to needs of consumers by providing locations for retailers to sell products and services – everything from pharmaceutical drugs to financial services. Strip centers, power centers, town centers, enclosed malls, and mixed-use developments spread across the globe to meet the consumption demand of consumers and businesses. In the last several decades, technology has introduced an emerging threat to physical retail locations through the inception of online shopping. E-commerce provides a new method for customers to shop. For some consumers, visiting a website and having goods shipped directly to their home is more convenient while others prefer trying on clothes, sitting on furniture, etc. at the store (Beauchamp & Ponder, 2010; C. McDonald, 2015). Consumer behavior and financial indicators show that social trends have the capacity to affect – positively or adversely – any industry. Shifts in the commercial real estate environment are too significant to ignore because retail properties directly impact the economic condition of cities (Muzumdar, 2014). Studies show that the presence and growth of shopping centers enhance the “economic condition” of cities by improving transportation, commerce, communication, and, most notably, urbanization. Industry trends have the capacity to disrupt plans of expansion, product lines, marketing strategies, and, ultimately, performance (Muzumdar, 2014; Urban Land Institute, 2013). The purchasing power of consumers fuels the commercial real estate market. Changes in how and where people spend their money can result in drastic fluctuations in the retail market. Online shopping is increasing in proportion of sales, which is a growing concern for commercial real estate landlords, developers, brokers, and retailers (Balasescu, 2013). If online shopping surpasses physical shopping, then a decline in brick and mortar stores
is a definite threat. To what extent, though, will the demand for and nature of retail real estate change?

Commercial real estate is expanding, not diminishing. Nonetheless, it is evident that the development of enclosed malls has virtually ceased and the performance of already existing enclosed malls is swiftly declining (Urban Land Institute, 2013). In contrast, the broader area of brick and mortar research indicates that this segment of real estate is evolving rather than dying out. Furthermore, studies indicate that online shopping is enhancing commercial properties rather than replacing physical retail centers (Smith, 2011; Balasescu, 2013; Lebovitz, 2014). The shopping experience is a key aspect of physical shopping destinations that online shopping simply cannot replace (Lebovitz, 2014). Also, restaurants serve as primary traffic drivers, making them essential to the retail mix. Another trend is that retailers, especially department stores, are decreasing the size of their footprints and changing to smaller layouts. Finally, despite the success of national retailers, shopping centers are focusing on enhancing the tenant-mix by incorporating regional concepts. In all, commercial real estate is evolving to adapt to social and economic changes in the market, and the ongoing trends will ultimately influence where and how consumers buy products.

This paper highlights and explains current trends in commercial real estate. Despite the success of innovative online companies – such as Zappos, Amazon, and Overstock.com – that have transformed the retail shopping experience, research suggests that online shopping will not make malls and physical stores irrelevant; e-commerce and shopping centers will benefit from a synergistic relationship (JLL, 2014). This paper examines four major claims: (1) the shopping experience gained from physically visiting
stores cannot be replaced by e-commerce; (2) retailers and landlords are relying more heavily on restaurants, entertainment, and omni-channel retailing to attract customers to properties; (3) retailers are downsizing to maximize their sales per square foot measure of performance; and (4) the outlook is bright for retail centers in coming years, as retailers are still expanding their platforms, not shrinking them, by setting larger targets for store openings each year and rolling out new concepts (International Council of Shopping Centers [ICSC], 2014; Urban Land Institute, 2013). Examining these trends is important because the performance of commercial real estate directly affects the performance of many other sectors of the economy (Muzumdar, 2014).

After overviewing the importance of commercial real estate to the economy, this paper will discuss the environmental factors fueling industry change. Then, the paper will examine the current trends and their related effects on shopping center development and redevelopment. Finally, the paper will explore future implications of current trends on commercial real estate, arriving at the conclusion that commercial real estate will undergo significant transformation but will ultimately thrive.

**Retail’s Place in the Economy**

Retail is significant to the United States’ economy because consumer spending accounts for about 70% of the United States’ gross domestic product (GDP), and 40% of this consumer spending takes place at shopping centers (Clapp, Bardos, & Zhou, 2014). As of 2014, there were 114,645 shopping centers in the United States that produced a $2.52 trillion in sales, accounting for 14.5% of the United States’ GDP (ICSC, 2015b). Research also shows that shopping centers employed 9.1% of the U.S. workforce (ICSC, 2015b). The impact of commercial real estate extends beyond contributing to GDP and
employment. The presence and growth of shopping centers are enhancing the “economic condition” of cities by improving transportation, commerce, communication, and, most notably, urbanization (Muzumdar, 2014, p. 60).

Consumers visit stores, local markets, and malls for everyday shopping needs. In recent years, commercial real estate properties have experienced major industry shifts in property development, and there have been changes in consumer behavior (Urban Land Institute, 2013). Other changes have been prompted by increases in the number of sources of capital and the development of large international investment firms, which have resulted in the globalization of real estate (DeLisle, 2009; Urban Land Institute, 2013). DeLisle (2009) suggests that a globalization of retail developments has resulted in enhanced market efficiency, improved market knowledge, increased market demand, and increased capital flows. More specifically, the globalization of shopping centers refers to the system that makes information and capital accessible around the world (DeLisle, 2009). An example of this is the International Council of Shopping Centers (ICSC), which provides a database of information and analysis of the global real estate industry (DeLisle, 2009). However, there are also pitfalls to globalization. Real estate is vulnerable to a high level of economic risk and more competition on a global level (DeLisle, 2009). As a result, any major trends in retail consumption are reflected in economic measures such as capitalization, sales, and vacancy rates. These financial indicators help gauge the health of the real estate and retail markets and – to an extent – the economy as a whole.

The retail market has shown signs of recovery from the 2009 recession, which crippled nearly all areas of the real estate market (Urban Land Institute, 2013). According
to ICSC (2014), overall sales have reached pre-recession levels and continue to rise, indicating a recovery. Figure 1 shows the approximate sales (in billions of dollars) of retail shopping centers.

Figure 1: Inflation-Adjusted Monthly Shopping Center-Inclined Sales


FACTORS FUELING CHANGE

It is important to examine the variables that influence store performance before delving into the factors changing the commercial real estate landscape. According to Reinartz and Kumar (1999), four major variables impact store performance: (1) store characteristics, (2) market potential characteristics, (3) consumer characteristics (socioeconomic status), and (4) competition. Reinartz and Kumar (1999) concluded that market potential is the most significant factor. Favorable market potential consists of number of households, percent of households with four or more members, and percent of households with children, with higher percentages indicating more favorable conditions for retail centers (Reinartz & Kumar, 1999). Reinartz and Kumar (1999) found stronger
correlation exists between store performance and market potential than store attractiveness or socioeconomic status. This conclusion is important because it suggests that retail properties are most sensitive to locational variables, linking the performance of commercial real estate properties to regional market conditions. However, this study disregards sensitivity of shopping centers to consumer behavior, which is the primary factor fueling current trends in commercial real estate (Ali, 2013; Hakan Altintas, Bahar Isin, Kilic, & Kaufmann 2011; Haque, 2013).

According to JLL (2014) – one of the largest real estate companies in the world –, a mix of the market recovery from the recession, dramatic demographic shifts, and emergence of e-commerce have contributed to changes in the commercial real estate environment. Prior to the recovery from the 2009 recession, real estate in the U.S. suffered tremendously. Retailers had to halt expansion plans and close underperforming stores due to financing constraints (Urban Land Institute, 2013). The vast number of store closings caused occupancy rates to decline (Urban Land Institute, 2013). Figure 2 displays the fall of occupancy rates and increase of vacancy rates from 2008 – 2010 (JLL, 2014).
However, occupancy rates rose slightly from 2010 – 2014, indicating that shopping centers and tenants were recovering from the recession (JLL, 2014). This is important because occupancy and vacancy rates directly impact the value of real estate properties (J. McDonald, 2015). If the occupancy rate of a retail centers is too low, it can become unappealing to almost any tier of retailer and potential investors (J. McDonald, 2015). This is largely due to traffic volume, which heavily depends on the tenant mix of the property. Centers with a small number of tenants suffer can from a weak tenant mix. Landlords of such properties must try to incentivize retailers by charging lower rent rates, which decreases net operating income (NOI) and, therefore, lowers the value of the property. Fluctuations in NOI are more likely to cause large shopping centers to contract than smaller centers (Clapp et al., 2012). According to Figure 2, observers began seeing a reversal of retail market indicators around 2011, hinting the economy was bouncing back
and retailers were once again maintained or expanding their platforms. Despite these effects of the recession, the overall commercial real estate market is strengthening (JLL, 2014). New developments, increased transactions, and rising NOI among retailers are signs that shopping centers are performing well (JLL, 2014).

**Demographic Shifts**

Demographic shifts also play a major role in current trends (JLL, 2014). As JLL (2014) suggests, an increase in the U.S. population will raise demand for retail. As families grow in size, so do their consumer needs. JLL (2014) notes that the growth of the Hispanic population is a current focus of retailers. As seen in Figure 3, the purchasing power of the Hispanic population has grown rapidly from 1990-2015 and is projected to steadily rise.

Figure 3: The Growth of Hispanic Buying Power

This is important to retailers because any demographic change presents an opportunity or threat (Urban Land Institute, 2013). For retailers whose target customer is Hispanic, the population growth is a sign to expand. In response, landlords of properties in areas of high Hispanic growth will search for retailers that will add value to the center by capturing the Hispanic demographic (A. Carlson, personal communication, 2015). This trend is especially prevalent in Texas and Florida, where real estate is experiencing an impressive amount of growth (JLL, 2014). Growth rates in the Dallas-Fort Worth and Orlando metropolises are among the highest growth areas, offering an opportunity for retail expansion (JLL, 2014). El Mesón – an original Puerto Rican restaurant – expanded operations into Florida because of the rapid growth of Hispanic population. According to Felipe Perez – CEO of El Mesón –, sales have skyrocketed because the growing population of Hispanic and Puerto Rican population in Orlando, and he plans to continue expanding operations to areas experiencing high Hispanic growth rates (F. Perez, personal communication, 2015). Landlords in the Orlando area have noticed El Mesón’s success, and are actively reaching out to El Mesón to open more locations. In all, retailers and landlords acknowledge this demographic shift and are making adjustments in order to seize the opportunity.

E-commerce and Omni-channel Retailing

The final and most influential factor driving change is e-commerce (Beauchamp & Ponder, 2010). There is no question that online shopping has transformed the landscape of retail, offering a convenient method of browsing, purchasing, and returning products. E-commerce has revolutionized retail convenience (Beauchamp & Ponder, 2010). Retail convenience consists of four dimensions—access, search, transaction, and
possession—and directly influences the shopping behavior of consumers (Beauchamp & Ponder, 2010). A survey by Beauchamp and Ponder (2010) measured the perception of convenience of online shopping and in-store shopping in the minds of consumers. Out of a sample size of 346, Beauchamp and Ponder (2010, p. 1) concluded that “online shoppers have more favorable perceptions of access convenience, search convenience, and transaction convenience than in-store shoppers.” Online shopping satisfies all four dimensions of retail convenience, eliminates the transportation aspect of shopping, and enable customers to purchase items from home, giving e-commerce a competitive advantage over physical retail (Beauchamp & Ponder, 2010).

Furthermore, e-commerce grows in conjunction with the advance in technology. As retailers enhance mobile applications and create specialized programs that foster customer loyalty, online shopping becomes more appealing and convenient. E-commerce and technological innovation has “fully integrated the shopping experience process from start to finish (Balasescu, 2013, p. 1).” In lieu of this technological retail revolution, one might expect in-store sales to decline. However, this is not the case. In fact, e-commerce has resulted in an increase in in-store sales for many retailers (ICSC, 2014). Companies recognize the influence of online shopping and are actively integrating e-commerce with in-store shopping, as this is the very essence of omni-channel retailing.

Omni-channel retailing—the combination using applications, online shopping, and in-store shopping—enables consumers to purchase products in a variety of ways (Beauchamp & Ponder, 2010). In-store and online shopping have varying advantages and disadvantages—such as convenience and service—, so retailers are utilizing both channels in order to become customer-centric (C. McDonald, 2015). Online operations allow
retailers to sidestep many overhead costs like leasing store space and labor costs, but excessive transportation costs and low customer satisfaction are serious issues faced by retailers that operate solely online (Smith, 2011). According to Smith (2011), retailers that combine the use of physical and online channels will have competitive advantage over those who use only one channel, which is why most national retailers – with physical stores – are innovating their e-commerce presence.

Beauchamp and Ponder (2010) discuss how omni-channel retailing optimizes retailers’ ability to satisfy customers by offering “in-store pick up for online purchases to give consumers the best of both shopping formats—the benefits of shopping online and more immediate product possession (as cited in Gunn 2006; Wolf 2007, p. 62).” Surveys show that people who buy products online and physically visit a store are likely to buy more and have a higher level of satisfaction than consumer who only make online purchases (ICSC, 2014). This is largely due to experiential shopping. Retailers are noticing the effectiveness of omni-channel retailing in increasing convenience and customer satisfaction. Retailers have enhanced their online presence – through mobile applications, promotions, advertising, customized orders, etc. – in hopes of driving more in-store traffic (Balasescu, 2013). Michael Smith (2015), former Director of Real Estate with Shoe Carnival – a national shoe retailer –, explained that omni-channel retailing is playing an increasingly pivotal role in advertising, creating brand awareness, and building customer loyalty. He also notes that the company’s website for online-purchasing and digital advertising has provided new information on which the real estate team can (M. Smith, personal communication, October 2015). More specifically, Shoe Carnival determines the location of people who visit its website, and determine
appropriate locations to open new stores. This is a growing strategy among national retailers.

INDUSTRY TRENDS

Enhancing the Shopping Experience

Shopping centers offer something that e-commerce does not: an experience. In order to remain competitive with online retailers who have the advantage of convenience, landlords must continue to innovate the shopping experience to keep attracting customers (Haiyan & Jasper, 2015). Landlords must create an environment that causes excitement, influences visitors to purchase goods, and, most importantly, encourages customers to return (De Nisco & Warnaby, 2014).

Customers have differing motivations for shopping, influencing how and where they shop (Haiyan & Jasper, 2015). Customers seeking convenience typically choose to shop online, while customers seeking a shopping experience tend to visit shopping malls. According Haiyan and Jasper (2015), the “consumer’s shopping experience involves escaping from the ordinary, the fun of browsing, social experiences, lots of activities, uniqueness, service satisfaction, and esthetics (as cited in Haiyan & Jasper 2007b, p. 220-221).” Haiyan and Jasper (2015) note that the uniqueness of the mall and the desire for a shopping experience that influences customers to return, as visiting a shopping mall is otherwise time-consuming and inconvenient. Motivation, tenant-mix, and the physical uniqueness of the property determine the method – online or in-store – and location of shopping for customers (Haiyan & Jasper 2015; Mohd Ali, 2013).
There are different forms of shopping and varying motivations that influence where consumers shop. Mohd Ali (2013) notes that hedonic shopping motivation explains retail consumer behavior and consists of adventure shopping, social shopping, shopping satisfaction, modern shopping, role/pleasure shopping, and value shopping (as cited in Arnold & Reynolds, 2003). This theory indicates that motivation is a primary determinant of where people shop. This discussion focuses on role/pleasure shopping, where consumers actively seek places that offer a unique experience – cultural districts, design districts, local venues, etc. While grocery-anchored centers serve as every day, routine stops, a heightened shopping experience can distinguish supreme centers from ordinary ones. A study by Mohd Ali (2013) found that “tenant diversity of a shopping mall and its physical environment have a significant impact on the extent of motivation in choosing a shopping mall (p. 74),” which can help explain consumer behavior. This conclusion can be used to examine the major differences between traditional and innovative shopping centers. A study by Runyan, Kim, and Baker (2012) discovered that merely the presence of kiosks at traditional malls diminishes the shopping experience for customers. Kiosks and kiosk salespeople serve as a major deterrent and adversely influence shopping behavior (Runyan, Kim, & Baker, 2012). On the other hand, modern décor, easy accessibility, and quality tenant-mixes provide an enhanced shopping experience for customers (Mohd Ali, 2013).

The tenant-mix or retail agglomeration combined with physical location serve as the cornerstone of shopping malls (Teller & Schnedlitz, 2012; Mohd Ali, 2013). However, the arrangement of tenants in a mall is the most influential factor for consumers when choosing a shopping center (De Nisco & Warnaby, 2014). The
combination of tenants creates a synergetic atmosphere from which everyone – retailers, property owner, and customers – benefits (Teller & Schendlitz, 2012). As Teller and Schendlitz (2012) explain, “Retail and service enterprises aim to benefit from so-called synergetic or ‘agglomeration effects’ being part of the network (as cited in Oppewal & Holyoake, 2004, p. 1044).” The joint effort of a group of retailers to succeed, not only individually but collectively as a shopping destination, qualifies as retail agglomeration (Teller & Schendlitz, 2012). According to De Nisco and Warnaby (2014), the tenant-mix is critical to the attractiveness of the mall because “emotional responses induced by the store environment affect a wide range of consumption outcomes, such as willingness to spend time and money in the store (as cited in Donovan & Rossiter, 1982; Sherman et al., 1997, Wakefield & Baker, 1998, p. 212).” Malls with strong tenant-mixes tend to include stores, bars/restaurants, entertainment facilities (De Nisco & Warnaby, 2014). It is through retail agglomeration that commercial properties gain an identity or brand (Haque, 2013; Teller & Schnedlitz, 2012). Solidifying a favorable brand through establishing a quality tenant-mix is related to strong shopping center performance and is a top goal for landlords (Haque, 2013; Teller & Schnedlitz, 2012).

The physical uniqueness of a center is another major factor that determines where customers shop (De Nisco & Warnaby, 2014). A recent study by De Nisco and Warnaby (2014) concluded that the appearance of malls and the quality of their amenities are physical stimuli that trigger an emotional response. Accordingly, empirical evidence supports that aesthetically pleasing properties result in more pleasurable shopping experiences (De Nisco & Warnaby, 2014). Retail real estate is a highly competitive industry, so landlords are continually innovating their properties in order to optimize the
shopping experience (Urban Land Institute, 2013). Property owners heavily invest in satisfying needs and meeting expectations of customers. Recently, property owners have focused on aesthetics such as landscaping, fountains, and architecture to enhance the shopping experience (Lebovitz, 2004). In the 1990s and 2000s, landlords revolutionized indoor shopping malls by incorporating food courts, seating areas, and modern interior design (Lebovitz, 2004). Landlords are heavily investing in redeveloping underperforming properties to retain customers and attract new crowds (Urban Land Institute, 2013). They are revolutionizing the shopping experience by adding self-service kiosks, art and sculptures, entertainment areas, ornate water fountains, and modern décor to commercial properties. Upgrading these amenities helps trigger a positive emotional response in customers, thus increasing the probability of them spending more money while shopping and return again (De Nisco & Warnaby, 2014). In all, the physical uniqueness of a center, the assortment of tenants, and motivation directly influence the method – online or in-store – and location of how consumers shop.

**Restaurants and Entertainment**

Restaurants and entertainment are becoming increasingly important to the retailing mix. Traditionally, restaurants relied on traffic driven by national retailers and department stores. However, centers are relying on restaurants to serve as a focal point, drawing a larger portion of customers to the property. According to Brandon Delanois – retail broker with JLL –, restaurants are one of the main traffic drivers for shopping destinations, and he predicts that their incorporation into the tenant mix of retail properties is essential (B. Delanois, personal communication, August 2015). Depending on the tenant and size of property, a restaurant could even serve as a primary anchor for a
retail center. During the past decade, nationally recognized restaurants – Longhorn Steakhouse, Chili’s, Applebee’s, etc. – have owned the spotlight and secured prime locations at malls and retail developments. While many still do, national restaurants are experiencing more pressure from up-and-coming, local concepts (B. Delanois, personal communication, August 2015). Consumer attitudes toward restaurants have shifted from desiring national concepts to holding a heightened appreciation for restaurants that offer locally inspired recipes and an intriguing atmosphere (B. Delanois, personal communication, 2015). National restaurants typically have the similar – if not identical – build-out at every location, serving food from the same menu as well. Especially in urban areas, consumer demand for non-chain restaurants has increased significantly, making restaurants essential to the tenant-mix.

**Downsizing**

Downsizing is another current trend among retailers. Tenants are decreasing the size of their footprint because investors and shareholders are using sales per square foot as a major performance measure. Shopping centers and retailers expecting steady increases in revenues have the incentive to expand (Clapp et al., 2014). However, a study by Clapp et al. (2014) suggests that while retail shopping centers may expand, enclosed shopping malls will not – from lack of projected revenues. So, underperforming retailers and retail properties that are unable to sustain revenues will downsize. This is important to note for several reasons. First, downsizing will directly impact property values and capitalization rates. Capitalization rates are used to value real estate properties, where the value of a property is equal to the net operating income (NOI) divided by the capitalization rate. Owners and potential owners pay close attention to capitalization rates
and asset value history, since it is a primary factor in property transactions. While sales reports easily allow analysts to arrive at an accurate NOI, determining capitalization rates is more subjective (J. McDonald, 2015). In general, properties trade between capitalization rates of 5-15%. In light of the inverse relationship, lower capitalization rates indicate higher values – see Table 1.

Table 1: Effect of Capitalization Rates on Value

<table>
<thead>
<tr>
<th>Asset Value Change</th>
<th>Cap Rate</th>
<th>Current Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5%</td>
<td>15%</td>
<td>$667 = 100/(0.1 + 0.05)</td>
</tr>
<tr>
<td>-2%</td>
<td>12%</td>
<td>$833</td>
</tr>
<tr>
<td>0</td>
<td>10%</td>
<td>$1000</td>
</tr>
<tr>
<td>2%</td>
<td>8%</td>
<td>$1250</td>
</tr>
<tr>
<td>5%</td>
<td>5%</td>
<td>$2000</td>
</tr>
</tbody>
</table>


According to a study by J. McDonald (2015), estimations of capitalization rates are largely influenced by asset price history, market strength and trends, and vacancy rates. The study relies on the semi-strong form of efficient markets, which suggests that value is determined by current information and past transactions. Semi-strong efficiency relies on trends, market information, and executed transactions to explain changes in the real estate market (J. McDonald, 2015). According to this theory, downsizing is a trend that has the potential to influence vacancy rates, capitalization rates, and, ultimately, value. When retailers decrease the size of their store footprints, they occupy less space in
shopping centers which creates open space for new tenants. Landlords then have to find a use for the available space – the best option being to lease it to another retailer. Depending on market demand, it is likely that the available space will be vacant for a period of time. J. McDonald (2015) notes that changes in vacancy within the most recent year have a large effect on the capitalization rate.

In the past few decades, tenants could afford to occupy more space, hoping that it would allow them increase sales numbers. As one of the major evolving factors of commercial retail, the most critical may be that stores in general will be “fewer and smaller (Balasescu, 2013, p. 9)”. Some retailers would argue that bigger stores had a tendency to draw higher traffic numbers than small stores, which has some validity. However, this is no longer the case. According to Retail Broker Andy Carlson with JLL, “Wall Street” – investors, shareholders, etc. – are currently focusing more on sales per square foot than occupancy costs (A. Carlson, personal communication, July 2015). This means that investors and shareholders are more concerned with the efficiency of stores than volume. So if tenants can operate at the same sales volumes while eliminating costs, stores essentially become more profitable and efficient. For example, Table 2 below demonstrates the effect of downsizing on sales per square foot.

Table 2: The Effect of Downsizing

<table>
<thead>
<tr>
<th></th>
<th>Before Downsizing</th>
<th>After Downsizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size (SF)</td>
<td>100,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Rent (PSF)</td>
<td>$15</td>
<td>$15</td>
</tr>
<tr>
<td>Annual Rent</td>
<td>$1,500,000</td>
<td>$750,000</td>
</tr>
<tr>
<td>Sales</td>
<td>$10,000,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Sales/SF</td>
<td>$100</td>
<td>$200</td>
</tr>
</tbody>
</table>
This trend is especially popular among department stores, as Bill Moston, Senior VP of National Retail Development with JLL, explained. Big box tenants like Dillards, Macy’s, and Neiman Marcus are rolling out smaller sized stores in an effort to increase their sales per square foot ratio (B. Moston, personal communication, July 2015). So instead of opening their traditional 80,000 – 120,000 square foot flagship stores, department retailers are shifting to 40,000 – 60,000 square foot concepts. This is important for several reasons. First, it will slightly alter how people shop. Downsizing is proving to be more convenient for shoppers, as they no longer have walk around massive 120,000 square foot stores. Second, retailers will benefit economically because decreasing stores size – while maintaining constant sales – will increase sales per square foot. Furthermore, efforts to increase sales per square foot are essentially the impetus of the downsizing trend (B. Moston, personal communication, July 2015).

EFFECTS OF TRENDS ON SHOPPING CENTER DEVELOPMENT

Omni-channel retailing, the increasing importance of restaurants and entertainment, and downsizing are transforming the model shopping center design. Landlords must identify consumer motivation, create a quality tenant-mix, and enhance physical uniqueness of the shopping centers to attract and retain customers (Haiyan & Jasper 2015; Mohd Ali, 2013). Empirical evidence indicates that aesthetically pleasing properties result in more pleasurable shopping experiences for customers, increasing the chance of returning to the shopping center (De Nisco & Warnaby, 2014). Researcher also note that creating and sustaining a favorable brand is essential to shopping center performance, as consumers consider the reputation of properties when choosing where to shop (Ali, 2013; Hakan Altintas et al., 2011). Additionally, developments are becoming
less uniform as landlords offer more services – food/beverage, entertainment, fitness, medical, etc. (Ammani, 2013; Haque 2013). Formerly, each shopping center design – strip center, power center, enclosed mall, and lifestyle center – consisted of a relatively uniform tenant mix, but landlords are becoming more customer-centric (C. McDonald, 2015). Studies show that diversification and innovation attracts customers and positively correlates with center performance (De Nisco & Warnaby, 2014). According to Steve Yenser – Executive VP of Retail Development Leasing with JLL –, retail is continuing to expand and development properties are diversifying (S. Yenser, personal communication, July 2015). For example, landlords are developing mixed-use properties with retail on the first floor and apartments or townhomes on the upper levels (Urban Land Institute, 2013).

An excellent example of this is West 7th in Fort Worth, which has retail on the first floor and apartments on the upper levels. Additionally, many of these mixed-use properties are being built near major universities, such as the Grandmare at Texas Christian University and Plaza on University at the University of Central Florida. These properties have similar retail mixes, almost always consisting of several restaurants on the floor level. Additions to the retail mix vary from bars, a convenience stores, boutiques, and spas to banks. A major reason for their popularity is the fact that hundreds of students live directly above the retail, which serve as a consistent traffic driver. As ICSC (2015a) suggests, shopping centers are broadening the services offered in order to appeal to a wider customer base. Researchers have examined the synergistic effects of retail agglomeration, that allows online retailers and shopping centers to mutually benefit from each other’s traffic (Teller & Schnedlitz, 2012).
FUTURE IMPLICATIONS

All of the trends discussed thus far—experiential shopping, the growing importance of restaurants and entertainment to the retail mix, downsizing, and omni-channel retailing—lead to the central claim of this paper: retail shopping centers are transforming to adapt to the changing environment, not disappearing. In light of this transformation, new opportunities and threats exist. This discussion does not attempt to predict the profitability or performance of landlords or retailers. Rather, it simply discusses opportunities and threats which retailers and landlords face, as well as the overall direction in which commercial real estate is heading. The increased demand for a shopping experience, unique restaurants, and downsizing demonstrates commercial real estate development is clearly evolving, and there is some support for the assertion that this transition will foster a healthy real estate industry for future years.

According to the Urban Land Institute (2013), the gap between online and physical retailing is diminishing as retailers are embracing omni-channel retailing. Additionally, downsizing will continue because e-commerce decreases margins and changes consumer behavior, which should lead to a mix between online and in-store shopping (Urban Land Institute, 2013).

Commercial retail properties will continue to be valuable to the economy for three main reasons:

1. “They serve a social and economic need;
2. They are experimenting with new formats, designs, and technologies;
3. They are complimentary to non-store shopping (ICSC, 2014, p. 18).”
While e-commerce is certainly a threat to physical stores, it is also evident that online shopping has also led to an increase in in-store sales (ICSC, 2014).

CONCLUSION

Commercial real estate is a constantly evolving industry, forcing retailers, real estate investment trusts (REITs), and landlords to adapt. Companies must recognize trends, and align strategies appropriately. Shopping center development is evolving. Landlords are innovating the shopping experience, which cannot be replaced by e-commerce. Retailers and landlords are relying more heavily on restaurants, entertainment, and omni-channel retailing to attract customers to properties. Retailers are downsizing to maximize their sales per square foot measure of performance. Finally, retailers are expanding their platforms, not shrinking them, by setting larger targets for store openings each year and rolling out new concepts (ICSC, 2014). Retail properties are becoming more customer-centric to adapt to the changing external environment, driven primarily by consumer behavior and e-commerce (C. McDonald, 2015).

Examining these trends is important because the performance of commercial real estate directly affects the well-being of the entire economy, and any major changes directly impact communities (Muzumbar, 2014). The ongoing shifts in the industry are not eliminating shopping malls; they are transforming the industry. Retailers are embracing e-commerce by incorporating omni-channel retailing into their strategy. Landlords are upgrading amenities, incorporating modern design, and enhancing the tenant-mix in order to innovate shopping experience.
REFERENCES


