US remains a **brand of opportunity**

Dallas development Grandscape is creating '100 reasons to visit'.

The North American retail real estate transformation continues, as once-venerated brands such as Toys 'R' Us disappear from the landscape, making room for retailers and experiences that are more relevant to today's consumers. **Debra Hazel** reports

NOW PAST the initial shocks of the revolution, North America's retailers and their high-street and shopping-centre landlords are adjusting to the new market reality, adding new experiences — especially food and beverage (F&B) — going local, and using technology to maximise efficiency. Their goal: to go where the shoppers are and give them what they want, even if it means taking some financial risks on entrepreneurial tenants.

"People are bored," says Melina Cordero, head of retail research, the Americas, at CBRE. "It's now a matter of 'credit versus cool'."

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North America's physical and digital retailers are following what's happening out in the world — with some surprising results, says Bryce Turner, chairman of DDG BCT Architects in Baltimore. Many believed the tech revolution would give people more leisure time. Instead, the ability to work from anywhere means that more and more people work nearly all of the time. To draw their attention, experience increasingly is key: dining out, fitness, high tech, experiencing internet brands in person and customising merchandise for those who "want it their way".

"The great spaces have been focused on retail, and food and beverage," Turner adds. "Think of the laptop/coffee-shop phenomenon. People want to see and be seen."

Shopping-centre owners are also rethinking their strategies, becoming more diverse and experiential to draw an audience. This includes a growing focus on F&B, with some properties looking to devote as much as 30% of their space to dining — up dramatically from the 10%-15% that had been the industry norm.

"Food and beverage is the new anchor," CBRE's Cordero adds. Food and entertainment will be a major component of Grandscape, a mixed-use complex in The Colony, north of Dallas, Texas, according to Jeff Lind, Grandscape president. The first phase, the Nebraska Furniture Mart, opened in May 2015, with an additional 700,000 sq ft (65,032 sq m) of retail, entertainment, restaurants and office space to open in two phases in mid-2019 and March 2020.

"Our vision has always included a strong F&B component with many first-in-market choices for visitors," Lind says. "Because of this, we are bringing in top restaurant operators, Michelin-star concepts, and famed author/chefs and restauranteurs to showcase the importance of not only F&B, but the overall experience within Grandscape. In addition, we have placed emphasis on leisure concepts as another large part of what makes Grandscape different. Our goal is to create over 100 reasons for visitors to come to Grandscape, experience something new and leave knowing it was time well spent."

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Eugene, Oregon is one of the breakout retail locations.

Innovation is taking place as landlords look for smaller retailers and restaurants, especially if they are unique. Landlords continue to target local entrepreneurs, as well as e-commerce players looking for physical stores.

"We are actively seeking first-to-market players," Lind says. "Whether those are clicks-to-bricks, first in Texas or first in the United States, we are focused on bringing new to Grandscape. We are focused on mixing in the best of retail from around the world and giving them the opportunity to showcase their brand in what we believe will be one of the finest centres in the US."

Also positioning for change, in Canada Ivanhoe Cambridge will open the first Cirque du Soleil family entertainment centre, Creactive, at Vaughan Mills in 2019. The 24,000 sq ft space will include acrobatic, artistic and other Cirque du Soleil-inspired activities, including bungee jumping, wires, trampolines and juggling.

"This partnership speaks to the transformation of our shopping centres into holistic experience destinations for the benefit of our customers," said Claude Sirois, president of retail at Ivanhoe Cambridge, in the July announcement. The result will create projects that evolve in an organic way, especially in older, industrial cities that are engaging in adaptive reuse.

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Ivanhoe Cambridge:

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"We lost touch with the idea of the agora as we started doing centrally planned developments," DDG BCT's Turner says. He adds that this new movement is happening outside the gateway cities, where rents are not so high: "There is a lot of innovation in Austin, Baltimore, Nashville and Eugene, Oregon."

Perhaps the greatest adjustment landlords are making is reaching out to local tenants — a huge shift from relying on creditworthy national names. "It's risky," CBRE's Cordero acknowledges. "But companies that have the ability to take that risk capital wise can mitigate that risk." She adds that some landlords are taking equity stakes in retailers.

With store closures in the thousands last year and continuing into this year, landlords now have the opportunity to experiment, and retailers, restaurants and other users can enter markets they might not have considered before.

"There is no decline in interest in gateway cities, even if they are expensive," says Gary Sankary, retail industry manager of Esri, based in Redlands, California. "If you get it right, New York is a great proposition."

Indeed, the sky-high rents in the major thoroughfares of gateway cities such as New York are moderating from their stratospheric highs. "In certain pockets, rents grew faster than retailers could handle, and there is a slight correction," says Lee Block, executive vice-president and partner of Winick Realty Group, a New York-based retail brokerage.

Meanwhile, both retailers and real estate owners are open to experimentation. Larger tenants are opening short-term boutiques in interesting spaces — and landlords are accommodating them. "We've seen many national and international companies take on opportunities, both for short-term and long-term leases," Block adds. "In certain markets with more availabilities and that have softened, we are seeing landlords offering reduced rents for shorter terms to activate spaces and invigorate neighbourhoods."

Cirque du Soleil's Creactive will open at Vaughan Mills in 2019.

This particularly appeals to those retailers turning from clicks to bricks, which can now take advantage of softening in markets such as SoHo. Block points out that Galvan London recently debuted at 355 West Broadway after the landlord gut-renovated the boutique building to attract a credible, fashionable retailer. "Galvan understood the work the landlord did, and we hope to continue our relationship with them into the future," he adds. But despite the expense, gateway cities remain appealing. "People still focus on gateway cities, including Los Angeles, San Francisco and New York," CBRE's Cordero says. "But also, they're looking at Boston, Washington, DC, Austin, Texas and Seattle." The same is true in Canada. CBRE's 2018 Canadian Real Estate Market Outlook notes that prime locations in major markets have been repurposed and re-leased for higher rental rates, while tertiary malls remain challenged. "Retail, which is viewed as the commercial property type most at risk from technological innovation, is a sought-after property type by investors. Retail investment volumes grew again in 2017 and the push to reinvent malls and intensify transit-oriented retail properties is expected to ramp up in 2018," the report says. Technology is still having an effect. Many retailers are choosing to open fewer, more experiential prototypes in these cities. Fewer luxury retailers are seeing the need for expensive flagships that served as advertising vehicles as much as stores. "With the internet, you can reach as many people with a tweet," Cordero points out. "Does it make sense to have one loss leader? It's now more quality over quantity for

F&B AND LEISURE DEFINE NEW AMERICAN MALL

THE EXPERIENTIAL evolution of North American shopping centres dovetails with the timing of the most extravagant new blend of retail, dining and entertainment, American Dream Meadowlands in East Rutherford, New Jersey, which is now scheduled for a spring 2019 opening, with some entertainment elements to debut in autumn 2019. The development, originally known as Meadowlands Xanadu, struggled for years to be completed. Edmonton, Alberta, Canada-based Triple Five Group, the owner of Mall of America and West Edmonton Mall, took over the mostly completed centre in 2010, re-leasing and adding entertainment components including a Nickelodeon Universe theme park, DreamWorks Water Park, Sealife Aquarium, Legoland Discovery Centre, skating rink, Kidzania, CMX Luxury cinema, as well as the existing indoor ski slope.

These join traditional and luxury retail including H&M, Zara, Hermes, Primark and a significant dining collection. The lease plan of 55% food and entertainment/45% retail remains intact, reports Lincoln Palsgrove, vice-president of communications for American Dream.

"Globally, food is very much a trend," Palsgrove says. "People want to know how a dish has been made, where the ingredients have been sourced."

In August, American Dream announced that it would open the world's first Munchies Food Hall, a partnership with the food and culture site from Vice. The 38,000-sq ft hall will house 18 vendors that will take leases of varying lengths. The site also will include space to film various vendors, product demonstrations and more. The project also will include a Kosher food hall.

"Munchies will be home to some of the most unique experiences in the country," Palsgrove says. "What it also will do is provide small businesses with the opportunity to come into the project — it's plug and play. This model will break a lot of moulds."

He adds that a sister project, American Dream Miami, is progressing through the approval process in Florida. "It's the answer to the way consumers behave today."

The trend towards a greater percentage of dining and entertainment has even extended to the outlet sector, says Lisa Quier Wagner, a principal at The Outlet Resource Group, Chicago.

"This is being driven by a desire to offer customers a broader mix of activities at the centre to complement the shopping. As time is the most valuable commodity that any of us have, centre owners are seeking to give customers the most complete experience they can in exchange for their having dedicated time to visit the centre," Wagner says. "Thus, if we can offer quality dining options, which is in line with what the demographics of our customer base desires, that extends dwell time and 'rewards' the visitor."

She adds: "Entertainment can be a draw unto its own or an added attraction, and we certainly see cases of a group or family dividing up and some partaking of the entertainment offer while others shop. Outlets are the only form of retail that consumers consistently tell us remains fun — so it still is entertainment of a sort, but not every consumer loves to shop, so the excitement of outlet shopping may be lost on the unenlightened!"

American Dream aims to "break a lot of moulds" with its F&B.

retailers as they rethink their store strategies."

Meanwhile, Esri's Sankary reports that value retailers, including dollar stores and Aldi, continue to expand rapidly and are looking outside the traditional towns and cities. And these stores are relying on technology to help them determine their sites.

"That's what's been so interesting to watch," Sankary adds. "For example, an auto-parts reseller likes to be in the same centre as Kohl's and Chick-fil-A. There's a halo effect. They're becoming very sophisticated."

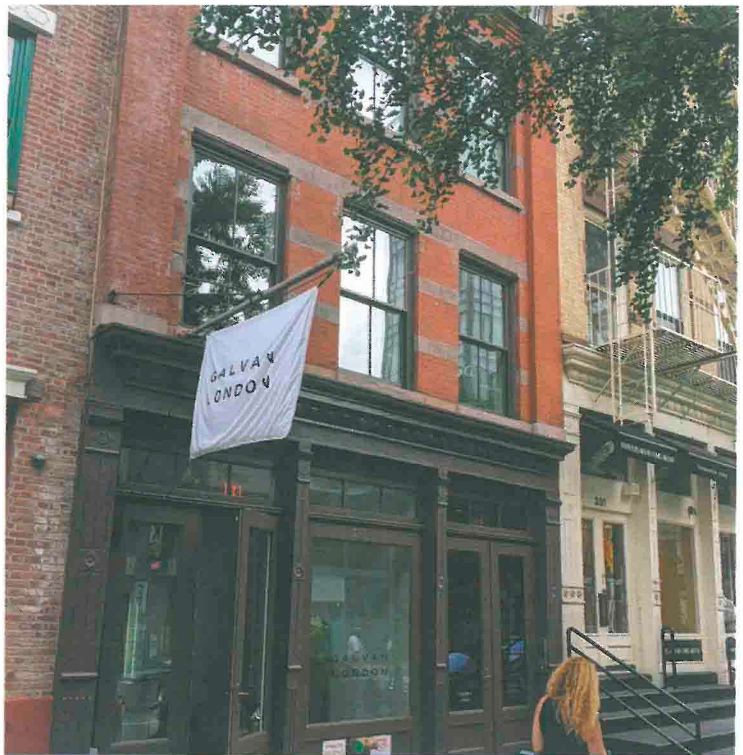
Even stores are diversifying, adding new experiences to entice visitors. As with shopping centres, many stores now offer some sort of cafe. "There are a lot of interesting things going on," DDG BCT's Turner says. "Small local ventures [want to] offer a new experience — and putting food in your store creates that experience."

Meanwhile, the e-commerce brands must eventually decide whether they are consumer goods or logistics companies. "All companies are different, but they are all leveraging digital data to help inform their brick-and-mortar strategy," CBRE's Cordero says. "We have more data than ever before about where the customers are. I advocate a strategy based on what customers do and who they are."

Coach makes it personal.

Increasingly, those customers want personalised merchandise — and retailers are rising to the challenge. Coach, for example, has developed Coach Create, which allows shoppers to customise their bags. "Particularly exciting is the way this personalisation resonates with millennial customers," says Coach president and CEO Joshua Schulman. He adds that, in many stores globally, this customisation is performed on site by a Coach craftsman while the customer shops — "a point of differentiation from other brands that offer personalisation". Coach is also continuing to expand its monogramming service, which is now available at more than 50% of its global direct-retail fleets, immersive craftsmanship bars and monogramming stations.

Data research is leading Aldi's expansion strategy.



Landlord renovation at 355 West Broadway enticed Galvan London.

Such innovations represent a shift to ensure the company remains connected with its consumers. Victor Luis, CEO of Coach parent company Tapestry, says the company is now a true "house of brands" after last year's acquisition of Kate Spade: "We announced several important business-development initiatives during the year, which allow each of our brands to assume greater direct control over their international distribution and, in keeping with our strategic priority, maximise the opportunity with Chinese consumers globally across our portfolio."

Tapestry has entered into purchase agreements to acquire Kate Spade's operations in Singapore, Malaysia and Australia, as well as the Stuart Weitzman business in Southern China.

Luis adds: "Fiscal 2019 will be a pivotal year at Kate Spade. We will focus on global expansion, notably in China, where the brand is nascent and we see boundless opportunity."

Esri's Sankary concludes: "Even the most aggressive forecasters believe that in-store sales will be at least 80% of total sales. But customers who can access goods on all channels are three to four times more likely to buy. I like the term 'unified commerce' over omni-channel. The space race here is to get to the customer. The retailer is realising that the customer is more valuable if you engage in multiple channels. Studies have shown that customers who engage across multiple channels are three times more valuable than single-channel customers."

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