Downtown Retail 101

Wake Forest, NC

Presentation
March 30, 2016

Mike Berne
MJB Consulting

MJB Consulting

A Retail Real Estate Consulting Firm

- Retail planning and real estate consultancy
  - Market analysis, tenanting strategy, recruitment efforts
- Based in New York City and San Francisco Bay Area
- Active across the U.S., Canada and the U.K.
  - Retail strategy and implementation in Downtown Raleigh
- Strength in Downtown / “Main Street” retailing

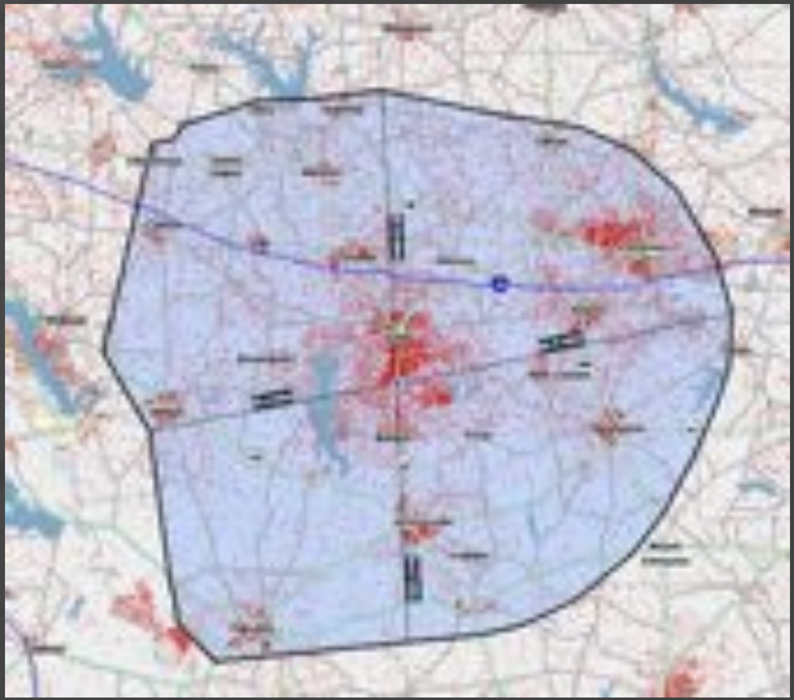
Qualifications

- Basic education for retail-leasing novices
- *Not* findings and recommendations
  - Just starting on our research and analysis…

Presentation

- Basic terminology
- Market analysis
  - Consumer demand
  - Retailer perspective
- Questions throughout
- PowerPoint available on website
  - Why some slides are text-heavy…

Basic Concepts
Terminology



- Trade area
  - Defined as the geographic area from which the Downtown draws most of its retail sales
    - Downtown's most frequent and reliable customers

Basic Concepts
Terminology

- Convenience goods and services
  - Price, style and quality roughly the same everywhere
  - **Examples:** traditional supermarkets, drug stores, dry cleaners
  - Consumers will choose store solely on the basis of convenience
  - Draws from the immediate neighborhood
    - Trade area defined by nearest competitors

Basic Concepts
Terminology

- Comparison goods
  - Price, style and/or quality vary from one store to the next…
  - … consumers will “comparison-shop” and choose store on the basis of these factors
    - Favors districts with a large selection of such stores
  - **Examples**: apparel, footwear, jewelry, furniture, sit-down dining
  - Draws from a wider trade area
    - Consumers will drive further for that selection

Basic Concepts
Terminology

- New paradigm
  - Commodity
    - Products that are uniform and interchangeable across retailers in the same category
      - Consumer behavior dictated by convenience
  - Specialty
    - Products that vary widely across retailers in the same category
      - Convenience is a secondary consideration

Basic Concepts

Terminology

- Comparison goods
  - "Commodity": brands that can be found in virtually every retail sub-market of a particular metropolitan area
    - One location within the chain is no different from another…
    - … so consumer will typically shop the location that is **most convenient** to them
    - Trade area = defined as that area within which the subject site would be the most convenient option

Basic Concepts
Terminology

- Comparison goods
  - "Specialty": concepts (or a concentration of such) that cannot be found elsewhere in a particular metropolitan area
    - … are therefore able to draw from beyond the competing commodity-filled shopping centers
      - Can be defined culturally or psycho-graphically

Basic Concepts
Terminology

- Convenience goods and services as specialty
  - Grocery store as destination
  - Emergence of “niche” markets

Basic Concepts
Market Analysis

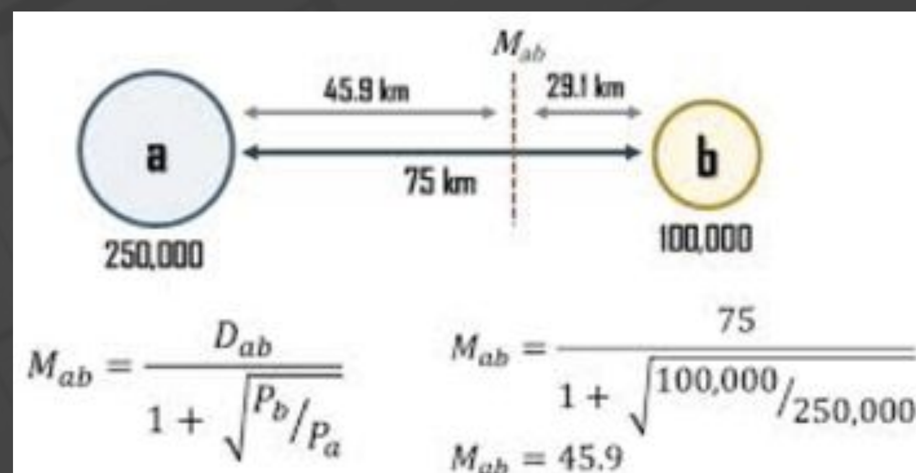
- Two markets to consider…
  - Consumers demanding goods and services (from retailers)
  - Tenants seeking retail space (from property owners)

Basic Concepts
Consumer Demand

- Convenience/comparison/specialty
- The lure of existing clusters
  - In order to "comparison-shop"
  - For convenience of one-stop shopping

Basic Concepts
Consumer Demand

- Reilly's Law of Retail Gravitation
  - Larger shopping destination enjoys correspondingly more "gravitational pull"



Basic Concepts

Consumer Demand

- The power of density

2013 Data / Estimates Source: Claritas	Downtown Newark	Downtown Summit	Short Hills Mall
Population	**355,262**	82,748	72,432
Population Density	**12,751/square mile**	2,928/square mile	2,563/square mile
Average Household Income	$48,924	$177,859	**$191,831**
Households Earning $75K+	**24,883**	20,239	17,933
Creative Class Workers	**28,843**	21,866	19,277
Number of Homeowners	**30,464**	22,674	19,510
Total Spending Power	**$4.2 billion**	$1.7 billion	$1.5 billion
Current Sales Leakage	**$586 million**	-$134 million	$10 million

Basic Concepts
Consumer Demand

- "Niche" submarkets
  - Ethnic / cultural
  - Psychographic
    - Lifestyles, sensibilities and aspirations

Basic Concepts
Consumer Demand

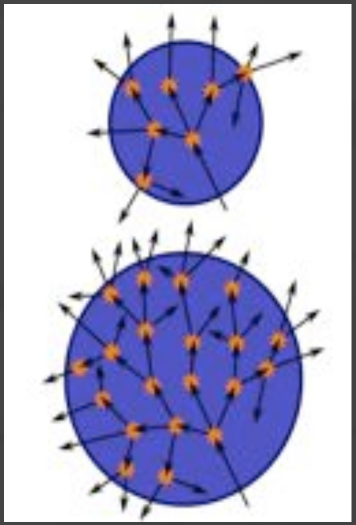
- Retail as a form of self-identification
  - For communities as well…

Basic Concepts
Market Analysis

- Two markets to consider…
  - Tenants seeking retail space from property owners
    - Comparing to possible alternatives

Basic Concepts
Retailer Perspective

- Concept of "**critical mass**"
  - Point at which a given market undergoes a fundamental change with regard to its scale and potential



Basic Concepts
Retailer Perspective

- Lure of **co-tenancy**
  - Creates critical mass that draws the consumer
  - Generates visibility and cross-traffic
    - “Safety in numbers” strategy
    - “Retailers are like lemmings…”

Basic Concepts
Retailer Perspective

- The importance of **anchors**
  - Spend on advertising (visibility)
  - Drive traffic to smaller "in-line" stores
    - … who pay higher rents to be near them
  - Dictate the size of the trade area
    - … on which other businesses can rely

Basic Concepts
Retailer Perspective

- The importance of **anchors**
  – Larger retailers, ideally
  – Can also be non-retail, however
    • The power of food and the arts

Basic Concepts
Retailer Perspective

- Visibility and access
  - Both “front-of-mind” and easy to reach
    - Within the (auto and pedestrian) traffic flow
      - Auto: “Average Daily Traffic” (ADT) counts
      - Pedestrian: between relevant anchors (as in a mall)

Basic Concepts

Retailer Perspective

- Visibility and access
  - Both "front-of-mind" and easy to reach
    - On the corner / "end-cap"
      - Notion of the "100% corner

Basic Concepts
Retailer Perspective

- Business model
  - High-margin goods and services
    - Priced considerably higher than the cost to buy or produce them
    - Can theoretically survive on lower volumes
  - Low-margin
    - Priced much closer to the cost
    - Requires higher sales volumes

Basic Concepts

Retailer Perspective

- Business model
  - Higher rents affordable to…
    - High-margin concepts
    - (High-volume/fast-turning) low-margin businesses
  - Lower rents required for...
    - Pretty much everyone else…

Basic Concepts
Retailer Perspective

- Available and suitable spaces
  - Floor-plate capable of accommodating store
    - Workable configuration and sufficient depth

Basic Concepts
Retailer Perspective

- Ratio of occupancy costs to sales projections
  - 10% rule-of-thumb
    - 1,000 sq ft space at rent of $20/sq.ft. = rent of $20,000/year
    - Requires estimated gross sales of $200,000/year
  - Tenant likely to fail if ratio higher than 15%
    - Can be higher than 10% with higher-margin goods (e.g. jewelry)
    - Should be just 5-7% for restaurants
  - Rent per sq ft typically lower for larger spaces

Basic Concepts

Retailer Perspective

- Deal-making with the property owner
  - Occupancy costs
    - As a percentage of projected gross sales
  - Incentives and concessions
    - T.I. allowances
    - Free rent for __ months
    - Percentage-rent only
  - Intangibles
    - Personality and sensibility
    - Track record

EMPIRE PROPERTIES

Basic Concepts
Retailer Perspective

- The "X" Factor: Perceptions
  - Retailers are humans, too…
    - "Curb appeal", "hip by association", "black eye(s)", etc.

Next Steps

- "Total immersion"
- Competitive analysis
- Stakeholder meetings
- Pedestrian intercept surveys
- Profile of "core customer"
- Reference to case studies
- Chapter in Master Plan Update
  - Nuanced positioning and tenanting strategy
  - Retail potential and prioritization of specific sites
  - Recommendations on relevant municipal policies
- Participation in charrette

Contact Info

With any comments or questions…

Michael J. Berne

President, MJB Consulting

85 Fourth Avenue / Suite 6A / New York, NY 10003

2730 Forest Avenue / Suite W / Berkeley, CA 94705

Phone | 510 356 4956 or 917 816 8367

E-Mail | mikeberne@consultmjb.com

MJB CONSULTING

A Retail Real Estate Consulting Firm