

THE CHANGING WORLD OF RETAIL

The bulk of the June RCM meeting was devoted to a three-pronged discussion of the retail market with both local and national data. The panelists came from diverse segments of the commercial real estate industry, and their presentations reflected perspectives unique to their roles. Topics included an assessment of the health of retail in the MSP region and its prognosis for the future, current trends in retailing both nationally and locally, what characteristics and demographics contribute to retail success, and a look at how retailing might continue to evolve over the long term.

PANELISTS

- John Johannson, Senior Vice President, Welsh Companies/ Colliers International
- James Tucker, Senior Director of Real Estate, Target
- Brandon Champeau, Vice President of Commercial Development, United Properties

JOHN JOHANNSON, SENIOR VP, WELSH COMPANIES/ COLLIERS INTERNATIONAL

[Link to Presentation](#)

POSITIVES IN OUR MARKET

- The data suggest a healthy market in the MSP region with 94.2% occupancy.
- Vacancy may rise modestly but not expected to eclipse 7% or so.
- Our market is seeing careful development and controlled expansion, mostly to keep pace with population growth.
- New grocers have increased competition in the market, and grocery continues to drive retail.
- The region has a strong demographic base and national retailers view our market as a strong and successful one.

CHALLENGES IN OUR MARKET

- High costs for new construction in terms of labor, materials, and regulatory compliance.
- Flat rents for 20 years mean new development is dependent on low interest rates and will dry up if rates rise.
- Consolidation in the big box sector paired with a lack of new concepts for those spaces.
- Limited small shop retail as these spaces turn into service and quick-serve dining.

E-COMMERCE IS LESS SCARY FOR BRICK AND MORTAR TODAY

- Online shopping is putting pressure on retailers but remains just 8.3% of the market.
- Products like books, music, and office supplies will never recover.
- Smart retailers are embracing technology and creating dual-focus experiences (online and in-store)
- Previous online-only retailers like Amazon and Sierra Trading Post are expanding into brick and mortar.

DOLLARS VOTE AND THOSE VOTES SHAPE THE MARKET

- Bankruptcy announcements make the retail market sound more volatile than it really is.
- Outdated retailers with poor concepts are the ones failing, and new concepts take their place.
- Some failure is a sign of health. Vacancies in strong trade markets will fill up. (e.g. Sears at Eden Prairie Center)

GROCERY DRIVES EVERYTHING

- Formats change, but demand is stable. Most grocery is still purchased in store and driven by repeat customers.
- Only 40% of food is purchased in groceries, so modern grocers are adapting and adding more prepared food.
- There are questions for concepts like Fresh Thyme that are not “one-stop shops.” Will consumers make more than one trip long-term?

WHAT LIES AHEAD

- Retail growth will be modest, if any. Most new construction will be built to keep pace with population growth.
- Cities should focus on retaining and attracting grocers. There is no retail market without a healthy grocery sector.
- New development will continue to be determined by interest rates apart from self-financed tenants (e.g. Target).

BANKRUPTCY ANNOUNCEMENTS AND PUBLIC PERCEPTION

1. A struggling retailer operates through the holiday season.
2. Planning for bankruptcy, they forego paying January and February rents.
3. Not paying rent triggers lease clauses allowing landlords to recover space.
4. Retailers then announce bankruptcy having saved two months of rent cost.
5. Several bankruptcies arrive at once and shape public perception.

JAMES TUCKER, SENIOR DIRECTOR OF REAL ESTATE, TARGET

[Link to Presentation](#)

A FLIGHT TO QUALITY

- In general, the top ten or so markets are doing well, followed by a rapid drop-off.
- Fortunately, MSP is among the stronger markets.
- Nationally, we have a lot of retail. Approximately 25-50 sqft per person compared to 2 sqft in Europe.
- Retail everywhere is fleeing to quality—moving to digital, moving to better markets, moving to better retailers.

THE IMPORTANCE OF DEMOGRAPHICS AND DENSITY

- Good demographics—particularly high incomes and the presence of families—along with adequate density in a trade area are important for retail success.
- As big box vacancies grow, places with good demographics and adequate density recover (i.e. the Eden Prairie Center example above). In weak markets, losing anchors can trigger other retailers to not have to pay rent.
- Target is snapping up emptied boxes in top tier markets like Palo Alto, San Francisco, and Scottsdale.
- New small concepts are increasingly important for retailers like Target where they can get into dense areas with good demographics, especially major cities, college towns, and high-end markets like Beverly Hills.

REINVESTING IN STORES AND TECHNOLOGY

- Competing in grocery is challenging as the cost of groceries declines, but it is important to the overall business.
- In addition to developing new formats for dense areas, Target is focused on upgrading the store experience.
- This includes better digital technology both in store and online as well as more traditional remodeling.

BRANDON CHAMPEAU, VP OF COMMERCIAL DEVELOPMENT, UNITED PROPERTIES

[Link to Presentation](#)

E-COMMERCE IS STILL IN ITS INFANCY

- E-commerce is growing 20% annually even though it is only 8.5% of total retail, leaving a lot of room for growth.
- The growth of e-commerce is driving demand for “logistics real estate.” Distribution centers (product to store) are becoming fulfillment centers (direct to customer).
- These facilities are seen more and more as revenue drivers to commercial/industrial developers.

E-COMMERCE AND CITIES

- Companies are competing on last-mile delivery. Amazon does same-day and wants to get to same-hour delivery. This makes proximity to consumers increasingly critical.
- Cities will be challenged by retail, office, industrial and housing all wanting to be in the same places.
- There will also be growth in trucks, bikes and (possibly) drones making deliveries.
- Retailers are opting for smaller store footprints but still need to be able to get inventory to customers easily.
- This drives demand for larger, taller and possibly multi-story warehouses and “urban industrial” space.
- Urban industrial seeks to be close to customers, employees, amenities, transit and housing. Developers may seek ways to combine these in new mixed-use formats (e.g. offices or housing above a warehouse).

REALTIME TALENT

Following the retail discussion, Sandee Joppa, Executive Director of RealTime Talent shared a brief presentation introducing the mayors to her organization and outlining how they can work together.

SANDEE JOPPA, EXECUTIVE DIRECTOR

[Link to Presentation](#) and [Visit RealTime Talent](#)

- RealTime Talent is a public-private “innovation hub” that includes partners like Itasca, MSPWin, and Greater MSP
- RTT aims to positively impact the supply and demand of talent in the state. It is trying to fill some gaps by improving the effectiveness and efficiency of the workforce and education ecosystem in Minnesota.
- RTT aggregates job data from numerous sources like job posting boards like Monster and Indeed as well as all major corporate job board tools. They can share the number of jobs available, salaries, industries, and more.
- By providing access to data and responding dynamically to changes in the labor market, RealTime Talent helps employers, workers, and institutions make better market-based decisions.
- The RealTime Talent Exchange is a new tool that aims to improve how job seekers and employers connect. Most job descriptions are outdated, but talent tries to adapt resumes to meet what’s listed. The Exchange is designed to improve this process, and it is free for job seekers. Employers pay \$19 per internship and \$39 per job.
- Cities can work with RTT to make sure job listings are visible and to improve talent attraction in their communities.

EXECUTIVE DIRECTOR'S UPDATE

ULI Minnesota operates four “product councils,” which are confidential, invitation-only forums for candid exchange among public and private sector leaders from diverse communities of practice. At the most recent meeting of the Market Council, projects from Woodbury and Wayzata were featured, and Mayors Mary Giuliani Stephens of Woodbury and Ken Willcox of Wayzata contributed to the presentations and discussion. Each mayor was asked to reflect on their key learnings from that day.

MAYOR KEN WILLCOX, CITY OF WAYZATA

The featured Wayzata project was the Presbyterian Homes development near downtown Wayzata. Before it was completed, the project followed the adage, “be the third developer.” There were project proposals that met the zoning requirements, but ultimately developers could not make the numbers pencil out. This situation can be mitigated if cities are flexible about requirements and work collaboratively with developers upfront. By the time Presbyterian Homes came forward, the City knew its rules could not work for a project to succeed. Wayzata agreed to allow the greater density and retail needed to make the project work while still getting what it wanted, including award-winning ecological design.

MAYOR MARY GIULIANI STEPHENS, CITY OF WOODBURY

The mixed-use CityPlace project on the State Farm site was Woodbury’s contribution to the Market Council. Like Wayzata, Woodbury saw developers struggle to make a project work, though they never had a formal proposal other than the final product where Florida-based Elion Partners teamed up with Kraus Anderson. It is important that cities be open-minded about what developers bring to the table and build flexibility into requirements. It saved both sides time and money having meetings that did not lead to applications rather than getting further into the process before saying no.

COMING UP

The next meeting of the Regional Council of Mayors will be Monday, July 10th from 11:30 a.m. to 1:30 p.m. in the Seattle Room at Dorsey & Whitney, 50 South 6th Street, Minneapolis, MN.

JUNE 12TH ATTENDEES

MAYORS

Mary Giuliani Stephens	City of Woodbury (Co-Chair)
Elizabeth Kautz	City of Burnsville (RCM Founder)
Jim Adams	City of Crystal
Ardell Brede	City of Rochester
Kirt Briggs	City of Prior Lake
Bob Crawford	City of Elko New Market
Molly Cummings	City of Hopkins
Pat Elliott	City of Richfield
Jerry Faust	City of St. Anthony
Kathi Hemken	City of New Hope
Marvin Johnson	City of Independence
Dan Lund	City of Newport
Julie Maas-Kusske	City of Maple Plain
Tim McNeil	City of Dayton
Lisa Whalen	City of Minnetrista
Ken Willcox	City of Wayzata
Janet Williams	City of Savage
Gene Winstead	City of Bloomington

GUESTS

John Johannson, Welsh / Colliers; Brandon Champeau, United Properties; James Tucker, Target; Ellen Sahli, Family Housing Fund; Emily Goellner, City of Golden Valley; James Lenhoff, Ehlers; Judy Jandro, Bell Bank; Sandra Krebsbach, ATEA; Jean Kane, Colliers; Rick Carter, LHB; Kristi Luger, City of Excelsior; Scott Steinkamp, RSP; Diane Norman, RSP;

Mark Casey, City of St. Anthony; Mike Ericson, City of Centerville; Patricia Nauman, Metro Cities; Karen Barton, City of Richfield; Bake Baker, McGough; Ron Orlando, Comcast; Erin Olson, RealTime Talent; Sandee Joppa, RealTime Talent

ULI MINNESOTA

Aubrey Austin, Cathy Bennett, Caren Dewar, David Baur