The Three Retail Trends That Are Most Influencing Real Estate Strategy

By **Tom Buxton**

Without question, there are a number of trends that are shaping the retail industry. However, not every trend influences retail real estate. Of all the trends, these three are having the most profound impact on today's real estate strategies—from the size and layout of stores to the very definition of what the word "store" means.

Omnichannel Retail

"Omnichannel" retail has been a buzzword for so long that it has almost lost its meaning. While some industry insiders suggest that it is time to move on from this term, 2017 is the year when brands are finally realizing that omnichannel retail is not the enemy. Instead, we are seeing tremendous growth in the number of retailers implementing practical, effective strategies for merging bricks and clicks.

One of the most visible ways that retailers are catering to customers' changing shopping behavior is through

"click and collect" programs. The growth of these programs will continue to accelerate throughout 2017, with major initiatives in the grocery industry perhaps as the most visible.

The key takeaway for real estate professionals is clear. Selecting a store location is no longer just about defining a place for people to shop. It's also about nurturing and fulfilling online orders. The shift in strategy will fuel demand for more research about the interaction of online sales and a store's physical trade area.

Clicks to Bricks

In the early days of e-commerce, everyone felt that pure-play online retailers had a tremendous advantage. While traditional retailers scrambled to implement cross-channel strategies, an interesting thing happened: pure play retailers realized the business model wasn't sustainable and began opening stores.

Online retailers are fueling competition for small box real estate, as they focus on showroom-style stores that give consumers a hands-on experience while controlling rent, payroll, and inventory costs. It's a business model that we expect will grow dramatically and may even be mimicked by traditional brick and mortar retailers.

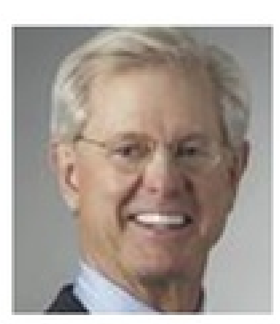
Experiential Retail

"Experiential retail" is another buzzword that has been around for a long time, but continues to evolve as brands redefine what it means to visit a store. From community gathering places, to in-store classes, to interactive technology, stores increasingly offer customers more than just a channel for transactions.

As the definition of a store continues to change, so do the real estate requirements. Architecture will place more emphasis on creating a unique, inviting space. Changing store layouts creates more demand for stock room space in some cases, as floor inventory is reduced to make way for hands-on product demonstrations and customer gathering places. Smart real estate professionals will take advantage of the opportunity to experiment and debut creative new formats that will shape the industry for years to come.

The Bottom Line

As retailers navigate trends that will shape the industry for years to come, real estate professionals can and should play an important role in preparing their companies to be leaders in the new retail environment. ■



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The Strength of the South's Multifamily Market

By **John Hope**

Visit any city in the South, from Atlanta to Houston, and you'll see construction cranes silhouetted against the central city skyline. After slowing in the immediate aftermath of the Great Recession, multifamily developers across the South are now playing catch-up. Dallas, Houston, Atlanta and Nashville, Tenn., all have 20,000 units each in the development pipeline, according to a *2017 Multifamily Market Commentary* from Fannie Mae. Virtually all of this activity is in those cities' urban cores, and the vast majority of it is class A apartments.

Transactions continue at a solid pace, and there is ample liquidity to support this trend going forward. The agencies continue to be aggressive, the banks for the most part have not changed their credit stance, and the life companies continue to pursue deals that fit their criteria: class A assets with strong sponsorships in core locations.

There are good reasons for this positive outlook. According to the U.S. Census Bureau's recently released 2016 population estimates, eight of the country's top 10 fastest growing metropolitan areas are in the South. Overall, each city in the top 10 grew at least two percent, compared to a national rate of 0.7 percent. Austin, Texas, (2.9 percent), Raleigh, N.C., (2.5 percent), and Orlando, Fla., (2.5 percent) made up the top three. In other words, in many southern cities, the momentum is there for demand to keep pace with supply.

At the same time, the shift in transaction volume this year toward class-B properties will continue. The reasons are straightforward. There is a growing disconnect between buyers and sellers of class-A properties. Buyers are looking for a discount due to supply concerns, while sellers are holding firm, anticipating that demand will outpace supply once the pipeline of projects started between 2015 and 2016 are delivered and absorbed. By contrast, there is general agreement that renter demand for class-B properties will remain strong. Consequently, investors are moving down-market, pursuing a value-added strategy to chase yield.

Construction has also slowed in many markets. New capital requirements have put a damper on bank lending for construction loans, and unique economic and demographic circumstances are also in play. Given the decline in its oil economy, it was not surprising to see multifamily starts in Houston drop 77 percent between 2015 and 2016, according to RealPage, a provider of software and data analytics. Nashville saw a decline of 43 percent over the same period, but the story there was about developers more realistically appraising the influx of millennials to the city. With its population growing and construction slowing, absorption should catch up with deliveries across the South by the second half of 2018 and early 2019.

The question for investors is: what is the overall effect on multifamily fundamentals? During the first quarter of

2017, for instance, Axiometrics reported that rent growth was over 6 percent in Fort Worth, Texas, and Atlanta, computed on an annual basis. The number of units coming online over the rest of the year in these cities suggests that this growth will decline, however.

Even with investors anticipating near term volatility in the class-A space, they are still enthusiastic about the prospects for the multifamily market—and when the product is right, so are lenders.

Although each southern city has its own story to tell, the South overall remains a dynamic multifamily market with solid fundamentals. This creates an environment for a return to equilibrium among class-A assets over the next two years, while class-B assets continue to do very well. ■

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