

Road To Retail Value Creation Is Experience

Experience is playing into creating a great tenant mix, and a strong project.

Babak Ziai

In light of retail industry disruption and demographic shifts, implementing a viable tenant mix in urban retail properties has become a moving target now more than before. The critical piece to solving the merchandise mix puzzle involves shifting focus from not only selling and distributing products but to also providing experiences. As such, experience has become the key value driver and determinant of success for urban retail properties.

Retailers are evolving to meet changing consumer patterns driven by e-commerce, smartphones and the demographic shift led by the millennial and baby boomer generations. It is critical for brick-and-mortar retail to play an internet-resistant role to promote and foster experiential human interaction.

From our work with institutional investors and developers in Los Angeles and San Diego, we have developed strategic considerations to identify, understand and address trends in this new experiential world of retail. We can draw upon lessons learned from acquiring and programming urban retail properties and mixed-use developments.

MULTI-GENERATIONAL DEMAND FOR EXPERIENCE

The retail industry has been working to attract, engage and retain millennial shoppers by focusing on location, shop-

ping experience and connectivity. As the 18-hour live-work-play lifestyle becomes mainstream in major metros throughout the country, millennials want to get outside of their residences and away from their workstations to spend time in social gathering areas. Their elder counterparts are no different in preferring places that are entertaining, walkable and connected. This was evident in a recent acquisition of a retail complex in Downtown Santa Monica, where 85 percent of the tenants provided dining experiences that included a mix of fast casual, sit-down, gourmet market and coffee that served the entire demographic age spectrum.

RETAILER EXPERIENCE PER SQUARE FOOT

Tenant sales per square foot no longer provide the entire story of a retail store's health and performance. In his book "The Retail Revival," retail futurist Doug Stephens introduces the term "experience per square foot" to measure store health and productivity in lieu of sales from the retailer's standpoint. This is because stores are increasingly becoming physical channels for experiencing the brand, merchandise or food offering in addition to accessing products that can be purchased online.

In contrast, as real estate practitioners we employ sales per square foot as the most tangible and quantifiable metric for

tenant performance. The better term may be "property experience per square foot" to assess retail property performance and positioning together with sales.



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MEASURING PROPERTY EXPERIENCE PER SQUARE FOOT

Take a look at the allocation of non-food to food and lifestyle-oriented merchandisers in your centers. Compare them to retailers that engage shoppers in physical sampling such as Trunk Club, Bonobos and REI or retailers who leverage social interaction such as Tom's and Lululemon.

Are your retailer experiences supporting and ideally driving customer traffic and sales? Is this experiential offering synergistic with the other retail tenants? This metric qualitatively evaluates prospective tenants by asking, what is the experiential offering and is it working with customers? What is the retailer's brand story and does it effectively drive sales both in the store and online?

MAKING EXPERIENCE WORK

For retail property owners and developers, it is critical to ensure the physical space and location can be coupled with an experiential merchandise, food or lifestyle offering. Here are some recommendations:

The Brand Story on Social Media. Social media can be leveraged to gain deeper understanding of the customer mindset and preferences for a given retailer. Instagram, Facebook, Twitter and, increasingly, Snapchat provide useful insights into a retailer's brand story, and merchandise offering. Social media can also help to source new e-tailers and track their product offerings and social media

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VALUE CREATION

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engagement as early indicators of brick-and-mortar potential.

More Food & Lifestyle. Internet-resistant merchandising involves a heightened focus on increasing the amount of restaurants, fast-casual, coffee, fitness and lifestyle-oriented concepts within a property. Even fast food companies such as Taco Bell are joining the experiential movement testing a new concept “Cantina” which will provide fast-casual dining and serve alcohol.

E-tailers to Brick-and-Mortar. An increasing number of e-tailers including BaubleBar, Birchbox, Pirsch and Warby Parker are moving from the internet to brick-and-mortar stores to cater to millennial shoppers. Amazon recently rolled out physical bookstores to provide a more

interactive and informed book-shopping experience.

Landlord Investment & Experimentation. To attract these experience-focused tenants and align incentives, landlords can invest in a tenant’s improvements and provide rent concessions in exchange for economic participation in the retailer’s business. Landlords can also directly provide space and/or utilize data from temporary pop-up stores to experiment and test new concepts before committing to a long-term lease.

Common Areas. For mixed-use properties, common areas such as courtyards, gardens, and seating areas, can be leveraged to drive social human interaction. Providing space to “hang-out” and socialize has never been more important

as millennials and elderly alike demand urban alternatives to Starbucks and mall food courts.

Mixing Uses. Not all ground floor spaces need to be retail in the absence of foot traffic and density compaction. These spaces can lend themselves to other experiential uses such as office co-working, and healthcare and veterinary services to complement existing retail.

The art and science of evaluating property experience versus sales per-square-foot when assessing retail performance is an important consideration for retail success today. These ideas can help to implement viable, experiential and sustainable retail properties that will enhance the local neighborhood and community. **SCB**

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