

Property Sales

The New Retail Sector: Will Boutiques Push Out Big Boxes?

The current trend toward e-commerce is causing a major shift in the retail sector away from big box tenants to smaller, boutique retailers. Many regional malls are declining in popularity and need a smaller footprint given the rise in speedy delivery by retailers. "You may see more investor attention focused on small boutique stores with coffee shops and dry cleaners right around the corner, rather than big box stores," said **Fred Scott**, a principal at **Advalurem Group**.

Kenneth Weissenberg, a partner at **EisnerAmper LLP**, believes that while people still need to shop, retailers don't need 30,000 square feet of space anymore. "You might be able to walk into a store in the city, and instead of seeing 300 towels in different colors, there will be one with an iPad next to it," he explained. "You'll be able to select your colors and have the towels delivered to your house, which will dramatically reduce the amount of retail space needed."

One area that is benefiting from this change, Scott said, is the industrial sector. As more products are ordered online, warehouses will become increasingly instrumental for manufacturing and shipping those products. "Retailers may have 10,000 products in their store, but they may have 500,000 stored in the warehouse ready to sell through e-commerce," **Dean Adler**, ceo and co-founder of **Lubert-**

"In many major cities like Boston and Washington D.C., most buildings are quite old. In New York, the average age of a building is 75 years old."

— **Kenneth Weissenberg, EisnerAmper**

Adler, said at a conference earlier this month in New York.

Market players are also seeing a broader impact from technology in the office and multifamily sectors. Within the office sector, Weissenberg explained, many clients are repositioning buildings and allowing tenants to custom design spaces in response to increased demand for communal workspace and open floor plans. "People aren't tied to their desks because of devices today that are mobile," he said. "People can work in communal areas and around conference tables with laptops, rather than in separate cubicles."

In the residential sector, Weissenberg said, newer construction and building renovations, including energy production features such as solar panels and air purification systems, are taking place to bring buildings up to modern standards and cater to the flight-to-new

trend. Because of this, he explained, vacancy rates are higher in older buildings.

In Downtown Manhattan, the commercial office space is some of the oldest in the city and has faced a steady decline in demand as the spaces are unsuitable for today's needs, Weissenberg said. "In many major cities like Boston and Washington D.C., most buildings

"Retailers may have 10,000 products in their store, but they may have 500,000 stored in the warehouse ready to sell through e-commerce."

—**Dean Adler, Lubert-Adler**

are quite old," he said. "In New York, the average age of a building is 75 years old."

The structure and layout of buildings is changing as a result, as well as the amenities provided within those buildings, Weissenberg said. "Many buildings are adding amenities such as health clubs and media rooms," he said, "And with increasing demand from Millennials, the distance to outlets for phone chargers needs to be very short."

Weissenberg explained that Millennials are more collaborative in their approach to the world, which is evident in their use of technology and social media. "[Millennials] don't need a large entertaining area within their living spaces, because they would rather have communal areas within the buildings where they can hang out as a group," he said. "In commercial space, they demand more collaborative work environments and less individual office cubes, so building design is changing to reflect that need."

How the future of the industry plays out in response to demand created through Millennials and technology is less clear, Scott said. The best way for investors to prepare, he explained, is to adjust pricing expectations and where they invest their capital stack, as well as join forces with people who have a creative outlook and flexibility in both their financial structure and overall business plan.

"It will be interesting to look back 15-20 years from now and see the effects of the sharing economy on the real estate industry," Scott said. "That's the great part of the job though, and our investors look to us for that insight on how to navigate through this time of change."

DOWNLOAD REFI ON FRIDAY

Download the new issue of *Real Estate Finance & Investment* on Friday afternoon.

Log onto www.realestatefinanceintelligence.com and click on the Download button.



Get it on the go,
with the Digital
Version

Download

View Archives