When it comes to the state of retail, RE execs say headlines don't tell the full story

By: Holly Dutton, Real Estate Weekly, June 14, 2017

"I think headlines are headlines just like jokes are funny — because there's some truth to them. Headlines are headlines because there's some truth to them, but I think it's rarely the full picture," said Brittany Bragg, partner and COO at Crown Acquisitions, at an Urban Land Institute panel last week.

With more than 50 million tourists visiting New York City every year and eight million full-time residents, Bragg said, "The fundamentals just at a macro level are still very very strong,

"I think what you're seeing in some of the press and in the headlines is people underwrote and bought assets on these high streets and in other places based on assumptions that haven't necessarily turned out to be true," said Bragg.

"If you underwrite that retail rents will continue to compound at 7 to 10 percent a year indefinitely and interest rates will stay sub-four percent and you will never be vacant and never have to invest meaningful capital, that is a pro-forma that is not always going to play out."

"I'd like to say that it's cyclical, I'd like to believe it's cyclical, but I think that's ignoring reality," said Brian Pall, president of real estate at Hudson's Bay Company. "The reality is there are too many malls in the country, there's too much retail. There has to be some kind of market clearing event."

With so many malls closing across the country, Pall said there has to be an adaptive reuse of some of those properties "so the model can sustain itself."

That's where Mary Rottler, executive vice president of leasing & operations at Seritage Growth Properties (SRG) comes in. Her firm is a spinoff REIT from Sears, which owns almost 42 million s/f of real estate, and was formed in 2015. Every time Sears vacates a property, SRG leases out that space for four times as much.

"The crossover between mall and off-mall has really started to converge," said Rottler. One of the crossovers is grocery stores being brought in as anchor tenants at malls, something that was done without much success in the past, but today is welcomed. The grocery tenants are drawn by convenience, parking, and a lack of ground-up developments, said Rottler.

"Ten years ago, they would have laughed at you," said Rottler. "That has completely turned around."

Pall acknowledged that traditional brick and mortar has been challenged, and retailers need to get creative to bring in more customer traffic.

"It's very nice when a competitor closes in the same market and you pick up volume and sometimes it allows you to pay more rent and move to better location and it becomes a win-win situation, but you can't just rely on competitors closing as a method or means for driving your business," said Pall. "You have to create an experience in your store."

He said while food has been a big driver, it has become almost too ubiquitous.

"It's like the Gap – it was the greatest thing since sliced bread, but then it was in every mall, so it was not as special anymore," he said. "Now there's better quality food, and yes that's a driver and that will continue to drive it, but it's not a be-all to end-all. You have to create something different, something special, something exciting in the store."

Despite all the upheaval in the retail market, Bragg is confident that it is experiencing a cycle.

"What you see in headlines is a lot of generalizations. It doesn't mean that retailers still aren't leasing space," said Bragg.

"I think who's doing deals has shifted a little. I don't think fundamentally retail is dead. As we've always seen, there are cycles. Different brands do better and worse and come back and I think we're seeing that."