Real Estate's Shifting Approach to Retail

"The risks are worth it and the rewards are there," said Michael Zetlin, Senior Partner at Zetlin & De Chiara, launching a discussion on the evolving approach to retail at *Commercial Observer's* "3rd Annual Retail Forum" on May 1, 2019.

The panel, "Developing an Experience: How the Industry is Shifting Its Approach to Retail," featured **Michael Goldban**, Senior Vice President of Retail Leasing, Brookfield Properties Office Division; **R. Webber Hudson**, Executive Vice President, Related Urban; **Michael O'Neil**, Executive Managing Director, Cushman & Wakefield, Inc.; **Dave Orowitz**, Managing Director, L&L Holding Company; and **Dan Wenhold**, Co-Head of Retail Investments, Fifth Wall Ventures.

During the discussion, which included interactive audience polling, Zetlin encouraged both the presenters and attendees to examine several elements vital to the understanding of today's retail market. Among these were the impact of market forces, e-retailers as assets, trends in retail development, the demands on landlords to keep pace with the new retail environment and managing experiential spaces.

The panel dove in with a discussion of the ideal tenant mix and what makes a retail destination desirable. Webber, who worked on the five-floor Shops and Restaurants at Hudson Yards, noted that retail centers needed to be inclusive. At Hudson Yards, he noted, they have shops ranging from "Cartier on the luxury end all the way to Zara." Customer service and a variety of programing also induce crowds, he noted, pointing to The Vessel, The Shed, and the observation deck as draws to Hudson Yards. O'Neil agreed that "incorporating something unique creates frequency."

Wenhold pointed out that nontraditional tenants created frequency, especially in Millennial-heavy areas. Leases for companies such as Invisalign, boutique fitness studios, or food prep kitchens are increasingly common in retail centers.

Shaping public spaces to create a sense of community is taking precedence over retail, according to Orowitz, who noted that his role is increasingly that of "placemaker." In recent years he has opted for potentially lower rent tenants that he thought would elevate the office space above. In his opinion, retail has been supplanted as a driver by placemaking, or creating a neighborhood that will be appealing to the tenants in the building.

Zetlin next asked the panel to consider the needs of e-retailers. Wenhold noted that this type of tenant is primarily looking at the sales lift – specifically, how does having a brick and mortar store affect their e-commerce sales six months after opening. To keep their tenancy, landlords need to find a way to gather metrics that allow them to claim credit for a boost in sales and demonstrate return on investment for physical outposts. Orowitz cited two key lessons e-retailers should take away from heritage brands: the importance of customer service and creating engagement in the stores.

A polling question on the most important considerations for landlords had the assembled guests and panelists split. While the audience was evenly divided as to whether having a diverse tenant mix, an appealing location or a creative lease structure, was most important, panelists felt strongly that flexible spaces were key, with Webber calling, "flexibility critical in giving people reason to come and tenants to stay."

Goldban noted that "retailers don't need stores to reach consumers anymore." Landlords are fighting to get the few doors that are opening. He emphasized the importance of space layouts and how a decision can come down to specific design concerns. "A good landlord can figure out how to stack tenant spaces."

Prime locations are subject to change. Orowitz observed that New York has become increasingly spread out and tourism traffic has evolved, so too have the traditionally sought-after locations, citing Hudson Yards and Brooklyn as key examples of this.

Zetlin closed the panel with optimism saying, retail still accounts for a major part of New York City's historic building boom, accounting for $4.7 billion in construction starts across the five boroughs and almost 7.5 million square feet from 2015-2018. While industry decision makers certainly need to be increasingly savvy about their choices, there are still dividends to be had.