“Fresh Perspectives on the US Real Estate Market”

At the Saul Ewing Real Estate convention held in Baltimore Keynote speaker, Linda Madway with RioCan American Management discusses trends in the retail industry for 2015 to a group of national and regional professionals. RioCan stands for Retail-Industrial-Office-Canada and is the largest real estate investment trust in Canada. RioCan was established in 1992 and came to the US in 2009, they now own fifty shopping centers in the US, with over fifteen billion square feet of space. Canada comes to the US to shop, since seventy-five percent of their population live near the US border, and the dollar exchange is strong (1.00 to 1.30 rate). “RioCan properties are strategically conscious of the communities that surround them in order to accommodate their unique needs, while putting retailers right where customers want them.” In Madway’s discussion, she puts a fresh perspective on who is the retail client, what they want, where are they shopping and how to find them.

Why Invest in Retail? Isn’t everyone buying online?

Madway says retail real estate values are up, and retail centers have highest levels of occupancy right now. This is due, in part she explains, to a growing population, under development and raised demand. In addition, she states there has been 56% growth rate for the industry. But how? Aren’t we all buying more online these days? The fact is, only 10% of all sales, this includes everything from airline tickets to zippo’s shoes, is actually purchased online. The rest is bought in a retail store. Not everyone is profiting from this, particularly the apparel industry which is suffering the most. Target has closed all of its stores in Canada and just announced they will be closing 13 stores in the US this year. Joining Target are many others including Macy’s, who is closing 40 stores, and Sears closing 10 stores nationwide claiming underperformance in sales. “Of the 105 leases RioCan worked on last year, only 5 of them were for apparel stores. Many of these institutions are reinventing themselves and trying out smaller footprints,” says Madway. Nordstrom is opening 27 new Nordstrom Rack stores this year. Madway says the trend is toward more outlet stores that can offer a reduced price on products. Madway expects 10-15% of shopping malls to go out of business over the next 5 years and says “B” retails centers will be retrofitted to offer more value to customer.

What does the Customer Want? How Can I Get Their Business?

With $200 billion in buying clout, where is it being spent and who is spending it? The millennial generation has the most impact and are shaping the future of buying. Madway says they want to go where they can eat/live/work/play and shop along the way. Millennials are looking for an “experience,” such as Baltimore’s Power Plant Live. When you can walk to shops, food, and entertainment from where you live, you will spend more time there and therefore more money. To accommodate this demand, mixed-use developments are necessary. By building apartments or condos over retail, in areas where transit is available, is the ideal combination of density that can drive demand. Millennials expect there be many amenities available such as fitness centers, concierge service, dog care, pools and are willing to pay for it. “Having people live above your store, gives strong sales potential,” says Madway. She expects continued growth in urban areas and many older properties will be redeveloped and re-purposed to meet this demand. REIT’s are buying space and real estate costs are high.

Who is leasing Retail Space?

Madway says there is a trendy, forward thinking demand for space that offers specialized services. She has seen the highest level of occupancy for retail centers this year giving value to portfolios. Securing leases to big box stores is a safe investment. Mom and Pop’s want space too, but are a higher default risk. To reduce this risk, RioCan offers business advice. Other stores that make good tenants are pet stores, craft stores, vintage/second hand shops, fitness and martial arts, yoga are growth areas to target. In addition, services are growing. There are many medical and health and wellness centers looking for retail space. Food always brings people in and if you can offer entertainment, all the better. Dinner and a movie are popular again and charity events will draw traffic and people to your site. Open-air shopping centers are preferred and rents are increasing. Self-storage is another retail growth area as millennials move to more urban, but smaller housing units.

Where Do You Want To Be?

In conclusion, if you are thinking of investing in a retail center, the market is hot and getting hotter for urban centers that can attract the millennium client. Building cluster communities where we can live/eat/play/work is desired. Clients want value but also service. They are looking for an experience more than stuff. If we can increase length of time spent, we can increase amount of money spent.

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Expected Graduation:

Saul Ewing Real Estate Conference, November 3, 2015

Speaker, Linda Madway, RioCan