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Retail Property & Internet Shopping: A Worry?

June 18, 2018

Can traditional retail property compete with the internet? Yes, but… The 'but' has to do with the three key factors in property: a) location, b) management/ownership of the property, and c) the type of property. There is a huge difference between, say, an older regional mall in a smaller city, owned by a privately held firm with a few properties, and a modern grocery-anchored community center located in a wealthy area with onerous zoning rules and little developable land — and is owned and managed by a large, public firm with over a hundred such properties. Remember, retail property covers a broad array of types, from malls (old and new, large and small, in good locations and weak) to 'big box' properties, outlet malls and grocery-anchored community centers, to convenience stores, stand-alone restaurants and beyond. Each type has different economics and tenants. So, when examining retail properties' vulnerability to internet competition, some locations, property types and tenants are more vulnerable than others, especially if the properties do not have the very best management.

Real Estate Investment Trusts (REITs) tend to have among the deepest, most professional management, strongest properties and widest capital access *vis-à-vis* private owners. Usually owning many dozen, if not hundreds, of properties, retail REITs have strong relationships with tenants. If you are a retailer with dozens of stores in a REIT's properties and want to open more, as they say: Who you gonna call? Thus, when handicapping retail properties' vulnerability to the internet, REITs tend to be best situated.

That said, internet shopping still presents a clear challenge. What to do? Responses include:

- Get the right tenants. Remember record and video stores? The internet eliminated them. But you need a property to get your nails done, or to go out to lunch. People still want an experience, and community, and wisely tenanted retail property can do that. And some goods do not lend themselves easily to internet fulfillment. Think fresh food, especially refrigerated.
- Be in the right place, with the right demographics. Apple, a quintessential internet firm, has stores. Why? Because many customers still want to speak face to face with someone when making a purchase. And those stores tend to have the best locations and demographics.
- Know how to reposition a property. Retail is always in flux, with new concepts and tenants, and shifting consumer desires. Landlords cannot stand still: they need to constantly refresh and reposition properties to keep them compelling, even if the properties are in great locations. It can also mean more radical repositioning, such as tearing down a mall and building condos and offices on the site. Doing all this takes talent and capital, and REITs tend to be comparatively well endowed with both.

Can retail property survive the internet challenge? While some retail properties will prove unsustainable, most will survive – even thrive – in this emerging environment. It's more vital than ever to pick management, property types and specific properties wisely. REITs tend to be well placed to meet these challenges.

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