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Lifestyle Restyle

Retail consultant Claudia Sagan offers advice on how lifestyle centers and malls should deal with retailers during tough economic times.

Interview by Randall Shearin

SCB: What advice do you give to shopping center owners who are facing vacancies at their malls and lifestyle centers?

Sagan: At a time when our industry is going through a correction from being in an expansion mode for a number of years, I tell my developer clients that they cannot continue to operate as they have. The old rules no longer apply. There are a few things developers should keep in mind. Smart developers have already put these concepts into practice, but it bears repeating:

- Given the contraction mode of our industry, it is important that owners not let the lights go out. Right now, the space will stay dark for some time. If at all possible, owners need to work with their tenants to make short-term economic concessions.
- When faced with vacancies, owners need to remember: Survival has always come through innovation. Innovation means creative re-use or alternate uses for the space(s), even converting the space to a completely different use: Office, storage, medical or dental offices, churches, community centers, mini-golf or some other form of indoor entertainment can be a viable solution to an empty space.

Right now, developers should be asking themselves these bigger picture questions:

- What's the right merchandising and use mix for my demographics?
- What's right for the community?
- What is my center's long-term niche in the marketplace?
- How can I ensure that my center either remains or becomes a focal point of the community?

Developers need to keep in mind that they have a relationship with their shoppers. The need to figure out how to keep shoppers coming back when they're not in a place to spend. They must nurture the relationship. A great way to do this is to offer opportunities for local residents to network, perhaps through job fairs or other professional networking events. Landlords can get creative and offer computer skill seminars or consider using vacant space to open a day care center so that moms and dads can leave their children in a safe and comfortable place while they look for jobs and navigate the transition in their professional lives. Another idea would be to partner with the women's and men's apparel store tenants to create 'dress for success' events. Many centers have succeeded and will continue to excel in these trying economic times because they have embraced their community.

Southlake Town Center in Southlake, Texas, is an example of a development that was conceived as a center for the community. The developer, Cooper & Stebbins, placed the town hall and library in the center of the project as a convenience to the residents and the local community. As this suburban community has grown, so have the center's sales and offerings. Just last year, a hotel and additional residences and retail were added.

SCB: What advice do you give to a retailer who needs to shed stores? How should they go about this?

Sagan: First of all, I tell my clients they need to be sure that they are shedding the right stores. While it's easy to identify stores with high cost/rent structures, these stores may actually be located within the best demographic for the retailer's shopper. Retailers must really understand who their core shopper is. Then, they need to review the demographics of each location to determine if there's a match. If there is, then the focus should shift to the economics of the location because demographics are indicating this is a store that should be kept. It will most likely require renegotiating the rent of that location in order to reduce the overall expenses.

SCB: What do you recommend for a retailer who is expanding at this time?

Sagan: First and foremost, I recommend that the retailer does his homework. Times like this require discipline especially for small (store count) and new retailers. They are more vulnerable right now than the larger established retailer, because they do not have the financial resources to make mistakes. It is particularly important for them to clearly define and then practice their real estate strategies. Also, retailers should not pursue something because the economics appear to be a deal. Again, it's important to have a well-defined real estate strategy, one that includes a clear definition of who the shoppers are and who the key co-tenants need to be. Retailers need to

identify the specific markets and specific centers within the chosen marketplace. Now is not the time for them to stray from their strategies. In the recent past, retailers like Coach and Ann Taylor Loft experienced success by appealing to the aspirational shopper. Today, the mindset has changed. Shoppers are dealing with reality, making this the wrong time for retailers to be aspirational. Coach has done a good job of embracing this reality by introducing their new Parker line; stylish, yet very affordable handbags and accessories with an entry price point in the mid-\$200's.

SCB: When searching for real estate on behalf of a client, what do you look for in a center?

Sagan: Well, as a portfolio manager, for me, the search really starts with knowing the client's shoppers, the shoppers' lifestyles and the client's key co-tenants. We thoroughly study the demographics of a given market to ascertain a match to the client's shoppers. We know the importance of studying the economic drivers of a given market: What are the key industries? Are the market's industries diversified enough so that in a downturn the client is protected? When reviewing the specifics of a center, we study historical performance of the center and performance of the client's key co-tenants within that center. A track record of success in both categories is critical. Given the current economic situation, we are re-evaluating and reaffirming the client's co-tenants. Then, we look for a center that is well managed and maintained; one that shows the landlord is continually reinvesting in their asset through the upkeep of the physical property. We also look at the retailers that are being targeted and consequently opening stores at the center. A great example of a well managed, well maintained center is The Forbes Company's Somerset Collection in Michigan. Even with the tough economy in Detroit, they continue to reinvest in the property and bring

new and different retailers to the center. We also look for developers and landlords that are taking the time to do their homework and understand our client's brand, shopper and how our client fits into the center's merchandise mix.

SCB: How should a retailer — in any category — approach this economy?

Sagan: Beyond exercising caution, discipline and discretion, I think retailers have to ask themselves, 'What is our brand?'; 'How does our brand match today's lifestyle?'; and "Who is our shopper?" Retailers need to return to their core values, what their brand has stood for and be sure that they are effectively communicating a clear message to their shoppers. The business model has changed. Retailers can no longer think of shoppers as consumers. They need to think of shoppers as patrons of their brand and then think about how they should treat a patron. Today, all shopping is an indulgence. Retailers should regard themselves as privileged to earn the business of their patrons. They need to ask themselves, 'If our society has evolved to a point where shopping is done only by necessity, what is the necessity that we offer?' And, simply going back to the basics, retailers need to ask themselves if their goods are an investment. They need to offer their patrons a quality outfit that is well made and stands the test of time. This used to be the niche that Talbots and Ann Taylor owned. Bottom line — retailers need to be sure that they are connecting with their shopper at every level. Retailers should also be reviewing the quality of each sale. With limited shoppers coming into the stores, retailers need to be sure that they are working hard to increase the number of units sold per transaction. Are their sales associates engaging with the shopper and offering ideas for additional items that will enhance the purchase for the shopper and, in turn, the retailer?