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15 QUICK TAKES FROM THE ICSC NEW YORK NATIONAL DEAL MAKING CONFERENCE

The Fung Global Retail & Technology team attended the International Council of Shopping Centers' (ICSC) New York National Deal Making Conference in New York City on December 5–6. The event drew close to 10,000 retail real estate professionals from across the country. The conference focused on networking and deal making, but also featured presentations on growing retailers, trends and opportunities in urban and suburban spaces as well as breakout sessions on driving customer engagement and defining property.

15 Quick Takes from the Event

1) The New York National Deal Making Conference was a hive of business transaction activity. There were nearly 10,000 developers, retailers, brokers and other retail real estate professionals from around the country in attendance at the conference, which is the ICSC's second-largest global deal-making event.

2) Food, beauty and fitness brands are taking over the vacant retail spaces left behind by Office Depot, Office Max, Kmart and Sears. Big boxes are getting broken up and experiential retail is filling the void. Growing retail brands include Charming Charlie, Cinemax Cinemas, Club Pilates, Five Below, Flywheel Sports, Le Pain Quotidien, Sephora, Shake Shack, Skechers, Sweetgreen and Taco Bell. The common threads among these growing brands are their distinct brand identities and their clear understanding of their customer demographic. For example, Five Below differentiates itself as a store that offers "trend right" products to predominately preteen and teen customers.

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3) Companies that create communities of engagement around their brand are the most successful. Think Soul Cycle, Apple and Lululemon Athletica. Brands that create a holistic brand experience, where the customer wants to spend time with the brand, are creating powerful connections. For example, Sonos, a brand that sells speakers and audio equipment, lets customers "try on" its products, and its studio houses seven listening rooms. Some stores host activities to create community. Lululemon, for instance, hosts store activities such as group runs and yoga events, which attract consumers to the brand. Other brands, such as Apple and Urban Outfitters, have created such brand loyalty that consumers come to their stores to spend time with the products, resulting in longer dwell time and an even stronger brand connection.

Source: Twitter

4) Retailers cannot just deliver a product anymore. There is an expectation of an elevated, integrated store experience. This is happening everywhere. Starbucks changed the coffee business in the 1990s, and the brand was considered high end then. Now, the Starbucks barista experience is becoming more sophisticated and visual, with Starbucks rolling out a new look for its shops and launching Starbucks Reserve stores. The new shops will sell $10 cups of coffee made in glass siphons, $10 "flights" of Reserve brews and nitro cold brew via a separate Reserve menu, thereby offering customers a whole new experience.

5) Festivals build a community around brands. Sweetgreen, a growing food retailer focused on locally sourced, farm-raised produce, held its first Sweetlife music festival in 2007 with 500 attendees. The festival has grown to over 23,000 attendees and now features more than 15 bands. The brand said that music has always been an essential part of retailers' DNA and that it brings people together in a community, like food does.

6) Consumers are looking for experiences that they can post on social media, and some retailers are responding. The Galeries Lafayette mall in Paris relied on a company called Sky Boy to create an augmented-reality Christmas experience. On the second floor of the main store, shoppers are immersed in a dreamlike story that features a virtual polar bear walking through as if it were actually roaming around inside the store. Virtual snowflakes fall, draping the entire dome in a white shroud.

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7) Demographics should inform how retail real estate targets customers. For example, retail space focused on millennials should feature restaurants and fast food, because millennials account for the biggest share of spending on this category per year, 28% (baby boomers' share is only 21%), according to data presented by market research firm, Alexander Babbage, Inc. Baby boomers and millennials spend $11,000 per capita per year on general merchandise sold at shopping centers, while Gen Zers spend $7,000 per capita per year. Baby boomers account for 16% of health and personal care spending while millennials account for 11%.

8) Gen Z, the fastest-growing demographic, is different from prior generations and presents a unique opportunity for retailers. Born after 2000, Gen Zers represent 26% of the population. The group is more independent than millennials are, and is the first generation to grow up not having known life without technology and related services. Many retailers are currently ignoring this booming segment and missing an opportunity for growth.

9) Creative use of technology will help drive customer engagement and experiences, but there has not been a great deal of it in the retail space. One exception is the Cleveland Museum of Art, which uses technology that allows visitors to sync their laptops to "take home" the entire gallery of art. This allows visitors to continue their enjoyment beyond the retail experience.

10) Physical retail is still very important. Impulse or unplanned purchases account for 43% of sales at shopping centers. According to data presented by market research firm Alexander Babbage, a company with an omnichannel presence is more productive if it has a physical store. An omnichannel retailer that allows returns nets $1.06 on returns due to exchanging or upselling in-store, whereas an e-commerce retailer with returns nets only $0.78 on every dollar.

Source: Twitter

11) Customers often choose a mall based on convenience and ease of navigation. The shopping center real estate perception is important from a brand perspective and directs the customer engagement journey. The customer experience begins with the shopping center signage and parking, which is often overlooked. Storytelling using kiosks is effective in helping shoppers navigate, and Simon Malls has successfully deployed such kiosks.

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12) Tourist markets are feeling the impact of a strong US dollar. However, locals are stepping up to the plate as they experience what Richard Wagman, Managing Partner at Madison Capital, characterized as the "Trump bump." Wagman's sentiment was cautiously optimistic regarding the market's reaction to Trump, as tax cuts, infrastructure development and wage growth would all be positive for the retail industry. If Trump's announced plans on these fronts are not enacted, there will be a correction—and the worry is that it may be more significant than anticipated.

Source: Twitter

13) Under Armour CEO Kevin Plank said that he wants to reinvent retail and build the best retail store in the world. He challenged the conference attendees, saying, "I don't want to insult anyone, but come and get it!" Plank said that Under Armour wants to be an anchor tenant, and that 190 million people use at least one of Under Armour's apps today. The company has experienced 20% growth for the past 26 quarters.

Source: Twitter

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14) Urban renewal is happening in Baltimore through Sagamore Development, which is behind the second-largest urban renewal project in the country. The project has more than $535 million in public financing and is a planned $5.5 billion investment. Sagamore Development's Port Covington project will help Baltimore's economic development, and help bring jobs to Maryland and keep them there. The project includes 2.5 miles of waterfront spanning 235 acres, and 14 million square feet of mixed-use development. Port Covington will help to fund infrastructure improvements, including new parks, a city grid, a light rail station and a pedestrian bridge. The project will also be the home for Under Armour's global headquarters. Similar revitalization projects on different scales are happening in Cincinnati and Detroit.

15) High-street rents are off the charts and some landlords are turning to secondary and tertiary markets as a result. Despite vacancy rates soaring by more than 50%, from 10.1% in the fourth quarter of 2015 to 15.9% in the third quarter of 2016, owners of commercial real estate located between 49th Street and 60th Street in New York City continued to push rents to all-time highs.

Source: Twitter

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