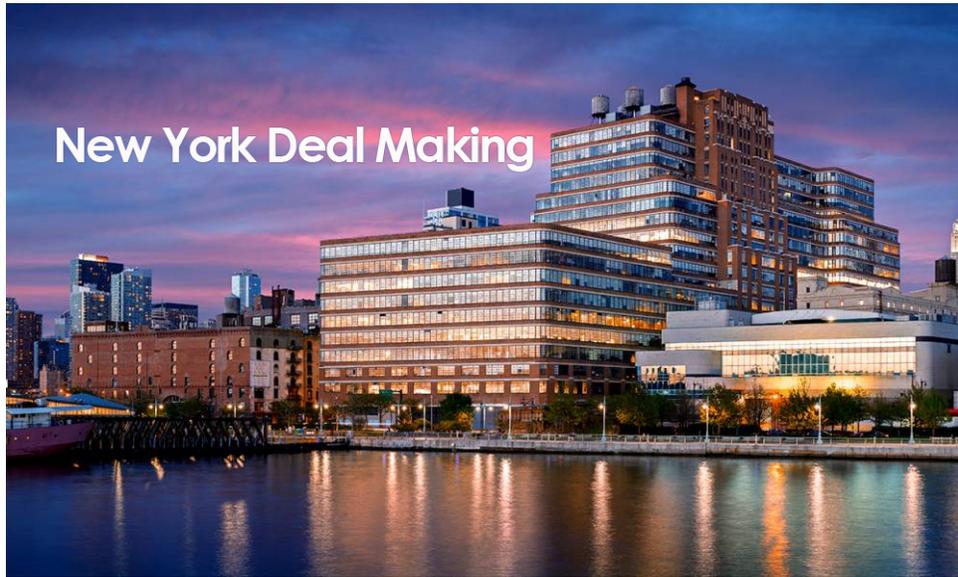




Takeaways from Day Two of the ICSC New York Deal Making Conference



On December 6, the FGRT team attended the second day of the International Council of Shopping Centers (ICSC) New York Deal Making conference in New York City. The three-day event is devoted to real estate deal making, education and networking. Top takeaways from the day's sessions include:

- 1) How should companies compete with Amazon? Invest in "organic intelligence."
- 2) Mixed-use retail projects of the future include flexible designs as well as socialization and community engagement.
- 3) Retailers that are deemed favorites by the panelists are using flexible formats and have exceptional customer service and in-store experiences.

On December 6, the FGRT team attended the second day of the ICSC New York Deal Making conference in New York City. The three-day event draws close to 10,000 retail real estate professionals from across the country. The conference features presentations on brands, the future of retail, emerging retail concepts, and real estate trends and opportunities. Below are our top takeaways from the second day of the conference.

1) How Should Companies Compete with Amazon? Invest in "Organic Intelligence"
In the Keynote lunch session titled "Tenacity, Energy, Innovation and Growth in the Face of an Ever-Changing Retail Climate," Scott Galloway, Professor of Marketing, NYU Stern School of Business, and Founder of e-commerce firm Red Envelope and global brand strategy consultancy Prophet, moderated a discussion on changes in the industry. He discussed the dominance of Amazon and how fast moving the company is. Galloway reported that Amazon holds about 50% of the market share in cloud computing and nearly 70% of the market share in voice technology. Every company wants to know how to compete with Amazon. He suggested that the companies that are winning are those investing in what he referred to as "organic intelligence," or more specifically, informed customer sales associates that help to make the experience a meaningful one.



Panelist Barry Beck, Cofounder and COO of luxury beauty retailer Bluemercury, said that more than 50% of his company's customers come into Bluemercury stores seeking solutions, with over 75% of customers coming to stores within a five-mile radius. Beck cited Bluemercury's competitive advantage as its staff, which he affectionately referred to as "human beauty Google experts." The company seeks out associates that are passionate about beauty and learning and understanding everything there is to know about products. He said, "there is always something new to look at in the beauty business. Our stores have been our labs." He credited Bluemercury for discovering the men's makeup trend, learned by speaking with men coming into the stores—an increasing number of men were visiting Bluemercury stores to buy tinted moisturizer, clear mascara or bronzer for presentations or TED talks. He said the role of the sales associate has been instrumental in the retailer's success. Bluemercury opened 40 stores this year and plans to open another 40–50 more stores next year. Beck said that he does not view Amazon as a threat and he sees Bluemercury as already in the last mile because its stores are located where consumers live and work. He said that it is more convenient than Amazon. Beck said that he feels that Bluemercury has already beat Amazon.

2) Mixed-Use Retail Projects of the Future Include Flexible Designs as well as Socialization and Community Engagement

"Mixed-use" no longer means what it used to mean, described Heather Arnold, Director of Research and Analysis at retail strategy firm Street Sense, in the session titled "New Realities of Developing & Operating Mixed-Use Projects." She said, "We can't put retail wherever we want today and expect that it will thrive." In the past, mixed-use retail real estate projects were generally constructed in a vertical or horizontal configuration, with retail as one component and the residential and office components extending to the top or sides. This configuration is inflexible—if a large retailer becomes less attractive or the space becomes vacant, it can create a challenge.

The new era of mixed-use projects takes into account the demand for retail use as only one component of the much larger picture, which today includes community, socialization and sustainability. Arnold identified six areas as the future of mixed-use projects including: sidewalk activation, community building, residential amenity, placemaking, a gathering place and a walkable environment.

Arnold said that in the past, developers used to have a "golden box of 1,200 square feet," but today, Bonobos may only want a 600-square foot showroom, or Apple may want a store with no columns. The reality is that most tenants are not going to be in a space for more than 20 years, so incorporating flexible layouts in the building design is important. Additionally, parking used to be a major consideration, and today it is a moving target.

Arnold described how hotel building lobbies are now being designed to be more open to the public to encourage more socializing and community, whereas in the past, they were encouraged to be a place meant for hotel residents.

The housing market is also adapting to become more mixed use and incorporate community elements. For example, urban apartment buildings are experiencing high turnover—some close to 70%, according to Arnold, due in part to millennials being "light on their feet" and not having many possessions. Some apartment complexes are adding coffee bars in their lobbies to try to build a community, with the goal of maintaining renters.



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For example, in Washington DC, a new mixed-use apartment complex The Apollo opened Wydown, an upscale bar and restaurant, in its lobby, which has become very popular with locals. This is benefitting the overall community. Several other buildings came onto the market at the same time, and Arnold said that The Apollo leased the fastest.

3) Retailers that Are Deemed Favorites Are Using Flexible Formats and Have Exceptional Customer Service and In-Store Experiences

In a panel titled “Drivers of Traffic to Centers, B2B and B2C,” moderator John-David W. Franklin, Senior Vice President of real estate developer Madison Marquette, asked the panelists at the end of the session to identify one or two retailers that were the panelists’ favorites in terms of driving customer traffic. Their favorites include:

- **Restoration Hardware:** The company has added in-store restaurants to its Chicago store. The restaurant is so wildly popular that 80% of the seats are reserved by 11:30 a.m. and is creating a buzz.
- **Sephora:** The retailer offers beauty classes, which help to promote sales and education of new products and drives more traffic to the stores.
- **Ulta:** The retailer has an in-store salon where consumers can purchase products affiliated with services and discover new products. Salons are open from 7 a.m. to 9 p.m.
- **Patagonia:** One panelist commented that despite not being an outdoorsy person, she looked forward to the company e-mails that might include a brief story about surfing or saving the world. She added that the store associates are “equally as passionate and helpful” and promote the sustainability mission of the company.

In the Keynote lunch session titled “Tenacity, Energy, Innovation and Growth in the Face of an Ever-Changing Retail Climate,” Professor Scott Galloway also asked panelists to identify one or two retailers that they respected. The panelists answers were succinct. Here are the results:

- **Everlane:** The company has a policy of transparency in pricing and construction.
- **Peloton:** The retailer has expanded its platform using pop-ups and in-store experiences.
- **Suit Supply:** The customer service is exceptional.
- **Berluti:** The customer service and product craftsmanship are outstanding.

Of the eight retailers among the panelists’ favorites, “exceptional customer service” was highlighted three times (Peloton, Suit Supply and Berluti). Experiences and the in-store experience were also highlighted three times, with Ulta, Sephora and Restoration Hardware all using new in-store experiences such as new classes and services to drive traffic. Lastly, new store formats such as pop-ups are drawing customers for Peloton, and core values such as transparency and sustainability were noted as particularly important for the millennial consumer.



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Deborah Weinswig, CPA

Managing Director
FGRT
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Erin Schmidt
Research Associate

Hong Kong:

2nd Floor, Hong Kong Spinners Industrial Building Phase 1&2
800 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 18th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com