



## 10 TAKEAWAYS FROM THE ICSC RESEARCH CONNECTIONS CONFERENCE



The Fung Global Retail & Technology team attended the ICSC Research Connections conference in Austin, Texas, on October 17–18. The annual event draws more than 200 retail real estate professionals and, this year, Deborah Weinstwig, Managing Director of Fung Global Retail & Technology, hosted a retail startup pitch competition at the conference in partnership with Texas-based retail accelerator RevTech.

### Key Takeaways from the event:

- 1) Green Street Advisors expects the US mall sector to see a flat growth trajectory over the next three to five years; the firm projects that 3% growth in the sector will be offset by 200–300 basis points of negative impact from online channels. The current bifurcation of mall assets in the US is expected to intensify.
- 2) The ICSC predicts 3.3% year-over-year sales growth at physical stores this holiday season and says that digital channels are showing an increasing influence on holiday shopping. According to a recent survey by the ICSC, 39% of holiday shoppers plan to use click-and-collect services this year, up from 32% in 2015, and 85% will research products online before making purchases in stores.
- 3) The US economy is currently in an expansion phase, and is strong enough to encourage retail real estate activity without risk of overheating, as businesses still hold a cautiously optimistic view of the economy, according to Andrew Nelson, Chief Economist at Colliers International.



The Fung Global Retail & Technology team attended the International Council of Shopping Centers (ICSC) Research Connections conference in Austin, Texas, on October 17–18. The annual event highlights the latest industry research insights and draws approximately 200 retail real estate professionals.

At this year's conference, Deborah Weinstwig, Managing Director of Fung Global Retail & Technology, hosted "Texas New Techies: A Retail Startup Pitch Competition" in partnership with Texas-based retail accelerator RevTech. Eight retail and tech startups presented new business models and technologies, which included an IoT-based energy management system, a low-cost foot-traffic sensor, an on-demand delivery solution, a mobile offer platform and a cutting-edge in-store display solution that will shape the future of retail.

### Texas New Techies: A Retail Startup Pitch Competition

Glass-Media, a one-stop solution for storefront digital signage, was chosen by the judges as the winner of the competition. Dor Technologies, which has created an affordable, easy-to-install foot-traffic counter, received the most votes from the audience. Both startups won complimentary exhibition space at the innovation lounge at the ICSC RECon 2017 conference.

Below, we look at how the eight companies that participated in the pitch competition fit into our Four-Quadrant Disruptors Framework. Weinstwig debuted this new model of thinking at the Shoptalk conference in May. The framework identifies four areas of opportunity for startups that serve the retail industry: new retail models, all channel, experiential retail and customer engagement.

Figure 1. The Four-Quadrant Disruptors Framework



Source: Fung Global Retail & Technology



## 1) New Retail Models: How Will the Consumer Shop in the Future?

We categorize startup competitor **Pickup** under new retail models because the company disrupts how consumers shop for furniture and appliances. Pickup provides on-demand delivery service for large items such as sofas and mattresses. Consumers can use Pickup's mobile app or website to request instant delivery for these large items. The company is staffed by a team of "Good Guy Drivers," who include trusted off-duty firefighters, military personnel, veterans and first responders.

## 2) All Channel: The Consumer Can Shop Wherever and Whenever

**Koupon Media** allows brands and retailers to drive sales by targeting consumers with offers when they are in-store and ready to buy. The company is the leading mobile coupon platform in the retail industry. With a reach of over 40,000 retail stores and millions of consumers, and patented offer delivery and security technology, Koupon reaches more consumers more often than any other mobile offer platform.

## 3) Experiential Retail: Make the Store an Awesome Place

We included the startups that improve the general store environment in this category, whether they focus on the experience of the consumer, the store associate or the manager. EyeQ, Glass-Media and Shelfbucks all provide solutions that allow consumers to interact with store displays or shelves. EnTouch Controls and Theatro have created solutions to make day-to-day store operation more efficient.

**EyeQ** enables brands and retailers to win at the shelf by providing shoppers with personalized digital experiences. It provides shops with a customer engagement hardware and software solution in the form of touchscreen consoles fitted with data-gathering e-commerce software. Customers browse for items on the console, which then collects data via its camera, and via customer interaction with the platform itself, to create recommendations for the customer.

**Glass-Media** transforms storefront glass into vivid, touch-enabled displays that drive three times more passersby to engage with retail brands. Its solution enables brands to change storefront communication remotely, in real time and across multiple locations, to engage customers in promotions, new products, day parts and special events. Glass-Media is a digital point-of-presence solution that is cloud connected, managed remotely and infused with robust data analytical capabilities.

**Shelfbucks** offers a digital in-store tool and platform that enables users to interact with products on retail shelves via their smartphones. Shelfbucks enables consumer packaged-good companies and retailers to measure, manage and improve the effectiveness of in-store product merchandising programs by tracking the entire lifecycle of merchandising displays and delivering comprehensive and actionable insights that improve program performance.

**EnTouch Controls** created an enterprise-wide energy management system that optimizes energy consumption, ensures patron comfort and detects hidden maintenance issues. EnTouch One building controls platform is an award-winning solution including HVAC, lighting control, refrigeration and energy monitoring. It leverages cutting-edge wireless and cellular technologies to expedite installation and ensure the security of the industry with a mix of sophisticated features and simple installation.

**Theatro** is pioneering the first voice-controlled, enterprise wearable for brick-and-mortar retail, hospitality and manufacturing. The company's Wi-Fi-based wearable weighs only 1.5 oz. and revolutionizes in-store communication and hourly worker



productivity by connecting employees to one another and to the retailer's information systems.

#### 4) Customer Engagement: How Do You Convert the Consumer?

We included **Dor Technologies** in the customer engagement quadrant because the company created an affordable solution that enables stores to track foot traffic. Visibility into in-store traffic allows retailers to better convert shoppers when they are in-store. The company created the first affordable, easy-to-install and intuitive foot traffic sensor. The service works on the store manager's mobile phone or desktop, and provides information on foot traffic, conversion and marketing effectiveness in the historical, present and future contexts. The solution provides actionable insights that allow retailers to make decisions to optimize staffing and improve marketing spending.

### Key Takeaways from ICSC Research Connections

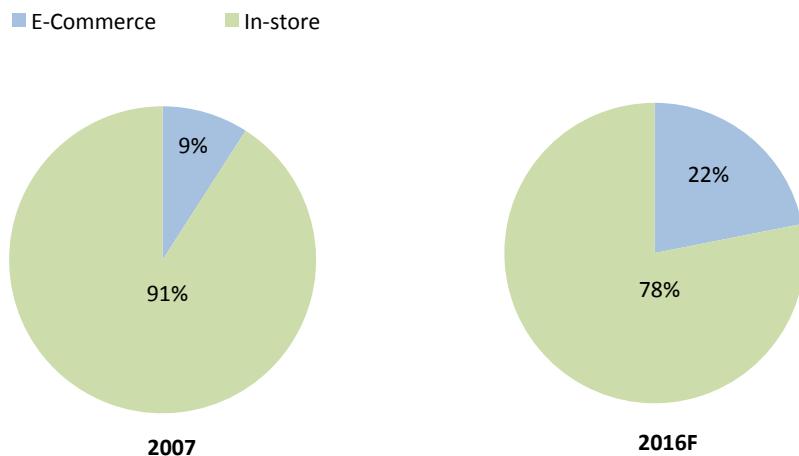
After the startup pitch competition, we attended a number of panels and discussions at the conference. Below, we provide 10 key takeaways from the conference as a whole.

#### 1) Overall Mall Sector Growth in the US Is Expected to Be Flat

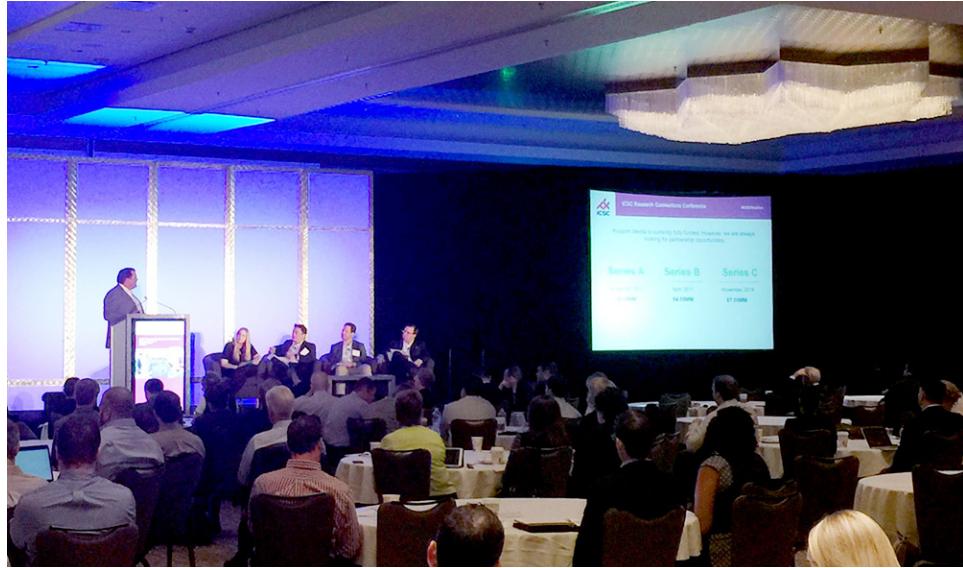
Cedrik Lachance, Director of US REIT Research at Green Street Advisors, predicted that the mall sector in the US will see a flat growth trajectory in the midterm. The firm's prediction is based on a 3% growth projection that will be offset by 200–300 basis points of negative impact from online channels over the next three to five years. Online channels are expected to reduce sales growth in the mall sector by 200 basis points this year, and by 100–150 basis points per year over the next 10 years.

Lachance further noted that about 10% of total mall sales derive from strip malls, and that 17%–18% of mall-based sales are being cannibalized by e-commerce.

Figure 2. E-Commerce's Share of Mall-Oriented Sales, 2007 vs. 2016F



Source: US Census Bureau/Colliers International



*Source: Fung Global Retail & Technology*

## **2) Bifurcation of Mall Assets Will Intensify in the US**

Tom Salanty, Managing Director at JLL, predicts that the current bifurcation of mall assets in the US will intensify. "The good ones are getting better and the bad ones are getting worse," he said. "The malls are going in one direction or the other."

Andrew Nelson, Chief Economist at Colliers International, echoed this point of view, saying that top-quality malls are seeing 20% year-over-year rent increases and that bottom-performing malls are experiencing sharp rent declines.

This bifurcation is more pronounced in public companies, as some REITs hold top-performing malls in their portfolio while others focus on distressed assets, added Green Street's Lachance. The top 150 malls in the US are becoming destination centers in their trade areas, displacing traditional high streets, he said.

## **3) The ICSC Predicts 3.3% Sales Growth at Physical Stores This Holiday Season**

At the conference, the ICSC presented its forecast for the holiday 2016 retail season. The organization expects 3.3% year-over-year growth in retail sales at physical stores, up from a 2.2% increase in 2015. According to a recent survey conducted by the ICSC research team, holiday shoppers expect to spend an average of \$683.90 this year. While the majority of sales (91%) are still expected to take place at physical stores, digital channels are increasingly influencing holiday shopping: 39% of holiday shoppers surveyed said they plan to use click-and-collect options this year, up from 32% in 2015, and 85% will research products online before making purchases in stores.

The ICSC also highlighted its long-term outlook for omni-channel retail. The organization cited the increasing rate of online sales growth for retailers that have both an online and physical presence, and noted that pure plays are growing at a decelerated rate.



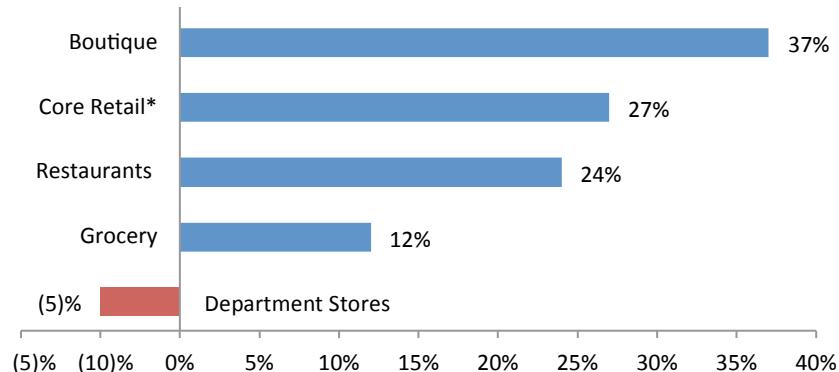
Source: Fung Global Retail & Technology

#### 4) Retailers Optimize Store Footprints by Closing and Downsizing Stores

Andrew Nelson of Colliers commented on the shrinking presence of traditional shopping-center anchors, such as department stores, and the rise of boutiques at malls. Overall, retailers are shifting toward smaller formats with less store inventory and toward more experiential offerings, he said.

Other panelists offered examples of their companies' store strategies. Dave Miller, Senior Director of Market Planning and Research at Walgreens, reiterated his company's plan to close 200 stores each year over a three-year period. Miller added that, in most cases, other Walgreens stores are able to capture more than 50% of the sales from a nearby closing store. Curt Newsome, Manager of Real Estate Research and Strategy at REI, shared his company's experience of using big data analytics to optimize store footprints. REI layered residents' commuting patterns and weekend activities over residential address information from the US Census Bureau. By analyzing where potential customers are during the day, the company has been able to capture more sales in a given retail area, he said.

Figure 3. Retail Sales, 2Q09–Present



\*Total retail sales less auto-related, online, food and food services, department stores, and building materials  
Source: US Census Bureau/Colliers International



## 5) Shopping Malls Need New Productivity Metrics in the Omni-Channel Age

Kelly Whitman, Vice President of Investment Research at PGIM Real Estate, expressed concerns about the relevance of traditional metrics in measuring store performance in the omni-channel age. "It is hard to understand what is considered a good store," she said. Some omni-channel sales, such as click-and-collect and in-store online orders, are not accounted for in traditional sales-per-square-foot metrics. In some instances, same-store sales could stay flat, while the store could have helped generate sales in other ways. "Retailers are less concerned with showrooming now, as long as stores still facilitate sales regardless of channels," said Whitman.

Whitman also suggested some alternative ways to evaluate store performance, such as by analyzing store traffic and peer store performance.

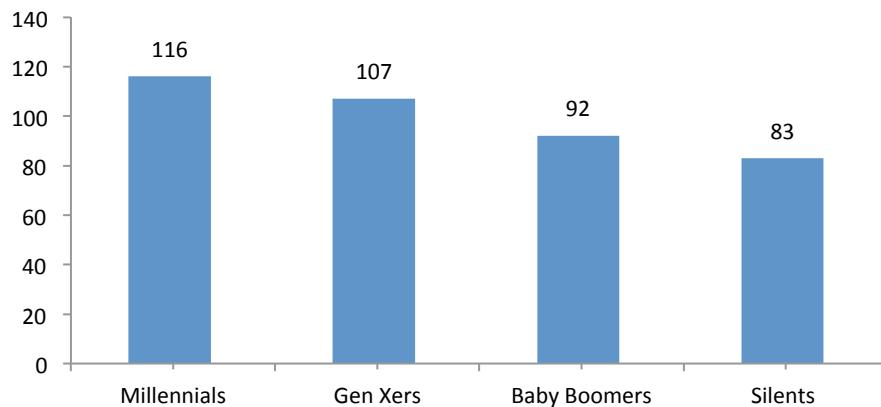
## 6) Millennials Are a Core Customer Group for Mall Operators

Millennials (i.e., those ages 16–35) are becoming the core customer base for many mall operators. This age group is growing in size and spending power as its members enter and move up within the labor force and form households. At the same time, the size of the traditional prime spender group (roughly, those ages 36–54) at malls is shrinking in the US, according to Suzanne Mulvee, Director of Research & Real Estate Strategist, CoStar Group.

Meredith Darnall, Senior Vice President, Strategy and Analytics, at General Growth Properties (GGP), mentioned that millennials represent \$67 billion, or 18% of total spending, in GGP's trade areas, and that this figure is expected to grow to 25% over the next few years. "They spend as much or more than their generational counterparts," said Darnall.

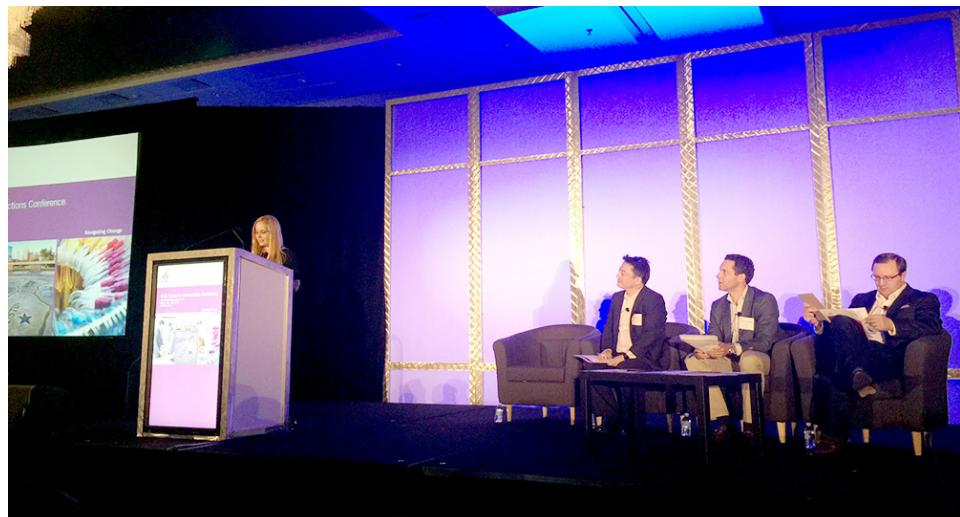
Darnall also discussed the characteristics of millennials that mall operators need to consider: they are getting married later, moving to cities and focusing on experiences. The trend of delaying marriage means that there are fewer young shoppers at department stores, where married couples prefer to shop; migration to cities results in better performance of urban shopping centers; and the focus on experiences demands that more space and variety be allocated to food and beverage areas at malls.

**Figure 4. Regional Mall Visitation by Generation/Propensity to Shop at Least Once Every Three Months**



100 = average shopper

Source: General Growth Properties



*Source: Fung Global Retail & Technology*

### **7) Austin Is Experiencing a Renaissance Due to Recent Migration of Millennials**

Austin is one of the youngest, largest and fastest-growing cities in the US, owing to a high rate of millennial migration in the past several years. Keynote speaker Molly Alexander, Executive Vice President of Economic Development at the Downtown Austin Alliance, calls it “the Austin Renaissance” and shared her personal experiences of a city that combines natural beauty, urban convenience and a sense of community.

The city has made several efforts to attract millennials. For example, there is a WeWork space in downtown Austin to accommodate millennials’ preference for flexible work schedules. The city was one of the first to adopt a citywide car-sharing program, Car2go, and this year, Ford’s shared, on-demand van service, Chariot, came to Austin. The city also hosts many exciting events for the experience-driven generation, such as the Austin City Limits Music Festival and SXSW (South by Southwest), which are some of the most well-known festivals in the US.

### **8) The US Economy Has Entered an Age of Expansion that Is Strong Enough to Encourage Activity in the Retail Real Estate Market**

Andrew Nelson, of Colliers, is generally optimistic about the US economy. “On balance, there are a lot more pluses than minuses. The US economy is stronger now than it was at the peak of our last cycle,” he said, citing a healthy housing market and job market and a strong consumer balance sheet as some of the positives of the economy. By a show of hands, the majority of conference attendees think that the economy is doing well, but could be better. This year started off on a weak note, with plunging oil prices, the slowing of the Chinese economy and plummeting stock markets. However, the recession that some had predicted did not happen. Nelson commented that the US economy is expected to rebound in the second half of 2016.

Regarding implications for the retail real estate market, Nelson said he is seeing a high level of buying and renting activity, encouraged by the healthy outlook for the economy. He indicated that the current expansion should not lead to overheating of the real estate market in the near term, as businesses still hold a cautiously optimistic view of the economy.



## 9) Smartphones Are a Retail Killer that Replace Physical Retail Goods with Online Services

Nelson continued his remarks by introducing the idea of the smartphone as retail killer. Many retail goods and services that consumers previously purchased at stores are being replaced by mobile apps, he said, noting that smartphones also serve as cameras, radios, notebooks, newspapers and music players, among other things. As a result, the sale of goods at retail is being partially superseded by online services.

Nelson cited the music industry as a prime example, saying that 2015 marked the first year that online music-streaming revenues exceeded those of music downloads. Music streaming has replaced traditional CDs and records in the music industry, he said.

## 10) Experiential Retail: A Focus of Future Shopping Centers

During a panel entitled “Experiential Retail in the Internet Age,” entertainment, convenience services and personalized loyalty programs were highlighted as different means retailers can employ to create great experiences in their physical spaces.

Panelists noted several specific examples of successful experiential retailers. iFLY is an Austin-based indoor company that offers skydiving simulations to adventure seekers of all ages. Alamo Drafthouse Cinema is a new kind of experiential movie theater that combines a restaurant, bar and theater in one place. Both companies have attracted foot traffic to shopping centers adjacent to their locations.

Jay Ramirez, Head of User Experience at Chick-fil-A, shared his company’s journey in developing an app that allows customers to seamlessly order and pick up food, and Jonathan Dyke, Chief Operating Officer at Spring Marketplace, discussed his company’s personalized rewards programs for mall shoppers.



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