

# Repurposing Retail Properties in the Age of E-Commerce

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# **Repurposing Retail Properties in the Age of E-commerce**

*Written by Kimberly Ashby*

The question of whether aging commercial properties can find new life and cash flow is one that has haunted the industry since the Great Recession began and continued through 2017 when the “wall of maturities” was expected to hit. Now that the marketplace looks down the corridor of the year 2018, it seems that the resounding answer to that question is, “Yes, there is life after the recent challenges presented to bricks and mortar.” That is, if the managers and developers have a few key components in place, and as always, if they have a favorable location, or the vision to create one.

## **Capitalizing on “The Experience”**

To attract customers, the business must either have goods that cannot be obtained anywhere else as easily or cheaply, or the property provides an “experience” that attends the purchasing and sales transaction. Even though the idea of an “experience” seems tourist driven, it is non-discriminatory, and can be applied to almost any commercial venture. Movie theatres have been turned into vast man-caves with recliners, and even beer and wine to create the experience that helped restore theatre attendance in the age of NetFlix. Similarly, malls and smaller

shopping venues are in constant motion providing free events for children and their parents beyond photos with Santa, i.e. flash mobs, free dance lessons, fashion shows and cooking classes. Gas stations have joined in with short videos inset in the pumps to entertain while pumping gas. Clearly, the bandwagon is full of those capitalizing on the “experience” concept to court business.

The companion to the “experience” concept is to mate one type of business to another. Walter Robb, former CEO of Whole Foods, has offered his thoughts on the outcome of the Whole Foods and Amazon merger/purchase. Time will tell, but he predicts the combination of the organic “experience setting” of the 400-plus locations of the Whole Foods brand is now positioned to expand exponentially with direct sales to consumers to take on the growing demand for “Blue Apron” type dinner deliveries. Smaller-scale mating can be observed with Starbucks’ offering free Wi-Fi and plenty of “work spaces” where customers can be seen setting up shop for hours. The final analysis is whether this breeds sales or just loyalty.

Blended together with the “experience” and “mating” in a commercial property is a word attributable to the Millennials: “organic.” This term seems to be driving the younger buyers to their doors. Even if the products themselves do not meet the tests for “organic” as those may be applied by federal restrictions, updating the energy uses with renewable energy, such as solar, can be enough to give the new property that forward-thinking feel that makes prospective visitors feel better about the “experience” of the property. Bonus perks can include

tax refunds and advantages from using alternative energy as well.

Other types of retail that experts believe will ultimately survive any e-tail onslaught includes phone stores and sale of other personal digital assistant devices. The reason is that the customer typically seeks the assistance of transferring data, photos, etc. from the old device to the new, and the benefit of being able to shop various plans and providers at a one-stop opportunity. Other types of goods that may only be purchased in stores can also drive customers. Franchisees have negotiated against the in-store goods being sold by direct purchase. Others have upped the game by regularly including special sales, samples and tastings. Trader Joe's goods can be purchased through Amazon on-line, but the customer cannot sample it in advance, one of the hallmarks that Trader Joe's, Costco and others learned early on—give the people what they want: free samples.

All the studies of the commercial property marketplace agree that the pace of change is not only unprecedented, it is likely to continue to accelerate. One could ask what the reason would be for researching and developing new concepts that will likely be obsolete by the turn of the next holiday season. Perhaps the real answer is the mindset. Owners and managers need to have an R&D team, not as an ad hoc stop-gap resource, but built into the day-to-day operations. The data regarding the properties that were subject to 10-year financing before the Great Recession shows far fewer of those commercial properties defaulted at maturity than expected. Therefore, there are plenty of properties

looking for a new concept which could result from creating an “experience” for the customer or visitor, mating the use with another technological use, looking forward to an “organic” component of the use, or producing a good or service that cannot be purchased elsewhere.

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