

A Reprint from *Tierra Grande*, the Real Estate Center Journal

trends in retail real estate

Supermarket mergers, Internet sales and lost taxes, mall entertainment, inner city challenges and urban redevelopment were key retail real estate issues highlighted at this year's International Council of Shopping Centers convention. Here is a recap of the discussions. — By Mark G. Dotzour

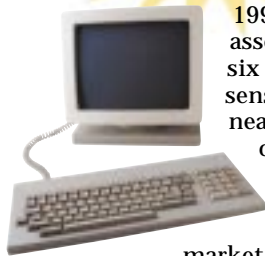
Supermarket Mergers, Consolidations Continue

Wal-Mart is a key influence in a trend toward conglomeration in the supermarket industry. Its massive purchasing power and distribution system is creating intense competition for regional and local grocery stores. Wal-Mart, Kmart and Target superstores have devastated local and regional chains.

Before Kroger's acquisition of Fred Meyer last fall, Wal-Mart was America's largest food retailer in terms of market share. The emergence of freestanding drug stores, which sell convenience food as well, also has weakened demand at the neighborhood and community shopping centers. These industry changes have been especially hard on independent grocers. One idea for local grocers is to fit into niche markets not served by the major firms, such as gourmet and ethnic foods.



Web's Impact on Retail



Internet retail sales growth exceeded 1998 expectations. While it is difficult to assess the actual level of Web retail sales, six major research companies try. A consensus of their estimates indicates that nearly \$10 billion in on-line retail sales occurred in 1998.

The growth rate is expected to continue. However, Internet sales still represent a small slice of the retail market. Non-automotive retail sales were estimated at \$2 trillion in 1998. Although the on-line sales growth is significant, it still is less than 1 percent of the entire retail market.

Internet Lost Sales Tax



Governors and mayors expressed concern that sales tax revenues may force state and local governments to raise property and income taxes, unless federal officials can determine how to collect sales taxes on Internet purchases.

Congress placed a three-year moratorium on new Internet sales taxes. The issue of who would receive the tax revenue is difficult to resolve.

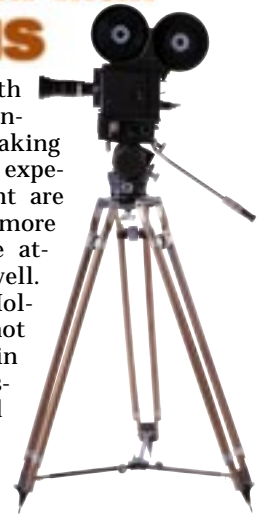
The purchaser of a book may be in Texas, the vendor in Illinois and the Website in New York. Who collects the sales tax revenue in this transaction? Consensus estimates indicate that on-line retail sales amounted to approximately \$10 billion in 1998. Nationwide, the average sales tax is about 7 percent. This means that state and local governments lost \$700 million last year in sales tax revenues. Such revenues are used to pay for public schools, roads, highways and other local public improvements.

Experts estimate that Internet retail sales could increase to \$100 billion by 2003. If this happens, then the lost sales tax revenue would approach \$7 billion. These revenue shortfalls could force state and local governments to raise other taxes or cut services to their communities.

Entertainment Still Mall Focus

Local retailing that does compete with the Internet is the regional mall. Cinemas and restaurants are the key to making a regional mall an exciting shopping experience. When food and entertainment are centerpieces of the mall, people have more reasons to go there. However, some attempts in this area have not fared well.

Theme restaurants, such as Planet Hollywood and Rainforest Café, have not performed as well as hoped, except in tourist areas. To their credit, these restaurants are revising their menus and pricing to attract repeat customers. The goal of the shopping center is to get people to attend a movie, eat at a restaurant and do some shopping, all in the same trip.



Key Urban Redevelopment



Many projects require substantial public financing and investment, often including tax increment financing. As a result, politics plays a big part in

urban development. Mixed-use development often is the most successful formula, rather than just focusing on retail or residential exclusively. For example, the combination of a convention center, hotel, retail and residential area creates a successful project. Not only is money required, but many intellectual talents also are needed.

Urban development requires significant social and political analysis, as well as architecture and planning considerations that are not encountered in edge city suburban development.

Each presents a different opportunity with a unique set of challenges that require unique solutions.

No formula solution can be applied to all cities. Having neighborhood residents involved in the construction and operation of the facility is one key to success. A new development promises to create jobs. It is essential that city officials and area residents see evidence of this promise being realized.

Downtown Retailing and Inner Cities



Most retail development occurs in the suburban perimeter of growing communities. These areas often are referred to as "edge cities." Many of these markets are now saturated with shopping centers and retail opportunities. Consequently, retail developers have been looking

overseas for new development opportunities. However, some in the industry are beginning to look at a new U.S. development frontier, the inner-city markets of major American cities.

Many of these neighborhoods are underserved by retailers, forcing residents to travel considerable distances even to purchase food and convenience goods. As a result, many city government and economic development officials have begun to promote opportunities for retail development in the inner city. Cities have several reasons why they want to encourage retail development, including:

- new jobs in the neighborhood,
- increased sales tax receipts and
- increased property values from a revitalized downtown market.

In recent years, drug stores have been aggressively building new freestanding pharmacies in downtown markets. In addition to selling medical products and supplies, many sell convenience foods. Consequently, these new drug stores, such as Eckerd's and Walgreens, are becoming the grocery store for downtown neighborhoods.

For cities to successfully bring retail development to their downtowns, they must work with developers who deal directly with the retailers. Finding quality tenants is the key to downtown retail redevelopment.

Several downtown and inner-city retail development challenges were identified,

including:

- difficulty finding parcels of land large enough to support new development;
- scarce parking, requiring flexibility in parking requirements;
- older downtown buildings, requiring significant modernization to be useful;
- many of the downtown properties are owned by small investors who lack sufficient funds to modernize the properties;
- funding the projects; and
- potential neighborhood reaction if the project is not what they want.

Despite challenges, opportunities exist for inner city and downtown development. Funding can be found through pension funds, some federal funds, and fiscal incentives provided by cities, such as tax increment financing. Working with neighborhood groups in the area to get input about their desired development is a key element.

Successful developers work closely with these groups and solicit their support to get public approval and financial incentives needed from local municipal authorities. Despite limited land, retailers may be willing to open a basement or use a second story for inventory storage. Government can help by providing needed parking in the area. □

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