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AMAZON BUYS WHOLE FOODS

In 2017, Amazon.com acquired Whole Foods Market for $13.7 billion, the retailer's largest acquisition ever.

A YEAR IN RETAIL

LOOKING BACK ON 2017 & FORWARD TO 2018

By Steve Avoyer

And a Happy New Year to all of my friends and colleagues.

2017 was quite a year indeed! Retail shop rents continued to rise (*at least on proformas!*) and retail investment cap rates remained surprisingly low (*at least to me*). But juxtaposed with that, we also saw aggressive big box downsizing, chain consolidations, dispositions and fierce competition from a host of online retailers.

Take everyone's darling (*except maybe the FTC*'s) – Amazon.com – "the most interesting company in the world", with its acquisition of Whole Foods, exhibiting juggernaut online aggressiveness, creativity, and an ever-growing base of Amazon Prime members. With 5 billion Prime deliveries made in 2017, Amazon poses an ever-changing baseline for other retailers to follow, incorporate or get out of the way. While no 800-pound gorilla is ever truly bulletproof, this Amazon Roman Candle is only expected to accelerate in the months and years to come. (*Has anyone heard the Target rumor?*)

Amazon (and other social media cousins like Facebook and Google) also poses an interesting (*and, to some, scary*) online platform reaching millions and millions of worldwide households (*and, therefore, minds*) that can track our social/retail preferences, habits and desires to a point where the quid pro quo of increasing personal convenience may well lead to serial invasion into our private lives. That said, I am also very confident that the resiliency and creativity of the American entrepreneur and businessman and woman will eventually figure out ways to combat and effectively compete with Amazon.

Was it just me or did anyone else notice how hard it was to find a parking space this holiday season, not only at the regional malls, but also neighborhood retail centers? Good sign for 2018.

In 2017, we saw the mantra and validation of retail projects aggressively creating "memorable places" (as opposed to ONLY maximizing GLA) in the planning/design stages of a project. Movie theaters replaced Kmarts, health clubs replaced office supply stores and creative, vertical mixed-use replaced 5 per 1000 surface parked projects – both in the eyes of developers, tenants and municipalities.

So do we see opportunity or storm clouds?

As with most things in our business (*and life!*) – it's more gray than black and white. In my view, it is certainly a time to be cautious (*but not paralyzed*), it is certainly a time to reconsider the retail "go-to" axioms of the past (*but not give up what has made you successful*), and it is also, most certainly, a time to recalibrate and give more than lip service to the diverse socioeconomic trends we are now experiencing worldwide – especially social media, technology and the cost-effective delivery of goods and services.

There are a lot of smart people in our industry doing and trying out a lot of smart, new ideas. We will continue to evolve (*because we have to*) and do our best to give the public what they say they want in terms of retail products being offered in and from brick and mortar facilities. We also need to develop new, exciting and memorable "places" to entice customers to get out from behind their ever-increasing computer/smartphone ball and chain to experience actual human activities that cannot be replicated (*for most people*) in cyber space.

In 2018, I am going to be keeping my eye on the following:

- **Technology** - more interactive platforms to entertain us and make our lives, yes, even more convenient (*is that possible?*)
  - Drones
  - Artificial intelligence
  - Robotics
  - Cyber currency
- **Niche players** that can be nimble and take chances that larger corporations usually cannot
  - Developers
  - Tenants
  - Start-ups
- **REITS** trimming their "non-core" portfolios
- **New tax structure** and its effect on:
  - Homeowners and the dream of homeownership
  - State and local taxes
  - HELOCs
  - Corporate reinvestment in their employees
- **California**
  - Prop 13 - could be on life support
  - Residential rent control - in San Diego County and other (primarily coastal) California counties where the new housing supply has fallen significantly behind need and expectations
  - Gas prices
  - Minimum wage increase effect
- **Shopping centers**
  - Cap rates
  - Rents and projected rent growth (reality vs. proforma)
  - Tenant depth (competition for space)
  - Per SF cost
  - Restaurants - % allocation to a project and rents (*they can't solve ALL of our shop problems*)
- **Mixed-use solutions** with both the major tenants (breaking the historical rules to stay relevant) and developers that can pencil their higher-than-ever land acquisition costs with residential, office and hotel in addition to retail

Stay tuned, friends – it's going to get interesting!

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