Shopping centers offer mixed profit picture in 80s

A contractor can build a healthy business from retail building commitments, but there is clearly economic unrest on the horizon

By Jim Van Loozen
Editor

The conquering GIs came home from the beachheads of WWII and changed the face of America. They gave birth to urbanization, suburbanization, whole industries and, with the appropriate assistance of their spouses, to an incredible number of new babies.

It hardly seems possible, but the glow of V-J Day is now cooled by more than three decades of modern history, and the “Great Generation”, the infants of the baby boom, has come of age. Now pushing into the productive years of their thirties, the young people born in the post-war boom have become the dominant force in the nation’s buying power.

For the contractor willing to move into retail building space construction with his eyes wide open, the baby boomers offer a significant short-term opportunity for heavy profits. The key phrase here is short term, however, because the nation’s major retailers, who make a living studying population demographics and market trends, say this generation’s impact on the economy will peak and decline within the framework of the 1980s.

The outlook for the construction of new shopping center space seems healthy until about 1985. Then, as the post-war infant moves into his or her forties, the characteristics of the generation will quickly catch up to the retail market. The major impact on the building industry will be a reduction in the need for new store space, and hence, a tight, competitive market will make late-80s retail construction less attractive.

By late decade, the contractor/businessman will have become conversant in the major catchwords of today’s retail industry: ROI, which means return on investment. Today, ROI should be a key factor for any contractor with plans to cash in on the early 80s building market for retail space. One of the key questions facing the contractor is whether the short-term building climate will provide a return significant enough to justify the investment of time, capital, manpower and resources in the days ahead.

One of the key considerations in arriving at that decision is what the demographics say about the future of retailing, and indirectly, about the demands for building space for the retail industry. Fortunately for the contractor, there is no necessity to reinvent the wheel. The key segments of the retail industry have already completed an extensive amount of homework indicating the late-80s slump in new construction, as well as realistically addressing the early-80s opportunities for new building.

These demographics become increasingly important to the construction industry, because although there are no

SHOPPING CENTERS OF THE 80’s: Will contractors see profits or wind up behind the 8 ball?

“One of the more obvious and significant factors in today’s scene is the decrease in suitable land for development.

“There is not only a physical decrease in the amount of suitable land, but there is also a steadily growing labyrinth of government restrictions that will limit, if not prohibit, the use of much of the land otherwise available.”

—Lathrop Douglass, AIA, who has been planning shopping centers and downtown renewal projects for more than 25 years.

“Canadian retailers have already experienced a slowdown in expansions due to a limited population and economic growth. Problems with over-storing exist in many areas.”

—Gerald Schwartz, Vice-president of Gladstone Associates.
firm figures to pin down the exact market share commercial retail space represents in total construction, industry estimates indicate shopping centers and other retail buildings make up about 20-25% of all commercial building.

A look forward

The aging of the baby boom is the primary concern in the minds of key retail industry personnel. The industry is already going through marked changes in marketing strategy just to accommodate the preferences of the young 30s. Among the adjustments are such minor changes as business hours or decorating schemes and such major considerations as changes in product lines and changes in store sizes.

Vic Parra, director of member services for the Washington, D.C.-based Association of General Merchandising Chains, Inc., says major retailers have already begun adjusting to the marketing opportunities presented by the great generation.

Store hours have been adjusted to gear opening and closing to the convenience of the working couple, he said. Considerations of maximizing return on investment have led many retailers to move away from low-yield product lines such as appliances and replace needed store space with soft goods. Trendy merchandise is on the way out, Parra said, because budget-conscious mid-30s shoppers are demanding solid, lasting quality in clothing and other soft goods purchases.

On the building front, Parra points out adjustments already in the works. He says the pursuit of middle markets, i.e., downtown centers and smaller mid-sized communities, is already resulting in a reduction in the amount of square footage required for a retail store.

One major retailer, considered to be a trendsetter, has added its own construction division, complete with a full company vice-president. Parra says the construction division deals largely with ongoing maintenance and minor store renovations, but he points out the company made the move “because the costs of construction have increased to the point they are of major concern to an overhead-conscious store owner.”

Like most industry spokespersons, Parra foresees something of a building boom in the early 80s, followed by a general decline in new building.

“There are, of course, other considerations when you look at the building climate,” he notes. “Constraints in the use of available land space, inflation in the cost of new buildings and real estate, requirements for maximum energy efficiency, and the overall downturn in population growth also point towards a reduction in new building,” he said.

Parra is not alone in his assessment. Lynne Bershad, senior editor for Chain Store Executive Magazine in New York, says the squeeze is on new development.

The squeeze has become so evident, Bershad devoted her December, 1979 issue to exactly that theme. The conclusions? That although significant development opportunities still exist in the early 1980s, market demographics and universal trends indicate a future tightening of the new building market.

In her magazine, Bershad noted a tug-of-war within the retail industry for a larger segment of primary and secondary markets has involved developers in a game of overkill. Untapped markets, she noted, “are becoming anachronisms.”

Bershad sees high mortgage interest rates, energy shortages and population trends impacting future building market growth, but she told Construction Dimensions that a land shortage would, in her opinion, have more impact on slowing construction than any single factor in the total

“"The Canadian experience could foreshadow development in U.S."

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equation: “We are simply arriving at the point where we are running out of land to be developed,” she said.

Her latter point gains some pretty heavy corroboration from other industry leaders. Lathrop Douglass, a leading industry consultant, told a symposium audience of the International Council of Shopping Centers that a growing lack of land suitable for development is “one of the more obvious and significant factors in today’s scene.”

His remarks were similarly reflected by the full range of industry experts who addressed the major meeting, held in late 1978 in New York. There was developed in New York a basis for a major forecast contained in “Shopping Centers 1988: Answers for the Next Decade”, published by ICSC. The conclusions of that report echo all other industry forecasts; heavy early 80s development, followed by late 80s decline in new building.

The major conclusions of the report are rooted in three major factors: the coming of age of the baby boom generation, the shortages in land space and energy supplies, and the decline in U.S. population growth.

Some ICSC highlights

The history of the shopping center industry is really only two decades old. Gordon Kennedy, Jr., president of Gladstone Associates, said in providing an overview for the report: “Our industry was a direct result of the greatest migration in human history—the urbanization and then suburbanization of America.”

Kennedy says the industry today, however, is coping with “the rude awakening that the resources that fueled the birth of the shopping center industry are finite, with all that that implies and portends for our industry from that point forward.”

Kennedy concluded that future building will be immediately impacted by the arrival at prime buying age of the baby boomers, but he predicted a slowdown in building once that impact peaks in mid decade. He pointed out that demographics—the numbers, ages, location, etc. of people—are the major trends that will determine the future building needs of the industry. And, he sees many of these trends ultimately declining in the 1980s.

He also sees major impacts from energy, federal spending and inflation, environmentalism and land availability, and changes in the mobility and methods of transportation. Based on these major considerations, he offered “my thoughts as to what all of this may mean for shopping center design and development in the years ahead.”

He foresees strip centers and regional malls adjusted to suit the size of their communities remaining the dominant form of retail development. He predicted growth in infill locations and the recycling of shopping centers will become important business opportunities. He also projected increased opportunities in downtown development, building of theme centers, adaptation of older structures as specialty retail centers, and increased renovation of existing centers. And, he finally projected some growth in new communities and development into the year 2000.
with a closer relationship between local government and private industry.

Kennedy’s overview was generally supported by other industry leaders involved in the New York meeting. Kennedy’s vice-president Gerald Schwartz, noted “Retailers foresee numerous development opportunities over the next five years in the United States, but evince a growing concern that problems could surface in the future. New store expansion plans are accelerating over the short term,” he said.

But he added that most U.S. retailers are already cognizant of the fact they can expand only so far. “Canadian retailers have already experienced a slowdown in expansions due to limited population and economic growth. Problems with overstoring exist in many areas,” Schwartz said.

“Reflecting this concern, most retailers anticipate a shift in future location decisions away from suburban regional centers in large metropolitan areas,” he added. He cited lack of dynamic growth in the suburbs as a prime mover to the industry toward exploitation of middle markets. “The retail expansion boom will necessarily taper off after the mid-1980s because of fertility rates and hence slower population growth. Thus a plateau will be reached in retail expansion. Retail growth will then occur at a much slower pace, dependent on normal population and income gains.”

Schwartz said his statistical conclusion is that “an average of one additional regional center can be supported in each of the 276 U.S. metropolitan areas in the 1980 to 1990 decade” solely because of the 25-34 year old population.” In reality, some faster growing areas will be able to support more retail development; others will not be able to support any.”

“So, we are on a curve,” he said.

Schwartz said some of the outcomes of that curve will be planning of smaller store modules, lower construction budgets for common areas, or a higher percentage of the common area construction costs will be paid by the department store retailer or by the developer. He also forecast increased opportunities, and hence demand, for renovation.

“The Canadian experience of renewing neighborhoods and regional centers could foreshadow development opportunities in the United States,” he said. “Virtually all Canadian shopping centers appear to be candidates (for renovation), as long as there is potential for increasing sales through modernizing and that route is easier than embarking on new developments,” he said.

A clear conclusion

In the presentation of his remarks, Schwartz hit upon one theme that offers the clearest conclusion for developers and contractors pondering the retail building opportunities in the 1980s.

“A growth boom is ahead—but what follows the boom? It is clear that developers and retailers will have to (1) begin looking at new opportunities in other than regional center locations, as well as (2) begin to expect a drop in traditional development opportunities in the future.”

With perhaps 25% of commercial construction dollars hanging in the balance, contractors who depend heavily on retail building markets will have to keep these two facts of life in view. Additionally, they should be prepared for the possibility of further diversification into other segments of the construction market in order to replace dollars lost to a decline in retail center construction.

Editor’s note: Grateful acknowledgement is made for permission from ICSC to quote from its publication. Readers who would like a more definitive summary of shopping center development opportunities should read the full text of “Shopping Centers 1988.” For information about purchasing the publication, please contact: ICSC, 665 Fifth Avenue, New York, NY 10022.