Nova Southeastern University

H. Wayne Huizenga College of Business and Entrepreneurship

Assignment for Course: REE 5878 – Real Estate Development Process: Part 1

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CERTIFICATION OF AUTHORSHIP: I certify that I am the author of this paper and that any assistance I received in its preparation is fully acknowledge and disclosed in the paper. I have also cited any sources from which I used data, ideas of words, whether quoted directly or paraphrased. I also certify that this paper was prepared by me specifically for this course.

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Instructor's Grade on Assignment:

Instructor's Comments:

Question 6. What is one of the ways shopping centers can raise equity? Also, is it important to have diversification in the types of tenants in the shopping centers?

One method developers can use to raise equity funds when developing a shopping center is “to sell parcels to anchor tenants or outparcels, or “pad sites” to fast-food restaurants, banks, and similar businesses after the center plan has taken shape” (Peiser & Hamilton, 2012, p359). Once the process of obtaining permits has been finalized, the value of these parcels and outparcels should increase, thus, creating an opportunity for developers to raise equity capital that will provide them some level of relief through the project’s construction and completion.

“A shopping center’s composition is ultimately determined by the developer’s ability to attract and negotiate acceptable leases with desired prospective tenants” (Peiser & Hamilton, 2012, p359). Moreover, the tenant mix should be created considering the results of the market analysis that will provide the developer with the types of retailers the market wants or is in need of. However, developers must keep in mind that having a balanced tenant mix is significant and can determine the success of a shopping center. In fact, the key to a shopping center’s success is to select and combine “a group of mutually reinforcing/complementary tenants that will serve the needs of a particular market” (Peiser & Hamilton, 2012).

In certain areas, it is regarded as valuable to have a tenant mix that includes local “mom and pops” businesses and nationally recognized businesses, since owners can benefit from having big national tenants that can result in more favorable leases, as well as from having small local tenants that will create a positive reaction on locals. In fact, owners recognize the benefits from having a diversified tenant mix as well as the importance of supporting local businesses, and would go as far as subsidizing rents for smaller tenants so they can become part of the mix (Peiser & Hamilton, 2012).

Question 19. Why do retailers seek urban areas?

If asked to describe an urban area most people would use descriptions such as heavily populated areas, packed streets with high foot traffic, fast paced environment, and economic, social and cultural centers. Retailers have always been at the heart of these urban centers. However, for the past few years, urban areas in the United States have been experiencing a population growth, which has created opportunities for retailers to accommodate the needs of more people relocating into those areas.

As a result, for the past couple of years, big-box retailers such as Walmart or Target, that have a strong presence in suburban areas, have been entering urban areas by "developing smaller-format, urban prototypes to gain access to new market segments not yet fully served by commodity retailers" (Peiser & Hamilton, 2012, p335). The opportunity to grow drove these retailers to create new models to be able to adapt to the urban lifestyle and be able to expand into markets where they had no presence in the past.

On the other hand, "other areas are redeveloping as more upscale areas and need repositioned retail centers," which also creates opportunity for retail development (Peiser & Hamilton, 2012, p334). "Most analysts agree that urban neighborhoods are the new frontier for retail – the one place left with more spending power than stores to spend it in" (Peiser & Hamilton, 2012, p332)

It is worth mentioning, that municipalities have identified the tax potential from big retailers coming into urban areas and how their citizens benefit from the jobs created and the variety of merchandise options. All of these have encouraged them to create incentives to drive retailers to enter their markets. For instance, "Washington D.C. established a successful grocery store subsidy fund" as an incentive for big grocery stores to open in neighborhoods they used to stay away from in the past and to motivate people to move back into the city (Peiser & Hamilton, 2012).

Question 32. What was/is a major factor contributing to the decline of regional malls and how are they trying to reinvent themselves to retain customer interest?

Regional malls, “anchored by full-line department stores,” were considered to be “the centerpiece of the retail delivery system” until the mid-1980s (Peiser & Hamilton, 2012). The major factor that contributed to the decline of these regional malls was the introduction of “big-box” and “category killer” retailers that became the direct competition to full-line department stores.

“Big-box” retailers, such as Target or Walmart, began to offer consumers a different shopping experience with a variety of products available and lower prices that allowed them to “dominate commodity retailing” (Peiser & Hamilton, 2012). Moreover, the introduction of strip center retailers, such as Best Buy, Staples, Petsmart or Marshalls, that offered the same product lines that were once exclusive to department stores, such as electronics, toys, or stationary, drove consumers away from regional malls. Therefore, these new “big-box” and “category-killer“ retailers started a trend that led “more than half of America’s malls” to loose their anchor stores and become “functionally obsolete between 1980 and 2000” (Peiser & Hamilton, 2012).

The failure of department stores led some regional malls to reinvent their shopping experience to bring consumers back. Some malls started “offering a more exclusive and specialized shopping experience” by bringing Seatle-based Nordstrom’s product variety, outstanding customer service, and its luxurious and attractive environment (Peiser & Hamilton, 2012). This trend towards a more upscale experience created the concept of “specialty retailing” that became very popular in the early 1990s.

Later on, lifestyle centers were created to offer consumers not only a place to shop, but a place where they could socialize and enjoy. In other words, these lifestyle centers, that would include retailers, restaurants and even entertainment, offered consumers a different experience.

References

Peiser, R. & Hamilton D. (2012). *Professional Real Estate Development: The ULI Guide To The Business* (3rd ed.). Washington, DC: Urban Land Institute