DEVELOPERS DIVERSIFIED

2014 2020

How Consumer Behavior, Demographics and the Economy Will
Shape Shopping Center Leasing, Development and Management

May 2010

Introduction

- Developers Diversified recently partnered with Alexander Babbage to study how evolving consumer behavior, changing demographics and the economy will shape the future of shopping center leasing, development and management

- We focused our research on demographic projections and economic conditions in the U.S., Brazil and Canada; U.S. consumer behavior; the future physical form of shopping centers, and the identification of growing and dying retailers and retail categories

- Our research began in September 2009 and included:
  - an extensive review of publications and online research
  - interviews with industry resources including shopping center industry executives, authors, retailers, academics and economists
  - nationwide consumer interviews in six focus group sessions spanning three generations
  - an online survey of nearly 2,000 shoppers, and
  - approximately 320 shopper intercept surveys to test reaction to conceptual ideas at select Developers Diversified shopping centers

2014-2020 Shopping Center and Retail Format Implications

- Retailers will seek smaller footprints as merchandise categories move to an online channel
- Shopping centers will be more urban-like, even if they are not in urban areas
  - Shopping center owners may seek more non-retail uses such as personal and medical services
  - Shopping center owners may pursue a development and leasing strategy that is less rigidly defined, i.e. considering a national fashion anchor as a possible tenant for a grocery-anchored center. Seek the retail "driver" not necessarily the "retailer."
- As a result of shrinking retail lifespans, shopping center owners may need to explore the implementation of shorter lease terms; however, the integration of more non-retail uses will make this more difficult as these uses seek longer terms
- The total shopping experience will include both online and in-center
  - Shopping center owners may wish to consider amenities that will address the needs of Boomers (ample, convenient parking; ways to addresses limited mobility) and desires of Gen Y (strong online presence, enhanced physical atmosphere/areas for children's activities)
  - Integration of online shopping and in-store collection may increase demand for drive-in/drive-thru formats with significant impact on site layout and key location values
- The restaurant and food service categories will continue to play an important role as dining is a real – not virtual – experience. Restaurants will become the new dining room.

Shifting Consumer Attitudes and Behaviors Implications

- Shoppers of all ages have made a big and permanent shift to value retailers/brands. Consumers have determined that they can live at a lower price point.
- Researching merchandise prior to making a trip to the shopping center is replacing on-site cross-shopping and will reduce the time at a center as well as the likelihood of exploring multiple retailers during any given shopping trip – making it all the more important (and difficult) to create impulse buying
- Because online research has become so important – and trusted – it is important that shopping centers be strongly positioned in the online mix of information shoppers consult – especially to find the best value and immediately available merchandise

Technology Empowers Consumers Like Never Before Implications

- Increasing use of technology will result in some reduction in overall store sizes
- The movement of some categories to online will mean lower inventory levels in stores, and will likely result in smaller footprints for big box retailers. Other retailers can support higher sales levels from a retail unit by using the store as a showroom.
- Retail investment moves from store growth to Internet optimization, distribution center growth using supply chain optimization
  - Retailers will need to assess whether the store is a suitable distribution center
- Order online, pickup at store will increase demand for drive-through convenience
  - We already have drive through fast food, restaurant pick-up, pharmacy
  - We will have drive through grocery, apparel, pet foods

Sustainability Implications

- Growing retailers are “sustainable” and pragmatic. They will expect developers to implement “sustainable” practices as a way to reduce tenant charges.
- Cities that are positioned to experience significant growth also are leading the way on LEED building practices. Expect to build “sustainably” to expedite processes and gain approvals.
- Consumers expect “sustainable” practices to be the norm and they do not want these practices to be a marketing “hook”

Evolving Demographic Implications

- Despite recent global development initiatives among shopping center developers, forecasts for a strong U.S. economy and a growing population, offer viable development opportunities through the 2020 study period and beyond
  - The U.S. will have an increasing share of the *developed world* population and GDP through 2020
  - Demographic shifts include a growing Hispanic and Asian population. Gen Y and Boomers will be a focus for retailers.

- Brazil is well positioned for continued retail growth
  - Growth among middle income households will continue to drive consumer spending
  - The strong growth trends in Sao Paulo and Rio de Janeiro point to development opportunities
  - Retailers are focused on expansion opportunities in Brazil
  - Brazil has low per capita square footage of shopping center space

- In Canada, only Toronto and Vancouver will be viable due to slow population growth
  - Canadian population growth is fueled by immigration – primarily from Asia
  - Only a handful of sub-markets are viable for new development – because of immigration – including the Richmond Hill and Markham areas in Toronto and the Richmond area in Vancouver

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