

**REAL ESTATE INC.**

# Why Greater Baltimore is going through a retail revolution

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**Melody Simmons**

Reporter-  
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Tom Maddux is a broker at KLNБ.

The contents of the former Owings Mills Mall were recently auctioned off in spectacular, piecemeal fashion.

Fitting rooms, customer service counters, water fountains, clothing racks and even sinks and flagpoles were harvested and sold online to make way for the wrecking ball and a new retail center.

Gone was any trace of the cache from the one-time luxury destination that in places had golden awnings, water fountains and 155 tenants including Saks Fifth Avenue, J.C. Penney and Macy's.

What's up next is designed to lend a new vibe to the northwest Baltimore County suburbs. Kimco Realty's plans for the old mall will hold more entertainment and large and small retailers and restaurants in a marketplace expected to cost \$75 million and lure shoppers away from their computer screens.

It will take a while, though, to erase the symbolism of the mall's final chapter. It was a virtual — and visual — wakeup call that represented a swinging of the pendulum for what's going on in retail these days.

What's ahead for the future of retail is still being fiercely debated.

"There is definitely a shift in retailing," says Geoffrey Mackler, principal with H&R Retail who leases space in the metro area. "Retailers need to provide a better experience to combine their physical store with an online presence and service out of the store."

To Mackler, the competition between brick-and-mortar stores and e-commerce has been building for a decade now. And it's not going away.

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The impact is vast — it affects planning, leasing, product placement and orders. Generational shopping habits have also entered into the mix as millennials are split between the social aspect of shopping and hanging out at the new marketplace centers or upscale malls, and ordering a new outfit or pair of shoes off a smart phone app within minutes.

“There are three broad categories that I see: convenience, price and experience,” Mackler said. “That’s why we’re seeing a lot of innovation in food as well as collaborative retail where it’s interactive.”

Some of those offerings include leasing large spaces to include activity centers and a coffee space. Some large big-box retailers like Macy’s and Home Depot offer options to order online and pick up in the store.

Shoppers at the Trunk Club can order online, have a personal shopper select and ship clothing and accessories to them monthly or go into a large Trunk Club shopping space where they can have a beer or glass of wine from a well-stocked bar while trying on clothing.

“It will continue. It’s creating a destination,” Mackler said. “It’s a throwback to the 50s and 60s where you had the old Main Street and people want to be social and want to have interactive space whether its in retail or office.”

### **‘No end in sight’**

Peter Gold sees it more concretely.

He’s chief digital marketing officer at SHOP.COM and said the trend is shifting away from traditional habits.

“There is a cultural shift that has happened,” Gold said. “I was born in the 1960s. Growing up, it was normal to go to a mall. Today, I have a 13-year-old son, and he only shops online. When you ask him for his holiday list, he sends links.”

Gold, who attends several digital marketing conferences a year to keep his finger on the pulse of shoppers with a mouse, says “e-commerce is growing exponentially and there’s no end in sight.”

The 24/7 world of e-commerce allows shoppers to peruse websites for deals anytime, anywhere.

Websites are more secure, Gold said, and shoppers like being anonymous and private.

“E-commerce has only been super strong for the last 10 years, replacing and cannibalizing in-store sales,” he said. “But brick-and-mortar retail is not going away. You’re going to see a continued marriage of the two. At the end of the day, the talk is about channels — and your one true channel is your customer.

Ultimately, if you stay true to that customer, you’ll continue to see retailers be clever on how they use digital engagement.”

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Retailers in the area have an interesting take.

Kara Brook, creative director and owner of Waxing Kara, a honey-based beauty product and culinary ingredient company in Owings Mills, said she has steadily grown her business with a mix of e-commerce and in-store sales.

She keeps her hives of bees on the Eastern Shore for honey harvesting while her shop and lab is located at Metro Centre. She opened the space in September 2013 after nearly a year of internet-only sales.

“I found it necessary to do both because of the nature of the product I sell,” Brook said. “People like to touch, taste and smell the products and it’s a very community-based business. People want to talk about bees, they want interaction, and we’re a commodity business. This is a really special handcraft business that can only be appreciated in person.”

“I have found that people come into the store and we create a personal contact, and that leads to internet sales. It’s so interesting,” Brook said.

In Harbor East, George Sakellaris owns Handbags in the City, a brick-and-mortar store that opened in 2006. It sells upscale pocketbooks with labels like MCM, Tory Burch and Kate Spade and takes no web orders from its website.

His business ebbs and flows, he said, with events in Baltimore.

“Foot traffic during the summer is a lot because we have a lot of people come from out of town,” Sakellaris said. “I think this year is just going to be hard to forecast because we don’t know how many conventions will be in town.”

### **Bricks and clicks**

Tom McGee, CEO of the International Council of Shopping Centers, said the U.S. retail industry is very strong with occupancy rates at close to 94 percent on average. Data from the International Council of Shopping Centers shows that 93 percent of retail sales occur in physical stores.

“This isn’t to say that technology doesn’t impact the way people shop,” McGee said in an email. “It’s changing our industry in the same way it’s changing almost every aspect of our daily lives. However, the story isn’t about bricks vs. clicks, it’s about bricks and clicks. It’s about convergence. Consumers are shopping online but they’re also doing things like researching online, then making purchases in physical stores.”

McGee’s group tracks shopping trends on a weekly basis. He said data shows that when a store closes, online sales in that area decline.

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“The ability to touch, feel and try products cannot be replicated digitally nor can the inherently social nature of shopping,” he said. “This is a competitive business in which you may see some retailers come and go but those who win will win with an omni-channel strategy focused on experience.”

Some developers and brokers in the Baltimore area agree the situation is mixed. To them, it’s a good bet to stay the course of building retail havens from the ground up as evidenced by new commercial construction in Harbor Point, Harbor East, Canton, Reisterstown, Towson and Owings Mills.

At the annual International Council of Shopping Centers ReCon convention in May, an event that draws retailers and brokers from across the U.S., thousands walked around the massive Las Vegas Convention Center for days and inked deals on the spot for new retail locations.

KLNB had an active booth in a corner of the center, with deals ongoing over sandwiches and salads all day, said Tom Maddux, a principal in the Baltimore office.

“There were landlords and tenants making deals...and [KLNB was] helping out with site selection, which a lot of the big companies have gotten out the business of doing,” said Maddux, who did not attend ICSC.

Maddux calls what’s going on now between e-commerce and brick and mortar retail a matter of constant change and even science.

“Very few of the healthy retailers are standing still — there’s as much relocation going on in new stores and site selection,” he said. “Most have been established in the market for 15-25 years...and those folks are being very creative about managing their presence in that market.

“Most have built out the markets, they’ve already got the numbers of stores that they’d like to have. It can be very scientific about store location, It’s a scientific formula, it’s not emotional,” he said. “There’s so much data available to them. High volume stores use data point and run the demographics.”

In the long run, Maddux said what’s going on in retail these days is a “sort of correction” driven by e-commerce.

“It’s Darwinism in retailing,” he said of the state of affairs since the Great Recession hit in 2008. “You have examples like Circuit City, Borders, Linens ‘n Things and Bed Bath & Beyond, Best Buy and Barnes & Noble are still here. And now Sports Authority is gone, but Dick’s Sporting Goods is still here. The companies left behind are still successful, they are adapting, changing and evolving.”

KLNB is currently leasing out a second Nottingham Commons shopping center, under construction in White Marsh across the first Nottingham Commons anchored by Target and Lowes. The success of that first “lifestyle center” development that opened close to two decades ago has not lost its luster, Maddux said, and now a second round of tenants that did not lease at that time are committing.

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“There is a T.J. Maxx, Merritt Athletic club, a car wash and a Chipotle there,” he said of the 20-acre parcel off Philadelphia Road. “We’re not standing still. But there’s no set formula for any particular site.”

### **Warehouse boom**

Warehouse space in the area is also reflecting e-commerce needs, said Matt Laraway, principal with Chesapeake Real Estate Group.

One such example is the 1.2 million-square-foot Amazon fulfillment center that opened in 2014 on Broening Highway.

Laraway’s group purchased a former industrial site across the street, razed it and is grading the property today to build a new warehouse structure. Will it lease to e-commerce to compliment the Amazon center? It’s too early to tell, he said.

“We are seeing a pick up in activity from people who are going to be completely e-commerce or adding e-commerce to their business,” Laraway said. “We’re seeing and designing our buildings accordingly with clear heights from 28-to-45-feet high so people can do several levels of mezzanine and proximity to UPS or Amazon. They need a large parking field, larger than the traditional warehouse because they have a lot of employees working 24/7.”

Large retailers like Kohl’s and Pier 1 Imports have added e-commerce warehouse leasing to their businesses in the area in Harford County, Laraway said. He recently attended a conference in New Jersey where architects and engineers talked to warehouse construction and leasing executives about e-commerce as a focal point.

Brokers know this and have seen retailers install bonuses for shopping brick-and-mortar.

Rene F. Daniel, principal of Trout Daniel & Associates in Timonium, said he believes that brick-and-mortar shops in the Baltimore area are stable — for now. He cited some successful malls (think: Towson Town Center) and unsuccessful malls (think: Owings Mills), and retail development that has a residential component (think: Hunt Valley Towne Centre).

What does the future hold?

“The future will continue to kind of mirror the current trend,” Daniel predicted. “I contend that brick-and-mortar is here to stay. But I’m not sure in what format.”