

**Gary London** >>REAL ESTATE

# Collapse of Retailing Is Fed By Decline in Disposable Income



What happens when recession meets green meets retailing?

- Retail stores go out of business;
- The concept of shopping changes:

Virtual (e.g. Internet) shopping really competes with real estate-based shopping;

• Shopping center vacancies increase, stores get smaller and lease rates decline; and

• Goods (and presumably service) get better.

Amid the economic and real estate collapse, there is now a clear decline

in retailing, one that will be felt well beyond the upcoming holiday shopping season.

It is a decline that will be fed by a drop in disposable income, which in turn lead to a greater awareness of the meaning of being green.

If goods are more precious, then we are certainly moving toward the end of the throwaway society.

Presumably, this means that merchandise will be made better, because it will be made to last.

### Feeling Poorer

American retailing has been characterized by a growth in consumerism: Much has been made of the fact that 72 percent of the U.S. gross domestic product

is in consumption.

As a society, we haven't saved. In fact, we spend at the rate of 110 percent of GDP, a trend that will surely change.

Overall spending is declining now, and is likely to stay down.

This is the inevitable conclusion in a society with less money, higher unemployment and more underemployment (the concept of being employed but not to the level of my education or training, and I have taken an income hit).

And then there is just the general malaise of "feeling" poorer now compared with a year ago because of the decline in the value of your stock portfolio and real estate assets.

The propensity to use your home eq-

uity line of credit or credit card, or even go to your automated teller machine, to buy is dramatically decreasing.

### Mini-Me Retailing: Downsizing

We can already see downsizing on tried and true concepts.

Tesco's new Fresh & Easy Neighborhood Market is basically a Vons — even a Costco — "mini-me," designed in an under-20,000-square-foot package (your modern Vons reaches to 50,000 square feet in size) to exhibit a no frills atmosphere, smaller sized packaging and value pricing.

Wal-Mart is relatively healthy and will remain so, though it, too, is bringing out a downsized concept called Marketside. During its go-go expansion years, it was often vilified in the targeted communities as a cannibalizing monster.

The mom-and-pop store closings, reputed as fallout from the expanding Wal-Mart, was a phenomenon of a decade ago, but now is a trend. It has become clear that Wal-Mart did retailing a favor by eliminating the bad retail competition early and often.

Today, Wal-Mart's new Marketside is parroting Fresh & Easy, starting with a half-dozen concept stores opening in the Phoenix area, and soon to come to downtown San Diego with its own small footprint mini-market.

In doing so, it is acknowledging the demographic and urbanization trends — people getting older and needing to purchase less at one time to address the needs of their slimming household; coupled with an urbanization movement.

In other words, small is in.

Juxtapose this with the green revolution. Not only will we be carrying recycled grocery bags, but also consumers will be on a flight to quality. Been to the grocery store lately? Or done a little shopping for your wardrobe or home? Things are expensive.

The era of the throwaway clothes — or for that matter throwaway anything — is ending. Consumers will be on a flight to quality and permanence.

### Shopping Center Vacancies

Shopping center operators and owners are about to witness an increase in vacancy. This means a loss in value and an inevitable shift in ownership as many centers struggle to survive. Of those that do (and are not converted to some other land use, or part of a mix of land-use types), they will find that values of the assets will change as rental rates decrease.

Competition from the Internet will be more pronounced: It is often cheaper and usually easier to purchase online, although not nearly as much fun as going to the mall.

There are trade-offs, but the mall will lose. The very survival of the mall, and even your local neighborhood shopping center, will most likely depend on adjustment. This means downsizing.

We are witnessing a great paradigm shift in how and why we shop.

And more importantly, how we decide to live, as U.S. society evolves from throwaway, short-term satisfaction to long-term values, and a flight to quality and sustenance.

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