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RETAIL PERSPECTIVES
2019 FORECAST

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As we have done for the past ten years, the Retail Group of Cox, Castle & Nicholson LLP has, once again, taken on the daunting task of forecasting what to expect in the forthcoming year in three critical segments that affect the retail industry. In doing so, we analyzed the social, political and economic events of 2018, reviewed various economic data and projections and have come to certain opinions relating to the retail industry and where it is heading in 2019. Included here is the product of our thinking, in the form of three articles of interest addressing such topics as capital markets, retailing and retail development.

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CAPITAL FOR RETAIL IN 2019 – STILL AVAILABLE, BUT HAVE WE LEARNED OUR LESSON FROM THE GREAT RECESSION?

by Gary Glick

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For the first time since the Great Recession of 2008/2009 economists and real estate professionals are finally acknowledging the possibility that the slow but steady expansion in the commercial real estate markets may begin to falter in the coming years. However, despite these predictions, capital for retail real estate acquisitions and for financing retail re-developments appears to remain plentiful. The real question in 2019 will be how much of this capital is deployed. The good news is that most experts are not seeing many of the signs that led up to the Great Recession, such as huge amounts of leverage and overbuilding. To date, most capital providers in the retail real estate sector have continued to remain fairly rigorous in their underwriting standards.

Several factors are creating headwinds for the commercial real estate industry. The first is the increased cost of borrowing in large part due to the Fed's conservative but consistent increases in the federal funds rate in 2018. The federal funds rate is now between 2.25 and 2.5 percent, but the Fed is now indicating it is inclined to pursue a more conservative stance toward rate hikes in 2019. Despite the actions of the Fed, ten-year treasury yields retreated in the last quarter of 2018 creating an inverted yield curve with short-term rates, a key precursor to prior real estate recessions.

Another factor relates to the uncertainty and turmoil surrounding the Trump presidency. The President's tariffs have added significant costs to many retail goods as well as

to the cost of construction of retail projects. His immigration policies have also exacerbated a shortage of construction workers, driving up labor costs. Additionally, the turmoil surrounding the Mueller probe and the wild swings in policy and rhetoric from the President have created geopolitical uncertainty and factored into major swings in the stock market, all of which contribute to economic disruption.

Although the passage of the Tax Cuts and Jobs Act of 2017 (the "Tax Cuts Bill") created a boost in the economy during the first half of 2018, specifically spurring job growth, consumer confidence and GDP expansion, the U.S. economy started to wane in the second half of 2018. For the most part, the Tax Cuts Bill has not caused major U.S. companies to invest in long-term expansion as hoped. Rather, in many cases, companies used the tax benefits from the Tax Cuts Bill to buy back stock and pay dividends. Further, the Tax Cuts Bill has worsened the explosion of the federal deficit, which in the long term can be expected to create major strains on the economy.

As has been the case for many years now, the media has once again spent much of 2018 mischaracterizing the present condition of the retail industry. Many stories continue to present the view that Amazon will hasten the demise of brick-and-mortar retailers and shopping centers. Nothing could be further from the truth. If anything, Amazon is leading to the revitalization of the retail industry. To compete in the present economy, retailers have had to "up their games." New retailers in the food and entertainment sectors have filled the void left by traditional retailers that have downsized or gone out of business, and existing retailers have created omni-channel strategies (i.e., seamless engagement with the retailer's business and offerings over internet, mobile devices, social media, and brick-and-mortar outlets), with a particular emphasis on enhanced customer service and brand loyalty over social media. Retail developers understand the United States presents more business growth opportunities than virtually every other developed country. As a result, many retail assets are being repurposed in whole or in part to capture these growth opportunities. Retail developers are now adding hotels, multifamily units, medical and recreational uses to projects that are no longer viable for only retail uses. Those developers and retailers that adapt to the new economy can thrive over the next decade.

Capital for retail development in 2018 remained plentiful, and we expect the same will hold true in 2019, including capital for investment sales as well as financings. However, the lack of attractive product for all this capital is creating stiff competition among providers of equity and debt, so much so that in certain circumstances underwriting standards have started to slide slightly to attract product. However, the relaxation of underwriting standards is nothing approaching that which contributed to the Great Recession.

Although investment sales for retail developments in 2018 remained reasonably consistent with sales in 2017, most experts expect investment sales to gradually decline over the next few years due to rising interest rates and a lack of attractive supply. Core properties in major markets are tougher to find and, when found, are priced exceptionally high. The low returns on such deals often do not meet the yield requirements of pension funds, life insurance companies and other investors. However, "there are opportunities in retail where prices have over-corrected to the downside. Investors see an opportunity to get in at a lower basis and be able to reinvest or re-tenant the asset or add value," notes Steve Pumper, an executive managing partner in Transwestern's capital markets and asset strategies group.

Rising interest rates could create an added obstacle to the ability for buyers and sellers to bridge the pricing gap blamed by many observers for slowing sales activity over the past two years. "There is ample liquidity on the debt side across the capital stack spectrum. However, there is still a disconnect between buyers and sellers on cap rates," says Michael Rotchford, vice chairman and co-head of Savills Studley's Capital Markets Group. It isn't likely that new debt issuance volume will increase until there is an agreement between buyers and sellers

on where cap rates should be, according to Rotchford. "We might be in a stalemate for another year or so, but I don't project declining volumes as a result," he says. Despite this stalemate, many investors are still willing to take risks to capture appreciation for those primarily focused on wealth enhancement. This is apparent in the push by private equity toward value-add and opportunistic funds.

International investors have remained very active in U.S. property markets. Real Capital Analytics (RCA) researchers put 2017 cross-border acquisitions at 11 percent of all commercial real estate investment dollars, or $51.6 billion in purchases. Although down from a 15 percent market share in 2015, such acquisitions are about average for the post-2013 period. As noted in 2017 *Emerging Trends in Real Estate* (published by the Urban Land Institute and the accounting and consulting firm pwc) ("*Emerging Trends*"):

> "...during the first quarter of 2018, Canadian firms were the most significant source of inbound capital, with $20.3 billion. China was second, at $8.9 billion, and Singapore third at $7.7 billion. This year, Los Angeles also is making the list of top acquisition cities for offshore capital. But internal policy issues in China mark a potentially significant change, evident in 2018's second quarter, when China was a net seller for the first time since it entered the U.S. market. The amount of China's dispositions was not huge—$1.3 billion, compared with $54.1 billion in total acquisitions since 2000. Depending upon government decisions back in Asia, the Chinese could be lightening their U.S. portfolios going forward. On balance, while the mix of offshore capital sources may shift—South Korea, Germany, and the Middle East are stepping in as China pulls back—the outlook of one entrepreneur sums it up: 'Globalization is here to stay.'"

In the debt markets, the gradual and robust return of the real estate industry beyond the expectations at the start of this decade has come about in no small part due to lending discipline and prudence. This is the result of the painful lessons of overly exuberant behavior in the early 2000s, behavior that mispriced risk in lenders' spreads, the rigor of borrower credit analysis, and, most particularly, unachievable projections on the part of underwriters. Most real estate experts are signaling that late-cycle conditions had begun to appear in 2018, with rising inflation potentially on the horizon, as well as higher mortgage and capitalization rates in 2019 and beyond. Nevertheless, many real estate experts expect underwriting will remain or possibly become more favorable to borrowers due to more competition. Except in rare instances, the main sources of debt capital are seeing the volume of funds available for real estate placement rising incrementally.

Depository institutions hold approximately 32.2 percent of the nation's approximately $15 trillion mortgage volume. Battered in the Great Recession, banks have recovered nicely and are enjoying exceptionally strong profits, some of which are attributable to the Tax Cuts Bill. In addition, the possibility of some regulatory rollback in Dodd-Frank financial institution restrictions will free up additional debt capital for the real estate sector in the coming year and beyond. However, because of the competition in the debt markets, banks may have to relax underwriting standards if they want to continue to grow market share. Since the cost of capital for banks is so low relative to the rest of the market, they are well positioned to do so.

Responding to aggressive competition from nonbank lenders, many banks have expressed an increased tolerance for risk, prompted in part by a positive outlook for property market fundamentals and decreasing uncertainty about prices and cap rates. Improving conditions have encouraged banks (especially bigger banks)

to entertain larger loans for development projects, and to expand the geography of construction lending. However, underwriting standards such as loan-to-cost ratios and maturities have been holding steady for the most part.

In stark contrast to bank lending, conduit lending is trending downward in large part due to competition from other debt providers and will be fortunate in 2018 to match the $87.8 billion originated in 2017. Overall CMBS lending will likely be capped in the $80 billion to $100 billion range for the near future. On the positive side, the simplicity and quality of CMBS has improved markedly.

The mortgage portfolio of life insurers grew by about 8 percent from 2017 to 2018. As in past years, the life companies continue to remain conservative in their underwriting policies and deal structuring. Like banks, life companies continue to be impacted by competitive pressures from other debt sources. In early 2018, life company spreads were at their lowest levels in four years. Very little difference exists in the contract interest rates being agreed to on five-, seven-, and ten-year fixed-rate loans.

Life companies provided a significant amount of construction and mezzanine lending, continuing a trend from the past few years. However, the vast majority of this lending is linked to permanent mortgages that remain the primary debt vehicle for life companies. Because of the smaller share of the riskier debt held in life companies' portfolios, life companies are likely to be less affected by mild recessionary headwinds than other financial institutions in the real estate capital market.

The big news in the real estate debt markets is the rapid growth of unregulated debt, mostly from private debt funds. Outside the formal regulatory oversight of the conventional banking system, these debt funds can offer the higher leverage and greater speed sought by most borrowers and can pass on that attendant price premium to their investors. However, these vehicles still represent a small (but growing) percentage of commercial real estate debt.

In addition to competing with traditional lenders, debt funds are offering investors a way to manage end-of-cycle risk, providing collateral to protect investment downside, versus funds focused on filling the middle of the capital stack with preferred equity. Equity yields may be higher, but they are more vulnerable to losses in a downturn.

With fewer deals available to lenders, many are chasing higher returns with mezzanine lending programs. Debt funds and private equity firms are not the only ones proving mezzanine financing: banks and life companies also have created platforms for such loans, albeit as a small percentage of their loan portfolios. In most cases, however, banks are making these loans with the aim of selling them off their balance sheets—but they nonetheless must accept the risks of holding junior debt until they can find willing buyers. With traditional debt spreads narrowing, these mezzanine lenders can reap yield in the low double digits. However, as loan to value ratios rise, the risk to these lenders becomes greater, especially if the economy falls into a recession.

2019 likely will be a transitional year for debt and equity capital for retail developments and acquisitions. We expect reasonable stability based upon still historically low interest rates and an economy that, while suffering around the edges, continues to remain relatively strong. Although volumes may edge down over the coming year or so, the fundamentals remain strong and we expect providers of debt and equity to remain fairly disciplined compared to the period leading up to the Great Recession. Retail is in the middle of a transitional period, but one that is long overdue and that will likely lead to a more stable future for retailers and retail developers. We continue to remain optimistic about the availability of capital for retail but are understandably wary of both political and economic factors, summarized above, that could lead to instability in the commercial real estate markets or possibly a mild recession.

IS THE RETAIL TIDE PAST ITS PEAK IN 2019?

by Scott Grossfeld

Scott's practice focuses on retail development and commercial leasing. He has a comprehensive experience in representing commercial developers in connection with all aspects of shopping center development, including the acquisition and disposition of commercial real estate and the negotiation and drafting of development and management agreements, reciprocal easement agreements, declarations, major tenant leases, listing agreements, and property management agreements.

The retail sector has grown every year since the end of the Great Recession. Some say that retail has even thrived in the last couple of years. Indeed, looking back at the last few years of Cox, Castle & Nicholson's *Retail Forecasts* and the predictions of several noted commentators, we see consistent growth forecasts, albeit tempered by cautious optimism. But why were so many retail professionals and economists reluctant to buy into the retail revival over these past few years and, instead, hedge by remaining so cautious? Perhaps the recession of 2007–2009 had such significant and long-lasting impacts on the retail sector that retail professionals and economists feared that the real cause of it was never corrected.

Just look at last year. Heading into 2018, the Dow Jones Industrial Average was peaking and setting new records. It grew from 20,000 points to around 26,000 points within an approximate one-year period. Unemployment was rapidly declining, wages were increasing, consumer confidence was high, interest rates were low, capital was available, a new Federal Tax package passed in Congress to stimulate the economy, and still most commentators were reluctant to forecast strong retail growth without reservation. As in years past, many commentators predicted modest retail growth and cautioned against excessive positive reliance, fearing that another recession may be around the corner.

Needless to say, 2018 did not see another recession (nor did 2017 or 2016).

Well, this year, many of the same strong fundamentals remain in place to support strength and growth in the retail industry. However, is there too much of a general

sense of nervousness and uncertainty to forecast solid retail success, or is modest caution still the safest prediction?

Holiday Sales and Other Indicators of Growth

Over the years, we have argued in our *Forecast* articles that recent performance of the economy and holiday sales performance are often good indicators of upcoming retail industry performance in the ensuing year. Reviewing data on the general U.S. economy coming out of 2018 and the 2018 holiday sales period, 2019 is set up to be a very positive year for retail.

According to a recent *Reuters Business News* article, "November's increase in core retail sales and upward revisions to October's data suggested a brisk pace of consumer spending in the fourth quarter. Consumer spending, which accounts for more than two-thirds of the U.S. economy, increased at a 3.6 percent annualized rate in the July-September quarter." The article goes on to state, "spending is being boosted by a tightening labor market, which is starting to spur faster wage growth, lower taxes and moderate inflation. It remains strong, despite the sharp stock market losses."

> This year, many of the same strong fundamentals remain in place to support strength and growth in the retail industry.

As for holiday sales, by most accounts 2018 appears to have been one of the best performances for retailers in the past seven to twelve years.

A recent *CNBC* article noted that "Christmas holiday retail sales in the U.S. were expected to climb above the $1 trillion mark for the first time this year 2018... an increase of almost 6 percent from the previous year, marking the 'strongest growth since 2011,' data from market research firm eMarketer showed."

These figures are consistent with what others forecasted and are finding.

A recent *Globestreet* article reported that the National Retail Federation (NRF) found that "retail sales were expected to rise between 4.3% and 4.8% this holiday season. With low unemployment, wage growth, and near record-high sentiment driving positive sales trends, retailers continue to observe more positive earnings and there is a general belief that investments and enhancements in new omni-channel strategies are beginning to payoff."

In addition, according to *CNBC*, *Mastercard SpendingPulse* found that the holiday sales growth figures for 2018 were 5.1% above the figures for last year. According to the *CNBC* article, "that makes this the best holiday shopping season in six years…and this all comes amid the latest fluctuations in the stock market..."

Furthermore, *Bloomberg* recently reported that "several forecasts for retail sales growth for the holiday period from November to December topped 5 percent. If final tallies match those expectations, it would mark the biggest gain since 2005, when a growing economy and rising home equity fueled spending. It would also easily be the best two-year stretch since that period, after a gain of about 5 percent in last year's holiday sales."

Concerns

Despite the positive economic figures, various forces appear to be impacting the retail sector, raising concern, doubt and uncertainty going forward.

Many commentators and sources point to the slowing housing market, volatile stock markets and fears of a trade war with China as factors jeopardizing the delicately balanced economy. Any of these factors individually, and all of these factors combined, could easily push the economy back into recession.

According to a recent *UPI* article, “Americans are also more focused on paying down debt, with 38 percent listing that as a higher priority than buying Christmas or Hanukkah gifts, a survey by Edward Jones found. And consumers are being more careful than in years past, with 42 percent saying external factors, including trade wars and tariffs with China and rising interest rates, play a role in their shopping budget.”

Some of the problems in retail manifested this year in the form of bankruptcies (or threatened bankruptcies) by major retailers. This past year, such major, stalwart retailers as Toys R Us, Sears, Mattress Firm and Lowe’s filed bankruptcy and/or closed large numbers of their stores.

The question is, will the volatile stock markets, increasing interest rates, tariffs and trade wars, government shutdown(s) and apparent turmoil in U.S. politics be enough to cause the U.S. economic recovery and retail resurgence to derail in 2019?

Trends

So far the economy and retail sector have been resilient. Retail has absorbed more than a year of jockeying for global and international trade positions among countries, ultra-partisan politics and stock market fluctuations, and still just registered its best holiday sales period in over a decade.

This occurred in large part because of the strong fundamentals that exist in terms of low unemployment, growing wages, low interest rates, available capital and other strong economic factors. So long as these fundamentals continue to exist, retail should be safe and sound.

In addition, retail continues to evolve and make itself stronger. This is especially the case with those brick-and-mortar retailers that have been able to change with the times and service both physical, on-site shoppers and online shoppers, with omni-channel services.

According to a recent *CoStar* article, “brick-and-mortar retailers that transformed their stores to accommodate online shoppers were the biggest winners this holiday period... Almost two-thirds of the 27 percent of shoppers who bought products online and picked them up at the store in that time purchased something else while they were there, representing a retailing ‘halo effect’....”

According to a recent *Missner Group* article, “many online retailers are moving into brick-and-mortar, which shows how it’s not an either/or decision for many brands; instead, they want both... Amazon’s expansion into traditional storefronts with cutting-edge technology is an example of how the old model is being modified rather than replaced.”

* * *

There are many positive factors indicating continued stability and growth of the retail sector into 2019. In addition, creative forces within the retail sector continue to keep retail relevant and prosperous. However, negative outside forces impacting the economy in general cannot be ignored and may threaten this (and other) sectors of the economy. Since the fundamentals seem rooted enough to sustain these threats, we believe that retail will continue to expand through 2019. However, because of the seriousness of these global threats, we make this prediction once again, with cautious optimism.

RETAIL DEVELOPMENT – AND WE GO MARCHING ON

by Daniel Villalpando

Dan's practice focuses on retail development and commercial leasing. Commercial developers on the West Coast look to Dan for his counsel on all aspects of shopping center development, including the acquisition and disposition of commercial real estate and the negotiation and drafting of development agreements, reciprocal easement agreements, declarations, and major tenant leases.

Just prior to January 2018, many in the retail development industry felt a sense of tempered optimism, and those feelings appear to have borne out. Statistically, 2018 turned out to be a good year for retail developers (and retailers), with estimates that core retail sales (exclusive of gasoline and automobiles) in 2018 rose approximately 4.9% over sales in 2017, the biggest growth we have seen since 2011. This increase continues the recent trend of modest to good growth in retail sales, and begs the question: Can we expect to see even more improvement in 2019? Based on positive news regarding the gross domestic product, continued growth in the job sector and the influx of foreign investment dollars, it appears that there may be reason to expect that retail development will continue with another modest uptick this coming year.

One facet of the economy that has a major influence on the health of retail development is the gross domestic product (GDP). The weak growth rates in the GDP of 2009–16 (which stagnated around 2% annual growth) could be behind us, as statistics indicate growth of 3% in 2018, and experts forecasting a bit of a decline (down to 2.5%) in 2019. In addition, retail sales increased 4.2% in November of 2018 over the same month in the previous year, exceeding market expectations. Moreover, all signs point to robust consumer spending this past holiday season that could further strengthen the 2018 numbers for retailers.

Although housing starts continue to be lower than hoped by homebuilders, the unemployment rate continues to fall, infusing cash into the pockets of many households. According to Moody's, the unemployment rate in 2018 decreased to 3.7% at the end of 2018 (down from 4.2% at the end of 2017), with expectations that it may fall to 3.4%

by the time 2019 comes to a close. In addition, the University of Michigan's economic forecast predicts continued wage growth into 2020, with an expected wage growth of 3.7% in 2019. This news indicates that more people should have jobs, and those jobs should, on average, pay more in the coming year. This should provide a boost to consumer spending, a major influence in retail development.

Moreover, analysts do not expect much slowing in the influx of money from international investors seeking diversification and solid returns. With continued instability in China, it is also possible that Chinese investors may view the U.S. market as comparatively attractive, thereby directing more capital to the United States. Many predict that such an influx in capital will help drive up prices for retail properties.

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While there are some positive signs, there remain potential risks to the U.S. economy in general and, by extension, to the retail industry. In June 2018, President Trump's administration introduced billions of dollars in new tariffs on Chinese imports, as well as tariffs on steel and aluminum imports from the European Union, Mexico and Canada. In retaliation, China announced a 25% tariff on $16 billion worth of U.S. goods. It is unclear how these tariffs will affect the economy and, more specifically, the retail industry, but they may end up shaking both consumer and business confidence. Since consumers drive the retail industry, any lack of confidence in the ultimate effect of the tariffs may result in a reluctance of consumers to part with hard-earned dollars. Moreover, Americans find themselves in historic amounts of debt. For example, credit card debt has surpassed $1 trillion, representing a new historic high. Rather than continue to amass debt, consumers may elect to slow down spending, which could put a drain on the economy.

However, one aspect of President Trump's Tax Cuts and Jobs Act of 2017 that may benefit retail developers is the availability of deferred or reduced capital-gains taxes through qualified "opportunity zones" created by the Act. These incentives, which were designed to benefit approximately 8,700 generally low-income tracts across the country, could attract as much as $100 billion in commercial real estate investment in the coming years according to experts, much of which likely would be tied to the retail development industry.

In terms of what is occurring with different types of retail projects, reports of the demise of the traditional regional mall appear to have been at least slightly exaggerated, although the strongest performing regional malls still tend to be located in more affluent trade areas. Overall, owners of regional malls have had to adapt to stay relevant. For example, as the public's shopping habits and practices continue to change, retail developers are learning that "Experiential Retail" is becoming a critical component of a viable shopping center. Experiential Retail places an emphasis on food, fun and fitness in an effort to not only attract customers in the first place, but also to get them to increase "dwell time", or the period they stay at the retail project—with the hope that those customers will spend

more money. Experiential Retail is seen as a sector that competes effectively with e-commerce, since transactions are more social than a mere exchange of cash for goods.

Grocery-anchored neighborhood centers generally continue to provide a good return for their owners. Indeed, analysts estimate that there were $9.3 billion in transactions involving grocery-anchored centers in the first 10 months of 2018. As in 2017, one of the larger growth sectors in retail is specialty grocers, such as Whole Foods, Trader Joe's and Sprouts; another is discount grocers like Walmart Neighborhood Market. Owners of neighborhood centers continue to be able to attract retailers eager to feed off of the foot traffic generated by a tenant mix that typically includes a grocery store and a drug store. However, the acquisition of Whole Foods by Amazon continues to spark change in the grocery sector, and some experts predict that we may see a shift in 2019 where consumers get more comfortable ordering groceries online. Such comfort in online ordering and delivery may result in fewer trips to the local grocery store and, therefore, less foot traffic in the neighborhood center.

Other retail developers are being more proactive in dealing with existing space by negotiating early lease terminations. These developers are seeking to strategically take back certain spaces prior to the natural expiration of the applicable leases in order to remerchandise with better tenants and higher rents. Some "mid-box" or "junior anchor" tenants like PetSmart and Staples, who are looking to downsize their footprints, may be willing to give space back early, allowing landlords to aggregate enough square footage to attract certain "hot" retailers in an effort to revitalize their shopping centers. For example, "fast-fashion" tenants like Forever 21, H&M and Uniqlo are actively growing and scooping up second generation space. Likewise, discount and dollar stores such as Dollar General, Family Dollar, Dollar Tree and Five Below are also in the market for residual space, often in the 5,000- to 10,000-square-foot range. For example, Dollar General, alone, recently announced plans to open 975 new stores in 2019, while also remodeling 1,000 stores.

Meanwhile, many retail developers have had to deal with the closures of department stores, such as Sears, Macy's and JC Penney. The deconstruction of the department stores, or "right-sizing", is seen by some as the natural progression of retail; those department stores that have elected to stay open have generally reduced product offerings to three primary product categories—apparel, housewares and cosmetics/fragrances. To combat closures, "specialty leasing" is on the rise, with retail developers looking to re-lease large vacant space to concepts not traditionally associated with shopping centers, such as trampoline facilities, escape rooms, laser tag venues, day care centers, painting studios and cooking schools, all in the category of Experiential Retail. Of course, the ability to add such nontraditional tenants must be balanced against the rights of other existing tenants that may have the ability to keep certain uses out of a given project. A nontraditional use may allow a retail developer to temporarily re-lease space and get some rent in return. But adding such uses may upset major or anchor tenants at a project, who may decide to aggressively fight the new uses or to leave the project when their current term expires, rather than renew or exercise available options.

Other retail developers are trending toward using shorter lease terms in their deals. While longer lease terms have typically provided retail developers with additional security, many of today's tenants are newer, unproven brands more likely to be forced to reinvent themselves every five years or so, as compared to traditional retail tenants. Since it is difficult for retail developers to know whether a tenant offering a new concept, or providing an original spin on traditional merchandise, will be relevant in five years (or even less), some developers are opting to trade security for flexibility in case the tenant's business does not work out.

Not surprisingly, in the coming year, retail developers will continue to face the challenges brought about by the meshing of e-commerce and brick-and-mortar retail. Developers are being forced to work more closely with their

tenants to ensure that the space provided is not only physically desirable, but also accessible to mobile devices via upgraded in-store Wi-Fi capability, which is almost a necessity in the current climate. For example, better internet access allows customers to do research online more easily, while already in a store, which increases the likelihood that a purchase will be made from that store. It also allows customers to take advantage of "click-and-collect" options, where the customer makes a purchase using a computer or mobile device, and then picks up the product from the brick-and-mortar store. As a benefit to the retailers, those customers who enter a store ostensibly only to pick up an item purchased remotely have proven to be dependable purchasers of additional items while in the store.

Some regional mall owners are also using new technologies and media to better communicate with shoppers. For example, new interactive digital directories are being rolled out to provide shoppers with, among other things, information regarding the fastest routes to certain shops and services. Oftentimes this information can be sent directly to the shoppers' mobile devices. The directories also provide "real time" information on special offers from retailers and restaurants. As another example, Macy's has been using "beacons," which are Bluetooth devices that send alerts to customers' smartphones based on their proximity to one of their stores. The alerts offer discounts to any customer with the Macy's app who walks by one of their stores.

When it comes to the world of retail development, the undercurrent of optimism from the beginning of 2018 continues to grow. While the needle on ground-up shopping center development may not be moving much, a solid uptick in the GDP, continued growth in the job sector and the influx of foreign investment bode well for continued improvement for retail developers in 2019, especially those developers actively adjusting to the latest trends and developments in the retail business.

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