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How Retailers Can Stay Afloat During the Downturn

David Greensfelder, managing principal of Greensfelder Commercial Real Estate, recently discussed how retailers can ride out the downturn and come out the other side.

By Lisa Brown | May 11, 2020



(<https://images.globest.com/contrib/content/uploads/sites/312/2020/05/sf-retail-center.jpg>) The new normal will probably favor open-air projects over enclosed malls (credit: Victor Xok).

SAN FRANCISCO—The COVID-19 crisis continues to impact retail landlords throughout the United States. In fact, it arguably may be the hardest-hit sector in addition to hospitality.

At the moment, the key issue is simply minimizing expenses to stay afloat. David Greensfelder, managing principal of Greensfelder Commercial Real Estate, recently discussed how retailers can ride out the downturn and come out the other side.

GlobeSt.com: What advice would you offer retail landlords and tenants right now as the crisis continues to evolve?

Greensfelder: Right now, the issue for both tenants and landlords is staying in business. From the tenant perspective, minimizing fixed expenses and matching variable expenses as much as possible to decreased revenues, if any, is the priority. Approaching owners for rent relief and applying for forgivable loans such as the PPP program is key. Landlords are engaged in a similar endeavor, trying to manage fixed expenses such as mortgage payments, property taxes and insurance while cutting down as much as possible on variable

expenses such as parking lot sweeping and security, and deferring maintenance where possible until we have more clarity on our overall situation.

Crafting rent relief packages that are appropriate to each tenant's continuing operations, ability to pay, and overall financial stability and runway while getting lenders on board regarding loan covenants and forbearance is the key. Everyone needs to understand that less expense and less rent is better than no business and no rent. That said, everyone is also trying to solve an immediate-term issue to buy some time to evaluate and solve the intermediate and longer-term unknowns, in other words, living to see another day right now. I've seen retailers who are working in good faith and others who are capitalizing on the situation while continuing operating. Interestingly, many chains are flexing their muscles and have stopped paying rent where mom-and-pop tenants are continuing to pay.

On the topic of living to see a different day, we have applied a retail resiliency discipline that we developed. Retail resilience is a triple bottom-line discipline for creating retail vitality and dynamic, flexible and adaptable retail strategies that will provide long-term benefits while meeting stakeholder needs. We emphasize understanding vulnerabilities, identifying opportunities and addressing systemic barriers to making quick progress, and integrating technology into strategies and recommendations, so this approach can keep operations alive, given the challenges we are facing with COVID-19.

GlobeSt.com: How are consumer behaviors changing because of the pandemic and what are the implications for different retail typologies?

Greensfelder: I think of consumers as shopping on a continuum with commodity retail on the one end and specialty retail on the other. Commodity retail is defined as those goods and services that are consumed on a regular basis with the primary emphasis by the consumer being a function of lowest price and highest convenience. Specialty retail by contrast describes goods and services that are consumed using discretionary income during discretionary time. For this reason, a sense of place and an emotional connection are associated with specialty retail purchases.

Thinking about consumer behaviors this way, it's become pretty clear how they are changing. There is a lot of emphasis on getting commodities through non-bricks-and-mortar channels such as Amazon.com or Walmart.com, possibly more at the expense of chains rather than independent retailers. Subscriptions such as farm food boxes are also on the rise. Aside from farm boxes, produce, meat and dairy aren't being embraced as delivery items. It turns out that while packaged goods are clearly commodities, fresh food is more of a specialty purchase and people are still going to physical stores, waiting in lines and wearing PPE in order to make those purchases.

Similarly, revenue from specialty goods and services like clothing, luxury goods, and restaurants and drinking establishments are way down, partly because we're being conservative about where to spend money, partly because those goods are often not conveniently available online and storefronts remain shuttered, and partly because these goods are not as easily purchased from alternative retail channels. Necessities and comfort will continue to play strongly and these are the categories that will rebound more quickly after we reopen.

Recovery for malls and high streets will be a function of how long it takes us to feel comfortable being out with strangers again, and the inevitable wave of the curve and associated future restrictions including stay at home orders.

GlobeSt.com: How can technology play a role in achieving success in the post-COVID retail industry?

Greensfelder: Online and some subscription platforms are doing extremely well, especially anything that delivers necessities and comfort items to us. Similarly, retailers with mature buy-online-pickup-in-store/BOPIS capabilities are also doing well. Examples include Walmart and Home Depot, but we're also seeing local independent merchants capitalizing on customer goodwill and a willingness to go the extra mile on service by taking orders for drive-by pickup. Retailers are increasingly relying on influencer marketing since COVID-19.

However, influencers without established relationships with brands are seeing less opportunities than before. Informal influencer networks, whether local communities or online groups, are certainly sharing information about how and where to find needed goods. Traditionally, signage has been incredibly important for retailers, however, the meaning of signage has evolved to include how retailers show up on search results, whether that is on Google, Yelp or other platforms. In an environment where we aren't out shopping as actively, these alternative signs are a way for consumers to find retailers who can fill their needs but also through which retailers can reach out to consumers.

GlobeSt.com: What do you believe is the new normal for the retail industry?

Greensfelder: Retail is demand driven. In the intermediate term, after we are let out of quarantine, the new normal is going to be a function of how comfortable consumers are being out and in what environments they're comfortable. For example, open-air projects will be favored over enclosed malls, and shopping likely will not involve traveling long distances or being in crowds. There are categories like movie theaters where it's unclear if there will be a return to our former patterns or if this crisis is the inflection point where distribution goes on-demand. Chains that are not financially robust will have issues and we expect some companies to never reopen shuttered stores while others are already preparing to file for bankruptcy. Strong retailers will no doubt use this time as an opportunity to reposition or close weaker stores, lock in desired locations as they become available and extract concessions from owners. Ironically, it's quite possible that independent retailers will have a window to shine as navigating a crisis is the domain of the entrepreneur, and landlords will be looking to fill space, perhaps giving local merchants affordable opportunities to fill voids left by inevitable business closures.

TruePublic conducted a survey of Gen Z and Millennials, and found that while there has been a lot of e-commerce spending and pent-up shopping demand, but not a clear sign of how long it will take or the extent to which they will let loose. With work-from-home being at least a near- and intermediate-term trend, nimble retailers will adjust to meet the needs of today's suddenly distributed workforce.

From the retailer's and landlord's perspective, there are significant logistical, job safety and legal considerations including how the public will be managed in common areas and how to protect employees, among their chief concerns. There is no doubt that how we're allowed to shop, dine and interact will be restricted significantly at least in the intermediate term, and we will have a long memory that will impact our shopping and dining behaviors, likely for years to come.

There is no getting around the US being over-retailed on a retail space per-capita basis, and while this shock won't solve that, it will move things in the direction of equilibrium with less overall retail space and some projects never reopening. How we move in this new direction is the domain of our retail resilience approach.

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