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How Can Local Retailers Benefit Cities During COVID-19?

Perhaps the most important consideration is that these retailers are a hedge against impacts beyond landlord control including chain store consolidation, and those chains were already having difficulty, says David Greensfelder.

By Lisa Brown | June 18, 2020

SAN FRANCISCO—As retail centers slowly reopen in the wake of COVID-19, there are many benefits that local and independent retailers can offer communities and retail mixes. Perhaps the most important consideration is that these retailers are a hedge against impacts beyond landlord control including chain store consolidation.

These chains were already having financial trouble and difficulty differentiating consumer offerings, now exacerbated by COVID-19, says David Greensfelder, managing principal, Greensfelder Commercial Real Estate. He says from a landlord perspective, there are several other benefits of having local/independent retailers and restaurants in a center.

“Landlords are in the business of creating and operating places, and retailers’ reason to exist is driven by demand for the goods and services that they sell,” Greensfelder tells GlobeSt.com. “In our world that is dominated by so many chains, one shopping venue can easily come to look like another.”

This differentiation has several benefits including increased foot traffic and associated increased cross-shopping and sales.

“Local retailers and food and beverage operators also tend to be more responsive to local demands and needs as opposed to chains that tend towards uniform merchandise offerings,” he tells GlobeSt.com. “Retailer ties to local demand by definition makes projects in which these retailers operate more resilient, not only because of the close ties to the community but also because these retailers are able to adapt and change more nimbly than their chain counterparts.”

In terms of the landlord challenges of adding local/independent retailers to a center or retail district, one issue is that these operators are generally not credit tenants by industry standards, Greensfelder says.

“This means that they are not viewed as being as financially stable as their chain counterparts,” he explains. “Local and independent retailers may also not have business plans and operational procedures in place that have been proven across a fleet of stores. The lack of proof-of-concept does translate into additional risk for a landlord, particularly if an independent tenant requires investment in the form of landlord’s work or a tenant improvement allowance. Some local operators generate higher sales while others generate lower than typical sales.”

Perception about an independent retailer’s ability to pay rent is a function of top-line sales generated, so uncertainty about expected results from a new concept may have a negative impact on mortgage interest rates or cap rates for a given project as it will be seen as additional risk, he says.

“In today’s environment which is dominated by COVID-19, independent retailers may have less staying power when it comes to their long-term ability to meet their fixed operating cost obligations, including rent and triple net charges,” Greensfelder tells GlobeSt.com.

But the benefits to municipalities oftentimes outweigh those concerns. These local operators benefit cities in many of the same ways they benefit landlords.

“Having their ears closer to the ground than chains enables them to gauge changing demands and tastes, and to make necessary adjustments more quickly than their chain counterparts,” he tells GlobeSt.com. “This awareness of local needs can be a huge benefit for local economic development initiatives as officials have the ability to learn from retailers, and tune and target efforts accordingly. Also, just like non-chain stores help differentiate retail projects, they also help differentiate and create vibrancy in the communities in which these projects and districts operate. In other words, they can help expand the radius from which consumers will travel to shop, increase opportunities for local cross shopping, increase potential sales and property tax revenue in the shorter and longer terms respectively, and create resilience against sales moving from local storefronts to other retail channels such as online platforms and subscriptions.”

Cities can ensure that local/independent retailers and restaurants achieve success in a variety of ways. This is especially true within the COVID-dominated environment where many local governments have been adopting more of a start-up mindset. For example, public space has already been designated to create curbside pick-up zones for call-ahead orders and expanded outdoor dining areas, allowing restaurants to serve dine-in customers while allowing for social distancing.

“There are other less obvious ways cities can provide assistance,” Greensfelder tells GlobeSt.com. “COVID-19 puts additional operational pressure on retailers who need to adopt new operational processes and procedures. Chains have additional resources for developing and implementing these changes, so cities helping local operators understand areas that need to be addressed and sharing best practices will help local businesses. Perhaps most importantly, coordinating messaging between retailers, F&B owners, retail project owners and cities themselves is key. Consumers need to understand what businesses are open, what they can expect and if they believe they will feel safe shopping or dining. Cities can also help coordinate marketing among multiple business operators, and multiple retail projects and districts.”

Although the proverbial crystal ball is fuzzy for the next six to 12 months, it is possible to examine what the future holds for local/independent retailers due to retail's evolving nature. To be sure, this evolution has been occurring for a number of years.

"We've seen double-digit year-over-year growth of online sales and other platforms such as subscriptions taking hold," Greensfelder tells GlobeSt.com. "At the same time, we've got too much retail space, and we've been moving towards a new equilibrium where unneeded retail space is being repurposed for other uses such as residential and office, and the occupiers of that space represents incremental demand for the retail that is still operating. This process has been drastically sped up, and it's probably not an exaggeration that we're going to see 10 years of evolution crammed into the next six months. Independent operators are also used to dealing with unknown and unexpected situations, and while they have more limited resources available, they will be more nimble in their responses. I also hope that there will be opportunities for greater diversity and inclusion both in terms of the customer bases being served, but also in terms of which entrepreneurs will have opportunities."

This reset will give local/independent retailer and restaurant operators some opportunities to backfill space with new and newly reformatted concepts that are more adept at meeting local needs, especially during the COVID era, Greensfelder concludes.

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