



# Hoyt Academic and Professional Fellows Presentation May 17, 2021

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# Discussion Topic: Covid and the Long-Term Evolution of Retail.

- Market overview and update on the winners (or not too affected) and the most challenged in the retail space.
- Retailer's path forward: Liquidate, On-line only, Restructure in BK and Strategi Acquisitions.
- Reuse Examples of Vacated Properties.
- Potential recommendations for local governments on how they may need to change their zoning, use requirements and property taxing practices.
- Temporary and Long-Term Trends & Summary



# Key Retailer Stock Prices March 2020 – May 2021

- 3/17/20 (Shutdowns announced – Stock Market crash)
- 12/14/21 (First Vaccine Issued in U.S.)
- 5/14/21

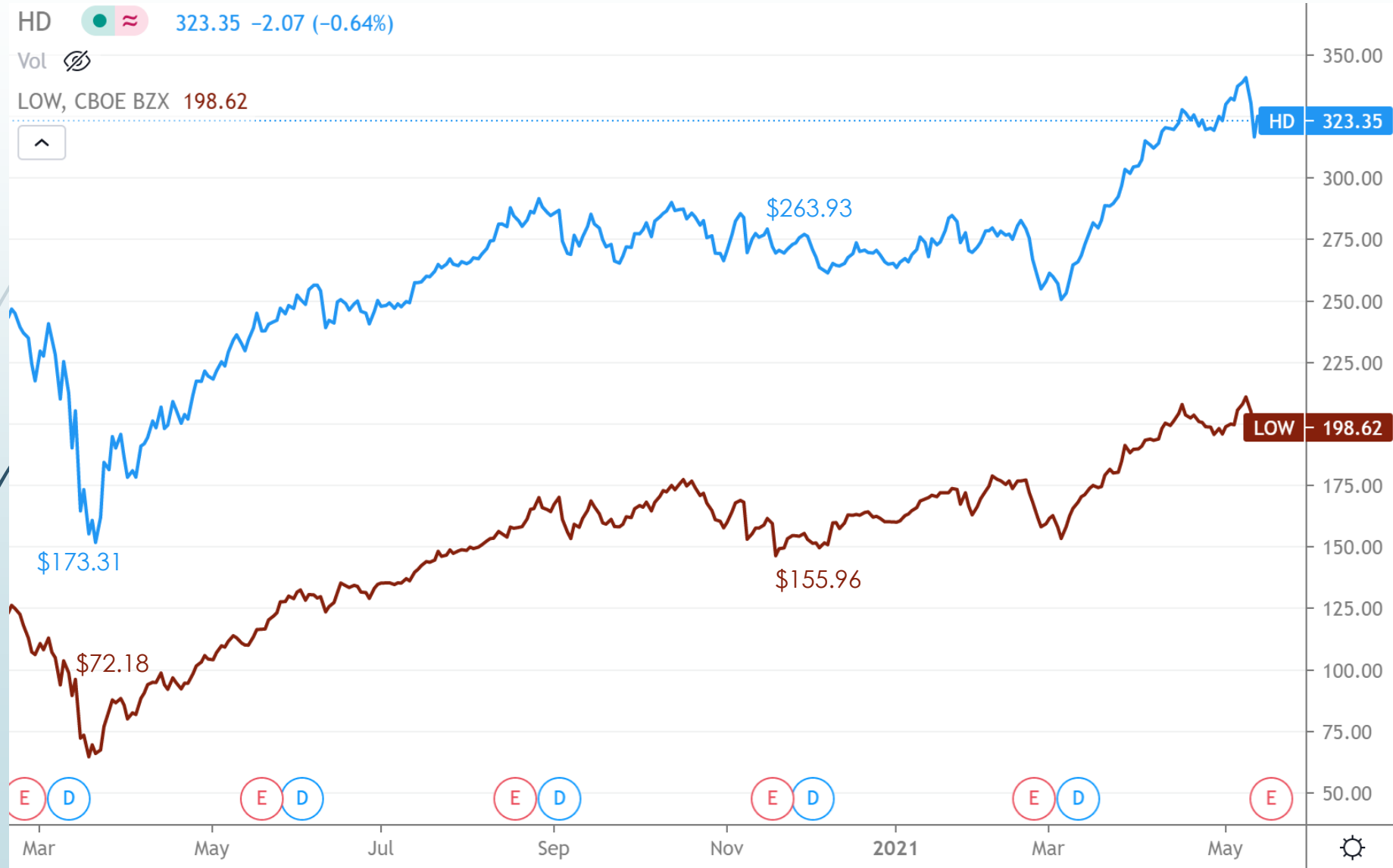
# Target & Walmart Stock Price




# Target, Walmart Annual Sales and Stores

	2020 Revenues	YOY Increase	Number of Stores
Target	\$93.5B	21.2%	1,897
Walmart	\$559B	8.67%	4,743

# Home Depot and Lowe's Stock Price





	2020 Revenues	YOY Growth	Number of Stores
Home Depot	\$132.1B	19.9%	1,987
Lowes	\$89.587B	24%	1,727



## Home Depot and Lowe's Annual Sales and Stores

# Ross, TJ Maxx, Nordstrom, Sears Stock





# Ross, TJ Maxx, Sears, Nordstrom Revenues and Stores

	2020 Revenues	YOY Growth	Number of Stores
Ross	\$12.532B	21.87%	1,585
TJ Maxx	\$41.7B	7.04%	3,223
Sears	\$16.7B (2018)	N/A	122
Nordstrom	\$10.715B	30.98%	369

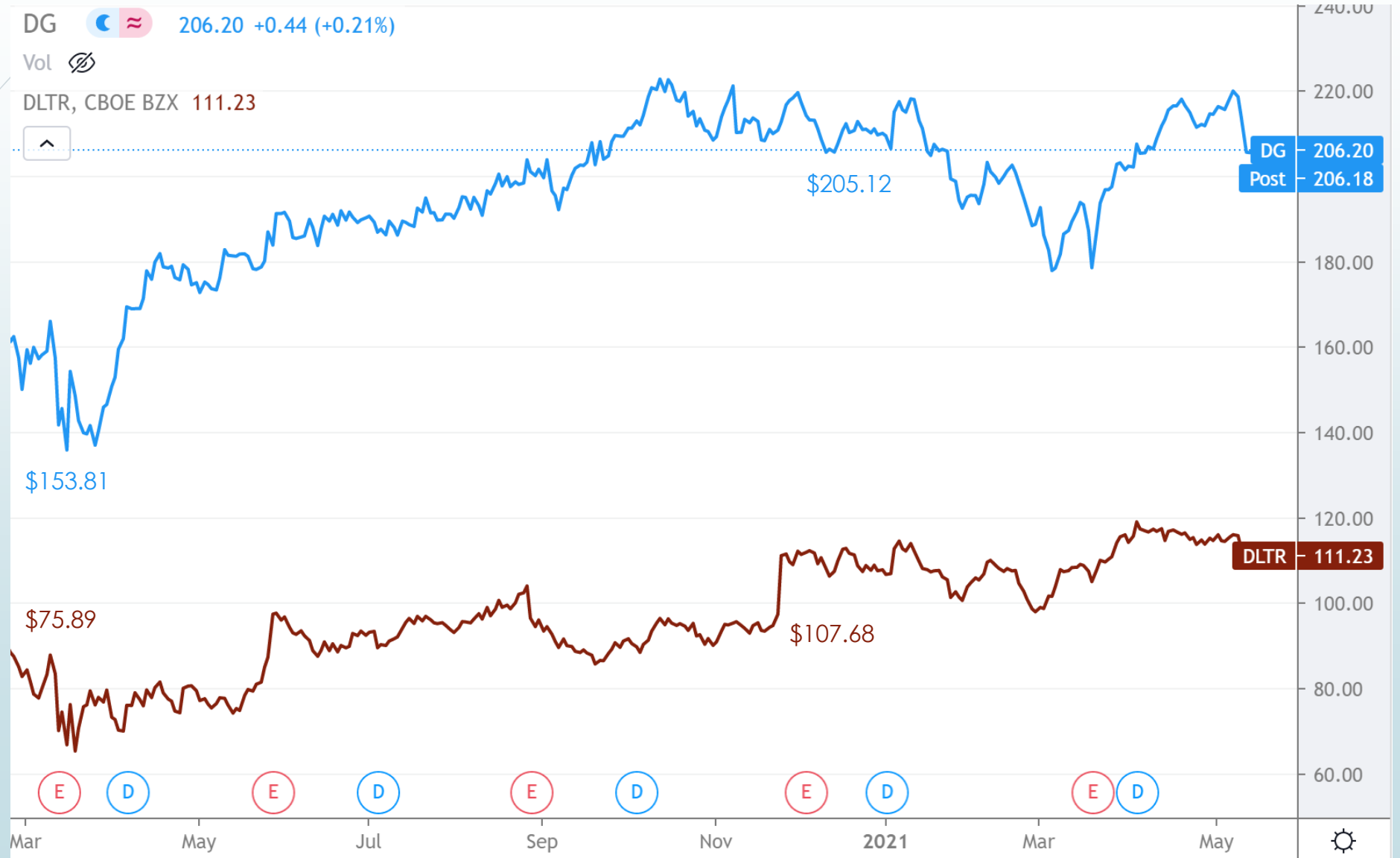
# CVS and Walgreens Stock Price



# CVS and Walgreens Sales and Stores

	2020 Revenues	YOY Growth	Number of Stores
CVS	\$268.71B	4.65%	9,962
Walgreens	\$142.948B	6.5%	9,021

# Dollar General and Dollar Tree Inc. Stock



# Albertsons, Publix, Kroger, Sales and Stores

	2020 Revenues	YOY Growth	Number of Stores
Albertsons	\$69.69B	11.58%	2,253
Publix	\$44.9 B	17.7%	1,270
Kroger	\$132.5B	14.2%	2,742



# Out With the Old, in With the New

- Retail is not dead, and neither is Bricks and Mortar.
  - Approximately 30 retailers have departed physical stores or restructured.
  - Reduced number of prospective tenants affects the backfilling/releasing of vacancies especially in the mid-sized and large format retail boxes.
  - Regional Mall and Power centers struggle dramatically with tenants
- Omni-Channel retail operations are crucial for most retailers.
  - Drive-Thru, pick-up, and online shopping options necessary for success and providing high-end customer experience.

# Pandemic Winners & Challenged

## Winners:



## Challenged (struggled or closed):





# Retailers filing Bankruptcy in 2020

- Retailers who have filed for bankruptcy and converted to on-line only shops or have strategically restructured their capitalization/ownership:
  - Online-Only:
    - Stein Mart
    - Pier One
    - Modell's





# Select Retailers Sold

- Brooks Brothers (Founded 1818). JV with Simon Property Group and Authentic Brands “Sparc Group.”
- Neiman Marcus. PIMCO, Sixth Street, et al. Eliminated \$4B in restructuring.
- JC Penney. JV with Simon Property Group and Brookfield.
- Lucky Brand Jeans. JV with Simon Property Group and Brookfield.
- GNC sold to Harbin Pharmaceutical Group for \$770M.



# Select Restructured Retailers:

- 24 Hour Fitness. Restructuring eliminated \$1.2B in debt.
- Men's Warehouse & Jos. A. Banks. Restructuring eliminated \$686M in debt.
- Belk. Restructuring provided \$225 in new capital and eliminated \$450M in debt.



# Reuse Examples of Vacated Properties

- Non-traditional retail uses expanding into retailing environments.
- Featured Retail Case Studies.



# Non-traditional uses and companies investing in and expanding into retail environments.

- Movie theatre and health club former model to enhance mall and power center traffic.
- Current Preferred Uses and Trending Users:
  - Residential
  - Medical
  - Fulfillment Centers (Amazon, Walmart, Prologis)
  - Automotive (Tesla, Polestar)
  - Health and Beauty (Salon Suite Concepts)
  - Health Care facilities.
  - Ghost Kitchens. We are undecided on the long-term viability of this category. Time will tell.
- Investor Outliers:
  - IKEA (Retailer's mall acquisition division buys San Francisco's 6x6 Mall)
  - Prologis (Industrial giant buys Hill Top Mall, Richmond, CA)

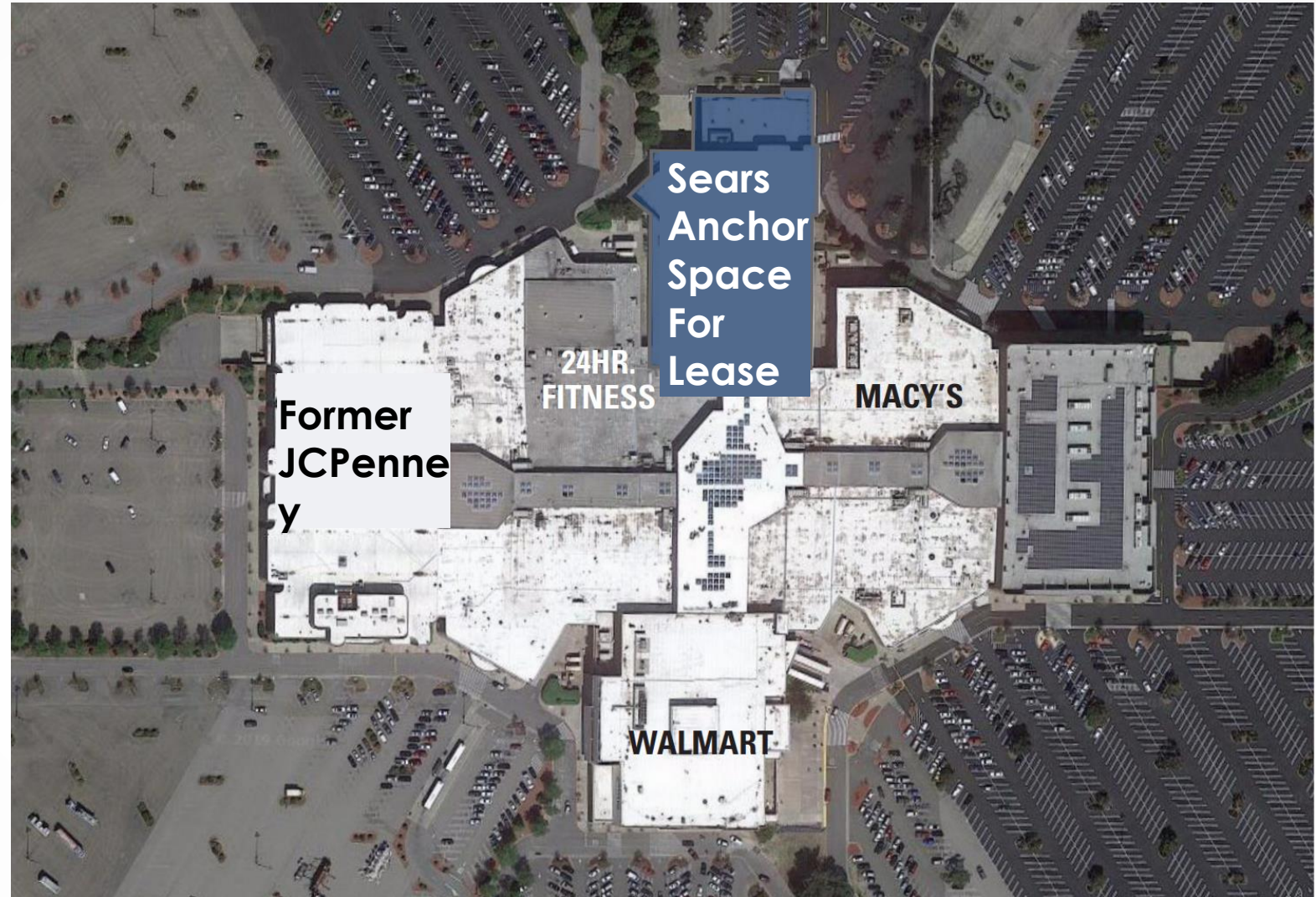


# Featured Retail Case Studies:

- Hilltop Mall, Richmond, CA
  - Antiquated Regional Mall with One Tenant sold to Prologis for redevelopment into logistic center, distribution, residential and restaurant mixed use development for \$117M
- Rossmoor Shopping Center, Walnut Creek, CA
  - Antiquated Community Shopping Center with significant parking transformed into a “modern mixed-use” project with increased GLA,, drive thrus, outdoor dining and seating areas with less parking.
- What was once an “internet proof” tenant merchandising strategy is now a combined “internet and pandemic proof” tenant merchandising strategy.

# Hill Top Mall, Richmond, CA

- ▶ Antiquated, dilapidated, vacant Regional Mall.
- ▶ Former anchors: Macys, JC Penny's, 24 Hour Fitness and Sears all filed for BK.
- ▶ Only Walmart remains.
- ▶ Sold to Prologis the largest industrial property owner in the world for \$117M.
- ▶ Redevelopment plans include logistics center, distribution, residential and restaurant mixed-uses.







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### ROSSMOOR SHOPPING CENTER, WALNUT CREEK, CA

- Pre-Renovation Tenants: Safeway, CVS (inline), Five (5) Banks, USPS, Contractor's Office, Antiquated Retailers.
- Tenant Additions: CVS with Drive Thru Pharmacy, Drive-Thru Starbucks, John Muir Health Center (12,000 SF), Salons by JC (8,000 SF Salon Suite Format), Restaurants with out-door dining. Seeking Specialty/Organic Grocer or Trader Joes.
- Added Potential Uses: Drive-Thru QSR Pad, Specialty Grocer, Health & Wellness Tenants
- Increased GLA from 108,000 SF to 132,000 SF.





# Recommendations for local government's needs to change zoning, permitting processes and property taxing practices.

- Allow for more residential, medical, distribution and mixed-use zoning.
- Municipalities should consider increasing the planning and building department's staffing in order to streamline and simplify the re-zoning and permitting processes.
- Under the current tax structure as antiquated retail is replaced by residential, medical and distribution facilities, sales tax revenue will decline.
- Taxing Service Oriented Businesses. Approximately 67% of the US GDP is derived from service-oriented businesses. Many municipalities feel that service companies are not paying their fair share.
- Framework for local taxation of on-line sales.





# Managing Local Government in Dynamic Environments

- The interaction between developers and local governments widely varies state to state and city to city
  - Examples in states like Florida, Indiana, Texas, Arizona where local governments provide more lenient requirements along with incentives for development and “maintain” expanded policies for outdoor dining and gatherings.
  - City to city in the same state can vary widely
    - Markets in California have vast differences – coastal markets vs. inland markets
  - Some cities choose flexibility and growth, others maintain standard and slow governmental practices
- Importance of flexibility with zoning becomes increasingly important as product types start blending and shifting rapidly
  - Cities must adapt to provide streamlined processes to allow for changes in uses and zoning
  - State Government vs. Local Government in the permitting and zoning processes.
- Establishing and maintaining relationships with key stakeholders in city government more important than ever.

# Takeaway: Temporary and Long-Term Trends - Summary.

## ■ Temporary

- Grocery Stores return to normal volumes as restaurants and dining open-up.
- Regional and Super Regional Malls and its tenants offering regular and significant discounts to drive traffic to the centers.

## ■ Permanent

- Omnichannel officially a requirement for retailers
  - Online presence is a must have
  - Amazon vs. Sears example
- Drive-Thru's and outdoor dining increase in importance for QSR and Fast-Food Formats
- Larger outdoor seating area and smaller interior seating areas
- Industrial and Residential investors acquiring and repositioning retail real estate.
- Experiential Retail
  - Need for shopping center owners and retailers to provide unique and interactive shopping experiences becomes increasingly important with the popularity of online shopping.

## ■ Key Questions?

- Will bankruptcy laws change or continue to allow retailers to shed debt and recapitalize?
- Will Mall Owners continue to strategically acquire challenged retailers?
- Will local governments tax service-oriented businesses?
- **Retail isn't dead! Bricks and Mortar are not dead! While a number of retailers have departed, the effective and creative releasing and regulatory flexibility are keys to retail real estate investment and repositioning.**