

Stuart Kane LLP

Experiential Retail: Leasing and Marketing for the Millennial Demographic

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Just as retailers, media companies and service providers are reinventing their business models to focus on the "Millennial Generation", the real estate industry has also begun to evolve its products to target this significant demographic. With the economy and job market in most urban centers having improved as Millennials have come of age, this new generation of consumers has increased its relevance as a viable consumer group, while also prompting tried and true methodologies to be revisited.

While some Millennial characteristics vary by regional, social and economic conditions, the Millennial Generation has generally demonstrated an increased desire to "do" things, to have a shopping "experience," to attend live events, to participate in hands-on activities, create new things, and most of all, to use digital technology to share these experiences with their peers.

For both shopping center developers and retail tenants, catering to this demographic, with its increasing disposable income, means changing how shopping centers and stores are envisioned, so that Millennials will be attracted to an "experience" that delivers more than just a traditional visit to the mall or neighborhood center.

What Millennials Want from a Retail Space

In placing importance of the physical experience of visiting brick-and-mortar retailers, Millennials are causing shopping center operators to incorporate an "experiential" retail element into their properties. Millennials value the consumer journey, sometimes even more than the actual consumer products they may purchase. Millennials want the retail spaces they visit to offer fun and unique experiences, and to support their enhanced health awareness and thirst for content to broadcast over social media channels. This translates into the Millennials' desire to find a place exercise, to sample healthy food, see a show, and engage in digital communication, all while simultaneously buying groceries or shopping for shoes. These demands have given rise to the incubating food halls, the temporary apparel pop-up shops, and programmable spaces within the common areas, to complement the traditional, strong credit tenants at the core of the larger retail centers.

The Challenge for Retailers and Developers

While online retail operations may hold some blame for the decline in brick-and-mortar sales, the traditional shopping malls and big box centers now also struggle to attract Millennials if their properties lack that "experiential" retail component this demographic craves. And while it's one thing to invest in renovations and rehabilitation, it's quite another to overcome constricting lease provisions and overly broad covenants, conditions and restrictions that may prohibit changes to the uses deployed at many traditional retail properties. Without the flexibility to evolve and adjust the uses allowed at these retail centers, operators may be prevented from adding the "experiential" components that will be needed to attract Millennials to a struggling, older shopping center.

The shift to experiential retailing is having an enormous impact on how retail spaces are formatted and common area space is programmed. Retail developers seek to both design aesthetically pleasing sites, while optimizing their tenant mix, creating a stimulating experience complete with memorable in-store and common area attractions, complementing a well-balanced mix of retail brand recognition and a brick-and-mortar presence that works as a favorable alternative to online shopping capabilities of some of those same retailers.

At the same time, retail tenants who recognize the need to offer hands-on, authentic experiences that will attract Millennial consumers have actively adapted their store formats to encourage exercise demonstrations and classes, hands-on workshops and other activities that provide for a participation experience within the retail space. While the best models include ways in which consumers can gather to experience retail products together, just as important is creating an experience that the consumer will share on social media, thereby providing a secondary benefit of digital word-of-mouth marketing for that retail experience.

How Retailers and Retail Centers are Evolving to Attract Millennials

In rising to the challenge to deliver "experiential" retail, grocery stores, for example, have incorporated food stations, juice counters, coffee houses, beer

gardens and wine bars as part of their retail experience. Customers can grab a snack, enjoy a meal or just have a drink, while creating an opportunity for a social experience that will be worthy of sharing on social media, all in the middle of their consumer journey. Retail tenants offering fitness-related clothing or equipment may offer the consumers an opportunity to participate in an exercise class, or even test or demo the athletic apparel and equipment inside the store, or outside in the common area.

Another example of a paradigm shift in the retail center experience is the marketing and sales of automobiles in a traditional brick-and-mortar retail setting. Miles away from the nearest car lot, automotive companies are finding that temporary exhibitions of their vehicles in the common areas of retail centers can drive Millennial interest in those big-ticket purchases. And the evolution of retail tenant space being occupied by car companies to show off their latest designs, or even supplant the traditional car lot setting as the place to sell vehicles, is changing how retail landlords fill their vacant spaces.

But, these newer concepts, of displaying cars inside of a small retail space, or allowing tenants to conduct exercise classes in space typically occupied by apparel retailers, are examples of changes in retail use that can pose challenges if the property is subject to prohibitive use clauses or restrictive covenants that never contemplated the need to add "experiential" retail to cater to Millennials. As retail centers trend toward becoming collections of specialty stores, landlords now, more than ever, need to pay close attention to managing exclusive use provisions granted to certain tenants, relocation provisions that could prove useful in reconfiguring centers, prohibitive use clauses included in CC&Rs, and tenant control areas that may inadvertently restrict the flexibility to allow projects to evolve with the demographics.

In addition to the retail tenants, common areas are also evolving in retail centers to accommodate the Millennial Generation. Pressure is on retail operators to make cosmetic changes to the common areas, to both attract patrons, and to sustain interest. Thus, common area maintenance clauses, which are some of the most heavily negotiated provisions in retail leases, continue to be a source of contentious debate, as landlords strive to emphasize to tenants that having the resources to upgrade common areas will be beneficial to sales and growth of tenant and landlord alike. Tenants, on the other hand, may desire to limit the types of pass-through expenses for which they will be responsible, failing to recognize that to subsidize the creative demands landlords are facing in attracting Millennials may be to the tenants' detriment.

Where We Go Next

Variety is part of the DNA of the Millennial Generation. The generation is coming of age at a time when social media is exploding, the internet makes everything more obtainable, and Millennials have at their disposal a large variety of retail choices. With the Millennial Generation seeking out a retail experience that is vibrant, diverse and fresh, the challenge is now for retail operators to balance the needs and wants of the retail tenants with the "experiential" retail desires of the Millennial consumers.

Given the diverse consumer tastes of the millennial generation, retail center operators would be wise to negotiate many lease provisions with an eye towards the future and how quickly things can change to meet the fickle demands of a generation searching for a dynamic retail experience.

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