

NEW RETAIL FRONTIER:

LUNCHTIME SHOPPERS?

OFFICE WORKERS OFFER A HUGE UNTAPPED RETAIL MARKET, ACCORDING TO A JUST-RELEASED ICSC REPORT

By Joel Groover



ILLUSTRATION BY TED HANSEN

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ALLS AND SHOPPING CENTERS MIGHT BE WELL

advised to increase their outreach to an enormous, very promising market: the country's office buildings and the people who labor therein. An ICSC report on the retail spending patterns of U.S. office workers suggests that there's gold in many of them there cubicles. "The nation's 28.5 million office workers spend an estimated \$184 billion over the course of the year," said John Connolly, ICSC's senior research analyst and coordinator of the 84-page report. "That figure accounts for only about 2 percent of total consumer expenditures. Clearly, there are opportunities to intensify sales productivity during the workweek."

Given today's hectic pace of life, however, boosting office worker spending might be trickier than it sounds. On a typical workday, a businessperson is unlikely to have much time to stroll around a mall or grocery store, observers say. "What we find is that office workers are very time-stressed," said Robert J. Gibbs, founder of Gibbs Planning Group, an urban-development consulting firm. "Many of them now have to go through security to get in and out of their work environments, and they have only about 45 minutes for lunch. Frequently, they don't even have that, because the boss cuts into their time." Moreover, these workers rarely have the luxury of being able to shop before or even after work, Gibbs says. "It is almost

impossible to catch them on the way to work, because they are never early—they get to their desks just in time,” he said. “After work they’re running to go make a meal or pick up their kids from day care or soccer.”

In confronting such challenges, the U.S. shopping center industry could borrow from the likes of China, South Korea or the United Arab Emirates, where driving sales from office workers is nearly always part of the calculus, experts say. And of course, studying cubicle-dwellers’ spending habits would help greatly. The ICSC report—titled *Office-Worker Retail Spending in a Digital Age*—is valuable precisely because it spells out exactly where and how these consumers are spending their retail dollars, says Cecilia Matos, vice president and head of area research at Macy’s. “This topic is more relevant than ever,” she said.

Matos contributed to the report as head of a committee that included representatives from General Growth Properties, Macerich and Simon Property Group, as well as Rite Aid, Target Corp. and others. To gather the data, ICSC Research surveyed about 4,000 office workers last October. The respondents, who were between 45 and 54 and who reported median income of between \$75,000 and \$99,000 annually, represented nearly 80 occupations commonly associated with office work. It has been almost a decade since ICSC’s last survey of office workers. “Advances in technology have allowed us to gather richer and more diverse data,” said Connolly. “This has helped us transition to an omnibus, national study.”

On average, these workers spent \$102 each per week on goods and services available in and around their office buildings, according to the report. Throw in expenses associated with their commute, and the weekly average rises to about \$195. Much of the spending on goods and services was done at gro-

cery stores. “While you might do your big grocery shopping on the weekend, the day-to-day stuff is accessible to and from work, and you see that in the numbers,” Connolly said. “During the course of the week, office workers can accumulate quite a bit of grocery.”

Matos found one statistic particularly revealing: Online shopping accounted for some 15 percent of the respondents’ weekly spending. That is, rather than head to the mall on their lunch hour, many office workers now sit at their desk and surf sites like Amazon.com. “That 15 percent figure is significant,” Matos said. “There’s an opportunity to better understand this and develop strategies around how to leverage it.”

Retailers could tailor programs specifically for office workers: An accountant places an online order while sipping her morning coffee, then picks up the order during her lunch hour.

The term “lunch hour” calls to mind gaggles of workers pouring out of glass-and-steel towers and heading to sub shops and pizza joints. And yet the survey uncovered that spending at eateries accounts for just 14 percent of the average weekly expenditure. Transportation actually accounted for the largest single cost. The average commute was 2.1 miles, according to the report, and 86.9 percent of the respondents said they drive to work.

Given how long these solitary commuters typically spend stuck in traffic, it is little wonder they are pressed for time. They also seem to fear being accused of wasting time, says Gibbs, who conducted 20 focus groups with local office workers as part of a 2010 study for the city of Houston. “What surprised me is that there is a stigma associated with coming back to work with a shopping bag,” Gibbs said. “You get labeled as being a slacker.”

This means office workers sometimes have to make time to stash the

goods in the trunk before returning to the office. Fear of that slacker label appears to be strongest at the top of the corporate ladder, Gibbs says. “When you get to the vice president level, they

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really do not want to be seen carrying something back to the office,” he said. To counter this, downtowns might try putting a positive spin on lunch-hour shopping. “We recommend that cities come up with branding campaigns that make it cool to return to work with something,” Gibbs said. “You might have ‘I love Memphis’ or ‘I buy Memphis.’”

Likewise, retailers and developers ought to think hard about how to make it easier for office workers to spend money at lunch, Gibbs says. Indeed, some retailers already beef up their checkout lines for office workers on the go. Sub sandwich chain Jimmy John’s is one such establishment. “I was recently in a Jimmy John’s that had 12 workers behind the counter,” Gibbs said. “The line was only about five customers deep. Across the street, where a local place had just one worker, about 20 people were standing in line to buy lunch. You could watch people walk up to the door, see the long queue and turn around.”

As far as office worker spending is concerned, the postwar U.S. did it-

Office worker spending

	Mean weekly expenditures (U.S. dollars per worker)		
	Including those who spent nothing	Excluding those who spent nothing	Percentage of office workers who spent in category
		Total	
Total	\$195.22	\$206.31	94.6%
Transportation and online purchases	66.03	73.99	89.3
Transportation	35.92	40.82	88.0
Online purchases made at the office (personal)	30.11	185.04	16.3
Full-service restaurants and fast food	26.71	43.02	62.1
Full-service restaurants	12.97	43.22	30.0
Fast food/deli/lunch eateries	13.75	24.99	55.0
Goods and services	102.47	191.89	53.4
Department stores	7.56	74.86	10.1
Discount stores	10.63	52.11	20.4
Drugstores	6.87	26.90	25.6
Grocery stores	19.79	61.19	32.4
Clothing stores	3.80	56.94	6.7
Shoe stores	2.82	51.98	5.4
Sporting-goods stores	2.73	47.54	5.8
Electronics/phone/computer stores	6.88	118.69	5.8
Jewelry stores	3.36	88.39	3.8
Office supplies/stationery/novelty gifts and cards	6.90	59.49	11.6
Warehouse clubs	9.71	94.08	10.3
Other goods (florist, nonfood vendors, etc.)	3.61	59.01	6.1
Personal-care shops	6.03	66.65	9.1
Personal services	3.92	37.26	10.5
Other services (not elsewhere classified)	3.48	59.50	5.9
Entertainment (sporting events, live theater, concerts, movies)	4.35	51.35	8.5
Addendum			
Total (less transportation and online purchases)	\$129.18	\$170.88	75.6%

SOURCE: ICSC RESEARCH

self no favors by habitually developing stand-alone malls and office buildings out in the fast-growing suburbs, says Raymond E. Peloquin, office-sector director and vice president of the commercial practice group at design firm RTKL. The ICSC report estimated that only 13.5 percent of the U.S. respondents’ offices were located in mixed-

use properties. Elsewhere in the world, mixed-use developments continue to be the norm. As a result, architects, owners and retailers working in those markets have learned valuable lessons about boosting office worker spending, Peloquin says. “We find that any time we’re doing office buildings in China or other parts of Asia, there is always a

discussion about the retail component at the base of the building,” he said.

Taskin City Plaza, in Changsha, China, for which RTKL designed two 25-story offices along with residential, service and retail components, is one such. This 4.6 million-square-foot (nearly 430,000 square meters) development, slated for phased openings in 2013 and 2014, contains a 1.3 million-square-foot retail center with indoor-outdoor retail, restaurants and entertainment.

Though office workers in Dubai, United Arab Emirates, are just as pressed for time as their U.S. counterparts, the former can find anything they want at the mall. “In Dubai the malls are literally a part of the community, so everything is possible: grocery in the evening, dropping off the kids, getting your trousers altered,” said Khalifa Furqan Athar, director of finance and planning at McArthur & Co., a global real estate services firm. Among Athar’s Dubai businesses is Kidventure, a 10,000-square-foot tenant at Ibn Battuta Mall

that is popular with office workers. “It is a multipurpose activity center within the mall,” he said. “It has seven classrooms, a 150-child nursery, a sports hall, a kids’ drop-off area and a photography studio and book club.” The owners of Dubai’s largest properties tend to aggregate such service-oriented tenants into precincts near the office compo-

nents. Placing service tenants in and around the pedestrian bridges that link the office to the mall helps office workers save time, Athar says.

Owners in South Korea also pay close attention to office workers' needs, says Don Jeong, CEO and president of Thomas Consultants Asia-Pacific. "The tenant-mix strategy needs to be focused on the key behavioral characteristics of office workers," he said. "More-midpriced, necessity merchandise tends to incentivize office workers to shop more often. They are always in a hurry, and you want to make them spend without hesitation."

Likewise, the role of food is para-

mount in the types of urban, mixed-use properties that most appeal to office workers, Jeong says. "The proportion of food and beverage must be at least 30 percent higher than at a usual mall," he said. "This is optimal if you're thinking of ways to capture customer inflow during the weekday." In South Korea most office-district restaurants do four or five [table] turnovers for lunchtime alone."

One key factor is whether mass transit serves the property. This is taken for granted in cities like Seoul, where mass transit carries 6 million people to and from work each day, says Jeong. Gibbs faults some U.S. re-

tailers for closing their stores too early, but South Korean retailers stay open late, in part to drive office worker spending. "Extending opening hours until 10 p.m. actually boosts sales a great deal here," Jeong said.

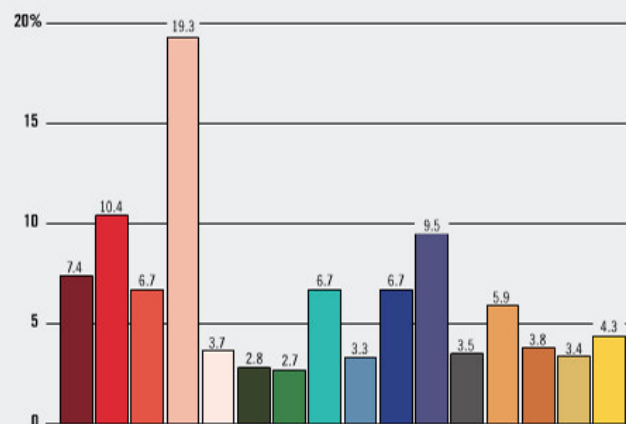
The ICSC survey asked office workers to classify their surroundings as having either an ample variety of stores or a limited one. This disclosed a strong correlation between more-diverse tenant lineups and higher spending, Connolly says. "Markets with ample retail tend to experience significantly more spending — approximately 140 percent more — than in limited-retail venues," he wrote in the report. Ample retail offerings were perceived to exist for nearly 40 percent of the respondents; roughly 62 percent said they perceived their offerings as limited.

As U.S. developers mull the future, the potential upside of building mixed-use properties from scratch or of adding diverse uses to existing malls is clear, Peloquin says. "With gas running \$5 a gallon or close to it, the people who come into the city to work do not want to be hopping in their car and driving back home immediately," Peloquin said. "They want all of the amenities right where they work."

And as Connolly notes in the report, the payoff from such investments could be worthwhile: "Each one-percentage point higher share of spending by the office-worker group will generate \$2.7 billion in additional aggregate sales revenue for local businesses," Connolly wrote. "And that estimate is quite conservative."

ICSC members may download the full report at ICSC.org.

Share of office worker spending on goods and services



Expenditure venue:

- Department stores
- Discount stores
- Drugstores
- Grocery stores
- Clothing stores
- Shoe stores
- Sporting-goods stores
- Electronics/phone/computer stores
- Jewelry stores
- Office supplies/stationery/novelty
- Warehouse clubs
- Other goods
- Personal-care shops
- Personal services
- Other services
- Entertainment

SOURCE: ICSC RESEARCH

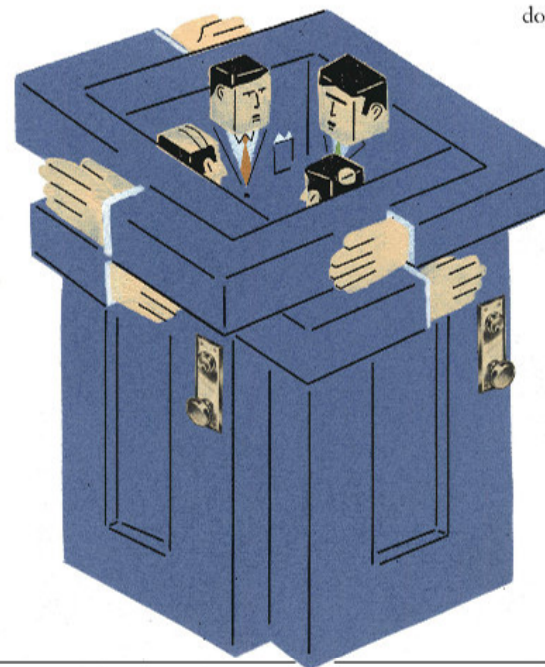
OFF THE RADAR

SOME PORTFOLIO SALES ARE SEALED WITHOUT SO MUCH AS A 'FOR SALE' SIGN

By Ben Johnson



EQUITY ONE'S ACQUISITION LAST NOVEMBER OF Culver Center, a 216,000-square-foot property in Culver City, Calif., was the largest single-asset off-market retail deal in that state last year. The \$115 million transaction is also an indicator of just how far off-market deals have come. These deals involve properties sold without benefit of a widespread marketing process. In fact, several of the largest have been done in the retail property sector, predominantly by private equity firms and REITs.



In the granddaddy of the recent deals, DDR Corp. and private equity firm The Blackstone Group jointly purchased a \$1.43 billion portfolio of open-air power centers in January. Blackstone also bought 36 Equity One shopping centers last September. Off-market deals seem to suit large-scale firms like Equity One and Blackstone. Equity One develops, acquires, redevelops and manages neighborhood and community shopping centers in metropolitan areas across the U.S. And Blackstone, the world's largest commercial real estate private equity firm has a self-professed "value-add" mentality, and off-market deals are one way to snatch up properties at reduced prices. As an asset type, shopping centers are no more or less likely than other segments to go off-market, according to Spencer Levy, executive managing director at CBRE Capital Markets. "However, certain types of shopping centers might be better candidates for off-market deals than others," Levy said. Stabilized shopping centers, with the