

Retail's newest hot property - the not-so-big-box

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For most of the 1990s and 2000s, the mantra of the nation's major retail chains was, "Supersize my store." Now, retail landlords and real estate brokers are hearing a different refrain: "Do you have anything smaller?"

Some of the same retailers who built their businesses with big boxes — stores of 40,000, 60,000, or in the case of Wal-Mart Stores Inc., 100,000 square feet of selling space — have decided that smaller is better. That's a trend with big implications for North Jersey shopping centers, malls and developers.

Landlords are subdividing superstores, and reinventing their shopping centers to respond to the trend. "As tenants reduce their footprints, [landlords] are going to need more tenants. And that means they need to have a broader-based shopping environment," said Glenn Brill, a managing director in the Real Estate Solutions practice of FTI Consulting, who has worked on a number of New Jersey retail developments.

Power centers — freestanding large stores that house chains such as Staples Inc., Best Buy Co. and Home Depot Inc., ringed around a common parking lot — were developers' pet projects before the recession. Now, community centers, better known as strip malls in North Jersey, are the favorite retail configuration, because they have more options for small and mid-sized stores.

"The sweet spot now for the medium-size boxes is in the 10,000- to 20,000-square-foot range," said Chuck Lanyard, president of The Goldstein Group, a retail brokerage firm based in [Paramus](#). "We're going to see smaller and smaller stores, and that's probably going to be the wave of the future."

Major retailers who are creating smaller-format stores, some of them in North Jersey, include:

Best Buy — planning to shrink its stores to 36,000 square feet, down from the current average of 45,000, in part by subleasing space to other retailers.

Walmart — building 7-Eleven-size Walmart Express stores; seeking sites in North Jersey for its 45,000-square-foot Neighborhood Markets.

Staples — now considers 15,000 square feet the ideal size, down from 22,000.

Office Depot — cut its Route 17 Paramus store in half and leased the spare half to Trader Joe's.

Gap — remodeling its store at Westfield Garden State Plaza in Paramus to occupy a smaller space.

Modell's — has opened stores in Ramsey and Manhattan that are about half the size of their older stores.

Target — will launch a smaller store prototype in 11

Three factors are driving the downsizing trend, retail analysts and brokers said. First, retailers need to increase their sales per square foot in a rough economy. Second, the Internet is changing the way people shop, and pushing retailers to increase profit margins at their brick-and-mortar stores. Third, shoppers, particularly aging baby boomers, are tired of schlepping through superstores.

cities in 2012.

Sears —subdivided some of its stores, sharing space with co-tenants like Forever 21.

"In retail, one of your key measures of productivity is sales per square foot. What's been happening in the big-box stores is that number has been pretty stagnant, and possibly even going down," said James Dion, president of Dionco Inc., a retail consulting firm based in Chicago. Retailers' corporate reports and retail analysts have been documenting that trend since the recession hit.

In recent years, Dion said, Best Buy, Wal-Mart and other large chains have been suffering price deflation that has hurt sales per square foot. "A 42-inch plasma TV that five years ago they were selling for \$5,000 is being sold for \$600, so their sales per square foot are definitely going to take a hit," he said. "You have to stand back as a merchant and say, 'I pay for every square foot I have, so clearly the smaller the footprint, the more productive I am.' "

The Apple stores are the stellar example of being highly productive in a small space. Apple stores, Dion said, at an average size of 6,000 square feet, have sales of almost \$6,000 per square foot of selling space, compared with \$300 for Wal-Mart, \$895 for Best Buy and less than \$200 for most department stores.

Consumers today want stores to "edit" or limit the choices, rather than overwhelm them with dozens of options for each product category, Dion said. "We know [from studies] that when customers are confronted with too much choice, they don't make a choice," he said.

The ease of Internet shopping also has made consumers less patient with hard-to-shop superstores. "We have made online so easy to shop," Dion said, "and yet brick and mortar has really fallen behind," he said. "The big boxes in particular are struggling with the navigation concept. How do I make my store as easy to navigate as my website?"

As online sales become a bigger source of revenue for retailers, large superstores are becoming less important, Brill said. Retailers "are going to demand higher margins from their stores, and they're only going to want to have high-performing stores. You start to think about having fewer stores, and the stores you do have you expect their margins to be not dissimilar from the margins you're getting on the Internet." Those margins vary with each retailer, but online sales obviously require less overhead than a brick-and-mortar store, Brill said.

Jerry Welkis, president of Welco Realty, and a member of X Team International, a consortium of retail brokerage firms, represents a number of North Jersey landlords, as well as retailers looking for spaces. These days, the top thought in retailers' minds is, "How can we get more productivity — do the same kind of sales volume in a smaller space — and make more money for the bottom line," he said. As part of that trend, he has seen retailers such as shoe discounter DSW switch from favoring 30,000- to 35,000-square-foot stores to 17,000- to 19,000-square-foot spaces, and office supply chain Staples downsize to 15,000 square feet from a 20,000- to 22,000-square-

foot format.

In some cases, Welkis said, retailers are developing smaller-store formats in order to have more flexibility to go into new locations. Sporting-goods chain Modell's recently opened a store in the Interstate Shopping Center in Ramsey that at 8,900 square feet is about half the size of its typical stores. Toys "R" Us, he said, has three size formats for its new combined Toys and Babies "R" Us stores — 30,000 square feet, 45,000 square feet and 60,000 to 70,000 square feet.

Welkis said retailers are increasingly realizing that one size doesn't fit all markets. Paramus, which generates high sales per square foot, will continue to have more large-size stores than smaller and less-affluent markets, he said.

But even in Paramus, "retailers want to get more productivity out of their stores and where they feel they can downsize and not sacrifice volume, they're going to do that," Welkis said.

Bed Bath & Beyond Inc. Chief Executive Officer Steven Temares, in an interview at the company's recent annual meeting, said finding the right size for the market is more important than jumping on the downsizing trend.

"We always have sized the store for the market," he said. "So we've had 18,000-square-foot stores and stores in excess of 100,000 square feet. New Jersey, where there's great density, good income, generally speaking supports a larger store. In Vineland, we have a smaller store than we have in Paramus, for example, but we love them both."

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