MEMORANDUM

FREESE AND NICHOLS

Innovative approaches
Practical results
Outstanding service

2711 N. Haskell Avenue, Suite 3300 • Dallas, Texas 75204 • 214-217-2200 • FAX 817-735-7491 www.freese.com

TO: Plano Comprehensive Plan Review Committee (CPRC)

CC: Mike Bell, AICP; Daniel Harrison, AICP; Dan Sefko, FAICP; Eddie Haas, AICP

FROM: Brian Crooks

SUBJECT: Utilization Trends for Retail and Office space

DATE: May 5th, 2020

PROJECT: Plano Comprehensive Plan Update

This memo was created in a response to a request by the City of Plano for utilization trends for retail and commercial space in support of the Plano Comprehensive Plan Update.

Utilization Trends for Retail Space

Utilization of retail space is largely driven by demand for retail goods and its vitality is reflective of the overall economic health of the communities in which they reside. Currently the retail industry is undergoing a revolution where changes are increasingly defined by emerging technologies. This has required retailers to evolve and become more innovative in how they sell their goods. Demand for retail goods is increasingly driven by e-commerce and demands for timely delivery of goods via free shipping have increased. Retail shoppers are increasingly seeking shopping that is directly tailored to their personal preferences and is delivered to their doors. An increasing percentage of shoppers are purchasing goods via social media instead of traditional e-commerce vendors. There is also the rise of experiential retail, with a preference of experience over things, where shoppers can try out a new product, then purchase it online and have it delivered directly to their home.

The increasing use of “Big Data” has also played a major role in transforming retail. Large datasets of consumer preferences and behaviors are used by retailers to monitor and analyze buying patterns and trends, manage inventory, and streamline delivery services has allowed retailers to be more flexible in their operations and more responsive to consumer preferences.

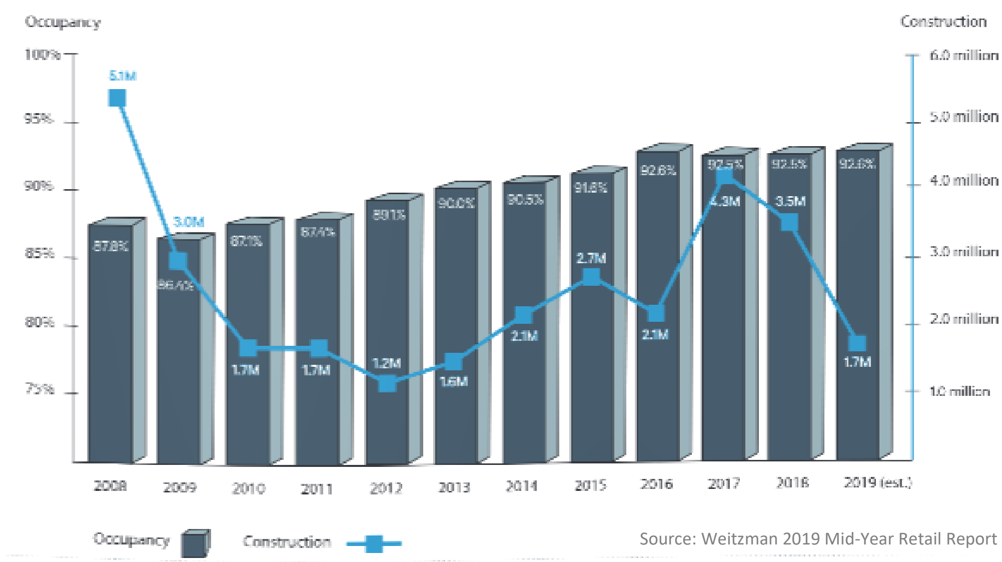
This has all had a dramatic effect on the future physical structure of retail. While traditional “brick and mortar” stores continue to decline, there is an increasing preference for new smaller retail stores, especially in highly urbanized areas. In 2009, the average retail space was around 124,000 square feet but by 2019 residential spaces had shrunk to just under 65,000 square feet. This reflects the overall transition of retail developments toward service-based, “internet-resistant” tenants. Retail developers are now considering more efficient use of their spaces and attracting different types of tenants with a focus on health/fitness, urgent/medical care, restaurants, and entertainment venues.

Increasingly, existing retail stores have limited inventories and are more geared for experiential retail, goods pickup, and customer service than traditional shopping activities. There is also the rise of temporary "pop-up" stores within existing facilities where consumers can try out a product and make limited purchases on site and make additional purchases online. Existing malls and big box stores are also being repurposed as mixed-use centers or subdivided into smaller retail spaces that caters to these new types of tenants.

The impact of the change in retail has also had a dramatic effect on the number of malls within Dallas-Fort Worth. In 1995, there were 25 malls in the region, by 2019 the number is down to 17 and is expected to fall even further in the future, although their performance has improved due to the elimination of weaker malls. Many of these malls have been demolished in favor of mixed-use developments, such as Collin Creek Mall in Plano and the Valley View Mall in Dallas with new smaller retail spaces that reflect changing consumer preferences.

While there is a great deal of change and uncertainty within the retail market, overall demand for retail space within the Dallas-Fort Worth region remains very strong. As shown in Figure 1, the region boasts over a 92 percent occupancy rate - the highest retail occupancy rate for the region in 40 years. Note that the recent decline in construction activity is associated with an increase in repurposing existing retail facilities, especially vacant big box retail properties.

Figure 1: Occupancy Rates for Retail in Dallas-Fort Worth



In the future, certain types of retail brick and mortar stores may continue to survive, but these may be limited to stores where the shopping experience has always been part of the visit, such as specialty/boutique stores, second-hand stores, souvenir shops, home décor and furniture stores, and home improvement/hardware stores.

Utilization Trends for Commercial Space

Commercial real estate is slowly moving again from the trend of “location, location, location” to “location, information, analytics”. Commercial businesses are increasingly invested in tenant technologies, with technological investments becoming increasingly important. Demand for commercial space will most likely be less volatile than that of retail space and may be more dependent upon the type of business and how changes in technology and consumer preferences affect its operation and viability. The increased use of e-commerce is changing demand for commercial spaces, increasing demand for distribution centers, warehouses, and refrigeration/cold storage facilities to support its associated logistics and operations.

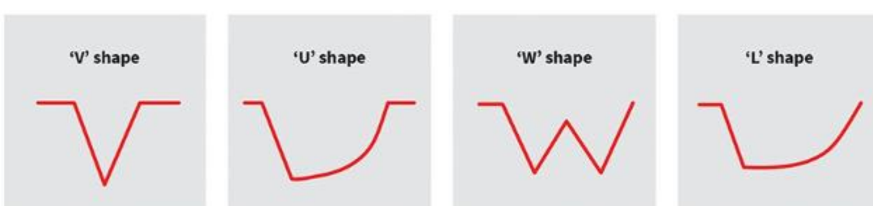
Utilization Trends for Office Space

One of the biggest drivers for changes in office space will be the rise of millennials and Generation Z (those born after 1995) as the most populous age cohort in the workforce. These age groups are less inclined to commute to work and prefer flexible schedules and work locations. They also want more amenities in close proximity to their work, moving away from traditional office designs to include features such as golf simulators, dry cleaners, salons, games rooms, nursing rooms, and daycare facilities located within their offices or in close proximity to them. Additionally, younger generations are less enthusiastic about shared workspaces and demonstrate a preference for a mix that includes more traditional office designs. There is also a preference for mixed-use, walkable environments over the traditional business park and improved food delivery to their work locations.

The impact of COVID-19 on commercial and retail activity

While currently there is a great deal of uncertainty about the impact of COVID-19, there are several economic recovery scenarios being discussed (see Figure 2). The “V” shaped scenario shows a sharp dip in economic activity quickly followed by an equally quick increase back to the previous level of economic activity. Both the “U” and “L” shapes show a steep decline with a longer recovery period, one showing a return to previous levels while the “L” shape shows an open-ended recovery. The “W” shape shows a steep economic decline followed by an uneven and open-ended recovery.

Figure 2: Economic Recovery Scenarios



Source: JLL, April 2020

In the future, commercial and retail industries will have to pay greater attention to the health and safety of its employees. This may fundamentally change the space requirements for both retail and commercial employees and clients due to potential social distancing requirements. How and to what extent these changes will affect the space requirements of commercial, retail, and office spaces is uncertain at this time.

End of Memo.