

CSA

THE BUSINESS OF RETAIL

ICSC New York: Show Scoop

More DTC Brands Go Physical

Tech 2024 Preview

60TH
SPECS
SHOW
2024

THE FOREFRONT OF PHYSICAL RETAIL

March 10-12, 2024

Gaylord Texan Resort
& Conference Center
Grapevine, Texas

SUN BELT EXPANSION

Retail rises in 'The Big Smile'

Expansion Heats Up in ‘The Big Smile’

New retail construction continues to bloom across Sun Belt region

By Debra Hazel

At this point, it’s a surprise that the continental United States isn’t tipping over, as the population continues to move southward in search of affordable housing, warmer weather and, in many cases, lower taxes. And where the people go — especially high-income ones — retailers follow.

That’s why — during a time when new retail construction is at a 20-year low — most new builds are taking place in what retail real estate developers refer to as “The Big Smile,” a geographic grin that begins in the Carolinas, extends down to Miami, and stretches across the Sun Belt through Dallas-Fort Worth and Phoenix before curving upward through SoCal and the Inland Empire.

Nearly half of year-to-date retail construction completions in the first three quarters of 2023 were topped off in Texas and Florida. (See box on p.10)

Residential brokerage Redfin reported that the top 10 U.S. metropolitan areas for relocations are all in the Smile states: Phoenix; Las Vegas; Miami; Tampa; Orlando, North Port-Sarasota and Cape Coral in Florida; Dallas; Sacramento, and Houston. And retail is counting those rooftops.

“Folks from the East Coast are relocating out here because of low taxes and a better quality of life, in terms of infrastructure,” observed David J. Larcher, president and CEO of Phoenix-based Vestar. “As a result, housing growth has been extremely strong for all these years — and in our world of retail, obviously we follow the rooftops.”

A major reason for Kimco Realty’s 2021 \$3.9 billion acquisition of Weingarten Realty was to increase its penetration in the region.

“We increased our Texas exposure by two-thirds,” said David Jamieson, chief operating officer of Kimco Realty Corp. “Florida was a complement to a high concentration already. Now, as we look at our leasing statistics and productivity, the acquisition is playing out in the way we’ve assumed. Almost 60% of our new deals have come from southern states.”

Scottsdale, Ariz., too, has seen a surge in new residents, and Scottsdale Fashion Square is continuing to expand to accommodate them.

“We’re in a market that has attracted so many new residents, and Scottsdale is the luxury leader, catering to domestic as well as international tourists, which is a new segment,” said Kimberly Choukalas, senior VP of leasing for Fashion Square owner Macerich.

The latest phase in the center’s years-long redevelopment calls for the south wing to be redesigned with a valet arrival area, exterior-facing retail, and multiple new restaurants. The new wing, which will feature Hermes, is a continuation of the luxury expansion that opened in 2018 and brought Dior, Balenciaga, Versace and Nobu to the market.

“We’re enlarging the valet area to create a new luxury arrivals area, brightening it and adding a new water feature,” Choukalas said. “On the interior, we’re focused on extending the look and feel of the luxury wing, with a better sight line of the retail.”



COVER STORY

A seven-acre parcel north of the center will include luxury multifamily residential, office space, and the first non-gaming hotel from Caesars Entertainment, opening in February 2024. And four acres are still available for redevelopment.

In other areas of Phoenix, Macerich has opened Arizona's first Scheels store at Chandler Fashion Center and signed Round 1 Bowling at Arrowhead Town Center.

In California, Din Tai Fung and the Arte Museum are coming to Santa Monica Place, and Lifetime Fitness and Industrious (a flexible work space) will join Broadway Plaza in Walnut Creek. In Texas, a new flagship Dillard's will join South Plains Mall.

Many have noted that the region also is the most vulnerable to natural disasters due to climate change, from drought in the West to hurricanes in the Gulf states and the Southeast. But that threat is grossly overstated, the developers said.

"The Sunbelt exposure has less risk," Jamieson observed. "It really is more nuanced than has been reported."

States such as Florida have already adopted best practices to improve building resiliency, including elevating buildings, improving drainage, and more.

In drought-stricken Arizona, the development is actually benefiting the environment, Choukalas noted.

"We're taking farmland and making it residential," she said. "Farming takes five times the water of homes. And we're mindful about the water usage in all our properties."

"In Arizona, we have heat and the perception of a water issue, but we actually use less water than we did in 1950," Vestar's Larcher said. "And we don't have natural disasters."

Vestar has implemented 27 different sustainability initiatives throughout its portfolio, including harvesting rainwater in all centers to use for landscaping.

Another innovation is the use of Cool Pavement, a treatment placed on asphalt in parking lots and streets to better reflect



sunlight and offset nighttime temperatures in the region. The process is being piloted by the Phoenix Street Transportation Department and Office of Sustainability with Arizona State University (ASU).

Certainly weather has played a role, but growing suburbanization, in part accelerated by the Covid pandemic, is continuing to boost development.

"The market dynamics have shifted dramatically in the post-COVID world. We're the only product type that has not built new product in the last 15 years," Larcher noted. "What retailers have learned, what e-commerce retailers have learned, is that you can't make as much money being a full-online source. It's a powerful statement that brick and mortar is here to stay."

And with a metro area that's grown by nearly 1 million people over the last 10 years, new development is needed. Vestar's new development includes Queen Creek Crossing in suburban Phoenix, anchored by Costco and with Ashley Home and Hobby Lobby to come in 2024. The company is also working on the \$125 million Verrado Marketplace in Buckeye, Ariz., which will feature 512,000 sq. ft. of retail, dining and entertainment.

"This is a growth area like Queen Creek," said Jeffrey Axtell, Vestar's executive VP of development. "New housing and lots of new residents have come in but there is nowhere for them to shop, find entertainment or eat at a restaurant. We're filling that void in the submarket."

Elsewhere, Vestar is focusing on re-tenanting as leases expire in California and Nevada. In SoCal, too, densification is critical.

"In Tustin, for example, we're adding multifamily to a center to get that whole live—work—play environment," Axtell said. "Municipalities are embracing it because people want to live and work near the shopping and restaurants. And states like California are now mandating it."

Kimco's Dania Pointe near Fort Lauderdale, Fla., is a 102-acre mixed-use development with approximately 1 million sq. ft. of retail and restaurants, luxury apartments, hotels, Class A offices, and public event space.

The complex is taking advantage of retailers' shifts to open air centers, with recent openings including J. Crew, Sephora, Puttshack, Pura Vida Miami, Crema Gourmet Espresso Bar, and Woof Gang Bakery, Jamieson observed. Another residential tower is opening shortly, and Spirit Airlines will establish its corporate headquarters at the complex.

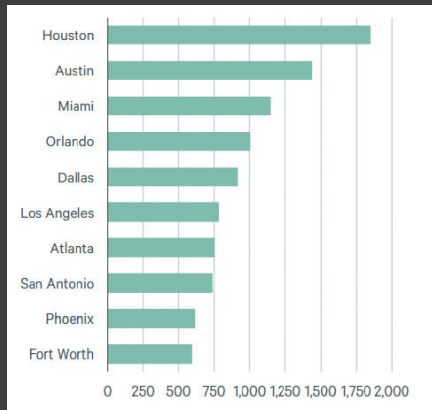
"It's building that momentum on Interstate 95, compounded by the growth of the state," Jamieson added.

At some point, does all this growth stop? It doesn't look likely. "Phoenix has ample land opportunity," Choukalas said. "And we are perfectly poised to accommodate each subdivision. We can cater to each growing trade area."

Where New Builds Are Hot

Eight of the Top 10 markets for new retail construction in the first three quarters of 2023 are found in "The Big Smile," according to CBRE.

Houston, Austin, Miami, Orlando, Dallas, Los Angeles, San Antonio, Phoenix, and Fort Worth completed a total of 9 million sq. ft. during the period — a figure that is equal to one-third of CBRE's rolling 12-month national completions ending in the third quarter of 2023.



Source: CBRE