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NORTH AMERICAN MARKETS

Clouds appear on a very blue horizon

Consolidation in the retail sector and rising oil prices are the downside. On the upside are America's 'eco-boomers', says **Sarah Murray**

When people think of the North American retail landscape they tend to picture shopping malls on the outskirts of towns or cities and "big box" retailers such as Wal-Mart and Target.

However, this landscape is starting to change as shoppers alter their buying habits. While population growth and consumer confidence have buoyed the retail property sector over the past three years, consolidation in the retail sector and rising oil prices are putting a few clouds on the horizon.

Until recently, the retail sector has been vibrant as a swelling population – fuelled in part by a wave of immigration from Central and Latin America – has driven housing starts, which in turn has boosted the retail property sector.

"The good news is that we have huge immigration growth and a net fertility rate increase," says Brent Howell of Los Angeles based CB Richard Ellis Retail Services. "The 'eco-boomers' are the next big population group behind the baby boomers, and the owners of major shopping centres are placing their bets on the buying power of these eco-boomers and their potential to inherit wealth."

At the same time, the traditional "big box" outlets and out of town malls are increasingly giving way to the development of multi-use centres where consumers can eat, go to the cinema and shop in one location.

"Five years ago it used to be the strip centre and the big boxes," says George Slusser, president and chief operating officer of Coldwell Banker Commercial.

"But most of the new development in retail has been in lifestyle centres, and the next phase is the town centre concept, with multi-family, retail and business real estate all in the same area."

A youngster plays with the Thomas the Tank engine display at Toys 'R' Us in New York Associated Press

Even in the more traditional developments the tenant mix is changing from a pattern where discount stores would be located in one mall with high end stores in another.

"The economics of it for the landlord is behind this, because they can drive volumes and people," says Frederick Schmidt, Coldwell Banker Commercial's senior vice-president of business development and commercial services.

"And now it's not uncommon for a high net worth individual to go to a discount store for some things and a high end store for others – so it's not one versus the other. They can combine both."

While shifting shopping patterns and an ever expanding population are good news for North American landlords and property developers, the growing consolidation in the retail sector may bring increased vacancy rates in some areas.

Big deals have included the merger of Kmart and Sears Roebuck, the takeover of May department stores by Federated and the agreed acquisition of Toys 'R' Us for $6.6bn by a consortium comprising Bain Capital, Kohlberg Kravis Roberts and Vornado Realty.

The Kmart-Sears merger, in particular, is on the minds of those in the retail property sector who speculate that the company may sell some of its real estate to cut costs further.

At the same time the persistence of high fuel prices is starting to take its toll. "The tremendous run up in fuel prices is starting to be manifested in consumer buying patterns, says Mr Schmidt. "We're already starting to see that in the consumer confidence indexes. There's uncertainty there, and that affects buying behaviour."

Even so, organisations such as the National Association of Realtors are optimistic that improving economic fundamentals will counterbalance such trends. The average vacancy rate is projected to drop to 6.5 per cent this year, says NAR, down from 7.5 per cent last year. Retail rental growth is forecast at 4.8 per cent in 2005.